

The Official Opening Of K-Economy Conference

Sunway Lagoon Resort Hotel, Petaling Jaya 17 October 2000

" E-MIGRATION - RISING TO THE CHALLENGES OF THE NEW ECONOMIC FRONTIER "

I am sure you are all aware of how little I know about economics. However, as both the International Monetary Fund and Mr Soros have admitted that I actually know something about it, perhaps I may be allowed to share a few thoughts with you on Knowledge or K-Economy.

2. I believe many of us are still suspicious of new terms like "The K-Economy". It sounds so "airy fairy", so impossibly vague. Perhaps, even now, there are those who regard it in the same way as they regard ghosts. They hope it will go away and bother someone else.

3. So how "real" is this knowledge economy? It is real for the graphs show that productivity growth doubled in knowledge-rich economies. It is real because the way countries with flourishing knowledge-based economies have leapt ahead in world competitive rankings. Obviously since it is real we will have to do something about it. We will have to espouse it and make it work for us in the same way that it has worked for others.

4. Like many people around the world, we are at a fork in the road. The path we choose will alter our future -- perhaps irrevocably. Even as we sit back and question its usefulness, the K-Economy is posing its own challenges for us. Can we master it or will those who master it race ahead of us, leaving us breathless as the industrial age had done in the past. Will we again lose out because we are late in grasping the opportunity to start together with others?

5. Whether we enter the new economy early or late, one thing is certain. We cannot ignore this radical turn in the way business is done, in the way economy is managed and grown. We cannot ignore the massive leverage that knowledge provides those with the skill to use knowledge.

6. Knowledge of course have always played a role in the progress of nations. Knowledge of the stars and the geography of continents had enabled the early civilisations to trade with distant places and exploit distant lands. Knowledge of the sciences had contributed to the industrial age. But today knowledge refers more to the speed of communication and the spread of information and data.

7. Everything that anyone needs to know in order to make a decision is at everyone's fingertips literally. The deciding factor is the skill and the speed with which one uses the information in order to decide. And that skill and speed comes from the depth of knowledge that one has of how the different elements and technological capacities can be made to work to yield a desired result.

8. Never in the history of human civilisation has software become so important a complement of hardware. The hardware may be the same but software determines what hardware can deliver or not deliver. As new software are developed the old hardware will become more versatile, delivering what it was not able to deliver before. And software, more than hardware, is dependent on knowledge and the innovations which come from it.

9. Thus everyone knows of Electronic-commerce but it took a man with ideas and knowledge to come up with Amazon.com. Suddenly billion of dollars worth of worldwide business becomes possible for a single man with an unknown low- capital company. The means of communication, the data and the goods are there but knowledge about the way goods can be procured, paid for and delivered in a modern financial system made Amazon.com a fantastic business. It is not yet profitable but it has certainly pioneered the way business will be done in the knowledge-based economy.

10. We should all be enthusiastic about knowledge as the basis for doing business. But we should also remember that when new things replace the old there will always be a cost. The ease of selling through cyber-space will probably increase the consumption of products but it will also destroy those who were in the business before the K-economy. Thus when dot.coms businesses supply goods and services faster, more efficiently and at lowers costs, the old players will be put out of business. There is much talk of creative destruction. It is fine if what is destroyed is owned by those who create, but far too often they are not the same people. Thus others will have to pay the price for the success of the new creations of the new E-business.

11. When the dot.com companies supply directly to the consumers, they and the delivering companies will make money. But the old importers, distributors and retailers will go out of business. Indeed even Governments may lose out as the small quantities of goods delivered direct to the consumers may attract no duty at all. And of course the Government will lose the corporate tax paid by local companies including the transport companies.

12. Whether this is good or bad is difficult to determine now. We have not had enough experience of the real workings of E-commerce and the Knowledge economy. There may be other benefits to the destroyed businesses and to the Government. Possibly the increase in the volume of business will generate more business and more revenue. But we don't really know. What we do know is that the destruction may be considerable and there will be disruptions and instability.

13. The enthusiasm about the K-economy is infectious. Many see unlimited growth and unprecedented new wealth being generated. They see the dot.com and other Internet-based companies as money spinners. Unable to take advantage themselves of knowledge and the ease of communication that has presented itself, they go into a frenzy of investments putting money in anything at all that is even distinctly related to E-commerce.

14. The result is predictable. The shares of the dot.com companies sky-rocketed until they bear no relation whatsoever to the actual business being done. Dot.com companies may be based on knowledge but they still have to deliver goods and services at prices which will give them a reasonable return. In the rush to take advantage of the new ways of exploiting data and knowledge, the economics of doing business, the cost and the returns appear to have been given too little attention. As a result profits were difficult to achieve.

15. But as company shares shoot up there was a feeling of euphoria over easy money, of wealth from nothing more than a belief in the wonder of dot.com companies. As shares sky-rocketed more money is poured into the purchase of shares. Loans were raised based on the value of these rapidly rising shares and expectations of more capital appreciation.

16. The bubble grew and grew and as expected it bursts. A lot of people got hurt. A lot of money was lost. And suddenly dot.com companies became liabilities as their failure to make money became general knowledge.

17. But this does not mean that dot.com are incapable of making profits or of growing. As is usual with business, good management and proper accounting of the real potential will yield good returns. There will be capital gains but such gains must be related to assets and performance and not romance or fanciful expectations.

18. Malaysians must embrace E-commerce and the Knowledge Economy. But Malaysians must not place too high an expectation from this new business. There is a lot of money to be made from the right kind of application of data and knowledge, the right software and the right ideas. It is entirely possible

for E-companies to grow rapidly and to yield high returns for the innovators and entrepreneurs. There will be failures but this should not deter the realists bent on exploiting new ways of doing business.

19. The most attractive thing about E-commerce is how easily you can become global. Borders do not restrict business the way they do the old businesses. Market penetration is much easier. There is no need to appoint agents, and distributors. The sale is direct to the consumer. The efficient and worldwide delivery services provided by such companies as DHL and UPS ensures that goods are delivered to the customers without need for local transport and delivery companies.

20. Start-up companies in the Internet-based business come fast and furious. They are really based on ideas for the application of data and the speed and directness of communication. But financing a new business will always be difficult despite the venture capitalists being willing to lose money on nine-tenth of their investments. But when a company hits pay-dirt the returns can be very, very considerable. Market capitalisations can grow very rapidly. E-commerce companies which are only a few years old have been known to buy up major corporations which are more than a century old.

21. In E-commerce experience can even be a hindrance, especially experience in the old business and the old way of doing business. As a result many who venture into E-business are young people, usually in their twenties, who had just come out of universities. But a university education is not a necessity. Indeed many of the most successful people involved in start-ups of E-business are university drop-outs. So no one need feel discouraged if they have a good idea about an innovative application of knowledge and data and the exploitation of the vast amount of information available on the Internet. It is always possible that their ideas may work and venture-capitalists might be convinced enough of the feasibility so as to invest in it.

22. Facilities are available in Malaysia now to test out ideas and concepts of E-business. The Universities and Cyberjaya have incubators where investments required is small and common facilities are available. Once the business develops and are viable enough it can move to better facilities.

23. The Knowledge Economy is about information and knowledge leading to better products and services. Even growing 'sawi' can be a K-Economy activity if the 'sawi' grower uses the Net to get information on how best to grow 'sawi' or on how to link supply and demand more efficiently.

24. I would like to challenge every single MCA member here today to start looking at everything from the perspective of cyberspace. How can you do the things that you are doing now better and more profitably by applying knowledge and readily available access to data and communication.

25. Today's seminar will not result in knowledge unless it produces a change in your behaviour. Information only becomes knowledge when it becomes so much a part of the way you improve and enhance the way you do things.

26. The Knowledge Economy is all about learning. As long as we are prepared to keep learning from each other and from the world, the Knowledge Economy should be a piece of cake - and an ever expanding one at that.