

**SPEECH BY THE HON TUN DR MAHATHIR BIN MOHAMAD
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**“Spearheading Business Growth with Social Equity:
Malaysia’s Experience”**

Firstly I would like to thank the Philippine Chamber of Commerce and industry for this invitation to speak at this forum on “Spearheading Business Growth with Social Equity, Malaysia’s Experience”. I hope that what I have to say is relevant and serves to enlighten us on a problem that has plagued human society for ages – that of equity and its achievement in the face of greed which comes along with any attempt at enriching society. On a world scale we are witnessing today how the greed of the rich is affecting the growth of the world and themselves because of disregard for equity in the distribution of opportunities and wealth between rich nations and poor nations. That in essence is what the present interpretation of globalisation is about.

2. Achieving growth is relatively simple if the question of equity can be ignored. But it cannot be ignored, at least not for long. Equitable distribution of wealth must be attempted and this invariably gets in the way of growth. Failure at equitable distribution of wealth almost always results in class or racial confrontations and violence of one kind or another.

3. During the early years of the industrial revolution in Europe the capitalist entrepreneurs who had displaced the landed gentry went all out to make as much money as they could, and to reinvest in order to increase their wealth. The welfare of those who worked to enrich them was ignored. The condition under which their workers worked was appalling. Miners for example died young because their lungs were destroyed by coal dust. Accidents in the factories, including death were frequent. Long hours denied the employees a normal life. Although the workers were paid, their wages could not buy enough for a decent living. They were actually paid slaves, renting company tenements and buying their provisions from company stores.

4. In the meantime the owners lived a life of high luxury in huge mansions with big retinues of servants. The industrialists became the new gentry, living in the style of the old aristocrats.

5. The class difference was very glaring and tended to increase with time. And along with this came class hatred. The fact that workers and employers were of the same race, meant nothing. The important thing was class differences.

6. It was the exploitation of workers that lead to the conception of socialist and communist ideologies and the bloody revolutions which followed in which millions died. Unfortunately socialism and communism failed to bring about a better life for the workers. On the other hand a more caring capitalism, fearing

the spread of communist ideology had provided the workers much better working and living conditions.

7. Malaysia is well aware of the attraction posed by communist ideology at the time of independence. Armed communist insurgents were actually fighting the legitimate government in order to impose communist rule. Many sympathisers, mainly Chinese, supported the insurgents.

8. In Malaysia the problem was more complicated because the division between employers and employees, between capitalists and workers was amplified by racial differences. The workers were largely indigenous Malays while the employers were largely Malaysians of Chinese origin.

9. In any multi-racial country tension and violent confrontation between the races are common. It would be even more so if racial differences are amplified by class difference. If Malaysia is to be peaceful and stable the differences must be reduced, if not eliminated. Since racial differences do not lend themselves to easy removal it was decided to reduce the class or economic differences.

10. And so the government of Malaysia, when trying to develop the country must always be mindful that it will not result in widening the gap between classes, between rich and poor, which would also mean between races.

11. The Chinese are a dynamic race of people and Malaysian Chinese are perhaps more dynamic than most. Left to themselves they would certainly enrich the country through their businesses, their industries, their trading and their worldwide network.

12. An economy feeds on itself. If you achieve a breakthrough then you would gain momentum and you would grow almost despite yourself. Of course there will be crises, downturns and reverses. The richest businesses can go bankrupt. They can fail. But then again in a rich community the chances of the poor becoming rich, filthy rich are also there. But not in a poor community. The poor in a poor community just simply cannot become rich. You don't become rich selling to the poor. you become rich selling to the rich. They are the ones to buy Gucci, Ferraris, private jets etc. And you can make lots of money selling these things to them.

13. The Chinese community in Malaysia clearly has more opportunities to become rich than the indigenous generally poor Malays. Unless something is done the disparity between the Malays and the Chinese would increase. There would be tension, confrontations, riots and bloodshed.

14. When that happens being wealthy is not worthwhile any more. It becomes a liability. It attracts violence, destruction and often losses of life. Being rich but dead is not something that anyone welcomes.

15. In 1969 race riots broke out in Kuala Lumpur. The immediate cause was a slightly poor showing of the Malays in an election and the thoughtless celebration of a Chinese based party because of their "victory". It was not even a

real victory, just better performance than expected. The suppressed anger and bitterness of the Malays over their poverty boiled over and a number of Chinese were knifed – not as many as the foreign press made out but still too many for the good of Malaysia. And everyone predicted that, that was the end of Malaysia.

16. Racial problems they say would plague Malaysia forever. It would never be stable. It certainly would not grow economically. The Malays, the indigenous majority would oppress the Chinese and Indians. Many would migrate. The incompetent Malays would not be able to administer the country. They would be corrupt. they would destroy the country which they claimed the British had built so patiently. Malaysia would be a basket case, a typical third world country.

17. But as you know all these great thinkers and analysts were wrong. Far from breaking up the Malay / Chinese / Indian coalition government, the alliance party coalition, actually grew larger as more parties including those in the opposition decided to join. The coalition was renamed the national front.

18. The racial riots were stopped swiftly; the enlarged coalition sat down and identified the root causes as the disparities in the economic wealth between the indigenous and the non-indigenous people. Everyone agreed that the gap must be reduced if not eliminated altogether. The share of wealth should be fairer. But this must not be done by robbing Peter to give to Paul. The Chinese must be allowed to increase their wealth but the Malays must have a bigger percentage of the economy, 30 percent and not the one percent that they had in 1970. This is not too unreasonable considering that the Malays and indigenous people make up 60 percent of the population. The Chinese and Indians making up 36 percent of the population would get 40 percent. And foreign interest reduced from 60 percent to 30 percent. And all these to be achieved in 20 years by growing the economic cake, not by dispossessing anyone.

19. Of course setting the target is easy. Achieving it is another matter. For the Malays to get 30% they must grow by 3000% in 20 years. Considering their lack of skill, capital etc in business, that is expecting a bit too much. But in the event they, with a lot of help from the government through affirmative action actually achieved a 20% share of the economic wealth in 20 years, a growth of 2000%.

20. For the Chinese and Indians to go from 30% to 40% means a 33% increase only. And they achieved this with no difficulty even though it is 40% of a much larger economic cake.

21. There is admittedly a big difference still between the share of the Malays and the Chinese, but the disparity is less than before and therefore more tolerable. The acid test came during the currency crisis. The Malays did not blame the Chinese for the recession and their problems and did not riot or burn Chinese shops.

22. On the other hand the Chinese were grateful to the Malay-led government which overcame the crisis and helped the recovery of Chinese businesses. In

the 1999 election the Chinese gave full support to the government because the affirmative action prevented the Malays from blaming and taking it out on the Chinese. Perhaps Chinese growth is slightly less because of the affirmative action, but it is more sustainable. The new economic policy which included the affirmative action was thus justified.

23. Affirmative action helps prevent racial animosities caused by economic disparities. But the disparities in income between rich and poor must also be reduced if an equitable and harmonious society is to be built.

24. Left to themselves the rich capitalists would want to make as much for themselves without regard for the resentment of their workers and the people as a whole. And left to themselves the workers and their unions would use industrial action to get as much as they can for themselves in order to increase their share of the wealth of the country. Obviously employers and employees would be on a collision course.

25. If the employers exploit the workers there will be a reaction in the form of industrial action or worse. Either the employer will close down or the workers will get their pay increase which can result in higher cost of production and loss of competitiveness in the market. This can even lead to the company failing and closing down. Both the employer and the workers will lose in the end. And when businesses fail for whatever reason, economic growth of the country would be adversely affected.

26. In addition, industrial actions, increases in pay demands and failures of companies will deter investors. No investment will mean no additional jobs created. Wages would actually decrease as more workers compete for fewer jobs. Again the workers will lose; less people will invest and gain from their profits, less taxes for the government and less growth for the economy.

27. Not only will the workers and employers suffer but a stagnant or a regressing economy will affect retail business, supply business and construction etc. In other words lack of industrial peace will result in economic stagnation or regress.

28. Governments must therefore oversee that wage demands and increases are sustainable, while employers do not exploit workers. There should be not only fair wages for the workers but wages should increase in real terms so that workers will enjoy a better life as the economy grows. After all, the increasing prosperity of the country is due also to their inputs.

29. Malaysia is a trading nation. Its trade is twice the size of its GDP. If it is not competitive it cannot trade. It is important that its cost of production is as low as that of competing neighbours, or only slightly higher.

30. To reconcile the need to increase wages while keeping costs low, the cost of living must not get inflated. Inflation is minimised by controlling the prices of essential goods. Ever since the war prices of essential goods in Malaysia have been controlled. Increases in prices of these are only allowed if justified.

31. The tendency of the business community is to raise prices at the slightest increase in cost. If fuel prices go up by 10% they would increase prices by 10%. But fuel cost is likely to be only 10% of the cost of goods or service. Therefore the increase of price should only be 1%, i.e. 10% of 10%, not 10% of 100%. Hence the need to oversee prices of essentials and to control it in order to prevent abuses which cause inflation.

32. With low inflation, the increase in wages need not be too high to give greater purchasing power and improve standard of living. With improvement in standard of living the disparity in income between rich and poor would not be so great, and there would be less envy and jealousy of the rich members of the country.

33. The rich in the community are actually assets, except when their wealth is illegally or improperly acquired. They are assets because they create jobs and business, i.e. wealth by spending their money in whatever way. All along the line as their money changes hands, people get some wealth, some fraction of the money. And when they pay taxes, governments make money which will be spent paying government staff and building infrastructure. So the rich deserves to be helped to make reasonable profits from their legitimate business activities.

34. Trying to bring about equity by expropriating the wealth of the rich, eliminating them as the communists did, and ensuring that no one gets rich is counter-productive and detrimental to the well being of the poor.

35. But the poor must be protected from the predatory instincts of the rich. The poor should pay less or no taxes and their incomes should be reasonable through government supervision of the employers and the rich. Confrontation by the poor through strikes and demonstrations only discourages investments, prevent the creation of jobs which reduces wages offered as there would be more workers than jobs.

36. There is obviously a lot of balancing act to do in order to grow with equity, made worse in the case of Malaysia by the need for equity not just between classes but also between races.

37. The instruments for achieving class equity or more accurately for reducing the disparities between rich and poor are the usual ones of taxing the rich, exempting the poor, indirect and direct subsidies to the poor, ensuring fair wages and protecting the poor from exploitation, provision of social services aimed at lessening the burdens of the poor, control of prices of essentials, educational support to ensure upward mobility for the children of the poor, job creation through labour intensive industries, protecting the poor from self-inflicted damage through abuses of rights including resort to industrial actions and a host of other government policies and actions designed to lessen the burdens of the poor.

38. The activities of the rich are overseen by the government so as to prevent exploitation of the poor and of society itself. But the rich must be helped to legitimately make reasonably more money so as to grow the economy.

39. As for equitable development between the races the government of Malaysia enacted the new economic policy which provided government with the power to restructure the economy so that wealth and economic opportunities are more evenly distributed. There is positive discrimination in favour of the economically weak race – mainly the Malays and other indigenous peoples. Licences, permits, opportunities, scholarships, favour these people. Easy loans are made available and the criteria for access to funds made less onerous. Business premises are built and rented at special rates. Discounts are given for low-cost houses.

40. Government agencies are set up to ensure that initial public offerings (IPO) shares sold to the indigenous people are not resold for quick gains. Open ended unit trusts are set up so that even small sums can be invested by the racially underprivileged. More than 50 billion Ringgit of the small capital of the poor has been mobilised through the unit trusts.

41. Special skills training and business management training ensure steady increases in the investment of the indigenous people in the main economic activities. Government contracts especially the small ones give a 5% advantage to the indigenous contractors.

42. Admittedly there were abuses. The indigenous people may lend their names and faces to the more dynamic Chinese. But over the years a new breed of indigenous people has emerged who are as skilled as the Chinese and Indians. Some have even become big businessmen and are among the Malaysian billionaires.

43. Because of the high growth of the Malaysian economy the indigenous people have not been able to acquire the 30% share of the economic wealth targeted by the new economic policy. But even the 20% that has been achieved is many times more than the 20% at the time the NEP was launched. Certainly it is very many times more than the 1% of the rather small economic wealth of Malaysia in 1970 when the NEP was launched.

44. We have not completely succeeded in creating an equitable society hand in hand with the growth in Malaysia. But what has been achieved is quite significant. It can be said that in terms of affirmative action the Malaysian experience and achievement far exceeds those of other countries. And all these are achieved without significant retardation of the growth of the economy and social conflicts. Provided that the policies and strategies are continued and new ideas introduced, business growth with social equity will continue to characterise Malaysia's economic scene.