

SPEECH BY THE HON TUN DR MAHATHIR BIN MOHAMAD AT THE FEDERATION OF PUBLIC LISTED COMPANIES AT HOTEL CROWNE PLAZA MUTIARA, KUALA LUMPUR ON TUESDAY, 10 MAY 2005

“MALAYSIA INCORPORATED – REVISITED”

Firstly, I would like to thank the Federation of Public Listed Companies for the invitation to speak on the often much maligned “Malaysia Incorporated” which has been equated and linked to cronyism in Malaysia, particularly by the previous prime minister. I don’t think the charge of cronyism will be dropped even if I can make a reasonable case but I will try to explain “Malaysian Incorporated” whether I am believed or not I will revisit if you like. Government / private sector cooperation is not something new, as the ethnic European media tries to make out when they criticised Japan incorporated and later South Korea and Malaysia for this sin.

The fact is that the European countries had been practicing it for centuries and it had contributed much to their economic development and their political dominance today. We know from history of the famous East India or East Asiatic companies of the European countries these companies had close and strong support from their governments even the sovereigns, their families and members of their governments had investments in these companies. In some cases even piracy was supported by the government the British licensed their buccaneers to rob Spanish ships returning with gold and silver from their so-called new world the government and the buccaneers shared in the spoils this must constitute cronyism “Par Excellence”. The plunder of the “new world”, the massacres and the genocides which practically wiped out the indigenous people of the Americas were carried out by government forces in support of the traders and businesses who were exploiting the resources of the land they had invaded and occupied.

The establishment of the United States and subsequent expansion westwards were the results of government / private sector collaboration which was far more integrated and coordinated than the so-called cronyism of Japan incorporated or Malaysia incorporated the privately built and operated railways across the United States could not have been built without government armies killing the Indians and taking their land.

When the Europeans looked for the sea-route to the east, their intention was not exploration but was in the interest of trade before this they had to rely on the traders of the east, the Chinese, Indians, Turkic central Asians and Arabs, to get their supplies of spices, silk and chinaware these traders had used the silk road overland via central Asia, and the sea routes which these eastern people had pioneered long before the European "discovery". The Chinese, Indian and Arabs were pure traders they were not backed by their governments certainly they had no military conquest in mind even Admiral Cheng ho did not try military conquest despite his enormous military capability.

The Europeans however came in armed merchantman because the first Portuguese to reach Malacca were arrested and gaoled, the Portuguese government sent a naval fleet under Alfonso d'Albuquerque to attack and conquer Malacca and secure the East Asian trade for their nationals. Following the Portuguese came the Dutch, Spanish, British, French and finally the ethnic European American traders they all had the backing of their governments with recalcitrant or troublesome trading partners, their solution was to invade and conquer so their traders could freely exploit trade with these countries Admiral Perry forced Japan to open up to American traders.

Such was the cronyism of the ethnic European countries that eventually their traders gained monopolies of the trade with the countries they had conquered and colonised the close collaboration between their governments and their traders represent incorporated states in the most extreme form whereas Japan incorporated and Malaysia incorporated do not resort to military threats and actions, the ethnic European incorporated states of the past included military conquest and colonisation in order to secure trade. In case we think that all these happened only in the past, let us examine what is happening now we know that the military actions during the gulf war, the Iraq – Iran war and the invasion and conquest of Iraq are basically in support of the oil companies which wanted to exploit the oil resources of Kuwait, Iran and Iraq and as a bonus the American companies, mostly cronies of president bush and his coterie gained huge supply and construction contracts as a result of these actions by their government the British have gained too, in proportion to their contribution for American invasion and occupation.

The same thing is happening in the WTO (World Trade Organisation) and previously in the GATT (General Agreement – Tariff and Trade) the governments negotiated terms which would be favourable for their traders exclusively the world bank and the IMF (international monetary fund) also use their authority and money in order to facilitate the businesses of the multi-national corporations and banks of the Americans largely but also those of the developed European nations. For example, when the infamous currency traders devalued the currencies of the countries of East Asia through short-selling, the IMF and the world bank, and by extension the government of the us backed their operation, declaring that it was part of free trade the currency traders made tons of money for themselves but in addition they put the banks and corporations of the countries they attacked into such distress that their share prices collapsed as the price for being rescued by the IMF these countries were forced to allow foreign banks and corporations to move in and buy up the distressed businesses at the depressed prices with the dollars which had greatly appreciated against the local currency there can be no more blatant public / private sector collaborations than this it is us incorporated pure and simple the rescue of LTCM or long term credit management and the well-known military / industrial collaboration are other examples of the same thing.

I am aware that many Malaysians are ashamed that Malaysia had officially adopted the concept of Malaysia Incorporated which involved close cooperation between the government and the private sector they believe that the Malaysia Incorporated concept had resulted in cronyism, a reprehensible practice which should be condemned they believe that the success of Malaysian businesses is the result of the government favouring certain individuals and discriminating against others and some of course believe that members of the government gained financially and in other ways from the adoption of the Malaysia incorporated concept together with the attendant cronyism etc but invading and killing Iraqis, so the petroleum and construction companies belonging to the friends of the president and vice president can freely exploit are not regarded as shameful.

As I said government / private sector collaboration is neither new nor confined only to Malaysia and certain countries in East Asia the powerful ethnic Europeans countries had always been practicing this concept and their collaboration include the use of force and military conquest to ensure the success of their businessmen, especially those in which members of their governments are involved. Let me quote from John Pilger's book, "The New Rulers of the World" on page 68 he wrote, and I quote "When the Iraq petroleum company, the foreign consortium that exploited Iraq's oil, was threatened with nationalisation in 1963, the new imperial power, the united states, engineered what the central intelligence agency called its "favourite coup" we regarded it as a great victory" said James Critchfield, then head of the CIA in the middle east the secretary general of the Ba'ath party, Ahmad Saleh Sa'adi, concurred, "We came to power on a CIA train", he said, thereafter initiating the reign of terror that produced Saddam Hussein" unquote.

We know that following the invasion and conquest of Iraq, Iraqi oil is being produced and sold by American companies to pay for the cost of the war and American construction companies all linked to members of the American government in one way or another got the biggest contracts. Malaysia's policy of collaboration between government and the private sector on the other hand never involved the use of force everything that was done was legitimate no one had been dispossessed but the whole country had obviously gained how can Malaysia achieve such high growth if the Malaysia incorporated concept is detrimental to the economy and well-being of the people?. The Malaysia Incorporated concept was premised on the idea that the success of private enterprise would benefit not just the entrepreneurs but also the government and the people.

In the first place investments when successful increase wealth the construction or rental of premises, the employment of workers, the sale of the products all involve added value and growth of the economy government gains from the taxes paid on profits made the earnings of the higher-paid staff are also taxed. The business would need to purchase raw materials, components and other inputs all the time when the suppliers of these make profits, the government would earn more taxes of course these suppliers too create jobs and pay out wages which would be spent on food, clothing, housing and a variety of other needs, all of which benefit the vendors and contribute to economy of the country.

With the revenue earned by the government, it would be able to pay the salaries of its employees and to finance the country's development all this money would eventually find its way into the hands of traders, petty traders as well as big businesses when these people make profit they too would spend and circulate the money the big businesses would reinvest, creating more jobs, giving contracts and stimulating the economy. It is important to remember that it is the movement of money from one hand to another which creates wealth money kept under the pillow unused benefits no one, creates no wealth, not even for the owner in fact the owner would lose as inflation eats away into its purchasing power. But supposing a business fails because it is not profitable, there would be no tax for the government to collect the business could go bankrupt, unable to pay the loans from the bank. The bank would also lose because of the non-performing loans.

If the business closes down the employees would lose their jobs, would not earn any wages, would not be able to spend on food, clothing or shelter the suppliers of these would lose, would make no profit and so would the suppliers of raw materials and other inputs to the industry there would be no income tax to be paid by the high-income employees. With the reduction in corporate and income taxes due to business failure, government revenue would also be adversely affected perhaps government would give priority to paying salaries then development expenditure would be reduced suppliers and contractors and their employees and other dependents in the business would all suffer in the end the economy and the people would suffer the country would not grow economically, would not develop wealth would not increase for the people, the businesses and the country. It is obvious that a successful and profitable business is good for everyone, for the government and for the country a failed business benefits no one and creates social and economic problems.

Faced with these possibilities what should the government do it should of course try to prevent business failures but should it prevent all business failures from happening? if the business community knows that they would always be helped by the government if they fail then they would be irresponsible; they would even cheat, steal from their own companies and let it fail this would certainly not be good for the government or the economy therefore business should only be given help by the government if the

failure is not due to the fault of the management, not due to cheating, not due to deliberate fishing for government rescue. During the financial crisis of 1997 – 98 most businesses were subjected to tremendous strains if a company borrows from the bank the fall in the value of the assets and shares used as collateral would require topping up this may not be possible the banks would then withdraw loan facilities, increasing the pressure on the company eventually the company would fail, even if in the past it was profitable and well managed.

The free traders say let the failed companies go under the strong would survive but I have already enumerated the general effects of failed companies on the economy, on the government and on society as a whole to let failed businesses go under may be good for the surviving companies, may certainly be good for foreign companies wanting to mop up the moribund companies on the cheap but governments have a responsibility to ensure that the sufferings of the people and the country be minimised and the citizens protected from marauding foreigners, especially as the financial crisis was deliberately precipitated by foreign currency traders.

And so the government of Malaysia moved in to support the failing companies, to provide loans, to stay the actions by the banks, to refinance and even to buy up the companies what if the failing company belongs to a crony or worse still to the families of members of the government irrespective of who the failing companies belong to, if it will help save its contribution to the economy, if the action taken is legitimate and proper, the government should help usually the cost to the government is small as market prices at such times would be low because the government has longer staying power, eventually the action taken by the government would yield good dividends we can examine the returns for the government when it performs this rescue operation invariably it is very high and the government can recover more than the capital expended.

What the Malaysian government did to help failing companies is legal and proper not so when the American government bailed out LTCM (Long Term Credit Management) using billions of dollars from banks which were under the control of members of the government who actually had invested in the LTCM but it must be admitted that if the us government allowed LTCM to go under it would be

catastrophic for the us the us is quick to point this out but would not admit that the Malaysian government rescue operation was also to prevent national economic catastrophe. Malaysians who are embarrassed and ashamed because of the Malaysia incorporated concept and the help extended to failing Malaysian companies should think again are you suffering from inferiority complex or do you accept double standards; that what the rich and powerful countries do is legitimate and right, but if poor countries do the same, it is wrong.

In Malaysia we have the problem of unfair distribution of wealth between the races* to overcome this we formulate our affirmative action Malaysia incorporated and privatisation provided opportunities to accelerate the increase in the wealth of the Malays and the other Bumiputeras in pursuit of the NEP (New Economic Policy). Can we have equality confined only to the poor and the middle class but leave the rich and the very rich to be only of one race without any attempt to equalise also this group of people? Can we say the removal of the disparities between races is complete if among the rich and very rich there are no Bumiputeras at all or only very few. When we envisage the new economic policy we wanted to see at the end all races represented at all levels of the economic ladder it is obviously not enough to restructure only among the poor and the middle class, while leaving the upper classes un-restructured, continuing to be dominated by one race only. Left to themselves the chances of the Bumiputeras lifting themselves up would be minimal if not impossible the non-Bumis private sector would not give supply or construction contracts to the Bumiputeras, especially when they have no experience and would probably fail to deliver.

If the government wants to uplift the Bumiputeras then the government must take the risk of giving the contracts to them invariably some of them would fail, just as giving contracts to inexperienced non-Bumis also run the risk of failure. But out of the many failures among the Bumiputeras a few might succeed the successful ones need to be given more opportunities or they would fail the less successful ones would still be entertained, but if they continue to fail then they would not continue to receive help, to get contracts.

What perception will this create? Obviously it would look as if the government is favouring certain Bumiputeras, giving them contract after contract it does not matter who these successful Bumiputeras are; whether they are known or unknown to the government; but the accusation would be made that they are successful because they are cronies or related to members of the government even the Bumis would join in this chorus of accusation, wanting to be seen as impartial and correct. The only way for the government to avoid accusations of cronyism is to ensure that no Bumiputeras would succeed, that all Bumiputeras would fail then there would be no one to be labelled crony but this will result in failure to correct the disparities between the races and then the NEP would be considered to have failed and racial animosities would destabilise the country of course this would make the detractors happy but the Malaysian government was not elected to please its detractors its task is to develop this country and remove social inequities.

For the government it is a case of being damned if you do and damned if you don't the government believed that it is better to be damned for doing because at least it would achieve the objective of the NEP. Today there is quite a number of rich Bumiputeras there is envy and jealousy on the part of other Bumiputeras towards them but the anger and jealousy toward the non-Bumis would be far worse if there are no rich Bumiputeras to balance the rich non-Bumis. But the Malaysia Incorporated concept is not just about affirmative action to reduce the economic disparities between Bumiputeras and non-Bumiputeras it is more about government / private sector cooperation to develop the country and because the private sector is made up of more non-Bumis than Bumis, it actually benefits more non-Bumis than Bumis but this is not undesirable. We cannot wait for the Bumiputeras to catch up before we develop the country in any case the development of the country must in one way or another benefit the Bumiputera.

Even among the non-Bumis there is bound to be some who will do better than the others because of close cooperation between the government and the private sector, inevitably all members of the business community whether successful or not, wealthy or not will be well known to members of the government the failures among the businessmen close to members of the government would never be pointed out as the cronies of the government the successful ones will always be labelled as cronies their

names would never be mentioned without saying that they were close to a particular member of the government; including the prime minister. I will not say that cronyism is totally absent i know of cases where a particular member of the government developed special relationship with certain members of the private sector in order to get financial help for his personal politics there are cases where he asked the private companies to pay salaries to his nominees so they will work for him in return favour will be shown by the minister but because he has cultivated good relations with the press, he is not accused of cronyism.

This abuse apart, most non-Bumis benefited from the Malaysia Incorporated concept naturally they would be supportive of the government as a whole, not any particular government member when the government blunted the attack by the currency traders, the Chinese businessmen were so grateful that their support for government candidates in the 1999 elections was unprecedented this is not because of cronyism it is just support for good government, for a government that had managed a crisis well. The Chinese are pragmatists they vote for what is good for them and so the giants of the opposition lost in 1999 but gratefulness do not last forever and so in 2004 the giants came back.

And so what has revisiting Malaysia Incorporated taught us firstly government / private sector cooperation is not new the ethnic Europeans had practiced it for hundreds of years and are still practicing it now, complete with sanctions, invasions, occupation and the precipitation of civil war which kills hundreds of thousands of people. When Japan recovered so fast and so well after the war, a label had to be invented to denigrate Japan and its government / private sector cooperation the label was Japan incorporated and it was made out to be almost a crime had Japan failed as a result of this concept there would have been no condemnation of Japan incorporated – no labelling even.

South Korea under Park Chung Hee took the same route and was roundly condemned again because it succeeded without president Park's Chaebol, South Korea would be plodding, economically speaking, far behind the advanced countries of the west, would remain a third world failed country.

Malaysia deliberately rejected ethnic European condemnation of government / private sector cooperation and actually officially adopted the Malaysia Incorporated concept, many Malaysians are ashamed and refuse to acknowledge that whatever success Malaysia has achieved is due in part at least to the concept of Malaysia Incorporated but I believe that much of Malaysia's rapid development is due to the concept why should not government work closely with the private sector and help its success when 28% of the profits the sector makes belong to the government? The Government is in fact a partner in every business in the country and partners have a duty to help the business to succeed. We should continue to help in this spirit, with this realisation but we would never kill people and invade countries in the pursuit of the state incorporated concept.

Thank you.