

**SPEECH BY THE HON TUN DR MAHATHIR BIN MOHAMAD
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**“Malaysia Incorporated: Leadership and Management
Demands in the 21st Century”**

There are certain values which we consider as universal. In human society anywhere stealing or robbing would be regarded as wrong and criminal. If anybody steals or robs, if he is caught, then he would be punished.

2. But there are people who are very clever and manage to steal and rob in ways that are difficult to prove that they have actually committed these crimes. They therefore get away with their stealing and robbery. One way would be by taking deposits and guaranteeing large dividends simply by using the money of those who placed their deposits later to pay the dividends. This can go on for a long time without being detected. The depositors themselves often collaborate.

3. And then we have those smart people who can turn your dollar note into 100 dollars. Intelligent but greedy people have lost a lot of money this way. And there are other ways of smart stealing and robbing which cannot be punished under the laws on stealing and robbing.

4. In the international community it is even more difficult to define criminal acts. And the smart international criminal can rip off and get away Scott free.

5. Thus greedy traders actually invented currency trading. Currency is treated as a commodity like sugar or coffee or rubber and traded forward. But currency, paper currency really has no value, not even as waste paper, whereas other commodities can be eaten or used in some way. Still the currency traders succeeded in trading in currency as if it is a consumable commodity. Today the currency is not even in the form of currency notes printed on paper. Currency is represented by entries in the ledgers of banks. Sale of the currency is consummated simply by transferring figures, largely zeros, to the account of the buyer. No actual money moves.

6. Through this transfer of numbers in ledgers of banks billions can be made. The currency traders are really very clever. They make their billions by impoverishing whole countries and regions. Basically they have taken the money belonging to these countries and their people, rich and poor.

7. If you take somebody else's money, you would be stealing or robbing. Reduced to basics, that is what currency traders are doing – taking other peoples money to enrich themselves. But they are not considered to be robbers. The IMF, the World Bank, the super and hyper powers back them and refuse to

equate the taking away of the wealth of people and countries by currency traders as robbery. But when you deprive anyone of his money, isn't it robbery. The highwayman points a gun and takes your money, depriving you of your wealth. The highwayman is a robber. George Soros and his gang take away your money, the money of rich and poor people, of poor countries but they are not called robbers.

8. I will not say what the IMF and the World Bank are but they aid and abet the robbers. If you know how to rob you can get away with it.

9. And that brings me to the subject I am asked to speak - Malaysia Incorporated. The inspiration came from Japan. Japan recovered very quickly from the devastation wrought by American bombings during World War II by having the Government and the Japanese business community work closely together.

10. The Japanese used to have the Zaibatsu, the huge conglomerates before the war. But Mac Arthur broke up these Zaibatsu. Today we have European and American "Zaibatsu". They are called by different names of course but through mergers and acquisitions they have become bigger than most countries and national Governments and certainly bigger than "Zaibatsu". But when you do it, it is not wrong of course. When others do it and they succeed then it is wrong. And so today we have the great conglomerates, bigger than most Governments, practising oligopoly if not monopoly, having access to unlimited funds, with tentacles all over the world, choking to death any business smaller than them, fiddling with their books etc. But they are considered to be legitimate and acceptable. The Zaibatsus of the Japanese were not but the conglomerates of today, very many times bigger than the Japanese Zaibatsus before the war are regarded as legitimate and allowed to go on growing.

11. When Japan recovered through close cooperation between Government and private sector, the West decided that this was improper. They labeled such a set-up as Japan Incorporated. A media campaign made out that this was improper and must be condemned by all good business people, Governments and the international community. Japan felt that it was in the wrong and was ashamed. Had Japan failed to recover and become a third world country, the practice of Japan Incorporated would not have been noticed and would not be a crime. But Japan succeeded. This is its crime.

12. When Malaysia needed to develop fast we studied Japan to find out how it managed to recover so quickly. We were looking East of course. And we decided that one of the contributory factors was the Japan Incorporated concept.

13. We asked ourselves whether Governments should always be against the private sector, try to make it fail through bureaucratic procedures, take a lot of

time to decide, impose taxes to make sure they never make any profits and generally regard them as the enemy?

14. We could not find a reason or justification for regarding the private sector as the enemy. They pay taxes to the Government. The more money they make the more taxes the Government collects. Their employees, especially the top executives also pay tax. The people who do business with them also pay tax on their profits, on their executives' income.

15. The private companies and all who do business with them contribute to economic growth, to wealth creation. The people benefit from economic growth in one way or another. So does the Government.

16. It looked to us that these private companies were like the geese which lay the golden eggs. And they can be made to lay much more eggs than the geese. You don't kill the geese if you want more golden eggs. So why should we actively frustrate the companies which can make profits, their golden eggs. We should feed them the way we feed the geese.

17. Why is feeding geese which lay golden eggs criminal? After consulting our conscience we decided that it is not criminal, that helping the private sector to succeed, to make more profits, to pay more taxes is not criminal. And so it was decided to adopt the Malaysia Incorporated concept, officially accept it.

18. To cut a very long story short the Malaysia Incorporated concept succeeded. Malaysia's business-friendly policy helped to stimulate investments by both domestic and foreign funds. Giving them tax exemption does not benefit the Government but the investments created jobs and our people benefited.

19. And we looked further down the road. Workers who buy things from small retailers help these retailers to survive. The retailers replenish their stocks from the distributors and wholesalers who in turn get their supplies from the manufacturers and importers. One retailer does not buy much. But thousands of retailers selling to hundreds of thousands of wage earners must result in quite a big turnover for the distributors, wholesalers, manufacturers and importers. Somewhere along the line there will be companies which pay corporate taxes and executives who pay income taxes.

20. The Government may have forgone the taxes or the small retailers may pay no tax but some of what was not collected would come back to the Government one way or another. And then the Government spends the money to pay salaries and to finance development. And everyone gets some of this money. Taxes collected by the Government go back to the people i.e. to the tax payers. The money circulates. Every time money changes hands wealth is created.

21. But if someone keeps the money under the pillow, or the Government does not spend the money that has been collected, not only will wealth not be created but wealth will actually shrink. It will shrink because the cost of living increases and the money saved will buy less and less. It is not the amount of money that counts. It is what it will buy that determines the value of the money.

22. The Government looks at the overall economy, not just the tax foregone. And looking at the Malaysia Incorporated overall effect on the economy, the previous Government decided that Malaysia Incorporated was a good thing.

23. Malaysia grew faster than other developing countries. Our friends abroad did not like this. Malaysia must be cheating. And sure enough they discovered to their horror that Malaysia Incorporated was benefiting the cronies. The cronies were getting all the benefits, getting filthy rich. This is wrong. Malaysia Incorporated like the New Economic Policy is wrong.

24. Who are the cronies? By definition cronies are the ones who benefited. Therefore whoever benefited must be the cronies.

25. If A is given something and he succeeds then by definition he is a crony. If he fails then he is not a crony. Of course if he is not given then he cannot be a crony. If K or T or X are given, if they succeed then K, T and X are cronies. If T fails he is not a crony. If all three are not given then they are all not cronies. But if no one is given a contract or whatever, then nothing can be done. So the Government must give to A or B. Immediately they would become cronies of the Government.

26. And so to avoid accusation of cronyism no one should get any cooperation or help from the Government under the Malaysia Incorporated concept or whoever gets must be made to fail. Then what will happen? Then the whole economy would fail. The Government would save itself from accusation of cronyism. The price is total failure of the economy.

27. I suppose this would make the detractors happy. But is the Government in the business of making critics happy or is it in the business of prospering the country and its people. I may be wrong but I think it is the latter.

28. And so the Government did not regret adopting the Malaysia Incorporated concept.

29. Somewhere here there is a lesson for leaders and managers in the 21st Century. To succeed they must not always choose the beaten path. People who want to ambush you always choose to lay it along the beaten path. If you break off and cut a path in the blukar, you are not likely to be ambushed. And maybe you would reach your destination, slightly behind time perhaps, but you reach your destination. If you are ambushed you may not reach it at all.

30. Conventional wisdom is good. But consider the unconventional also. Evaluate. Trace the possible effect all the way. Retailers know about loss leaders, how they bring the customers to your doors and they buy the high profit high cost items which cover your loss.

31. During the colonial period, the British imposed 100% import duty on luxury goods. Everyone went to Penang or Singapore where there was no tax, i.e. no import duty. Imports by individuals were not easy to tax. The Rolex or the lipstick could have been taken out of the country and brought back. No tax could be levied. Thus the high import duties earn no money for the Government.

32. So the Government decided to make luxury items tax-free. Shops sprang up locally to sell tax-free luxury goods. And the Government collects corporate and income taxes from these businesses.

33. This is a good example of lateral thinking on the part of the Government. There must be many side entrances for leaders and managers in Government and in business. It is good to examine them. It may involve a tight squeeze but the returns can be good. Don't always take the wide-open front door through which everybody is passing.

34. The 21st Century will be full of challenges. The rich powerful countries will come with all kinds of new ideas and proposals. If you care to examine them carefully you will find that it is they who will be the beneficiaries, the gainers. You may gain too, but not as much as them. More frequently and in the long term you may lose.

35. In Malaysia there is an aversion to any increase in payment for whatever – toll rates, petrol prices, entrance tickets, anything. But wages and salaries must increase. It is not always possible. If you do not pay the increases in charges or prices, the Government will have to pay. Whose money is it that the Government uses? It is your money. The only way that the Government can subsidise is to take money from other projects. You will not have the benefits from these cancelled projects.

36. The Government and the people must think. There is no such thing as a free lunch. Somewhere along the line you have to pay.

37. If you go to Japan you will find the prices there ridiculous. The price of 1 kilogram of Kobe beef will buy a whole cow in Malaysia. How can the Japanese survive? How can you sell 1 kilogram of beef for the equivalent of RM 2000/- . But the Japanese are buying or else how can their supermarkets survive. What is more the Japanese are still able to export their products. They have problems competing with Chinese products, but Japanese products are still selling.

38. With such high prices the wages must be high also. If we pay such wages can we sell our products. But the Japanese can. Leaders and managers in Malaysia and other countries need to find out how the Japanese can stay in the market. We know they have knocked out the Europeans and the Americans. We need to learn. In a globalised world we need to be competitive, especially Malaysia whose trade is twice or 200% the size of its GDP. Japan's trade is only 20% of its GDP. We are obviously very trade dependent. If we cannot compete in the market we can say good bye to growth, to prosperity.

39. We have to compete with China. We know China's low cost. If we know how the Japanese manage to stay in the market maybe we can compete with China.

40. There are CEO's who always manage to turn around companies. Why were the companies not doing well before? If you as CEO takes over a company you would do something to turn it around. Think of the something that you would do to the company you take over. Then think whether you should not do the same thing to the company you are presently running. If you do this I am sure you will find many things that you are doing presently which need to be checked, need to be changed, need to be improved. If you look at your own company as if you have just taken over, you are going to see things in a different light. You will see a need to make changes.

41. It is the same with leaders who have led for too long – 22 years perhaps. If he looks closely, like a new leader would, he will find there are things that need to be done differently. On the other hand he might find what he is doing is the right thing to do. Nothing is worse than changing for the sake of changing.

42. These are the challenges faced by leaders and managers all the time. But the 21st century has brought a new set of changes which need a new mindset, a new need to examine the things we are doing. Maybe we are doing the right things, maybe not.

43. Upon our analysis of things depends our decision to change or not to change. That really is the challenge faced by leaders and managers.

Thank you.