

SPEECH BY: DATO' SERI DR. MAHATHIR BIN MOHAMAD
(PRIME MINISTER)

EVENT: THE CONFERENCE ON PRIVATISATION IN MALAYSIA:
"OPPORTUNITIES AND IMPLICATIONS"

VENUE: THE PAN PACIFIC HOTEL, KUALA LUMPUR

DATE: 14 JUL 1988

TIME:

Yang Berbahagia Tan Sri Azman Hashim,
Pengerusi Persatuan Bank-bank Saudagar
di Malaysia;

Yang Berhormat-Yang Berhormat;
Dif-dif Kehormat;

Tuan-tuan dan Puan-puan,

Saya mengucapkan terima kasih kepada Persatuan Bank-bank Saudagar di Malaysia kerana menjemput saya untuk berucap dan seterusnya merasmikan Persidangan Penswastaaan ini. Walaupun dasar penswastaaan telah diumumkan oleh Kerajaan semenjak beberapa lama, namun maksud, cara dan tujuan dasar penswastaaan ini masih belum difahami sepenuhnya. Ada yang masih mengulangi tuduhan-tuduhan yang tidak berasas yang telahpun dijelaskan. Dengan itu, proses penswastaaan telah terganggu dan menyebabkan kerugian besar kepada negara.

2. Oleh itu, saya akan cuba menghuraikan falsafah dasar ini daripada segi rasionalnya, skop, pelaksanaan serta cara-cara bagaimana Kerajaan akan cuba mengatasi aspek-aspek negatifnya. Saya berharap Persidangan ini akan dapat menghapuskan salah anggapan mengenai dasar ini supaya ianya dapat dilaksanakan dengan berkesan.

3. Memandangkan terdapat peserta dan pemerhati dari luar negeri dalam Persidangan ini, saya akan meneruskan ucapan saya dalam Bahasa Inggeris.

Ladies and Gentlemen,

4. Let me begin by reiterating the goal of the present Government. It is this Government's wish to see that Malaysia develops rapidly in order to give Malaysians improved living standards and a quality of life that is their right. I strongly believe that Malaysia has the necessary ingredients to achieve this rapid development. We have the resources, the skills and the basic ethics necessary. To maximise these potentials, we need to reduce the restraining effect of too much Government regulations, controls and involvement. We need indeed to confine Government as much as possible to its basic function of

keeping law and order and to leave commerce and industry to the private sector. This is easier said than done as modern commerce offer too many opportunities and temptation for the unscrupulous and the crooks.

5. Upon gaining independence, the Government, inevitably had to take the leading role in developing the country, in view of the limited capacity of the local private sector at that time in terms of entrepreneurial, managerial and financial resources. The kind of egalitarian principles which influenced many developed countries to nationalise or even to become communist also affected Malaysia with its many imbalances and disparities. From the provision of utilities such as roads, water, electricity, telephone, postal services, etc., the Malaysian Government moved swiftly into purely economic activities. Within a very short period hundreds of Government owned companies were formed to do, among other things, housing development, trade, run hotels, estates, mines, shipping, airlines, construction and manufacturing. By the 1980's some 10 billion ringgit was directly invested in about 1,000 companies. Guarantees total 25 billion ringgit. While some succeeded admirably, most failed. Even those which are monopolistic are not able to pay their way, much less make a profit. The pendulum had obviously swung too far. While we cannot say the policy is a total failure, for much experience had been gained from it, we cannot continue to pay this very high price.

6. Given this scenario, the Government at the beginning of this decade, decided upon privatisation as a way out. At that time privatisation was not the world trend that it is now. But the many failures and the high cost of Government involvement left us with no choice but to try this unproven approach. Besides, the country now has the infrastructure in place and the private sector is better equipped with man, money and skills to make privatisation feasible.

Ladies and Gentlemen,

7. The rationale for privatisation is extremely simple. When the Government runs a service and loses money where it should be making profits, or where it is making a profit the quantum of which is below what is expected, then by transferring to the private sector the Government immediately gains from the proceeds of the sale and from being relieved of the overheads involved in running the service. If as expected, the private sector taking over the public service makes a profit, the Government would gain from the company tax of 40%. Government revenue should therefore improve with privatisation and Government expenditure would decrease because it is relieved of the overheads incurred in running the service.

8. But what of the employees? There are some who believe that the Government should run services regardless of losses

merely to give jobs to the people. This is wasteful when we know full well that the job opportunities can be had without the inefficiency and the losses. The Government's policy is that those Government employees involved in the privatised service should not lose any benefit that they have a right to expect in the Government service. They can however opt for a private sector scheme which would entitle them to share ownership and bonus and other perks not normally given to Government employees. If they opt for the private sector scheme they should not be entitled to Government scheme.

9. This double scheme will impose a strain on the privatised service. However, this can be offset by the Government pricing the assets of the services offered for privatisation so as to give a reasonable return. The assets cannot be priced at market value because they are usually huge. The land belonging to the railway or telecoms or airports are so high priced now compared to when they were acquired by the Government that no return on investment will be possible. Thus even though the employees are put on Government payscale it would be possible to make reasonable returns by the private company taking over. Over the years normal attrition would reduce the employees on Government pay scheme. New employees should be on the companies normal pay.

10. Since the assets are to be turned over to the private sector at below market value, the disposal of these assets cannot be done freely. If this is allowed then the service could be terminated after the company had made a 'killing' disposing the assets. Some kind of an undertaking must be obtained from the private company to continue providing the service and to continuously upgrade it.

11. In the meantime the Government establishment strength should decrease. As Government revenue would be expected to increase, improvement in Government finances should enable greater Government contribution towards development and the improvement of service conditions of the remaining employees.

12. Ideally privatisation should result in improved income for everyone. At the very least no one should lose. But much depends on the vaunted efficiency of the private sector. In other words privatisation must lead to greater productivity.

13. The Government feels that the private sector has come a long way since independence 30 years ago. They are now bigger, better organised and sophisticated enough to run huge and complex public services. The early fears that the bumiputeras will be completely left out if there are no Government bumiputera interest institutions to take up their shares have diminished somewhat. There are now a fair number of bumiputeras capable of participation in the privatised services. Where they are not adequate we still

have institutions like the PNB, PERNAS, Tabung Haji and others which can take up the shares due to the bumiputeras. We would therefore cease to worry overly on that score.

Ladies and Gentlemen,

14. Opposition to privatisation come largely from the employees and their unions. This is understandable. Working in a private sector organisation with its stress on efficiency and profits cannot be the same as working in a Government department where public revenue guarantees the financial capability. Even when the salary is the same, the feeling differs.

15. It is difficult to convince employees that a faster rate of development of the country would have many eventual direct and indirect benefits for them. Direct and immediate benefits are more easily understood and appreciated by everyone. Still employees in those Government bodies which have been privatised have realised that privatisation can be beneficial. In fact, as a result of the privatisation of the Container Terminal in Port Klang, the workers of the whole port are keen to have the Port completely privatised. The Government is presently looking into this.

16. Privatisation is the converse of Nationalisation. Just as nationalisation was supposed to remedy the inequities of the capitalist private enterprise system, privatisation is expected to remedy the failures of nationalisation. Whether in fact reversing the process of nationalisation can achieve the vaunted efficiency of the free enterprise system without the inequities that had accompanied it in the past remains to be seen. We know that systems have been blamed for the inadequacies of man. Privatisation will not by itself overcome the inadequacies. We should not therefore be too optimistic.

17. The trend towards privatisation is universal now. Even the Communists now talk of glasnost and perestroika which in practical terms means privatisation. Even if we want to, it is doubtful that Malaysia can resist this trend. We have to go along with it and hope we can correct mistakes as they crop up. What will determine whether privatisation will be beneficial or not will be the honesty, the skill and the diligence of our managers and workers. A system is only as good as the people who man it.

Ladies and gentlemen,

18. A great deal has been said about bureaucratic inefficiency. Government employees are no different from their private sector counterpart. If they are different in their attitude towards their work, it is because of their management environment. Profits do not motivate them. The private sector employees will act in exactly the same way if the enterprises they are in create the same management

environment.

19. In Japan, while the private railways make profits, the Japan National Railways (JNR) when it was owned by the Government, lost money constantly. Now the JNR has been privatised and in its first year of operation the companies have made profits. Apart from the new owners and probably some key executives the people manning the JNR are the same. Yet the performance is different. The assumption must be that the management input is different.

20. Management is not one of Malaysia's strong points. In the first instant we do not have enough managers. Of the ones that we have, a good number are unfortunately mediocre. Some we have seen are downright dishonest. If privatisation is going to remedy the ills of nationalisation then we must have good managers.

21. The Government cannot afford to have too many failures in the privatised companies. We do not want to be forced to take them back. We do not want to involve ourselves in business again.

22. While the Government will exercise every care to ensure that Government enterprises will not fall into the wrong hands, we hope that responsible institutions in the private sector such as merchant banks, business consultants and intending entrepreneurs will study very carefully the ability of the companies taking over Government services or enterprises. There are many good examples in other countries. We must learn from them. If necessary, we should use their expertise, their direct involvement even. Let us admit that we do not know everything. There is so much we can learn from others with their experience.

23. If the Government happens to award the enterprise to companies that are partly owned by foreigners, it is not because the Government is not patriotic or un-Malaysian. We want to save the nation from disasterous mistakes. But that does not mean that capable locals cannot on their own succeed in taking over the services we wish to privatise.

24. The fear of price increases is greatly felt with privatisation of monopolies where prices may be determined by the need to earn super normal profits. It is the function of the Government therefore to prevent such a move by the private sector through the establishment and enforcement of an effective regulatory mechanism. Such a mechanism will not only have to regulate prices of services but also its quality and geographical coverage. In the licence to Syarikat Telekom Malaysia for example, the company is bound to continue with the unprofitable services to the rural areas. But we would like to assure interested parties that the Government does not wish to regulate unless the situation compels it to do so.

25. Fears of strategic industries falling into the hands of foreigners can be easily circumvented through specific provisions in the instruments enabling the industry to be privatised. Fears of the privatised entity undertaking actions which are injurious to national interests can also be overcome through this means. Hence, although it is admitted that there are dangers attached to the policy, safeguards can be built-in to circumvent such dangers.

26. As you can see, privatisation does not mean that the Government will be absolved of its social responsibilities. The Government will still maintain its role as the guardian of public welfare. This will be done through minimal regulatory measures rather than through direct participation in the production of goods and services. Where subsidies are unavoidable these will continue to be provided but on a more selective basis and to deserving cases. The Government will remain accountable to the public and must therefore be responsible for ensuring that privatisation will be beneficial to all concerned.

Ladies and Gentlemen,

27. The Government truly believes that privatisation will on the whole be beneficial to the nation and hence it is fully committed to it. I sincerely hope that this Conference will remove the misgivings and apprehensions that surround this policy, so that we can get on with developing this country.

Tuan-tuan dan puan-puan,

28. Akhirnya saya mengucapkan terima kasih kepada Persatuan Bank-bank Saudagar di Malaysia yang menganjurkan Persidangan ini. Saya berharap Persidangan ini akan berjaya mencapai matlamatnya bagi mengkaji peluang-peluang dan implikasi-implikasi penswastaaan di Malaysia pada keseluruhannya.

29. Dengan ini, saya dengan sukacitanya membuka 'Conference on Privatisation In Malaysia: Opportunities And Implications' dengan rasminya.