

SPEECH BY THE HON TUN DR MAHATHIR BIN MOHAMAD AT THE CIMA GLOBAL LEADERS SUMMIT 2005 AT COLOMBO, SRI LANKA ON 26 MAY 2005

“Malaysia’s Pursuit of a Perfectly Developed Asian Economy – the Role of Vision, Entrepreneurship and Professionalism”

I would like to thank the CIMA Global Leaders Summit 2005 for this invitation to talk about Malaysia and its pursuit of development. Malaysia’s Development strategy is of course far from perfect. But there is no harm in seeking or aiming for perfection. If you fall short, and it is most likely that you will fall short, it will not be too far from perfection. Certainly it would be better than where you started off.

Perfection in itself is a vision. It is the ideal that we seek. And the ideal need to be visualised and to guide us. The ideal is what we aim at. It is therefore the target, the objective. If we want to go anywhere we must decide the place that we are going to go to. Otherwise we would not know the direction. We may even be going away from the target place believing that we are going there.

We must also know where we come from. Where we come from is history. Therefore we must know our history. And knowing history we will know our past mistakes. And we must try to avoid them. It was George Santayana who said those who forget the lessons of history will be condemned to repeat their mistakes over and over again. In setting out on our journey to our ideal, our target, our objective we don’t want to repeat the mistakes of the past. That way we will reach our objective earlier.

And so in the pursuit of economic development we must decide on the target. Malaysia was not overly ambitious initially. We were an agricultural country with a per capita income of only 200 US Dollar at the time we achieved independence. It would be unrealistic for us to want to become a developed country any time in the future. We were modest. We merely wanted to create jobs for our people.

Agriculture would not create the jobs. On ten acres of land only one job could be created. But on ten acres of land the manufacturing industry could create a thousand or more jobs. The choice of objective was easy – industrialise. But how do we industrialise? We had no industrial know how, no capital, no management skills and no knowledge of the market to sell the products. Newly independent, we were very nationalistic. But we had to swallow national pride and invite foreign industrialists to come and start labour intensive industries. Those were the days before FDI was a household word. We decided to be foreign investor friendly. No nationalisation of private enterprise. No tax on their products or profits. No bureaucratic hassles. We wanted nothing from the foreign investors except to create jobs for our people. Just that. But we gained more than that, unintentionally and unexpectedly.

We found that our workers could acquire skills in manufacturing very quickly. They were productive. The quality of their products was world class. This was a surprise. The children of farmers could do increasingly sophisticated manufacturing work. Their employers noticed this too and decided on more sophistication and higher skills. Today Malaysian workers actually supervise automated machines and ensure they are in working order. No more manual assembly work.

It did not take long for the Government to realise that Malaysia and Malaysians are capable of switching from agriculture to industry. And so the first Industrial Master Plan was introduced. Soon after that came the idea of becoming a developed industrialised country.

But this is only with regard to the industrialisation and development of the country. They cannot happen unless the situation permits the implementation of these plans. And the most important

factor is the political stability of the country. Without stability nothing would grow. Malaysia is a multi-ethnic country. The majority is made up of the indigenous Malays and other tribal people. Then there are big Indian and Chinese minorities. The races are divided further because ethnicity is linked with religious differences, cultural and linguistic differences and most important of all the disparities in terms of wealth. Ethnic difference is usually enough to create tension in the relations between races. But with all the other differences and in particular the disparities in wealth, tension and confrontation between the races would seem inevitable. Violence is very common in multi-racial societies. So early during the struggle for independence the founding fathers worked out a system of sharing both political power and economic wealth.

The philosophy is very simple. If one race grabs all political or economic power for itself there would be strong antagonism from the other races, there would be political instability and there would be violent confrontations. No economic growth or development could take place. In that situation the race which takes all for itself will find that it would be owning all of nothing, all of a country that is politically unstable, perhaps involved in civil war and with an economy that not only fail to grow but could actually be shrinking. So in the end the race which grabs everything will find that it has nothing.

On the other hand if the races decide to share political power and economic wealth, the chances are the country would be stable and the economy would grow. Each race would get less than 100% of the political power or economic wealth, but the growth of the country in both spheres would ensure that the portion that each race gets would actually be bigger than the 100% of the original political power and economic wealth.

Reduced to simple terms it is better to own a slice of the political or economic cake which grows healthily than to own the whole of a cake that shrinks and disappears. This simple philosophy is what saves Malaysia and helps it to grow. The races share political power and strive to redistribute wealth from the growing economic cake so as to ensure that every race has a fair share. The Malaysian affirmative action is embodied in the New Economic Policy which has two objectives:

- i) To eradicate poverty irrespective of race;
- ii) To eliminate the identification of race with economic function (as a way to equalise the distribution of wealth)

Malaysia has not succeeded fully in the second objective of redistributing wealth equitably but absolute poverty has been reduced to less than 1% while relative poverty to 5% from 50% or so at the start. With the development of skills and the fair sharing of political powers and economic wealth which brought about good growth and development, the time came to be more ambitious. In 1991 the Government launched Vision 2020 i.e. perfect vision according to the optometrists.

Vision 2020 is about becoming a developed country in our own mould by 2020 i.e. in approximately 30 years time. The developed countries we saw around us were not perfect. Many have lost their morality and culture as they develop. They had become too greedy and did not hesitate to enrich themselves at the expense of others, including the very poor. They are too exploitative. We wanted to avoid greed and to develop gracefully. Hence, development is in our own mould. By the beginning of the Vision period we had already improved indigenous capacity in investment and industrial skills. Much of the infrastructure had been put in place. What we needed was to identify the fields of commerce and industry which suited our capacity and which would stimulate growth. All the time we bore in mind the need for political stability.

Our experience and the experience of others have shown that Government is not good in business. When Government goes into business the tendency is to seek monopoly and to use the leverage of Government power. No one wants to compete with a Government company because of this.

The workers in Government enterprises cannot be motivated. They do not see how making profits for a Government company will benefit them. In fact they and the bureaucrats believe that Government businesses should not be profit motivated. They should merely create jobs and good income for the employees. The result is lack of efficiency and lack of understanding about competition in the market place. Often the employees and even the managers try to siphon off some of the earnings by padding the cost of inputs, side deals and the like.

Because Government companies continuously lose money and require injections of capital all the time, Malaysia decided to transfer Government companies and some functions to the private sector i.e. to privatise. In some countries privatisation means selling Government-owned services like telecoms, power plants, airline etc to foreigners in order to earn foreign exchange with which to pay foreign debts. In Malaysia privatisation is about transferring Government business to Malaysian private sector, though a small percentage may be sold to foreigners.

The cost to the private sector must be such that the business would be viable and profitable. If the assets are valued at current market prices, the cost to the private owner would be so high that no profit could be made. Any business which loses money is not good for the Government and the country. But when it makes profits the Government can collect taxes, people would be employed, and suppliers would make money which would also tax.

So it is not a loss for the Government to undervalue the net assets to be transferred in order to ensure viability and profitability. In any case the assets may have been acquired a very long time ago at a minute fraction of the current market price and were not giving the Government any return. Sometimes the Government may retain a share in the company and benefit from the profits and the appreciation of the shares. As an example the Telecoms Department used to get injections of funds every year from the Government of about 200 million Malaysian Dollars. Today after privatisation it makes a profit of around 2 billion Malaysian Dollars. Thus not only did privatisation relieve the Government from having to allocate funds yearly to the Telecoms Department but it yielded considerable revenue through taxes and dividends.

But privatisation can fail and in Malaysia the privatisation of the airline failed. This failure was not due to mismanagement as much as the general recession due to the currency crisis. Many private enterprises also failed during the crisis. Government officers may be considered professionals in the field of administration. In Malaysia the police and the military are also professional in the sense that they are not involved in politics and they serve whoever is in power. This is absolutely necessary if the administration and security machinery is to work properly.

There were attempts by some politicians, Government and Opposition, to influence the administrators and get them to take sides. But this has not really succeeded. The professionalism of the Government personnel has been maintained in Malaysia. And it has enabled the administrative machinery to function even when care-taker Governments were in place. As long as Government functions are not commercialised they will not need managers familiar with business. The departments providing services to the public such as telecommunications, power supply, water, sewerage etc need only to upgrade and expand as the population grows without need to think of returns on investments. Government can allocate funds yearly. For this professionalism in administration is all that is necessary.

But there will come a time when the funds needed would be bigger than the Government could afford. Without adequate funding there would be a deterioration of the services and economic growth would be stunted. The Government may want to get a return on the investments so as to have sufficient funds for operations and developments. One approach would be to bring in professional business managers, but these business managers need to be properly compensated. Paying them more than the salaries of the administrators would cause a lot of unhappiness.

If privatisation is not desirable for some reason or other, than the entity can be corporatized. It would still be owned 100% by the Government but it would be taken out of the administrative system. It could then be run as a corporation with its own system and pay schemes. Then professional business managers can be hired to operate the entity the way business enterprises are operated. In Malaysia the National Petroleum Corporation (Petronas) is 100% owned by the Government. But it is incorporated as a business company independent of the Government and its operating procedures and rules. Its officers are much more highly paid. If they do not perform then the Government, as the sole shareholder, can remove them according to their terms of employment.

Petronas has managed to maintain its professionalism. Although it is a national petroleum company, it differs from most other national petroleum companies because it involves itself directly in the total petroleum business, from exploration and production to marketing and downstream petro-chemicals industries. It now operates in over thirty countries in every kind of business involving petroleum and gas. It is a profitable company paying taxes to the Government and also very substantial dividends.

Professionalism is obviously important in every activity in which the Government is involved, from administrative professionalism to commercial professionalism. Although it is possible sometimes for administrative professionals to move into the commercial sector of the Government, but usually for business activities professional business managers would be needed.

Today business entrepreneurs and managers are no longer born. They are trained in business schools. And so we can find more entrepreneurs and managers today to meet the expanded needs of a growing economy. Governments would do well to train as many managers as possible, for even in the administration the officers are really involved in management, the management of people in order to get the most out of them.

Because management is such an important skill in the public as well as the private sectors, a special university had been set up in Malaysia to produce as many managers as possible. An excess of managers is not a waste. They can involve themselves in entrepreneurships and other private business, as well as all kinds of activities where their skill in management would still be an asset. To become a perfectly developed Asian economy requires numerous inputs. I would like to name just one more input. It is that of copying others, copying successful models. Most Eastern countries have tried to copy the Europeans, some successfully, some not so successfully.

Like everybody else Malaysia copied much of the developmental strategies and structures of the Europeans countries. But after World War II we noticed some countries in the East were recovering and developing faster than the Europeans. Japan's recovery in particular was very remarkable. And so was South Korea. So Malaysia decided to Look East also. We learnt quite a lot which contributed towards Malaysia's rapid growth. But the most important lesson was in work ethics and management styles.

The Europeans believe in tests of strength in everything, including in business. The winner is right and deserves to take all for itself. Thus if there is a dispute between workers and employers, the workers would go on strike and the employer should shut them out. One or the other would suffer more and give up. The conflict ends when one party wins. The rights and wrongs are considered irrelevant. Strikes and lock-outs add to the cost of production. So do pay increases. In the end the business becomes no longer competitive or viable. The business may shut down, workers laid off and the economy shrinks. This is the result of tests of strengths as a way of solving conflicts.

In Malaysia we do not believe in tests of strength. We believe in promoting mutual interest and a win-win solution. We negotiate or go for arbitration. No pyrrhic victory for anyone. No victor, no loser. Industrial peace helps develop the country. And, when the country develops, everyone will

gains; the employers, workers and the general public. Indeed the whole nation gains. So we look east to find better models. And we have benefited. As you can see to develop requires a great deal of things to be espoused and done. I have named only a few. But I hope you will find something interesting and something worth while. Countries do not develop because of magic or miracles. Countries develop because of painstaking work by everyone; the people, the Government, the workers, the employers, the professionals, and just about everyone. Wealth is for sharing and sharing equitably. Power is also for sharing. Given all these than there will be development, not perfect but good enough for everyone. That is what Malaysia has pursued and what it has achieved.
