

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD AT PWTC, KUALA  
LUMPUR ON TUESDAY, 22 FEBRUARY 2011**

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**“Infrastructure and Economic Growth: Two Decades of Experience”**

1. I would like to thank the “World Congress and Exhibition Infrastructure Assets Management” for this invitation to talk on “Infrastructure and Economic Growth”. The two decades of experience I suppose is about my tenure as Prime Minister of Malaysia.
2. Prior to British rule in the Malay states, the infrastructure was quite primitive. In Kedah the greatest construction work was the digging of the Wan Mohamad Saman canal. Wan Mohamad Saman was a kind of administrative head of the Government of Kedah. He ordered the digging of the canal to enable padi farmers to transport their padi or rice to the town of Alor Star from Gurun and the small villages along the route of the canal.
3. Kedah is a very flat country and it was easy to cut a straight canal linking Alor Star and Gurun.
4. There was no mechanical hoe and the digging was done with changkols or hand held hoes. To ensure that the canal was straight 3 poles would be stuck in the middle of the planned canal and the alignment sighted by ensuring that the third pole was in line with the first two.
5. Unfortunately the canal is no longer there, having been replaced with a narrow concrete drain.
6. The British built a road alongside the canal and beyond it the road followed the bullock-cart tract. The road linked Alor Star and Butterworth.
7. Gradually more of the bullock-cart tracts were tarred. Other roads were built for transporting rubber and tin to the ports.
8. At the time of independence the roads were pitiable, being single-lane with no dividers. Malayan Railway tracks linked Singapore to Padang Besar on the Thai border. The big towns were provided with piped water and electricity. The rural areas had to drink river or well water. Kerosene lamps light up the wooden houses.
9. At independence the per capita was only USD 350 and the population was just five million. The GDP was accordingly low and Government coffers were quite empty.

10. Fortunately through good management the economy grew and Government coffers began to fill up. After allocation for education and minor public works the Government slowly turned to infrastructure development.

11. The number of cars on the road grew slowly so there was really no urgency to build roads. The railways were left unexpanded. But water and electricity received the biggest allocation.

12. Fairly rapidly water tanks were built in the hills nearest the towns and power lines were extended to fully light up the urban areas and to reach the nearest parts of the rural areas.

13. Even in the early years of independence the provision of infrastructure in Malaysia was faster than most other newly independent countries. However there was little attempt to upgrade. The roads were just repaired and not realigned.

14. On the East Coast the infrastructure was primitive. The road between Kota Baru and Kuala Terengganu was not paved. There were literally a hundred wooden bridges and in places barges carrying motor vehicles were pulled by cables across rivers.

15. It was only after independence that the building of infrastructure was undertaken earnestly. By 1981 when I was privileged to take over, much of the roads, water supply and electricity network were already in place. What remained was to improve them and to expedite the construction of the new and improved facilities.

16. I remembered when I was in Standard II my geography teacher told the class that when the British built the railway line from Bukit Mertajam to Padang Besar, the padi farmers were able to take their produce to Alor Star by train. They earned more money selling in the big town. The small villages where the train stopped grew and prospered.

17. It was reasonable to expect economic benefits from better road connections between the towns. Accordingly it was decided to improve the main trunk road on the West Coast linking Johor Bahru in the South to Bukit Kayu Hitam in the North.

18. The first section built was from Changloon to Jitra in Kedah. It cost only 23 million Ringgit. No toll was collected. To build the rest would cost 6 billion Ringgit. The Government had no money.

19. It was decided to privatise the expressway and to charge toll for its usage – based on the distance travelled. There were no takers as in order to be profitable high toll rates would have to be charged to recover the cost of

construction. The number of vehicles was rather small. The high toll charges would result in very few vehicles using it as the old roads would still be in use.

20. A low toll rate may increase the number of vehicles but no profit could be made by the concessionaires. They would lose money and everyone was deterred from taking on the job of construction and operation.

21. After discussions with people involved in road construction it was decided the Government would help to lower capital cost by acquiring the land, transferring the completed stretches free to the constructors and giving soft loan to them. Even then few considered making a bid.

22. After tough negotiations a company was chosen to build the 800km expressway. The negotiations included the toll rates and escalation of the rates over the years so as to give reasonable profits. If the operator's collection exceeded the projected figures the Government would share in the returns. If on the other hand the toll collection fell below that projected then the Government should compensate.

23. Although it looked like the Government was helping the operating company, actually it was helping the road users by keeping the toll rates low and affordable. Compared to the developed countries with toll ways, the toll rate in Malaysia was extremely low. And it has remained low to this day.

24. Although initially the operators did not make much money, later the expressways became profitable because of the high increase in the number of motor vehicles using the road. Motorcycles were later exempted from payment of toll.

25. The development which took place along the expressway is phenomenal. All along it from Johor Bahru to Bukit Kayu Hitam, new towns and housing estates sprang up, new industries also grew and the land owners experienced a high rise in the value of their land.

26. Generally business of all kinds grew, particularly transport business, ports and shipping, airports, tourism and travelling, housing estate development and retail business. There was a rise in economic growth and higher incomes for most people, not least higher prices for rural produce. That is the story of the expressway as infrastructure for development.

27. The Government used to allocate 200 million Ringgit annually for the Telegraph and Telecommunication Department. It was difficult to get a telephone line in those days. Applicants had to wait as long as 2 years. Business was slow as the telephone system was poor.

28. Having understood the benefits of privatisation, it was decided to privatise the Telecoms department. The Government retained a big share in the new telephone company.

29. With profits as the incentive the privatised company became more efficient and quickly provided new telecommunication technologies. Soon the privatised entity made as much as a billion Ringgit profit, of which the Government reaped a substantial sum, as dividends besides taxes. But the Government also saved the 200 million Ringgit allocation to the department as well as the wages paid to the staff at all levels, as they were transferred to the company. In addition the profits made by new business benefiting from availability of good telecom services were subjected to corporate tax. The better paid executives also paid higher taxes.

30. Other infrastructure improvements and developments were also privatised in order to overcome the shortage of Government funds, despite the increase in Government revenue arising from the reduction in the wages bill and the cost of development and operations.

31. It may be argued that charging fees for usage is a cost to the public. But the choice is either to have no good infrastructure because the Government had no money or to have the Government borrow money to build. If the latter the Government would be indebted and much of the revenue would be used to service loans leaving little for both operation and development. Education, secondary and rural roads, health services, many other public facilities would not be provided by the Government as the money is swallowed by the provision of needed infrastructure. The standard of living of the people would remain low.

32. If the expressways were not built through privatisation, the old winding and sub-standard roads would cause wear and tear on motor vehicles and accidents to road users; telecommunications, water supply and rural electrification would have been delayed. All these would cost the people in direct and indirect ways. New jobs would not be created, nor would there be the surge in development which creates wealth and income for a great number of people. Indeed those who complain they had to pay toll would not even own cars because they would be either unemployed or earning low incomes.

33. There is a direct link between infrastructure and economic growth. Many countries with poor infrastructure achieve poor economic growth. Those with good infrastructure invariably grow faster.

34. But through privatisation Malaysia which was also poor was able to provide the economic-stimulating infrastructure. It was the investment in infrastructure which enabled Malaysia's development to outstrip those of other newly independent countries.

35. Additionally it helped Malaysian construction companies to gain experience and to grow. When there was a slow down in Malaysia's economic growth, the construction giants were able to go abroad to bid for projects. Their success also contributed to Malaysia's economic growth.

36. There is lately a demand for tolls to be abolished and the Government to take over. This would mean the Government would have to nationalise the expressways and set up a huge staff, to maintain the highways and to undertake needed construction of new roads. The Government must also buy the highways if they belong to the builders and operators. They will cost billions of public money.

37. Since no toll would be charged the Government would not earn money from the expressways to meet the cost of acquiring, running and maintaining the roads. No taxes would be collected either as the private companies which used to run the roads would lose their sources of income.

38. The cost of administering and maintaining the road would be charged to the consolidated fund, which would decrease because the highway business would not be a profit center contributing taxes to the Government. Other services and projects would have to suffer funding cuts as the money goes to the cost of running and maintaining the expressway.

39. I suspect the quality of the highways would deteriorate.

40. When we were discussing about funds for the construction of the North / South Expressway, there were suggestions that instead of charging toll, the Government should raise tax on petrol.

41. In Britain the highways are toll free. The Government financed the constructions and maintenance of the roads through tax on petrol. The tax level is very high. The public pays more than twice the petrol price in Malaysia. The tax increases as petrol price increases.

42. We rejected the idea of petrol tax for these reasons. Besides, people not using the highways would also have to pay. Toll payment mean only users pay and they pay only for the length of the road they use. Petrol tax mean non-users of the expressway would be subsidising the users, including commercial vehicles.

43. Malaysians must accept that there is no such thing as a free meal. They also must realise that when they pay toll, part of it will be returned to them through the corporate taxes collected by the Government on the profits of the operators. The tax collected by the Government will be used partly for providing services to the people, including toll payers. If users don't pay toll then much of the taxes collected by the Government would go towards financing the

expressways. In fact indirectly the people would be paying the toll which used to be paid by road users.

44. The Socialists and Communists decided that the people should not pay taxes and all their needs would be provided by the Government. The Government would acquire all the means of production i.e. all businesses in order to benefit from 100% of the profits.

45. Since everyone would be subsidised, the wages would be low. Their purchasing power would also be low.

46. The products of Government-owned businesses must also be sold at a low price as the people's income is low. The profit margin of the Government-owned businesses must also be low. Even when 100% of the profit goes to the Government it will not be as big as when the means of production are under private management.

47. The luxury goods with high margins including motor vehicles cannot be sold as few could afford them. The factories to produce luxury higher priced goods would suffer losses and would have to close down. Workers would be thrown out of job. Government would have to give them an allowance for doing nothing even as the Government lose money in the enterprise.

48. Any new investment would have to be from the Government. But the Government would not have enough money to set up plants even though wages are low. Besides few additional products can be sold as the people all have low purchasing power. Selling at low prices will give the Government little or no profit. Over time the country would get poorer and poorer as Government-owned business fail. That is why in the end these Socialist / Communist countries had to give up nationalising the means of production and resort to private enterprise.

49. Doing away with toll is like nationalisation with no profit to be earned by the Government as was earned by private operators. The private companies would certainly not want to continue running anything which gives no profit. But the Government still has to pay wages to the employees to maintain the roads. The money must come from the consolidated fund, which must shrink as the Government earns nothing from operating the expressways and collect no income tax on the profits of the company. The consolidated fund will be further reduced as it would be used to finance the maintenance and operation of the highway. Other Government operational and developmental budgets will be reduced for lack of funds.

50. In short the Government will have less money but will need to spend more money. The only way to do this is to cut back on expenditure, including subsidies. The growth of the country would then slow down. Generally people would become poorer and have to reduce their standard of living. We can forget

Vision 2020. We can forget about high income economy. We will continue to be a third world country.

51. Malaysians must have noticed that countries with rich resources need not necessarily be developed while countries with poor resources can grow into highly developed countries.

52. This happens because of the skills or lack of skills in management and administration. It is management skills on the part of the Government which determine the performance of a country. The people too must understand enough about how the economy works. The Government is not a charitable organisation with unlimited funds.

53. If a Government choose to be popular and disregards the essentials of good management, especially that of the infrastructures, one should not be surprised if the nation fails to grow.

54. That was the experience of two decades of managing the Infrastructure and Economic Growth of Malaysia.

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