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Liberalising the banking sector

NO MALAYSIAN bank is licensed to conduct commercial banking activities in the US. Malaysian banking offices in the US and other developed countries are only representative offices that are not allowed to accept deposits or extend loans. In contrast, there are 14 foreign banks in Malaysia and only 23 local banks. In the US there are 9,498 local banks and only 499 foreign ones or just slightly more than 5 per cent. The foreign banks in Malaysia hold 34.6 per cent of the banking system's total assets while in the US, foreign banks only own 13.9 per cent of the country's banking assets.

Malaysia has often been accused of practising protectionism in its financial services sector. However, one look at the set of figures provided by International Trade and Industry Minister Datuk Seri Rafidah Aziz this week will clearly prove that these accusations are untrue. Only one of the 19 banks in the US is foreign compared with one in 1.6 banks in Malaysia; does that not imply that the Malaysian banking sector is relatively crowded with foreign banks? How much more liberalised does the Malaysian banking sector have to be? Given the statistical evidence, it is clear that if Malaysia truly aspires to meet the US' standards, it must reduce foreign participation and increase local input in the banking sector. However, the international community is demanding otherwise. Such unfairness can only indicate the presence of shady motives in the developed countries' pressure on economies like Malaysia to liberalise. What makes the agenda suspect is the insistence that countries like Malaysia follow a liberalisation timetable designed by the developed world. The idea seems to be to prevent developing economies from adequately preparing themselves for the ensuing competition, thereby making it easier for institutions from the developed economies to gain full control of the financial sector.

For now, the financial services sector in Malaysia is liberalised enough, especially if one takes into account the relatively smaller market here compared with that of Europe or the US. A Swiss business delegation led by its Economic Affairs Minister Pascal Couchepin which was here a few days ago agreed with this, saying that Malaysia has liberalised its financial sector to a certain extent. There are US, UK, French and Dutch banks operating almost on level with domestic commercial banks, with only a few minimal restrictions involving the opening of branches. Apart from these minor restrictions, foreign banks may accept deposits and extend loans to satisfy local demand. The same policy applies to the insurance sector where there are 44 local insurance outfits and 21 foreign ones. Some of the foreign insurance companies in Malaysia have been recording profits since day one of their operations which in many cases span the last 100 years. By virtue of their long existence and the support of foreign financial giants, most of the foreign insurance outfits are probably too strong to be seriously challenged by domestic institutions.

Malaysia has no record of shunning liberalisation moves as it is one of the signatories of the World Trade Organisation, which among others promotes a free market worldwide. However, it requires adequate breathing space, to develop and strengthen its indigenous institutions in order to enable them to compete on a level playing field with their international counterparts. Liberalisation is an ongoing effort in Malaysia and last month, the National Economic Action Council announced measures to allow foreign parties to hold equity stakes in certain domestic businesses. The

developed countries must respect the need for countries like Malaysia to first develop their internal strength. Liberalisation must not involve the swallowing up of institutions in developing countries and the milking of their economies for the benefit of the developed world. Prime Minister Datuk Seri Dr Mahathir Mohamad has stated again and again, both at home and abroad, that colonisation can take many forms and arms are no longer required to bring a nation to its knees. Liberalisation is a worthy cause and should be championed, but only if it benefits all parties concerned. Malaysia will liberalise its banking sector but it will follow its own timetable.

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