

THE SECOND INTERNATIONAL SYMPOSIUM ON THE MOBILISATION OF
PERSONAL SAVINGS IN DEVELOPING COUNTRIES
THE NIRWANA BALLROOM, HILTON HOTEL, KUALA LUMPUR,

15 MAC 1982

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Institute;

His Excellency Mr. David Wirmark, Ambassador of Sweden to
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Dato' Seri Syed Nahar Shahabudin, Chairman, National Savings
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Distinguished Delegates;

Ladies and Gentlemen.

I am very pleased to welcome all of you to Malaysia. It is not often that we have in Kuala Lumpur such a large and distinguished gathering of experts in the field of savings. I am particularly proud that our National Savings Bank, a relatively new member of the International Savings Banks Institute, has been accorded the honour to co-organise this important international symposium which, I am told, is the second of a series of three meetings to review research undertaken in the area of personal savings in developing countries, with the objective of seeking ways to promote the mobilisation of savings for national and international development.

2. I cannot emphasise too strongly the significance of this symposium, which forms part and parcel of a global programme to intensify efforts in the developing countries to mobilise savings and to accelerate their economic development. Indeed, our ability to raise adequate domestic savings to finance our development efforts is a necessary precondition, if we are to succeed in re-structuring our economies to cope with the rapid transformation that is taking place in the world economy today.

3. As I see it, the attainment of the common objective to raise living standards by the developing countries can no longer depend on the "North", that is the highly developed industrial nations. The 1980s began with a predicament for the developing countries like Malaysia which have to face an increasingly hostile international environment of increasing protectionism and frequently negative growth in the major industrial economies and consequently poor demand for our primary commodities. On the other hand rapid inflation in the developed countries has

resulted in steep price increases of the capital goods needed by the developing nations. There are few signs that meaningful structural adjustments are being made in the major industrial countries to overcome the effects of stagflation of the 1970s that they have transmitted to the rest of the world. If they refuse to adjust, the impact on the rest of us will be very severe. It has been projected that the non-OPEC developing countries will probably be able to increase their average GNP growth by only 4 per cent per annum, or even less, in the 1980s, as against 6 per cent and 5 per cent per annum in the 1960s and 1970s respectively. Such a slowdown will occur amidst significantly dampened prospects for expansion in international trade and of official development assistance to the developing countries, thereby creating real difficulties. For most developing countries, particularly the least developed, balance of payments problem will be intolerable.

4. Even for the handful of developing countries which have access to international commercial borrowing to supplement their needs, the prospects have become poorer. The international banks are becoming increasingly more reluctant to enlarge their exposure, especially in the light of recent developments in Eastern Europe. This tendency should not be surprising once we bear in mind that the world's major capital markets are situated in the industrial nations and we borrow at their pleasure even though, ironically, much of the funds which they mobilise to on-lend are the reserves of the third world, especially those of the oil-exporting countries. Moreover, the high borrowing rates as well as their already large outstanding debt will discourage potential developing countries from increasing significantly their borrowing from private sources in order to avoid serious debt servicing problems.

5. All these point to the need for us in the developing world to help ourselves. The continuing uncertainties surrounding the changing international environment necessitate urgent re-thinking on the future of domestic economic management. Central to this process must be the promotion of a higher rate of domestic savings to finance greater investment outlays in order to stimulate growth and undertake the necessary underlying structural transformation. Past experience has shown that inflows of long-term foreign capital, while important in helping to finance the required imports of capital goods and in attracting foreign know-how and technology, cannot be relied upon to finance significantly the investment and development process in our countries. Indeed, they are not a reliable source of funds; often, they are not forthcoming when you need them

most. The 1981 World Development Report of the World Bank states that foreign capital financed less than one-seventh of the total investment in the non-OPEC developing countries in 1975-78. The limited role of foreign investment should drive home the point. It brings to the forefront a fact of life, that despite the talk and widespread publicity on foreign assistance, be they official development aid or foreign direct investment, we have all along been depending on ourselves. In a sense, we have within our control, the nucleus of both the means and the capacity to guide the destiny of our economies in the new world environment. We shall need to build on this foundation in partnership with foreign private expertise and technology, whenever necessary, in order to meet national aspirations. We have always been helping ourselves; the only difference now is for us to co-operate among ourselves more, while at the same time, be more self-reliant.

Ladies and Gentlemen.

6. In the mobilisation of domestic savings, household savings are of particular significance. I am reminded that among the three income-earning sectors of a national economy, namely, the government, the corporate and the household sectors, it is usually the individual households which have surplus savings. Governments, regardless of whether they are of the developing countries or the developed countries, are characteristically net spenders. By the same token, normally, no well-managed companies have funds in excess of their own needs. Therefore, the growth of the government and corporate sectors are dependent critically on the amount of savings that can be mobilised from the household sector, and to a lesser extent, from abroad and how they are rechannelled through the financial system for their use. In developing countries which have yet to develop fully their financial system and where a sizable part of the population is less sophisticated in the ways of handling money, personal savings are not mobilised as effectively for productive investment. It is your task here to come forward with new ideas on how best to foster the development of the savings habit and the manner in which the process of personal savings mobilisation can be accelerated and made more effective.

7. Appropriately, the central theme of your discussion should not be confined only to the mobilisation of personal savings, but also on how such an increased flow of savings can be channelled effectively to those who do not normally have ready access to credit, such as the small-scale agricultural, industrial and handicraft enterprises. Admittedly, an equitable allocation of credit is a difficult one, particularly since the

small man does not usually have adequate collateral to be "bankable" in the traditional sense. Even in a country like Malaysia, where a reasonably good financial intermediation network exists, it has become necessary for the Government and the Central Bank to intervene, in partnership with private enterprise, to ensure that small-scale enterprises and the financially disadvantaged do have access to their due share of the credit which they would not otherwise have in a completely free market system. From the view-point of development policy, their development is vital because in the final analysis, it is the small agricultural and non-farm enterprises as well as the poorer segment of our population that need to be strengthened, in order to generate the higher productivity that is so very essential for the upliftment of their living standards. It has become clear that potential productive investment cannot be fostered by relying on the "informal or black" market, where extortionate interest rates are imposed on the most desperate. The mobilisation of savings and the channelling of these funds to the small enterprises must form an integral part of any development programme. The function of any sound financial system should not only be to intermediate between the savers and the investors, but also to ensure that the less advantaged groups have access to adequate credit at reasonable cost. Not unlike everybody else, financial institutions thrive on growth.

Ladies and Gentlemen.

8. Before I conclude, I would like to touch on a matter which is of concern to all of us. Certainly, it is of special interest to us in Malaysia. Since most developing countries are dependent heavily on the growth of exports, the efficiency and equitability of the international trading and financial system is vital. When we look closely at international economic relations and the world trading system today, many inequities exist. In particular, while there is no way by which we as consumers can influence the price levels of our imports of capital and manufactured goods the prices of our primary commodities are set by conveniently labelled "supply and demand forces" located in the industrial countries. Historically, the marketing and pricing of our commodities are entrusted to a select few of the self-styled "market makers". Large consumers also influence the price levels so as to remain in their favour. When for one reason or another the market manipulators face a loss, they have no compunction in changing the rules. Some even consider the holding of large stocks for the purpose of depressing prices as a part of the free market system. But the moment others dump products in their market there is a loud

protest and all kinds of tariff and non-tariff barriers are raised.

9. History, particularly recent history, has shown that it is not only efficiency and the ability to produce cheaply that counts. To get a fair deal some involvement in the market place for the purpose of ensuring fair-play is also necessary. The developing countries must seek ways and means of gaining entree into the market place. They should do so not individually but in cooperation with each other.

10. My purpose in going beyond the savings field is not to divert from the subject of your symposium. Rather, it is to remind ourselves of the broader perspective, which ultimately has such an important bearing on the growth of domestic incomes and savings in our countries. The developing countries will need to learn to co-operate more among ourselves in all fields so that we may create for ourselves in time, new international arrangements in trade, finance and investment that will work directly for our benefit and not be exploited by traditional methods and markets, which we have learnt through bitter experience work ultimately to our detriment.

Ladies and Gentlemen.

10. I have said a lot that may or may not be relevant to your discussion. I do so because there is a need for experts like you to know not just the technical aspects of the problem of savings but the background against which you are working.

11. I hope the background will be useful. The third world or the south or the developing countries or whatever else you may call them are trying to find ways and means to help themselves. Savings is certainly one of the ways. We therefore look forward to the results of your deliberations. We are sure that they will come in useful.

12. Now I have great pleasure in declaring open the Second International Symposium on the Mobilisation of Personal Savings in Developing countries, and I wish you every success.