

THE OPENING OF THE SEMINAR ON MALAYSIAN-BRITISH INVISIBLE TRADE
LINKS JOINTLY ORGANISED BY THE BRITISH INVISIBLE EXPORTS COUNCIL AND
THE COUNCIL ON MALAYSIAN INVISIBLE TRADE
THE HILTON HOTEL, KUALA LUMPUR

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Yang Berbahagia Tun Ismail Ali, Chairman of the Council of the Malaysian Invisible Trade; Chairman of the British Invisible Exports Council; Distinguished guests; Ladies and gentlemen.

It is a pleasure for me to address this Seminar, jointly organised by the British Invisible Exports Council and the Council on Malaysian Invisible Trade. I have been informed that the Chairman of the British Invisible Exports Council came three days ahead of this Seminar to spend a holiday here with his wife. To them and other visiting members of the British Team, welcome to Malaysia and thank you for contributing personally to our invisible earnings. I hope the beauty of our land and the friendliness of our people have made you feel that the visit has been well worth it. The real test of this lies in the future -on whether you will be back again for another visit. It must be obvious to you, certainly our British visitors, that the area of invisible trade is a very important aspect of an economy, otherwise the British Invisible Exports Council and its Malaysian counterpart would not have been formed. However, I am afraid most Malaysians have but a vague notion of the invisible trade and what they mean to the economic life of a nation. In that regard, this Seminar is most timely in raising national awareness of the significance of the invisible trade and its role in nation building.

2. Malaysia exports a wide range of commodities and imports mainly manufactured goods. To bring this about, we need ships to transport the goods and underwriters to insure them; we need to pay dividends on foreign investment and interest on loans contracted to help finance the infrastructure for development; we also need to pay for the education we seek abroad; we need to pay foreign consultants and contractors for their expert services; equally important, rising affluence inculcates new desires to spend money, sightseeing and shopping around the world. All these represent payments for invisibles, or expenditure for services rendered. What is particularly significant is that most of them are needed to support the trade in goods. As you know, Malaysia traditionally enjoys a healthy merchandise trade surplus, that is, a surplus in the visible trade in goods. Unfortunately, we do not do as well in trading in services. Indeed, we run a sizeable deficit in the services trade and this deficit is rising annually. Over

the years, we have been able to export sufficient goods, not only to finance the imports we need, but have sufficient left over to finance the purchase of services as well. Infact, we felt so comfortable in exporting goods that we found little need to build up our capacity and capability to export services. As our appetite for foreign services grew faster than the rate at which our visible exports could expand, it was a matter of time before we found ourselves in the position of not being able anymore to afford importing services at the rate we did. This realisation assumed serious proportions in the 1980s, as the onset of global recession teaming up with a compelling need to continue developing the economy to meet rising expectations, led to a considerable shrinkage in the merchandise surplus. By then, the invisibles deficit had built up a momentum of its own - growing like a cancer regardless of whether there was a sufficient surplus in the visible trade account to finance it. By 1983, the invisibles deficit amounted to M\$8.3 billion. It is expected to rise to M\$9.5 billion this year. Ten years ago, this deficit was only about M\$1 billion.

3. The persistently rising services deficit and the increasingly unfavourable external trading conditions did come to a head with the recent recession. Our current account has since recorded large deficits of M\$5.4 billion in 1981, M\$7.3 billion in 1982 and M\$6.7 billion in 1983. Measured against our income, these deficits represented 10% in 1981, 12.4% in 1982 and 10.5% in 1983. This means that each year, our expenditures abroad exceeded our external income by an amount equal to at least 10% of our annual income. Such a situation cannot go on forever. I see no real problem in meeting deficits of this size for a year or two, or even three or four years, provided effective measures are taken in the interim to reverse the position. The grim story of indebtedness in Latin America today provides an important lesson for all of us. Malaysians, therefore, must find in ourselves a resolve to be prudent in our spending abroad, for the import of both goods and services, and to launch new initiatives to increase foreign receipts from the export of not just goods, but our services as well.

4. Make no mistake. A large current account deficit simply means that Malaysians are spending well beyond their means. This excess spending has been the result of a growing appetite for things foreign, be they goods or services. When we live beyond our means, we must borrow. Basically, there is nothing wrong with borrowing so long as the borrowed monies are put to productive use, to generate new foreign exchange receipts. Indeed, so long as the stream of foreign exchange income exceeds the amount needed to service the debt, we can proceed to borrow more. What worries me is borrowing to finance consumption and that is what a deficit in the current account really means. As a medical doctor, I know only too well the danger of self-deception, whether by the patient or the

doctor. The truth must be faced and proper treatment initiated. Reassurance is fine but it is no substitute for treatment, especially where specific treatment is needed. In tackling the problem of invisibles, the key lies in being productive. This means hard work and efficiency and the ability to seize new opportunities to sell more and buy only what you really need from the income generated from prudent investment. That is why I have urged Malaysia to Look East -to learn from the Japanese and the Koreans how to deny themselves the luxuries while they build up their exports. From the devastation of World War II, the Japanese have managed -through sheer hard work, initiative and entrepreneurship -to build up a dynamic export oriented economy that is able to generate year after year, surpluses in both their goods and services accounts with the rest of the world. Indeed, they have been so successful that they are now penalised for being too competitive. Malaysians must realise that there is no such thing as a free lunch -it is merely a matter of whether you pay now or later. The trade-off for Malaysians lies in the classic choice between the immediate short term luxuries and the more distant but more permanent affluence that comes with early sacrifices. Wisdom tells us to choose the latter but there will always be detractors who will urge us to live it up now, to eat, drink and be merry, for tomorrow we die. For Malaysians, as for most others, wisdom usually takes a back-seat. And when a country is democratic the front seats are always full.

5. Let me illustrate. It is always easier to buy c.i.f and sell f.o.b. because then you need to do very little. Others will have to handle the goods, find cargo space and ships and pay for insurance and a host of agencies and people involved in the transport and delivery business. And then, of course, the nation will moan over the fact that Malaysian goods are not carried by Malaysian ships or insured by Malaysian companies. Why should foreigners who are buying f.o.b. or selling c.i.f. bother to use our ships or our agencies or our insurance companies. We will not help them. Why should they help us make more money. If Malaysians want to earn the maximum profit they should try to deliver their goods right up to the door of their customers and pick up their purchases right at the factory door if possible. This means hard work and greater risks. But if others can, why can't we. If we can't or won't then let us quit moaning about invisible deficits.

6. I should say that the British are at the diagonally opposite end from the Malaysians in their attitude towards the invisible trade. The United Kingdom pioneered and dominated the world services trade for more than 150 years. In fact, apart from the North Sea oil, services income is probably still the single most important pillar of the British economy and balance of payments. Invisible earnings add billions of pounds to the

British coffer every year. And yet, the British still felt the need to improve upon their position in the invisibles trade. So, the Committee on Invisible Exports was set up in 1968 and it became the British Invisible Exports Council in 1983. The Council, and the Committee before it, must have done an excellent job in charting new courses of action and promoting earnings worldwide on the invisible trade of the United Kingdom. Today, as part of this effort, it is even trying to sell more services to Malaysia! I wish you the best of luck, if you still need it.

Ladies and Gentlemen,

7. The irony is that Malaysia is already running a very big deficit in the services trade with the United Kingdom. In 1983, the estimated services deficit with the United Kingdom amounted to M\$1.2 billion. Although the United Kingdom is now only a distant seventh as a trade partner of Malaysia, it enjoys the third largest services surplus among Malaysia's trading partners.

8. Of course, the Government is concerned over the large services and current account deficits with the United Kingdom. It should be. In the same way, we are concerned about the nation's overall large and rising services account deficit as well as the compulsive desire among Malaysians at all levels for things imported. As a matter of policy, the Government will not approach the problem of its services deficit with a protectionist attitude. Instead we will aim for greater efficiency, particularly in the production of import substitutes and competitively-priced and quality exports. If protection is required, it should be minimal and it should not be too much at the expense of local consumers or of efficiency. Since its formation in 1981, the Council on Malaysian Invisible Trade has worked quietly to advise Government on the broad strategies as well as specified policies to promote this critical area of economic activity in Malaysia. But let us admit that we are not going to be able to reverse the balance overnight. Dependent as it is on private and public sector efforts and the close cooperation between the two, the long haul towards reducing our invisible deficit must take time. If we throw in Malaysian habits and attitudes as factors contributing to the invisible trade, then the time required will be even longer. Given the best will in the world, you cannot make good the years of neglect by the mere announcement of new policies and strategies. The issues involved are complex and complicated, involving large investments and high risks, and touching on the policies of foreign Governments. But a start has been made. In recent Budgets, the Government has already provided liberal tax incentives to encourage domestic investment in ships, and the writing of inward insurance, freight insurance, and reciprocity in quality

reinsurance. The Industrial Development Bank, has been charged with the responsibility to provide financial assistance to encourage private investment in shipping, as well as to raise the capacity and capability of existing shipyards to undertake ship repairing and the building of ships, to meet both domestic and international demand. Strategies are now being formulated to raise the dynamism of the national shipping lines to import and export shipping services. To ensure that shipping is being promoted in an effective manner, a National Shipping Advisory Council will soon be set up to advise the Government on all matters related to shipping and the national shipping lines. Payments on freight and insurance cost the nation close to M\$3 billion in 1983. Against this, we earn only about M\$600 million. There is much to be done to improve the situation. Indeed, we need to formulate a national shipping policy to enable the private sector in particular to play a positive part in promoting shipping.

9. Returning to the broad issue of invisibles, I must admit that the Government machinery is not geared at this time to meet the many challenges posed by the invisibles deficit. I see merit in charging an agency or unit in Government with the responsibility of streamlining the process of policy design, decision making and policy implementation in the many areas of the invisibles trade. It is important that the Government machinery is appropriately structured to bring about early improvements in the invisibles deficit. Close monitoring of performance and timely measures to reduce administrative bottlenecks and to assist the private sector in playing its part in this national efforts, will definitely help to progressively strengthen the nation's capacity and capability in meeting the invisibles threat.

Ladies and gentlemen,

10. Among the many invisibles, the aggressive promotion of tourism offers by far the best prospects for significant and early results. Excluding passenger fares, Malaysians spent M\$2.1 billion on travel and education abroad. Inward tourism earned about one-half this amount last year. Compared with the ASEAN countries, Malaysia has yet to overseas travellers, but from Malaysian travellers as well as through import substitution, thereby saving valuable foreign exchange. To approach this vast area effectively, much planning and original work will need to be undertaken at a national level to ensure that the two-edged sword of tourism is promoted systematically and purposefully, consistent with the preservation of national values and the nation's cultural heritage. The promotion of tourism as a matter of national priority is set in the context of a balanced promotion to attract domestic travellers, regional tourists and long distance tourists. Decisions have been taken to improve the

appropriate infrastructure for travel between Malaysia and her neighbours, as well as to provide for quality accommodation and recreation facilities in Malaysia. A necessary ingredient of the tourist promotion programme is the expansion of the flight frequency and connections between Malaysia and the rest of the world. It is therefore of the highest priority that our national air carrier, the Malaysian Airline System, is allowed to mount regular services to major destinations of the world, including London, Tokyo, Sydney, and both coasts of the United States. The present system of calculating flight frequency demands based on performance without proper consideration of a multitude of other equally important factors will not bring about equitability for countries like Malaysia. When we had no airline everyone was free to carry our passengers and goods. Now that we have an airline, the rules of the game have been changed again and again to our disadvantage.

11. To our British friends in the invisibles trade, we seek your understanding of our desire to improve our services trade imbalance. We ask you to examine our tax incentives and our needs, and help us meet our aspirations through joint ventures. We recognise, of course, your expertise in the areas of financial services, underwriting and reinsurance, and shipping. We seek to co-operate with you for mutual benefit. We also need to learn from your experience in privatisation. Of course if we succeed, it may cost you. But even your diminishing share of a more prosperous Malaysian trading partner would be more substantial than the big share of a less affluent country. You have only to count the number of Britishers in independent Malaysia and the total amount of business you do with us now, to appreciate what I mean.

12. To all Malaysians, my message is simple. If we want to continue buying imported goods and services, sustain it by we wish to continue travelling overseas year in year out, we need to attract more non-Malaysians to visit our scenic beaches and our National Parks, taste our variety of foods and enjoy our cultural diversity. We need inflows of tourist receipts to pay for our tourist spending abroad. No country and no people can afford to import and enjoy the good life without putting in the necessary effort and investment to earn the means to pay for them. Indeed, the biggest challenge before us rests crucially on our ability to first contain, and later reduce, the growing services deficit. Our strategy in meeting this problem involves a two-pronged approach -the first involves a continuing process to substitute the wide range of services we now import, notably by buying f.o.b. instead of c.i.f. to save freight charges, by encouraging Malaysians to travel more in Malaysia rather than abroad, and by building up local expertise to replace over time the role of foreign contractors and consultants. The second involves the aggressive export of invisibles -by

carrying more and more of our exports to earn freight, by attracting more and more foreign tourists (especially our neighbours) to visit Malaysia, and by selling our services in contracting and consultancy abroad.

Ladies and gentlemen,

13. This Seminar cannot be more timely, as we in Malaysia begin to reevaluate our own approach in meeting the problem of the invisibles deficit. With much pleasure, I now declare this Seminar open.

Thank you.