

## **THE SEMINAR ON PRIMARY COMMODITIES**

REGENT HOTEL, KUALA LUMPUR, 21 APRIL 1986

Yang Berhormat Datuk Paul Leong, Menteri Perusahaan Utama; Dif-Dif Kehormat; Tuan-tuan dan Puan-puan. Saya mengucapkan terima kasih kepada pihak penganjur Seminar ini kerana menjemput saya untuk berucap dan seterusnya merasmikan Seminar ini. Saya berharap banyak perkara yang akan diperbincangkan dan saya juga berharap Seminar ini akan menghasilkan sesuatu yang membina.

2. Di masa-masa yang lampau ini, harga bahan mentah telah menurun dengan mengejut dan menyeluruh. Biasanya jika satu bahan mentah turun, yang lain naik harganya. Dengan itu, kesan penurunan kepada Malaysia yang mengeluarkan beberapa bahan mentah tidaklah begitu ketara. Tetapi kali ini, semua bahan mentah keluaran Malaysia, bahkan keluaran seluruh dunia telah mengalami kelemahan harga bersama-sama.

Ladies and Gentlemen,

3. Malaysia is one of the few countries that has successfully diversified its production of primary commodities in order to hedge against the severe fluctuations of commodity prices. We produce for export tin, rubber, timber, palm-oil, pepper, petroleum and cocoa. In addition we produce integrated circuits or microchips, an undifferentiated manufactured product which markets in almost the same way as primary commodities. For the purpose of trade, microchips may be considered as a commodity.

4. But Malaysia's diversification in the primary industries field has not saved her in the present world-wide collapse of all commodity prices. We have therefore to come to terms with the reality of the situation: that is, dependence on commodities, no matter how diversified is not enough. We have to think of other ways of achieving economic stability and growth.

5. This seminar is initiated by the Government because there is an urgent need to understand the commodities trade and the problems that it faces in this day of rapid scientific and technological progress, this day of instant communication, of unstable exchange rates and of speculation on a grand scale. Indeed we have even to take into account large scale fraud, international power politics and the old adage that might is right.

6. What we are experiencing now is not the usual cyclical changes that have always afflicted the commodity trade. It is not the usual supply exceeding demand alternating with demand exceeding supply. The commodity trade is undergoing a much more fundamental change; a change that is structural in nature.

Ladies and Gentlemen,

7. Part of what is happening now is due to our clumsy attempts to bring order to the commodity market. We had set up numerous commodity agreements and

stockpiles so as to counter cyclical price changes. The cost had been high. But success was rather limited. Indeed, the success was not really due to the agreements and stockpiles. It depended more on the cost of production, or scarcity of resources or the vagaries of nature. Some countries refused adamantly to join international commodity agreements, while some members just ignore the agreements when it suits them. The International Commodity Agreements all have numerous Achilles Heels.

8. The test of the Agreements comes when supply exceeds demand. The high prices maintained by the Agreements encourages higher production by low-cost producers. The Buffer Stock Manager must buy to prevent falling prices. What this really means is that the commodity producers are producing and selling basically to themselves. If they don't produce then illegal producers or non-members will take up the slack and profit. Its a case of tails I lose, heads you win. It obviously cannot go on forever.

9. Then, there are national stockpiles which threatens prices not only when they are released but merely by the threat to release and the overhang they represent in the market. Much diplomatic efforts are needed to reduce the threat of these consumer stockpiles to the producers.

10. The technology of prospecting and production was a boon at first to producers. Then, when huge new resources are discovered or crop productivity vastly enhanced, the ensuing glut wreaks havoc to prices and once again the commodity dependent nations are made to suffer economic regression.

11. Technology is also responsible for reducing usage of specific commodities and for finding substitutes. When these new technologies succeed there is further shrinkage of the market for the commodity concerned. Thus tin is less used because new technology reduced the amount of tin required while substitutes such as glass, paper, plastics and aluminium replace tin in the packaging industry. As the usage of tin decreases while huge new deposits are found, the price of tin collapses.

Ladies and Gentlemen,

12. Marketing is another problem for the commodities. Only a minute fraction can be used in the producer countries. The rest must be sold to the rich developed countries. Traditionally the rich control the markets which are also located in their countries. Thus not only are the profits made in the rich consumer countries but the speculations also take place there. The market and the speculators are not concerned over the fate of the producer countries. Their only interest is to make as much money for themselves as quickly as possible.

13. Instant communications has linked the markets world-wide and made the prices more unstable. Trading is now done almost 24 hours a day. A feverish atmosphere prevails in the market as speculators try to profit from the slightest price movement in any of the world commodity markets. The producers interest are totally ignored in this game. Indeed, if it looks like the privileged members of

the commodity exchanges are going to lose, the rules are changed in order to rescue them.

14. Shipping and insurance take a big slice of the profits from the commodity trade. Presently the poor producer countries have only a minor share in the shipping and insurance business. Again this means less income for them.

15. At one time exchange rates were stable. Today the instability is such that selling prices can be quite meaningless. Tin sold in pound sterling can result in good profits for those countries whose currencies have depreciated against the pound, while a loss may be sustained other by countries whose currencies have appreciated against the pound. It is not possible to sell in the producer countries own currencies as these are not regarded as international currencies. Producers must therefore accept the vagaries of a currency over which they have no control.

16. Clearly there is a lot of things wrong with commodities trade. If we are to continue to produce and export commodities we have to understand the problems and find ways and means to overcome them. Waiting for the cycle to reverse is not enough. For some commodities the good days are over. For others, the threat will grow until they too collapse.

17. What can we do? If we cannot depend on commodities then obviously we have to reduce our dependence on them. There is evidence that we are getting soft because it is so easy to mine or grow our money. Indeed, in many instances because profits are high, we give little thought to efficiency and productivity. We are happy with outmoded methods and managements because mediocrity is more than sufficient. But big margins are out now. To stay in business we have to continuously lower our costs.

Ladies and Gentlemen,

18. Only a small fraction of our produce is processed locally. It doesn't seem strange to us that others can buy our produce, transport it to their country, pay tax, process and manufacture and then transport back to our country their products and still sell more cheaply than if we manufacture ourselves. Some of the countries which process and export these products have small domestic markets. Apparently, everyone can achieve economies which we find impossible to achieve. Is it not possible that there is something wrong with us?

19. When greater efficiency is suggested, the respond is to demand removal of taxes. Our national earnings are not helped by doing this. What will happen is that we give our revenues to our foreign customers. Efficiency will only be economically meaningful if we produce more at less cost. We would then be able to accept lower prices without losing. Indeed, we would be more competitive and improve sales. The fact that some producers in Malaysia are able to achieve lower cost means that it is possible to improve production efficiency.

20. We should read the sign of the times. The Singer Sewing Machine Company made its fortune and reputation manufacturing and selling Sewing Machines.

Today, no housewife will sew her family's dresses. We all buy readymade clothing. There is just no market for domestic sewing machines. And so Singer Sewing Machine Company no longer produces sewing machines. It did not go out of business. It switched to household appliances. There is a lesson here somewhere.

21. What are the signs of the times with regard to the various commodities? Should we continue to produce what is no longer in demand? How much can we absorb ourselves? Shouldn't we turn to other commercial activities, manufacturing for example? What are the manufacturing areas that give us the most competitive edge? Indeed, what competitive advantage do we have?

22. But a switch will not bring results immediately. We are promoting tourism but it will take years before we reap the harvest; if indeed we will. The same applies to any new manufacturing that we may go for. Even low cost housing, projected to help growth by 2 percent will not achieve that immediately.

23. Something quick is needed. What existing activities can be promoted quickly? Handicrafts hold promise. Not only is there a demand but it uses a lot of manual labour. With so many people unemployed, production and export of handicrafts might be the answer. There are many new hand crafted products that Malaysians have not tried their hand at.

24. And finally if all else fail, we have to learn to live within our means. We have to be satisfied with whatever income we get and sustain ourselves on this income.

Ladies and Gentlemen,

25. The Japanese and the Germans not only lost the war but they were bankrupted in the process. Yet today they are better off than their victors. How did they regain their wealth with practically no capital? The Marshall Plan perhaps. But the truth is that the Japanese worked for a pittance in order to help reestablish their industries. For a long time, they were not allowed to go abroad or to spend foreign exchange on personal needs. Only the industries were allowed to buy from abroad. Slowly at first but very quickly picking up momentum, they recovered. Today that sacrifice, that iron discipline, that strong will, have paid handsomely.

26. Of course, Malaysians are not Japanese. Generally we do not place such a high premium on sacrifice. But what is our choice? Either we learn to live within our means or we join the ranks of the basket cases, begging for aid so as to live in the style we have grown used to.

27. We Malaysians must have pride. We must face reality. Systematically and with determination we must set about the task of overcoming the problems caused by the collapse of commodity prices.

Ladies and Gentlemen,

28. We have just launched the Fifth Malaysia Plan. The targets of the FMP were realistic when the plan was being drawn up. The rapid falls in commodity prices have probably rendered the modest targets we have set for ourselves beyond reach. If we sit tight and do nothing, if we merely bemoan our fate, or if we just urge the Government to do something we are not going to achieve anything. We have to think of ways and means to overcome the problems the commodities and their prices have dealt us. We have to think of what we can do and not what others can do for us.

29. We look to this seminar for guidance on what is within the competence of the nation to carry out. This is not the occasion for woolly thinking and recrimination. We are not interested in scapegoats or oppoitioning blame. The seminar participants must try to come up with practical ways and approaches to overcome the problems we face. Later we want to put them into effect, we the Government and the people. I pray that God will give you guidance. Tuan-tuan dan Puan-puan,

30. Dengan harapan yang tinggi saya merasmikan Seminar Kebangsaan Barangan Utama ini.