

**MAJLIS MAKAN MALAM TAHUNAN INSTITUSI-INSTITUSI KEWANGAN**  
HOTEL SHANGRI-LA, KUALA LUMPUR, 28 OGOS 1987

Yang Berhormat Encik Daim Zainuddin, Menteri Kewangan; Yang Berbahagia Tan Sri Dato' Haji Basir Ismail, Pengerusi Persatuan Bank-Bank Dalam Malaysia; Yang Berbahagia Tan Sri Dato' Jaffar Hussein, Gabenor Bank Negara; Dif-Dif Kehormat; Tuan-tuan dan Puan-puan sekalian.

Saya mengucapkan terima kasih kepada Ahli Jawatankuasa Penganjur Majlis Makan Malam Tahunan Institusi-Institusi Kewangan Malaysia, kerana menjemput saya dan isteri saya ke Majlis Makan Malam ini.

2. Ini adalah kali yang keenam saya menghadiri Majlis institusi kewangan ini. Pada majlis-majlis yang lalu saya mengambil kesempatan untuk memberikan pandangan dan pendapat saya mengenai keadaan ekonomi negara serta peranan dan prestasi institusi-institusi kewangan di negara ini. Dengan izin, saya bercadang untuk meneruskan amalan ini pada kali ini juga.

Ladies and Gentlemen,

3. In three days time, we shall celebrate the 30th Anniversary of our Independence. It is timely for us to reflect on our achievements as well as our failures in banking and finance in the last three decades. They say that to understand the future, we must know and understand the past. Then and then only can we plan for the future.

4. You may recall that at the point of Independence, our financial system was made up of the Joint Currency Board, 26 banks, of which only 8 were local banks, a handful of insurance companies, the post office savings bank and the Employees Provident Fund. Total assets of the financial system then amounted to less than \$2 billion ringgit. Today, I am told, the assets of the Malaysian financial system is no less than \$200 billion ringgit, with 38 banks, 47 finance companies, 12 merchant banks, 7 discount houses and a host of other specialised institutions including development banks and enterprises serving the capital market. The domestic institutions now dominate the market. The reality of electronic banking and instantaneous funds transfer is taken almost for granted. Today, we can move funds rapidly not only throughout Malaysia, but also to and from other parts of the world. All these are real achievements own reconstruction and the balance of payments deficit.

5. Today, after successive oil shocks and the onset of the deepest recession in the post-war period, we have witnessed national and corporate fortunes change by the day. Since the beginning of the 1980s, we have seen exchange rates fluctuate wildly, with the US dollar rising and falling some 40 to 50% against the other major currencies. As a consequence of hard work, Japan has emerged as a major financial and economic power. Five out of the six largest banks in the world are Japanese. These have been achieved by a nation that has almost no natural resources, that imports almost all its oil requirements and raw materials, and was completely devastated by war only forty years ago. It goes to show how

sheer grit, discipline, drive and management skill in the face of adversity can triumph against all odds.

6. We live today in a competitive world. Most developing countries have land and labour in abundance, and to a varying degree, access to capital. What then makes one country more developed than another? More than eighty years ago, an economist characterised development as the process through which entrepreneurs innovate to create new products, to invent new techniques of production, to create new markets, to find new uses of materials, and to evolve new institutions or industrial combines. By expanding into new horizons through innovation in products, technology, markets or institutions, the entrepreneurs create wealth which when distributed lifts the living standards of society.

7. The same far sighted economist said that there are three key characteristics which make a successful entrepreneur. First, the vision or dream to create new things, markets or organisations. Second, the competitive spirit, to prove excellence or superiority, and to succeed because success is in itself a reward. Financial gain is secondary. Finally, the joy of creating, of simply exercising one's energy and ingenuity. Underlying these elements is the pioneering spirit to venture where no men had dared before; to literally bring about change hopefully for the betterment of mankind.

8. Frankly, these values are by no means absent in Malaysia. Yet, something is missing. We seem to lack the real entrepreneurship to pull all these together particularly in the manufacturing field. Business is at its best when there is both private profit and social gains; at its worst when profits are made at society's expense. All too often, the Malaysian entrepreneur has been mostly of the 'hit and run' variety, with long-term desires to have short-term profits. Consequently, we see little or no commitment to the future, only shoddy 'products' in most cases that have great difficulty in successfully competing abroad. The recent recession, with the help of the bankers, has wiped out quite a number of these so-called businessmen. Unfortunately genuine ones have gone under too.

9. However, all is not lost. I am told that in the United States some venture capital funds will not seriously consider a project unless the entrepreneur has failed two or three times. If nothing else, this proves that the promoter has the determination to try and try again. This should be no less true in Malaysia. We have faced the first real recession in Malaysia in nearly three decades of prosperity since Independence. Those who survived should be much wiser and fitter to try again. Those who failed need not feel ashamed so long as they have tried their honest best. They too should try again provided lessons are learnt from their failures. Those who have cheated and squandered deserve to be where they are today.

10. In this period of recovery and turnaround, the bankers as the custodians of public funds, have also become the custodians of another key resource -- our tiny pool of entrepreneurial talent. The fate of many of our budding entrepreneurs now lie in your hands. To a large extent, their survival depends on whether you think their ideas can be made commercially viable. If they are, then they will

need financial and also management support especially in the formative years. If only solid gold collaterals count with you, please remember that even gold depreciates. The recent recession has shown the weaknesses of collateral based loans.

11. In a recession, losses are inevitable, to the entrepreneur as well as the banker. When commodity prices fall more than 40 to 70% in a matter of months, there will be many casualties, including the Government. What is important is not the losses, however painful these may be; but whether their backers and bankers can separate the "men from the boys". Indeed, they must continue to help those ventures that possibly will turnaround with economic recovery. Bankers must have foresight and must not foreclose every project merely because they have non-performing loans. Bankrupting all our entrepreneurs simply because the recession has rendered them incapable of servicing their loans will not help anyone; neither the borrower, nor the bank nor the nation.

12. One other important reason why Malaysia seems incapable of producing entrepreneurial giants is that life is soft here. No great effort is needed to develop estates or housing projects or cut down trees or dig for tin. A land concession or a licence can make almost anyone rich. But in countries without resources, much ingenuity is needed in order to prosper. The challenges are greater and the people who rise to these challenges must have the qualities for the making of good entrepreneurs. Of course, if the challenges cannot be met, the country can even regress and lose out completely. There are quite a few countries which have never made it. Malaysia is not one of them. But Malaysians need to move away from easy commodity production into manufacturing. The banks must be more discerning and not look at collaterals alone.

Ladies and Gentlemen,

13. Malaysia has waxed rich on the products of its plantations and mines. It is easy for us to say now that producing these commodities was the right thing to do. Actually many of the early planters and miners had their doubts and there were bad patches in their history. Indeed, we know now that commodity production is not always profitable. Such is our disillusionment that we have now decided to go into manufacturing, not as a substitute for mining or plantation but as a hedge against the vagaries of the commodity prices.

14. Now, manufacturing is not easy. Because we have no new products or processes to give us unique advantages, we have to go into areas where others more experienced than us have already rodden. This implies competition and competition seldom favours newcomers. Many of us are going to fall along the way. We are going to make many mistakes and we are going to have to pay highly for these mistakes. But if we believe that our salvation lies in diversifying into manufacturing we have to soldier on.

15. Entrepreneurs need support and encouragement. Competing with experienced foreign rivals is tough enough. But when less than no support is coming from home, even the most intrepid of entrepreneurs are likely to throw in

the towel.

16. The Government has done much to encourage manufacturing. Admittedly there are many things more that it ought to do. But others must chip in also. Banks should certainly do their bit. They should be more enthusiastic and sympathetic towards manufacturers, particularly those with export in mind. They should not be too ready to pull the rug from under the feet of manufacturers who look like they are going to fail.

Ladies and Gentlemen,

17. The Minister of Trade and Industry recently said that Malaysians are their own worst enemies. I am inclined to agree with her. Relative to many other developing countries, which I shall not name, Malaysia is stable and peaceful. We have had no disorder of any consequence since 1969. But who tells foreign investors that there is tension in the country -- the Malaysians. Foreign investors tell me frequently that they have been told by Malaysians that the Chinese are just about to revolt against the Government -- not in so many words of course but that is the implication. The fact that the majority of the Chinese in this country are loyal and want stability is ignored. The consequence is that foreigners lose faith in Malaysia and Malaysians of all races suffer. Why do we do this to ourselves? Is it for the satisfaction of being able to say that the Government has failed?

18. Bankers in this country have a duty here to correct the erroneous impression caused by irresponsible and malicious remarks by some Malaysians. Bankers are people of integrity. They also have a vested interest in the prosperity of this country. They must propagate the truth about their country. We are not a model of racial harmony but we are much better at finding compromises and getting along with each other than most multiracial countries. Foreigners should be reassured that Malaysia is politically stable and has always been so. We can manage our problems better than others.

Ladies and Gentlemen,

19. Banks cannot function in a vacuum. They need an energetic and enterprising environment. The foreign investor will have to make up for the shortage of local entrepreneurial skills for a long time to come. The banks should, therefore, play a greater role in encouraging foreign investors to set up plants here. They should have special departments dedicated to this activity. They should advise and help the local entrepreneurs to co-venture with potential foreign investors. Banks cannot just lend money. They must know their clients business as much as the clients themselves so that they can really be of help -- to their clients and to themselves.

Ladies and Gentlemen,

20. Once again, I would like to thank you all for inviting my wife and I to your annual dinner. I wish you all a pleasant evening and also every success in your endeavours. Thank you.