

MAJLIS 'MINISTERIAL BRIEFING'

PUSAT DAGANGAN DUNIA PUTRA, 16 NOVEMBER 1987

Yang Berbahagia Raja Tan Sri Mohar, Presiden Yayasan Pengurusan Malaysia;
Dif-Dif Kehormat; Tuan-tuan dan puan-puan sekalian.

Saya mengucapkan terima kasih kepada Yayasan Pengurusan Malaysia kerana menjemput saya untuk memberi ucapan di Majlis 'Ministerial Briefing' ini. Saya berharap majlis ini dapat memberi penerangan lanjut kepada ahli-ahli Yayasan ini, serta para jemputan yang lain, mengenai usaha-usaha Kerajaan untuk meningkatkan lagi ekonomi negara kita. Saya juga berharap majlis ini akan dapat memberi beberapa idea baru yang boleh dipertimbangkan oleh pihak Kerajaan dalam usaha mengatasi beberapa masalah ekonomi yang kita hadapi.

Ladies and gentlemen,

2. I would like to congratulate MIM for their initiative and splendid idea particularly in choosing a difficult but most appropriate subject for deliberation today, that is "National Economic Recovery -- Agenda For 1988 And Beyond", a subject that is topical as well as of critical importance to us now. There are many aspects of the economic recovery that needs careful scrutiny -- its timing, strength and durability being among them.

3. To visualize the future, we must look not only at where we are, but also at where we have been. The world has gone through a series of economic shocks. After a period of prosperity following the end of World War II, the first jolt was felt in 1970 when a recession took place in industries. Then came the first oil shock of 1973. Following this came the destabilization of exchange rates. The value of money became unpredictable and international trade became a gamble. Then followed the second oil shock when petroleum prices rose so high that \$70 U.S. per barrel was being predicted. The value of the U.S. dollar went up and so did American interest rates. Still the U.S. economy suffered from trade imbalances with Japan and Germany. The value of the dollar was then depressed with damaging effect on Yen loans. Commodity prices collapsed in late '85, and in 1987, the stock markets of the world plunged right through the basement. Altogether the immediate and relevant past has been tumultuous and completely unpredictable. If we could not predict what has happened, it is hardly likely that we are going to be more accurate in predicting the future now. Nevertheless we have to try for we cannot plan without making certain assumptions.

4. Our economy, being inextricably linked to the world's economy, has not escaped the above-mentioned crises. We have been as badly tossed and battered in the rough economic seas as have most others in the free market world.

5. The most recent strain is the turbulence in the stock markets. Once again we are reminded of our links to the economy of the world, indeed that link is crudely underlined. We cannot go it alone if we want rapid growth through exports, the way chosen by Japan, Korea, Taiwan and other countries. Alternatively we can

opt out of the world free trading system and export-led growth, but then we will have to say goodbye to rapid growth and accept the stagnation resulting from purely domestic economic stimulus. We have enough examples of countries which chose to do this. And so, despite the fact that mismanagement in the major economies are likely to drag us down, we will still stay within the free market system. We hope we have sufficient management skill to navigate the rougher seas which may follow the recent collapse of the world's stock markets and the unstable exchange rates. This is where your meeting should come in useful. We need to examine every possible idea on how to manage towards National Economic Recovery.

6. Ever since the world foresook Bretton Woods and deprived Governments of the authority to fix the value of their own currencies, the focus of attention has switched from the business of producing and selling goods and services to the manipulation of currencies. As a corollary, a greater deal of attention was refocussed on dealing in stocks and shares. Acquisitions, mergers and share swaps became the order of the day and the best managerial brains and energies were devoted to this game. Only the Japanese and the Germans seem to cling to the old fashioned production and sale of goods and services.

7. Dealing in currencies can yield huge profits. Billions of dollars worth of money are bought and sold everyday. Apparently demand, or the lack of it, determines the relative values of individual currencies. Sovereign Governments are completely powerless to legally determine the value of their legal tender. A bank may devalue a currency merely by offering for sale a particular currency which it does not even possess. If a Government is rich enough it may offer to buy or actually buy in order to sustain or drive up the value. It may itself unload its own currency in order to reduce the value. But it may no longer fix the exchange rate of its own currency. In other words, it is no longer sovereign as far as its money is concerned.

8. And so we witness today the devaluation of the American dollar, and other currencies that are pegged to it. With this fluctuation of the most important currency in the world, debts skyrocket, earnings become erratic and international trade becomes a gambling game. Trading in futures become doubly risky and defies prediction. In other words the economy of the world and nations are reduced to extreme uncertainty, as men in neckties and shirtsleeves sitting in innumerable trading rooms throughout the world face computer consoles and hotline telephones, madly screaming figures at each other. For 24 hours through 365 days in every year, the furious trading goes on. Seconds are too precious to be wasted for the Yen or the dollar, or the pound or the dinar might appreciate or depreciate by a tenth or a percentage point if you blink.

9. Yet what is currency but so much scraps of paper. By weight it is worth about the same as toilet paper. Money is only worth something if it is backed in some way. It may be gold or it may be the sound economy or the political stability of a nation. But can one really say that the gold in Fort Knox has been reduced by half to justify the halving of the value of the U.S. dollar? Or can one really say that the American economy is now worth half of what it was before, or is the

political stability of the U.S. only half of what it was before its dollar was devalued?

10. It is obvious that none of these supporting assets backing the American dollar has changed. What has happened to the dollar is totally artificial. Currency traders, greedy for profits, move the value up and down because stable currencies or exchange rates do not benefit them.

11. The stock market receives the same kind of treatment. Its original purpose of raising capital has been all but forgotten. Even investments for dividends have been forced to take a back seat. The only thing that matters is capital gains. The value of shares used to go up because the particular companies were well-run, pay good dividends and increase their assets steadily. Today all these virtues are irrelevant when determining prices. The important thing is sentiment and the need to move prices up or down so that purchase or sales can yield profits. And so the bulls are chased up without caring for anything that is happening to the company. Such are the bloated share prices that the buyer can wait a hundred years with no hope of earning enough dividends to service his debt. The total market value of the shares could be three or four times the assets.

12. Then when the bull has had its run, the bears drag down the shares. Suddenly billions are lost. Shareholders shoot their brokers and then turn the gun on themselves. Banks woke up to find millions has been lost in loans to purchase shares. Property value collapses, reducing valuable collaterals to next to nothing. Bankruptcy lists lengthen each day. Shops lose their customers and close down. Unemployment stared in the face of everyone. And so on and so forth.

13. Still the world is not yet ready to control currency speculation and share market binges. In the Malaysian quest for economic recovery, we have to consider this environment of financial instability. Whether we like it or not, all our best laid plans are going to be subject to disruptions by sudden and repeated changes in exchange rates, collapses and booms in the worlds stock markets and arbitrary policies by the economic powers as they struggle to stay on an even keel.

14. What can the Government do to help recovery?. A whole lot of people are ready to point at Government' s policies as the cause of the country' s economic decline. But then there are people who have been pointing at the Government all the time as the cause of everything that is bad. Even when times were good these people will blame the Government for the economy not being better. They may be economists, these people. But essentially they are politicians and it is political ends that they serve.

15. The Government may be right, but certainly it can be wrong. But the Government cannot be accused of deliberately doing harm to the country' s economy. Even the constraints imposed by the New Economic Policy (NEP) are meant for the general economic well-being of everyone. Of what use is a liberal policy on commerce and industry if the country is plagued by envy and jealousy

between races which can constantly destabilise the nation?

16. If there is going to be economic recovery in this country, the first thing, the most essential thing in fact, is for the business community to accept the sincerity of the Government's intention to work for the economic prosperity of this country. With that acceptance, Government-private sector cooperation will become a reality. This Government is one of the most accessible Governments in the region, if not in the world.

Ladies and gentlemen,

17. Before talking about new ideas and approaches, let us relook at our existing policies first. Have these policies been given a chance to be properly implemented or are they so bad that they have caused the present poor performance of our economy? Do we discard them or do we continue with them in order to revive our economy?

18. First the NEP. Without doubt it is a constraint on rapid development of the economy. The job of pulling up the bumiputeras to the level of the non-bumiputeras must absorb much money, time and energy. Consequently we cannot fully achieve our potential for economic growth.

19. So do we discard this policy? Do we say that it is too bad if the Bumiputeras cannot make it under their own steam? Do we say we cannot afford to wait for them? Do we say lets forget them and get on with our recovery program unhindered?

20. But will this country be stable politically if we make no effort to balance the development of the different races? If recent events are anything to go by, the stability of Malaysia is quite easily undermined. We have to constantly work at it if we want to remain stable and the NEP is a major instrument for achieving all-round stability. Without political stability the economy cannot grow and expand. The choice is really between a slightly slow economic growth with the constraint of the NEP and an uncertain growth under distinctly unstable conditions. Malaysia has no choice but to choose the NEP and try to manage the constraints.

21. Recently the Government decided to soft-pedal the equity aspect of the NEP in favour of jobs for the unemployed. Jobs for the unemployed is part of the first prong of the NEP, that is poverty eradication. We cannot sacrifice jobs for the poor in favour of shares for the well-to-do. Once the economic cake grows again, we can focus on share distribution. The NEP should not now be a hindrance towards economic recovery.

22. A foreign newsman recently remarked that Malaysia has discarded the Look East Policy. As usual he assumed that the policy meant giving contracts to and buying goods from Japan and Korea. There is a blind spot here which is found even among Malaysians. Despite innumerable clarification that the Look East Policy means learning Japanese and Korean or even Taiwanese work ethics and management methods, many still insist it means giving contracts and buying

goods from the Japanese and the Koreans.

23. The Americans and the Europeans are all looking East for better work ethics and management approach. But some Malaysians feel that you can only learn from the infallible Mat Salleh. Actually it is the ethics of the Mat Salleh which is dragging us down even as our neighbours race past us to achieve better growth.

24. I wish to reiterate here that the Government is still committed to promoting the work ethics of the East among the Malaysian work force, and the managers should learn from Eastern management techniques. If we are to succeed, we must be competitive. If we want to be competitive, we must be productive. If we want to be productive, we must be honest and work hard. Lazy workers or managers who shirk and cheat will not help us recover. Whether we like to admit it or not, it is our work ethics which is dragging us down. We have to correct them. We must have the work ethics of the successful. And the successful are out East.

Ladies and gentlemen,

24. Another major policy of the Government is privatisation of Government agencies and projects. Since independence the Government has allowed itself to be dragged deeper and deeper into activities that are not of an administrative character. Indeed, the Government has become deeply involved in business. Most of these have led to inefficiency in the services provided and massive losses. Additionally the bureaucracy has grown enormously. Perhaps in the past the Government may be excused for involving itself in these activities as the private sector was not quite ready. Now the private sector is both willing and able.

25. It is generally assumed that the private sector is more efficient. This may not be necessarily true but the losses sustained by Government agencies and corporations show that, relatively speaking, the Government is less efficient. When an agency is privatised, the Government need not lose everything. Should the company make a profit, Government can still gain through income tax, etc. At the very least the Government will no longer bear the burden of paying salaries, carrying out maintenance and in many cases injecting more capital. While private business try to maintain itself or expand through earnings, Government companies expect yearly injections of capital and subsidies for running cost.

26. If the Government is relieved of the running cost and subsidies, the fund can be used for more development which help to stimulate the economy. Additionally the reduced Government bureaucracy can be better paid by the Government.

27. Companies and facilities which have been privatised have attained better returns besides giving better service. There has been quite a few problems but these are bound to occur considering the newness of the approach. It is strange that when Government runs a facility, there were innumerable complaints. But when the Government proposes to privatise the facility, suddenly some people

find so much virtue in Government management.

28. These are some of the policies that the Government will continue because they are basically sound. But to recover the private sector must play a more dynamic role.

Ladies and gentlemen,

29. Malaysia is still very much an agricultural nation. Rubber, palm-oil, cocoa and pepper will remain our principal export earners. They will continue to be expanded. But we are seeing the first steps towards a second diversification in agriculture. Already asparagus, mangosteens, guava and pisang emas have become export items. But star fruit, pomelos, mangoes and rambutans all show potential.

30. The private sector must not forget that our success in rubber, palm-oil and cocoa is due to our expertise in estate management. If the new agricultural products are to be produced by small farmers on small plots of land, we are not going to be able to compete in the export market. There can be smallholders but the packing, transport and export marketing must be by the big estates or trading companies.

31. One of the major problems of Malaysia is to be equitable and accomodating. If licencing is required for any business activity, licences are sure to be given to individuals or to small one-man companies. Thus we have any number of security companies, taxi operators, bus or truck operators and fishing licences. The result is that economies of scale are inachievable.

32. The idea of pooling resources to start a reasonably big business is unthinkable. The partners invariably quarrel and part company, each to form his own company. At one time we had 80 film companies of which only 2 managed to produce a film each.

33. The kind of management expertise found in the large agricultural estates is unknown to most other Malaysian business. As a result we have to endure high costs and are uncompetitive. While the rest of the world see companies merging and growing bigger, fragmentation is the order here. It is about time we rethink this habit, if we are going to recover.

Ladies and gentlemen,

34. Some of the fundamentals in terms of management for growth of the Malaysian economy are already in place. No doubt businessmen have more ideas. While the Government welcome advice from the business community on what it should do, it is worthwhile for business people to do some rethinking about their approaches to business. May be you are not always doing the right thing or the Government is always doing the wrong thing.

35. Please do not be negative. Don' t start tearing to pieces Government policies the moment they are announced, as happened with the Look East Policy. Look

at the positive aspects and try to see what good can be derived from these policies. Government has over the years accommodated much of the suggestions you have made.

36. An academic' s view is fine. They may be right. But it is the people who are doing the business who must do the thinking in the end. There are no wise oracles whose opinion must be sought every time a Government policy is announced. To be interesting these oracles have to be original and they invariably achieve this by tearing to pieces whatever policy is announced, especially when they are anti-establishment. Many perfectly sound ideas have been strangled at birth because someone has to prove his originality. Thus these people are now busy picking faults with privatisation, having forgotten that only recently they were picking faults with Government departments and corporations.

37. If Malaysia is to recover, let us be positive. Let us be ready to try new ideas. Let us improvise along the way if something fails. There are no perfect ideas. There are no perfect solutions. But positive people improve on them as they go along.

Ladies and gentlemen,

38. Once again I would like to thank MIM for giving me the opportunity to address this gathering. I wish you all a successful deliberation.