

MAJLIS MAKAN MALAM TAHUNAN INSTITUSI-INSTITUSI KEWANGAN YANG KE-10

HOTEL SHANGRI-LA, KUALA LUMPUR, 5 SEPTEMBER 1988

Yang Berbahagia Tan Sri Basir Ismail, Pengerusi Jawatankuasa Penganjur;
Yang Berhormat Datuk Paduka Daim Zainuddin, Menteri Kewangan; Yang
Berbahagia Tan Sri 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 ini.

2. Ini adalah kali yang ketujuh saya menghadiri Majlis Institusi kewangan ini.
Pada majlis-majlis yang lalu saya mengambil kesempatan untuk memberikan
pandangan dan pendapat saya mengenai keadaan ekonomi serta peranan dan
prestasi institusi-institusi kewangan di negara ini. Seperti dahulu, saya
bercadang untuk meneruskan amalan tersebut dalam Majlis pada malam ini.

Ladies and Gentlemen,

3. When I spoke to you a year ago, the feeling of recovery was already in the air.
And yet, barely six weeks later, we were faced with the October 19 world stock
market crash, which changed the whole scenario. However, having already gone
through the Pan Electric crash and the co-operatives crises of 1985/86, we took
the October 19 meltdown within our stride and with very little adverse effects. In
fact, we ended the year with a record trade surplus and a 5.2% real growth rate.

4. Looking back on a year of solid achievements, it is with pleasure that I
address you tonight in the midst of a strong and hopefully, sustained economic
recovery. Aided by a long overdue rebound in commodity prices, a steady but
definite increase in private fixed investment, particularly in the manufacturing
sector, we have been able to achieve once again the strong growth of the late
1970s, with real GDP growth in the first half of 1988 in the order of 9%, together
with little inflation. Indeed, the second quarter growth rate was about 10.5%.

5. The pundits will argue that we have achieved all this with lots of luck, because
Malaysia is a lucky country, and because commodity prices turned in our favour.
Let me say that we all have our share of good luck, and bad luck as well, but our
long-term prosperity is dependent not so much on luck, but on the hard work and
resilience of our people, and the sound but tough and frequently unpopular
policies of the Government. Those of you who are more adept in economics
would have noticed that the recent recovery has been achieved completely
without public sector expansion. Indeed, growth has come mainly from the
private sector at a time when the public sector is still going through a tough and
highly painful adjustment towards fiscal balance and greater financial discipline.
It would seem that at long last we have been able to make the private sector
provide the impetus for economic growth. It just goes to show that the private

sector can do it when it has to.

6. Throughout the recession of 1985/86, the Government had to take many necessary, but as I said politically unpopular steps, to put the economy back onto a firm and competitive footing. Having seen our export incomes cut drastically by more than \$10 billion ringgit, with all our achievements in social progress over the last decade set back by the recession, the Government boldly set out to address the key issues of competition and efficiency. We slashed many programmes of subsidies instituted in the 1970s. We took the unprecedented step of reducing the growth in civil service expenditures. We managed a fiscal adjustment programme that cut the deficit by more than 8% of GNP in three years, an achievement unprecedented amongst the developing and developed world. But, through perseverance, we turned things around. We restored our external payments until we achieved the first current account surplus in a decade. We stemmed and overcame the threat of financial disorder manifested by the failure of the deposit-taking cooperatives and irresponsible and even criminal management of banks. We have only just begun to see the fruits of the steps taken to encourage foreign investment, particularly in the manufacturing field. All these have been tough medicine, but we should now begin to reap the benefits of financial prudence and fiscal discipline.

7. To me, what has been most important has been the fact that the rural incomes have begun to rise once again, and that the large number of graduates we have been producing are now beginning to find jobs again. With rising incomes and profits for business, and consequently improved revenues, the Government will be able to afford higher operating costs and certain desirable infrastructure projects that have been shelved because of the recession. I am optimistic that the real GDP growth for 1988 will surpass all earlier expectations, and that this will generate its own momentum well into 1989.

8. The time has come for us to dwell no longer on the problems of the mid 1980s, but to look forward to the next millenium, the twenty-first century. The possibility of making Malaysia an industrialised nation is no longer a pipe dream. It can be a reality. Indeed, it has to be if Malaysians expect to have a better life. Production of primary commodities can grow by so much and no more. But there is really no limit to what we can manufacture. As expectations rise we will have to move into more sophisticated and more value added products in order to earn more. Skills and technology can be acquired if we really want to. The limiting factor is our will to work hard and to compete.

9. It is our ambition to be an industrialised country. But we are not going to forget commodities. We have done so well with them and we can still do a lot. However, broad trends to the year 2000 are discernible, and it would be useful to have a look at what the scenario can be by then.

Ladies and Gentlemen,

10. As Malaysia begins to move into the ranks of the industrialising countries, it is relevant to ask what type of manufactures we wish to produce. Given the small

size of our labour force, and the present level of research and development, we cannot compete with Japan, Korea and Taiwan in the high end of technology and engineering. We have to be a niche player, going for the high value-added products that can be competitively made using our natural resource base and comparative advantages. Even with rapid growth, our total production will not be a threat to anyone. Malaysia's annual export of manufactures is smaller than the United State's annual consumption of toys! What is beginning to happen in the world market today is that the consumer wishes to have greater choice for basically the same product. The consumer would like one made to his choice of colour, size and shape. Given the right incentives and encouragement, I am sure our entrepreneurs can find the right products to fill the right market niche. We only need to see how our manufactured exports today can exceed even our oil exports, to realise the potential of industry. Increasingly, we are becoming part of the network of manufacturing activities that spans the world, with a single product being sourced from around the world before it is assembled and sold in its final market.

11. We must also not forget that the world of the next millenium will be increasingly a service-oriented market. It has been estimated that travel, food and beverage, medical and health care, and personal services will be growing markets relative to consumer durables. World travel alone is estimated to grow annually by 3.5% up to the year 1995. Tourism will certainly be a major force of the future, with world travel accounting for at least 15% of world trade in services by the mid-1990s. Malaysia has not even begun to touch this market. In 1987, Thailand earned \$4.8 billion ringgit from 3.4 million visitors, while Malaysia's intake was only \$1.8 billion ringgit from 3.3 million visitors. The tourist and service sectors can be a major provider of employment, and would allow us profitably to preserve and display our rich cultural and natural heritage.

Ladies and Gentlemen,

12. This time last year, I stressed the role of bankers in turning around those ventures which had suffered from the collapse of prices due to the recession. "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." These words are still true today.

13. I have often been asked why is it that investment by domestic entrepreneurs has not risen as fast as that by foreign investors. The answer is that many of the domestic entrepreneurs are still completely tied down by their non-performing loans, and few banks are willing to lend to them to embark on new ventures. If this happens, how can we encourage the growth of domestic entrepreneurs? The secret of success of any business is that during the good days, you must prepare for the storms, and during the storms, you must prepare for good weather. Still it is unrealistic to insist that the farmer should spend all his time during the good weather to repair his roof. Where will he then get the rice to feed himself during the next storm? This is the perennial dilemma. Bankers cannot live in a world of their own. Bankers have allowed deposit rates to fall. Consequently, the burden on the borrower should not be so heavy. This is not

because the market does not favour the saver, but because the market recognises the strong inflow of liquidity from our bouyant exports, thereby enabling bankers to help nurture and support our breadwinners during times of difficulties. This help must be forthcoming. Banks must pass on these benefits to their borrowers.

14. The time has now come for the banks to be proactive, to be forward looking in their approach. One key lesson from the recession is that bankers need to be more businessmen-like, and the businessmen need to behave more like bankers. By this, I mean that banks have got to know the business of their customers better, and should now evolve procedures and mechanisms to help them get out of their difficulties. To a large extent, Malaysian banks may have to adopt the more innovative part of the German model of banking, where the bankers use their professional expertise during the reconstruction period to finance and rebuild German industry. We do not expect banks to become property developers and manufacturers in competition with private entrepreneurs, but I am sure that they would welcome the banks financial and managerial expertise in rehabilitating abandoned housing projects, factories and estates.

15. It is clear from the lessons of our recent past that traditional methods of lending have not prevented the escalation of non-performing loans. Tough times need bold action. The bankers and insurers will have to be more bold and innovative to support the pioneering efforts of our entrepreneurs in new markets with new products. Whilst the essence of banking should continue to be prudence, financial institutions should adequately address the realities - the realities of business. Prudence may be the staying power of banking but prudence should not be exercised to the exclusion of everything else. All businesses must involve risk and bankers must accept that the lenders must share a little of that risk. In this context, I commend, for example, the recent banking payments agreement signed between the Central Banks of Malaysia and Iran, which allows Malaysian businessmen to worry more about selling than about financing and collection problems. Let me take another example. Despite our good record of successes in the estate field, we have yet to develop crop insurance policies to help facilitate increased agricultural food production and encourage intensive cultivation of new crops. Venturing into agriculture involves highly unpredictable risks, especially from natural calamities and disease. Enterprises can effectively absorb the production and commercial risks. But they need protection from risks which they are quite helpless to prevent. Financial services must be fostered to meet new demands through new products.

Ladies and Gentlemen,

16. The Malaysian industry should be restructured by emphasising supply to both the domestic and external markets. With the increasing spectre of protectionism, our strategy should be the redirection of our resources to search for new markets and to develop new products. The assistance and support of the financial community in this endeavour is, as always, critical. The private sector should not hesitate to operate on low margins with the purpose of gaining a

greater market share. It is not expected that the financiers should extend 'kamikaze' loans. With resources of over \$200 billion ringgit available in the financial system, a figure that is nearly three times the size of the country's gross national product, there is tremendous scope for bankers and financiers to channel these resources into worthwhile productive investment.

Ladies and Gentlemen,

17. Like the business community, you have undoubtedly undergone trying times and like the businessmen you finance, those times had been cushioned, largely by the Government. The time will come when that cushion will be withdrawn. Like the businessmen, you are now undergoing a period of consolidation and recuperation. Like some of your clients who are resorting to the \$500 million ringgit Enterprise Rehabilitation Fund, some of you are undergoing a period of rehabilitation while there may well be others in need of restructuring. As we approach the end of the old era, banks and businessmen alike should stifle the instinctive and overwhelming impulse to request for Government help the moment they get into trouble. Just as recuperation is dependent a lot on the patient's will to get better, the success of rehabilitation is heavily dependent on those who really want to help themselves.

18. As in the past, I risk overstaying your hospitality tonight by lecturing you on your own business. But then I am a politician and a politician gets lectured to or advised on his work all the time. I am sure that bankers too have a lot of advice for me, only some I do not get to hear. So I hope you do not mind my lecturing you at least once a year. In the spirit of Malaysia Incorporated we have to work closely together to make our homeland not only livable but also prosperous. And there is no doubt that bankers and politicians have a lot to do with whether we are prosperous or not. There is no harm then in our advising each other openly. I wish you happy lending.