

THE ANNUAL DINNER OF FINANCIAL INSTITUTIONS

SHANGRI-LA HOTEL, KUALA LUMPUR (K.L), 7 SEPTEMBER 1990

Encik Ahmad Mohd. Don,

Chairman of the Association of Banks of Malaysia;

The Honourable Dato' Daim Zainuddin,

Minister of Finance;

Tan Sri Jaffar Hussein,

Governor of Bank Negara;

Excellencies;

Ladies and Gentlemen.

I would like to thank members of the organising committee of this Annual Dinner of Financial Institutions of Malaysia for inviting my wife and I.

2. This is the ninth time I am attending this august gathering of the bankers and insurers of the nation. I must say that I feel much flattered and a great deal gratified that I have been asked again to talk to a very specialised group of people in society, the money people.

3. As you know quite well I have no training in economics, much less in finance. Any training that I had was in attending to the frailties of the human body, the physical frailties and perhaps the mental frailties. The latter might come in handy in the treatment of all groups of people but I do not think you want to hear me discuss such a subject here, even if it might be relevant.

4. Not being an economist or a financial expert, I always feel inadequate when dealing with this subject. I am sure you will find me quite naive. But being a politician, the only profession that needs no diplomas or degrees, the idea of speechifying is always irresistible. Even if one may sound absurd, one feels that an opportunity to speak must not be allowed to pass.

5. Since I am without formal training in economics and finance I have to fall back on the oldest logical approach to understanding a subject or problem i.e. by reductio ad absurdum. It has always proven, at least to me, a formidable weapon of logic and almost never fails.

6. It is a means of reducing things to basics in order to understand and to extrapolate from there. There is a saying in Malay "Jika sesat jalan, balik ke pangkal" -- if you are lost, return to the beginning. My economics is consequently very basic and I hope you will excuse me if sometimes I state the obvious as if it is some new-found and original discovery.

Ladies and Gentlemen,

7. By any measure Malaysia has done very well. The Government would like to claim that we are the sole cause of the remarkable economic recovery and performance. But we would like to admit though, that Government policies and directions alone would not achieve results. It would be like clapping with one hand.

8. I am not saying this out of modesty. It is to avoid and to discourage "the Government should do something" kind of mentality. The Government can do something but the various sectors of the economy must do something also, or at least, respond positively to Government policies and initiatives.

9. When we experienced the severe recession of 1985-86 the public did not panic. Indeed, in the 1986 elections held at the height of the recession, the Barisan Nasional Government was returned with much more than two-thirds majority. As a result the Government dared to formulate policies directed at turning around the economy.

10. If the Government had been returned with a marginal majority it would not have dared to do anything. It would be too busy trying to stay in power as the defections of a few could bring it down. The economy of the country would have been left to fend for itself. But the people helped themselves and the Government by giving it a resounding victory.

11. The first thing the Government had to tackle after being reelected was the ongoing recession, the most severe experienced since independence.

12. The old approach of increasing public sector spending in order to sustain economic growth had not worked. The only thing that happened was growing Government indebtedness. And so a policy of reducing Government spending was adopted. Intake of Government servants was brought almost to a standstill while development projects were postponed. Only projects which could help revive the economy were given any allocation of funds.

13. At the same time structural adjustments were made. For long there had been talks of letting the private sector make the major contribution to growth. But little was done to induce the private sector. Now new incentives for the manufacturing sector were offered and bureaucratic red-tape reduced. The highest policy-makers and implementors aggressively courted investors. Restrictions and red-tape were reduced considerably.

14. By 1987 the results began to show. Growth at 5.4% was registered despite the world economy not having fully recovered. Growth accelerated to almost 9% in 1988 and 1989. It is worth noting that growth was not entirely due to external factors. Domestic sources of growth began to play a more dominant role. Now, one can say with some confidence that all the elements are in place for sustained growth which even the Gulf crisis is not likely to dampen.

15. The Banking sector generally reacted with sensitivity to the recession. As can be expected, a great number of people went bankrupt. Many companies were in

grave trouble and some were bankrupted.

16. You may remember the Government urging the banks not to foreclose and bankrupt their clients. After all when banks lent money they are in a way investing. They must accept the risks and the losses that can occur in any business transaction. But a few banks not only imposed penalties but exacted their pound of flesh.

17. The Government is not asking the banking system to save spendthrifts who misused their loans. But in cases where failures were due to the recession, entrepreneurs and businessmen should not be penalised forever by being made bankrupts. Bankrupts are not only unproductive but are also a burden to society.

18. I think there are still debtors who can be rehabilitated by the banks. I believe in banking prudence but being self-serving is not synonymous with prudence. Banks must be good corporate citizens too. After all banks are more resilient than other businesses. In the first half of this year alone, banks made nearly 900 million ringgit in profits. Banks are much better placed to take advantage of an economic recovery.

Ladies and Gentlemen,

19. We are witnessing interesting changes in the Malaysian corporate scene. In the past practically all local companies were family-owned. They seldom survive after the demise of the founders.

20. Public limited companies on the other hand are not meant to vanish with their founders demise. They are more permanent and survive the loss of their founders.

21. Recently Malaysian family companies have started to seek public listing. Apparently everyone has become aware that through listing public funds can be tapped and rapid growth achieved. Unfortunately the founders of these companies are loath to part with the personal control they have over their companies. They consequently seek majority control.

22. Perhaps this is a good thing, for the drive and the astuteness of the founder is after all what made one's enterprise succeed and another fail. But the fear is that it will follow the fate of the family companies with the demise of the founder and family squabbling undermining the running of the companies.

23. The need now is to develop skillful professional managers, responsible directors and knowledgeable shareholders. The Government has taken steps to ensure that banks are not controlled by any one group. By limiting single share holdings in banks to 20% it is hoped that a more reliable and durable corporation is created. In such a set-up it is the best interest of the bank that will be upheld, not the best interest of the majority shareholder.

24. While the Government is not proposing to force non-financial companies to

break up majority share holdings, it would be wise for the culture of the Malaysian public limited companies to change. The reliance on founders and majority shareholders should be gradually replaced by proper and truly corporate management structures based on responsible internal or external directors, professional managers and knowledgeable shareholders.

25. The banks can contribute here. Banks have been allowed to take up shares in non-banking business. They have more clout than others when they sit on company boards, and they should use this clout to ensure that majority stakes do not lead to absolute domination.

26. Unless a public limited company culture is developed, there is a very real danger of the corporation disintegrating with the demise of the founder, just as family companies do. The phenomenon of family companies gaining listing and becoming public listed companies is still new and we have as yet not seen them grow old enough for their founders to fade away. But it is important that we anticipate this happening and prepare for it. In any case, public limited companies must be just that -- public listed companies run by the shareholders through professional managers. Listing should not be looked upon as a way of getting access to cheap capital and capital gains while still remaining effectively private companies.

Ladies and gentlemen,

27. The share market has been quite active lately. The listing of a number of attractive companies has drawn added interest not confined to the usual market players. Oversubscription by large multiples has again become the norm.

28. An active stock exchange is indicative of the health and sophistication of a country's economy. Speculations in stocks and shares are normal in any share market. But, like everything else, excesses are bad for the health.

29. We are seeing once again excessive speculations which push up prices to unrealistic levels where there will be