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(PRIME MINISTER)

EVENT: DI MAJLIS MAKAN MALAM TAHUNAN BERSAMA PERSATUAN BANK-BANK
DAN INSTITUSI-INSTITUSI KEWANGAN MALAYSIA,

VENUE: HOTEL HILTON, KUALA LUMPUR

DATE: 23 AUG 1983

TIME:

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

2. Once again, I must thank you for this privilege to address the nation's leading bankers and financiers. I find this annual venue a useful forum to review our progress in the past year, and to express some layman's observations on how the finances of the country should be managed in the coming year. Some of you may recall that last year, I said that the major industrial countries have inflicted upon themselves a stubborn recession, a high rate of unemployment and a weak external payments position. Although there have been some encouraging signs of recovery, much of the signals have emanated from the United States. Most of Europe is still stewing in its own juices. Even in the United States, there still remains doubts on the sustainability of the recovery process in the face of renewed increases in interest rates and weak capital investment. Moreover, uncertainties on the outcome of the international debt crisis threatens the very foundations of the American banking system. Because of the continuing high real interest rates in the United States, which has soaked up capital and drained money from Europe, and even the developing countries to America, the recovery of the largest economy in the world is at best, fragile. And between protectionism and the unwillingness of Americans to travel abroad, the enhanced value of the dollar is not doing anyone much good. World trade declined in 1982 for the first time since 1975 and is expected to grow by only one per cent in 1983. As I said last year, we in Malaysia, which has one of the most open economies in the world, will have to continue to brace our selves for a tough economic battle. But we will be able to cope and even improve our position.

3. Indications are that the economy will perform better this year. We have hit bottom and if we don't remain static, the only direction we can move is up. On the domestic front, construction activity remains bouyant. Petroleum production is up and LNG exports are on schedule. Sentiment in the manufacturing sector has turned for the

better. I gather that our manufacturers are expecting a much better year with good prospects for export growth. Commodity prices have recovered reasonably well and indications are that the international terms of trade is likely to move modestly in our favour for the first time since 1979. This index had fallen by 20 per cent between 1979 and 1982. Exports are now expected to increase by 12 per cent this year, after a 4 per cent gain in 1982. The overall external payments position should improve. Barring unforeseen developments between now and the end of the year, growth in GDP should be in the region of 5 -6 per cent in 1983 as a whole. It was 4.8 per cent in 1982. Things are looking up. But we must remain vigilant. The key to our success continues to lie in maintaining a high rate of savings, prudent management of the Government's finances, borrowing only to invest in projects to raise productive capacity, especially for exports, and restoring external equilibrium.

Ladies and Gentlemen,

4. In the last few years, we have gone through a remarkable phase of development, in which the public sector has expanded rapidly through determined efforts to meet the objectives of the New Economic Policy and improve the well-being of all Malaysians. Given the uncertain international environment, it is now timely for us to consolidate our gains and to restructure our economy so that we will not be so dependent upon the vagaries of the international business cycle. The international economy is beyond our control. But, the destiny of our economy lies largely with us. It was in the light of this perspective that we have launched the campaign to maintain a clean, trustworthy and efficient administration, in order to instill confidence and raise economic productivity. We have also promoted the concepts of "Malaysia Incorporated" and "Privatisation" as further steps towards greater co-operation between the public and private sectors, again aimed at greater efficiency and productivity. Although much misunderstood, the concept of Malaysia Incorporated basically means that the public and private sectors should work to complement and supplement each other's efforts for the national good. Privatisation on the other hand means a transfer of some of the functions of Government, particularly the services and public utilities to the private sector. This process will of necessity take time. While I recognise that a continuing public-private sector dialogue is always useful, we cannot afford to dilly-dally. That is where you the bankers and financiers come in. I would welcome, therefore, your ideas on how the process of privatisation can be accelerated and facilitated. The time has come when bankers can no longer afford to sit on the sidelines and wait for opportunities to come knocking at their doors. I believe that, with skilful direction and sound risk taking, the banks and other financial institutions can make a helpful contribution to our process of privatisation.

5. For too many years now, the public sector has been the major initiator of projects and facilities in support of economic growth. The concept of Government as a provider and the inherent bureaucratic nature of Government invariably results in Government enterprises and facilities becoming a drain on the public purse. In the meantime capital demands for facilities has increased by leaps and bounds. Thus a new system of telephone exchange requires ten thousand million ringgits where once only \$500,000/- was needed. Clearly the idea of Government subsidised services cannot go on forever. Either we do without the improved services, in which case growth will be retarded, or we pay for them. As Government is quite incapable of separating welfare from commercial practices, the time has come for the private sector to step in and play a greater role.

6. It is assumed that the private sector will be more efficient than the Government. But we all know that it is not necessarily so, particularly in Malaysia. The Malaysian private sector is timid and expects to be mothered by the Government. They are always demanding protection of one kind or another. While it is true that in many instances they need protection, such protection cannot be given forever.

7. Too much molly-coddling is deleterious. It will not contribute to robust growth and to efficiency. Protection has resulted in Malaysian enterprises being able to survive only at home. Abroad, where Government protection is not available, they will perish. Thus Malaysian products, other than the primary commodities, are seldom competitive abroad. We seldom notice this because our comfortable earnings from the commodities give us sufficient foreign exchange to purchase all the capital and consumer goods that we love. It is only when the commodity markets collapse that the importance of exports, particularly the export of manufactured products, is realised. Of course manufactured goods too are affected by economic depressions. But they can be more easily diversified than commodities, and new products to meet new situations are much more likely.

8. In the years ahead, we need to strengthen and broaden our economic base to insulate us better from global instability. We need to revitalise agriculture, promote food production, expand the range of industrial activity, especially in industries based on our abundant natural resources, modernise our construction methods, expand the service industries, and consolidate the activities of Government in support of the national drive to industrial maturity. Central to this growth strategy must be a vigorous programme to significantly raise exports, both of goods as well as services.

9. In the game of exports, Malaysians are again timid and prone to avoid risks. For ages we have produced commodities for others to sell and make profits. We have seemingly not

awaken to the fact that while we will lose when the market is depressed, the agents, dealers, brokers and assorted intermediaries will continue to make money. It is time that we get more adventurous and sally forth into the wide world to sell our goods ourselves. We must do this not only with rubber, tin, palm oil and other commodities but also with the new products that we must manufacture. And we must do this on a scale that is meaningful in terms of foreign exchange earnings. There will be risks, there will be a lot of burnt fingers, but the fact is that unless we can make an impact, we will achieve nothing. I shudder to think of the volume of rubber or tin that we will sell today if the pioneers had been timid people who stuck to small holdings or gravel mines. There is a place in the domestic scene for the small industries, but if we want to export, we will have to be big. Let us not kid ourselves into believing that the solution to our balance of payment problem lies in the Sungei Besi backyard foundaries.

Ladies and Gentlemen,

10. As the country's bankers and financiers, I need not remind you that you are the custodians of the nation's savings, and that the responsibility for channelling resources towards projects that raise the productive capacity of the nation rests in your hands. Indeed, as the economy recovers, the financing requirement can be substantial. The system's funding capacity is not unlimited. It is imperative that as far as possible non-productive speculative activities should not be supported, nor should conspicuous consumption encouraged. Scarce funds should be directed at building up productive capacity, especially in the export industries. Equally important, small-scale enterprises, particularly those which support the export industries, should have ready access to bank credit on reasonable terms. Our financial institutions should cultivate and nurture the growth of these small enterprises. Ironically, banks and many others have a tendency to impose even stricter criteria on loans to small businesses than on the large loans. Worse, undue emphasis continues to be placed on collateral and guarantees, instead of the viability of projects. The time has come for new approaches to finance the small man, who often has no land and property; only sheer determination to better himself. Banks and other financial institutions would do well to introduce business start-up schemes to assist them, including the provision of venture capital.

11. To assist in the development of industries in particular, the Government is considering the possibility of permitting the commercial banks to invest, within prudent limits, in the equity of industrial enterprises. This proposal, if implemented, will have far reaching consequences on the role of banks in industrial development. I am conscious, of course, that the banks should assume a more definite role in acting as a catalyst to broaden the nation's industrial base. But we need to examine this

proposal carefully before taking a decision on it. As you all know, the merchant banks have been allowed to invest in the shares of new industrial enterprises since February 1982. Unfortunately, none of them have been active in this area. This is a disappointment. The intention was for them to seek out new horizons in industrial development and participate as venture capitalists, thereby bringing closer the relationship between the providers of funds and industry. If nothing else, such involvement would keep the bankers well and regularly informed of what is going on. Given the continuing uncertain economic environment, the importance of monitoring now seems greater than ever. As in medicine, early diagnosis and treatment of incipient problems can be of enormous help. I hope that when the Government allows the banks to take up equity, they will take advantage of this policy. In the meantime they should be developing the necessary expertise.

12. To conclude, Ladies and Gentlemen, there is undoubtedly a need for continuing flexibility in our own banking system and in being ready to modify existing arrangements, to support the present task of restructuring the base of our manufacturing industries and to help develop our competitiveness in the world market. The commodities have helped us to survive, and even prosper, but the future lies in the export of manufactured products, where we have the most in terms of comparative advantage, that is resource -- based goods, where resources also include human resource, the most vital resource of all.

13. Once again, I would like to thank all of you for inviting me to this dinner and for the opportunity to address this distinguished gathering.
Thank you.