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I would like to thank the organisers for inviting me to open this Second Executive Programme on "Project Appraisal and Risk Analysis Management" organised by the Harvard Club of Malaysia, the Institute of Bankers Malaysia and the Harvard Institute for International Development. I am delighted to be here this morning and to have the opportunity to meet all of you.

2. I note with interest that this course programme has brought together once again a diverse group comprising senior members from the banking community, the insurance industry, the public service, the universities and the private sector as well as participants from neighbouring ASEAN countries. The course is timely as it meets a specific need - i.e. the acute shortage of professionals well-versed in the art of appraising and evaluating projects for financing and those skilled at managing risk analysis, including the rehabilitation of non-performing projects. Given that the total flow of fixed investment by both the public and private sectors will amount to about \$284 billion in nominal terms over the Sixth Malaysia Plan, the need for such technicians to ensure that we only invest in ventures that are commercially viable and financially sound cannot be over-emphasised.

3. The Malaysian economy has been on a strong up-swing since 1987. In 1990, real economy expanded at 9.8%, one of the highest rates of growth in the world. In fact, the output for 1990 was the highest since 1976 and even outpaced the performance for that year of the four Asian Tigers, as well as most of our ASEAN neighbours. The outstanding performance in 1990 was particularly encouraging because it was realised at a time of global uncertainties, and recession in several major industrial economies. More importantly, growth in 1990 was achieved in a stable environment with low inflation.

4. Since then, another year has come and gone. Latest indicators suggest that the pace of domestic economic activity had remained strong in 1991. Despite the continuing uncertainty regarding the world economic environment, real GDP growth in Malaysia accelerated rapidly to 8.8% in the third

quarter, from 7.5% and 8.4% in the first and second quarters respectively. And, indications are that real GDP growth for 1991 as a whole should reach 8.5% or higher, and is expected to be in excess of 8% for 1992. As in previous years, much of the impetus for growth will continue to emanate from the strength of domestic demand, particularly private fixed investment spending. During the first nine months of 1991, MIDA has already approved a total of \$22.7 billion in new investment projects, almost matching the record of \$28.2 billion approved for the whole of 1990. The rapid pace of investment activity should sustain Malaysia through another year or two of reasonable economic growth, at the very least.

5. As in most things in life, there is a price to be paid for rapid growth, particularly when growth has been sustained at a high rate over an extended period of time. In our case, the main issues at present concern inflationary pressures and a weaker balance of payments position. These are essentially the problems of managing economic success.

6. On the issue of inflation, it is important that this is viewed in the proper perspective. It is true that prices have been creeping up gradually, from a low of 0.4% in 1985 to just over 3% in 1990. Latest data showed that the CPI has increased further to 4.4% during the first ten months of 1991. To a large extent, this latest round of price increase is the result of the sharp rise in consumer spending, which, coupled with record levels of private investment outlays, is clearly putting a strain on our limited resources. To ease the situation, the Government has already put in place a contractionary monetary package to discourage conspicuous consumption and promote savings. Bank Negara's actions to restrict the growth of bank liquidity and the tightening of access to consumer credit will go a long way towards moderating consumption growth in the country. At the same time, efforts to expand the nation's infrastructure facilities will be intensified during the Sixth Malaysia plan period to overcome supply bottlenecks and prevent rising costs.

7. The other problem concerns the external payments position, an issue which has generated considerable public debate lately. Here again, it is imperative that we view the deficit problem in its proper perspective. To begin with, we expect the 1991 current account deficit to reach 8-9% of GNP at most; certainly nowhere near the record deficit of 14% in 1982. More importantly, the deficit that you see today reflects largely the sharp increase in imports of capital plant and equipment associated with the inflows of direct foreign investment. After a reasonable gestation period, these investments in new productive capacity should generate higher growth in exports and help strengthen the current account position over the medium term. I should also point out that, unlike the situation in the early 1980s when the deficit was funded by heavy Government borrowing

abroad, today's deficit is being financed entirely by inflows of direct foreign investments and reinvestments.

8. In contrast, the nation's outstanding external debt has declined progressively, so much so that by the end of 1991, the debt service ratio should be reduced to about 6.5%. In any case, what matters most, in the final analysis, is the overall balance of payments position, which covers both the current account as well as the capital account. On this score, the strength of the country's balance of payments is beyond reproach. It has been in surplus in 1991, as in 1990, as evident by the recent substantial accumulation of international reserves held by Bank Negara Malaysia. Seen in this perspective, the problem of the current account deficit becomes much less daunting. And with the expected recovery in some major industrial countries in the year ahead, our exports can be expected to rise faster. All these developments should contribute positively towards a manageable current account deficit position in 1991/92, with the strong possibility of a turnaround into a surplus current position over the medium term.

9. Associated with the issue of the current account deficit is the problem of the shortfall of domestic savings over investment. This underscores the need to push really hard on the policy to increase the mobilisation of private savings in the country. At the same time, one should not be unduly worried over the existing savings-investment gap in the short run, as this gap needs to be seen also in the proper perspective. The gap arose simply because Malaysia has become such an attractive investment centre that domestic savings were just not able to keep pace to finance all the investments that had been generated in recent years. As a result, we had to supplement domestic savings with foreign savings which are readily forthcoming. This reasonable resource gap, can be tolerated in the short run, particularly as the rapid rise in imports is associated with the inflows of direct foreign investment. It is expected that foreign investors bring in a fair share of their own funds to finance their investment projects in Malaysia. When investments were small domestic loans can be expected to support foreign capital. But with large increases in investments, reliance should not be placed on the limited domestic resources. The bottom line is that, like fire, the resource gap is not dangerous when it is small and properly managed (especially when fully financed by private capital flows), but can be threatening when it is large and persistent.

10. What is of urgent concern, therefore, is the declining trend in the national savings rate. Traditionally, Malaysians have always been big savers: over the last two decades, the annual savings rate exceeded 30% of GNP, on average. Lately, however, the savings rate has declined to just under 30% in 1990, from as high as 33.6% of GNP in 1987. For 1991, the rate is expected to have declined further to about 28% of GNP. To a large extent, the decline in

savings reflected the boom in consumer spending, triggered by rapid real growth and improved incomes. Given continuing high and rising incomes, private consumer spending has been expanding at nearly 15% in real terms over the three years ending in 1990. Although there appears to be some moderation in consumer spending in 1991, the current rate is still well beyond the historical norm of 6-7% annually. Changes in Government pension schemes will also affect savings as Government employees will be placed on pensionable establishment 7 years earlier than before. Contribution to the EPF will be reduced accordingly.

11. Clearly, higher consumption cannot continue indefinitely. While I have nothing against people enjoying a good thing while it lasts, I think it is vital for our economic sanity that we save. Above all we must not spend beyond our means.

12. It is said that credit cards spending involves only a minute amount of the total loans extended. However the habit is catching and once a society gets used to easy credits the tendency to spend beyond one's means will become a habit. What is small to-day will become sizeable later and once it is sizeable controlling the habit is not only disruptive but can actually affect the livelihood of a considerable section of the community. Thus the recent squeeze on credit by Bank Negara Malaysia has affected many traders adversely.

13. This Second Executive Programme of the Harvard Club is perhaps a useful occasion to reflect on the importance and role of human resource development in nation-building, and in particular, in achieving developed country status by the year 2020. Much has been said and written on this subject. Nevertheless, I feel it would be worthwhile to stress once again on certain important aspects of the development of the nation's human resources. In our attempt to move vigorously ahead, nothing is more important than the purposeful development of our human resources. From the experience in the last four decades of the economic successes of countries poor in terms of natural resources, it is obvious that the most important resource of any nation is the talents, skills, creativity and dedication of its people. In other words our people must be our most important resource. If the nation is to succeed in its quest for economic and social development, its human resources will need to be highly developed. Human resource development not only helps to increase the productivity factor, but will bring about a better distribution of income and assist in achieving the restructuring objective of our National Development Policy.

14. In our pursuit to attain the goals of Vision 2020, both the Government and the private sector will need to successfully implement an effective human resource development programme. The current rapid industrialisation, spurred on by an influx of foreign direct investment, specifically will

require an increasingly more sophisticated manpower skilled in appraising and evaluating these investments to ensure that only the financially sound and commercially viable projects are screened through. Once on going, these projects will also need sufficiently skilled personnel to manage them and the associated risks. As such, there is a need for the various sectors to carefully identify and meticulously plan for their current and prospective manpower requirements in order to meet their needs in the future.

15. Manpower plans should address skills shortages, staffing needs, career development, attitude change and productivity. Emphasis should be on building the level of professionalism and enhancing the quality of the labour force. The ingenuity, innovativeness and capacity to absorb and adopt technology, and the motivation to compete would need to be nurtured and developed in our labour force. In this regard, the private sector will need to also play its part to ensure a constant supply of technical and managerial skills, by effectively mobilising and training the available pool of talents.

16. For its part, the Government, through its basic education and training programmes, will continue to upgrade facilities to provide an educated and trainable workforce with skills in science and technology, who are usable across all sectors and industries. In addition, the private sector could seek the use of Government facilities to carry out their own training programmes, during periods when such facilities are available.

17. While we are on this subject, we cannot afford to neglect the importance of entrepreneurship and entrepreneurial development which goes beyond mere education and training. I should call upon all bankers to be more supportive of innovators in the business field when appraising their projects, particularly from those entrepreneurs with the vision, dynamism and fighting spirit to follow through with their ambitions and dreams. Although bankers, as the custodians of public funds, are expected to be conservative, there are times when there is a need for bankers to be more adventurous and to be more forthcoming with venture capital or seed money for selected projects that badly need and deserve financial assistance. In short, I would like to call on the banks to practise innovative banking to support local entrepreneurship. I am sure this can be done without undue sacrifice of traditional banking prudence. At the same time, of course, bankers need to always maintain the highest sense of honesty and integrity in all their endeavours. The taking of calculated risks and prudence are not incompatible. What I am asking is for the banker to get out of his comfortable "safe cocoon" and venture into the exciting world of "creation" - to put his special skills in project evaluation and the management of risks to bear on the financing of creative enterprises, where ideas and not physical assets form the collateral; where project feasibility

is sufficient ground for him to commit his bank, and where the longer term interest of the bank over-rides short-term gains.

18. In this connection, it is also important for our Malaysian workforce in general, to be inculcated with positive attitudes, the right ethics, the willingness to work hard, and the motivation to serve. The will to work, to serve, to make personal sacrifice in the pursuit of national goals, which in fact coincides with personal goals are the sine qua non of success. As such, apart from imparting knowledge and skills, training institutions should also instil in the workforce the will, the discipline and the inspiration to serve. I should stress here the importance of conducting "spirit-building" courses to develop the resilience and perseverance needed for hard work and to give workers the confidence to face new challenges at their workplace. The workers of the dynamic eastern nations use all their working hours for work. Preparations and cleaning up are not done during working time. Additionally all workers are prepared for daily overtime in order to make up for labour shortage. Workers who are able to suggest changes to improve productivity should be fully encouraged to do so. In many instances they know better their working conditions and how they can be improved for greater efficiency.

19. Quality is the by-word in all products and services now. We have moved from minimal defects to no defect and then on to total quality. We have also moved from product quality to total quality management i.e. maximum quality throughout the whole activity of a company. The next step must be maximal national quality in which the Government sector and the private sector must optimise quality.

20. The Government has launched the Q campaign which emphasise quality in every aspect of national life.

21. Improving the quality of manpower must, in turn, help towards raising productivity. Looking at the world economy and the growing competition to attract scarce capital and foreign investments, Malaysia has no choice but to devote greater efforts at ensuring the maintenance of a productive and high quality labour force if we are to remain competitive. The National Development Plan requires increases in the efficiency of all sectors, and with it, rising productivity, i.e. higher costs of labour and capital are matched by the production of goods and services which compensate for the cost. Increased production with increased cost cannot be equated with increase in productivity. Not only will competitiveness be lost but inflation will follow. An example of technologies contribution to lowering cost and increasing productivity is the hand-held calculator which can do the work of the room-sized first computer with greater efficiency. In the process labour and capital costs per unit are vastly reduced while markets are increased.

22. As a result of the rapid economic growth in recent years (1988 - 1991), the strong demand for manpower had resulted in the escalation of wages. This is only natural. But we need to ask ourselves what we mean by wage increase. Is it merely an increase in the number of ringgits we get or an increase in our purchasing power?

23. It is obvious that more money which buys the same amount of goods as less money is quite meaningless. Worse still is more money which buy a lesser amount of goods.

24. Yet it is well known that the more money there is available to wage and income increases the higher will the price of goods be. And why not? The seller of goods too wants a higher income and so do his employees. His higher profit and his increased cost of labour will have to come from higher prices for his goods, which of course reduces the purchasing power of his customers. A 10 % increase in pay will not cover a 10 % increase in cost and profits of all the goods and services he used to buy. Only a lesser increase in price would do this but why should others have a lesser increase than the wage-earner?

25. I know I am tediously repeating what all of you know. We all know why some countries have inflation rates of thousands of percent per year. We all know why some units of currency like the lira or the pesos of Latin America are now worth fractions of their original value. We all know why national budgets run into trillions of billions of currency units when the noughts really mean nothing in terms of wealth.

26. We can get pay packets of millions of ringgit too but it would be quite meaningless, for we will be no richer than we were when we received \$100 per month. It will be like saying that our pay is 10,000 cents.

27. Our thinking on income is based on conventional ideas of reward for service. Despite much talk of wage price spirals we still demand for higher wages as if we will be richer simply because the number of noughts are more.

28. In some countries which seem incapable of getting out of recession and becoming competitive, the pay for top executives is ridiculously high. Executives get double or treble annual increments, a percentage of the profits and stock options. Shareholders don't seem to mind as long as they too get good dividends.

29. Consequently executives strive to show profits every quarter while the long-term fate of the business is ignored. Research and Development, re-investment of profits to update facilities, marketing and promotions and other steps to ensure the continued health and competitiveness of the company are all ignored in order to show the highest quarterly profits possible. Executives and workers literally rob the

company blind. Yet these companies seem surprised when they cannot seem to do well.

30. In Japan the pay of executives after tax is approximately 7 times the average wage of the rank and file. Perks are given in the form of lavish entertainment allowances to promote the companies' interest. Visits abroad on company business with more wining and dining are encouraged. There are no stock options. Bonuses paid, if any, are at the same rate as for other employees.

31. Shareholders get little by way of dividends. They can make excessive capital gains if they sell. They can play the stock market. But they can rest assured that their companies are healthy, are expanding and are accumulating massive assets.

32. Clearly we need to rethink the basis of reward for service. Our present practice will lead to inflation and regression of the national economy and in time our own personal wealth. It is fine to follow a system that seems to promise unlimited reward but in the long term the whole system will turn sour.

33. Company and bank executives and employees should ponder on the different philosophies of East and West. We are still a part of the dynamic economies of East Asia. How long will Malaysia remain a member of this elite group depends not only on how the Government manages the economy but on the understanding of the working of the economy by workers, managers, directors and the shareholders. A free enterprise system does not guarantee economic success. It is how we apply the system which will.

34. In conclusion, let us remind ourselves that we should always strive to attain the highest standards when it comes to human resource development -- be it the development of skills of our people, or their quest to upgrade knowledge and understanding of the economic fundamentals, or the inculcation of good work ethics and discipline, or the maintenance of excellence, or the fostering of the entrepreneurial spirit. So long as we keep improving in every field, we shall remain competitive.

35. To sum up, I should say once again, regardless of whether you are in the Government or in the private sector, that you should always:-

- Train your own manpower;
- Improve their understanding of economic fundamentals;
- Equip them well to cope with changing tasks and changing times;
- Look after their interests;
- Upgrade their skills;
- Manage them well;
- And, reward them for their contribution.

36. On this note, it is with much pleasure that I officially declare open "The Second Executive Programme on Project Appraisal and Risk Analysis Management" organised by the Harvard Club of Malaysia, the Institute of Bankers Malaysia, and Harvard University.