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Primed for success

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IN THE PIONEERING days of old, a fortune seeker would receive this advise: 'go West young man'. And that is how the vast lands of the United States were opened up and the country's economy made the biggest and the richest in the world.

Today, our own leaders are urging corporate chiefs to 'go East' to tap the vast potential that Labuan, Malaysia's island in the sun some 10km off Sabah, proffers as a leading international offshore financial centre (IOFC) and holiday destination.

Since 1989, when Labuan was declared an IOFC with a view to making the country's financial system more competitive in the global capital market, there has been no let-up in the fine-tuning process. The authorities have developed idea upon idea to turn the island into a bustling international financial hub.

Since operations began on Oct 1, 1990, about 1,000 offshore and support companies have set up operations in Labuan. Among them are 52 offshore banks, 11 insurance and insurance-related firms and 17 trust companies. The banks include 45 established by top international banks from countries such as Britain, Germany, Belgium, Japan and Hong Kong.

Deposits mobilised amount to over US\$ 4 billion (RM10 billion) while total loans and advances outstanding is almost US\$ 12 billion (RM30 billion). Most of the support companies provide managerial, secretarial, administrative, legal, audit, taxation, accounting and corporate advisory services.

Labuan's achievements in six years compare favourably with most other IOFCs. For example, Jersey and the Isle of Man, fully developed offshore centres which have been operating for over 30 years, have only about 80 offshore banks.

But the government is clearly aware that a lot more needs to be done to ensure that the Labuan IOFC reaches its target of attracting 2,500 offshore companies by the year 2000. Last year alone saw the introduction and discussion of several moves, proposals and strategies designed to strengthen the IOFC. These included the appointment of Bank Negara governor Datuk Ahmad Mohamed Don and adviser Dr Awang Adek Hussin as chairman and director-general, respectively, of the newly-established Labuan Offshore Financial Services Authority (Lofsa) in February. Lofsa oversees the regulatory aspect of the IOFC, and is responsible for licensing, supervising and regulating offshore financial services and activities.

Indeed, how Labuan is run is a major factor in determining its success. That explains why it comes directly under the Prime Minister's Department. In addition, Economic Adviser to the Government Tun Daim Zainuddin is chairman of the Labuan Development Authority.

Plans for an international stock exchange and an international monetary exchange in Labuan first came up in 1995. These have not got off the ground, but neither have they become forgotten concepts. In June last year, Daim said they were among several proposals being considered to consolidate Labuan's position as an IOFC.

However, the biggest news for Labuan came in the second half of last year - in August, when Prime Minister Datuk Seri Dr Mahathir Mohamad visited the island, and in October, when Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim tabled the 1997 Budget at the Dewan

Rakyat.

When opening the Labuan Financial Park Complex on Aug 29, the prime minister announced a package of incentives to boost Labuan's position, not only as a premier IOFC but also as an attractive destination for business and leisure.

These included considering new legislation to cover financial dealings relating to offshore limited partnerships, the offshore securities industry and offshore Islamic financial services.

Amendments to some existing acts were proposed to facilitate growth of offshore financial activities. Mahathir also mentioned the proposed international stock exchange which would list offshore companies, funds set up in Labuan as well as international companies. Another measure was to reduce the time visitors must spend on Labuan in order to be eligible for duty-free shopping.

Mahathir also said the government was working on increasing the flights to and from Labuan, in addition to ensuring that the costs of travelling to Labuan and doing business there were kept low. Tariff rates for telecommunications facilities would also be kept as competitive as possible.

Anwar's budget speech detailed some of these incentives. Among the other perks he unveiled were tax concessions aimed at making it more attractive for foreign managers to work in Labuan. This addressed Labuan's shortage of skilled professionals such as bankers, tax consultants and financial planners.

It is apparent that the thrust in developing Labuan as an IOFC is to position the island in a way that capitalises on its location and stability, and on Malaysia's edge in certain fields. It is a huge advantage that Labuan is the only offshore financial supermarket in the vicinity of several rapidly expanding Asian economies. For example, it is perfectly placed to serve the Brunei, Indonesia, Malaysia, Philippines-East Asean Growth Area. Although the more established Singapore and Hong Kong are competitors in the Asia Pacific region, it is anticipated that Hong Kong and Taiwanese investors will turn to Labuan when China takes over Hong Kong.

To ensure that the Labuan IOFC remains stable with only legitimate and quality players, the government imposes strict entry requirements and screening procedures. At the same time, secrecy and confidentiality of the transactions of the legitimate operators - as in any other IOFC - are maintained.

Labuan is one up on other IOFCs when it comes to the development of offshore Islamic financial products, thanks to Malaysia's headstart in Islamic banking. And there is quite a bit to reap with this expertise. It was reported last October that the global Muslim fund pool was estimated at US\$ 120 billion (RM300 billion).

However, it is not enough to just have the right elements. Marketing the product is still a must. Lofsa chairman Ahmad Don pointed out in August last year that effective promotion of Labuan to quality players and potential investors was important. A road-show last November to promote the IOFC in Europe, led by Awang, was a move in that direction.

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