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COMPARISON WITH MALAYSIA'S FDI MISLEADING

By: WAN A HULAIMI

LONDON, March 17 (Bernama) -- Figures comparing foreign direct investments (FDI) in Malaysia with that of its neighbours have been misleading because to date Malaysian statistics report only FDI inflows in the manufacturing sector while its neighbours take everything into consideration, including capital inflow into the banking sector and takeovers, Minister of International Trade and Industry Datuk Seri Rafidah Aziz told delegates to a seminar organised by the Malaysian British Business Council here.

"The Economic Planning Unit (EPU) is now collating all these figures so that from this year Malaysia will have total figures so that, comparatively, we will not be short-changed," she said at the seminar attended by some 100 industrialists and business leaders here.

With 24 projects with British capital investment approved last year, Britain is the sixth largest foreign direct investor in Malaysia after the US, Japan, Taiwan, Singapore and the Netherlands, Rafidah said.

Merchandise trade with Britain had also increased by 17.6 percent to RM 15.4 billion in 1998, with exports to Britain increasing by 41.5 percent, while import from Britain declined by 12.6 because of the decline in Malaysian ringgit, participants at the seminar were told.

"Contrary to what some quarters have assumed, there have indeed been positive indications that the economy is on the way to recovery," she said.

In 1998, Malaysia's merchandise trade grew by 17 percent to RM515.1 billion over 1997, while total export earnings rose 29.8 percent over that of 1997 to reach RM 286.8 billion, resulting in a trade surplus of RM 58.4 billion for the year, she said.

Total imports meanwhile increased by 3.3 percent from 1997, to RM220.9 billion, reflecting the fact that, while import growth has slowed considerably due to diminished capacity to import a wide range of consumer goods and luxuries, imports of necessities and capital and intermediate goods were still sustained, particularly imports that went into productive processes such as in manufacturing.

Touching further on speculation about Malaysia, Rafidah said: "Much have been said about the economic crisis in the East Asian region and Malaysia, and various analyses have been made and conclusions drawn by different quarters."

Financial analysts would look at the stock market indices as a major indicator of investors' confidence without qualification and regardless of whether these are merely highly speculative short term capital, she said.

This way of looking at the economic performance of a country ignored the other sectors that made real contributions to the economic growth, such as the manufacturing sector and related service sectors, delegates were told.

"Developments in these sectors will determine the long term economic development of the country by virtue of their contribution to the GDP, export, employment, and to the growth of small and medium sized industries (SMIs) that are so vital to any country's overall industrial development," Rafidah said.

"Growth in these sectors would also add to the technological and skills development of a country in addition to transforming the economic profile to make for long term sustained economic growth."

Dismissing further the perceived importance of the stock market as an

indicator of the economic health of a country, the minister reminded seminar participants that figures for 1993 showed that 85 percent of Malaysia's manufacturing output and sales were accounted for by non-listed companies that were not affected by speculation in the stock market or by the so-called 'investor confidence' in the stock market.

This dominance of the non-listed companies, as true now as it was in 1993 even if we made allowance for change, is the reason why the fundamentals are still there, she said.

She underlined her confidence by stating that manufacturing would provide the momentum for growth, through these companies which had benefitted from the various measures put into place by the government since the crisis in the region began.

Fixing the exchange rate provided certainty and predictability in business decision-making, and the cheaper Malaysian ringgit should act as a booster for their export efforts over the long term, she said.

After listing out the various measures taken by the government to effect greater flexibilities and liberalisation, Rafidah told them that multinationals are now also encouraged to have their operational and regional headquarters, as well as international procurement centres (IPCs) in Malaysia with tax concessions given.

Forty two operational headquarters including six from the UK have been approved so far, while approved IPCs numbered 24.

During the question and answer session which followed, Rafidah explained that the foreign exchange control was not as harsh as it was made out to be as "it's only for monitoring".

Turning to Dato Nor Mohamed Yackop, Bank Negara Malaysia adviser who was present in the audience, Rafidah asked how long it would take for a transfer of funds to be effected.

"If they do not approve by 48 hours we should know," Dato Nor Mohamed replied.

To another question, Rafidah said that Malaysia's privatisation policy would continue in the mid term review of the 6th Malaysia Plan, subject to certain equity restrictions in some areas.

Earlier, in his address to the seminar, Dato Nor Mohamed Yackop said that under Malaysia's financial controls, foreign direct investments were not touched, and dividends - but not the capital amount - from foreign portfolio investments were free, he said.

He explained that Malaysia had to act in the face of threats from speculators.

"Doing nothing was not an option. Doing nothing was leaving Malaysia's destiny in the hands of others," he said.

Replying to a question, he said that the fixed exchange rate was just a safety net and was not meant to stay forever.

Change would be determined by structural changes and sustainability, he added.

The guidelines to this would be:

* If the exchange rate around the region rose say, about 20 percent, and it is not seen to be a flash in the pan;

* when the fixed rate, through passage of time, makes the ringgit undervalued.

The Singapore dollar had depreciated since the rate was fixed, but so far Malaysia has not done anything, he observed, adding that in terms of export competitiveness it was not a bad idea to be undervalued for a while.

Looking ahead, he said: "The bad patch in our economy is about to end. I think we can see the light at the end of the tunnel. And that light is not an oncoming train."

The two day meeting and open forum, was organised jointly by Asli

(Asian Strategy and Leadership Institute), Asia House, a non-profit making cultural organisation, and the Malaysian British Business Council (MBBC).

Co-chairmen of the meetings were Sir Patrick Gillam, Chairman of the Standard Chartered Bank, and Mirzan Mahathir, President of Asli.

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