

DEPARTMENT OF TRADE AND INDUSTRY
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THE ROLE OF AMERICAN BUSINESS IN MALAYSIA

Speech by Dato' Seri Dr. Mahathir bin Mohamad, Deputy Prime Minister and Minister of Trade and Industry on 'The Role Of American Business In Malaysia' held at the Hilton Hotel, Kuala Lumpur on Tuesday 21st March, 1978. at 12.00 noon.

I would like, first of all, to congratulate you on the formation of this council, and to thank you for giving me the honour of addressing you today. The Government welcomes an organisation such as yours, as it not only represents a confirmation and consolidation of the growing American commercial presence in Malaysia, but will also represent, I hope, an avenue for dialogue and closer contacts between American businessmen and the Government of Malaysia.

Prior to my appointment to the Portfolio of Trade and Industry, I was already considerably involved in promoting investment as I was and still am the Chairman of the Cabinet Committee on Investment. Thus, I had already had contact with various manufacturers and businessmen even then - but one of the most outstanding of those experience was the trip I made to the US early in 1977, when I met with and addressed various groups of American businessmen. I was most impressed with the vigour and directness which seemed to be the hallmark of American business. That impression is still with me, and while I believe that Malaysia has the ability to be receptive to a wide diversity of business from almost anywhere in the world, I look with special interest towards the U.S.A., because of my belief that there are many opportunities for closer ties between us in the sphere of trade and investment.

Close ties already exist as we are both well aware. The American commercial presence in Malaysia is considerable - I note that there are over 160 American firms, subsidiaries and affiliates in Malaysia. In terms of investment, over 90 projects have been approved to date, either wholly owned by Americans or as joint-ventures with Malaysian. Of foreign investors in Malaysia, the U.S. in 1977 ranked third, with a total investment of over M\$190 million in companies enjoying Pioneer Status. However, there are also a considerable number of American projects awarded other forms of tax incentives, or operating without incentives, and the total figure of all these investments as at the end of 1976 stood at over M\$38 million. American investments rank among some of the country's largest projects, or projects with a high degree of technology. They cover a wide range of industries, the majority however being electrical, electronic and chemical industries. American investments have also taken a leading role in the establishment of export-oriented industries in Malaysia.

The U.S. and Malaysia have always enjoyed excellent trade relations. Of greater significance perhaps is the steady increase in the volume of trade between the two countries. Malaysia's total trade with the U.S. increased from \$1,078 million in 1972 to \$3,330 million in 1976. Translated into percentage terms these figures represent an

the average about 14% of Malaysia's total external trade. Malaysia's main exports to U.S. at the moment are still the traditional items like rubber, tin, timber and palm oil. Together these items constitute as much as 72% of Malaysia's total exports to the U.S. Exports of manufactured goods, however, have been insignificant. Nevertheless, with a rapidly expanding manufacturing sector, partly processed and manufactured products are assuming an increasingly greater role in the exports to the U.S.A. Here again, it is significant to note that according to statistics released by the U.S. Government about a year ago, Malaysia was designated as the largest exporter of certain types of semi-conductors to the U.S.A. Considering the fact that as late as in 1972, Malaysia did not have even one export-oriented electronics project, this is indeed an achievement that Malaysia is proud of.

Perhaps the most significant endorsement of the potential in growth and importance of the American commercial presence in Malaysia, was the signing 20 years ago of an Investment Guarantee Agreement between Malaysia and the U.S.A. in 1959. The USA was, in fact, the first country with which Malaysia concluded an Investment Guarantee Agreement - indicating that virtually 2 decades ago, our two nations recognised the common interest we shared in the field of industrial cooperation.

I hope that, that belief and that spirit born 20 years ago is still prevalent, for we look towards the USA even more today, not for aid, but for fuller economic cooperation; for mutually beneficial investment capital, for technology access to world markets to help us achieve development targets.

As you are all probably aware, our development targets are embodied in 5 year plans, (the current one being the Third Malaysia Plan) and in the New Economic Policy. Despite the impressive development record to our credit since the implementation of the First Malaysia Plan (1960 - 1970), and the Second Malaysia Plan (1971 - 1975), which have made Malaysia a showpiece of economic development, we still have a long way to go to achieve our targets. In taking a realistic approach and coming to grips with these difficulties the Government has identified the following problem areas :-

- (i) There is still a high rate of unemployment (approximately 7.0%) and under-employment, indicating that employment creation is simply not fast enough to cope with expansion of our youthful labour force.
- (ii) Although per capita income is high, poverty exists among large sections of the people, especially in less developed parts of Malaysia.
- (iii) There is economic imbalance between people of different racial origins and between regions in the country.
- (iv) There exists a distinct identification of race with economic functions e.g. the Bumiputras with traditional agriculture and the non-Bumiputras with commerce and industry. An illustration of this is the fact that in a sample survey conducted in 1976, Bumiputra capital formed only 13.9% of the total called-up capital of industrial projects implemented. In Malaysia, with a multiracial society these economic imbalances have added significance in the context of building a united nation from the various races. Unemployment and poverty which affect all races and historic identification of the various races with separate economic functions,

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are incompatible with national unity. Americans should appreciate this problem better than others as you have a similar problem and are tackling it the same way we do i.e. through affirmative action and race/sex priorities.

- (v) Our continued dependence on exports of primary commodities and the need not only to diversify our agricultural base, but also to launch into a massive programme of industrial development.

It was with these considerations in mind that the Government introduced the New Economic Policy which represents a new strategy whereby national priorities have been re-arranged. In essence, the strategy was incorporated in the objectives of the Second Malaysia Plan, which I referred to earlier, and has been further reinforced in the current Third Malaysia Plan. A noteworthy feature of the N.E.P. is that its application will be within the context of an expanding economy which offers increasing opportunities for all, as well as additional resources for development. In this context the Plan seeks:-

- (i) To eradicate poverty through the creation of more employment opportunities and increasing the income of the lowest earning group.
- (ii) To reduce economic imbalance between races and regions.

I wish to re-emphasize that these objectives are not to be achieved by 'taking away from Peter to pay Paul'. However, as with the Bakke case in California, a certain degree of resentment cannot be avoided. What must be remembered is that without the N.E.P. the resentment would still be there, except it would be from the other party.

The Third Malaysia Plan has targeted for an overall annual economic growth of 8.5%. The basis of this expansion is exports which account for about half of our GNP. Exports in the manufacturing sector are expected to average an annual growth of 19.9% i.e. from M\$2,000 million in 1971 to M\$5,000 million by 1980. At the same time 743,000 new jobs are expected to be created. A large part of the new jobs will come from the manufacturing sector (to be exact 170,000 jobs). Per capita real income is expected to increase from \$1,775 in 1975 to M\$2,800 by 1980 (at current prices).

The manufacturing sector has clearly been designated a strategic role under the Third Malaysia Plan, Malaysia's unemployment problem can be appreciated if one realises that if by the end of 1980 we succeed in creating 743,000 new jobs our rate of unemployment in 1980 will continue to be at a high rate of 6.1%. The important role of the manufacturing sector can also be appreciated when we note that this sector is expected to contribute 31.5% of the total increase in Gross Domestic Product during the Third Malaysia Plan and that it will become by 1990 the largest sector in the economy.

The largest and most ambitious programme for investment both in the public and private sectors are set out under the Third Malaysia Plan. A total of M\$44.2 billion needs to be mobilised for investment will amount to M\$17.4 billion while private investment is targeted at M\$26.8 billion. Of this \$10 billion is expected to be generated by the manufacturing sector, with foreign investment accounting for \$3 - \$5 billion of the \$10 billion.

the principal source of capital formation the private sector is now being called upon to provide the major source of investments under the Third Malaysia Plan. This has to be so as our economic system is basically one of free private enterprise and therefore a very significant force in the economic development of the country will continue to be the private sector.

This brings me to the focal point of this address - the role of American business in Malaysia. While we accept that you are here to do business and make a profit, while we recognise that businessmen do not invest for charitable or even altruistic reasons, we would be less than honest if we do not admit that we expect to reap equal benefits from your activities. We are not looking merely at the general benefits to our country consequent upon increased economic activities. We would like to see also that American business help us achieve the goals of our social restructuring. In other words we see a role for you in attaining the targets of the N.E.P., a role which is both legitimate and commensurate with the return on your investments.

We are very serious about our social restructuring just as I hope you are serious about your redressal of the inequities within American society. We would not like to see American businessmen like Mr. who, finding himself the loser after treating our policy as mere window-dressing tries to sabotage our investment efforts by publicising his frustrations in American newspapers. I would like to reemphasise that we expect, and we have a right to expect, as much benefit from your business in this country as you yourself have a right to expect.

Now if the general aspects of our expectations of your role are understood, I would like to refer to, in more specific terms, the areas where we look forward to your cooperation.

(i) By helping us to increase US investments in Malaysia. I note with pleasure that among the stated objectives of the American Business Council is that the Council will provide information and assistance to American firms interested in investing in Malaysia. If you fulfil just this one objective, you will already be helping us towards fulfilling ours. I believe that on the whole, barring minor problems, American investors are more than satisfied with what they have found in Malaysia. In fact some of the strongest endorsement we have had about our investment policies and strategies are from American investors with long experience in Malaysia. They willingly and voluntarily speak at our investment conferences abroad. Therefore if you are happy with what you have found in Malaysia, I would ask you to spread the word for us, for there is still a tremendous potential for American investment in this country.

(ii) Another important area where positive action from the American Business Council would be welcome is in the area of correcting misconceptions and misrepresentations that are published in the international media, and especially American media. Bad news about others may make good copy for American papers (and other papers too) but they do nothing good for us in Malaysia or in the final analysis for American business.

I would like to see the American business Council taking positive steps to rebutt such misrepresentation: I will request FIDA to refer such news reports to you in

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- (iii) American businessmen can also help us fulfil our objective of increasing Malaysian, and in this context especially, Bumiputra participation in the manufacturing sector. As I stated earlier, this is not to be fulfilled by disinvestment, but in the context of growth.

However, we fully understand and acknowledge that investors are frequently confronted with the problems of securing Bumiputra participation. I must emphasize here that the implementation of the 'reserved shares' is flexible and no projects have been or will be prevented from being implemented simply because they cannot fulfil this condition. In keeping with this flexibility, compliance of the "reserved shares" condition will be deferred if the company concerned fails to obtain suitable bumiputra parties to purchase such equity shares despite genuine efforts. In any case we have institutions which are given the status of Bumiputra for this purpose. The 'reserved' shares need not be issued at 'par value' under circumstances. The shares may be issued at a market price to be mutually agreed upon.

With regard to staffing I am sure you appreciate the need not deny Malaysians the jobs they are capable of filling. In many instances they are not only cheaper but also more skillful.

- (iv) Another area where your cooperation will be much appreciated is that of building up the level of technical skill for our workers. American technological expertise, acknowledged to be among the best in the world, can contribute much towards creating a pool of skilled, technically sophisticated workers in Malaysia. We would like to see more comprehensive training programmes for Malaysian workers and more opportunities for them to get further training in your headquarters and other facilities abroad.

I realise that there are obstacles for both of us in the course I have indicated. Some are made in Malaysia and some are of American manufacture. President Carter's proposal on foreign tax deferral for example is not going to help encourage much investment abroad by American corporations.

By their very nature are meant to be overcome. Life would be very dull indeed if the passage through it is uniformly smooth. We should almost welcome the obstacles so that we may overcome them. We will help you overcome Malaysian obstacles. As to American obstacles we would like to assure you that we do not for one moment propose to compete with the US for industry. We would like to see our respective economies complement each other. All we ask is that Malaysia be allowed to concentrate on those industries where we have comparatively an obvious and natural advantage e.g. the agro and resource-based industries, the labour-intensive industries, and any industry in fact in which American manufacturers are facing difficulties in international markets due to cost and other factors.

Thus I believe investment in Malaysia will continue to be an attractive and worthwhile prospect - we just need more people to recognise this fact! Towards this end, we will continue our efforts, and in the latter part of this year we intend to send both trade and investment missions to the USA. To underline our interest in US investment, I will lead the investment mission to the USA myself.

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I look forward in the future to hearing about the role that the American Business Council plays. You can be sure that I will maintain a keen interest in your progress. Finally, I would like to assure you of the Government's support for your activities which will bring about closer and even more harmonious relationship between American Businessmen and the Government of Malaysia.

Thank you.

KUALA LUMPUR,
20hb. Mac, 1978
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(dikeluarkan pada pukul 8.00 malam)