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SPEECH BY THE PRIME MINISTER AT A BUSINESS LUNCHEON IN NEW YORK ON 5TH OCTOBER, 1971

I am indeed honoured to have the pleasure of addressing such a distinguished audience today and would like to thank all concerned for the warm hospitality accorded both to me and my party from Malaysia. My visit to the United States this time is unfortunately a short one. Nevertheless, during my brief stay here I am happy to have this opportunity to talk to people like you about Malaysia and the plans which we have for the next five years. I hope I can convince you all that it is in our mutual interest to do business with each other.

It is indeed opportune for me at this time to speak about my country's development plans for it was only recently that our Second Five-Year Development Plan was launched in Malaysia. The Plan covers economic and social policies and programmes for the next five years and is the result of an intensive review of the basic premises and priorities of development.

SECOND MALAYSIA PLAN

The objectives, priorities and strategies of the Plan have been shaped by the over-riding need to promote national unity in my country. We, too, have our problems, and the major ones stem from social and economic factors. The Plan therefore is a blue-print for solving some of these problems. Through the New Economic Policy embodied in the Plan which incorporates the two-pronged objective of eradicating poverty and re-structuring Malaysia's society, we hope to reduce and eventually eliminate the identification of race with economic function. We hope also to modernise rural life by bringing commercial and industrial activities to selected growth centres and by providing for greater participation by Malays and other indigenous people in commercial and industrial development. The overall aim is to create a Malay commercial and industrial community which will operate on a par with other racial groups.

This is the largest and most ambitious development plan yet undertaken in Malaysia. In terms of work to be done and the human and financial resources to be mobilised, it calls for greater national efforts than ever before.

Development Expenditure by the public and private sectors has been targetted at US$4,780 million. The public sector's share of this allocation is US$2,416 millon, while actual development expenditure by the public sector will be at least US$2,000 million. The private sector's share is US$2,364 million. To finance the higher investment targets set in the plan my country will have to continue saving nearly one-fifth of its income. Projections indicate that savings will amount to about 18% of the GNP and, together with capital inflows from abroad will be adequate to finance the planned level of investment.

The large public sector development programme will require a concerted effort to obtain more foreign financing. Even though the amount of such financing sought is larger in absolute terms than that obtained before, it will cover only 15% of total public development expenditure, as compared to 16.6% under the First Plan. The bulk of financing for the public sector programme will thus come from domestic sources and my Government is confident that the necessary financial resources can be mobilised without disturbing the monetary and financial stability of the country.

ROLE OF MANUFACTURING SECTOR

In mapping out Malaysia's Economic Development Strategy, my government has accorded a vital role to the development of the manufacturing sector. We in Malaysia realise that with progress must come industrialisation. We realise also that although we have been dependent on the export of primary products (rubber and tin) in the past, there is a need to diversify and build the economy on a stronger, wider base.

The progress of the Manufacturing Sector has been impressive. During the 1960s manufacturing was the most rapidly growing sector. Average annual growth was in the region of 10%. As a result, the share of manufacturing in GDP rose from 8.5% in 1960 to 13.1% in 1970. Substantial import substitution took place in foodstuffs, beverages, tobacco products, petroleum products, cement, rubber and plastic goods, fertilisers and steel bars. At the same time, industries were increasingly turning to the export market and exports of manufactured goods grew steadily at an average rate of about 14% per year.

Under the Second Malaysia Plan, we have targetted for the manufacturing sector a growth rate of at least 12.5% per year. Hence value added in manufacturing is targetted to grow from US$373 million in 1970 to US$671 million in 1975. This represents more than an 80% increase over the Plan period.

In relation to the projected rate of growth of Gross Domestic Product, at least 27% of the GDP will originate in the manufacturing sector compared to about 19% during the sixties. As a result we reckon that value added in manufacturing as a proportion of GDP will rise from 13% in 1970 to 17% in 1975.

We have estimated that from now until 1975, we will require a total investment of at least US$618 million if we are to achieve the targetted output (which is 20% higher than the annual growth rate achieved under our First Malaysia Plan and constitutes more than a doubling of the increment of value added over the period as compared to 1966-70).

Accelerated manufacturing activity therefore must feature prominently in Malaysia over the next five years and the inflow of foreign capital and technical know-how into manufacturing projects will be more welcome than ever before.

At the moment, foreign capital, alongside domestic capital, plays a strong role in the Economy. Nearly half of the investment expenditure in the corporate sector is undertaken by foreign companies incorporated in Malaysia or branches of foreign firms operating in Malaysia. Companies' net long term capital inflow (including reinvestment of earnings of foreign firms) is also significant, averaging over US$50 million annually in 1966-70.

Foreign Investment Welcome

It is this aspect of our development programme—foreign investment—that I would like to touch on in greater detail today. We in Malaysia are at present promoting investment in the industrial sector and for this we welcome foreign investment, especially US investment. You have my personal assurance that this welcome is genuine because we are convinced that such investment, backed by solid U.S. experience and technology and my country's abundant human and other resources, constitutes a formula for successful industrial ventures.

U.S. Investment in Malaysia

Some of you here may already have established some kind of manufacturing or trading presence in Malaysia. Indeed, the U.S. is the third largest foreign investor in Malaysia after Singapore and the United Kingdom. Last year for example U.S. investment in pioneer companies totalled US$21.8 million.

Existing U.S. investment in Malaysia generally takes the form of joint ventures. The single largest American Investment venture is Esso Std. (M) Ltd. whose parent company Standard Oil Co. of New Jersey is well-known to you all. Esso Standard in Malaysia has a Petroleum Refinery as well as an Ammonia Plant in Malaysia. The total investment involved in the project is US$20.8 million of which US$13 million is owned by U.S. interests. In September this year, the biggest industrial concern in the world, General Motors, bought over a car assembly plant in Malaysia. It is now planning to manufacture automotive component parts in Malaysia for the export market. in addition to assembling General Motor Cars for the local market. More than anything else, this action by General Motors reflects the increasing American interest in Malaysia.

Three other well-known American firms, Dow Chemicals, Monsanto Chemicals and Ansul Company of Wisconsin recently set up manufacturing plants in Malaysia to produce herbicides and weedkillers for domestic consumption as well as for exports to neighbouring countries in Southeast Asia.

Several U.S. firms have had a manufacturing presence in Malaysia for some years. These include Colgate Palmolive which has been successfully producing detergents, toothpaste and toilet articles for local consumption, and Singer Industries which produce sewing machines. These firms which I have just mentioned will, I am sure, support my contention that there is money to be made in Malaysia. For those of you who are contemplating investing overseas, I would like at this stage to emphasize the economic advantages in establishing a plant in Malaysia.

What Malaysia can offer

What can Malaysia offer the potential investor from the United States? First and most important we offer a politically and economically stable country, with a Government which actively encourages the inflow of foreign capital. Our policies and programmes are all aimed at building a strong economy. Our prime objective is to eradicate poverty, and I am proud to say that Malaysia's population enjoys one of the highest per capita incomes among developing countries. In Asia, we have the second highest per capita income—next to Japan (discounting the city states of Singapore and Hong Kong). Last year, for example, real per capita income in Malaysia was US$307.

At the same time, however, we need to industrialise and create new employment to contain the potential problem of unemployment. Our population is a young one and over 45% of the people have not reached their fiteenth birthday. We have estimated that between now and 1975, we need to create 495,000 new jobs, of which 108,000 jobs must be generated in the manufacturing sector. (Average annual growth rate for this sector is 7%).

You will see therefore that we must not only attract new industries but that these must necessarily be labour-intensive in nature. And on this point I hope to convince you all that Malaysia could be the answer to your problems of spiralling wages and increasing cost of production.

Wage rates in Malaysia are among the lowest in the Asian region. The daily wage of an average factory worker is about US$1-2 per day around Kuala Lumpur, our capital. In the smaller towns and other states, the rates could be even lower. Our daily wage rates, therefore, are even less than your hourly rates.

Low cost of labour means nothing to an investor unless it is a disciplined and productive labour-force. I am prepared to give my personal assurance that the Malaysian labour force will more than satisfy all your requirements, particularly in regard to discipline and adaptability to training in skilled jobs.

Investment Incentives

Added to this, the Government is offering special tax holidays as a further inducement for the establishment of labour-intensive industries. Under our Labour Utilisation Relief Plan, we offer periods of tax relief ranging from two to five years depending on the number of workers employed. Hence if you establish a factory in Malaysia which provides employment opportunities for fifty-one to one hundred employees, we would allow you a tax exemption period of two years. To qualify for a five-year tax exemption period you have to employ more than 351 employees. Added to this, you would qualify for an extra year's tax relief for each of the following conditions fulfilled:

(*a*) if you site your plant in a declared "development area" (i.e. outside the traditional industrial centres);

(*b*) if you produce a "priority product";

(*c*) if you utilise a specified percentage of local content.

Apart from the Labour Utilisation Relief, industrial investors can also apply for any of the other investment incentives, which broadly can be classified into Pioneer Status, Investment Tax Credit, Increased Capital Allowances and Export Incentives.

Pioneer Status

Pioneer status provides for tax exemption relief to new companies which are producing goods that are not yet manufactured in Malaysia on a scale suitable to the economic requirements. It works on the same principle as the Labour Utilisation Relief except that in the case of Pioneer Status, the tax holiday periods depend on the size of the capital investment and ranges from two to five years.

Additional years of tax relief are granted as in the case of the Labour Utilisation Relief for each of the three conditions fulfilled. Hence, companies are eligible up to a maximum of eight years tax relief under these two investment incentives. The tax exemption is from income tax and development tax.

Electronics Industry

I have said earlier that an important aspect of our industrialisation drive is to create more employment. Apart from offering incentives for labour-intensive industries, we have also identified potentially viable labour-intensive industries, an example of which is the Electronics Industry.

This industry would be of particular relevance to U.S. industrialists, and I would like to dwell at some length on the logic of locating your electronics offshore operations in Malaysia.

It has become increasingly evident that in some of the countries where U.S. Electronic plants are sited, there are growing problems of shortage of floor space, shortage of labour and even, increasing costs of labour.

The answer to these problems can be found in Malaysia where wage rates are low and where there is an abundant supply not only of land and labour but also of the supporting infrastructure facilities and ancillary industries. Malaysian roads and railways are among the best in Asia. Electricity and water supply are never in short supply. Communication and transport facilities are excellent, and we have satellite links with several other countries.

We have reproduced in one of the booklets in the Kit which you have in front of you, information on the Electronics Industry in Malaysia, its present position and future prospects, which I hope you in the Electronics Industry will find sufficiently interesting to follow-up with more detailed investigation.

My Government has declared the Elcetronics Industry a "Priority Industry" and has legislated for special extra incentives for the Industry. Hence where in the case of Pioneer Companies, the tax relief period is between two to five years depending on the level of capital investment, electronic companies will be entitled to a tax relief period of four to seven years. Similarly where the maximum period of tax exemption which pioneer companies can qualify for is eight years, in the case of Electronic Companies, it is ten years.

Investment Tax Credit

Another form of tax incentive offered by my Government to potential investors is the Investment Tax Credit which is granted to companies not qualifying for pioneer status. Under this incentive, companies may deduct from their taxable income a sum not less than 25% of capital expenditure incurred on factory, plant or machinery. This capital expenditure must be incurred within five years from the beginning of the basis period in which the project is approved. An additional 5% deduction is allowed to companies which fulfil each of three conditions I mentioned earlier as in the case of Pioneer Status.

Export Incentives

While we encourage the establishment of import substituting industries, we are also equally keen on industries which are export-oriented, and as such we have also designed three different kinds of export incentives. These include an accelerated depreciation allowance, an export allowance and deductions for promotional expenses incurred abroad.

Investment Guarantee Agreements

You will notice therefore that the Malaysian Government is prepared to be exceedingly generous in its bid to industrialise. In the case of foreign investors, we seek to assure them of the safety of their investments in Malaysia. Hence we have initiated and signed Investment Guarantee Agreements and Double Taxation Agreemets with several countries and we are prepared to sign similar Agreement with any other country.

Monetary Considerations

Malaysia has also taken an important formal step in her monetary relations with other countries by accepting the obligations set out in Article 8 of the International Monetary Fund's Articles of Agreement. Hence we have accepted that we may not, without the approval of the IMF, impose restrictions on payment and transfers of funds for international transactions or engage in discriminatory currency arrangements or adopt multiple exchange rates.

Foreign investors will find therefore that we allow a free interchangeability of foreign held balances of the currency. At the same time, Malaysia's foreign exchange regulations allow the free repatriation of profits to Sterling Area countries. In the case of non-Sterling Area countries, only nominal control is exercised.

This brings me to the question of monetary stability which is very much a topical subject these days. We in Malaysia share the world's concern over the difficult period which the American dollar is undergoing. I would like, however, to assure you that the Malaysian dollar would continue to be stable as it has always been. Indeed, I may say that the Malaysian currency is one of the strongest and most stable in the Asian region. In the last ten years, the Malaysian Dollar lost only 0.45% of it purchasing power whereas the U.S. Dollar lost 1.86% during the same period.

Other Considerations

It is appropriate that I now deal with some of the other policy considerations which would invariably be on the minds of some of you here who are seriously thinking of investigating Malaysia's investment potential.

Equity Participation

Firstly, on the question of Equity Participation it is the policy of my Government to welcome foreign investment on a joint venture basis. Companies which are granted pioneer status are required by policy to provide at least 51% of their equity capital for local participation. For those who wish to proceed without any incentives, the ratio required is 50-50. This is, however, a flexible policy and need not be immediately effected.

In fact the Government is prepared to negotiate on this point and for companies which do not depend on the domestic market, my Government is prepared to allow 100% foreign ownership. I would like to assure all industrialists that the extent of foreign capital participation in any joint venture is by and large determined by the nature of each project. The important point I wish to stress here is that it is not the intention of my Government to place operational control of foreign-sponsored companies in Malaysia in the hands of local parties.

Malaysianisation

We realise that for technical and other reasons, it may be necessary that management control should be left in the hands of the people with the know-how. Hence we are prepared to approve arrangments to permit management of companies to remain in the hands of the foreign party with, however, the expectation that local participation would be involved gradually in the management and operation of the company.

This policy is designed to provide Malaysians with the opportunity of participating in the country's industrial development and we do therefore expect foreign firms in Malaysia to submit realistic Malaysianisations programmes. But as I inferred earlier, the number of key posts to be retained by the company is negotiable.

Tariff Protection

In addition to investment incentives which I dwelt on earlier, my Government is also prepared to grant tariff protection to new companies which are manufacturing import substitutes for the domestic market. Such protection will continue to be provided to "infant" industries, but this will in future take into greater account the labour intensity of the industry, the use of domestic raw materials, the actual location and the expected increase in efficiency. We will also review and where necessary revise tariff policies and procedures with a view to promoting the early establishment of new industries.

Import Duty Exemption

Notwithstanding this, Malaysia also grants import duty exemption for machinery and in some cases on raw materials which are deemed necessary for the manufacturing process. There is at the same time preferential Government buying of locally manufactured products. All Government Ministries, Departments and Quasi-Government bodies are required to purchase locally manufactured products provided their quality is acceptable and their prices do not exceed equivalent imported price by 10%.

Industrial Financing

While some foreign firms may wish to retain as much ownership as possible, there may be others among you who would prefer to have some percentage of local capital. There is in Malaysia a very active share market where industrial shares may be quoted. Any company with a minimum paid-up capital of US$666,666 may have its shares publicly floated. There is abundant local capital from which to channel investment funds. Indeed, the many industrial enterprises in Malaysia which have gone public have had their shares grossly oversubscribed, sometimes by as much as twenty times the amount offered. Hence when Esso Standard Malaya offered 8.8 million shares at US66 cents par, the share issue was oversubscribed by fifteen times.

Loan facilities for industry are also available and a Government-sponsored organisation, the Malaysian Industrial Development Finance Co. provides long and medium term loans on easy repayment terms. Where required to do so this organisation also underwrites share issues for companies.

I have spoken at some length about what Malaysia can offer you, as the potential investor, though in this short time, I have had to be quite brief in explaining some of our policies pertaining to industrial investments. You are welcome however to investigate more deeply into the social and economic conditions prevailing in Malaysia today. Our people, both at the Trade Office and at the Embassy, as well as at home in Malaysia will do their best to answer any questions which you may have regarding investment. I sincerely hope that my talk to you today has stimulated some interest.

I would also like at the same time to invite you all to pay a visit to Malaysia and see for yourselves the progress which we have achieved so far, and to explore the possibilities of establishing a manufacturing presence in Malaysia.

I wish to reiterate once again that Malaysia welcomes American investment and my presence here today is indicative of our interest at the highest level. At this stage it is appropriate for me to announce that my Government will be setting up an Investment Promotion Centre in New York, early in 1972, to service investment equiries from U.S. businessmen.

Conclusion

Once again, I would like to urge all American firms who are thinking of "offshore" operations and are looking for prospective sites and locations in developing countries to examine Malaysia's potential in this respect. Apart from the favourable investment climate that exists in Malaysia, American firms will also find definite advantages which can be accrued by siting their overseas operations in Malaysia. They will find available not only land and factory floor space at relatively low cost but will also find cheap and manageable labour which could be the answer to their high cost of production elsewhere.

We have prepared several booklets containing more information about the country. You will find them in the kit which we have disrtibuted today. I hope that it will set you thinking about Malaysia.

Thank you.