

SPEECH BY THE PRIME MINISTER AT  
A BUSINESS LUNCHEON AT OTTAWA,  
ON 8TH 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 Canada 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 blueprint 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 restructuring 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 targeted at US\$4,780 million. The public sector's share of this allocation is US\$2,416 million, 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 1/5 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 1960's 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 targeted for the manufacturing sector a growth rate of at least 12.5% per year. Hence value added in manufacturing is targeted 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 targeted 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 by 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 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. You have my personal assurance that this welcome is genuine because we are convinced that such investment, backed by foreign experience and technology and my country's abundant human! and other resources constituted a formula for successful industrial ventures.

## **Canadian Investment In Malaysia**

Some of you here I know have already established some kind of manufacturing presence in Malaysia and will I am sure support my contention that there is money to be made in Malaysia. I think in this respect both Thomas Bata and the representative from Alcan, can bear me out. Bata shoes is a household name in Malaysia, and Alcan is fast making its presence felt.

Some of you here have also served as consultants in my country particularly in new infrastructure projects in which field Canada has tremendous experience. You have seen the intensity with which we implement our development projects and the successes which we have achieved so far. I sincerely hope that you will tell your friends and associates here about the economic changes taking place in Malaysia and perhaps kindle some interest among them.

Another Canadian backed venture in Malaysia which is doing very well for itself is the Timber Processing Project in one of our largest states—Pahang. The Canadian partner in the Project is, I believe, Cantans Services and Charvell Int. Consultants Ltd. Next year will see the opening of a sodium chlorate plant in Malaysia when the Chemetics—Malaysian joint venture complete the construction of its factory.

At the moment there are only these few Canadian investments in manufacturing ventures in Malaysia. I am confident, however, that as more of you become aware of Malaysia's investment potential, this number will increase. 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 Canada? 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 Hongkong and Singapore). Last year, for example, real per capita income in Malaysia was US\$307.

The Malaysian economy is both stable and viable and growth rates have been impressive over the last ten years. Malaysia has been the world's largest producer of tin and rubber for many years and recently has also achieved the same distinction for palm oil and tropical hardwoods. We intend to maintain this position for the future.

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 fifteenth 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.

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—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 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.

### **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 Agreements 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. 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 its 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 fifty-fifty. 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 arrangements 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 Malaysianisation programmes. But as I informed 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 share 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 U.S. Sixty-six 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 or 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 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 stipulated 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 Canadian investment and my presence here today is indicative of our interest at the highest level.

## **Conclusion**

Once again, I would like to urge Canadian firms to examine the investment potential of Malaysia. I know that Malaysia does not fall within your "area of concentration" as far as aid and investment are concerned. However, those of you who have business interests in Malaysia would testify that the industrial potential of the country has yet to be tapped and that Canadian firms are particularly welcome to invest in Malaysia. We like your approach to overseas investment and we would certainly be happy to do more business with you.

We have prepared several booklets telling investors about the country. You will find them in the kit which we have distributed today. I hope that it will set you thinking about Malaysia.

Thank you.