

TO THE JAPANESE ECONOMIC ORGANISATIONS
TOKYO, JAPAN

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Mr. Chairman,

I am very pleased to be here today to address such a distinguished gathering of the leaders of the business community of the world's second largest industrial power. Those of us who are from the developing countries cannot help but admire the fact that you and your predecessors, through sheer hardwork and determination, helped to guide the first Asian nation from an island-based agrarian society to become what is perhaps the most technologically efficient economy in the world today. Japan accounts for 10 per cent of world economic activity, although occupying only 0.3 per cent of the world's land area and supporting about 3 per cent of the world's population. The achievements of the Japanese economy has become a model of inspiration for many newly industrialising economies. Indeed, your record now is the envy of the industrial West. The developing economies, no doubt, have much to learn from an economy that was able to achieve growth rates of over 10 per cent for over two decades to the early 1970's, and rates of up to 5+ per cent annually in the recent past, with moderate inflation and practically no significant unemployment. Through the unique ability of your researchers and businessmen to work in close co-operation with your Government to take the long view, the Japanese economy has been successful in taking the first bold steps towards advanced automation and high technology to raise productivity that has astonished the world. I gather that the Japanese car industry today produces 4 times as many cars as it did a decade ago, with about the same work force of less than 670,000, or about the size of employment at General Motors. Also, Japanese industry today accounts for about 70 per cent of the industrial robots being used in the world. This drive towards the widespread use of high technology and the growing reliance on the knowledge-based industry will, I am sure, secure for the Japanese a comfortable competitive advantage in the global market for consumer durables and industrial equipment for some time to come. But, as you are all keenly aware, the process of adjustment of the world economy, to a more energy efficient and an economically more productive stage, is a slow and

painful one. For many, the growth pangs have proven too painful. The older industrial nations, attempting to re-tool their aging machines and struggle to change the work attitudes of their people, have been forced to face both social and political upheavals.

2. However, in an interdependent world, even the most efficient of economies cannot escape the vagaries of the international recession. Despite the easing of monetary policies in the West, world production and trade continue to remain sluggish, with unprecedented high levels of unemployment. The economy of the United States is still in turn out to be the longest, and a winding one at that. Even the Japanese economy, the most buoyant of the industrial nations, has had to slow down its growth performance to about 3 per cent last year, while the OECD countries has since lowered the forecast of growth in 1983 for its 24-member club from 2.5 per cent previously to 1.5 per cent currently.

3. This backdrop of international recession has been used by some of the largest industrial powers to bow to the mounting pressures for protectionism, which I consider to be one of the most serious threats to global well-being, and a real set-back for the early realisation of a new world economic order. These are, of course, the countries which are most seriously affected by the rising competitive edge of Japanese industry. It is a pity really that of late, there has emerged a new school of what I call "free-traders of convenience", who fanatically proclaim themselves to be the standard bearers of free trade, except when it affects themselves adversely. As rational men, the global benefits from free trade are not hard to see. To achieve high living standards, the world needs to move progressively towards greater liberalisation of trade. As a politician, I know only too well how it feels not to make the politically popular moves. But, politics is also moved by principles and ideas based on long-term well-being. In the game of free trade, it is my view that those most well placed to make accommodations must make the first move to eliminate as many of the remaining barriers to trade as is realistic to remove quotas and reduce tariffs and duties on as many imports, as well as non-tariff barriers to trade, including the simplification of import procedures, which have proved so difficult for many exporters. With each action, there will be a reaction and response. Given

goodwill, I see no reason why we cannot make further progress towards freer trade, even in recession.

4. In this context, I note that the Japanese industry has already taken the right steps towards internationalising its activities by switching progressively towards production based in strategic consumer countries, instead of concentrating heavily on the direct export of finished goods from Japan. The increasing number of joint-ventures between more and more Japanese and selective "host-based" companies involving transfers of technology and skills are also encouraging signs that Japanese industry is indeed taking a more responsible role, befitting its status as the foremost technological economy. It is with this in mind that I wish to discuss with you today the course of Malaysian-Japanese relations, within the broader perspective of ASEAN.

Gentlemen,

5. As some of you may be aware, Malaysia shares a number of similarities with the Japanese economy of the not too distant past. We are a small economy dependent on international trade, with a young but rapidly growing workforce. We both share high levels of national investment and savings, and have enjoyed relatively low rates of inflation. More important, we share a common belief in monetary stability and financial discipline as similarity ends. For Malaysia is basically still agricultural-based, relying on production centred on our vast natural resource base. Increasingly, as we develop our fledgling industrial base, we will require more and more of the capital, know-how and experience that Japan has to offer. As Japan moves further up the technological ladder, you will be reducing the share of primary raw materials in your import content. Increasingly, non-oil forms of energy and perhaps, finished products presumably will take up a larger share of your purchases. At the same time, you have been shifting your emphasis on to the faster growing and highly export-oriented advance technology manufacturing industries with very high value added, while restructuring your older and lower technology industries in the world market place. As I see it, this progressive upgrading of your economic structure complements, rather than contradicts, the process of upgrading that is being implemented in Malaysia and the other countries in ASEAN. We have been major suppliers of energy and primary commodities for your industries. At the

same time, we are significant consumers of your finished and semi-finished products. This symbiotic relationship, which is based on the classical developed-developing economic dichotomy, is now very much obsolete. Politically, such an arrangement can no longer be accepted. Japan is ASEAN's most important trading partner and is Malaysia's fastest growing major trading partner. ASEAN accounts for about 15 per cent of Japan's total imports and about 10 per cent of its exports. ASEAN is the leading supplier of rubber, tin, palm oil, lumber, copper and bauxite to your country, and although less than 20 per cent of your crude oil comes from our region, virtually all your oil passes through ASEAN waters.

6. Although it is fair to say that Japan's economic relationship with ASEAN in general, and Malaysia in particular is excellent, this conventional relationship in which you remain the dominant economic partner cannot be carried further in view of the dynamics of your own changes in economic structure and the radically transforming structure and priorities of the ASEAN region. We, in the South, are now experiencing the rapid rates of growth which you enjoyed a decade or so ago. As one of the fastest growing regions in the world, ASEAN hopes to significantly narrow the economic gap with the developed world in a matter of a decade or two. Quite naturally, we would expect that our relationship will evolve into a more equal and mutually reinforcing partnership. It is regrettable that the high hopes, raised by the proposed implementation of the Fukuda Doctrine in 1977, as a basis for a new relationship with ASEAN, whereby practical economic co-operation would be intensified, have not been realised. I believe that the many practical difficulties which ASEAN face in gaining real access to the US\$1 billion fund established to assist ASEAN industrial projects will need to be resolved quickly, in order that the framework of our relationship can be translated into concrete examples of ASEAN-Japan co-operation, instead of them remaining as pending paper proposals. What is vital is not merely a need for heart-to-heart diplomacy, but mind-to-mind technology transfer and hand-in-hand co-operation to build up the existing relationship into one that is mutually beneficial and long lasting in terms of down-to-earth benefits for our peoples.

7. Let me illustrate further by referring specifically to the Malaysia-Japan economic relationship. Japan is our leading trading partner, accounting for about one quarter of our international trade. In recent years, the traditional trade surplus which we have enjoyed with you has been reversed into a deficit, reflecting mainly our growing affluence and rapidly expanding domestic investment programme, implemented largely with Japanese capital equipment. In recent months, the continuing deterioration in commodity prices has led to a significant decline in our exports to Japan, having fallen by about 11 per cent in the 20 months since January 1981. In contrast, imports from Japan increased by about 35 per cent over the same period. As a result, our trade deficit with Japan has nearly doubled to US\$350 million in the first eight months of 1982 alone. Including the trade in invisibles, the overall trade deficit with Japan is estimated to be in the region of no less than US\$600 million.

8. What is remarkable about our trade with Japan is that 60 per cent of our imports from Japan represented plant and machinery, while over 90 per cent of our exports are in the form of primary commodities, involving very little processing or value added on our part. For example, Malaysia's exports of sawn timber to Japan accounted for less than 2+ per cent of our saw-log exports to you, which amounted to US\$630 million in 1981 alone. In the first eight months of 1982, the value of our major exports of rubber, tin and crude oil to Japan in fact declined in absolute terms by 46, 34 and 20 per cent respectively.

9. This general lack of opportunity for Malaysia to sell, let alone process its raw materials for export to Japan, will clearly retard our aspirations to industrialize and diversify our economy. I do see that in your efforts to restructure your older industries, such as steel, petrochemical, pulp and paper, timber and rubber processing, cement and textiles, there will be opportunities to relocate some of them in Malaysia as a complement to your own industrial strategy. We, on our part, are vigorously seeking to upgrade our technology and skills, including access to part of the markets which you can provide. This complementarity in industrial development will not entail a large effort on your part, but will certainly establish a solid basis for the development of our fledgling industries for mutual benefit.

10. Lastly, I should conclude with a few remarks on a matter which I am sure is of direct interest to you, namely, the question of Japanese investment in Malaysia. Investment from Japan is already the second largest source of foreign investment in Malaysia's manufacturing sector. We are, of course, pleased that many of the most famous Japanese companies are directly involved in our industrialization programme. At the last count, over 600 Japanese companies have invested in Malaysia a total of approximately US\$650 million, of which nearly two-thirds were in the manufacturing sector. A recent survey of these companies revealed that nearly three-quarters of Japanese investment in Malaysia were in the labour-intensive industries, namely textiles, electronics, and the assembly of simple machinery and equipment. The study also showed that Japanese investments have been profitable, which I must say did not surprise me at all. What was particularly revealing is that while over 80 per cent of the companies surveyed referred to their contribution to Malaysia in terms of the creation of new employment opportunities, only one-half of them indicated that Malaysia had really benefitted significantly in terms of technology transfer. Another 40 per cent of the companies surveyed stated that their investments had contributed only some degree of technology transfer, while the remainder provided very little or no transfer of technology at all.

11. Looking ahead, we believe that foreign investments certainly bring a good measure of monetary benefits to the investors. Otherwise, they will seek their profits elsewhere. For the host country, the employment generated by foreign investment is no longer a good enough justification. Foreign investment must be accompanied by a decent dose of technology transfer, without which the broad policy objective of foreign investments will not be meaningful. We need skills and know-how. We do not intend to be the robots for foreign industry. In exchange, investors reap attractive returns on their investment and secure for themselves at the same time, a reliable source of supply or an assured market share for their exports, depending on the nature of the investment. It is important to understand and appreciate the terms under which foreign investments are welcome in Malaysia.

12. To pave the way, we in Malaysia have set in motion a national campaign to prepare our work force to meet the challenges ahead. We are stressing efficiency, self-discipline and dedication to work. These attitudes are familiar to you. Our "Look East" policy, in essence, is a call to return to the self-help philosophy of our earlier era: it re-emphasises the need to pull ourselves up by our own hardwork, determination and initiative. I believe that the work force must first be committed to a new lifestyle that places a premium on dedication to work and work for the good of the community, before we can effectively propel our society into the era of modern technology. We have set for achieve "kodo seicho" (high speed growth) through "seisanryoku kakuju" (increase in productive capacity), "shokusan kogyo" (greater industrial production) and "yushutsu shinko" (promotion of exports). In this, we share with you the same determination to regain a greater control of our economic destiny. No doubt, we will need to invest heavily in our human and natural resources, and to mobilise vast sums of money to bring the dream into reality. The Government is committed to this bold venture. Its main function will be to provide the leadership and play the catalyst role, and to set in place efficient infrastructural facilities, foster a stable monetary climate and instill a political environment that promotes private initiative, encourages innovation and judicious business risks. The picture is complete only with the implementation of an aggressive policy to promote the inflow of foreign capital and know-how, including the upgrading of skills based on involves Malaysia in a transfer of technology to enrich the lives of those whom it touches; and a partnership that strengthens the moral fibre of the work force and its work ethics. In the final analysis, what we are after is not dissimilar from the "uchiwa" (all in the family) economic system of the Japanese. For those of you, who share our aspirations and wish to be involved in a unique development experience, Malaysia offers you a rare opportunity to share in our advantage to build a modern nation.

Thank you.