

THE 9TH. JOINT ANNUAL CONFERENCE OF MAJECA/JAMECA
THE PAN PACIFIC HOTEL KUALA LUMPUR, 24 APRIL 1986

Y.M. Raja Tan Sri Mohar, President of MAJECA; Mr. Masami Ishii, President of JAMECA; Ladies and Gentlemen,

It gives me great pleasure to be invited by YM Raja Tan Sri Mohar, the President of MAJECA, to the 9th Joint Annual Conference of the Malaysia-Japan Economic Association (MAJECA) and the Japan-Malaysia Economic Association (JAMECA). May I take the opportunity on this auspicious occasion, to extend a very warm welcome to Mr. Masami Ishii and other distinguished JAMECA delegates.

2. I consider it a privilege to address such a large gathering of distinguished business leaders of both Japan and Malaysia. If I recall correctly, this is my fifth address to you twice in Japan when I was Deputy Prime Minister and Minister of Trade and Industry and three times here in Kuala Lumpur in my present capacity.

3. The MAJECA/JAMECA organisation have now become a model for Malaysian and interested foreign businessmen to set up when they wish for a forum to discuss commercial and other problems between them. The annual joint meeting of MAJECA and JAMECA held alternately in each others country has now become institutionalised. The viewpoints of the two countries are aired at these meetings and much misunderstanding have been overcome. Of course, the constant contact between businessmen of the two countries has resulted in personal friendship and mutual respect which is good for social and economic cooperation.

4. The Governments of both Malaysia and Japan have actively encouraged the kind of relation that MAJECA/JAMECA promotes. It helps to put substance into the friendly relations between our two countries. Malaysia's trade with Japan makes up almost a quarter of its total world trade. The relation should not therefore be merely commercial. It should also be social and personal. We think that the MAJECA/JAMECA is achieving just this.

Ladies and Gentlemen.

5. The world must trade. No country can live in isolation no matter how rich and self-sufficient. Every country must buy something from other countries and sell something in order to earn the foreign exchange needed to purchase goods from abroad. It is obvious that the more foreign exchange a country earns, the more it can buy from abroad. Indeed, if a country is lacking in foreign exchange earnings, it has to be given aid in order to buy from abroad.

6. It follows that when a country buys from another country it is actually helping the seller to buy more from abroad. In fact the end result of purchasing goods from a country is often better sales by the purchaser country to the former. What I am trying to say here is that a country will not lose if it buys anything particularly

from a poor country. You are only creating a good customer.

7. Malaysia is going through a bad period when her export earnings have been much reduced. Our imports have accordingly been much reduced. As our biggest trading partner is Japan, it is natural that imports from Japan have been reduced. Of course we are not the United States and our imports are insignificant compared with those of the United States. But too much export to the United States will create problems. Small countries like Malaysia can buy and give out contracts with less problems.

8. However, if we are to sustain our imports we must be able to sell our goods, whether commodities or manufactured products in order to have sufficient foreign exchange. Japan can help us recover our purchasing power by buying more and also by investing more in Malaysia.

9. Malaysian goods are cheaper now because of the depreciation of the Ringgit against the Yen. Manufacturing in Malaysia is also cheaper now. Indeed, it makes sense to manufacture in Malaysia for re-export to Japan. Of course Made in Malaysia Japanese goods are now very competitive world-wide.

10. Another problem that affects world trade is the imbalance in the export and import between two countries. Because the American dollar was over-valued, American imports from Europe and Japan continuously exceed their exports. The countries of Europe together with Japan decided that in order to balance the trade the value of the American dollar must be reduced. 11. You did a good job and the American dollar has now depreciated greatly. Unfortunately you did not consider the other countries of this world. When the US dollar depreciated oil exporters like Malaysia lost money. With the rapid drop in oil prices the loss is even greater.

12. In the meantime, the Malaysian Ringgit also depreciated against the Yen and other European currencies. Not only must we now pay more for our imports but the loans in Yen and other appreciated currencies have now increased in value. The low interest rates that were charged are now meaningless. We have to find, in some cases, 40% more ringgits in order to pay off the loans which financed projects that have as yet given no return. It would seem that countries like Malaysia are forced to pay for the imbalance in trade between the giant economies of Japan, Europe and America.

13. I should take this opportunity, once and for all, to put to rest should there still be any lingering uncertainty doubts about the Government's ability to meet its debt repayments. It is true, the economy is going through a rough patch. That is why we are tightening our belts. We have made real progress in tackling the "twin deficits" in the Budget and the balance of payments. In the final analysis, we should emerge leaner, but stronger and more resilient. Let me state categorically that we intend to honour all our debts and on time. We shall pay both interest and principal when they fall due. The Government has no plans to reschedule any of its debts. Malaysia has demonstrated by our deeds that we are a responsible borrower. This will not change, just because commodity prices

have fallen sharply. For the Federal Government, principal repayments on its external debt in 1986 will amount to \$863 million. The Central Bank's external reserves totalled \$13.7 billion at the end of March 1986. Earnings on these reserves alone would be more than ample to meet the debt repayments. Bankers should have no doubt whatsoever on the Malaysian Government's resolution to meet its debt obligations.

14. Malaysia has always maintained that we want trade, not aid. Even in these hard times, we are not asking for aid. All we are asking for is fair trade. The fall in commodity prices is not accidental. Nor is it part of a cyclical phenomenon. The policies of the powerful economies and the economic clout they wield have something to do with the present depressed prices.

15. The idea of a New International Economic Order has been abandoned. Nations are not moved by charity. Only self interest will influence their actions. So I will not appeal for charity. I will appeal for enlightened self-interest. It does not do any country any good to impoverish potential customers. Manipulation of currency without regard for the effect on the developing nations must eventually damage world trade. In the good old days people go to war if they are deprived of world trade. The small nations cannot go to war but they will be tempted to seek other solutions, none of which will bring prosperity to human kind.

16. What would constitute enlightened self-interest for the rich countries? Fear of losing a potentially rich market would. The market can be lost not only through poverty but also if, through sheer necessity, the market opts for membership of another camp. The market could, prior to changing ideology, undergo traumatic experiences such as civil strife and civil war. Or it could be just a change in the Government through the power of the vote a change from a friendly to a hostile Government. Some of these possibilities are distant, but some are obviously possible. It would be a pity indeed if an area noted for its stability and steady progress should turn into an area of conflict and uncertainty. If we look at the trouble spots in the world today, we cannot help but remember that they were once among the most promising areas in the world. What could happen there could happen elsewhere. Prevention is possible. Certainly it is better than the painful process of an uncertain cure afterwards.

17. Malaysia is not going to go that way if it can help it. We are determined to pull ourselves up by our bootstraps. It would help however if we do not get pushed down everytime we try to rise.

18. Malaysia is a great admirer of Japan and the Japanese. We cannot forget that you too were down and out once. But you did not give up. Although the Marshall Plan did help, but it is your will and your disciplined determination that lifted you up from the abyss and made you the economic power that you are today. We would like to achieve the same feat, now more than ever before. That is why we coined the slogan Look East.

19. Although some people in Malaysia purposely misinterpreted the Look East Policy as giving contracts to the Japanese, we are glad that the Japanese

Government and business people voluntarily responded. Since the Look East Policy was adopted a lot of Malaysians have been trained in Japan, and Japanese business methods have been studied and implemented. Some Malaysians have even managed to acquire and practice Japanese work ethics.

20. Some Malaysians fear that we would become Japanese. There is not a hope that anything like that would happen certainly it will not happen to the critics of the Look East Policy. Malaysians will remain Malaysians even if they work harder, or they acquire team spirit or patriotism. These qualities are not the monopoly of the Japanese.

21. We regard the Look East Policy as part of our effort to help ourselves. If we look to Japan for guidance it is because it is better to copy a tried and tested approach than to invent new ones. Japan's willingness to facilitate our efforts is much appreciated. We hope that the Japanese Government and the Japanese business community will continue to provide training and educational facilities in order to enable Malaysia to achieve the targets of the Look East Policy. Ladies and Gentlemen. 22. Malaysia has just launched the Fifth Malaysia Development Plan. It is a modest Plan compared to past plans. A growth of 5% is targeted.

23. The Plan calls for a total Federal Government allocation of M\$40 billion for development of public sector programmes and projects, with 58.8% for the economic sector 22.5% for the social sector and 18.7% for security and administration. Under the Fourth Malaysia Plan total net Federal Government development expenditure amounted to \$46.3 billion.

24. The growth scenario of the Malaysian economy during the second half of the 1980s is set against a backdrop of a medium growth rate of about 3.0 to 3.5 per cent per annum for the industrialised countries. We anticipate recovery of the world economy by 1989-90. Various markets should by then be less protectionist and normal trade rather than barter should return.

25. Under our plan, the private sector is expected to play a crucial role. The depreciation of the ringgit should level off and remain stable, giving Malaysian manufacturers and foreign investors a distinct advantage when exporting. Higher productivity which is being actively promoted by the Government and the private sector should also improve the competitiveness and export performance of all Malaysian produce including manufactured goods. Already foreign investors manufacturing electronic products in Malaysia are finding that sourcing from Malaysia is very profitable. Export of these electronic products have picked up tremendously of late.

26. As imports will become more costly due to depreciation in the currency, the reduction in imports will help the balance of trade. As Malaysians are fond of foreign products, the new exchange rates will counter the usual large outflow of foreign exchange resulting from their preference.

27. To ensure increased private sector investment the Government will offer incentive packages to enable the private sector to be more active in the

economy. For instance, in agriculture, policies will be oriented to encourage greater private sector participation in plantations. Policies on land transfers and alienation including leasing arrangements will be modified. Fiscal incentives will be provided to encourage the corporatisation of the agricultural sector. These include an agricultural development allowance for crops and agricultural activities not eligible for pioneer status or investment tax credit. The equity requirements for new projects will be liberalised to retain foreign and local interest in the sector. Incentives for the tourism industry will be expanded. We expect more investment in medium-cost accommodation facilities to increase tourist flows into the country.

28. The administrative and regulatory requirements of the Industrial Coordination Act (ICA) in respect of existing and new companies will be relaxed. The raising of the exemption level will exempt more companies from ICA. Greater flexibility will be introduced in regard to capacity expansion e.g. automatic approval to export-oriented companies undertaking capacity expansion. In addition companies which expand capacity can continue to maintain the equity structure at the point of obtaining approval.

29. Projects that export 51-79% of their production volume will be allowed a foreign equity ownership of 51% while those exporting 80% or more will be allowed an equity share of 80%. A higher percentage is permissible depending on other factors, e.g. size of investment, location, value-added and amount of local content as well as technology involved.

30. Our policy review on industrialisation has been completed. We now find it necessary to re-orientate our industrial strategies. Our objective is clear cut. We want to maximise the growth potential of the sector. We have to re-orientate our strategies because the favourable conditions of the past 15 years will not prevail. We have to be more outward-looking, just as Japan has always been doing all these years.

Ladies and Gentlemen,

31. The role of our trust agencies and public enterprises will be reviewed. Certain Government enterprises or services which have potentials for private participation or acquisition will be considered for privatisation. If these enterprises or services can be managed more efficiently by the private sector we will earmark them for privatisation. In doing this we will promote domestic competition and increase productivity.

32. Through the efforts of the private and public sectors, several programmes and projects have been identified for further privatisation involving mainly transport, communication and services. The private sector is encouraged to further complement the Government's privatisation proposals with the view to accelerating the pace and widening the scope of privatisation.

33. The next five years will be most significant for Malaysians in ensuring growth of the economy. Our basic development strategy is to ensure growth with

stability. We have taken full cognizance of the continued uncertainties in the international economic environment and of the emerging resource constraints. The public sector will no longer play an expansionary role in spearheading economic growth.

34. Because of our small domestic market, we have to rely on export to sustain our growth. Japan, being our major trading partner, will be one of our target markets for our products, especially for our manufactures. We note with optimism the decision of the Japanese Government in implementing an action programme for improved market access. These market liberalisation measures, we hope, will be beneficial to us too and not just the developed trading partners of Japan. So far we see only the elimination of tariff on processed palm oil. To us your trade practice as a whole is a contentious point in our trade relations.

35. Our exports of manufactured goods into Japan continue to face strong trade barriers. We see that your existing tariff structure favours imports of raw materials rather than processed or finished products. We see logs, for instance, entering Japan free of duty. We note also that our exports of semi-finished tropical wood products are subject to a high tariff duty of 17-20% whereas that of softwood is 15%. I hope JAMECA members will understand and be sympathetic with our aspirations and our needs. I am sure MAJECA has kept JAMECA members well-informed of these needs already.

36. I am fully aware of JAMECA' s willingness to co-operate with MAJECA in trying to find solutions to our bilateral problems. The existence of the Japanese Chamber of Trade and Industry Malaysia (JACTIM) is an attestation to this co-operative spirit. I understand that MAJECA and JAMECA through JACTIM have formed various working groups whose task was to find solutions to problems of trade and investment as well as tourism.

37. On this note, I have much pleasure in declaring the 9th Joint

Thank you.