

THE AMERICAN INTERNATIONAL GROUP INVESTMENT SEMINAR
HOTEL HILTON, KUALA LUMPUR, 6 OCTOBER 1986

Mr. Chairman; Your Excellencies; Distinguished Participants; Ladies and Gentlemen;

I am very pleased to be here this morning and I wish to thank the American International Group and two of its subsidiaries in Malaysia, the American International Assurance and the American International Underwriters for promoting and organising this seminar and inviting me to address it. I am aware of the extensive groundwork that has been done by the Group in identifying the likely investors and I would like to congratulate everyone concerned for the initiative and effort. To the participants I extend a warm welcome to Malaysia, which I hope will be your temporary home after your investment here. In case this is your first visit and you may not have the opportunity again, please take time off to see a bit of the country and its friendly people. It may help you to make up your mind in the affirmative.

2. The United States is one of the top five major investors in Malaysia but your total involvement is comparatively small. It is certainly not commensurate with your status as the biggest economy in the world. According to the latest survey of manufacturing companies in production, US investments in Malaysia's manufacturing sector totalled a mere US\$128 million in terms of paid-up capital and US\$358 million in terms of fixed assets. Yet the annual exports from US to Malaysia amount to 4676.4 million ringgit. Clearly you are getting maximum benefit from your relatively small investments. That in itself should stimulate you to invest more.

3. There may be many reasons to explain this relatively low profile of US investments in Malaysia; low, with the exception of the electronics industry. One of the reasons could be that Malaysia is a new country that came into being without the usual big bang. Until 1963 we were known as Malaya. Indeed some American writers still refer to us as Malaya. For us it is logical to rename the country Malaysia when the states of Sarawak, Sabah and Singapore joined the federation. But may be it is not so logical to distant foreigners. After all Himalaya is in India. Couldn't Malaysia be somewhere between China and India, or Africa which has Malawi and Mali.

4. We came into the world so quietly that nobody noticed. There was no protracted war of national liberation or East-West proxy fight. Consequently we cannot even be notorious like Vietnam. Newspeople do not like countries that are calm and peaceful and attains economic growth as a matter of course. Politically too there is not much to report about Malaysia. Since independence in 1957 it has been ruled by coalition Governments which, despite frequent admission of new members, keep and practise consistent policies, particularly towards foreign investors. Recently as you know the same coalition won with a 4/5 majority, which also means a mandate to continue with well-tried policies. Like Holiday Inn, no surprises. No sudden 180o or even 90o turns.

5. Yet these very qualities which are so irritating to newsman looking for newsworthy media events should be attractive to investors, particularly foreign investors. You will be dealing with the same people with well-known curriculum vitae. There may be bad characteristics, but you know them, and as good businessmen you will know how to handle them. Malaysia and Malaysians are predictable. Dull, perhaps, but better than dealing with mercurial people. Even bureaucratic delays and regular assurances to do away with red tapes are predictable. All you need to do is to make allowances for these delays and you will achieve your target right on the dot.

6. The Malaysian problem is how to overcome this anonymity. We are competing with ASEAN neighbours all of whom are well-known. Who has not heard of Singapore or Indonesia or Thailand or the Phillippines. Only Brunei is perhaps less known than Malaysia but that is being remedied. But Malaysia still conjures up a blank. We have the Joe Clark syndrome. People still say, "Malaysia! Now where on earth is that?" Obviously you cannot invest in a place you don' t even know the location of, or exists. We are busy remedying all these short-comings. But we don' t intend to attract attention by being unstable or unpredictable. If you haven' t known Malaysia, not likely with AIA doing such a good job, I hope you will learn much about this country on this occasion. We are sure you will love it for the Tourist Development Corporation insists that "To know Malaysia is to Love Malaysia".

Ladies and Gentlemen,

7. Malaysia has for long relied on her primary sectors to achieve growth, create employment, and generate income. The major impetus for Malaysia' s rapid growth over the last decade was the export of her natural resources, such as rubber, timber, palm oil, tin and also petroleum. Together they account for more than seventy percent of our exports. The share of manufactured exports exceeded the twenty percent level only after 1980.

8. Today, it is no longer a question of "to industrialize or not to industrialize". Malaysia' s track record of economic progress based on her primary commodities, and a successful import substitution and export oriented industrialisation programme, is being emulated by other developing countries who now have the advantage of cheaper and more abundant labour. Malaysia' s advantage has been maintained by the efficiency, productivity and quality of our workforce and our overall conducive industrial environment. However, in a matter of a decade or even sooner, these countries will be catching up with Malaysia. In other words, Malaysia has to turn her attention to increasing the sophistication of her industrial environment or else be left behind.

Ladies and Gentlemen,

9. The performance of our manufacturing sector during the Fourth Malaysia Plan period, 1981 85, was encouraging. It demonstrated its relative maturity with a steady share in Gross Domestic Product (GDP) of between nineteen to twenty percent throughout that period, while the value of manufactured exports almost

doubled from US\$ 2.4 billion in 1980 to US\$ 4.7 billion in 1985. Under the current Fifth Malaysian Plan, i.e. 1986 to 1990, the manufacturing sector is projected to contribute 20.5 percent to GDP by 1990 while the share of agriculture is expected to shrink from its present 20.3 percent to 18.1 percent. From this, you can see that Malaysia is surely and steadily heading towards her goal of joining the breed of Newly Industrialized Countries (NICs), all striving for their legitimate share of the world' s economic wealth.

10. You may be unaware of it, but Malaysia has indeed proven herself as a viable base for export industries. Today, Malaysia is a leading exporter of manufactured goods such as semi-conductor devices, room air-conditioners, and natural rubber products, especially latex gloves and catheters. Through the next decade, we intend to further accelerate the development of other industries utilizing our natural resources of rubber, timber, palm oil, tin, clay and silica.

11. We hope, in the near future, to be a leading exporter of items such as tyres, precision and industrial rubber products, wood mouldings and furniture . You may call this wishful thinking on the part of a small nation. However, one hundred years ago, many must have also called it wishful thinking when Malaysia or rather, Malaya, as it was then called, harboured dreams of becoming a world leader in rubber and palm oil exports. About one hundred years ago, the first rubber seedlings from Brazil and the first palm oil seedling from Africa were brought into Malaya to be cultivated. Today, these feats belong to the annals of history. Malaysia is now the world' s largest producer and exporter of natural rubber and palm oil.

Ladies and Gentlemen,

12. For the next decade, Malaysia' s development emphasis will be on export oriented industrialization, accelerating growth in priority industries selected on the basis of world comparative advantage, manpower development, and the acquiring of certain technological capabilities. Indeed, we refuse to be grounded in the mediocrity of mere assembly operations. We want our Malaysian workforce to improve their skills for we believe that our future lies in the greater value-added secondary and tertiary processing of our raw materials and in higher technology industries.

13. Although our aspirations may appear immodest, we are modest enough to recognise that we cannot achieve all these by ourselves. We recognise the need for capital investments, technological capability, management know-how and entree into world markets. For these, we need foreign investors such as yourselves.

14. The Government and the people of Malaysia have always recognised the key role that foreign investments must play as the engine of growth in our economic development. This key role was acknowledged ever since independence in 1957 and this was concretised in 1967 when the Malaysian Industrial Development Authority (MIDA), a government agency, was formally set up tasked with promoting and coordinating industrial development in the country. Today, MIDA

stands ready to assist you in every way possible for the realization of your industrial project in Malaysia.

Ladies and Gentlemen,

15. In this seminar, you will be informed of a number of measures taken by the Government to provide an even more positive and conducive environment for investment in Malaysia.

16. In May this year, the new Promotion of Investments Act (PIA) was passed by the Malaysian Parliament, providing attractive tax incentives for the manufacturing, agriculture and tourism sectors. Besides these, the Government has launched the New Investment Fund (NIF) to channel funds at preferential rates of interest for the financing of new productive capacity in manufacturing, agriculture and tourism.

Ladies and Gentlemen,

17. The Malaysian Government believes that it must work closely with the private sector in order to facilitate business. We have coined the term Malaysia Incorporated to describe this close relations. Admittedly it is not very original but it has helped the bureaucracy and the business community to change their attitudes toward each other. You can invoke this concept should you find problems in dealing with the bureaucrats.

18. Apart from this we are trying our level best to deregulate. Of course it is not possible to do away with regulations altogether. That can lead to chaos and losses for everyone, including the investors. You need the protection afforded by some well thought out regulations. But we will try our best to do away with unnecessary bureaucratic processes and regulations. For this we need continuous feed backs from you, indeed even before you invest.

19. It is paradoxical that in order to deregulate we have to propose new regulations. But I am sure you will like these regulations because they are intended to reduce investor-official negotiations to the barest minimum. Conditions that you will have to meet in order for you to get the level of equity you want will be clearly spelt out in these regulations. You can then decide for yourselves whether you want 100% ownership or 51% or minority participation and then choose the kind of industry you can go in, the capital required and the jobs you have to create. If your equity matches the conditions, you should get your approval within a given period of time. If there are delays you can appeal to higher authority. If the delays become a regular affair then there must be either something wrong with our conditions or something wrong with the Department or officers you are dealing with. In both cases action will be taken, pleasant or unpleasant.

20. One area that has been very vexatious to foreign investors is the number of expatriates allowed. Long haggling over key personnels have soured relations between investors and the Government. On the top of it the expats are given limited visas and these visas may have to be renewed by going abroad first in

order to break your stay in the country.

21. When I was in New York last week, I had taken the opportunity to announce new conditions for foreign equity and expatriate staff. These new conditions are applicable to new foreign investments in industries whose products will not compete with products presently being manufactured locally for the domestic market. They also apply to expansions of foreign-owned or partly foreign-owned industries which do not compete against existing local industries.

22. These new rules apply only to investments during the period between October 1st. 1986 and December 1990. Investments during this period will not be required to restructure their equity at any time.

23. As you might have read in the local papers, basically these are the new conditions:

Firstly, a company that exports 50% or more of its production is permitted to have up to 100% foreign equity.

Secondly, a company which sells 50% or more of its production to companies in the Free Trade Zone (FTZ) or Licenced Manufacturing Warehouse (LMW) is permitted to have whatever level of foreign equity up to 100%. Thirdly, a company which employs 350 fulltime Malaysian workers is permitted to hold whatever level of equity it applies for.

Fourthly, where foreign equity is less than 100%, the balance to be taken up by Malaysians should conform to the New Economic Policy rulings. Such rules will be applied without undue rigidity.

Fifthly, employment of Malaysians at all levels should reflect approximately the racial proportion of the country.

Lastly, any company with foreign paid-up capital of US\$2 million will be automatically allowed five expatriate posts at whatever level. Changes of personnel will not require fresh working permits. Visas will be given automatically during the first ten years of the investment period. Additional expatriate posts will be given when necessary upon request.

Ladies and Gentlemen,

24. These regulations have been formulated because we in Malaysia are pragmatic. The world is going through a bad period. Our commodities are not fetching the prices we expect. Growth which has long been taken for granted in Malaysia is not taking place. There is unemployment. Our emphasis now is on wealth creation rather than wealth distribution. We are sure we can manage our social engineering when the economy recovers. But it will not be at the expense of those who come when they are most needed.

Ladies and Gentlemen,

25. When the American Investment Group and MIDA first contacted you,

investment conditions in Malaysia were still comparatively restrictive. Now that we have relaxed these conditions further, I expect that you would not only go ahead with your plans but you would revise them upwards. More, I expect you will inform your business friends about little-known Malaysia.

26. The more prosperous Malaysia gets the better it is for everyone. Malaysians have a voracious appetite for foreign goods. That appetite can only be satisfied if we have the income to pay for them. In a way when you invest in Malaysia you are helping American workers whose products we can then afford to buy. The electronics industry illustrates this well. We produce the chips in American owned factories in Malaysia and they eventually end up in American-made computers which we buy at a fantastic rate so that Malaysia is now the third biggest user of computers in the whole of Asia. It is short-sighted for some quarters to say that Americans should invest at home only. Indeed it is short-sighted to say that America should restrict imports. If you deprive other countries of their foreign exchange earnings, how do they buy the products that you must export however big your domestic market may be? How do they pay their debts to American bankers?

27. The world is getting more and more interdependent. Even in Malaysia we realise that to sell palm oil to India, we must be prepared to import some Indian produce. We can produce most of these imports ourselves. But then we will have nothing to buy from our customers, and they in turn will have less money to buy our palm oil, etc.

28. No country is an island. We cannot but be a part of the world economic system. We have to trade with each other and we have to have a certain amount of division of labour. If we do everything ourselves and hope others will buy what we produce, then there will be balance of payment problems, restrictions and currency instability. None of these things is good for anyone.

29. And so, ladies and gentlemen, when you take the first step toward investing in Malaysia, you are not just doing us a favour but you are doing yourselves and the US a favour. In terms of total US trade and industry, what you put in may be half a drop in the ocean. But little things go a long way even in business.

30. I would like therefore to welcome you to Malaysia and I hope that this Seminar will be successful and will result in your permanent involvement in the economy of this country.

31. I would like to thank the American Investment Group for their initiative and to MIDA for the arrangements that have been made.

32. Please do get to know Malaysia. You will love it, I am sure.

Thank you.