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COLOGNE, FEDERAL REPUBLIC OF GERMANY, 20 SEPTEMBER 1988

Ladies and Gentlemen,

It gives me great pleasure to be here today to address you on the subject of the Malaysian investment environment. I would like to thank the Federation of German Industry (BDI), Association of German Industry and Commerce (DIHT), Association of German Banks, Federation of German Wholesale and Foreign Trade, East Asia Association (OAV) and the German-Malaysian Business Group for the efficient way they have arranged this programme.

2. Malaysia today is probably less strange to the Federal Republic of Germany than a decade ago. Certainly it is familiar to some 60 German companies now producing manufactured goods in Malaysia. They have invested DM110 million and employ about 17,000 Malaysians. Since 1971, 170 German companies have been given licenses to manufacture and even if they have not started up, they must know enough about Malaysia to have applied in the first place. I am sure eventually they will invest. The presence of such names as Siemen, Robert Bosch, ZF, Granek, BASF, Staedtler and also a number of small and medium-sized German companies is an indication that Malaysia is becoming increasingly well-known in Germany.

3. Still, despite this indication of the confidence of German investors in the Malaysian investment environment, some of you may have had your impressions coloured by the reports that have appeared in some international media over the last year or so. But Malaysia would not be economically and financially sound today if the reports were accurate. We would welcome anyone to come and cross-check the facts.

Ladies and Gentlemen,

4. I would like to take this opportunity to mention to you some key aspects of the Malaysian investment environment that could be of interest to you. In respect of the political situation in our country, we have one of the most stable democratic governments among developing countries and in fact even among some developed ones. Recent inter-party disagreements that you may have read or heard about is nothing new within the democratic process and in fact is an indication of a healthy and vibrant democracy. I should think that western societies, concerned with the status of democracy among developing countries, should be more apprehensive if there is a total lack of dissension within and between political parties.

5. Realising the importance of racial unity, political stability, development and economic growth, 13 political parties in Malaysia have joined together to form the National Front, the coalition which forms the government. The result is that all

the different races are represented in the Government and issues or problems are discussed in the meeting rooms frankly and rationally and the consensus arrived at are in the interest of all races. We have no need for differences to be resolved in the streets. The result is that there is peace and stability in Malaysia.

6. The fact that the National Front and its predecessor, the Alliance, have won the elections and formed the Governments since independence 31 years ago, clearly reflects the people's endorsement and confidence in the government's policies. At the same time the opposition have always been able to win seats and to make their voices heard in Parliament and elsewhere. Clearly democracy works and delivers in Malaysia.

Ladies and Gentlemen,

7. I would now like to briefly touch on the various aspects of Malaysia's overall economic performance. The Malaysian economy continues to accelerate its growth from a rate of 5.2% in 1987 to a projected 7% in 1988. About two-thirds of the growth originates from expansion in private spending with consumption growing at 7.3%, whilst in the first eight months of 1988 investments have significantly increased eight times over the same period in 1987. Malaysia's strategy of export-led growth, in which German companies are playing an important role, is continuing to pay dividends and strong exports indicate that output growth for the manufacturing sector will accelerate to reach 14%. The sheer magnitude of export earnings brought about by strong performances in both commodity exports and exports of manufactured products has allowed the economy to enjoy a substantial current surplus in the balance of payment of about M\$6 billion (DM4.2 billion). And this is achieved despite substantial growth of imports.

8. Since independence the Malaysian bureaucracy had grown rapidly. Much of this is due to the formation of statutory authorities and Government business enterprises. This huge bureaucratic machinery has been a burden to the nation. Accordingly we have decided to shed some of it through privatisation of numerous Government run services. To date, the government has privatised 14 government-owned or operated projects and these include, among others, a container terminal, a national airline company, a national shipping company, roads and bridges, a water supply project and a power transmission project. The government is now in the midst of preparing a major master plan for privatisation. Within this master plan would be programmes relating to the privatisation of ports, public utilities and railway. Postal services and the running of airports are also under study for privatisation.

9. It is the intention of the government to encourage private sector initiative and entrepreneurship. Foreign participation is both welcomed and encouraged in the privatisation programme especially in areas where the technical, business and managerial expertise can contribute towards improving the efficiency and productivity of the privatised agencies. Also, as the domestic capital market may be somewhat limited in its capacity to take up the quantum of investment required for major projects, foreign capital participation would most certainly be

welcomed.

10. Whereas we see privatisation as providing a strong impulse for growth, we nevertheless see the future of Malaysia basically as an economy that is based on the production and export of increasingly more sophisticated goods which will require continuous inputs from foreign investors. One area is the processing of our raw materials into finished or semi-finished products before they are exported. Malaysia, as you all know, is among the world leaders in the export of raw materials such as rubber, palm oil, tin, hardwood timber, gas and crude oil. We also export cocoa and a range of other mineral and non-mineral products. Our attempts to move Malaysia from being merely an exporter of primary raw materials, to an exporter of finished or semi-finished products have already met with some success. However, considering the quantum of raw commodities produced by Malaysia, we feel that we are still scratching the surface of the potential in this area.

11. In addition to our raw materials we have an abundance of well-educated, easily trainable pool of workers and managers. While wages are not as low as those in some neighbouring countries, this is balanced by the good infrastructure and services obtainable in Malaysia. Roads, telecommunications, ports and airports, power, etc are comparable to those in developed countries. It is for this reason that we are now coming close to be the biggest exporters of microchips and room airconditioners in the world. We are also very big in the manufacture and export of a variety of domestic appliances.

12. Malaysia' s combination of raw materials, manpower, energy, infrastructure, realistic government policies and attractive incentives provide investors from the West an Eastern base from which to launch the export drive into the lucrative markets of the Pacific Rim. Most certainly, Malaysia presents you with a springboard to the ASEAN market and also to Japan and China. The fact that Japanese companies, driven out of Japan by the rising Yen and other costs, are now coming to Malaysia to manufacture their products to be exported back to Japan, is testimony to the strength of the Malaysian environment. I need not tell you that the Japanese market is opening up rapidly and manufacturing in Malaysia will make you more competitive in this sophisticated market.

Ladies and Gentlemen,

13. I would also like to touch briefly on some aspects of our investment policies that could have a bearing on your investment decisions. In respect of equity, you can have up to 100% if you manufacture for export. We are very liberal with expatriate staff although we would advise you to use qualified Malaysian staff in order to reduce cost. Some American manufacturing companies are headed by Malaysians and have exclusively Malaysian executives. And they have done very well. But the choice is largely yours. As regards the movements of funds, there has been no restriction. You can take your profits and capital out any time you want. If there is any form-filling involved, it is only for statistical purposes. The depreciation of the Malaysian ringgit is a plus for German investors. You get twice as much for your Deutschmark in Malaysia.

14. The Government' s policies that have taken cognizance of the needs of foreign investors, are those that have helped to create the investment environment that we have today in Malaysia. Those companies that have invested and are operating in Malaysia can attest to Malaysia' s economic strength and healthy investment climate.

Ladies and Gentlemen,

15. Malaysia is a multi-racial and multi-religious nation. The harmony of our nation depends upon all the communities working together in friendship and understanding for the common good. This is happening in Malaysia. Malaysia is known for its racial and religious tolerance. Malaysians fully realise the importance of unity, racial harmony and religious tolerance. Malaysia' s progress, prosperity and, indeed, survival depend on them. We cannot afford to have demagogues preaching racial hatred and religious intolerance. It is better to act against them before, than after they succeed in igniting religious or racial riots and disorderliness. Preventive detention is abominable but if democracy is to survive, it must be protected from irresponsible opportunists.

Ladies and Gentlemen,

16. The industrialisation programme of Malaysia cannot be carried out by Malaysians alone. We still lack the know-how and even the entrepreneurial skill. We accept and welcome foreign participation. We can really help to make you and your products even more competitive. We do hope that along with some of your selling missions should come investors as well, ready to participate in our industrialisation.

Ladies and Gentlemen,

17. We, in Malaysia, are aware that investors seeking offshore bases for their operations, will be examining not only Malaysia but also other countries, both developed and developing, before a final investment decision is made. We are also aware that critical parameters for any investment decision other than the technical viability of the project, would be factors such as political stability, economic strength, the policies and predictability of the Government affecting foreign investments, infrastructure, banking and finance, the local business environment and the quality of life that the country offers. I believe you will find that Malaysia provides all these ingredients.

Thank you.