

THE DIRECT REDUCTION PLANT CONTRACT SIGNING CEREMONY
THE HYATT SAUJANA HOTEL, SUBANG, 18 SEPTEMBER 1990

Distinguished guests;

Ladies and Gentlemen

I would like to thank the organisers for inviting me to this gathering and to congratulate PERWAJA, Ferrostaal AG and MAN GHH AG for coming together to pool their resources for the growth of PERWAJA.

Ladies and gentlemen,

2. When the global recession hit Malaysia, we were as badly hit as anyone else, but we very quickly took steps to modify policies and approaches to expedite recovery. The measures we took were apparently effective and today, the Malaysian economy is stronger than ever and Malaysia has been acknowledged as one of the Pacific Rim countries where economic growth is expected to be among the highest in the next decade. Our manufacturing industries like other sectors recovered from the recession and went on to achieve vigorous growth.

3. Like most industries, PERWAJA during the period of recession ran at a loss, its financial problems further aggravated by an unexpectedly rapid appreciation of the Yen. Without expanding a single ringgit more, the capital and the loans doubled, reducing the original feasibility study to a meaningless scrap of paper. On the top of it the Direct Reduction (DR) plant failed. PERWAJA applied stringent measures to cut costs and increase production, especially after Tan Sri Eric Chia took over and reorganised the management and the philosophy of the company. The result was a remarkable turnaround which restored confidence in PERWAJA.

4. Today, although PERWAJA is "young" in age, its performance ratings are moving close to world standards of efficiency. It is a measure of the renewed and strong confidence in the viability of PERWAJA and its management that the total finance package of over 800 million ringgit for its expansion has been raised by a consortium of banks without any Government guarantee. And now, with the direct reduction plant which is to be resuscitated and a new DR plant that is to be built, thus doubling the original designed capacity, PERWAJA is set to enter the first phase of its expansion.

5. When the new plants come into full operation, the total production will be increased to 1.2 million tonnes of sponge iron per annum. The directly reduced iron which the DR plants will be producing will be used as feedstock and this will enable the billet plant to produce a wide range of steel -- from the very highest quality to the standard range used for construction. With the availability of quality steel at competitive prices, together with the efficient infrastructure, investment incentives, a record of political stability and a youthful and well disciplined workforce, Malaysia will present a highly attractive proposition to manufacturers of downstream steel products especially from those highly industrialised

countries where costs have escalated.

6. This opens a whole new era of opportunities for PERWAJA in various downstream activities. For the nation it will mean that the true age of industrialisation has begun, for no country can really be considered as industrialised if it lacks a reasonable capacity to produce and process steel. Although many new materials are used in modern products, steel remains the basic material without which most modern capital and consumer goods cannot be produced. It is therefore important for Malaysia to acquire the capacity to produce steel and to be efficient at it. The latter is especially important because many old steel producers are going out of business due to poor efficiency. PERWAJA's future depends not only on availability of plants but more importantly the skills in managing and operating them at maximum efficiency.

Ladies and gentlemen,

7. When Malaysia decided to go into heavy industries there was scepticism all round. To-day that decision has been vindicated. Apart from PERWAJA, the motor-car industry, tin-plate plant, cement plant, motor-cycle engine plants as well as the Heavy Industries Corporation or HICOM itself have become successful and very profitable. And now PERWAJA too has posted its first profitable financial year. The move into heavy industry was essentially correct but Government apparently overestimated management capacity to handle these sophisticated capital intensive industries. The mistakes have been well learnt and whether privatised or not, management skill must be given serious priority if we are not to fail again.

8. Up till now the public sector has played a leading role in financing the development of heavy industries either directly or through joint ventures with the private sector. However greater private sector participation in such industries will be encouraged in future. The government will encourage such participation through privatisation or joint ventures between local and foreign investors. We hope the public sector participation will be reduced just to the level of project identification and the creation of opportunities for private investments.

Ladies and gentlemen,

9. All of you present today have a role to play in the success of PERWAJA. It is the flagship of our country's entry into the steel industry. It is my sincere hope that everyone will give PERWAJA all the support it needs to make it a success.