

CONFERENCE ON "LABUAN: AN INTERNATIONAL OFFSHORE FINANCIAL CENTRE"

THE SHANGRI-LA HOTEL, 5 FEBRUARY 1991

It is indeed a pleasure to be here this morning and to address this conference. This, I believe, is the inaugural conference since the time the six key legislations aimed at launching Labuan as an IOFC came into force in October 1st last year.

2. When the government first announced its plans to launch Labuan as an IOFC, the initial reaction among many in the financial circles was one of incredulity. Some, I believe, had to refer to their world maps to locate Labuan.

3. At first sight, it would seem to be a far-fetched idea the creation of a sophisticated modern financial centre in an island which was hardly known and without any financial infrastructure. But since that announcement this has been remedied, albeit in a small way, with the establishment of six banks, five legal establishments and eight accounting firms.

4. Far-fetched ideas if worked at assiduously can become realities. Most of today's successful business conglomerates started as far-fetched ideas. It was the determination and commitment of the people involved that saw the idea take root and grow into what these conglomerates are today. In our case, I would like to reaffirm the government's strong commitment to develop Malaysia into an important regional business centre through an efficient and increasingly diversified manufacturing sector, as well as through greater dynamism and sophistication in the financial, insurance and banking services. Creating Labuan is one of the various steps we have taken to achieve our goal.

5. Let me say that the government's policy to develop Labuan as an IOFC was not pulled out of a magician's hat. Deliberations on how best to develop the Federal Territory of Labuan started a while back. We took stock of the island's strengths and weaknesses and after assessing the many alternatives, the proposal to develop Labuan as an IOFC appeared to have a reasonable chance of success.

6. Labuan, located literally in the middle of the fast growing Asia-Pacific region, has a number of attributes which are necessary and conducive to the formation of an IOFC. We, in Malaysia, are indeed fortunate. We are blessed with a beautiful country which revels in sunny weather and lush green vegetation. Our land is rich in agricultural and mineral resources. Our workforce is young, educated and productive. Our political and economic stability is well-known among investors. These attributes have been identified by experts as some of the key foundations necessary to build an IOFC, and in Labuan, these are amply evident.

7. To ensure Labuan's development into an IOFC of international repute, a series of development projects have been identified. These projects, which will cater for both the short and long-term needs of offshore investors in Labuan, are already being implemented in some cases, and others are in the final stages of

planning prior to commencement of work. To provide for a conducive work environment for offshore financial institutions, there are definite plans for excellent office buildings, fully equipped with the latest office technology, to be built, some by government agencies, in an area that is going to be zoned as a Financial Park or Banking District. To ensure that telecommunication facilities meet the high standards required of an IOFC, various projects are already being undertaken by Syarikat Telekom Malaysia to immediately upgrade telecommunication facilities in Labuan. Efficient modern telecommunication is a hallmark of an IOFC, and we are certainly sparing no efforts in giving top priority to undertake and complete all projects that will improve and enhance telecommunication service in Labuan.

8. The Government has requested Malaysian Airlines to schedule more direct flights between Labuan and Kuala Lumpur and also between Labuan and Kota Kinabalu. If the demand justifies we will have direct flights from foreign points into Labuan. Our aim is to ensure that a visitor to Labuan is able to travel in by the most convenient and comfortable way, and within the shortest possible time. I know time is precious for businessmen and I have no doubt that we shall certainly see a more favourable scheduling of flights in the course of the year.

9. The construction of a modern hospital in Labuan is also being expedited. The hospital should be able to serve both the residents and non-residents of Labuan and be fully equipped for a comprehensive range of specialist services. The government is certainly planning to effect a number of other projects too, in the area of housing, office space, and other support facilities which are suitable for an expatriate community, such as recreation and education.

10. The numerous queries and interest shown by various parties in the Labuan IOFC, indicates that Labuan can create a niche for itself. Labuan, in close geographical proximity to many Asian capitals, is in an ideal position to be developed into an integrated financial centre. We aim to develop it to meet the banking and insurance needs of multinational companies and high net worth individuals and families in the Asia-Pacific region, who wish to protect their internationally held assets and trusts as well as minimise their tax liabilities. Indeed, I am confident that Labuan would be an excellent domicile for many regional insurers and reinsurers who are far-sighted enough to take advantage of the potentials arising from rapid growth in the region.

11. Yet, in our enthusiasm to develop Labuan, let me say that our efforts and overtures should not be construed by potential offshore companies as a proclamation of a 'free-for-all policy' for Labuan. On the contrary, Labuan will be a selective suitor and will only woo those who are reputable and who are prepared to set up operating offices in Labuan. I am aware that in some tax havens, an offshore company need only maintain its presence through a name or brass plate. Such IOFCs are treated as post offices by the offshore companies and are at best 'ghost towns' for names without real 'bodies'. The Government's vision for Labuan is certainly not of this vintage, but that of a bustling functional township. It may take time and experts have warned us that even the Cayman Islands took about 10 years to be fully established. But we are confident that our vision will be

achieved sooner, rather than later.

12. However, let me dispel any idea, and forestall any criticism, that the Government has created an entrepot for legalising illegal drug money and other laundering activities in the region. Our stand on such matters is wellknown and we will have nothing to do with facilitating any illegal activity, least of all transacting in the ill-gotten gains of crimes that are so abhorrent to us. In this connection, I should stress once again that it is the Government' s intention to admit only offshore players of integrity and high international standing into Labuan. This selective process is not limited only to the offshore banks, offshore insurance companies and offshore investment companies, but will also be the standards set for professionals who provide the support services, such as legal, accounting and trust services.

13. Today' s developments in the world economy give us added reasons for developing Labuan as an IOFC. The turn of events over the last couple of months underscores the fragile state of the world economy. Latest indicators suggest that the longest-running post-war economic expansion is grinding to a halt. The United States and the United Kingdom are already in recession. These developments, coupled with the breakdown in GATT negotiations and the outbreak of war in the Gulf region, have cast a dark cloud of uncertainty over the global growth prospects in the decade of the 1990s. Amidst this gloomy scenario, the silver lining is that economies in the Asia-Pacific region continue to expand in the 1990s. The high rates of saving and investment in this region, coupled with pragmatic domestic macroeconomic management, a willingness to undertake necessary structural reforms, an educated work force, and political stability, all augur well for the continuing bright prospects of the economies in the Asia-Pacific region. The sheer size of the region, which presently accounts for 40% of world output and 45% of world trade, indicates its enormous potential for further expansion. Its total population of nearly 2 billion people or 37% of the world' s population represents a vast potential market which has yet to be fully exploited.

14. Malaysia is an integral part of the Asia-Pacific region. Much of the upsurge in foreign investment inflows in recent years emanated from Japan and the rapidly growing economies of Taiwan, South Korea, Hong Kong and Singapore. Indeed, Taiwan has emerged as the single largest source of new foreign investments, surpassing the traditional leaders such as the United States of America and Europe. It is with this sense of wanting to forge closer relationships between nations in the region that Malaysia has recently proposed the formation of an East Asian Economic Grouping. We are pleased to note that many nations have expressed their support for this idea which, we believe, once implemented, will inject even greater dynamism into the region and ensure balanced and free trade.

15. The Malaysian Government, on its part, will continue with the current policies which have proved successful in promoting Malaysia as an investment centre. Where necessary, new measures, including fiscal incentives, will be introduced to ensure that private investment spending remains sufficiently high to support

economic growth and development. At the same time, efforts will be intensified to maintain a conducive investment environment for the private sector to flourish and lead the economic growth process. This includes increased allocations in the Sixth Malaysia Plan for the upgrading of infrastructural and other support facilities in line with the needs of a rapidly expanding economy. The Sixth Plan, 1991-95, will spell out the Government' s commitment to providing the necessary support to ensure that the administrative, industrial and human resource infrastructure is in place to support private sector investment and growth.

16. Indeed, for us in Malaysia, growth with equitable distribution will continue to be the major policy thrust in the 1990s. While I cannot provide the details of the Sixth Malaysia Plan before it is tabled in Parliament at the end of June this year, I can certainly assure the private sector that the favourable business climate that we are witnessing today will continue to be promoted. The government aims at greater liberalisation. Our track record speaks for itself. As an initial step, the investment guidelines on 100% foreign equity ownership for manufacturing projects, which expired in 1990, have been extended for another year. Further measures will be announced later, together with the release of the Second Outline Perspective Plan in June this year.

17. In the years ahead, priority will be given to the further development of the financial services industry. A more efficient, innovative and competitive financial sector is vital to the growth process and overall development of the nation, particularly as the economy becomes increasingly more modern and industrialised. The launching of Labuan as an IOFC represents an important part of the strategy to develop financial services to support the nation' s development thrust. It is envisaged that Labuan will become a window to Malaysia in attracting new sources of foreign capital to finance Malaysia' s rapid industrialisation process. Labuan is expected to play a key role in the effort to develop Malaysia into a truly viable regional financial centre.

18. This Conference on Labuan is certainly timely and I hope that it will generate useful ideas and constructive feedback for the Government, so that necessary measures, whether remedial or otherwise, could be taken to further enhance and advance Labuan as an IOFC.

19. On this note, I now have much pleasure in declaring open this Conference on Labuan : An International Offshore Financial Center.