

THE SEMINAR ON "MALAYSIA: YOUR PROFIT CENTRE IN ASIA"

LONDON, 21 SEPTEMBER 1992

Sir Nicholas Spreckly, Chairman of the Seminar; Distinguished Guests; Ladies and Gentlemen,

It is indeed a pleasure to welcome you to this seminar especially held to apprise you of the present status of investment and trading opportunities in Malaysia.

2. It would not be too presumptuous to say that your presence reflects your keen interest to know more about what Malaysia can offer you in terms of business opportunities. It is my hope that this seminar will generate a greater inflow of investment capital into Malaysia, bringing with it improved technology and expertise for which the British are well-known.

Ladies and Gentlemen,

3. Over the past few years, Malaysia registered very satisfactory rates of economic growth, with last year's growth of 8.8 per cent in real Gross Domestic Product (GDP) representing the country's fifth consecutive year of high economic expansion. This year our economy has been forecast to grow at about 8.5 per cent, and although this is lower than the average growth achieved in the past four years, it is nevertheless impressive given the slowdown experienced by all Malaysia's major trading partners in the world. So far, the performance for 1992 has been encouraging, with growth in the first half of the year registering 8.6 per cent.

4. While we are happy with this growth, we are anxious that this should be achieved with a reasonable degree of price stability. Thus our primary concern now will be to give more focus to economic consolidation measures such as combating inflation and reducing price pressures. This, in turn, would enable sustained growth to go on and consequently the generation of higher levels of confidence in the Malaysian economy.

5. With the growth momentum experienced in the late eighties expected to continue into the nineties, the Malaysian economy has been targeted to grow at an average rate of 7 per cent per annum over the next 10 years. This is not an unduly optimistic figure considering the fact that the Malaysian economy actually grew at an average rate of 6.7 per cent per annum in the 20 years between 1971 and 1990.

6. In charting this growth, efforts will be made to further transform the structure of the economy so that its resilience would be enhanced. While the agricultural sector will remain an important part of the economy, the main thrust for growth and structural change will come from the manufacturing sector.

Ladies and Gentlemen,

7. Private investment in the manufacturing sector has been the primary driving force behind the growth of the Malaysian economy. Following an aggressive

export-led industrialisation strategy, the manufacturing sector averaged a growth of 15.8 per cent per annum during the period 1988 to 1991. The contribution of the manufacturing sector to the country's GDP had also risen, from 24.3 per cent in 1988 to 28.1 per cent in 1991.

8. For 1992, the prospects are equally encouraging with a growth forecast of 14.5 per cent for the sector, which would account for about 30.2 per cent of the country's GDP.

9. The manufacturing sector, which is expected to grow at 10.5 per cent per annum over the next 10 years, is expected to raise the manufacturing sector's share of the GDP to 37.2 per cent by the year 2000, thus paving the way to making Malaysia an industrial economy. Manufacturing exports are projected to account for about 81.8 per cent of the total exports by the end of the decade. Presently it is 64 per cent.

10. To realise the rapid expansion envisaged for the manufacturing sector during the 1990s, a high growth of manufacturing investment will have to be sustained. It has been estimated that in order to achieve the targeted growth rate of the manufacturing sector at 11.0 per cent per annum for the period 1991 - 1995, the amount of total investment required will be 16 billion pounds (M\$80 billion). This is about 36.5 per cent higher than the approved investment during the previous 5 year period. Of this, 6.6 billion pounds (M\$33 billion) or 41 per cent is expected to be from foreign sources, and the balance from domestic sources. The Government therefore recognises the critical role of foreign direct investment in maintaining the growth momentum of the Malaysian economy and is therefore committed to creating an environment that will provide foreign investors with the opportunities for increased investment, growth and profit.

11. Malaysia's efforts in attracting foreign investment to the manufacturing sector have been fairly successful. Over the last four years, between 1988 and 1991, total approved foreign investment amounted to 9.42 billion pounds (M\$47.1 billion) and this represented 60.7 per cent of the total proposed capital investment (15.52 billion pounds/M\$77.6 billion) in all the projects approved during the period. For the first eight months of this year, approved foreign investment in manufacturing projects totalled 2.64 billion pounds (M\$13.23 billion), which constituted about 78.5 per cent of the total approved investment in all sectors. This underscores the attractiveness of the Malaysian business environment.

12. What is perhaps more important is Malaysia's viability as an export base since most of the investments are for factories producing for the export markets. Of the 3,642 projects that were approved during the period 1988 to August 1992, 2,635 projects or about 72.3 per cent of the total would be exporting at least 50 per cent of their production. Of these, many would be exporting close to 100 per cent of their production. Indeed it is this competitiveness that has propelled us to the top in the world's exports not only of semi-conductors, of which we have been the leader for some time, but of late also in room air conditioners, extruded rubber threads, rubber gloves, colour TVs and audio equipment. We are now

fast becoming a leader in the world production of cameras. Exports of manufactured goods thus constitute 64.7 per cent of the total exports of the country in the first quarter of 1992. We therefore do have a cutting edge when it comes to producing for the world markets.

13. The Government will continue to place great emphasis on foreign investment as foreign investors are expected to bring in new technologies, new processes, vital linkages and access to international markets.

14. We are aware that the private sector thrives best under stable macro-economic conditions. The Government will therefore continue to create the conditions which are conducive to private investment growth and entrepreneurship development.

15. Our current liberal policies in foreign investment, which have proven successful, will be maintained. Foreign investors will therefore continue to be allowed to have majority, including a 100 per cent ownership of the equity of their export-oriented manufacturing projects. Notwithstanding this, we would encourage you to set up joint-ventures with Malaysians, whenever possible.

16. In addition to the liberal investment policies, Malaysia offers a wide array of tax incentives. The provision of these incentives for the manufacturing sector has contributed much to the growth of private investment. There is a need, however, to constantly review the package of incentives so that we can put in place a more selective and effective system to promote efficiency, productivity and corporate restructuring to ensure the attainment of an environmentally sustainable growth in the manufacturing sector. We have recently made some changes to the tax incentive scheme. The changes made are aimed at enhancing self-reliance and the creation of more competitive and efficient industries.

17. Revisions to the tax incentive system are intended to encourage a transition to lower import-content, higher value-added and capital, and technology-intensive industries in order to strengthen industrial linkages and to enhance greater export capabilities. This is in line with our new strategy which emphasises the development of capital and technology-intensive industries.

18. We realise that with the changes, our tax incentives may be slightly less attractive than what they used to be. Nevertheless, we are confident that Malaysia will remain an attractive location in which to invest, given our political stability, availability of natural resources, the workforce's familiarity with the English language, and our commitment to human resource and infrastructure development.

19. In our bid for an accelerated industrialisation drive, we are aware that there will be obstacles along the way. Our strategies for the years ahead will take into consideration not only the local politico-economic and social scene but also the recent drastically-changed external geo-political and economic environments. Still we feel that investors will appreciate our consistency and predictability and our willingness to adjust policies to suit the times.

20. The thrust in the future will be to promote new growth in the following areas:-

i. Broadening and Deepening the Industrial Base

In order to sustain Malaysia' s industrialisation momentum and her industrial competitiveness, a broader industrial base is needed. We aim to increase the value-added contents of our resource-based industries, to go far beyond the production of basic components in the electronics field.

ii. Encouraging more Capital-Intensive and Technologically

Sophisticated Industries

With our easily trainable, educated and relatively low cost labour, and an unemployment rate of around 5 per cent, we feel we can shift into the less labour-intensive, high-technology industries which promise higher added values and productivity. In this respect, the Government has identified 5 key technology areas for building competence and developing niche areas for the domestic industries. These are the areas of: Automated Manufacturing Technology, Advanced Materials, Bio-technology, Electronics, and Information Technology.

iii. Promoting the Development of Intermediate and Capital

Goods Industries

With the rapid pace of industrialisation, Malaysia' s requirements for capital and intermediate goods have increased significantly. Mostly these are imported. In 1991, machinery equipment alone accounted for 18.6 per cent of the total merchandise imports. This trend is expected to continue as the country' s industrialisation pace accelerates. In order to reduce future imports of such goods, the manufacture of industrial machinery and parts, machine tools and related engineering industries is being encouraged.

iv. Promoting Industrial Linkages between Foreign and Local

Companies

The Government is also concerned with the lack of integration in the industrial sector where the Free Zones have become export processing enclaves of imported raw and semi-finished products. There is little linkage with the domestic sector, particularly the small and medium-scale sector. The Government now wishes to promote industrial linkages which can contribute to greater domestic value-added. Through these, the small Malaysian firms can benefit from the transfer of technology and skills, product upgrading and market access.

21. These are the challenges facing us. They are at the same time your opportunities. Given the technological superiority of the British industries, I am sure these Malaysian needs will offer good prospects for investment.

Ladies and Gentlemen,

22. Malaysia, of course, has long traditional ties with the United Kingdom which encompass the political, economic, social and education sectors. In this regard, I am happy to note that developments in bilateral economic cooperation have been encouraging.

23. The UK is Malaysia' s fourth largest trading partner ac- counting for about 4.5 per cent of Malaysia' s total trade in 1991. Total trade increased by more than three times from 564 million pounds (M\$2,820 million) in 1989 to 1.76 billion pounds (M\$8,807 million) in 1991.

24. Currently manufactured products constitute about 90 per cent of Malaysia' s total exports to UK, a radical change from the former dominance of tin and rubber.

25. I am certain that the current strong bilateral economic cooperation will continue to expand and grow in strength. As a member of the Commonwealth, Malaysia' s trading environ- ment must be familiar with the British business community. Besides, the system of administration and laws was laid down by the British and English is still widely spoken. Clearly the British have many things in their favour in Malaysia.

26. In respect of investment, the UK has traditionally been an important source of capital and know how in the development of Malaysia' s manufacturing industries. Investment from the UK in our manufacturing sector dates back to the early years, even before our industrialisation drive. Thus it comes as no surprise that the UK features strongly in the Malaysian scene and is consistently placed among the ten leading countries from which investments in the manufactur ing sector originate.

27. Cummulatively, investments from the UK during the period 1980 to 1991 in approved manufacturing registered a total of 592 million pounds (M\$2.96 billion). For the first eight months of 1992, UK investments in eight manufacturing projects totalled 250 million pounds (M\$1.25 billion). This compares favourably with projects approved for the whole of 1991 which involved a proposed total capital investment of 107.6 million pounds (M\$538.4 million). However, the in- creasing interest of UK companies in Malaysia can be further underlined by the fact that for the first eight months of 1992, four project applications with UK interests had been received, in which total proposed capital investment would amount to 324 million pounds (M\$1.62 billion). The trend towards capital- intensive, high technology and high value- added projects from the UK is very much in keeping with Malaysia' s policy.

28. Within the East Asia region, the ASEAN countries currently enjoy one of the fastest economic growth rates, ranging from 5 to 8 per cent. Based on the present growth rates of the ASEAN population and the economies, the GNP for the region is projected to reach between 100 billion to 110 billion pounds by the year 2000. This scenario offers tremendous opportunities for the U.K. companies to locate their manufacturing operations there.

29. In this context, ASEAN will become a much more attractive market when the Governments of the six member countries begin to implement the Agreement on the Common Effective Preferential Tariff (CEPT) for the ASEAN Free Trade Area (AFTA). This Agreement, which will liberalise trade through gradual reduction of tariffs within ASEAN, hopes to establish a free trade area within 15 years commencing January 1, 1992. I am certain that you, as investors, will welcome this move. In establishing a production base in Malaysia you will be able to export to other ASEAN countries freely or with minimum import duties.

Ladies and Gentlemen,

30. I hope that at the end of today' s session, you will have a clearer picture of the business environment in Malaysia. For those of you who are familiar with our coun- try, it is also my hope that my address this morning will have helped shed more light on the recent developments that have taken place in Malaysia.

31. As mentioned earlier, companies from the UK, especially the pioneers in the manufacturing, plantation, mining and finance sectors, have helped us lay the foundations for our economic progress. While we aspire to join the ranks of the world' s industrialised nations by the year 2020, it is to be in the Malaysian mould. In essence this entails adopting Japanese, American and British management cultures and adapting them to suit the Malaysian value system.

32. We therefore, value our ties with the UK and welcome more of your investments. Although your economy and that of other industrialised nations have slowed down somewhat, we are confident that this will not materially affect UK investment abroad as such moves are rarely based on short-term considerations. We value long-term commitment as against short-term cooperation.

33. On this note, I take this opportunity to personally invite you to visit Malaysia to explore the vast investment opportunities in the country.