

THE BUSINESS LEADERS DIALOGUE

TOKYO, JAPAN, 28 NOVEMBER 1997

Firstly, I would like to say how delighted I am to be here today in Tokyo to address this gathering of prominent members of the Japanese business community. Japanese investors have always played an important role in the economic development of Malaysia and for this we are very grateful.

2. Malaysia has always been foreign investment- friendly. The Government encourages foreign direct investments (FDI) since the early 60's as we believe FDI can and will always contribute much to the rapid development of the Malaysian economy. This policy will continue to play a key role in our effort to become a fully industrialised society by 2020. Foreign Direct Investments in manufacturing sector alone in Malaysia has been on the increase and from 1991 to October 1997 FDI amounted to US\$34.78 billion (based on average exchange rate of one US\$ to RM2.5). By country, Japan was the largest with total approved investment of US\$7.39 billion (or 21.2 percent) . Other important investors were USA (US\$5.92 billion or 17.0 percent), Taiwan (US\$4.66 billion or 13.4 percent), Singapore (US\$3.93 billion or 11.3 percent), Korea (US\$1.74 billion or 5.0 percent), and France (US\$1.71 billion or 4.9 percent). These six countries together accounted for US\$25.35 billion or 72.8 percent of total approved foreign investment. This high level of investment reflects investors' confidence in Malaysia's economic potential.

3. Malaysia has prospered through opening itself early to direct foreign investments. Indeed the industrialisation and rapid growth of Malaysia is largely due to foreign investments.

4. When Malaysia became independent in 1957 it was a producer and exporter of tin and rubber. To be honest, Malaysia was quite rich due to this commodity-based economy, much richer than most other colonies which at that time were gaining independence. But rubber and tin fluctuated in price to a great degree because they depend on such factors as war and the motor industry in order to create demand. Wars cannot be continuous and the motor industry and its usage was still confined to the few rich countries then. Besides substitutes for rubber and for tin as packaging material began to erode the market for these commodities.

5. In addition, as the markets are in the rich industrialised countries of Europe and America (Japan not having emerged yet) the prices of these two commodities were determined solely by them. We the producers and exporters had no say at all. Consequently, the prices were often depressed and we had to sell more and more of the two commodities in order to buy less and less of the manufactured goods. The growing population of Malaysia was finding difficulty in finding employment and poverty was not becoming less.

6. To grow economically, Malaysia had to turn to the manufacturing industry. Unfortunately, we had no expertise, no capital and too small a domestic market. To overcome these drawbacks, we decided fairly early in comparison to other

newly-independent countries to invite foreign direct investments. It was common sense and not international pressure which made us accept foreign participation in our economy. Investments by the Japanese mainly but also by other countries enabled us to achieve our objective of becoming an industrialised country with jobs for all our people and earnings in foreign exchange mounting every year. By 1996, out of our total export of 70 billion U.S. dollars, 80 percent was made up of manufactured goods.

7. We are therefore among the early proponents of open economy and crossborder flows of capital. We needed no encouragement and certainly no force to open up our country. We believed in the good that could result from foreign capital and the ease of capital flows across borders.

8. No poor country can ever grow rapidly enough in order to cope with a growing population and the need to improve living standards without industrialisation. Without foreign capital inflows, their knowhow and the jobs they create, poor countries would stagnate and wallow in poverty. Poverty only breeds poverty, while wealth leads to greater wealth. To break the cycle of poverty, poor countries must seek the involvement of rich countries in their development. Eventually through foreign direct investments the poor can become rich and then be capable of propagating growth from within. Still the need for foreign direct investments especially in the production of goods and services remains and helps to continue as well as accelerate the pace of growth.

9. As a corollary to foreign direct investment, world trade is equally crucial. A country as small as Malaysia with a population of only 20 million cannot grow based on its domestic market. It must export to the rest of the world if the earnings are to grow. World trade is therefore very important to Malaysia as indeed it is to almost every country. By providing a huge market for exported goods, world trade make economies of scale possible and ensures the viability of modern mass production industries.

10. With the world market open to its products, the industrialisation of Malaysia succeeded and even surpassed expectation. Suddenly, along with other developing countries of South East Asia, Malaysia achieved what was described as an economic miracle. It was labelled as one of the tigers and dragons of Asia and was apparently set to become a fully developed country in two or three decades.

11. But as you know, our progress has been halted and even rolled back. Today there is turmoil in the economy of Malaysia and in the other South East Asian countries. The tigers have stopped roaring and the dragons' fire-breathing apparatus no longer belch fire through their nostrils. There is no more talk of the 21st century as the Asian Century.

12. Due to devaluation of its currency, in GDP terms, Malaysia has lost approximately 40 billion U.S. dollars in purchasing power. This means that the country is poorer and the people who had hoped to rise above their unfortunate situations now have no hope, not in their lifetime at least to emerge and shake

off their poverty. Instead their poverty is greater and more have joined their ranks from among those who had before lifted themselves above the poverty line. Unless something dramatic happens, Malaysia' s growth which has been put back 15 years will lag behind by that space of time in terms of economic growth.

13. But apart from devaluation, Malaysia is also seeing a grave and massive loss of capitalisation of its stock market. The share prices have nose-dived and wiped out 60 percent of the capital amounting to approximately 100 billion U.S. dollars. Banks are faced with liquidity problems as margin calls were not met by clients and collaterals have to be sold at give-away prices.

14. True, despite all these, Malaysia' s economy is said to be still strong. Malaysia hopes never having to resort to loans from the IMF. But the pressure on Malaysia is very very great. The currency continues to be attacked along with the stock market.

15. The sad thing is that all these troubles are due to the very thing that Malaysia had always welcome -- cross border flows of capital and world trade. Because we had opened up and because we allowed our currency and shares to be bought by foreigners and traded outside our country, today we have to face the full force of international currency manipulation and stock market assaults.

16. The rules of currency trading have been devised by the currency traders themselves and they give themselves unbeatable advantages over their victims. There is no way the target country can fight back.

17. I will not insult you with explaining the mechanics of currency trading but I would like to point out how, between manipulating currency values and assaulting the stock market, the manipulators ensured they would profit all the time.

18. Before an assault is to be mounted on a currency, they would acquire large sums of that currency. When they attack, the Central Bank would defend the currency by raising interest rates. The traders would then lend the currency they had earlier acquired at high interest rates. The high interest imposed by the Central Banks also depress share prices and the traders would engage in short selling in order to profit from the fall in share prices.

19. Clearly they profit from the currency depreciation, the rise in interest rates and the fall in share prices. It is a wonderful way of making huge profits and it is all within the rules of the free market system and world trade.

20. The unfortunate thing is that countries and people lose a lot of wealth in a very short space of time, wealth which they had worked hard to acquire over many many years. Worse than that, the loss of wealth by the nations and the people is far greater than the profits made by the manipulators. In the case of Malaysia, for example, while the GDP loss is estimated at 40 billion U.S. dollars, the profit made by the manipulators cannot be more than five billion U.S. dollars. There is a disappearance of some 35 billion U.S. dollars worth of wealth and

purchasing power.

21. Now if we add up the losses sustained by all the countries of South East Asia and North East Asia due to devaluation, the total loss runs into hundreds of billions yearly. On the other hand, the gains by the manipulators are small and once only. There is thus a great deal of waste of wealth in order to give the traders their profits. In a zero sum gain what the loser loses is gained by the winner. In the case of currency trading the loser loses very much more than the gain made by the winner.

22. It would seem that unfettered world trade can destroy as much as it can build. World trade i.e. the trade in goods and services has created wealth for everyone throughout the world. Jobs, contracts, freight, insurance, transportation, port handling -- all these and more accrue from world trade. But who and how many people benefit from currency trading and stock market manipulations - a very few indeed. They create no substantial employment, use no tangible services, produce and consume no goods and benefit the world not at all -- indeed as has been pointed out currency trading and stock market manipulations result in a shrinkage of wealth, real wealth. The trade in services and goods creates wealth and reduces poverty, but the trade in currency and portfolio investments across borders diminish wealth and increase poverty. Wherever the currency traders go they leave a trail of poverty and destabilised economies in their wake.

23. It is said that the trade in currency is 20 times bigger than world trade in services and goods. Imagine if world trade in goods and services is 20 times bigger than it is now, how much wealth it can create and how successful would be poverty eradication. The world would be literally 20 times richer and poverty worldwide would have been totally eradicated. But currency trading which makes up about 95 percent of world trade has increased poverty instead.

24. I have taken this opportunity to talk about the damage caused by currency trading in order to differentiate and highlight the benefits of cross-border flows of funds for productive activities. Malaysia is trying to manage the difficult economic situation that it is faced with now. We think we may be able to manage but we need new foreign long-term productive investments even more urgently. We had looked at the proposed Asian Fund but now that it is going to be an extension of the IMF it has become much less attractive. If we need that kind of aid we might as well resort to an IMF bail-out. But such a bail-out does not guarantee our economic recovery. What is certain is that it will restrict our freedom to design and initiate new ways of stimulating foreign direct investments in our country and the implementation of new economic policies and strategies. Malaysia has always been innovative and that is why we have progressed. Restriction on us will limit the introduction of innovations in our economies management.

25. Normally a fall in the value of the currency would lead to inflation as wages rise in order to regain purchasing power. As is well-known imports constitute a significant portion of goods and services consumed locally. These imported items will appreciate in terms of the devalued currency. Again this will negate the

positive effect of devaluation.

26. If there is any gain at all in terms of cost of production due to devaluation, it is likely to be temporary. In time whatever cost reduction would be negated as wages rise and goods and services go up along with it. If inflation does not run wild the best that can be expected is a return to the original cost levels.

27. In Malaysia however, the local cost and prices have not gone up until now. Wages are still at the old levels even though in foreign currency terms their purchasing power had decreased. Workers have not demanded for wage increases simply because they are still able to buy the same goods and services that they were able to buy before the devaluation. It is the intention of the Malaysian Government to keep wages at the old level through a campaign against waste, against unnecessary luxuries and through belt tightening. The consumption of non-essentials, especially imported ones will be reduced to the minimum. The campaign has received the support of all strata of the people including the unions and the workers. As a country with a relatively small and disciplined population it is possible for the Government to monitor receipts and expenditures closely to ensure that imported inflation will be minimised. The people have pledged their full cooperation towards a program to make Malaysia more competitive globally.

28. What does this mean for foreign investors? It means that they can produce goods and services in Malaysia actually at a much lower costs than before. They would either earn more profit or become more competitive in the world market. As you know investors have always found Malaysia a good manufacturing centre because of its efficiency and lower cost. Now the cost will be even much lower.

29. At the same time Malaysia will continue to provide the efficient handling of investors' needs. Bureaucratic processes would be reduced to the barest minimum. All the old tax incentives and privileges will be continued. A business-friendly Government will make itself readily available even at the highest level to resolve any problem that may arise.

30. For some time now Malaysia has been promoting high- tech industries and discouraging labour intensive industries. This is because we are short of workers and have to allow foreign workers to come in. We want to reduce dependence on foreign workers while increasing the income of our better trained citizens through hi- tech industries.

31. However we have decided to call a halt to this policy. We will now allow for labour intensive industries dependent on foreign labour if the industries are for export. We now have about 1.7 million foreign workers. We will allow a gradual increase if export- oriented industries require a bigger work force.

32. A number of hotels in Malaysia are Japanese-owned. We notice that Japanese visitors prefer to stay in Japanese-owned hotels. They also prefer Japanese tourist guides and operators. We are quite prepared to allow more Japanese tourist operators if they can bring in additional tourists or prolong their

stay in Malaysia.

33. Apart from these, we are willing to listen to and consider other ideas that you may have for increasing Japanese investments in Malaysia.

34. At this moment despite the so-called currency turmoil and lowered growth, there is still full employment for Malaysians in Malaysia. We are thus able to reshape the economy without too much cost to our people. Traditionally our people are very disciplined and easily trained. They are not prone to wild action which may undermine our economy. They are also fully supportive of the Government they had elected with a huge majority. In fact the attack on Malaysian currency and certain action directed against the country's leaders have only strengthen their unity and support for the Government. Even opposition members are quite supportive.

35. This renders the country politically stable and the Government fully effective. New policies and approaches proposed by the Government will not disrupt the equanimity of the people.

36. We are certain that the steps we have taken and our invitation for more foreign investments will be welcome by them. Indeed all our people will be ready to provide your investors with the best service. You will find living and working in Malaysia inexpensive and pleasant.

37. I would like to invite all of you to visit Malaysia and check whether what I say is true. You will find that there is no haze in Malaysia and with the agreement of Indonesia we can assure you that there will be no haze in future in Malaysia. You will find our bureaucrats attentive and ready to consider all your needs. And you will find Malaysians as friendly and hospitable as ever.

38. So do come to Malaysia to invest and to enjoy its salubrious climate. And now it would cost you even less in terms of Yen, for the Yen has also appreciated against our Ringgit. Welcome to Malaysia. Welcome to invest in Malaysia.