

The Malaysian-German Business Forum - Business Opportunities In Malaysia

Hilton Munich Park, Germany 18 March 2002

"REALISING A VISION: THE MALAYSIAN WAY"

I wish to take this opportunity to express my great pleasure in addressing the distinguished delegates and participants at this high level meeting of the captains of industry and strategic business navigators from both Germany and Malaysia.

2. I believe regular exchange of visits, consultations and dialogues between leaders, officials and the business communities as well as increased people to people contacts are highly beneficial in enhancing bilateral relations and partnership. A high level business forum such as this will undoubtedly go a long way towards providing correct and accurate information on the many business and investment opportunities available in Malaysia and the policies and measures undertaken by the Malaysian Government.

3. Germany has long been an important business partner of Malaysia and this is evident in the presence of many German multinationals and investors in Malaysia. We also have great respect for German expertise in a variety of fields, especially in engineering and information and communications technology (ICT). The total trade between Malaysia and Germany was valued at US\$4.8 billion last year. In fact, Germany is our largest European Union (EU) trading partner since 2000. More heartening is that despite the slowing global economy this year, Germany has remained as our top EU trading partner.

4. These are the days of reckoning - characterised by a rapidly evolving landscape of the world economy driven by new perceptions and new ideas about how countries should conduct their relations with each other and relate to the world in general. As such, Malaysia and Germany ought to look ahead for avenues and channels whereby we can work together in smart partnership for the good and the mutual prosperity of both our countries. The importance of such cooperation and partnership for the 21st century cannot be over emphasised.

5. The overall performance of the Malaysian economy last year defied the sceptics and cynics who had long prophesied doom for the Malaysian economy. While growth was supported by external demand, it was rising private consumption and the strong revival in domestic investment that had contributed significantly to economic growth.

6. Where Malaysia is today is not due to a miracle or accident. It has been due to the zealous and untiring efforts of the Malaysian Government and people to transform the nation from a backward agro- mining ex-colony of the British to an industrial nation with 82 percent of its almost USD100 billion of exports consisting of manufactured goods. Malaysia today is one of the biggest trading nations in the world, despite being a multi-racial country with a very explosive mix of races, religions, culture and language. Its success in maintaining harmonious relations between the different races and its stability did not just happen. The people and the Government had worked very hard at it. Malaysia remains an oasis of stability despite attempts to destabilise it through currency devaluation and other means.

7. Malaysia's economic transformation can be divided into several stages. From our independence until 1969, our economy was basically primary commodities-centric. For a long while we were the world's largest producer and exporter of rubber, tin and tropical hardwoods. From 1969 on, the Government began to embark on industrialisation and manufactured goods began to outstrip commodities as Malaysia's main exports. The liberalisation and deregulation measures adopted in the mid-1980s brought in substantial inflows of FDIs, resulting in manufactured products accounting for more than half of Malaysia's total exports. It was also during that time that our first automobile rolled off the production line, to catalyse the growth of the engineering industry.

8. Malaysia then entered the next phase of growth in the 1990s when the nation adopted the Vision 2020 - a single-minded and united vision of Malaysians to transform the nation into a fully developed country by the year 2020. Just as many countries have their own growth models and their ways to achieve goals and aspirations, we in Malaysia also have a model of our own and it is imperative that we realise the vision our way - the Malaysian way. Vision 2020 has galvanised the people with self-confidence and conviction that they can make their country a developed nation with their own high standards and sets of values. We are not about to copy everything that is equated with being developed. We will devise our own solutions to our unique problems and we feel convinced that we can do it. Our slogan is short and simple. "Malaysia Boleh" or Malaysia can.

9. However, our Vision and aspirations were nearly derailed towards the end of the last century when the Asian economic crisis struck like a whirlwind, devastating the economies of many developing nations in Asia before spreading its venom to Russia and Brazil. For ten consecutive years, Malaysia - a nation that had always subscribed to the free market

principle - grew by more than eight percent annually. On top of that, our nation had always been politically stable and economically resilient, with strong macroeconomic fundamentals. Our currency was strong and foreign debts were within acceptable limits. Indeed, we were actually able to prepay our loans.

10. The Ringgit was undoubtedly considered a strong and stable currency. Moreover, some even felt that it was slightly undervalued. Besides the stability of the Ringgit, the Malaysian economy was robust. By 1997, total external trade had breached the USD158 billion figure, making Malaysia the 18th largest exporting nation and the 17th largest importing nation in the world. The Government was enjoying fiscal surpluses. External debt was generally low, at approximately 40 percent of GNP. The current account had narrowed from a deficit of 10 percent to five percent of GNP, and was expected to improve further. Inflation was at its lowest at 2.1 percent.

11. But suddenly in July 1997, the Malaysian Ringgit came under heavy speculative attack. The reason given was contagion. Because neighbouring countries had economic problems it was predicted by the speculators that Malaysia too would have problems. Accordingly the speculators sold down the Ringgit, forcing it to be rapidly devalued. Foreign investors in the stock market then pulled out their investments resulting in the Composite Index plunging from over 1000 points to less than 300 points. Between the devaluation and the practical collapse of the Kuala Lumpur Stock Market, some USD 200 billion in market capitalisation was lost. In terms of import cost Malaysia lost almost USD50 billion when the Ringgit went from RM2.5 to the USD, to RM4.8 to the USD.

12. Suddenly prosperous Malaysia became extremely poor. There was no let up. The rogue traders continued to harass the Ringgit and share capital continued to plunge as investors pulled out.

13. Malaysia was not alone of course in facing this unprecedented financial crisis. All its neighbours and even South Korea were in a state of turmoil. Everyone was being told that bad governance, corruption, lack of transparency, and cronyism were the cause of the economic and financial collapse. No one mentioned that the very same Governments were responsible for the East-Asian economic miracles which propelled these countries toward a high level of prosperity and commercial sophistication. No one pointed out that the expectation initially was that the 21st century was going to

be the Asian Century because of these countries. All the talk was about bad, incompetent and corrupt Governments.

14. Currencies do not have sensors and cannot discern good or bad Government. People can. They can respond. But some people can even manipulate. It is the currency traders who decided that devaluing the currencies would give them huge profits. Latching on the idea of contagion, the currency traders sold currencies they did not possess in the classic short-selling game which they know very well how to play.

15. Hence, on 2 September 1998, we imposed selective capital and exchange rate controls. Needless to say, the world was shocked and many economic and financial experts quickly predicted the catastrophic collapse of the Malaysian economy. In hindsight, it was also considered madness for Malaysia - being a small developing country with little clout among the economic giants - to go against the rest of the world. We did the unorthodox by making the Ringgit illegal outside Malaysia, pegging the Ringgit at RM3.80 to a US Dollar, and imposing a 'twelve-month rule' whereby repatriation of portfolio funds was prohibited until it had been parked for one full year in the Malaysian capital market.

16. The primary objective of such controls was not to isolate Malaysia from the rest of the world. Rather the controls were meant to insulate the Malaysian economy from further attacks by currency manipulators, and to enable the Government to regain control of the nation's economy. The measures implemented were very carefully crafted so as to optimise the positive aspects of globalisation and remove its negative aspects. The liberal regime that governed trade transactions and FDIs - components of the real economy - were left untouched. Today, as we look back, we feel our efforts have been vindicated as Malaysia has emerged better off than many of its neighbours from the crisis.

17. As a result of what can be considered as Malaysian pragmatism, we are today back on track to realise our Vision 2020. In fact, just as much as we aspire to realise the Vision in our own way, we have managed to ride out of the economic turmoil very much in our unorthodox and often criticised but effective Malaysian way.

18. Today, Malaysia is embarking on a new phase of growth and development as we strive to achieve our 2020 vision. This new phase is very much shaped by the new economy, brought about partly by the advancement in ICT. Although manufacturing will remain an important part of the Malaysian economy, we are beginning to see knowledge and ICT emerging as the new engines of growth that will drive our economy to greater

heights. As outlined in our Third Outline Perspective Plan - Malaysia's integrated long-term development blueprint from 2001 to 2010 - new growth areas in high technology manufacturing such as in the ICT and electronics sectors will be identified for further development.

19. This is also in tandem with one of the strategic challenges of our Vision 2020 - that is the challenge of establishing a scientific and progressive society, a society that is innovative and forward-looking, one that is not only a consumer of technology but also a contributor to the scientific and technological civilisation of the future. As such we are placing a great deal of emphasis on the education training of our people so as to benefit from ICT and the knowledge economy. We will need much help from foreign sources and we believe we will be attractive enough for foreign high tech industries and services to locate in the special zone we have created for them.

20. In this regard, and knowing that Germany is a world leader in ICT and precision engineering, I believe Germany can play a pivotal role in helping to shape the transformation of the Malaysian economy as we embark on this exciting era. We welcome German investments in Malaysia, especially in the fields of ICT and engineering, and we believe there are still plenty of avenues of Malaysian-German partnership.

21. In Malaysia, there are tremendous opportunities for investments by foreign investors. They, the foreign investors have always found Malaysia to be an attractive place in which to put their money. May I take this opportunity to highlight a few reasons why this is so. Over the last 30 years, the Malaysian Government has consistently maintained an investment- friendly and pro-business environment. We are also very stable politically and have been very consistent. There will be no sudden changes in Malaysia.

22. Our development record since independence has been quite remarkable. Independence did not result in the kind of nationalism that insist on nationalising foreign holdings. Instead we invited greater foreign participation in our economy. Right from the word go we accept the free market system. Despite being multi- racial and multi-religious we have maintained racial and religious harmony and avoided the kind of intolerance seen in many multi-racial countries.

23. Good infrastructure encompassing world-class ports, airports and industrial zones, combined with a government committed to facilitating and maintaining a business environment conducive for growth and profits, have been the

formula for Malaysia's success in attracting FDIs, especially in the manufacturing and ICT sectors. I can assure the many German captains of industry and potential investors present at this forum that the Malaysian Government will continue to maintain the most conducive environment possible for business.

24. The lure of investing in Malaysia given its excellent prospects and potential has seen a remarkable USD 4.8 billion worth of foreign investments being channeled into the manufacturing sector in Malaysia last year of which Germany was the eighth largest foreign investor in terms of approved investment. The figure bears testimony to Malaysia's standing as an outstanding investment hub in the region. This visit I hope will result in more German investment in Malaysia.

25. I believe Germany, with your rich legacy of industrialisation, can play a pivotal role in helping us to realise the aspirations and targets laid down in the Second Industrial Masterplan. One of the many ways is through investing in our high value-added manufacturing industries and technology sectors, and at the same time facilitate the transfer of technological know-how that would, at the end of the day, reap profound benefits for both sides - profits for the investors, and technological advancement and growth for the Malaysian industries.

26. I wish to invite our German counterparts to invest in the Malaysian ICT industry as Malaysia, through its Multimedia Super Corridor (MSC) project. We can achieve much synergies should Malaysian and German ICT companies work together. The MSC - a special area provided with full telecommunication policy and legal infrastructure will facilitate ICT-based activities, from R&D to contents development, to hub operations for worldwide business and everything that ICT industries need. It is being used as a centre for regional and global operations by a major MNC. The cost of operations in the MSC is among the lowest in the world and there will be a sufficient supply of trained knowledge workers.

27. The MSC has already achieved its target ahead of time. Instead of having 500 companies by 2003, it now has 646 companies. The planning and direction of the MSC gains much from the advice of an International Advisory Panel made up of CEO's of leading world-class IT corporations, including those from Nokia, Ericsson, Motorola, Intel etc.

28. German technopreneurs can leverage on MSC's Flagship Applications, namely the E-Government, Telemedicine, Smart Schools, Multipurpose Card, R&D Clusters, Worldwide Manufacturing Web, and Borderless Marketing Centres. German

high technology companies can explore vast options including forming consortiums to develop new Flagship Applications, locating their R&D activities in the MSC to take advantage of the friendly regulatory framework and world class facilities, using the MSC as a regional or global marketing base, and providing value-added telecommunication services. Germany can locate her highly skilled knowledge workers in the MSC to leverage on the facilities of the Corridor in producing defining technologies and breakthroughs for the next generation. Hundred percent foreign-owned companies can operate in the MSC.

29. Malaysia is a nation with a vision, high aspirations and ambition. We want to be a developed country by 2020. We believe we have much to learn from Germany and we also believe that Germany has the capability to play a significant role in our economy and in helping us towards making our Vision a reality.