

The "Malaysia-China Economic Conference Challenges, Impact And Prospects"

Sunway Lagoon Resort Hotel, Bandar Sunway, 8 October 2002

I would like to thank the organisers for inviting me this morning to officially open the "Malaysia-China Economic Conference".

2. Since Malaysia established diplomatic relations with China in 1974, efforts have been taken at Government-to-Government level to put in place several bilateral cooperation mechanisms to facilitate and enhance trade and economic relations between the two countries. These efforts have assisted in fostering closer trade and investment ties between Malaysia and China.

3. China's rapid economic development in recent years has enabled it to become a regional and global economic power. The Malaysian business community should view China's progression as an opportunity for both countries to cooperate for mutual benefits.

4. China has become an important and growing market for Malaysia's exports of goods and services. China can also be viewed as a competitive location for joint ventures between Malaysian and Chinese companies to serve the Chinese, regional and global markets and a source of Foreign Direct Investments into Malaysia.

5. China's rapid progress in the trade and economic fields has certainly posed competition for Malaysia's exports in the international market. We are witnessing a trend whereby Chinese products are getting better in quality and are competitively priced and this is posing stiff competition to our products. In addition, Chinese products are also complying with world standards and are gaining recognition and acceptance amongst consumers in Malaysia's traditional markets such as the US, Japan, and the European Union.

6. Today, manufactured products account for about 80 per cent of China's global exports. Chinese manufacturers have acquired the capability and capacity of producing a wide range of products such as the latest models of electrical and electric products, cosmetics and jewellery.

7. Chinese companies have also promoted brand names, which have gained international recognition. Certain Chinese brand names are now well accepted in developed markets such as in the US and Europe. In addition, a recent survey indicated that 7 out of the 10 most recognised brands in China are homegrown,

compared to five years ago where Japanese brands dominated the list.

8. The export capacity of Chinese exporters is enhanced by a big domestic demand which has enabled Chinese companies to achieve economies of scale and meet large export orders on time.

9. It is also noted that many leading Multinational Corporations and foreign companies have made and are making investments in China. Some even have relocated their labour intensive manufacturing operations from other countries including Malaysia to China to take advantage of lower labour cost. For example, many Japanese electrical and electronic companies have established their manufacturing units in China to produce TVs and radios. The products are then exported back to Japan and other countries.

10. China's commitments in carrying out reforms to comply with the WTO, together with its comparative advantage of lower production cost, large domestic market and abundant labour has enabled it to be a magnet for foreign direct investments. China is drawing away investments from other countries in the region. From 1997-2000, China attracted an average of US\$42 billion net FDI per year. In 2001, FDI inflows into China amounted to US\$46.8 billion. China alone took-up over 70 per cent of the FDI inflows into the developing countries.

11. Despite the difficult and diverse challenges posed by China, I urge the Malaysian business community to view the economic development underway in China in a positive manner. Although China is a competitor, it also presents opportunities for cooperation towards increased trade and investment cross flows. Malaysian firms should therefore position themselves to partake of the large business potential in China.

12. Malaysia and China have already established strong bilateral trade links. Trade between the two countries have been enhanced over the years. Since 1991, total trade has grown by 6-fold, exports to China by 7-fold and imports from China by 6-fold. During the first seven months of 2002, China has emerged as Malaysia's 4th largest export market as well as import source. From China's perspective in 2001 Malaysia was its 10th largest trading partner, 9th largest import source and 14th largest export market. For the period January to June 2002, Malaysia was China's 7th largest trading partner globally and largest trading partner amongst the ASEAN countries. The strong expansion of bilateral trade in recent years is a reflection of the potential that exists to further expand trade and investment linkages between the two countries.

13. The composition of goods traded between Malaysia and China has changed over the years. Today, around 47 per cent of Malaysia's exports to China are made-up of electrical and electronic products. Other products include palm oil, chemical and chemical products, petroleum and machinery equipment. Likewise, 55 per cent of Malaysia's imports from China are also made-up of electrical and electronic products followed by machinery equipment, cereals, chemical and chemical products and textiles and garment. The volume of trade and range of goods transacted could be expanded further. This requires more intense effort on the part of Malaysian exporters to access the large domestic market in China.

14. It is heartening to note that Malaysian companies in fact have taken steps to make inroads into the Chinese market. Cumulative Malaysian investments up to June 2002 in China amounted to RM9.31 billion in 2216 approved projects. In 2001, Malaysia ranked as the 18th largest foreign investor in China. Amongst the major sectors invested are in the production of wood-based products, computers, office equipment, plastic-based products and foodstuffs. Investments in the service sector include infrastructure development, construction, power generation and hypermarket business chain.

15. As the world's most populous nation with an increased GDP per capita and disposable income, China presents a potentially large market to tap. Since 1978, China's economic growth has averaged at 10 per cent per annum. Despite a global economic slowdown in 2001, China still recorded an economic growth of 7.3 per cent and the GDP growth for 2002 is forecast at seven per cent.

16. Demand for foreign goods is increasing in line with the increase in purchasing power of the 130 million Chinese middle-class concentrated mostly in the major cities and growth centres such as Shanghai, Beijing, Guangzhou and other coastal cities. The Chinese middle and higher income earners have developed a taste for higher-end, branded imported products. Malaysian companies should intensify efforts in producing high-end branded consumer products such as garments, apparels, shoes and handbags and others that can be attractive to the affluent Chinese consumers. This approach would allow manufacturers to build a niche market and avoid from competing with me-too products or low-value mass-produced goods.

17. China's huge domestic market and its abundance labour should be made use of by Malaysian enterprises seeking overseas market and production facilities. A more feasible and effective way is to be near the market by setting up production bases in China. This could be done through joint manufacturing activities and marketing efforts to gain firm

foothold in the domestic market. As China itself produces a wide range of products very competitively, these products can be used as components for the final products, which can be sold in the domestic and global markets. The Malaysian business community has the advantage of understanding the Chinese languages and cultures and this advantage should be used effectively in facilitating business ties between both countries.

18. Malaysian firms are also urged to ally with Chinese manufacturers in areas where the Chinese have technological advantage. This partnership would help Malaysian companies to penetrate the Chinese market as well as regional and global markets. Companies from Malaysia and China by complementing each other could further improve their competitiveness in the regional and global markets.

19. Research and development and the application of modern technologies have enabled Malaysia to export globally food products that meet international standards. China has a substantial Muslim population estimated at 60 million. In view of the size of the "halal" food market, we are in a good position to supply "halal" food for the Muslim community in China. Malaysian companies could also establish "halal" food outlets in China. In addition to "halal" food, we can also export other "halal" product such as cosmetics, toiletries and skin care products to China.

20. Malaysian entrepreneurs could also explore opportunities for cooperation and collaboration with their Chinese counterparts in the services sector such as in healthcare related services, education, tourism, franchising, retail trade, chain stores, supermarkets, telecommunications, information and communication technology, consultancy services, management and logistics.

21. China's membership in the WTO has allowed for improved market access for Malaysia's products. Commitments by China in the WTO will reduce average tariffs to 15 per cent for agriculture products and 8.9 per cent for industrial goods. Among the products where increased market access opportunities have been created for Malaysia are:

i) Increased global quota for palm oil from 1.5 million metric tonnes in 2000 to 3.168 million tonnes in 2005. The quota will be phased out beginning 2006;

ii) Reduction of out of quota palm oil import tariffs from 63.3 per cent to 9 per cent in 2006 on par with soybean oil; and

iii) Phased elimination or reduction of duties on semi-conductors, furniture, wooden panel products and consumer electronics.

22. China's WTO commitments also include liberalisation of trade in services. Better access is created for foreign services providers in China. Allowing more foreign firms to operate in China will raise wages for Chinese workers and provide them greater purchasing power. This environment would be beneficial to China's trading partners including Malaysia as more imported products can be purchased by Chinese consumers.

23. China's growth can contribute to the prosperity of neighbouring countries. ASEAN-China FTA envisaged within 10 years is being negotiated with the context of a broad ASEAN-China cooperation framework which will involve other areas such as finance, tourism, agriculture, HRD, SMEs, intellectual property rights, environment, forestry, energy and sub-regional development. The FTA would eventually open-up new opportunities and areas for collaboration between Malaysia and China as well as with other ASEAN member countries.

24. On that note, I have great pleasure to declare the "Malaysia-China Economic Conference officially open.