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(PRIME MINISTER)

EVENT: MAJLIS PERASMIAN KONVENSYEN PERSATUAN GEDUNG SERBANEKA JEPUN

VENUE: HOTEL SHANGRI-LA, KUALA LUMPUR

DATE: 05/10/1998

TIME:

Saya ucapkan terima kasih kepada Persatuan Gedung Serbaneka Jepun atau The Japan Department Stores Association kerana menjemput saya untuk merasmikan Konvensyennya pada hari ini.

2. Malaysia is delighted that the Association had chosen Kuala Lumpur as the venue for this annual event after hosting their previous meetings in Los Angeles in 1997 and Taipei in 1996. This reflects the confidence of the Association with the potential of Malaysia, despite the current economic and financial turmoil in the region.

3. We are confident that the Malaysian economy will recover and improve. We are still fundamentally strong and we have put in place stabilising policies and regulatory infrastructures so that our economy will not be buffeted by the destabilising activities of currency traders and stock market raiders. Today our economy is the most stable in Asia and traders and investors can do business with greater certainty.

4. In 1997, Malaysia's total trade with Japan amounted to USD27.25 billion, an increase of two percent from 1996. In the first seven months of 1998, trade with Japan totaled USD11.49 billion.

5. Malaysia's exports to Japan in 1997 amounted to USD9.93 billion, an increase of 5.4 percent compared to 1996, while imports amounted to USD17.33 billion, an increase of 0.2 percent from 1996 i.e. USD7.4 billion in favour of Japan. For the first seven months of this year, exports to Japan amounted to USD4.64 billion while imports amounted to USD6.84 billion. The trade is still in favour of Japan.

6. Malaysia's total trade with Japan in 1997 accounted for 17.2 percent of Malaysia's global trade of USD158 billion (RM442.39 billion), making Japan Malaysia's second largest trading partner, after the United States.

7. In 1997, Wholesale and Retail Trade, Hotels and Restaurants as a group, represented 12.3 percent of Malaysia's total GDP, a slight decline from 12.4 percent

share recorded a year before. Likewise, the sub-sector's growth moderated to 7.5 percent in 1997 from 9.3 percent recorded in 1996. However, for the first-half of 1998, this sub-sector contracted by 1.5 percent, as compared to a 7 percent growth recorded in the second-half of 1997. Wholesale and retail trade was affected by the currency turmoil, as well as the steep decline in stock prices. Nevertheless, this sub-sector was able to retain its dominance in the services sector with the largest share of 12.3 percent of GDP at end-1997. I am confident that in the long-term, this sub-sector will continue to expand.

8. It has always been the policy of the Malaysian Government to welcome foreign investments, particularly long-term investment that will benefit both foreign investors and locals. The policy of encouraging foreign investment is reflected in the continuing keen interest shown by investors in Malaysia. In 1997, 759 projects with a total capital investment of USD7.4 billion (RM25.8 billion) were approved. The bulk of foreign investment representing 44 percent or USD3.3 billion (RM11.5 billion) came mainly from the United States, Japan, Germany, Taiwan and Singapore. Of the number of applications received, 462 or 61 percent were for new projects while 297 were applications from existing investors who proposed to undertake expansion and diversification of their existing operations in Malaysia.

9. I note that total overseas' investment undertaken by the Japan Department Stores Association' members in 1997 around the world amounted to USD37 million, of which 24 percent or USD9 million was invested in Malaysia. This is remarkable coming from the four stores located in Malaysia, out of some 85 members' stores located all over the world. These four stores generated USD105 million sales revenue or 3.4 percent of overseas total sales revenue of members of the Association around the world.

10. Malaysia is grateful that the giant Japanese department stores operating in this country namely Jusco, Isetan and Sogo as well as the specialty stores such as Kinokuniya, Maruzen Nihonbashi and Mori-Toys, have set up joint-venture businesses with us. We hope that the Association will encourage its members to invest further by setting up more businesses in Malaysia. The decision taken by Isetan to open its store in KLCC Suria, the huge new shopping centre located in the Petronas Towers, taking-up five floors with business space of 250,000 square feet, is indeed commendable.

11. Like other foreign operations in this country, Japanese department stores have contributed to upgrading the quality of the retail business and the overall

modernisation of Malaysia. In addition to the job opportunities for Malaysians, these department stores also source their supplies from local Malaysian companies. I would urge members of this Association to increase local sourcing whenever possible since this can reduce their costs. Malaysian-made products are known for their high quality and competitive prices. In fact I would urge the Association to source your supplies from Malaysia for your stores worldwide. It would help you to remain competitive always.

12. We now have a "Buy Malaysian" campaign. This is due to our need to conserve foreign currency. As you know we have a huge deficit in our trade with Japan. Reducing imports of non-essentials from Japan and of course exporting more to Japan would reduce this imbalance. This is very important for our economic recovery.

13. Japanese department stores are an attraction to the tourists. We have done away with import duties on most of the goods retailed in the department stores. Their prices are now lower than in other countries including in Japan. Japanese products, particularly electronics are very cheap in Malaysia by comparison with the same products elsewhere. Your investments in Malaysia is really on investment for business among tourists to Malaysia. They recognise Malaysia as a shopping haven.

14. We have now internalised the Malaysian Ringgit in order to prevent the exchange rate from fluctuating wildly. As you know a steady exchange rate makes it easier to plan and budget, and therefore to achieve good profits. The Ringgit is now fixed at RM3.80 to USD1.00. The rate against the Yen is dependent on its rate with the USD. Since the Malaysian Ringgit cannot be used outside Malaysia you will have to pay trade bills in foreign currency such as the Yen or the dollar. Since we have a big trade surplus, there is more than adequate foreign exchange within the country to pay for imports and foreign debts. There will be no restriction on such foreign currency movements. You will also be able to repatriate your profits in foreign currency.

15. Since the enforcement of exchange controls business has picked up noticeably. The lower interest rates and better hire-purchase term has stimulated retail business. The other business activities have also picked up. Cheaper cost of money will help restore the purchasing power of the people and this is bound to help retail trade to recover.

16. You may notice that although the Government is now in full control of the exchange rate we have not strengthened the ringgit too much. Originally the

exchange rate was RM2.50 to USD1.00. Now it is fixed at RM3.80 to USD1.00. This is because we have to remain competitive against our neighbours whose currencies have also been devalued. We believe at RM3.80 to USD1.00 we can remain competitive even if our neighbours' currencies are devalued further or are revalued. We will not change the exchange rate until the exchange rates of competing currencies are really too big and affects our competitiveness to a great extent. So you can rest assured that your budgeting and price fixing in Malaysian Ringgit will not be upset by sudden and extreme fluctuations in the Ringgit exchange rate against other currencies.

17. The Malaysian Government is business friendly. We want to do everything to promote business. Our racist detractors will say that this is a part of Asian cronyism but the truth is that the Government derives much of its revenue from corporate taxes. In Malaysia the corporate tax rate is 28 percent. Obviously the profits that you make is of great interest to us, for 28 percent of the profits will accrue to us through corporate taxes. When you lose we of course get nothing. This is a good incentive for us to help you, to help the private sector make as much profit as is legally allowed.

18. We encourage capital inflows. However we make a distinction between foreign short-term investment in the stock market and investments in productive capacities such as manufacturing. Stock market investments are mainly for capital gains and capital gains is not taxed. Besides they can easily destroy our economy by pulling out and taking their money and profits with them. This is what has happened during the present currency turmoil. About RM600 billion or approximately USD150 billion in market capitalisation was lost. For Malaysia this is a tremendous diminution of its wealth and economy. We can do without the dubious benefit of FDI in the stock market.

19. But we welcome long-term foreign direct investments in manufacturing etc. They help our industrialisation programme. However we are now short of workers and we would like more technology and capital-intensive industries. We can assure foreign investors that they will gain much by investing in Malaysia.

20. Through foreign investments we have now become a more affluent society with high purchasing power. This has resulted in our becoming a good market for foreign goods. If you look around Kuala Lumpur or any Malaysian city you will find a large number of new shopping complexes where all kinds of foreign goods are displayed for sale. Although we are now forced to promote made-in-

Malaysia products the popularity of foreign goods is still very high especially among foreign visitors. We have promoted Malaysia as a shopping destination for foreign tourists. For this we have removed most of the taxes on imported goods. The prices are therefore very attractive. Japanese department stores in Malaysia have done very well and I am quite sure you will benefit from an earlier economic recovery for Malaysia.

21. I would like to say that I appreciate the confidence that the Japan Department Stores Association has shown in the potential and economic recovery of Malaysia, as reflected by this convention in Kuala Lumpur.

22. Finally, I wish the very best to the Japan Department Stores Association. I understand that you are celebrating your 50th anniversary this year. I congratulate you. With 137 companies under your wing, I believe that the Association and its members will continue to be more prosperous and successful in the years to come.

23. Dengan ini, saya dengan sukacitanya merasmikan Konvensyen Persatuan Gedung Serbaneka Jepun.