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(PRIME MINISTER)

EVENT: PEMBUKAAN RASMI SILTERRA MALAYSIA SDN. BHD.

VENUE: KULIM, KEDAH DARUL AMAN

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TIME:

Saya ucapkan terima kasih kepada pihak penganjur, Silterra Malaysia Sdn. Bhd. kerana menjemput saya untuk merasmikan pembukaan loji fabrikasi wafer pada hari ini.

2. Penubuhan projek fabrikasi ini adalah sejajar dengan aspirasi negara untuk membangunkan sektor perkilangan yang berintensifkan teknologi dan tambah nilai yang tinggi yang dapat menyumbang kepada integrasi subsektor `semiconductor' atau `microchip' yang sekarang ini menjadi komponen utama dalam industri elektronik di Malaysia.

3. The electronics industry has over the years evolved from basic labour-intensive and simple assembly operations to increasingly sophisticated operations encompassing higher value-added activities and services such as R&D, product design and development, marketing and distribution and other related support services. In Malaysia today, such fully integrated activities have already been implemented by a number of electronic multinational companies for example Electronic Manufacturing Services companies (EMS). These companies are sub-contracting or out-sourcing from the international market (contract manufacturing) for a variety of products such as computers and motherboards from manufacturers who design and manufacture Integrated Circuits using the latest ICT facilities and highly skilled personnel.

4. The electronics industry sector is currently the largest contributor to manufacturing output, value-added, exports and employment. Last year, the share of the sector in manufacturing value-added was 27.9 per cent and exports of electronic products accounted for 67 per cent of the total exports of manufactured goods from Malaysia. The production of electronic products has attracted a major portion of manufacturing investments with 5.5 billion Ringgit or 35 per cent of total investments in the manufacturing sector approved

in the first five months of this year.

5. Even though we are aware that currently there is a global slowdown in the semiconductor market, the future in this sector is still bright. According to the forecast released by the Semiconductor Industry Association of USA, the semiconductor market is expected to recover and grow at a rate of 21 per cent in 2002, 25 per cent in 2003 and 7 per cent in 2004. With this expected growth, the total worldwide sales in 2004 will increase to 1,075.4 billion Ringgit (283 billion US Dollar).

6. The semiconductor industry in Malaysia is the leading sub-sector in the country's electronics industry. In the year 2000 it accounted for 71.1 billion Ringgit (18.7 billion US Dollar) or 33 per cent of the country's total electronic exports. Today there are 36 companies in operation producing various types of semiconductor devices such as microprocessors, memories, analog and discrete components. Most of the major world producers of these devices are already in the country.

7. Malaysia's exports of electronic products have increased steadily. In 1999 we produced 179.4 billion Ringgit worth, but in 2000 it was worth 212.3 billion Ringgit. Although we are a major exporter of semiconductor devices, we are still dependent on imported components especially semiconductor wafers which constitute about 70 per cent of the costs of raw materials for producing semiconductor devices. Imports of electronic component products increased from 109.2 billion Ringgit in 1999 to 141.9 billion Ringgit in 2000. Therefore, there is good potential for local production or sourcing of components in the country particularly for wafers such as those produced by Silterra. By reducing imported components our net trade surplus will increase.

8. I would like to take this opportunity to congratulate Silterra Malaysia Sdn. Bhd. on the opening of this wafer fab facility in Kulim Hi-Tech Park. This proves that Malaysians are already capable of undertaking production of a very sophisticated and high technology products that involve putting millions of transistors on a microchip. I hope together with the wafer fab project of first Silicon in Sarawak, these two projects will form the catalyst for attracting more wafer fab and other technology-intensive semiconductor projects into Malaysia. In the Second Industrial Master Plan, which provides a blueprint for the development of the industrial sector for the period of 1996 - 2005, wafer fabrication has been identified as a strategic industry necessary to

sustain the future development of the electronics industry in Malaysia.

9. The establishment of wafer fabrication facilities in Malaysia will surely bring about the necessary linkages within the semiconductor industry and thus strengthen further this sector in Malaysia by attracting other related industries and services such as wafer slicing and polishing, fabless design houses and silicon ingot growing. In addition, the production of fabricated wafers from this project will further support the existing semiconductor companies which are currently relying on imported wafers.

10. I am confident that the establishment of this project will not only create a demand for the development of essential high quality infrastructural facilities in Kulim Hi-Tech Park, but will also provide an avenue for the employment of a large pool of skilled and knowledge-based workers. There will also be a demand for various higher value-added services such as supply of pure chemicals, pure gases and maintenance of high precision machines and equipment. The Government on its part will continue to ensure that necessary support services are in place.

11. I am glad to note that Silterra has successfully implemented this 5.5 billion Ringgit world class state-of-the-art wafer fabrication plant. With the implementation of these two fab plants in Kulim and Kuching and upon reaching the optimum production level, the country can expect additional foreign exchange earnings of 2.2 billion Ringgit per year for exports of fabricated wafers.

12. The implementation of this project also signals the success in transferring the new, cutting-edge technology to Malaysia. I understand that Silterra has sent 230 Malaysian technical staff overseas to gain expertise in various aspects of wafer fabrication processes such as Industrial, Mechanical and Electronics Engineering, Applied Physics, Dielectric and Planarisation Fields and Materials Science. I am also happy to note that Silterra has implemented a "Malaysian Young Graduate Programme" to recruit Malaysian graduates from both local and overseas universities. With the above training and the institution of the latest and modern facilities in Silterra's fab plant, eventually it is my hope that this plant will be run entirely by Malaysians.

13. With the rapid development in the semiconductor industry, the new semiconductor devices are getting smaller and capable of higher performance and yet are expected to be cheaper. There is keen competition

among the wafer fab plants to meet this market expectations. The technology is getting into even higher precision and one of the developments in this area is the process technology to produce microchips with less than 0.1 micron.

14. I understand that Silterra is capable of producing microchip using up to 0.18 micron design rule and as the industry moves forward to produce 300mm wafers with greater capacity/content, I am sure the company will also move forward towards this new trend as a way to reduce costs and be competitive.

15. Even though six projects involving investments from multinationals were approved to produce semiconductor fabricated wafers, it is noted that only two have been implemented, that is Silterra and 1st Silicon, both of which are initiated and owned by Government investors i.e. Khazanah Nasional Berhad, Bank Industri and the Sarawak State Government, respectively. The Government is fully aware that among the reasons why foreign MNCs are not implementing their projects is the highly capital-intensive nature of this industry with each one costing in excess of 5 billion Ringgit, the long gestation period of these projects and also the high risk due to the cyclical nature of the industry.

16. Due to these lukewarm interest by the MNCs, the Government strongly encourages Malaysian-owned or Malaysian majority joint-venture companies to establish wafer fabrication through strategic alliances with the MNCs, which will enable Malaysia to get better access to wafer technology. The Government however will continue to promote the MNCs to invest in this project and to spearhead the industry in Malaysia.

17. The Government is prepared to support such projects by providing suitable tax and other non-fiscal incentives. For example, Silterra was not only given ten years tax incentive but was offered training grant amounting to 5 million Ringgit. For similar projects, the Government is ready to give generous tax as well as other non-fiscal incentives.

18. The growing numbers of wafer fabs within the region which include 28 fabs in Taiwan and 12 fabs in Singapore have attracted many engineers from neighbouring countries to work in these fabs. I understand there are many Malaysian engineers working in Singapore. These are the potential knowledge workers whom we should attract to come back to work for the country. Therefore with the Silterra project coming on line, hopefully these engineers will be

attracted to come home and work for the country in the next few years.

19. Despite the intense competition that can be expected from the existing wafer foundries as well as the new wafer fabrication ventures that will come into production in the next few years, it is my hope that Silterra in collaboration with LSI Logic from the USA and possessing the latest state of the art equipment will be able to compete effectively and be counted among the top wafer fab facilities in the world.

20. Dengan ini, saya dengan sukacitanya merasmikan loji Fabrikasi Silterra Wafer di Kulim Hi Tech Park.