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"Enhancing Malaysia- Switzerland Economic Relations"

I am indeed very pleased to be here this evening with the distinguished members of the Swiss business community to share with you ideas on trade, investment and business collaboration that can be explored and forged for our mutual benefits.

2. Business ties between Malaysia and Switzerland dated back more than a century, with investments by early Swiss companies such as Diethelm, Nestle and F. E. Zuellig.

3. Over the years, many Swiss companies have followed these pioneers and currently there are 120 companies with Swiss interests operating in the manufacturing and non-manufacturing sectors with some of them having regional operations based in Malaysia. It is estimated that current Swiss investments in Malaysia amounted to around US$1.1 billion. At present, other notable Swiss companies with operations in Malaysia include Holcim, Asea Brown Boveri (ABB), Roche, Novartis, Schindler, Escatec, Swiss Reinsurance and Zurich Insurance.

4. Malaysia continues to draw Swiss investors due to its pull factors such as competitive manufacturing costs, liberal investment policies, well developed infrastructure, its strategic location as a gateway to the ASEAN and Asia-Pacific markets and its impressive track record as a profitable base for investors. In addition, the Malaysian government also remains committed to ensure that the necessary administrative framework and support facilities including information and communication technology (ICT), are in place to provide a cost competitive environment for investors. Efforts are being undertaken to increase the usage of ICT in all spheres of activity.

5. Switzerland's economy is highly export-oriented and reputed for the quality and reliability of its products. Swiss industry has continued with its long tradition of engineering precision, especially in the

watch industry. While Switzerland does not have a wealth of natural resources to fall back on, it has developed a high level of technological expertise, which it has used to its great advantage. Within just a few years, Switzerland has moved from being an industrialised country to an international high-tech centre.

6. The Swiss industrial sector is dominated by small and medium scale enterprises (SMEs), in areas such as machinery manufacturing, chemicals, pharmaceuticals, medical devices, biotechnology, information and communications technology (ICT), photonics and environmental technology. Currently Malaysia is promoting investments in these industries, and Swiss investors should therefore consider Malaysia as their investment destination to serve the Asia-Pacific markets. There is potential for cooperation and collaboration between Swiss and Malaysian SMEs through industrial linkages to meet the demand for industrial imports of multinationals and large scale corporations for domestic, regional as well as global markets. I would like to encourage Swiss multinationals and SMEs to forge business cooperation with Malaysian SMEs which have been nurtured as global suppliers through various programmes based on public-private sector initiatives.

7. Swiss companies have established a worldwide presence and market leadership for their high-grade specialised chemical and pharmaceutical products.

8. Malaysia imports almost 90 per cent of its requirements of pharmaceuticals, of which 60 per cent are patented drugs. Imports of medical and pharmaceutical products in 2001 amounted to over US$ 400 million. In the light of the high imports, opportunities exists for Swiss companies to invest in the chemical and pharmaceutical industry in Malaysia.

9. In addition to promoting investments into these sectors, the Malaysian government also encourages investments in the other related manufacturing services sectors such as in research and development (R&D). Switzerland has earned a reputation in R&D through its numerous research centres and therefore are welcome to establish R&D activities in Malaysia. Swiss companies will not only be contributing towards Malaysia's development in this field, but also stand to benefit by being able to serve companies in the region. I would like to point out the huge potential of genetical resources from the flora and fauna of the tropical rainforests of Malaysia.

10. Switzerland is Malaysia's 7th largest trading partner in Europe. In the year 2001, Malaysia's total trade with Switzerland was valued at US$1.1 billion.

Exports from Malaysia to Switzerland in 2001 totaled US$179 million while imports from Switzerland amounted to US $938 million. I am very positive that the current volume of bilateral trade between our countries can be expanded further.

11. Malaysia is one of the largest exporters of electrical and electronics products in the world. I am sure Swiss importers and industries can source many of their import requirements from Malaysia. Malaysian manufacturers have acquired the capability to produce quality products to meet international standards at a competitive price. Amongst the products that can be sourced from Malaysia are computer parts and components, printed circuit boards, high quality furniture, automotive accessories, sports garments, aluminum profiles, rubber gloves, tyres, cocoa based products, tropical fruit based health drinks and printing services.

12. The export of services, particularly tourism has become a significant contributor to the growth of the Malaysian economy. Switzerland is a world renowned tourist destination. Malaysia too has undertaken efforts to promote the country amongst international tourists. In 2001, Malaysia received 20,429 tourist arrivals from Switzerland. I am certain that we could attract more Swiss tourists to visit Malaysia. Swiss and Malaysian tour operators could explore the possibility of expanding the travel capacity by operating charter flights to destinations like Langkawi, Sabah and Sarawak in Malaysia. In addition, in the field of education Malaysia is also promoting the country as the centre of excellence in Southeast Asia. There exists vast scope for Swiss institutions of higher learning and training institutes to share their knowledge on Swiss technology and services through twinning programmes, training and exchange programmes with Malaysia.

13. The Labuan International Offshore Financial Centre (IOFC) offers opportunities for the Swiss banking and financial community to expand and market their financial services in the East Asia region. As an integrated IOFC, Labuan offers a wide range of offshore financial products and services to customers worldwide, namely offshore banking and investment banking, offshore insurance, trust business, fund management, investment holding company, management services, capital market activities and Islamic financing.

14. As envisaged in the Malaysian Financial Sector Master Plan, Labuan will be the window to the liberalisation of the domestic financial market. Banks and other financial institutions in Labuan IOFC would have preference in tapping the domestic market. Many

business institutions from Switzerland have set up operations in Labuan. They include Credit Suisse First Boston, UBS AG, Zurich Insurance Co., Reinsurance and Converium Ltd; ABB Insurance Broker (L) Ltd; Abacus Trust & Financial Services (L) Pte. Ltd. and Aurex Management and Investment. Malaysia welcomes more Swiss financial service providers to establish their operations in Labuan.

15. Since the East Asian Economic crisis a lot have been said about the reform of the International Financial Architecture. Progress is evident in the areas of transparency, standards, and codes. Some headway has also been made in the reform of the international financial institutions (IFIs), including the International Monetary Fund (IMF) and in promoting private sector involvement in crisis resolution. However, progress remains limited in addressing global governance issues, the risk management of capital flows and the Highly Leveraged Institutions (HLIs).

16. In light of the challenges posed by increased globalisation and financial liberalisation, Malaysia is of the view that additional initiatives on capital flows are necessary at the international, regional and national levels. At the international level for example, attention could be given to increasing the monitoring/surveillance role of the IMF in promoting and safeguarding international financial stability, encouraging the disclosure of large positions by market participants, including HLIs. At regional level, regional surveillance and financing arrangements could be improved while proper sequencing of capital account liberalisation and risk management framework at the national level could be enhanced.

17. Current initiatives to address challenges posed by HLI activities have focused on enhancing voluntary disclosure by the HLIs and ensuring that countries strengthen risk management practices when dealing with the HLIs. In Malaysia's view, not much attention has been given to the impact of HLI activities on the integrity and stability of small emerging markets. "Self regulation" among HLIs is not a viable option.

18. In addition to consistent and sound macroeconomic policies, a concerted international response in areas such as reporting and disclosure, risk management of hedge funds and banks, dealing practices, dispute settlement mechanisms for hedge funds and provisions of incentives to encourage observance of reporting, risk management and dealing practices, is necessary to safeguard international financial stability.

19. The emphasis of the International community is still skewed towards enhancing transparency by the public sector, especially in developing countries.

Malaysia is of the view that enhanced transparency by the private sector such as the HLIs, OFCs, and credit rating agencies is equally important to promote more efficient and stable financial markets.

20. Malaysia recognises that adherence to international standards and codes is important to promote financial stability. However, this should continue to be implemented on a voluntary basis, giving due consideration to differences in country specific circumstances and priorities in terms of the level of economic development and structure, and the strength of the financial sector. Countries should not be pressured into adopting standards and codes which may not be relevant.

21. The WTO negotiations on services is underpinned by the principle of progressive liberalisation. Hence, developed countries should not expect Malaysia to open its market in a manner that is not compatible with its financial and development situation. In short, Malaysia will liberalise to the extend of what its market can bear.

22. The Malaysian financial sector is in the process of consolidation and it is not in a position to allow more foreign institutions to have commercial presence at this juncture. The current presence of 13 foreign-owned commercial banks is more than sufficient for a small country like Malaysia and is a reflection of a relatively liberal environment. Further, Malaysia had made substantial liberalisation commitments during the 1997 financial services negotiation and to be asked to do more within a short span of time is unrealistic.

23. The financial sector is a highly sensitive sector and if managed wrongly would have a disastrous effect on a country as a whole. From this perspective, equity requirements are imperative and electronic transactions cannot be allowed without a commercial presence. Otherwise the loss of control by the government would totally impinge on the very essence of prudent management. The Malaysian financial sector is by no means static. The government has put into effect a Financial Sector Masterplan that, inter-alia, will allow for domestic liberalisation to take place in stages as well as to prepare the sector for possible future liberalisation in the context of the WTO. Currently, the Masterplan is focused on strengthening the capacity and the capability of the domestically-owned financial institutions. The Plan aims for the development of an effective, competitive, resilient and dynamic financial sector in the next ten years.

24. It is important to note that the WTO negotiations on services is not based entirely on the premise that

the main goal is trade liberalisation. Rather it is to promote the economic development of countries, in particular developing countries. Hence, developed countries like Switzerland is duty bound under the various provisions of the General Agreement on Trade in Services (GATS) to ensure that the negotiations would economically benefit developing countries, including strengthening the domestic capacity of developing countries and also assisting developing countries to gain market access for their services providers.

25. Malaysia agrees that strong domestic regulations need to be in place to ensure financial stability and prudent management of the sector. However, there is the concern that developed countries want to impose transparency requirements that are onerous in scope and practice. Malaysia cannot subscribe to a one size-fits-all approach as developing countries in particular need regulations that are commensurate with their level of development.

26. I hope that business contracts and discussions between the Swiss and Malaysian business community will not end with this visit but instead more discussions will be generated for wider scope of collaboration. On this note I would like to wish you success in your business endeavours.