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(UF/INT/78/[illegible] - EF/INT/78/01[illegible]) 1/

Helsinki 21 - 25 May 1979

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by

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Corrigendum

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I General

The Meeting opened according to schedule on 21 May 19[illegible] at Hotel Korpilampi in a suburb of Helsinki.

In the morning session of the opening day speeches were made by His Excellency Mr Eero Rantala, Minister for Trade and Industry of Finland (see Annex I), Dr A Khane, Executive Director of UNIDO (see Annex II) and Mr H[illegible] Hallberg, Managing Director of the Finnish Foreign Trade Association. The morning session was chaired by Mr W Breitenstein, Director, Department for International Development Co-operation, Ministry for Foreign Affairs. Following the morning session, a special press conference was organized by the Ministry for Foreign Affairs and was attended by Dr A Khane, Mr Breitenstein representing the Finnish Ministry for Foreign Affairs and Mr H Hallberg representing the Finnish Foreign Trade Association.

In addition, a separate meeting was organized between the Executive Director and Mr E Rantala, Minister for Trade and Industry. The meeting also included the Heads of Government Delegations of the four participating developing countries, namely:

Mr. Ahmad Ibrahim, Deputy Chairman of Investment Coordinating Board, Indonesia
Mr Dato Jamil Jan, Chairman of the Malaysian Industrial Development Authority
Mr Jose de Ocampo, Vice-Chairman of the Development Bank of The Philippines
Dr D W Kannangara, General Manager of the Development Finance Corporation of Ceylon, Sri Lanka

In the course of the afternoon session, speeches followed by panel discussions were delivered by Heads of Government Delegations of the participating developing countries (see Annex III, Opening Day Programme). Copies of the speeches are attached (see Annexes IV, V and VI). They were mainly concerned with prospects governing foreign investments in the participating developing countries and also government policies and legislation in this regard. The full opening day was attended by all participants both from the participating developing countries and Finland (see final list of participants, Annex [illegible]II).

During the next three days from 22 to 25 May, bilateral meetings were organized between project sponsors from the participating developing countries and potential Finnish partners, covering a total of 1[illegible] industrial project proposals (see list of project proposals, Annex VIII). More than [illegible]0 bilateral meetings were

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officially organized by the Secretariat of the Conference, other bilateral meetings and plant visits were arranged directly between the individual sponsors and their Finnish counterpart enterprises. At the request of the project sponsors, the bilateral meetings were attended by UNIDO staff members in order to render advisory services to the participants from developing countries during their negotiations with the Finnish counterpart enterprises.

II Results achieved during the bilateral meetings (22-25 May)

Indonesia

Five project proposals were presented during the Meeting: two on Pulp and Paper, two on Mechanical Wood Processing and one on Leather and Leather Garments.

Preliminary agreements in the form of letters of intent were signed for three project proposals.

Malaysia

A total of six project proposals were presented during the Meeting: one Timber Complex, one [illegible] Pulp and Paper, one [illegible] Pumps and Material Handling, one [illegible] Copper Processing, one [illegible] Rubber Products [illegible].

Preliminary agreements in the form of letters of intent were signed for five project proposals.

The representatives of the Malaysian Industrial Development Authority (MIDA) have been responsible for coordinating negotiations of all Malaysian participants and they requested UNIDO that future follow-up activities concerning the [illegible] identified projects should be carried out through their organization, mainly in view of the fact that MIDA is the competent authority for approving foreign joint ventures in Malaysia. Mr. J[illegible] J[illegible], the Chairman of MIDA also expressed the support of his organization for the [illegible] of future feasibility studies required for the further implementation of the [illegible].

The Philippines

A total of three project proposals were presented during the Meeting: two on Mechanical Wood Processing and one on Pulp and Paper.

The letters of intent were signed for the three project proposals.

Mr. de Ocampo, Vice-Chairman of the Development Bank of the Philippines stated that his Bank was willing to provide full financial support and backing to all the projects of the Philippines presented during the Meeting, and that DBP could act as counterpart, in financial matters, to Finnish enterprises participating in the financing of the above-mentioned two projects. Mr. de Ocampo said that in his discussions with senior officials of the Finnish banking community, it was clearly expressed that serious consideration would be given to financing some of the projects presented during the Helsinki Meeting, particularly by the Chairman of the Finnish Postipankki on behalf of his organization (including projects in Malaysia, Indonesia and Sri Lanka). The participation of Postipankki is subject to the viability of the individual projects on the basis of techno-economic studies to be carried out during the next follow-up phase.

Sri Lanka

A total of three project proposals were presented during the Meeting: one Packaging and printing Plant, one Sanitary Ware Factory, and one Fishing-Net Factory.

Preliminary agreements and letters of intent were signed for all three projects.

It is to be noted that for most of the projects in the four participating developing countries, and for which letters of intent were signed, it has been stipulated that techno-economic studies should be carried out. Depending on the outcome of these studies, the Finnish counterparts will make final decisions on their equity participation in the projects concerned. In most of the letters of intent signed, the partner has expressed his willingness to participate on the basis of a joint venture, with an equity participation. The percentage for such equity varied between 40% and 50%.

The Finnish Government, through the Ministry for Foreign Affairs has let it be known that it will seek the assistance of international financing institutions (IFC, World Bank, Asian Development Bank, etc.) to supplement whatever financing arrangements are offered by Finnish Banking Institutions.

Follow-up Phase

As stipulated in the Project Data Sheet it was agreed that a meeting in Helsinki during fall 1979 (date to be fixed later) will be arranged between responsible officers in UNIDO and officials of the Department of International Development Co-operation, Ministry for Foreign Affairs. In the course of this meeting each project

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proposals will be examined on the basis of the preliminary agreements reached between partners during the Helsinki meeting, and in accordance with priorities given to these projects, funds will be allocated for financing the required techno-economic studies. The previous pledge of US $ [illegible]0,000 made by Finland to the UNIDF will be fully utilized for this purpose. The Finnish Ministry for Foreign Affairs expressed willingness to consider additional contributions in order to meet the costs of follow-up activities to be agreed upon during next September in Helsinki. The officials of the governments of the four participating developing countries were fully briefed on procedures to be followed concerning future follow-up activities in conjunction with the projects which originated in their respective countries. It was also agreed with them that all follow-up activities would be co-ordinated with UNIDO, thus avoiding lengthy administrative procedures and duplication of work and efforts.

Other Matters

Upon the request of the Danish Industrialization Fund for Developing Countries (IFU) to the Finnish Government, Mr. Svend Riskjaer, Director, was invited as an observer to the Helsinki Meeting. The IFU has expressed their interest to fully co-operate with UNIDO on similar programme in Denmark, mainly in the food-processing industries. DANIDA has also expressed its willingness to contribute the full cost for such a programme if implemented.

While Mr. Riskjaer was in Helsinki, a meeting was organized which included UNIDO representatives and senior officials from the Ministry for Foreign Affairs. The purpose of the meeting was to enable Mr. Riskjaer to review the experience gained through the project under review. Mr. Groenberg, Deputy Director of the Division for International Development Co-operation, Finnish Ministry for Foreign Affairs, gave an overwhelmingly positive account of the result achieved to date, and stated that this project has provided an excellent opportunity to orient the Finnish public towards the necessity of Finland's rendering more support to the developing countries to promote their industrialization. The programme could also be considered as a forum for Finnish industries which genuinely want to co-operate in industrial projects in developing countries, and to enhance their experience in such undertakings where Finnish industry has so far lacked sufficient experience.

Finally Mr. Riskjaer expressed his satisfaction with the information provided and reconfirmed the willingness of his organization and DANIDA to meet with UNIDO in mid-September 1979 in order to finalize the Danish project proposal on "Co-operation in Establishment of Joint Industrial Development Projects between Industrial Enterprises and Financial Institutions in Denmark and Similar Organizations in Selected Developing Countries with Special Reference to Food-Processing Industries" (US/GLO/7[illegible]/033).

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Conclusions

The project has proved to be most successful in illustrating genuine forms of co-operation between developed and developing countries in the field of industrial development, especially considering the fact that out of a total of [illegible] industrial project proposals promoted during the Helsinki Meeting 13 have reached the stage of letters of intent, about the maximum one could expect for a five-day meeting.

The project was highly commended by the Governments of the participating developing countries, as expressed by their official heads of delegation at the end of the Meeting. It was considered a well-prepared practical approach for optimizing the resources available from Finnish industry for the needs of each individual project proposal presented during the meeting.

The follow-up phase of this project will certainly be even more crucial to the final success of this activity, where UNIDO can demonstrate concrete achievements in the field of international economic co-operation.

The occasion of the organizing of such a meeting, and the efforts put into it by the organizers in Finland, provided an excellent opportunity for creating political awareness of UNIDO's objectives and activities, not only among industrialists and government officials, but throughout the entire mass media (please see Annexes IX and X, unofficial translation of articles in the Finnish dailies Helsingin Sanomat and Uusi Suomi).

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Addendum

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id.79-7237

Statement by Mr. Eero Rantala, Minister for Trade and Industry, at the opening of the Meeting to promote co-operation between Finland and selected developing countries at Korpilampi, May 21, 1979.

Mr Executive Director,
Mr Chairman of the Finnish Foreign Trade Association,
Distinguished Official Representatives,
Ladies and Gentlemen

I have the pleasure to address this distinguished audience on behalf of the Finnish Government which, in co-operation with UNIDO and the Finnish Foreign Trade Association, has sponsored the initiative that is the cause of our Meeting here today and for the remainder of this week. The purpose of our Meeting is to bring together resources and technology in Finland in the metal working and wood-processing sectors, and financial institutions and representatives of industry of four developing countries - Indonesia, Malaysia, the Philippines and Sri Lanka - in order to promote industrial co-operation between our five countries.

I should like, on this occasion, to extend a warm welcome to the official representatives and to all other participants and observers. In particular, I wish to welcome the distinguished Executive Director of UNIDO, Dr Abd-El Rahman Khane. At the same time I want to congratulate him on his re-appointment to serve as head of UNIDO for another term. May I in this connection express my Government's satisfaction at the result of the recently held statute conference for the conversion of UNIDO into a specialized agency. That goal was set up already at the second general conference of UNIDO in Lima in 1975, and has received our full support ever since. As we see it, UNIDO should be given the necessary resources, both financial and institutional, that are needed to ensure its effective contribution to the industrialization of the developing countries. The decided conversion of UNIDO into a specialized agency is a step in the right direction.

The role of industry as a dynamic instrument of growth essential to the rapid economic and social development of the developing countries, as set out in the Lima Declaration and Plan of Action, requires systematic efforts to promote the transfer of resources and technology from developed to developing countries. In the field of transfer of technology Finland has actively participated in the negotiations on the Code of Conduct on international transfer of technology. We have perceived the Code as an attempt to translate some general principles of the New International Economic Order into precise norms in an area which is increasingly important in the north-south relations and which, apart from the Paris Convention on the Protection of Industrial Property, to a great extent has been unregulated. In our view it would seem well-founded to seek to establish an agreed international environment f technology transactions in order to avoid, inter alia, excessive prices, indirect costs and a network of restrictive conditions, as well as to provide minimum guarantees to the buyers of technology. On our part we hope that the Code of Conduct on transfer of technology would, where appropriate, supplement the more general United Nations activities with respect to transnationa corporations. We believe that the promotion of transfer of technology to developing countries should be seen as a dynamic process where the Code of Conduct will be the first step. This transfer, and the related activities in order to stimulate, direct and steer it, is receiving the growing attention of the Finnish Government. These questions, as we all know, figure prominently on the agenda of the on-going UNCTAD-conference in Manila.

Finland has very recently established a Fund for Industrial Development Co-operation with the purpose of stimulating joint ventures between Finnish industry and industrial enterprises in developing countries. UNIDO's decision to set up an Industrial and Technological Information Bank (INTIB) has had the support of my Government - just to mention a few examples. Of course, all these activities are directed towards the ultimate goal of establishing a New International Economic Order. This, translated into UNIDO language, and within the optics of the next two decades, means that the goal of the world-wide mutual development process should also in the future be that the developing countries should account for 25 per cent of world industrial production by the year 2000.

Against this background, the Finnish participation in the Korpilampi Meeting is a step in line with the quite novel theoretical and practical approach of UNIDO to the old problem of finding the right partner for the right development project, coupled together with the appropriate technology and the appropriate financing. We are, together, taking part in what we might, perhaps, view as one important case study or pilot project between partners in development co-operation, even though it comprises several individual, potential industrial joint ventures.

On the Finnish side, we see the Meeting as contributing to several useful purposes at the same time. It brings together partners with a mutual interest of entering into co-operation. It will help us to see, better than before, how Finland can best search for new ways to contribute to the transfer of appropriate technology and resources. Finland has, of course, since a number of years entered into technical co-operation and development assistance activities with several developing countries . This Meeting will assist us in finding new ways and means to put our accumulated experience into new practical use. It will serve to build closer contacts between companies, and give them a better knowledge of each other. It will, as well, give the distinguished guests and participants from the four countries concerned, a comprehensive picture of Finnish resources and know-how in metal working and wood-processing. On the Finnish side, it will deepen our understanding of issues involved in industrial development co-operation. Besides, it will make the work of UNIDO known to the Finnish public, and it will help us all to develop better mutual information channels.

The experimental character of this new approach to industrial development co-operation is something of a challenge to us all. We shall have to look carefully at the results achieved during the week in Korpilampi, in order to draw a balance sheet between input and output. Provisions have already been laid down for doing so. I should like to commend UNIDO for proposing this opportunity to us to try out, and possibly, of course, to further improve on the concepts they have developed. One point I should like to make already now, is that appropriate efforts should be made to involve international and regional development financing institutions in supporting the results of our joint efforts, so that they are ensured of the necessary means needed for their fruitful elaboration.

As I said at the beginning of my speech, the Finnish Government considers that UNIDO should be given the necessary means to fulfill its important task. As a practical expression of this view, my Government has pledged 250 000 US dollars as a special purpose contribution to the United Nations Industrial Development Fund, administered by UNIDO, for follow-up activities connected with the present co-operation project.

Let me now conclude by wishing all the partners in our joint undertaking a good stay in Finland and good co-operation and a constructive working atmosphere during the week ahead.

I now declare the Meeting opened.

UNITED NATIONS NATIONS UNIES

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

STATEMENT OF DR. ABD-EL RAHMAN KHANE,

EXECUTIVE DIRECTOR OF UNIDO,

ON THE OCCASION OF

THE MEETING TO PROMOTE CO-OPERATION BETWEEN FINLAND AND SELECTED DEVELOPING COUNTRIES IN THE DEVELOPMENT OF THE METALWORKING AND WOOD-PROCESSING INDUSTRIES

Helsinki, Finland, 21-25 May 1979

Your Excellency, Ladies and Gentlemen,

It is a privilege and a pleasure for me to address this Meeting whose aim is to promote industrial co-operation between Finland and four developing countries: Indonesia, Malaysia, the Philippines and Sri Lanka.

As you know, the Lima Declaration and Plan of Action call for the share of the developing countries in the total world industrial production to be increased from the present level of 7 to 8 per cent to at least 25 per cent by the end of this century.

As one means of attaining that goal, the Lima Declaration and Plan of Action placed considerable emphasis on co-operation between developed and developing countries in the field of industrialization. In fact, such co-operation is indispensable if a more equitable distribution of the world's industrial production is to be achieved. In this connection, UNIDO has been examining various ways and means in which such co-operation can be realised. Studies carried out on the present and future structure of industry in developed countries, on both sectoral and geographical bases, have highlighted the needs and gaps in the industrial framework of the developing countries. UNIDO's work , as well as that of other organizations and institutions in the field, have given a clearer insight into practical ways in which industrial co-operation can take place.

One of the most practical and effective forms of co-operation is co-operation at the enterprise level. Enterprises, both public and private, in the industrialized countries can co-operate most meaningfully with their counterparts in the developing countries. Each party has its own contribution to make in the formulation of a successful project. The partner from the industrialized country brings the technology and the managerial skills: the partner from the developing country can match this with labour and a knowledge of the local working environment. Together they can find suitable sources of finance, markets and the other resources necessary for project creation.

Thus, we are looking forward to this Meeting, the objective of which is, more specifically, to promote co-operation between Finland and Indonesia, Malaysia, the Philippines and Sri Lanka in the development of the metalworking and wood-processing industries. As a result of the extensive preparatory work for the

Meeting, a number of projects have been identified which should provide considerable scope for co-operation between Finnish industry and industry in the four Asian countries taking part. I intend to follow with great interest the discussions and negotiations which will take place in Helsinki this week; their outcome will, we hope, be most fruitful.

I should, like, however, at this point to caution against seeing this Meeting only as an excuse to sell equipment. Selling equipment is, admittedly, an important feature of international trade, but it does not fall within UNIDO's mandate as part of the United Nations system. What UNIDO is interested in achieving is genuine co-operation based on long-lasting, mutual and equal benefit for partners from both developed and developing countries.

Your Excellency,
Ladies and Gentlemen,

In the industrialisation of the developing countries, the transfer of appropriate technology has a leading role to play. It is obvious that without such technology transfer the developing countries will not be able to pursue their process of industrialisation within a satisfactory time span which would allow them to meet adequately the demands of their rapidly growing populations for more manufactured goods. The transfer of technology to developing countries involves a number of important parameters, such as cost, conditions of transfer, suitability of equipment, availability of labour and the capacity of the developing countries to absorb the technology. All of these issues are of concern to UNIDO, and we are trying to find suitable and practical solutions to the numerous problems encountered.

Another area to which I should like briefly to draw attention is the flow of financial resources. Statistics show that this flow continues to be greater in the South-North direction. In the past, this situation, coupled with the policies of the then growing world powers, prevented the industrialization of the developing countries; today, it continues to impede their industrialization process. The considerable deficits that the developing countries expect in their trading balances are further aggravated by the protectionist measures - despite all the denials just heard in Manila in connection with the UNCTAD V Conference - that face their manufactured goods in the markets of the industrialized countries.

In concluding, Your Excellency, Ladies and Gentlemen, I wish to draw particular attention to features of this programme of co-operation.

<u>Firstly</u>: The programme places special emphasis on the metalworking and wood-processing industries. The objective here is two-fold: to select industrial sectors which are important to the economies of the participating developing countries; and to limit them to two sectors in order to concentrate our efforts for possible co-operation.

<u>Secondly</u>: These sectors are selected among the most highly developed in Finland, and are held in high repute throughout the world. The developing countries participating in the programme, therefore, will, I feel certain, benefit from Finnish experience in the field.

<u>Thirdly</u>: This programme of co-operation has succeeded in bringing together Government and industry, which I find particularly satisfying. A successful partnership between Government and industry, whether in a developed or a developing country, is, in my view, most desirable in order to ensure a well-balanced industrialization.

Finally, I should like to express my sincere thanks to the Finnish Government for its co-operation and for the financial contribution which made this Meeting possible. I should like also to mention the most welcome pledge of 250,000 US dollars which Finland has made for follow-up action to the Meeting. In this respect, it will be appreciated that, as the activity gathers momentum, it may call for increased financing. There is no need to emphasize the importance of the follow-up phase, which should be devoted to the undertaking of concrete joint activities by Finnish industries and industries in Indonesia, Malaysia, the Philippines and Sri Lanka.

Your Excellency, Ladies and Gentlemen, I wish you every success in this Meeting.

Thank you.

ANNEX III

OPENING DAY PROGRAMME

of the Meeting to Promote Industrial Co-operation between Finland and Indonesia, Malaysia, the Philippines and Sri Lanka at Korpilampi, Finland, 21. - 25.5.1979

Monday, 21st May

10.00	Opening Speeches
	Mr. Eero Rantala, Minister for Trade and Industry
	Dr. Abd-El Rahman Khane, Executive Director of UNIDO
	Mr. Harri Malmberg, Managing Director of the Finnish Foreign Trade Association
11.15	Presentation of the programme of the Meeting as from the 22nd to the 25th May
12.00	Lunch
14.00	Lectures by Guest Speakers and Panel Discussion
	Mr. Anwar Ibrahim, Deputy Chairman of the Investment Coordinating Board, Indonesia
	Mr. Dato Jamil Jan, Chairman of the Malaysian Industrial Authority
	Coffee break
	Lectures by Guest Speakers and Panel Discussion (continued)
	Mr. José de Ocampo, Vice Chairman of the Development Bank of the Philippines
	Mr. Donald W. Kannangara, General Manager of the Development Finance Corporation of Ceylon, Sri Lanka

Chairman, Morning Session:
Mr. Wilhelm Breitenstein, Director, Department for International Development Co-operation, Ministry for Foreign Affairs

Chairman, Afternoon Session:
Mr. Harri Malmberg, Managing Director, Finnish Foreign Trade Association

Meeting to Promote Co-operation between Finland and Selected Developing Countries on the Development of Metal Working and Wood-Processing Industries, Helsinki, Finland (21st - 25th May, 1979)

"Economic Development in Malaysia and Opportunity for Investments"

BY

Dato' Jamil Jan, Chairman, MIDA
Malaysia

Ladies and Gentlemen,

It gives me great pleasure to be here to address this distinguished gathering. Your presence here is indication of your own interest in Malaysia and the investment opportunities it has to offer. May I assure you from the outset that keen and farsighted businessmen will find Malaysia a profitable centre for investments.

I. Political and Security Situation

Let me begin by giving you a brief account of the political and security situation of our country, Malaysia. Although some of you may know about Malaysia, it is more likely that you have read about it from some magazines or newspapers which in order to stimulate reader-interest, tend to exaggerate and sensationalise without bothering too much about accuracy. The net result is to create a feeling of uncertainty regarding the stability or even viability of this distant land im the minds of most of the readers.

Returning to the political situation in the country, Malaysia attained her independence in 1957 and opted for a democratic constitutional monarchy modelled after the British system. We have a written constitution which is the supreme law of the country. Although the constitution may be altered by a two-thirds majority in Parliament certain sensitive issues relating to race, religion and citizenship are entrenched and may not be altered.

The government is made up of a coalition party - The National Front, which is a multi-racial, 9 party coalition, During the last general election held in 1978 the National Front was returned to Parliament with more than a two-thirds majority. This choice of party has been consistent since Malaysia achieved Independence.

One major reason why the present government has time and time again been returned to power is the fact that the party comprises moderates and not extremists and they belong to all the races in Malaysia. In a multi-racial, multi-religious, multi-lingual country like ours, with numerous, economic, social and cultural disparities only those who are moderates and acceptable to all the races are likely to succeed. By the same token they are likely, to provide a non-radical, tolerant and stable government and of course a stable Government in turn augurs well for the investment climate.

As regard the security situation I wish to highlight the fact that Malaysia attained independence while facing a 9-year old Communist guerilla war. However, within 3 years of attaining independence the guerilla insurgency collapsed and despite several attempts by Communist terrorists to stage a comeback they have been soundly beaten each time. Malaysia is therefore very secure, in fact more secure than some developed nations. There will be the usual crimes but organised terror is well and truly suppressed. I also wish to stress that the end of the war in Vietnam has not changed this situation nor has the Sino Vietnamese clashes affected us in Malaysia. If at all, it has spurred us to further strengthen our security links with our neighbours and this has actually helped to improve the security situation in the region.

II. Economic Development

Since gaining independence in 1957 economic planning has been a feature of Malaysian life. The Government has launched and carried out successfully four five-year plans. The current one is called the Third Malaysia Plan, because in 1963 Sabah and Sarawak joined the Federation of Malaya to form Malaysia.

A feature of the Malaysian development plan is the prominent role given to the private sector. Indeed in the current plan, while the Government is expected to invest US$8.4 billion, the private sector is expected to invest US$12.5 billion. This allocation testifies to the faith of the Government in private enterprise - including of course foreign investments.

Another feature of the Malaysian development plan is the stress on social engineering. It is not enough that the nation should develop but the disparities and inequities in the society must also be rectified through the development plan. Thus, since the Second Malaysia Development Plan, the objectives of a New Economic Policy have been incorporated. These objectives are:

(a) to eradicate poverty irrespective of race; and

(b) to reduce economic imbalances between races and regions.

A point that needs emphasizing and frequent repetition is that these twin objectives are to be achieved through growth. There will be no nationalization or expropriation - although legitimate acquisition through purchase of shares may be done.

The Plan's target for investment both by the public and private sectors amounts to approximately US$20.9 billion. Of the US$12.5 billion targeted for private investment, US$8.0 billion will be in the various economic sectors and US$4.5 billion in the manufacturing sector. It is expected that of the US$4.5 billion, approximately US$1.4 billion will be in the form of foreign private investment. Thus, not only is private investment given a role but foreign investment is actually encouraged in the Plan.

In case, economic planning and its social engineering objectives may be suspected of being straight jackets which place unnecessary constraints in the path of investments, may I present to you some indicators on the performance of the Malaysian economy.

Economically speaking, 1978 has not been a good year for the world. As a producer of raw materials for manufactured goods of industrialised countries, we should expect the Malaysian economy to have been affected by the slowdown in world economic growth. Instead, however, the Malaysian economy performed satisfactorily and our economic growth for 1978 was about 7.5% in real terms. It is also significant to note that private fixed investment increased by 18.3% in real terms in 1978 as compared to only 10.6% in 1977 and 0.4% in 1976.

Inflation which usually accompanies economic growth has a way of neutralising economic improvements. But fiscal and monetary policies as well as other measures taken in Malaysia have succeeded in controlling inflation so that the rate in 1978 was only 4.9%. You can well imagine the benefits this brings to the cost of production for manufacturers. This is not an isolated performance. Inflation in Malaysia has been consistently low since independence. It is more than probable that it will continue to remain so.

A few more figures should suffice to complete the picture of Malaysia's economy. The overall balance of payments position for 1978 was M$625 million (US$284 million) in Malaysia's favour. As at the end of 1978 the Central Bank's net external reserves amounted to M$7,363 million (US$3,346 million) sufficient to finance about 7 months of retained imports at the 1978 level. You can see that Malaysia is a financially sound country - a country that you can do business with, without fear or uncertainty.

III. Monetary Policy

I would now like to touch upon our monetary policy. We pursue a multi-purpose policy which is nevertheless consistent with our national economic objectives. Our policy is aimed not only at promoting monetary stability and a sound financial structure but also at expanding and improving banking services and encouraging balanced economic growth within the context of the New Economic Policy.

In realizing the need for a wide ranging banking system to sustain modern industrial activity the Government, through Bank Negara or the Central Bank of Malaysia, has devoted much effort in strengthening the basic structure of our financial system. At the time of our independence in 1957, a total of 20 commercial banks with 88 offices were operating in Malaysia. Today, we have 37 banks of which 20 are domestic banks and they operate a total of 509 offices throughout the country. In addition to the 17 foreign-incorporated banks with 148 branches operating in Malaysia, there are also 15 foreign banks with representative offices in the country. Other than the commercial banks, we have 33 finance companies with a total of 197 offices, 12 merchant banks and 5 discount houses within our financial system. We have an active stock exchange and a growing money and foreign exchange market, as well as plans to develop Kuala Lumpur further into an international commodity market for tin, rubber and palm oil. The Malaysian financial system is therefore relatively well developed for a young country. Nevertheless, we are constantly striving to improve the efficiency of the financial system, since it has a pivotal role in the financing of our development.

At this juncture, I would like to touch upon our exchange control regulations which permit the free movement of capital and profits in and out of Malaysia. There are very few regulations restricting the activities of foreign investors.

However, for purposes of financing businesses in Malaysia, non-resident controlled companies are permitted to borrow from local sources up to M$500,000 without any official sanctions. For borrowings beyond this amount, the approval of the Controller of Foreign Exchange is required. Such approval is normally freely given based on the genuine needs of the non-resident controlled companies concerned.

While allowing the companies to borrow from within Malaysia, the Government also encourages the inflow of long-term capital from abroad. The Government exempts the with-holding tax paid to non-residents for long-term loans of not less than 3 years maturity. I may also add that the Government has not hesitated to grant exemptions from with-holding tax on loans of less than 3 years maturity where the proceeds of the loans are used to finance approved projects.

Finally, coming to the question of paramount importance to all investors, i.e. the repatriation of profits and the remittances of dividends. For most countries, payments for trade services, transfers, including repatriation of capital and remittances of profits, dividends, etc. are freely permitted.

IV. Equity Participation Policy

What is Malaysia's attitude towards foreign investors? We in Malaysia pride ourselves in our pragmatism. We know that investors, foreign or local, do not invest in order to do charity. You invest for profits. You are welcome to this profit but we expect you to be equally pragmatic. We expect a positive contribution to the growth and well-being of our nation. This is nothing unnatural. Good hard-headed businessmen do not expect to get everything out of the society in which they operate and give nothing back in return.

This contribution to Malaysia's well-being is completely above-board. We are offering you a profit centre in exchange for your assistance in our socio-economic development.

To this end certain policies and guidelines have been decided for equity participation in investments in Malaysia. They are not rigid rules and they do not affect the success and profitability of your business to any great extent.

The guidelines are applicable to new projects as well as to substantial expansion or diversification of existing projects. The broad guidelines are as follows:-

(i) For industrial projects substantially dependent on the domestic market, we would like to see majority Malaysian equity;

(ii) For projects utilizing important non-renewable resources, particularly at extraction and primary processing levels, at least 70% Malaysian equity (including 30% bumiputra) would be required;

(iii) For projects manufacturing substantially for the export market foreign majority ownership is permitted. If the case warrants, even 100% foreign equity may be considered.

I must stress that these are guidelines, and guidelines by definition cannot be rigid. We are prepared to accommodate all views as long as the benefits are fairly shared between you as investors and Malaysia as your willing host.

Some companies have expressed the fear that though initially they may be approved with an equity condition acceptable to them the Government may after several years decide to change the equity condition in favour of Malaysians.

This has not happened and will not happen in Malaysia. Even when nationalization was the favourite preoccupation of newly independent countries, Malaysia refused to be seduced by its blandishments. We appreciate foreign investments and are confident enough of our own ability to resist the banana republic type of manipulation. So there will be no change in the rules of the game mid-stream.

V. Employment Policy

With regard to employment, Malaysia, like many other countries, desires to encourage the maximum employment of local nationals. Our policy is to work towards Malaysians being eventually trained and employed at all levels. Notwithstanding this, we allow foreign companies to bring in the required personnel in areas where there is a shortage of trained Malaysians to do the job. In addition to this, foreign companies are also allowed certain 'key posts' to be permanently filled by foreigners to safeguard their interests.

While on the subject of personnel I might mention that Malaysia has the required manpower for the needs of modern industry. Our unemployment rate of 6.2% in 1978 ensures an abundant pool of manpower. The Malaysian Government has given top priority for vocational and technical training to meet the expected demands of increased manufacturing activities. Besides, many foreign firms have found that their Malaysian workers acquire skills easily and rapidly and produce work of a high quality, comparable with the best anywhere.

VI. Bumiputra Participation Policy

One subject that has often been misunderstood by those who are not familiar with the Malaysian situation is the Government's bumiputra (indigenous people) policy. As is quite common in a society with large immigrant communities, the indigenous people of Malaysia are economically relatively backward. This has led to tension and an outbreak of rioting in 1969. The Government has therefore decided to correct these disparities through carefully planned development.

Thus, the New Economic Policy specifies that Government will deliberately stimulate economic growth and employment opportunities and out of these the Bumiputras are to be accorded a proportion that will eventually correct existing imbalances. The target date is 1990. The implementation of this policy is flexible and gradual and care is taken to avoid the slowing down of economic expansion. Indeed the success of the policy depends on economic expansion.

There have been some teething problems but by and large the bumiputra aspect of the New Economic Policy has been accepted by the investment community and is causing minimum inconvenience to foreign investors.

VII. Industrial Development in Malaysia

Like most developing countries, Malaysia's industrialisation efforts during the immediate post-Independence era were concentrated primarily on the establishment of import-substitution industries. It can be said that we have been successful in our import-substitution efforts and that new industries catering for the Malaysian domestic market are fairly well-developed. We are now at the stage where we are developing a wide range of export industries and it is in this area particularly, that we see vast potential for development.

With increasing emphasis that the Malaysian Government is placing on the manufacturing sector and with the dynamism that this sector has been displaying since the inception of our industrialisation programme, it can be expected that the manufacturing sector will continue to grow in importance in the years to come. At present this sector contributes to approximately 19% of Malaysia's Gross Domestic Product and it is expected to become, by 1990, the largest sector in the economy contributing to 26.2% of the Gross Domestic Product. Having prepared such a significant role for the manufacturing sector in the life of our nation, the Government is committed to a programme of not merely maintaining the present investment climate in the country but improving it so that the objective of increased and accelerated industrialisation can be achieved.

VIII. Investment Opportunities

I would now like to outline to you the areas in which investment potential exists in Malaysia.

Considerable potential exists in Malaysia in the field of export oriented industries especially in respect of those industries which are labour intensive and those which utilise local raw materials which are in abundance in Malaysia. These industries are among the priority industries which we want to encourage and develop. Other industries with significant potential and which are also considered as priority are those which can support or integrate with existing industries in Malaysia.

Within the context of the broad groups of priority industries which I have just mentioned, we have identified a very diverse range of industries and products with good potential for development in the country. Some of the industries which can be considered by foreign investors are as follows:-

(1) Processing and manufacturing of resource-based products utilising for example, rubber, tin, timber, palm oil, sand and clay.

(2) Manufacture of petrochemicals and other chemical products.

(3) Manufacture of precision products, for example, photographic and optical goods, watches and clocks, cutting and polishing of precious stones, manufacture of jewelleries etc.

(4) Manufacture of industrial machinery and parts.

(5) Manufacture of transport equipment and also components and fittings for motor vehicles.

(6) Manufacture of medical and scientific equipment.

(7) Manufacture of electronics and electrical appliances, equipment and their components.

(8) Manufacture of footwears and toys - all types.

From the list of industries indicated above, you will note that great emphasis is placed on the promotion of resource-based industries, precision industries and those utilising a high degree of labour.

In the context of the priority areas of manufacture that I have just mentioned I would now like to highlight some of these groups of industries:-

Rubber-Based Industry

Malaysia occupies a pre-eminent position in the natural rubber world accounting for more than 40% of the world's natural rubber production. Malaysia's output in 1978 totalled 1.64 million tonnes. Despite our pre-eminence in the production of natural rubber, Malaysia's contribution as the producer of finished rubber goods and rubber products is insignificant. This industry in the country is relatively small, consuming a total of only 48,000 tonnes or 3% of total production in 1978.

There are some very compelling economic reasons for more rubber-based projects to be established in Malaysia.

The most obvious advantage would of course be the ready availability of raw materials. With the production of natural rubber projected to reach 2.5 million tonnes by early 1980s, there will be absolutely no shortage in the supply of this commodity. In addition to its ready availability, an equally important factor is its costs. Natural rubber when exported from Malaysia is subject to an export duty and research and replanting cesses. Depending on the price of natural rubber, cost savings arising from non-payments of these duties and cesses could come up to as much as 30% of the total cost of natural rubber. In addition to this, there would also be significant savings in reduced stock holdings of natural rubber, transportation, handling, insurance, and commission charges. The advantages of rubber based manufacture in Malaysia would be more obvious in the case of dipped rubber goods utilizing Malaysian latex. The total effect of all these would ensure that the rubber based manufacturing operations in Malaysia enjoy considerable savings in the input costs as compared to a similar operation overseas.

The second advantage arises as a consequent of our pre-eminent position in the world of natural rubber technology.

we have two major and well-known research institutions, one in Malaysia i.e. The Rubber Research Institute of Malaya and the other, the Malaysian Rubber Producers' Research Association in the United Kingdom. With these two research institutions, we have therefore at our disposal, the largest single source of information on various aspects of natural rubber technology, production and manufacture. Rubber manufacturers in Malaysia can therefore expect excellent research back-up and technical facilities from these institutions. To further strengthen the supporting services to the industry, the Government has now set up a Rubber Technology Centre in Kuala Lumpur which will provide production, engineering, quality control and other advisory services to the industry.

Timber Based Industry

In 1978, Malaysia produced 28.5 million cubic meters of sawn logs. Of these, almost half was exported unprocessed. Of these processed locally the bulk were in the form of relatively low value added rough sawn timber.

To achieve the maximum degree of utilization of our forest resources, priority is now given to the establishment of integrated timber processing complexes. This concept is particularly suited to conditions in Sabah and Sarawak where there is an abundance of timber resources.

To ensure availability of prime timber to Malaysian manufacturers, the Government has banned the export of 16 varieties of logs from Peninsular Malaysia. Similarly the export of logs from Sabah will be reduced by 50% in the next 5 years.

In addition to opportunities in timber complexes, considerable opportunities also exist in the expansion of secondary and tertiary wood based industries. Of particular interest are the production of specialised mouldings and turnings, furniture component parts (and knock-down furniture), joinery items, such as wooden doors and window frames and novelty wood products, including toys, sports goods, picture frames, etc. Equally high on the list of priorities are other secondary products such as block board, chipboard as well as structural and specialised plywood.

There are also considerable opportunities for the setting up of industries to utilise forest and mill residues which are presently allowed to go to waste in the mills as well as in the jungle.

Palm Oil Industry

Among the priority industries in the resource based sector, palm oil based industries are of significance. As you are aware, Malaysia is the world's largest producer and exporter of palm oil. We have at present approximately 1.8 million acres of land under palm oil cultivation producing 1.6 million tonnes of crude palm oil. It is expected that by 1985, our production of crude palm oil will reach approximately 4 million metric tonnes. At present we have capabilities to refine our palm oil. This refining capacity is estimated to reach 2.15 million metric tonnes in the next two or three years. With increasing production of crude palm oil there will be considerable scope for the establishment of more palm oil refineries in Malaysia for export. The emphasis will however be focussed on further downstream processing of palm oil into finished products such as fully refined palm oil, olein and stearin, vanaspati, shortening and margarine, the manufacture of fatty acid and glycerine. It is in this context particularly that we welcome foreign investors to consider participation.

Tin Based Industry

Malaysia is presently the largest producer of tin in the world with an annual output of 60,000 to 70,000 tons. Specific investment opportunities exist for the production of tin products such as pewterware, solders and chemicals derived from tin.

Electrical and Electronics Products and Components

One of the areas of export-oriented industrial activity that Malaysia has established itself in, as a very viable manufacturing base, is the assembly and manufacture of electrical and electronics components and products. Whereas a few years ago in fact as recently as 1972, Malaysia did not have even one such project, to-date we have over 100 electrical and electronic projects. Most of these are 100% export oriented and cater for the world market. The existence of these projects and the fact that they continue to expand indicate that Malaysia has the infrastructure and the sophisticated industrial environment to sustain export oriented industries.

Precision Products

Malaysia is also keen to promote the manufacture of professional, scientific, surgical and dental instruments and equipments, watches and clocks, musical instruments, the cutting and polishing of precious stones and the manufacture of jewelleries. Photographic and optical goods such as cameras, projectors, lenses, binoculars, telescopes, magnifying glasses and microscopes are other priority products which Malaysia is keen to promote.

Machinery and Metal Engineering Industry

Investment opportunities also exist in general in all aspects of the engineering industry. In particular, considerable potential exists in the fabrication of food processing machinery, packaging equipment, machine tools, blowers and ventilators and anti-pollution equipments.

Other Investment Opportunities

There are of course investment opportunities in other industry sectors which I have not covered in my address. However members of the Malaysian Delegation will be very pleased to discuss with you any other projects of interest to you and which have good potential for development in Malaysia.

IX. Malaysia's Petroleum Potential

I would now like to touch upon a major development which I am sure is of interest to all of you - the production of petroleum. Malaysia is now a producer and a net exporter of oil. Recent offshore strikes indicate that oil production and export will increase. As Malaysia's low sulphur oil commands a market premium we export our oil while our refineries import crude oil from the Middle East.

At year end 1978, there were a total of 24 oil fields of commercial value. Of these, 13 fields have been brought into production. In 1978 annual production of crude oil increased by 18.2% to 79.2 million barrels or a daily average of 217,000 barrels. Up until the end of 1978, three offshore Peninsular Malaysia fields had been brought on stream.

Natural gas will be another commodity to be exported from Malaysia. By the year 1983, Malaysia's Liquified Natural Gas project, one of the biggest in the world, will be on stream. With these oil and gas resources, we are confident that there is tremendous potential for which the development of an entirely new range of petro-chemical industries will have both domestic and regional significance. As shrewd industrialists and financiers you must surely be aware of the potentials for investment these resources present.

X. Incentives and Facilities

In order to promote and encourage industrial development in Malaysia, various facilities and incentives are provided to investors who wish to establish industrial projects in the country. I earlier mentioned the stable political and economic climate that Malaysia enjoys, our comparatively low inflation rate and the Malaysian government's pragmatic policies and attitude towards investment. All these aspects are of course very important factors in any investor's consideration or choice of any country as a base for overseas investments. In addition to these, Malaysia offers a range of attractive incentives and facilities for investors. I do not wish to discuss these incentives and facilities as they are elaborated in greater detail in the MIDA literature circulated to you and in the film which will be screened later.

XI. Infrastructure Facilities

The infrastructure facilities in Malaysia are as highly developed and well planned as those in the developed countries. Incidentally, Malaysia has over 11,000 miles of some of the finest roads in Asia and highly efficient rail and air transport systems. Also, the telecommunications system has been designated by the World Bank as being the "A" category, comparable to the most developed countries in the world. International air and sea ports assure efficient handling and transport of cargo, whether liquid, bulk or containerised. Finally Malaysia's power and water facilities are of international standard in reliability of supply and efficiency.

XII. Labour Availability

I would now like to highlight one feature of the Malaysian industrial scene that would be of interest to all of you during this period of rising costs. This is the question of labour. There is an abundance of relatively inexpensive manpower in Malaysia which is dependable, productive and responsive to the demands of modern technology.

The majority of job seekers are youths. For instance in Peninsular Malaysia alone, over 70% of all those registering for employment are in the age group 15-25 years.

The existing wage of factory operators ranges from about US$1.50 to US$2.30 per day. The relatively low cost of living in Malaysia makes such wage levels possible. However, we recognise that low cost of labour by itself has little significance unless it is linked to productivity. In this respect you will find that it is the experience of the majority of investors in Malaysia that the productivity of Malaysian workers are comparable to those in developed countries.

In order to establish and maintain a high standard of skill to meet the requirements of industry, the government is giving increasing emphasis to the establishment of vocational schools, industrial training institutes and other similar institutions.

XIII. Package Deal for Investors and One-Step Agency

Since the setting up of a manufacturing project involves dealings with the Government, the efficiency of the Government administrative machinery and its procedures are very important. In this connection, I am glad to assure you that the Malaysian Government is fully conscious of its role and of the demands of a modern industrial economy and the Government is constantly making efforts to improve and streamline its administrative machinery and procedures at all levels so as to reduce red-tape to the minimum.

Major steps in this direction have been taken and implemented recently by the Malaysian Government. MIDA has now become not only the first step or Port of Call for investors but it has also become a one-step agency with the establishment of its Central Unit. This Central Unit is serviced by senior officials from major Government Ministries and Departments dealing with industrial development. Potential investors can now come to MIDA and get under one roof advice and assistance from these officers and thus need not have to go from one Government Department to another for information and assistance. This has proved to be a big help to investors to facilitate and assist them in the establishment of their industrial projects in Malaysia.

Administrative procedures have also been streamlined recently whereby investors can now apply to MIDA not only for approval to set up industrial projects, and where applicable to apply for various incentives, but investors can at the same time also apply to MIDA for approval to employ foreign personnel required for their new projects or for expansion of their existing projects.

XIV. Conclusion

I hope that my address today will give you a better picture of what Malaysia is and what we have to offer to foreign investors. Before I conclude my address I would like to extend an invitation to you to visit Malaysia and see for yourselves the opportunities that Malaysia offers. If you should ever hear of any aspect of Malaysian Government's policies or their implementation that appear negative I would request that you contact our MIDA Overseas Centre in London and obtain a true picture of existing situations. Alternatively, you could consult investors who have projects in Malaysia and they will be able to put to you the correct picture of Malaysia. In view of the fact that we follow pragmatic and fair minded policies we are confident that a majority, if not all, of these investors who have experiences in Malaysia will assure you that Malaysia has an investment climate second to none among developing countries.

If you should decide to accept our invitation do contact MIDA and MIDA is ready to assist you in all ways possible to make your visit to Malaysia a successful and profitable one.

Thank you.

MS/lcy.

TODAY'S MOST ATTRACTIVE INDUSTRIAL INVESTMENT FRONTIER:
THE PHILIPPINES

Governor Jose V. de Ocampo
Vice Chairman of the Board
Development Bank of the Philippines
At UNIDO Conference, Helsinki, Finland
May 21, 1979

Fellow workers for Progress, friends:

At the outset, allow me to express elation at finding myself in this beautiful country for the first time. I find Finland as beautiful as the lady who became the world's first Miss Universe, who is now a resident and a citizen of the Philippines. When a Filipino married Finland's and the world's first Miss Universe in the early fifties, an affinity between the two countries was established. Some ten or more years ago, a big delegation of business and bankers from Finland came to the Philippines for the ostensible purpose of developing business relations between our two countries, and I was one of those who had discussions with them. I thought then that that group was going to pursue their objective and the affinity started in the fifties was beginning to bring results, but obviously the business and financial interests responsible for organizing that delegation decided to quit after the initial thrust.

It took heavenly beauty, boundless charm, and a very refreshing personality for your pretty daughter of Finland to smite our Filipino gallant. I do not know what is going to take the Philippines to attract prospective investors from your country to come and invest in the Philippines. Many of us in the Philippines know Finland; although before the Second World War, their knowledge of the country was limited to its geography. We got to know something of the character and courage of it's people when you gave us the opportunity to cheer and pray for you when you not only stood your ground fighting a giant (Russia) but even penestrated into it's territory. This, of course, is now part of history. Since then my country and I suppose Finland too, is friendly with Russia whom we have learned to hold in high regard. I am sure the Philippines is unknown to most of you. Once, while travelling through Scandinavia, my hosts often asked me questions about Japan, thoughtless mistaking me for a Japanese. Whenever I told them I am from the Philippines, they always wondered where in the wilderness that little unknown country could be. So let me tell you about my beautiful, but materially poor country before I outline to you its attractions for foreign investors.

THE COUNTRY AND IT'S PEOPLE

The Philippines, one of the largest archipelagos in the world with approximately 7 100 islands and a land area of 300 000 square kilometers, is surrounded by the South China Sea to the west and north, the Pacific Ocean to the east and the Celebes Sea to the south and is located approximately 1 600 kilometers off the south-east coast of Mainland Asia.

It has a population of mixed blood with significant Chinese and Spanish influence; the Malayan ethnic characteristic, however, predominates. As of July 1978, the country's population was estimated at 46.4 million, growing at an average rate of 2.8 % per annum from 1970 to 1975. The population density is 155 persons per square kilometer, with about 65 % living in the rural areas. The population is relatively young, nearly 42 % being under 15 years of age and 3.5 % over 65. The literacy rate is 88 % for persons over 10 years of age. A system of free public education prevails both in elementary and secondary levels. About 96 % of the population is Christian, mainly Roman Catholic, and 4 % is Muslim. Filipino, Spanish and English are the official languages.

ECONOMIC PERFORMANCE

During the period 1973-1978 the real Gross National Product (GNP) of the Philippines increased at an average annual rate of 6.8 % and real Gross Domestic Product (GDP) grew at an average annual rate of 6.7 %. During this period, the population of the Philippines increased at a compound annual rate of about 3 %. Thus, the average annual increases of real GNP have exceeded annual average population increases and have contributed to corresponding improvements in average real per capital income.

INVESTMENT CLIMATE

Economic and social reforms initiated in 1972 have enhanced the Philippine investment climate. While questions have been raised on the political order in the country (we have what we call a crisis government. The Americans prefer to say, we are under martial law with its attendant suppression of civil liberties) which made possible these reforms, there has been a continuing surge of investments resulting in the setting up of new industries and the expansion of existing ones. Domestic and foreign investors who have actually done business in the country find the present climate much more receptive to suggested improvements and more conducive to a healthy exchange of views between the private sector and the government.

The performance of the Philippine economy in the last five years is evidence of the growing confidence in the national leadership.

AREAS OF INVESTMENT OPPORTUNITIES

Investments priorities are determined by the Board of Investment and the National Economic Development Authority. Together they formulate yearly an Investment Priorities Plan (IPP). The Eleventh Investment Priorities Plan (IPP), the latest issued, covers a total of 94 projects of which only three (3) are new inclusions. These three are for the production of continuous copper rod, hydrogen peroxide and white cement. The rest are carry-over projects from the 10th IPP. About 31 projects included in the 10th IPP have been deleted from the 11th IPP.

The 11th IPP retains the ten (10) major programs contained in the 10th IPP with the exception of sugar processing. In addition, two residual groups of projects are included, viz: (a) projects providing linkages to the major programs and (b) other essential projects not directly supportive of the major programs.

The ten (10) major programs are:

a. Wood Processing Program
b. Further Processing of Coconut
c. Mineral Processing
d. Copper and Steel Mills
e. Progressive Motorcycle Manufacturing Program (PMMP)
f. Progressive Car and Truck Manufacturing Program (PCMP) and (PTMP)
g. Shipbuilding
h. Electronic Local Content Program
i. Engineering Industries
j. Nitrogenous and Phosphatic Fertilizers

The Fourth Public Utilities Priorities Plan covers two activities namely: (1) inter-island shipping and directly related facilities essential to the efficient operation of ships, and (2) electric utilities.

CAPITAL REQUIREMENT AND SOURCING

Prosecution of the abovenamed programs and projects will require investments totaling a little more than ₱ 20.000 million (US $ 2.7 B). About fifty-seven (57) per cent of ₱ 11,899.14 million of this is targeted to come from foreign sources of which ₱ 10,189.87 million will be in the form of loans and ₱ 1,709.27 million will be in the form of equity. The remaining forty-three (43) per cent or ₱ 8,867.80 million will come from the local sources. Of the latter figure, ₱ 3,291.50 million will be in the form of loans and ₱ 5,576.30 million will be in the form of equity.

EXISTING FOREIGN INVESTMENTS IN THE PHILIPPINES

There is at present a respectable, if not yet very sizable value of foreign investments in the Board of Investments of the Philippines (BOI). The total of these comes to about ₱ 4,823 billion (US $ 645 million). Breakdown of these foreign investment in BOI-registered projects as of March 1979 is presented below.

Nationality	Total (In ₱'000)	%
Americans	1,684.628 ₱	34.93 %
Japanese	1,165.697	24.17
British	409.827	8.50
Australian	199.913	4.14
Swiss	231.309	4.80
Korean	140.642	2.92
Taiwanese	187.170	3.88
Canadian	90.556	1.88
German	69.660	1.44
Hongkong	64.989	1.35
Swedish	33.370	0.70
Danish	26.267	0.54
Others	518.503	10.57
Total	4,823.431 ₱	100 %

The IPP projects are meant to complement the various impact manufacturing projects identified in the Five-Year Plan. Specifically, IPP projects are aimed at implementing specific industrial development strategies as follows:

a. increased processing of domestic products particularly those for export;

b. second-stage import substitution or the domestic production of presently imported intermediate goods;

c. regional dispersal of industries;

d. strengthening of industrial linkages and development of small and medium scale industries.

Most of the impact projects identified in the Five-Year Plan are included in the IPP, viz: woven textiles, spurn yarn, abaca pulp, woven fabrics, malleable iron fittings, long fiber unbleached craft pulp. Further, the industries covered by the ASEAN Complementation Scheme such as integrated steel mill, copper smelting and refinery plant, petrochemical project and phosphatic fertilizer form part of the IPP.

In the Ninth Export Priorities Plan, majority of project comprising about thirty-eight (38) per cent of total EPP are in the metal-based sector. The rest of the projects are distributed as follows: 27.53 per cent in the chemical-based sector, 26.09 per cent in the agro-based sector and 8.17 per cent in the mining and mineral processing sector.

INDUSTRIALIZATION POLICIES

The industrial program of the Philippines is guided by several socio-economic objectives - the creation of employment opportunities, dispersal of industries throughout country, more particularly to the countrysides, promotion of small industries, accelerating exports of manufactured goods and further processing of raw materials before export. In pursuit of these objectives:

1. It is the policy-makers desire to maximize employment opportunities - In a labor-surplus economy such as that of the Philippines, industry must, as a primary objective, provide employment to its increasing population. By the year 1000, our population may reach 94 million as against our present population of 43 million; and our labor force will increase from 14 million to 30 million. While agriculture now employs more than half our work force, the land area that may be still opened for cultivation is limited. The economy, therefore, shall more and more rely on construction and industry in the future to provide employment. Our incentives scheme for industry, thus, seeks to promote labor intensive projects. In addition, programs have been adopted to bring about in a planned manner, progressive increases in domestic or local content of certain products. Assemblers of

these products are required to employ increasing proportions of domestically manufactured components each year.

2. Industry must be dispersed - A policy of regional dispersal of industries seeks to generate industrial employment opportunities for the rural population and semi-urban areas all over the country. The growth of manufacturing has so far been concentrated mainly in the Greater Manila area. This not only reduces opportunities for industrial employment in other areas of the country but has resulted in congestion, pollution and social problems for the Manila area. At present new industries are not allowed to be established within a 50-kilometer radius from Manila and certain other major urban centers, except with prior authority given for sufficient reason.

3. Small and medium-scale industries must be promoted and developed - The government is giving renewed emphasis to the promoting of small industry in the metropolitan Manila area (for non-pollutants), as well as in the various regions of the country. In the urban areas, small and middle-sized firms are being assisted to supply the inputs of larger companies. Whenever possible, we encourage large industries to follow subcontracting schemes. In the countryside, small industries are encouraged for the manufacture of simple consumer goods, farm implements, and exportable handicrafts. Government promotion of small industries is carried out mainly through technical assistance programs and liberalized credit schemes.

4. Intensify the export of manufactures - The Philippines is still largely dependent for its export revenues on such traditional commodities as sugar, copra, logs, metallic ores and concentrates, some of which are re-processed and re-exported to the Philippines as well by other countries. Up to the 1960's, domestic manufacturers were not conscious of and responsive to export possibilities. In recent years, however,

spurred by a surplus of manufacturing capacity for certain products, the growth of non-traditional manufactured exports, particularly of labor-intensive manufactures has been very encouraging. Our target is to sustain a growth rate in this category of exports at 15 to 20 % per annum.

5. Encourage the export only of processed or semi-processed products - Further processing of raw materials prior to exports is being encouraged. Log exports are presently restricted, on the way to being totally banned, to encourage export of lumber, plywood, veneer, furniture, building woodwork and other articles of wood. A copper smelter is being organized to process a portion of our copper concentrates, which are now sold primarily to Japan and a few countries in Europe. This will enable the export of copper metal to a more diversified market. Sufficient coconut oil mills are now being established so that in about three years, little copra if any will be exported from the Philippines.

To broaden the productive base of our economy, we need to continue imports of equipment, machinery and some industrial materials. To meet these requirements, we must increase export earnings. One of the main thrusts, therefore, of our incentive schemes and foreign investment policies is to encourage establishment of export-oriented industries. Incidentally, the Philippines has a Export Processing Zone (free trade) just outside Manila and is planning to set up two others.

TARGET FOR THE INDUSTRY SECTOR

Industrial growth will be the main concern of the Philippines' National Plan. This sector is targeted to grow at an annual rate of 10.0 per cent between 1978-82, expected to increase to 11.4 per cent from thereon, up to 1987. It is planned to account for 29.2 per cent of the NDP in 1978 to further increase to 36.9 per cent by 1987. From a share of 29.2 per cent of the NDP in 1978, the industry sector's share is expected to jump to 31.8 per cent by 1982.

Industrial subsectors (mining, manufacturing and construction) will exhibit significant increases according to the plan. This will be brought about by the increase in investments in infrastructures.

For the first five years, the Plan forecasts a growth of 9.2 per cent yearly of the manufacturing sector's share to NDP. The mining sector will expand its share from 8.5 per cent in 1979 and 1989, to increase to 9.5 per cent in 1982.

The increased private and government expenditure on infrastructure will be reflected in the increased share of the construction subsector to the NDP. Its target growth is in the vicinity of 12 per cent in 1979 and 1980, to 12.5 per cent in 1981 and 1982.

The utilities sector, comprising electric power, water and gas, generators and/or production, will post a growth rate of 10.5 per cent in 1979 and 1980 and 11.00 per cent in 1982 in it's share to total NDP.

In absolute figures, production of the Industry Sector is projected to increase from ₱ 19,949 million (at constant 1972 prices) to ₱ 50,201 million, with manufacturing accounting for 63 % of total production by 1987.

REGULATIONS AND POLICIES AFFECTING FOREIGN INVESTMENTS IN THE PHILIPPINES

Government Policies - Foreign investment in the Philippines is extended three degrees of treatments, following:

1. Permissible so long as it is made in areas of economic activity not yet adequately exploited by Filipinos and which will contribute to the sound economic development of the country. Generally, foreign investment will be allowed without prior approval by the proper government agencies in any local firm if foreign ownership of the firm will not exceed 30 %.

2. Welcomed and given incentives if made in a preferred area of economic activity and in joint venture, with Filipinos in a majority position; and

3. Encouraged up to full foreign ownership of the enterprise if made in a pioneer area of economic activity or in export oriented enterprises or in enterprises established inside the Export Processing Zone and in the PHIVIDEC (Philippine Veterans Investments Development Corporation) industrial estates.

PHILIPPINE LAWS AND REGULATIONS

A number of laws affect foreign investments in the Philippines. Some of these are the following:

1. The Constitution of the Philippines limits the ownership of land, exploitation of national resources, and operation of public utilities to Filipino citizens or corporation at least 60 % Filipino-owned. (Present executive policy limits foreign equity participation here to 30 %).

2. Republic Act 5186 or the Investment Incentive Act offers a comprehensive scheme of tax and non-tax incentives to registered enterprises in priority areas of economic activity. Under this law, foreign investments are allowed up to 40 % of the outstanding voting capital of a registered enterprise in any area declared as preferred non-pioneer in the Investment Priorities Plan (IPP), a plan being prepared yearly by the Board of Investments and submitted to the President through the National Economic and Development Authority (NEDA). Enterprises in preferred pioneer areas listed under the IPP may be owned 100 % by foreign nationals provided they also accept Filipino investment within 30 years to attain the status of a Philippine national (60 % Filipino-owned).

3. Republic Act 6135 or the Export Incentives Act follows the same nationality requirements as the Investment Incentives Act.

4. Republic Act 5455 or the Foreign Business Regulation Law covers the entry of foreign investments in areas of business activity which do not fall within the scope of the Investment Incentives Act and the Export Incentives Act. The Law regulates the entry of foreign investments when foreign equity participation exceeds 30 % of the capital stock.

REGULATORY LAWS

Before an alien individual, foreign enterprise, or domestic entity with more than 30 % foreign equity can do business in the Philippines, prior authority shall be secured from the Board of Investments pursuant to the provisions of R.A. 5455. Likewise, any domestic enterprise which which will accept foreign investment equivalent to more than 30 % of its outstanding capital has to secure prior authority from the Board of Investments before it can accept said foreign investment. In granting approval to applications to do business or accept foreign investments filed by foreign firms under R.A. 5455, the Board of Investments sees to it that (1) the activities applied for are not inconsistent with the Investment Priorities Plan; (2) they will contribute to the sound and balanced development of the country on a self-sustaining basis; (3) the business does not conflict with the Philippine Constitution and various laws of the country; (4) the business activity is not one which is already adequately exploited by Filipinos; and (5) the business does not promote monopolies or combinations in restraint of trade.

After securing the necessary authority from the BOI to do business in the Philippines, the foreign investor, if a partnership or a corporation, has to register with the Securities & Exchange Commission and thereafter secure the municipal license from the city or municipality where it will conduct its business.

A foreign national may be allowed to establish a representative office, branch office or a fully owned subsidiary in the Philippines provided applicant meets the 5 criteria enumerated above. No further approvals shall be made upon applications filed by foreign nationals to establish a liason office in the Philippines. A representative office may be established by a foreign manufacturing firm but not by a foreign trading firm except if the representative office is to engage in the business of exporting Philippine products. A foreign national desirous to engage in the manufacturing of products considered by BOI as desirable may be allowed to put up a branch office or a domestic subsidiary.

Generally, the Board will not allow entry of foriegn nationals in the field of wholesaling, importation and distribution, indenting, commercial broking, insurance underwriting, travel and tour, air freight forwarding and in the manufacture of certain products listed among the overcrowded industries because these are some of the areas considered by the Board as adequately exploited by Philippine Nationals. Entry of foreigners in the construction field may not also be allowed except in government projects which are financed by foreign loans under the terms of which restrictions and preferences of competitive bidding are waived.

Foreign companies may, however, enter into secive agreements for the exploration, development and exploitation of: (a) energy resources with the Energy Development Board, or (b) other mineral resources with the Government or local claim holders with the approval of the Secretary of Natural Resources.

All foreign investments in whatever percentage have to be registered with the Central Bank of the Philippines primarily for foreign exchange monitoring purposes and for facility of repatriation of capital and remittance of profits.

INCENTIVES TO FOREIGN INVESTORS

Although it may appear that the Philippine Government has adopted a "screened door" policy approach to foreign investments, there are areas where foreign investments are not only welcome but given incentives. There are the preferred areas of investment identified by the Board of Investments in yearly investment priorities plans prepared by it. These plans specify the aggregate additional productive capacity desired to be established to meet both the domestic and export needs. These activities may be pioneer or non-pioneer in nature. The pioneer activities are those projects which will make products not yet manufactured in the country on a commercial scale or which use a technology or process new to the country. All other activities listed in the plans are classified as non-pioneer.

CONCLUSION

Positive results from government programs to encourage inflows of foreign equity investments in the country were evident from the increase in Central Bank-approved foreign investments as of the end of 1976 to $ 633 million as against 8 493 million in 1975 and $ 335 million in 1974. Of the approved equity investments as of 1976, $ 513 million has been inwardly remitted.

Total inward remittances in 1976 equaled the $ 122 million level recorded in 1975. The United States accounted for 44 and 47 per cent of total inward remittances in 1974 and 1976, respectively, while Japan trailed behind with a share of 21 and 26 per cent during the same years. The year 1975 manifested a reversal from the usual trend. For that year Japan was the largest single source of inward remittances with a 43 per cent share and the United States second with a 34 per cent share.

The bulk of foreign investment inflows in 1976 were channeled to the manufacturing sector, which absorbed 61 per cent of the total, although its share was lower than the previous year's 68 per cent. Still, it was an encouraging improvement from its 28 per cent share in 1974. The mining, services and commerce sectors absorbed a combined share of 36 per cent in 1976 as against only 16 per cent in 1975 and 25 per cent in 1976. This was brought about largely by the considerable increase in investments remitted to the mining sector from 14 and 7 per cent in 1974 and 1975, respectively, to 22 per cent in 1976.

Foreign equity investment will continue to be encouraged, particularly in capital-intensive and high technology areas. Policies will be directed towards attracting foreign investors into establishing joint venture programs with Filipino investors in order to initiate new projects as well as expand existing economic activities at mutually advantageous terms.

I have just come from the Pacific Basin Conference in Los Angeles, U.S.A. There it was recognized by all the developing countries' representatives that of now the most exciting area for their investments is the Asean region which has achieved in the last three years a cohesion in development approach not even dreamed of when the association was conceived more than a decade ago. In this region the Philippines lies like a string of pearls, attractive to foreign investors not only because of the friendly and good-natured character of its people - a people grateful to colonist Spain for enriching its culture and bringing it its present predominant religion, to colonist the United States of America for an educational system which has brought it to its present literacy level and to colonist Japan which has now become our biggest trading partner, despite the oppression and exploitation our people suffered in the hands of these great countries, but more, especially from the foreign investors' point of view, because of the easy availability of technological skills in the country, the stability of its government and the fact that on the basis of past record there has never in the Philippines been an instance where the foreign investor has been unduly and without due process deprived and parted with, by seizure and otherwise, of his interests and his investments.

THE INVESTMENT CLIMATE IN SRI LANKA

Sri Lanka - General Background

Sri Lanka has an area of 25,000 sq.miles and a population of nearly 14 million. It is situated on the trade routes between East and West Asia, a position on the trade system it has occupied for well over 2000 years. Sri Lanka is heir to a classical plantation economy having specialised on two major export products, tea and rubber and to a lesser extent, coconut.

The per capita income in Sri Lanka is Rs.2,547 equivalent to $ 164. However, inspite of this low income it has a high rating (82 percentage) on the Physical Quality of Life Index (PQLI) which measures such factors as literacy and health standards. Thus, although at a low level of income, the Sri Lankan population is relatively well fed, adequately clothed and educated and articulate with a built-in inclination for acquiring new skills. An adequate education has implanted a potential for learning, schools impart a modern knowledge package to a large section of the population and therefore apart from meeting the requirements of ~~the~~ local labour market Sri Lankan skills have been increasingly in demand in the Middle East countries during the last three years or so. However, Sri Lanka has a high degree of structural unemployment amounting to nearly 20% of the population, a situation which has begun to ease somewhat over the last year or so largely due to growth in the agricultural sector.

The high Sri Lankan PQLI index has been achieved by a system of social supports in the form of direct and indirect subsidies. Some of these direct subsidies in the form of consumer subsidies have been withdrawn over the last two years largely under the suggestion of international lending authorities. Indirect social supports in the form of free education, free health and other amenities still continue unabated. (There have been also subsidies for production purposes, say for instance, in the agricultural sector for guaranteed purchase of various farm products and fertiliser, which have existed for more than a quarter of a century and these have recently been enhanced).

Sri Lanka has a physical infrastructure which in comparison to other Third World countries is advanced. These include motorable roads linking virtually every village and a good railway system together with adequate power and telecommunication networks covering virtually the whole island. In addition, Sri Lanka has a good international airport - used by 10 airlines - three good harbours (Colombo, Trincomalee and Galle) and satellite and other telecommunication links with the outside world.

The Sri Lankan climate is salubrious with average temperatures throughout the year approximating in the upper 20°C. The climate in Sri Lanka is governed by two major monsoons resulting in adequate rain. Sri Lanka, specially Colombo, is served by an adequate health and hospital service, the major hospitals being comparable in quality to those in Western countries. Communication by foreigners with Sri Lankans is relatively easy as English is a compulsory language in schools and is widely understood in the country. Sri Lanka, being a fast developing tourist centre, has adequate hotel facilities and further, the government has had a system, since the early 70s for encouraging foreign residents by special incentives.

Sri Lanka has democratic system of government with change of government by the ballot every five years or so during the last 25 years.

Upto the year 1977 Sri Lanka economy grew at an average rate of 3.5% for the previous 5 years, until a 4.4% growth rate was recorded in 1977. From the year 1977 the economy has taken a turn, unprecedented in the recent economic history of this country, through which process the growth rate has taken a leap to 8.2 percent for the year 1978. Prior to this growth rate a good period of the 1970s showed a certain increases in the level of unemployment coupled with a sluggish growth in productivity. In the year 1977 the new government reacted to this situation, by adopting fundamentally far-reaching economic reforms which almost reversed the policies adopted since 1956 or perhaps since Sri Lanka became an independent country in 1948. In the budget speech for the year 1979 the Minister of Finance & Planning of the government of Sri Lanka has stated that ' the primary attention of the new government was focussed on resuscitating and reviving the run-down economy and on laying a firm foundation for sustained and rapid growth and development on the long term. With this objective the government formulated and implemented a new economic programme, which constituted a revolutionary change from the policies pursued in the past '.

The government has also been making a concerted effort to mobilise resources both foreign and domestic to finance its development programmes. On the foreign resources side, a sum of more than 12 billion rupees (US $ 769 million) has been mobilised since July, 1977 without taking into account aid for the accelerated Mahaweli Programme (the biggest power, irrigation and settlement programme ever undertaken in the modern history of this country) and the Extended Fund Facility (EFF) and Supplementary Financing Facility (SFF) which are being negotiated. These resources have been obtained on the softest possible terms. Additionally, the government has successfully negotiated a balance of payments support in the form of a standby credit, amounting to SDR US $ 93 million, and a further US $ 380 million from AID Group Meeting of which about US $ 129 million constitute outright grants. These loans do not cover the foreign assistance being given and promised to be given for the Mahaweli Development Programme which is one of the biggest irrigation and power development programmes the country has ever undertaken. In this push to achieve an economic growth urgently needed to meet the development requirements of the country, the government has taken many bold measures which are typically characteristic of a free economic framework.

GCEC

The Government has created an investment climate in the country which has never existed before. This investment climate so created by the government offers the entire package for exclusive foreign investment on the one hand and quite generous incentives to local investors on the other. For this purpose, the Government of Sri Lanka plans to set up areas of investment, demarcated for foreign investment, which are called Investment Promotion Zones (IPZs). For the administration of these ventures the government has created by parliamentary statute a special organisation called the Greater Colombo Economic Commission (GCEC) which is the sole authority for the complete administration of activities coming within the Investment Promotion Zone. The GCEC will ensure that investors' needs are met both at the initial stage of setting up the enterprise and after it is established. The GCEC is a 5 member autonomous statutory body whose members are appointed by the President of the Republic of Sri Lanka, and is headed by a Director-General.

Objectives of GCEC

The commission's tasks are to promote foreign investment, increase export earnings and create employment [illegible] export-oriented industrial development through foreign as well as local capital, laying emphasis on development of technical and management skills in production and marketing. The GCEC has full jurisdiction over enterprises within the area of authority which is about 200 sq.miles (518 sq.km) and enterprises located elsewhere in the country, but licensed under the commission. It is vested with all powers to approve and facilitate foreign investment within this area of authority and investors are not required to deal with any other official body.

Authority of GCEC and Functions

GCEC will enter into agreements with enterprises within its jurisdiction and grant exemption from or modify the application of certain scheduled laws of the country. These include taxation, customs, exchange control and company laws. The GCEC will assist the investor in recruitment and training of employees, advises him on the best possible location for his enterprise and provide details of available facilities and rules under which he has to operate. The GCEC will also assist the investor in feasibility studies and project evaluation, joint venture negotiations and business registration. GCEC will direct service organisations in the country to construct service facilities within the area according to investors' specifications.

First IPZ

The first investment promotion zone for which the GCEC invites investment, is at Katunayake, next to Katunayake International Airport (KIA), only 18 miles (29 km) from Colombo. This IPZ covers about 500 acres (203 hectares). GCEC will provide adequate modern infra-structure facilities in this area including the following -

Air Cargo Terminal

Container marshalling yard for sea going containers

Sophisticated telecommunication system

Special secret banking services

Excellent rail and road communication

Certified fire fighting facilities

Internal public transport

solid waste disposal facilities

Site security arrangements

Vehicle parks

The incentive package offered to foreign investors within the IPZ of Sri Lanka are as follows -

i. Tax Exemption

1. A tax holiday averaging 5 years for investments and foreign personnel attached to GCEC licenced projects.

2. Non-resident share dividends free of control and additional taxation during and after tax holiday period.

3. No tax on transfer of capital, returns and proceeds of liquidation.

4. After the 5 year tax holiday, a 2% tax on sales outside Sri Lanka; 5% on sales in Sri Lanka; and 10% on Royalty and technical service payment.

ii. Ownership

1. 100% foreign ownership is permitted.

iii. Banking

1. Permission will be granted to operate secret numbered banking accounts in non-local currency.

2. Local general banking and off-shore facilities are authorised for foreign banks on a case-by-case basis.

3. 5% tax on off-shore profits and 25% on general banking profit after 5 years tax holiday.

iv. Free Imports

1. No import duty on equipment, construction materials and production inputs (except on general transport vehicles).

v. Double Taxation Relief

1. Sri Lanka has signed double taxation relief payments with 8 countries namely, India, Sweden, Denmark, Norway, Federal Republic of Germany, Japan, Pakistan and Malaysia.

2. Draft relief agreements with the governments of United States, United Kingdom, Canada, Singapore, Bangladesh, Poland, Czechoslovakia and France have been initiated and negotiations have been completed.

vi. Factory Building Sites

1. Sites at IPZ will be allotted to investors on a 99 year lease basis on an initial premium plus an annual nominal rent.

vii. Investment Guarantee

1. Investment Guarantee agreements have been signed with the United States of America and the Federal Republic of Germany. Agreements are also being negotiated with the United Kingdom and several other countries.

viii. Settlement of Disputes

1. Sri Lanka is a signatory to the 1965 convention of settlement of disputes between states and nationals of states. Any dispute between the GCEC and an investor will be referred for arbitration to the international centre for settlement of investment disputes established under the convention.

Investment Incentives

Investment incentives will be on a graded scale with tax holiday ranging from 3-10 years averaging to 5 years depending on the siting of the factory on the IPZ, creation of employment, export-orientation, capital investment and development of technology. Development of technology combines such factors as labour intensive production and introduction of new technology etc.

Though all the companies in the IPZ and within the GCEC area of authority except banks must be incorporated in Sri Lanka, transfer of shares of such companies may be done within or outside Sri Lanka to residents of non-residents. The country in which payment for such shares will be made may be decided between the buyers and sellers of the shares and such transfers will not be subject to any tax or levies in Sri Lanka.

Employment

The GCEC also offers guidance in employment and lays down employment standards which altogether will offer cheap yet efficient source of labour for foreign inestors in Sri Lanka which would be one of the distinctive advantages to the investors. These rates are related to cost of living standards of the country. The GCEC will ensure efficient and effective labour administration through its labour administration division which is expected to administer the labour laws in the area of authority entrusted to the commission. This division will render free advice to investors on all aspects of employment and industrial relation matters.

Labour, both skilled and semi-skilled, is available from within the area and in addition labour could be drawn from the rest of the country. The relative cost of labour could be gauged from the fact that the semi-skilled worker is employable at about US $ 1 per day with skilled workers at US $ 2 per day. Terms and conditions of employment and payment of wages and salaries however will be subject to negotiations between the investors and the Commission. Proposals have also been made to suspend labour laws prevailing in the rest of the country within the export promotion zone.

Agreement with the Commission

Each investor is expected to enter into an agreement with the Commission, the range of investment and guarantees being subject to negotiation. Any disputes relating to interpretation of the provisions of any agreement will be referred for settlement to the International Centre for Settlement of Industrial Disputes in Washington.

To provide a high degree of security for investors certain laws have been suspended within the area of jurisdiction of the GCEC. These include the Business Undertakings (Acquisition) Act, which provides for the compulsory acquisition of any business, Companies (Special Provisions) Law which limited companies from owning property and acquisition of other companies. In addition to these laws, enterprises could also be exempted from the requirement of certain other laws relating to the management, administration, taxation, exchange control, customs duties, tariffs, procedures in merchant shipping and air navigation. A special Customs Authority to channel all goods, machinery and material to and from the zone will be set up.

Projects Approved

Number of projects approved as at May 15, 1979 are 68 with a total investment amounting to about Rs.2,000 million (US $ 128 million).

Total employment within the IPZ	-	34,000
Number of factories in production	-	06
Number of factories under construction	-	23

The setting up of infra-structure facilities in the first Investment Promotion Zone is well underway.

From this it is seen that an unprecedented incentive package and support for the new system has been created. These incentives offered to investors are clearly defined and set-out in unambiguous terms, areas and conditions.

Over all, the GCEC offers physical and other incentives to export oriented investments on a graded scale, based on a variety of factors. The Commission does not entertain projects aimed primarily at the local market. However, a certain quota of the products of export-oriented projects are allowed for sale within the local market, subject to duties and general government policy regarding imports into Sri Lanka. For industries using local raw materials, the Commission entertains export-oriented proposals which would produce final end-products and does not entertain proposals for further processing of these raw materials and their export as semi-finished raw materials.

Authority from the Foreign Investment Advisory Commission, as well as the relevant Ministry is required for siting projects outside the area of the Commission's authority. However, even such projects could obtain GCEC [illegible] made to the relevant

Minister, as well as to the President.

Development of the economy by greater investment is the present theme. Prior to 1977, at least for a period of 15 years a great emphasis had been laid on the public sector as the main feature of industrial growth and development. Through this period the public sector assumed a dominant role. However, industrialisation in Sri Lanka in the past also developed on the basis of import substitution behind a high tariff structure and tremendous import restrictions. In the words of the Minister of Finance and Planning, this led to an 'inward looking industrial structure operating well below capacity and making excessive profits in a starved and captive local market'.

The following extract from the budget speech of the Minister of Finance & Planning outlines very clearly the new policy and its progress upto end of 1978 -

" With the assumption of office of the present government the activities of the public manufacturing sector have been confined to the industries already allocated to it. Future developments in this sector will relate to the maximisation of output from existing capacity, the speedy completion of projects already in hand, technical improvements and expansion of existing units where additional production could be achieved expeditiously, creation of new capacity in accordance with present priorities, and the initiation of advance action on long gestation projects. "

The present government is extending all assistance to promote and encourage the rapid growth of the small and medium scale industrial sector while simultaneously attracting such industries to backward and less developed areas of the country. To achieve these objectives a liberal policy of approval has been adopted and a new credit guarantee scheme to ensure ready availability of finance has also been introduced. Foreign investment is permitted where manufacture is largely for overseas markets or where such collaboration is considered the only available means of obtaining modern technological know-how to improve the quality of manufactured goods. With the liberalisation of imports, the government has also taken steps to ensure that reasonable tariff protection is given to local industry, safeguarding at the same time the interests of the consumer.

During the last three years ending December, 1978, 1977 units in different industrial groups (excluding textiles) have been approved by the government outside the Investment Promotion Zone involving a total investment of Rs.1,265 million (US $ 81.08 million) and with an employment potential of about 42,248. This stands in marked contrast to the previous four years, where approvals were 659, actual investment Rs.77.0 million (US $ 4.93 million) and employment was 10,673.

The total foreign investment in manufacturing industries in 1978 amounted to Rs.592 million (US $ 37.94 million) in contrast to Rs.43 million (US $ 2.75 million) in 1976. Some of the projects with full or partial foreign collaboration are the Flour Mill in Trincomalee, a project to manufacture rubber latex thread for export, manufacture of boats for export, decortication of cashew kernel and extraction of cashew nut shell liquid for export.

In the public sector notable increases in production have been recorded in 1978. The production of rutile for instance amounted to 7,956 metric tons which represents an increase of nearly 850 percent over the previous 12-month period. The production of cement rose by 42 percent, graphite by 11 percent, petroleum refined products by 27 percent, tyres by 13 percent, leathergoods by 35 percent, ceramic tiles by 54 percent and mammoties by 48 percent.

State manufacturing corporations also showed an increase of 26 percent in employment in the 12-month period ended July, 1978. These are results in the short period of twelve months which are satisfactory by any standard.

The production of cotton textiles is largely in the hands of the public sector.

The private sector is engaged largely in the production of non-cotton textiles, for which the existing capacity in 1977 was 31 million yards while production was approximately 27 million yards. The projected demand for non-cotton textiles is about 70 million yards by 1980 and in view of this, action has been taken to attract new investment into this field and investment proposals amounting to Rs.255 million (US $ 16.34 million) involving a new capacity of 31 million yards have already been approved by the government (by September, 1978).

The garment sector has been the main exporter in the textile industry, with exports amounting to Rs.125 million (US $ 8.01 million) in 1977, and rising very considerably to Rs.161 million (US $ 10.32 million) in the first half of 1978. Several new units oriented to exporting garments have been approved and this sector is expected to show vigorous expansion once these new projects go into production. Import of machinery has been liberalised and the importation of material to meet export orders is being allowed. The government has also been able to negotiate successfully with EEC countries for much higher quotas than were originally proposed.

Incentives for local investments outside the IPZ include, tax holidays, capital allowances, tax reliefs on number of classified industries, investment expenses relief from taxation, production and gestation allowances, expense allowances, greater capital gains allowances, reduction in company taxation, interest on inland revenue refunds and a generous tax holiday.

Wood based and metal processing industry falls within the embit of industries desired in the Export Processing Zone. There is a high degree of local skills in both wood based, as well as, metal processing industries both based on the traditional artisan system, as well as modern technology. The Sri Lankan carpenters are highly skilled in crafts based activities. The entire requirements of the country are met by the local furniture and allied industry which is largely decentralised but with a principal centre of activity situated about 10 miles south of Colombo. In addition there are relatively large wood working complexes both in private and public sector, based on modern factory production. Local carpenters are used to the entire range of tropical woods from the hard woods to the less dense timber. Local carpenters also work extensively in the associated crafts of rattan and cane ware.

The local wood industry has also over the last few years begun exports in specialised goods for a few selected markets. These include manufacture of period furniture to markets in Australia and education and play material for young children in European markets. Other export-oriented ventures in wood related industries include manufacture of boats, yachts, as well as, small ships both in the private and public sector for the Middle East and Europe.

There has been a drop in local wood resources because of the high felling of forests and consequently a large government owned wood complex is running under capacity. Alternative wood resources have been sought in non-conventional sources in the form of boron treated rubber which exacting tests have shown to be long lasting and having good physical properties. Sri Lanka is in the forefront in the development of boron wood and with its large resource of rubber timber this could provide a large reservoir of local wood in the years to come.

Sri Lankan tradition of metal processing similarly covers both the traditional sphere, as well as modern systems. In the modern sector, Sri Lankan firms have had over a half century experience in turning out metal products in aluminium, brass, copper and iron. Casting of metals in the modern tradition extends to over 100 years whereas traditional castings technology extends to several hundreds of years. Facilities for casting and associated processes - including electric-arc furnaces- exist in several private and public enterprises. The University has specialised courses in metallurgy and laboratory facilities for monitoring and testing exist in several institutions. The metal industry depends for its raw material almost exclusively on imports except for the occasional use of scrap.

Sri Lanka does not possess an industrial designs centre for wood and metal products, but there are a few personnel qualified in industrial design from Western countries. Further problems related to industrial design are covered in Engineering and Architecture courses in addition to courses in the Institute of Aesthetics of the University.

Political Stability

The present government came into power in July 1977 with an unprecedented victory in the annals of the political history of Sri Lanka, winning over 140 out of 168 seats in Parliament. It has removed the shackles of controls and restraint and taken the path of open and free development. While it has encouraged imports of consumer items to compete with the monopolistic locally produced goods which were high priced or inferior in quality, it has set itself the task of protecting nascent local industry by a system of price adjustements through the Tariff Review Committee. On the other hand it has established free trade zones under the Greater Colombo Economic Commission to invite foreign capital and technology using local cheap, trainable and intelligent labour. The recent local government elections would indicate that the policies of the present government have been received with acceptance by the people and that Sri Lanka is well on the road to political stability for many years to come.

Just as the sun invariably shines every day in Sri Lanka, so too do the smiles appear on the faces of her people. In the words of the Buddha in the Mangala Sutta:

"PATIRŪPADESAVĀSO CA..............
ATTA-SAMMĀPAṈIDHI CA...............ETAM MANGALAM UTTAMAN"

"To reside in a pleasant locality.........
and to set oneself in the right course. This indeed is the Highest Blessing"

UNITED NATIONS NATIONS UNIES

MEETING TO PROMOTE CO-OPERATION BETWEEN FINLAND AND SELECTED DEVELOPING COUNTRIES ON THE DEVELOPMENT OF METAL-WORKING AND WOOD-PROCESSING INDUSTRIES

to be held at Helsinki, Finland
from 21 to 25 May 1979

jointly organized by the

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION,

the

MINISTRY OF FOREIGN AFFAIRS OF FINLAND

and the

FINNISH FOREIGN TRADE ASSOCIATION

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PART III. LIST OF PROJECTS

INDONESIA

Project No.	Particulars
INS/A-7	TL: Processing of Rami cigarette paper AC: 3,000 tons IV: To be determined FC: - Equity partnership and/or loan - Machinery and equipment - Processing technology - Training - Technical management PP: P.T. Kertas Jatiluhur
INS/A-8	TL: Pulp and paper mill based on plantation pine AC: To be determined IV: To be determined FC: - Additional studies - Technical know-how - Machinery and equipment - Construction management - Technical management - Training PP: State Forest Corporation "Perum Perhutani"
INS/A-34	TL: Particle board (1st phase) and prefabricated houses (2ne phase) AC: - Particle board: 15,000/20,000 cu. m - Prefab. houses: 1,000 units IV: US$10 million (1st phase) FC: - Equity partnership (20-40%) - Know-how - Management PP: P.T. Kaltim Praja Jaya
INS/A-40	TL: Expansion of woodworking complex AC: (after expansion) - Sawn wood: 30,000 cu. m - Plywood: 21,000 cu. m - Logging: 150,000 cu. m - Blockboard: 6,000-7,000 cu. m IV: US$8 million (additional) FC: - Equity partnership (30-50%) - Know-how - Management PP: P.T. Rimba Ramin Plywood Industry

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Key to Abbreviations:

TL - Title of project
AC - Annual capacity
IV - Total investment
FC - Foreign contribution required
PP - Proponent

INDONESIA (continued)

Project No.	Particulars
INS/B-52	TL: Production of leather and leather garments AC: 15,000 cow hides per month initially IV: US$2.1 million FC: - Marketing know-how - Technical know-how - Machinery and equipment - Loan or equity partnership PP: C.V. Sumber Mili

MALAYSIA

Project No.	Particulars
MAL/A-6	TL: Dungun timber complex (making sawn wood, plywood, chipboard, furniture, wooden houses etc.) AC: To be determined IV: US$25 million FC: - Equity partnership - Know-how - Management - Marketing PP: The Government of the State of Trengganu
MAL/A-12	TL: Sime Darby timber complex AC: - Sawn wood: 20,000 cu.m - Kiln drying: 15,000 cu.m - Treatment: 15,000 cu.m - Low cost wooden house: 12,000 units - Moulding: 2,000 cu.m - Furniture: unspecified - Veneer, plywood and film-coated plywood: 10,000 cu.m IV: US$20 million FC: - Equity partnership up to 30% - Machinery and equipment - Know-how - Marketing - Forestry survey PP: Sime Darby Malaysia Berhad
MAL/A-19/20	TL: A-19 Centrifugal pumps A-20 Materials handling equipment AC: - 8,000 units of 1-12 inch pump - 600 tons of S.G. iron and copper alloy casting IV: To be determined FC: - Licensing and/or patents - Technical know-how - Management - Export marketing - Equity partnership (optional) PP: Kwan Cheong Engineering Sdn. Bhd.

MALAYSIA (continued)

Project No.	Particulars
MAL/A-22	TL: Sabah pulp, paper and timber products complex AC: Proposal I - Pulp (for own paper production only) - Printing and writing paper: 33,000 tons - Kraft paper: 33,000 tons Proposal II (additional to Proposal I) - Saw logs: 16,000 tons - Sawn wood: 41,500 tons - Kiln-dried timber: 30,000 tons - Veneer: 75,000 tons - Wooden mouldings: 10,000 tons IV: To be determined FC: - Equity participation - Loan and/or supplier's credit - Machinery and equipment - Project and mill management - Training PP: Fibres and Chemicals Malaysia Sdn. Bhd.
MAL/A-25	TL: Copper smelter AC: 60,000-90,000 tons of cathode copper IV: US$170 million FC: - Preparation of feasibility study - Technologies and other services PP: Sabah State Economic Development Corporation
MAL/B-10	TL: Rubber footwear AC: 2,500 pairs (per day) IV: US$3 million FC: - Equity partnership - Machinery and equipment - Technologies and other services - Training - Export marketing PP: Pernas-Sime Darby Sdn. Bhd.
MAL/B-27	TL: Limestone processing AC: (daily capacity) - Lime hydrate: 110 tons - Precipitated chalk: 30 tons - Agricultural lime: 320 tons - Building limestone: 250 tons IV: US$3,440,000 FC: - Equity partnership - Preparation of feasibility study - Technical know-how - Training PP: Perak State Economic Development Corporation

THE PHILIPPINES

Project No.	Particulars
PHI/A-1	TL: PICOP newsprint mill expansion AC: 52,000 M/T (an additional line) IV: To be determined FC: - Machinery and equipment - Supplier's credit PP: Paper Industries Corporation of the Philippines (PICOP)
PHI/A-12	TL: Expansion of furniture and joinery plant AC: (after expansion) - Door: 30,000 pieces - Jamb: 30,000 pieces - Folding chair: 75,000 pieces - Folding table: 22,000 pieces - TV stand: 30,000 pieces IV: US$15 million FC: - Equity partnership (40%) - Loan/supplier's credit - Machinery and equipment - Training - Know-how PP: Vintawood Products Inc.
PHI/C-32	TL: Rehabilitation of three plywood mills AC: (after rehabilitation) Davao Mill - Plywood: 54,000 cu.m - Blockboard: 15,000 cu.m - Sawn wood: 21,000 cu.m Cotabato Mill - Plywood: 49,000 cu.m Zabmoanga Mill - Plywood: 39,000 cu.m IV: 78.7 million Pesos FC: To be determined PP: Santa Clara Lumber Company Inc.

SRI LANKA

Project No.	Particulars
SRL/A-5	TL: Packaging and printing plant AC: To be determined IV: US$1.s million FC: - Machinery and equipment - Processing technology - Technical management PP: United Merchants Limited

SRI LANKA (continued)

Project No.	Particulars
SRL/B-1	TL: Sanitaryware factory AC: 1,500-2,000 tons IV: US$4.7 million FC: - Equity partnership - Technical know-how - Machinery and equipment - Loan and supplier's credit PP: Finco Limited
SRL/B-12	TL: Fishing net factory AC 150 tons IV: US$700,000 FC: - Equity partnership up to 33.5% - Machinery and equipment - Supplier's credit - Processing technology - Technical training PP: LakFin Limited

ANNEX IX

Unofficial translation of article published in Helsingin Sanomat
26 May 1979

UNIDO seminar ended in good hopes

18 Co-operation projects are offered in Asia.

The seminar organized by the United Nations Industrial Development Organization (UNIDO), the Foreign Ministry of Finland and the Finnish Foreign Trade Association ended with very good hopes on Friday in Korpilampi, Espoo. The result of the discussions which lasted less than a week is that Finnish enterprises have got a possibility to participate in 18 industrialization projects in 4 Asian countries.

Delegations from Sri Lanka, Indonesia, Malaysia and the Philippines participated in the negotiations with 30 Finnish enterprises and finance institutions.

Out of the industrialization projects on which negotiations are continued seven are located in Malaysia, five in Indonesia, three in Sri Lanka and three in the Philippines.

The results of the Korpilampi meeting are still preliminary and in the near future serious discussions will be held on 7 - 8 projects. The Asian States are mainly interested in forest and metal industries as the level of Finnish technology in these fields is high.

Financing is problematic

Nokia and Rauma - Repola have got furthest in the co-operation negotiations. Nokia is at present investigating three projects, Rauma - Repola two.

The greatest problem for the co-operation lies in financing. The Asian participants do not any more accept projects with the turn - key principle as the factory may then stand still due to lack of technical and managerial skills.

The States want the Finnish enterprises to participate in the financing and the production control.

Unofficial translation of article published in Uusi Suomi 26 May 1979

South-East Asia offers co-operation.

The participation of Finland is wanted in industrialization projects. Finnish enterprises have been given the possibility to participate in 18 big industrialization projects in four South-East Asian countries: the Philippines, Indonesia, Malaysia and Sri Lanka. The projects are more challenging than usual as the question is of industrial co-operation into which Finns have to enter with their own capital.

Industrial co-operation which in practice is supposed to lead to the establishment of joint ventures, has been discussed during the past week in a special seminar organized by the United Nations Industrial Development Organization (UNIDO), the Finnish Foreign Trade Association and the International Co-operation Department of the Foreign Ministry. 30 enterprises participated in the seminar.

About 30 Finnish enterprises have participated in the negotiations in addition to representatives of various financing institutions.

In the seminar held in Espoo only the first steps were taken in developing co-operation although the Finns let it be understood that the industrialization project could easily be implemented.

The largest part is wood-processing.

By far the largest part of the projects discussed are in the field of forest and metal industries where the Finnish technical know-how traditionally is high-level. According to the Finns, 7 of the projects are in Malaysia, 5 in Indonesia, 3 in the Philippines and 3 in Sri Lanka. Among the projects there are paper factories, board and furniture factories, leather industry, sanitary industries, copper and rubber production.

The developing countries have got a new approach.

According to the Finns the projects reflect a new approach of the developing countries to industrialization. They are not any more interested in turn-key projects. They are now heading for joint ventures where an industrialized country as one of the participants is required to make a major contribution by investing capital.

Problematic financial requirements.

The Finns say that the financial requirements make the projects more problematic. The possibilities for financing are being inspected among others with UNIDO. The projects seem large and the capital needed considerable and therefore the Finns regard it probable that they will have to participate in most projects in groups formed by several enterprises.

The Asian Bank has given very little.

In matters of finance the Finns can also look for help from international financing institutions like the World Bank, IFC and the Asian Development Bank. The Finns are specially interested in the latter the membership of which has up to now given very little. As a counterbalance to the Finnish contribution one would expect better orders.

The enterprises are very quiet about the negotiations "as things are still on the level of business secrets". As far as we know 7-8 co-operation projects are being further discussed. "Some unwritten agreements have been made" as the situation was described by the enterprises.

Nearly all the enterprises which are leading in their respective fields have participated in the seminar:

The representation may be increased?

In the near future Finland will increase its participation in the South-East Asian markets. The increase of permanent representation, even on diplomatic level, seems to be under discussion. At the moment the only Finnish embassy in this area is in Jakarta.