

## **AS PREPARED FOR DELIVERY**

### **Why Malaysia Matters to the United States: Business, Islam, Modernization and the Way Forward**

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Johor Bahru, Malaysia

March 13, 2008

Tan Sri, Distinguished Guests, Ladies and Gentlemen:

Let me begin by thanking all of you who have taken time out of your busy schedules to be here. I am particularly grateful to Tan Sri Mohd Ali Hashim and the Johor Corporation for giving me the opportunity to speak with all of you today.

This is my first visit to Johor since my arrival in Malaysia a few months back, and I have been greatly enjoying getting to know more about this dynamic state. Johor is a part of Malaysia that is particularly vibrant from an economic standpoint, especially with the launch of the Iskandar Development Region project. But it seems to me that the IDR project is more of a testimony to Johor's already strong economy, as evidenced by the many sources of economic growth here that predate IDR's launch. That being said, I was very impressed by my visit to Nusajaya yesterday, which was followed by a tour of the equally impressive Port of Tanjung Pelepas. These are world-class developments that are part of the reason Johor is getting increasing attention from investors around the world.

You may not hear us say this too often, but Johor and the rest of Malaysia are of great importance to the United States. Malaysia and the United States share very strong economic ties, which is probably not a surprise for many of the businesspeople in this audience. The United States has been Malaysia's top trade partner since 1999, and Malaysia is the 16th largest trading partner for the United States. That makes the U.S. – Malaysia trade relationship larger than our bilateral trading relationships with Australia, Brazil, India or Thailand.

Malaysia enjoys a substantial surplus in our bilateral trade relationship. Looking at the preliminary numbers for 2007, the U.S. exported \$11.7 billion worth of goods and services to Malaysia, while Malaysia sent \$32.8 billion worth of goods and services to the U.S. In the past few years Malaysian firms sold almost three times as much to the U.S. as U.S. firms sold here. That shows just how open the U.S. market is, the competitiveness of Malaysian suppliers in the U.S. market, and the importance of the U.S. market for Malaysia's economy year after year.

The U.S. also has large direct investments in Malaysia. Americans invested \$8.7 billion in Malaysia in 2004, with over \$30 billion cumulatively. Twenty percent of all foreign direct investment in Malaysia comes from the U.S. About 150 leading U.S. firms have significant business operations in Malaysia, including Intel, Dell, Motorola, Agilent, Mattel, GE and Western Digital. You are probably aware that GE recently announced its intention to invest heavily in Nusajaya right here in Johor, and Halliburton recently opened a large manufacturing facility here as well.

U.S. investment in Malaysia helps your country grow. For example, the 18 U.S. firms involved in Malaysia's semiconductor and electronics industry were responsible for nearly a fifth of Malaysia's total export earnings in 2005. These firms, many of which have been operating here for decades, employ over 54,000 people in Malaysia and use 13 billion ringgit worth of Malaysian raw materials. All this from just eighteen firms, in just one industry. Consider that I am talking about just a small portion of the 110 billion ringgit in U.S. investment in Malaysia.

We hope, and we expect, that Johor and the rest of Malaysia will continue to be a magnet for investors. But in the highly competitive neighborhood in which Malaysia finds itself, it cannot sit back and wait for investors to just show up. The launch of IDR and the other economic development corridors throughout Malaysia show that you realize the necessity to nurture the type of open and transparent operating environment necessary to attract more, and better, investment.

We believe that another key factor that would help Malaysia stand out in the crowd for foreign investors would be conclusion of a free trade agreement with the United States, which we have been negotiating since mid-2006. Teams from our two countries held a productive round of negotiations in January, and plan to meet again in the coming months.

An FTA would be a big step forward in our trade relations, and could present a real positive turning point for Malaysia, comparable to the first investments made by U.S. electronics firms in this country in the early 1970s.

Nevertheless, you occasionally see in the media some skepticism expressed about these negotiations. In reality, what we hope to achieve is a long-lasting partnership based on a win-win deal that enhances our current good relations. Numerous benefits can be expected from the successful negotiation of an FTA between our countries.

An FTA would cement a vibrant U.S. – Malaysia economic relationship. Our experience shows it would lead to more exports, and more diversified exports. Right now, electronic goods and items account for roughly three-quarters of Malaysia's exports to the United States. While the electronics sector has been a great driver of growth, a more diversified export base would help shield Malaysia from the effects of a downturn in any one economic sector.

An FTA would also support a broad opening up of Malaysia's services sector. Increased competition would strengthen this sector in Malaysia, leading it to become a vital new engine for economic growth and a new source of high quality jobs here, just like opening the manufacturing sector to foreign competition 30 years ago spurred Malaysia's subsequent economic growth.

An FTA would lead to increased **investment**, and not just from U.S investors. It would not only reduce tariffs and non-tariff barriers, but would also establish open and transparent regimes for investment, encouraging a stable climate to foster greater investment from around the world.

An FTA would create new opportunities in areas like **government procurement**. Once we conclude an FTA, Malaysian firms finally will be able to access the U.S. government market, the largest such market in the world. In our other FTAs we've shown real flexibility and creativity in this area to accommodate the concerns of our FTA partners, and we are confident that we can address Malaysia's concerns as well. We've been very clear that we in no way are seeking to undermine Malaysia's pro-bumiputera objectives. We understand the important objectives these policies were intended to achieve. In the U.S. we also offer a helping hand to disadvantaged groups, but transparency is essential for everyone to feel confident that they are being treated fairly.

An FTA would establish rules governing **intellectual property rights**. Policies that protect intellectual property rights promote development by helping to ensure a diverse and competitive marketplace. IPR protection encourages the creativity, collaboration and investment needed to create, for example, both American and Malaysian films. The U.S. Embassy has worked closely and productively with the Malaysian government as it has strengthened IPR protection in Malaysia.

An FTA can be expected to lead to increased sharing of knowledge and know-how between American and Malaysian companies, as well as to lead to economic growth and job creation. It is a well-known fact that trade growth and exports foster not only more jobs, but better-paying jobs. This will help Malaysia as it seeks to develop an economy increasingly driven by innovation.

Finally, an FTA can be expected to result in **lower costs** and **more competitive companies** here in Malaysia. The experience worldwide is that increased trade leads to increased options for consumers and increased competition – competition here in Malaysia to the benefit of Malaysian consumers and competition in the United States to the benefit of U.S. consumers. In a competitive economy, you are going to be driving down prices, keeping a check on inflation, and increasing consumer choice.

While the U.S. and Malaysia continue to pursue an FTA, the United States is moving forward with other initiatives in the region to spur economic growth and investment. For example, the U.S. has decided to join the so-called P-4 countries – Singapore, Brunei, New Zealand and Chile – to negotiate a multilateral agreement covering investment and financial services. We see our decision to join the P-4 as a possible precursor to joining

those nations' existing FTA, the Trans-Pacific Strategic Economic Partnership, although we have not yet made a final decision in that regard. Further down the road, the U.S. remains interested in exploring the possibility of a Free Trade Area of the Asia Pacific as discussed by our leaders at APEC.

Our free trade agreement negotiations with Malaysia exemplify the U.S.'s strong record of economic cooperation with Muslim-majority nations. Before we began our FTA talks with Malaysia, the U.S. had already concluded free trade agreements with Jordan, Morocco, Oman and Bahrain.

Beyond our strong economic partnerships, the U.S. is also actively seeking better and more effective ways to share dialogue with predominantly Muslim nations on other critical issues affecting us. To that end, President Bush recently appointed Mr. Sada Cumber as the U.S. Special Envoy to the Organization of the Islamic Conference. This move represents an important step forward in the U.S. relationship with the OIC and its member countries. It is a signal of America's respect for the organization as a leading voice in helping relations among its members, and between OIC member states and the rest of the world. We look forward to this important new avenue for dialogue with the OIC's members and we deeply appreciated that Prime Minister Datuk Seri Abdullah Ahmad Badawi, as sitting Chairman of the OIC, immediately welcomed the President's announcement.

One of Special Envoy Cumber's first tasks is to represent the United States at the Eleventh Annual OIC Summit that is taking place this week in Senegal. I expect our OIC envoy will spend a great deal of time talking to OIC members about the road ahead in Iraq and Afghanistan, because of course these are among the most important foreign affairs challenges we face today.

Malaysia continues to be a modern-day example of Islam's great traditions: Its efforts to seek out the most advanced science, technology, and education available, combined with brisk and open trade stretching from East to West. Malaysia's continuing integration in the world economy has brought tremendous benefits, including access to foreign capital investment, technological advancement, market expansion, job creation and high levels of growth. In his term as Chairman of the OIC, I understand that Prime Minister Abdullah has focused on themes of economic development, education and capacity-building in the Islamic community, and Malaysia's experience as it approaches its goal of achieving fully developed status by 2020.

Moreover, Malaysia's innovations in Islamic finance have the attention of the U.S. private sector, both in Malaysia and in the United States. Citibank has a well-established Islamic window, and the American insurance firm AIG is interested in offering Islamic insurance products. The American-Malaysian Chamber of Commerce hosted an Islamic finance conference in New York in October, with Governor Zeti's participation. These are just a few of the tangible signs of Malaysia's broad horizons that encompass developments beyond its borders and beyond the East Asia region.

Turning back to the U.S.-Malaysia relationship, our record of dialogue and cooperation with Malaysia in recent years has been strong. I've already mentioned our FTA negotiations, which if successful would reinvigorate our entire economic relationship and spur Malaysia to even stronger economic gains.

There are other exciting programs that benefit Malaysia and which we are working to expand. We want to help Malaysia preserve its rich environmental heritage, which includes some of the last untouched rain forest in the world. In 2006 Secretary of State Rice came to Kuala Lumpur to announce an initial grant of US \$100,000 to help support the new Heart of Borneo project in Sabah, Sarawak, Brunei and Kalimantan. Since then, several new U.S. sources of funds have been added. We've also contributed \$100,000 to preservation efforts at Fraser's Hill. We have granted even more support for scientific research to help protect endangered species including the sun bear and the Sumatran rhinoceros in Borneo, among others. Our increasing cooperation on these and many other initiatives led the U.S. and Malaysia to launch negotiations for a science and technology agreement which, once completed, will spur even greater cooperation in a wide range of areas and generate technology that should ultimately facilitate Malaysian firms move up the economic value chain.

Malaysia's strong record on counter-terrorism ensures that its other goals can be achieved, and our countries have been close partners. Just two weeks ago, the U.S. and Malaysia agreed to begin implementation of our Megaports Initiative at Port Klang. Under this program, the U.S. will work with Malaysia to deter, detect, and interdict the illicit trafficking of special nuclear and other radioactive materials through the global maritime system. We hope this multi-million dollar investment by the U.S. in Malaysia will soon be expanded to the Port of Tanjung Pelepas. This is just the latest example of bilateral cooperation on counter-terrorism that serves mutual interests. Our Container Security Initiative has been in place at both ports for several years. And the U.S. and Malaysian militaries have cooperated closely on training over the years as well.

I've mentioned how closely the United States and Malaysia have cooperated in a number of important areas. But the truth is that our cooperation could go much further. I know there is a tendency as the end of a U.S. administration approaches to avoid taking decisions or floating new ideas regarding the U.S., as one waits for a new President to take office. However, I would strongly encourage Malaysia to take a much more proactive approach. The next U.S. president will have a range of issues and countries to focus on, and Malaysia's interaction with the U.S. under the next administration may be determined largely by how forcefully it lays the groundwork in 2008.

Our FTA negotiations are one example. We hope to conclude these talks this year. We have an opportunity to advance our mutual interests in expanding trade relations. We should seize it. Looking to the future, one cannot be certain if the opportunity to conclude an FTA with a new U.S. administration.

The FTA is one of many areas where I believe Malaysia would benefit from taking a more pro-active approach. I've mentioned Malaysia's strong role in the OIC, but it has

taken a relatively low-key approach to its participation in APEC, and even in ASEAN more could be done to take advantage of Malaysia's economic and political strength.

By taking the initiative now, on trade and other policy issues, Malaysia can ensure we continue to build a constructive and mutually beneficial relationship that will strengthen Malaysia as it becomes a fully committed player supporting the international institutions that are essential to the management of our increasingly integrated economies and interdependent societies.

The U.S. Embassy in Malaysia is committed to seeking ways to move our bilateral relationship in this direction. I hope that we can work with the Malaysian government to realize the full potential of U.S – Malaysia relations.