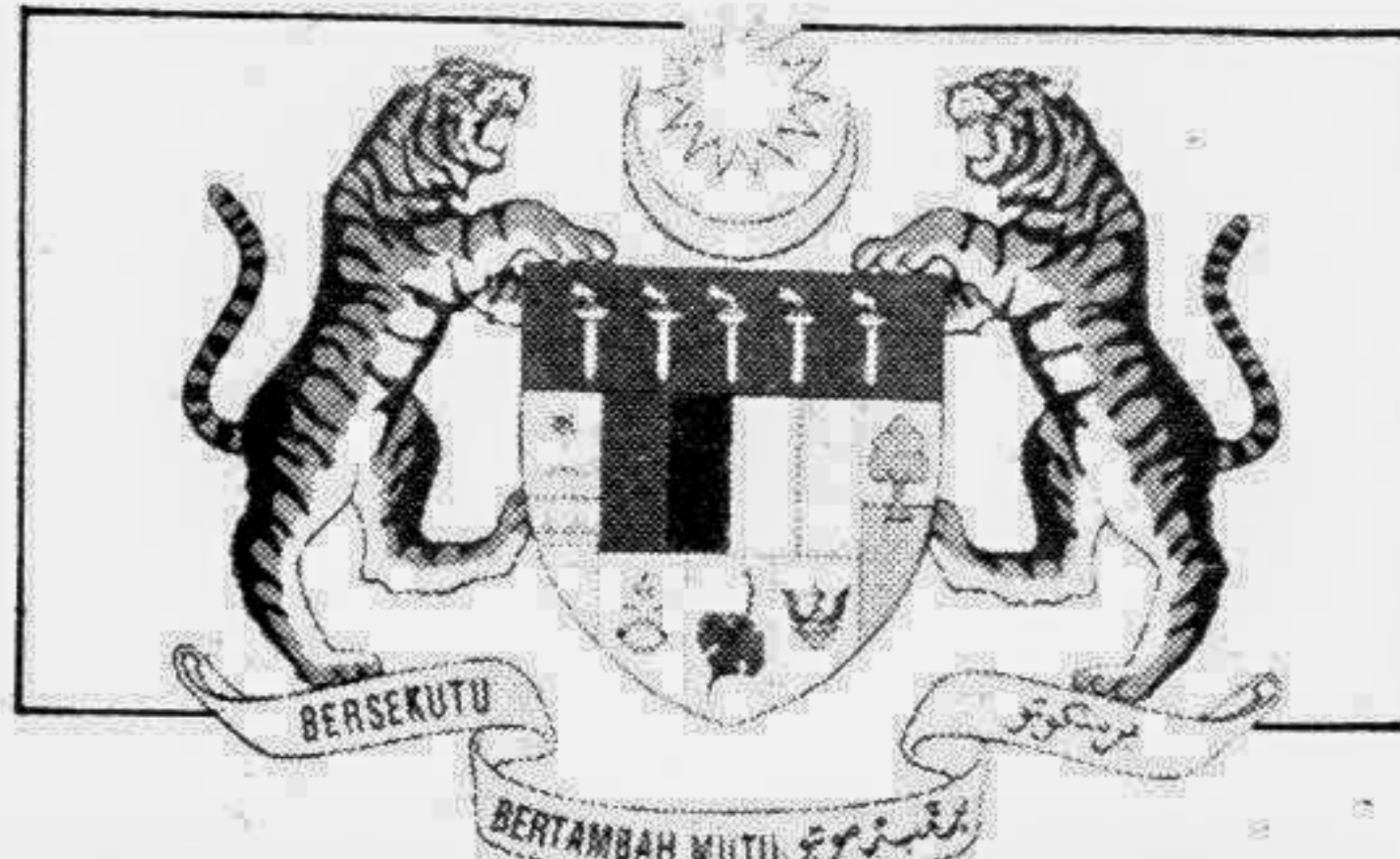


42nd National Day of Malaysia



The Daily Star Special Supplement August 31, 1999

An Open Invitation to the World

by Dato Seri Dr Mahathir Mohamad
Prime Minister of Malaysia

MALAYSIA is crossing the threshold into the Information Age with hope and confidence. We are embracing the borderless world, and opening ourselves up to new forms of partnership and commerce made possible by revolutionary changes in computing, communications, capital flows and consumer tastes. While some see these changes as a threat, Malaysia sees them as an unprecedented opportunity to "leapfrog" our development and achieve our Vision 2020 goals.

To do this, we are offering our Multimedia Super Corridor as a gift to the world. We are endeavouring to create the world's best environment for harnessing the full potential of multimedia without any artificial

limits. We see the MSC as a global test bed, where the limits of the possible can be explored and new ways of living, working and playing in the new era of the Information Age can be tested. We hope to build a multi-cultural "web" of collaborating companies and smart regions that will mutually enrich all those who come into contact with it.

Both the government and the country are fully committed to these goals, and are now implementing a package of benefits that is unique in the world. This material describes the special environment we are creating, the Seven 'Flagship Application' that Government is catalysing, and the services offered by Multimedia Development Corporation. We are a

small nation by many yardsticks, but we have big ideas and a track record of consistent achievements that allows us to do things that others find difficult. We recognise that we cannot succeed alone in this venture and are warmly welcoming those who share our goals.

I invite leading companies of the world with pioneering spirits to join us in exploring the limits of the Information Age. We are looking for partners willing to commit their ideas and energy to developing new solutions in a liberating, intelligent, multi-cultural environment located in the heart of Asia. Together, we can show the world the promise of this exciting new era while gaining the benefits of mutual enrichment.

The MDC : Your One-Stop Super Shop

Tan Sri Dato' Dr Othman Yeop Abdullah
Executive Chairman, Multimedia Development Corporation

THE task of creating the Multimedia Super Corridor and paving the way for the development of its hard and soft infrastructure has been assigned to the Multimedia Development Corporation or MDC, a government-owned agency with full powers for implementation and execution.

Our role is to advise the Malaysian Government on legislation and policies, develop MSC-specific practices, and set breakthrough standards for

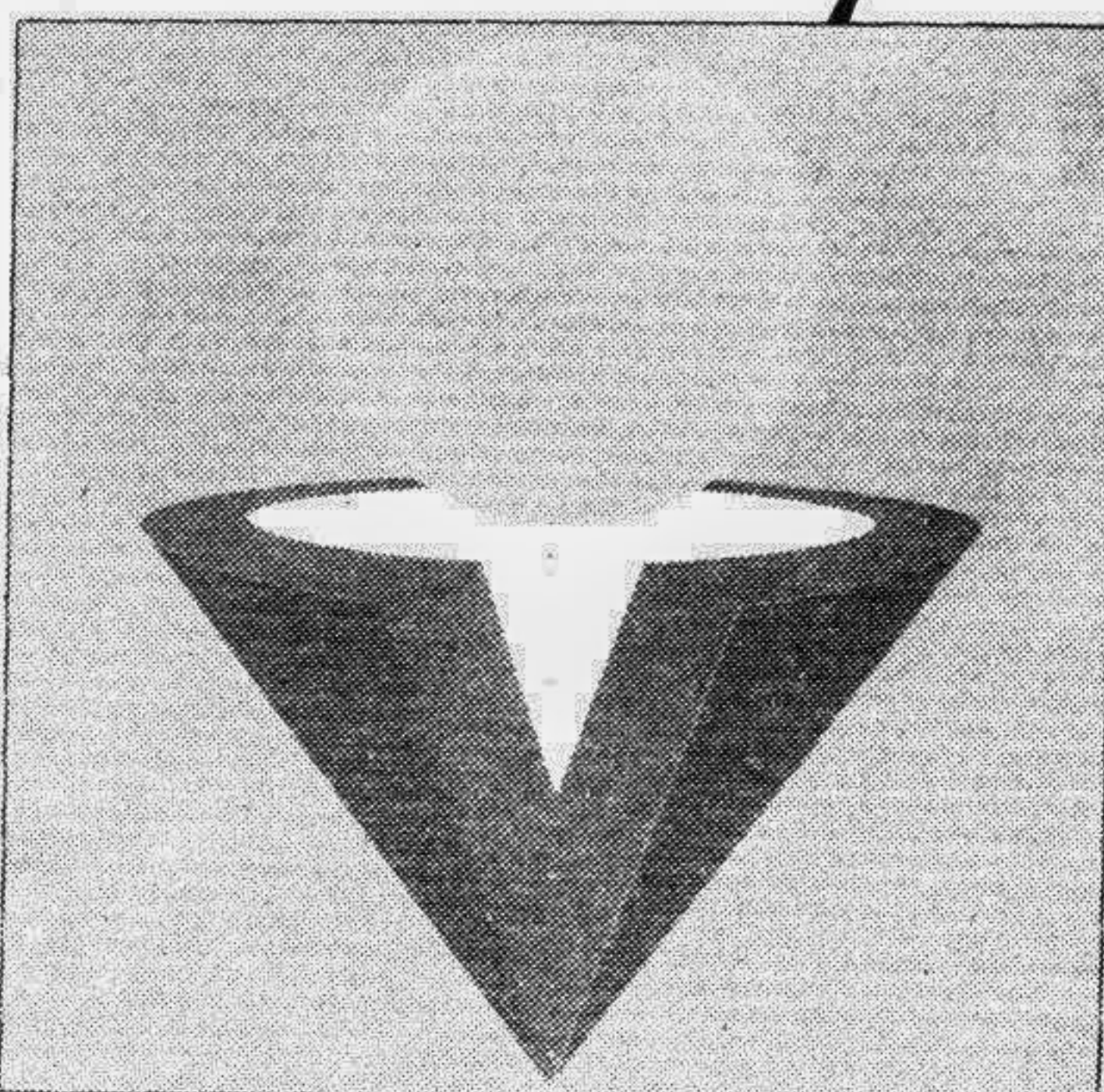
multimedia operations. Our role is also to promote the Corridor internationally and support companies which are locating there.

We see ourselves as a champion, facilitator and partner — championing the merits of the MSC, facilitating the entry of companies and partnering the Government and their private sector in realising both a vision and an opportunity.

We pledge to be a performance-driven, client-focused agency. We will endeavour to cut

through red tape and short-circuit bureaucratic processes to provide sound advice, expedite permits and licences, and forge partnership. We aspire to a code of practice that guarantees a 30-day turnaround for MSC applications.

Companies wishing to participate in the corridor need look nowhere else. Your application begins and ends here. We stand ready to work with investors, both foreign and local, big and small, to ensure that the MSC fulfils its promises.



Prime Minister
Dato' Seri Dr. Mahathir Mohamad

Dream Turns into Reality

by Jasbir Singh and Marina Tan

CYBERJAYA becomes a reality today — not just a dream dismissed by doubters and critics at the onset of the economic downturn almost two years ago.

A core group of people and companies are there to turn the brainchild of Prime Minister Dato Seri Dr Mahathir Mohamad into the IT and Multimedia centre of the country — the intelligent city of the future. Cyberjaya is ready to start playing its role as the nucleus of the MSC and as the model for other similar IT and multimedia development zones in the country.

It is an exciting time indeed especially for the executive chairman of the Multimedia Development Corporation Tan Sri Dr Othman Yeop Abdullah

who has watched the city take shape.

It is all very exciting, watching the whole thing turn into a reality — bearing in mind that the country has just gone through a serious economic downturn," says Othman Yeop.

He says the completion of the project reflects on the country's commitment to the MSC project and shows the spirit of Malaysia Boleh.

"It also delivers the Government's promise stipulated in the MSC Bill of Guarantees — a world-class infrastructure," he adds.

The RM 2.2 billion Cyberjaya is expected to be fully developed over a period of 20 years.

Eighteen companies are locating in Cyberjaya of which

nine are MSC-status companies.

The NTT research lab — the company's second largest after the one in the United States — opens tomorrow and phase one of the RM 350 million Multimedia University is also ready, with about 4,500 students.

A total of 30 companies will also be housed in the new MSC Central Incubation Centre located at Cyberjaya to help start-up companies mature.

How will the man on the street benefit from this?

The benefits have and will come in several ways, says Othman Yeop.

"Keeping in mind that economies and societies of the next millennium will be driven by knowledge, the MSC will

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MESSAGE

Assalamualaikum Warahmatullahi Wabarakatuh

On this auspicious occasion of the 42nd National Day of Malaysia, I wish to take this opportunity to extend on behalf of the Government and the people of Malaysia my sincere best wishes and facilitation to the Government and people of the People's Republic of Bangladesh. As Malaysia celebrates this 42nd National Day I am happy to note that this has been another year of very close friendship, cordial relations and increased mutually beneficial cooperation between Malaysia and the People's Republic of Bangladesh.

It is gratifying to note that bilateral relations between Malaysia and Bangladesh are consistently growing and expanding through many areas of cooperation that have been established between the public and private sectors of both countries. The volume of trade between Malaysia and Bangladesh has increased as more contacts were developed between our businessmen. The opening of a direct shipping line from Port Klang to Chittagong Port by the Malaysian International Shipping Corporation has greatly facilitated the transport of goods between our two ports. I am confident that more interaction would take place between our corporate and business leaders in the days ahead which would generate more trade and other areas of economic cooperation.

There is obviously a keen interest on the part of Malaysian businessmen to invest in Bangladesh. At the moment, Malaysia has already invested in several sectors of Bangladesh's economy such as in telecommunication, transport, power generation, tourism, manufacturing and education. It is my hope that this will further expand into other areas, particularly in the construction, oil and gas sectors. With the high interest shown by our two private sectors to work together, I have no doubt that a strong partnership could be established between them to embark on other new areas of joint-ventures. It could be expected that as Malaysia recovers from the financial crisis in the East Asian region, more Malaysian investors will come to look for new investment opportunities in

Bangladesh.

The Malaysian economy is now firmly on the road to recovery. Economic conditions improved in the second quarter of this year with the Gross Domestic Product expanding by 4.1 per cent, ending five straight quarters of contraction. Latest indications point to improved private sector activity and consumer spending. Manufacturing, which grew by 10.4 per cent, led the rebound in April-June, followed by agriculture 8.7 per cent and services by 0.6 per cent. The manufacturing sector was aided by strong export-oriented industries which saw higher output in electronics and textiles, the recovery in chemical products, transport equipment, iron and steel and food and rubber products. The agriculture sector was fuelled by sharp increases in crude palm oil production and prices and improved cocoa and fish output. Car sales were higher and demand for residential housing also improved. Trade flows registered the seventh consecutive quarter of trade surplus (RM 15.8 billion or USD 4.1 billion). External reserves continued to build up to USD 31.9 billion as at 15 August 1999, enough to finance 7 months of retained imports. In June, Malaysia had also renewed its ability to access international capital markets through the USD 1 billion bond issue (over-subscribed more than 3 times), which aimed at testing its market readiness and setting a benchmark for future market bond issues. The economic performance for the third quarter is expected to be even better as indicators for July and August have been positive and the Gross Domestic Product for the whole year should be far better than projected. The Government of Malaysia has cautiously forecast a conservative growth of 1% for 1999. However, forecasts by private analysts are in the range of 2-4%.

Malaysia and Bangladesh have also worked closely in other areas such as in the fields of culture, education, technical training and sports. A Malaysian football team participated in this year's Bangabandhu Cup International Football Tournament while many Bangladesh fans are expected to travel to Kuala Lumpur to watch the two prestigious international sport

events to be hosted by Malaysia. On 15-17 October 1999, Malaysia will host the Formula 1 Grand Prix at Sepang and in November, the World Cup Golf 1999 will be held at The Mines Resort City in Kuala Lumpur. In the education sector, many Malaysian students are currently pursuing their medical studies at various colleges in this country. At the same time, there is an increasing number of students from Bangladesh going for further studies at the various private colleges in Malaysia. The government of Malaysia continues to provide various training programs to Bangladesh nationals under the Malaysian Technical Cooperation Program. I am confident that given the strong desire of our two governments to further expand and strengthen bilateral relations, more areas of cooperation will be developed between our two brotherly countries in the coming year.

I am sure that the deep and enduring bond of friendship and cooperation between Malaysia and Bangladesh will continue to flourish for the benefit of our people. In conclusion, let me again take this opportunity to express my warm greetings and sincere best wishes to you all on our 42nd National Day.

Long live Malaysia-Bangladesh Friendship.
Wassalamualaikum Warahmatullahi Wabarakatuh.



Dato' Zulkifly Ab Rahman
High Commissioner of Malaysia to Bangladesh

Malaysia's Heterodox Road to Recovery

JUST before the East Asian crisis broke out in mid-1997, Malaysia was lauded as a miracle economy and a model worthy of emulation by developing countries. The country had a remarkable growth record in modern history and has weaned away from an agro-based economy to become a reputed exporter of manufactured products. Its social achievements are astounding. Within a short time it had pulled millions out of poverty and spread the benefits of growth equitably across the society. But how quickly the tone changed. The accolades gave way to cries of crony capitalism, lack of transparency, and incompetent companies. All this on a country that had never failed in its commitment to international trade and an economy as open as any in the world.

It soon dawned that having strong economic fundamentals does not provide sufficient defence against the speculators and the destabilization they spread. The sudden exodus of short-term portfolio funds and the drop in the ringgit thanks to the currency speculators did the most damage. The overreaction and herd behaviour of short-term investors were largely driven by irrational changes in perceptions of risk. They had little regard to the country's strong economic fundamentals. But thankfully having strong fundamentals did to some extent lessen the severity of the crisis. Its banks did not face the same degree of systemic risk as others in the region. The Government's coffer was in good shape, domestic savings traditionally high and short-term foreign debt manageable.

So why then did Malaysia succumb to the crisis? The mistake was in adopting an IMF type of fiscal and monetary restraint in late 1997 to stabilize the financial market and contain inflationary pressures. Interest rates were raised, public spending was cut and large investment projects deferred. This proved a major error of judgement. They only served to depress confidence and increase uncertainty. The economy went into a tailspin and output contracted sharply. It was soon obvious that the IMF orthodox, conventional wisdom of tight monetary and fiscal policies was inappropriate to the situation. High interest rates only dampened investment and further constrained growth. Exports slackened and income levels dropped causing a greater contraction in domestic demand. Spending, especially on consumer durable, crumbled as income and employment uncertainty took hold on Malaysians. The country's openness to foreign trade — its ratio of exports plus imports amount to a whopping 200% —

did not help either. It only exacerbated the adverse impact of the crisis. It was obvious, from the benefit of hindsight of course, that an expansionary policy was a better choice. It was time to be heterodox. The damage of the crisis was much more than anyone anticipated. The ringgit depreciated by 40% against the US dollar. There was enormous wealth loss as the stock market plunged nearly 70% and market capitalization fell by more than 200% of Gross Domestic Product (GDP). This loss, combined with rising unemployment, contributed to a harsh contraction in consumption and investment.

Real GDP contracted by 7.5% in 1998, a major drop from the 7.5% growth in the previous year. Annual loan growth fell to virtual stagnation and non-performing loans (NPLs) in the banking system rose to 11.4% compared with 4.1% at end 1997.

Taking little comfort from its misjudgement, the Government wasted little time to take the bull by its horn. It recognized that what the economy needed was lower interest rates to spur economic activity and a fiscal kickstart. This was only possible if interest rates were decoupled from the exchange rate. With lower interest rates and a stable ringgit, businessmen and manufacturers could operate with some certainty. Their debt-servicing burden need no longer be at compelling levels. It also had to ponder over what to do with hot money that zip into the country and rush out at the first signs of trouble, leaving in its trail massive destruction.

Malaysia then decided to go against the grain. Immediately after its formation in January 1998, the National Economic Action Council (NEAC) met with different groups of people representing different industries and segments of society. The feedback from these meetings provided the basis for the National Economic Recovery Plan (NERP) launched on July 23, 1998. The NERP offered a radical homegrown remedy for overcoming the crisis. A counter-cyclical approach was adopted. In essence, the strategy was to lower interest rates and raise liquidity, increase public sector spending especially on infrastructure projects with high multiplier effects, and nurse ailing banks and corporations back to health. The most controversial of the lot was the imposition of selective capital control measures to eliminate volatility in the ringgit and control short-term capital flows. The economy had to be insulated from the marauding hands of the currency speculators.

Behind the strategy was the Government's concern that any approach to deal with the crisis

must avoid systemic dislocation and social upheaval that could beset this multiethnic society. It could ill-afford the kind of sweeping change and retrenchment experienced in other neighbouring countries that could prove particularly explosive in a multi-ethnic society. Besides, the fruits of decades of painstaking work in social engineering had to be safeguarded.

The Government's bold and

determined approach turned the table. The situation changed quickly after Malaysia adopted the capital control measures. There are now definite signs of economic recovery. In the first quarter of this year GDP moved up to -1.3% a marked improvement to the 10.9% and 10.3% contraction respectively in the third and fourth quarters of 1998. The first quarter contraction will be the last quarter of negative growth for the country.

The banks are now healthy and back in the business of lending. Exports have been the main saviour, thanks to a stable and competitive ringgit. International reserves have shot up to US\$30 billion, sufficient to pay for 6.9 months of retained imports. Industrial production has risen and consumer confidence is once again a hive of activity. Investors, both local and foreign, are flocking back.

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Heartiest felicitations to the Government & People of Malaysia on their 42nd National Day

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