

Najib beats growth goal with investment

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Chua Ma Yu, a Malaysian billionaire who made his fortune in the stock market, had big ambitions in 2008, when his CMY Capital Sdn. agreed with partners to build the 48-storey St Regis Kuala Lumpur.

The country's first six-star hotel would feature 208 rooms and 160 apartments with housekeepers, butler service and a chef-in-residence. Two years later, the tycoon was still struggling with paperwork to start construction, Bloomberg Markets magazine will report in its September issue.

Chua met with Idris Jala (right), the man in charge of Prime Minister Najib Abdul Razak's plan to lift Malaysia into the ranks of Asia's wealthiest nations. Idris says he saw the St Regis as a way to spark spending in tourism, one of 12 areas Najib, 61, was targeting for growth with tax incentives and expedited reviews.

Idris helped streamline the paperwork, and Chua, 61, got approvals two weeks later. The government went on to create a one-stop centre to handle development applications.

"Investment is a precursor to economic growth," says Idris, 55, who heads the government's Performance Management and Delivery Unit, or Pemandu, which oversees Najib's economic transformation programme. "If there is no investment, there are no new jobs and no growth."

Growth targets

While Najib's government has already attained some goals since launching the economic program in 2010, others are more far-reaching.

In the first quarter of 2014, gross domestic product increased 6.2 percent, surpassing the average of 6 percent annual growth Najib wants to register through 2020. Per capita gross national income rose to US\$10,060 last year, crossing the US\$10,000 threshold for the first time.

That's still a long way from US\$12,746, the latest World Bank definition of high income, and the US\$15,000 the prime minister wants to achieve by 2020.

Najib's plan involves diversifying South-East Asia's third-largest economy beyond oil and gas. He wants to foster skilled workers with improved education and increase investment to US\$444 billion in the 12 areas his economic plan focuses on to add 3.3 million jobs by his self-imposed 2020 deadline. So far, RM219.3 billion (US\$69 billion) has poured in, 84

percent from private companies.

“I want to see Malaysia emerge not just with a high-income economy, but a high-quality economy,” he said at the Invest Malaysia 2014 conference in Kuala Lumpur on June 9.

The country is heading in the right direction, said Frederico Gil Sander, World Bank senior country economist for Malaysia.

The nation moved to No 6 in the organisation’s ‘Doing Business 2014’ report on business-friendly nations, up from No 12 in 2013 and No 25 in 2007. The index, measuring 189 countries, covers everything from starting a company to dealing with permits.

“With the new economic model, there is now a road map for needed reform,” Gil Sander said.

Malaysia’s improving outlook is helping investors overcome perceptions that the country can be a difficult place to find talent, said Zainal Amanshah, CEO of InvestKL, a government agency created to lure global companies.

InvestKL has induced 38 multinational firms to set up regional headquarters around Kuala Lumpur - more than a third of his goal of 100 by 2020. International Business Machines Corp, the world’s biggest computer services company, announced a plan to invest RM1 billion in 2011 in a technology centre outside the capital. IBM debated whether it would find the right workers and transportation.

No shortcomings

“The shortcomings are no longer in play,” said Paul Mounq, managing director of IBM Malaysia, who is satisfied with the decision.

Kuala Lumpur embodies Malaysia’s new confidence. Pedestrians stroll along refurbished walkways. Traffic zigzags around excavation for Malaysia’s first mass-rapid-transit system, the MRT, whose inaugural line is set to begin operations in July 2017. Cranes dot the horizon, and crews bathed by floodlights work until midnight. Dozens of skyscrapers are joining the 88-story Petronas Twin Towers, the world’s tallest buildings when they opened in 1999.

“The St Regis will help put Kuala Lumpur on the travel map and create a new benchmark in the international luxury hospitality industry,” said Chua’s daughter, Carmen Chua, chief executive officer of One IFC Sdn Bhd, the property’s developer.

The 31-year-old graduate of the London School of Economics and Political Science, who speaks English with a plummy British accent, shows visitors a model apartment, pointing out the walk-in shoe closet and stainless steel appliances.

Looming in the St Regis sales gallery is a massive bronze horse by Fernando Botero. At 3.5

tonnes, it's the biggest piece the Colombian artist has ever created and it eventually will move by crane to the St Regis lobby. Art comes naturally to Carmen, who is curator of her father's collection of Andy Warhol originals and other modern masterpieces.

Najib wants to increase tourism, health care and other services to 65 percent of GDP by 2020 from 55.2 percent in 2013. Malacca-based Kotra Pharma (M) Sdn Bhd is investing RM60 million for a plant to produce infusion products. The government predicts the project will create 99 jobs and add RM35.2 million to gross national income.

Najib wants to lessen Malaysia's dependence on oil and gas - even as state-owned Petroliam Nasional Bhd. is expanding amid a five-year, RM300 billion capital-spending effort. Petronas, as the company is known, has awarded contracts to Petrofac Ltd. and others to develop marginal fields.

Oil revenue

In 2013, it opened a liquefied natural gas importing and regasification terminal in Malacca with the capacity for 3.8 million tonnes a year. And it plans to invest US\$27 billion on a refinery and petrochemical development complex in the southern state of Johor.

The government expects oil and gas to make up 28.9 percent of total revenue this year, down from 39.7 percent in 2008 - a sign that even as Petronas grows, Malaysia is developing other industries.

One man who personifies Malaysia's newfound entrepreneurial verve is Andrew Lee. He created a massive indoor model of Kuala Lumpur with its skyscrapers and proposed MRT system.

The 50-year-old founder of ARCH Collection Sdn. shows off rare maps and the future cityscape in his Kuala Lumpur City Gallery. Outside the 116-year-old brick building, tourists pose in front of Lee's I Love KL structure.

The capital's new transit system will help ease travel times that can exceed an hour by car for the 10km crosstown journey.

"We're using this project as a game changer to show to the nation what can be done if you put your heart and mind to it," said Azhar Abdul Hamid, CEO of MRT Corp, which is building the transit system.

Enticed by initial public offerings and rising corporate earnings, investors are piling into Malaysian stocks. The FTSE Bursa Malaysia KLCI Index, anchored by financial firms Malayan Banking Bhd and Public Bank Bhd, hit an all-time high in early July.

One prominent Najib sceptic is his most-storied predecessor, Mahathir Mohamad, who was prime minister from 1981 to 2003. During his tenure, he laid out a 30-year economic plan known as Vision 2020.

'So-called transformation'

"I find difficulty in understanding the purpose of this so-called transformation because we have been transforming all the while," says Mahathir, 89, referring to Najib's proposal in his shrinelike office adorned with carvings and photos of him with world leaders.

Mahathir claims credit for changing Malaysia to an industrial country from an agricultural one. He wooed chipmaker Intel Corp and other electronics firms, improved roads and started building the Petronas towers and the KL International Airport.

Then the Asian financial crisis erupted in 1997. The ringgit plunged 53 percent, and the benchmark stock index tumbled 52 percent that year. While South Korea raised interest rates and opened capital markets to overseas investments, Mahathir imposed currency controls to keep foreign investors from fleeing. That worked for a while. GDP rebounded to 6.1 percent in 1999 after contracting 7.4 percent in 1998. Then growth began to slow.

Mahathir (left) was a strong supporter of the nation's policy of affirmative action for the majority Malays and other indigenous peoples, with quotas and subsidies in schooling and government jobs.

Singapore lured skilled workers looking for better opportunities, South Korea embraced advanced manufacturing, and some investors moved money abroad. Growth fell to 4.6 percent in the decade that ended in 2010 from 7.2 percent in the 1990s.

Then-prime minister Abdullah Ahmad Badawi, who spoke of easing the preferential policy, resigned in 2009 after his ruling coalition won 2008 elections by the slimmest majority since Malaysia's independence from Britain in 1957.

Najib, then deputy prime minister, took over and went on to win a second term in May 2013. When he came to power in 2009, he began considering how to boost competitiveness, Pemandu's Idris says.

Cabinet ministers held five retreats that year. They locked themselves in a conference room, switched off phones and debated. They agreed to tackle Malaysia's fiscal deficit, which had widened to 6.6 percent in 2009 from a surplus following the Asian financial crisis.

Improving education

"We didn't like where Malaysia stood," Idris said.

Malaysia narrowed the deficit to 3.9 percent of GDP in 2013, in part by cutting fuel and sugar subsidies. It wants to further trim the gap to 3.5 percent this year and 3 percent in 2015, heading toward a balanced budget by 2020.

To attain Najib's agenda, Malaysia must improve the quality of education, Gil Sander said.

Among 65 countries in the 2012 Program for International Student Assessment, Malaysia ranked 52 in math, 53 in science and 59 in reading.

In 2012, Najib's government started phasing in the teaching of math and science in Bahasa Malaysia, the language of the ethnic majority. Mahathir called the move a mistake.

"Science is renewed every day almost, and you can't get that in Bahasa," he said.

The country has been more successful at revamping the oil industry and infrastructure, Gil Sander said.

'Low-hanging fruits'

"In education, there are no low-hanging fruits; it's tough reform," he said. "The biggest challenge to sustainability of Malaysia's economy beyond 2020 is raising the quality of education to developed-country levels."

Perceptions about the government's confusion in handling the March disappearance of Malaysian Airline System Bhd Flight MH370 have added to the need for change.

In mid-July, the airline faced a second tragedy, the loss of Flight MH17. The jet was carrying 283 passengers and 15 crew when it was downed over Ukraine, killing all on board.

With two disasters in four months, the airline needs to take tough steps to overhaul its business, Najib said in a statement on Aug. 8. Malaysia's sovereign wealth fund, Khazanah Nasional Bhd., which owns 69.4 percent of the airline company, offered 1.38 billion ringgit to take the carrier private. It plans to delist the stock in an attempt to restore confidence in the debt-ridden airline. Details of the plan will be announced by the end of August, Najib said.

'Complete overhaul'

"We believe our national carrier must be renewed," Najib said. "Only through a complete overhaul of the company can we deliver a genuinely strong and sustainable national carrier."

Idris was one of the few non-Malay, non-Muslim heads of a government-linked company when he served as Malaysia Airlines' CEO from December 2005 to August 2009. He devised a way to track profits and losses for each of the carrier's 110,000 flights during his tenure, Idris said.

Today, he keeps tabs on dozens of Najib's economy-transforming initiatives in his Pemandu office with a traffic-light system of green, yellow and red markers to show progress. In 2013, retail revenue exceeded the target, while solid-waste management was mired in red.

Idris says his job is to define the steps and keep the overhaul on track.

“A lot of people told me directly, ‘You guys are never going to do this’,” he said, using the MRT project as an example of an initiative that has overcome scepticism. “It’s now really happening.”

CMY Capital’s Chua, who’s known by his honorific title Tan Sri Chua, said he’s seen progress, too. Since he got his Idris-expedited approvals, Chua’s St Regis is adding its silvery profile to Kuala Lumpur’s skyline and will open in November 2015.

“A lot of bottlenecks have been removed,” Chua said. “People find it easier to invest.”

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