

Dr M, Perkasa not against us: PM
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The following is the transcript of an interview by Martin Soong of CNBC Asia with Prime Minister Najib Razak aired today.

Soong: Let's start first by talking about Malaysia's economy, update us if you could. It started out the year 2010 very strongly, 10 percent in excess of that growth first half. Second half though, fairly obviously things are going to have to slow down because of the external environment in the west is still looking fragile and Malaysia is still quite dependent on exports. Six percent GDP growth this year, can Malaysia achieve it?

Najib: Yes, I believe we can achieve quite a robust growth this year. As you know, first quarter we achieved 10.1, second quarter 8.9. Going forward, second half, yes you are right, we expect growth to taper down.

But there is enough momentum domestically, I think domestic demand, domestic consumption is high and I think it will continue to be relatively high this year. And external demand, although there will be some sort of dampening effect, but we do expect it to be fairly strong so we should end up with at least 6 percent growth.

At least 6 percent growth?

Yes

This is what I find interesting, export growth is also decelerating as you would expect, as external demand slows down. The ringgit though, is trading at about the highest it has been in 13 years. Are you comfortable with the ringgit at these levels?

Yes we are, but we are monitoring it in terms of both our fiscal and monetary policy to make sure that the ringgit reflects the fundamentals of the economy and at the moment, we believe it does and the stronger ringgit doesn't seem to have a negative impact on our exports.

The ringgit is still not fully tradable offshore though and for several years already, one of the two key things foreign investors wanted to see happen, to see change in Malaysia, in order to make it more attractive for them to invest in the country was one; let's see the ringgit tradable offshore again.

Recently, Malaysia has made changes so the ringgit is a little bit more moveable on the capital account. In this kind of environment, economic environment, are any further changes on the ringgit? Do you foresee them?

We are monitoring the situation all the time, very closely. Most investors feel that this is not the key determinant in terms of their investment decisions. Most importantly, there is no restriction in terms of repatriation of dividends and profits, for example, and bringing in currency through the banking system.

So it's not really a major factor, but we are open to it. As you know, we are quite adaptive,

and if we think that it's going to help the economy, certainly we will review the situation.

I'm gonna ask you another unfair question. But because you are the prime minister, I'm almost obliged to. We talked about the ringgit. Let's talk about interest rates. In this kind of environment, will it slow down, what economist call "normalisation of rates", that is, raising them.

This is basically the purview of the central bank, and I would like it to be in that context, but we do make adjustments, in terms of interest rates to make sure that the economy is not overheated, for example. Particularly, we don't want a bubble, for example, but we want a steady robust growth.

Let me ask you about Malaysia's balance sheet. Debt is running at about 50 percent of GDP, high but not worrisome and certainly manageable. Several of your own economists based here though had been warning that the situation cannot be allowed to continue lest down the road, 10, 15 years, Malaysia becomes another Greece. What is your priority in terms of reining in that deficit?

We have some options, in the short term and further down the road. For example, we have given this commitment to the market that will bring down our deficit to around 5.6 percent of GDP this year. And I believe we are still on track. And we have also made an indication that by the end of the 10th (Malaysia) Plan, we hope to bring it down even further to say, around three percent.

There are various options available, one of which is of course to rein in expenditure, which we have done, we have cut back on development and on operating expenditure.

So we have a few options, but going forward, I'm talking about maybe several years down the road, we have to look in terms of our tax base because Malaysia's tax base is rather narrow with one per cent growth in GDP, our tax revenue only increases by about 0.8 per cent, or 0.85 per cent. So there is that limited elasticity in terms of tax returns. So some of the structural problems have to be addressed.

We'll return to some of these issues in just a bit. But in terms of fund raising, because of still lingering worries about the sovereign debt crisis in Europe, it has made it very difficult for a lot of other countries, which are in nowhere near as bad shape fiscally as many in Europe, to raise funds. It has made it more expensive for one thing. In Malaysia's case?

In Malaysia's case, not the case. We have global issue recently and it was oversubscribed and we have got good rates for it. I think the market has a positive view of Malaysia, provided we deliver with respect to our promises.

Prime minister, earlier on, you made reference to Malaysia's latest five-year plan, this would be the 10th. One of the cornerstones of that is what a lot of economists are calling a rebalancing of our economy, to be less dependent on exports, more on domestic consumption and the local economy. How are things proceeding?

We have done our strategy, basically that is predicated on the New Economic Model and what is exciting about the New Economic Model is that we have identified where the new sources of growth are going to come from, including how do we resuscitate the domestic private economy, the private sector.

The private sector has been taking a backstage vis-a-vis the public sector ever since the

financial crisis of 1997. So we want the private sector to play a more dominant role. In fact, we have stated very clearly that to achieve our lofty targets, we have to raise RM150 billion per year in terms of total investment. So that's a huge undertaking.

We have to address some of our concerns with respect to skills, for example. We must make sure we move up the value chain in terms of skills level, so we have to prime up the human capital development. We have to look at new sources of growth, and the growth can come from consumption, growth can come from demand, but growth can also come from innovation. If you want to get to 6 percent, 7 percent, then innovation will be the key enabler to achieve that.

If the private sector is going to play a leading role in this, if services are going to play a leading role on this, one of the thoughts that struck me when I was doing a little bit of research on the controversy over when, how, how much to reduce subsidies, and therefore, help your fiscal position, the government's fiscal position, is the company, corporate Malaysia has benefited predominantly from subsidies, not so much individuals, so if you remove the subsidies from them, will they become potentially less competitive? Would that hobble their ability to be a driver of growth for Malaysia to 2020?

I don't think so. The message, the key message we are delivering to the private sector is that relying on subsidy gives you a false sense of being competitive. You must be competitive because you are more productive. You must be competitive because you are more innovative. You must be competitive because you made the right kind of investment. You have developed the right kind of talent.

And those are the key factors, which will enable us to compete globally, not relying on subsidies because relying on subsidies gives you a false sense of security because the day of reckoning will come when subsidies will be removed eventually.

So you are saying, force companies to become competitive.

Exactly, that's what they have to do.

At the same time though, a very fine balancing act and you referred to this earlier on, politically sensitive, because you do not want, you want to encourage the private sector to become more competitive, but you do not want to disadvantage the poor who probably need the subsidies a lot more.

Yes, that's why part of our New Economic Model, we are focusing on not just eradicating not just absolute poverty, but we are looking at 40 percent of the population, the more vulnerable group, the groups that are financially stressed at the end of each month and we have to do something for them, for these people.

So when we remove subsidies gradually, we have to look in terms of increasing the income level. We have to look in terms of ensuring a wider social safety net, and so forth. So there are measures, which must be put into place. But where there has been a misallocation of resources, for example, people who own luxury cars should not enjoy subsidies. So those are in a way, reducing subsidies must also be a targeted way of doing it.

Let's pull back and look at your 18, coming to 19 months in office. Three months in, you already started making major changes, making Malaysia more open to foreign investment, foreign ownership, etc, fund management companies, 100 percent foreign owned, that's fine.

There are still a number of people who look at the changes that you've made, or are trying to make, and are saying that is not enough. And they are voting with their feet. Your balance of payments in the 4th quarter, and the 3rd quarter, is negative, and it seems to be growing.

How do you intend to stop this outflow of your talent as well as your money? Tengku Razaleigh Hamzah, I think, was quoted saying not too long ago that there need to be fundamental changes otherwise Malaysia will continue to hemorrhage wealth as well as talent.

Well, there are some early positive indications. The 1st quarter this year, we are seeing more or less even in terms of the wealth flow. So that's a good sign. Probably there is a greater sense of confidence, greater clarity in terms of the direction that the country is heading towards.

There is also an attempt now to attract the Malaysia diaspora. I have announced the creation of a talent cooperation. In fact, we will make some important announcements shortly, with respect to the establishment of the talent cooperation and they would be going around and engaging Malaysians abroad, persuading them to return home.

Secondly, we would have to look at the wage structure in Malaysia. I think we have undervalued human talent in Malaysia. I think human talent has been somewhat undervalued, so we do need to find a mechanism so that we can raise wage levels in Malaysia. Commensurate wage with their true value. And of course stressing on productivity. So these are some of the measures we will do.

Prime minister, since you've taken office one of the biggest initiatives has been to roll back more than 20 years of affirmative action, what used to be known as the New Economic Policy, NEP.

The stock market in 18 months since you've been in power has been up about 60 percent. That's positive, it says something. At home though, I want to ask you, get your reaction to this, there are a number of your citizens, not just the Chinese and Indians, also the Malays who are very nervous about these changes. They are used to this status quo.

The opposition is also skeptical, as you would probably expect. But even within the party that seems to be not total agreement. Then again we have got this right-wing splinter group from (former) prime minister Mahathir that has come up with Perkasa and they are attacking you from their front as well. How are you dealing with all of this?

Well, first of all, let me explain to you that we are still committed in terms of balancing the society, to get a more equitable society, which will lead to our long-term stability. What I am saying now is that what has worked in the past may not work today. So we are going to review the way we implement affirmative action, not the overall objective but the way we implement it, so that it would be seen to be fairer, should be more transparent, should be market-friendly.

So the whole essence of the New Economic Model is not about changing the macro targets but to make sure that how we do it, ensures greater success. And by doing that, I think it would be more acceptable across the board. And it would be seen to be fairer as well.

Obviously some people are concerned and maybe fear of change as well, but that's nothing new. The other option is to remain status quo, to do business as usual. And we've looked at the numbers, we've looked at the statistics, that is not an option. If we don't make changes, we don't reform, Malaysia would slide backwards. We are convinced about that.

Malaysia would lose our competitive edge and we are doing all this because we are committed to Vision 2020, which was started by Tun Mahathir Mohammad back in 1990. And we want to see that happen. We want to realise Vision 2020.

Why is former prime minister Mahathir Mohamad, and now Perkasa, why are they so upset though?

They are not against us. They are talking more about bumiputera rights. But actually we are not taking anything away from the bumiputera, but we are saying that let us do it differently. Let us get better results. Let us achieve a more equitable society. But at the same time, being fair to the non-bumiputeras as well. Because we want to build a 1Malaysia.

Equity, fairness, redistribution of wealth. We've talked about some of the dissent within the party, the right-wing splinter group, Tun and Perkasa, the opposition. NGOs as well, civil society are saying one of the key elements that may be missing in your reform is Malaysian institution themselves, in terms of making them more efficient, less graft-prone, where there are, let's say, perhaps, unintended misallocation of resources.

Former Prime Minister (Abdullah Ahmad) Badawi, his big plan was fighting corruption. How's that going? There doesn't seem to be that much emphasis on it anymore or am I wrong?

No, this is very much a part of our national agenda because as you know, as part of our government transformation programme, reducing corruption is part of the 6 NKRAs, so it is a key result area, one of the key result areas, which we intend to do. So we are committed, we have strengthened MACC, but we need to produce, you know, more results, and more conviction, but it is a process, it is a journey, we are committed to it, we certainly will be focused about how we should go about it.

We have also done other things like reducing government expenditure, most of our procurement now is based on open tender or restricted tender. There is less direct, very much reduced direct negotiation, so these are a broad range of measures we have instituted.

Very quickly before we let you go. I want to talk to you about politics and elections. You have a window before elections need to be called again. There has been increasing attention on Sabah. Not a lot of people think about it or talk about it, in the foreign investment community.

But in terms of votes, in terms of seats, that Sabah represents, it's immensely important for the party. There has been increasing negativity and bad press to do with the way that Sabah has been left to run. What are you doing to address these issues ahead of polls? I mean here there are environmental concerns woven in as well.

Actually, if you see the resources we are going to allocate under 10th plan, especially with respect to the government transformation programme, quite a large chunk of our resources will be channelled into Sarawak and Sabah. You know, take for example infrastructure development, rural roads, electricity, water supply, the bulk of the resources will be spent in

Sarawak and Sabah.

And we are seeing results because I monitor this on a regular basis, so things are actually happening on the ground and we will see the achievements to be much higher as we move forward because we are gaining momentum. So our commitment is to actually bring a more equitable development, which includes Sabah and Sarawak because one of the cornerstones of our New Economic Model is to be inclusive.

- Bernama

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