

Remaking Malaysia: Investing in the New Malaysia

Let me begin by thanking the organisers for giving me the honour of delivering the keynote address to this important conference. It is a pleasure to address such a gathering of investors, industry captains and fund managers. To those who are new to Malaysia, welcome. I am pleased and proud to welcome you to my country.

I have been a politician and a public servant for over 40 years and a Malaysian for over 60. For those who are calculating the numbers, that means that I've been in service for a very long time, in fact, for most of my working life! Throughout these years and from the vantage point of the government, I have had the privilege of seeing the country evolve from a sleepy colonial outpost to the thriving Southeast Asian gem that we see today.

Indeed, Malaysia has come a long way in a very short time. I would venture that most of the participants here would have learned Malaysia's story as part of the bigger story on the East Asian economic miracle. I firmly believe that the region is still worthy of this 'miracle' label despite the 1997 Asian Financial Crisis. The region has worked tenaciously to gain a rapid economic recovery and the lives of millions have been continuously improving.

The recovery is gradually bringing back investor interest to Southeast Asia and Malaysia is no exception. Nevertheless, I am always surprised by the number of international fund managers, global industry captains and other important market players that I meet that have relatively little knowledge of Malaysia. It is an 'interesting' country, we are told. But it seems we are also 'not very obvious'.

There are a few reasons behind the relative obscurity of Malaysia's attractiveness as a place to work, to do business and to live. One reason, I think, stems from the Asian Financial Crisis. The 1997 Crisis gave Malaysia the dubious honour of being independent-minded in our efforts to restore stability to our financial system. While it has been acknowledged that the capital controls worked for the

ultimate good of the economy, the measures nevertheless painted Malaysia as something of a maverick in the eyes of global opinion-makers.

Also, the fact that we are a multicultural country with a Muslim majority has made us appear as a relatively uncertain quantity. For some, especially after 9/11, it was difficult to reconcile the concept of Islam and racial plurality to peace and progress. Our demographic make-up challenges many preconceived notions. Amazingly, people still ask me whether Islam and democracy are compatible. Thus, reports of fundamentalist threats make for more compelling reading.

Having said all that, I believe that the tide is now turning. There have been signs of a renewed interest, and I hope, a better understanding of Malaysia. In the past, there has always been a steady stream of companies and individuals that chose Malaysia for build-up and expansion, but the stream is now increasing at a greater rate with more new enquiries and new explorations for mutual benefit.

Much of this renewed interest is underpinned by a sense of a remaking of Malaysia, a 'new Malaysia'. This conference will delve into this subject in further detail but at this point, it would still be fair to ask, what is this 'new Malaysia'? Many of you may be wondering how it is different from an 'old Malaysia'. The cynics amongst you may be wondering if it is merely a re-branding exercise.

Certainly, the Malaysia of here and now can be characterised by a sense of consolidation in direction and in purpose. It reflects a young country that is entering a new phase of development, a country that is coming into its own.

Of course in some critical aspects, the 'new' Malaysia is a misnomer. This is because it represents a continuation of what is associated as the 'old' Malaysia. Indeed, several factors remain consistent. For one, the country continues to exhibit very strong fundamentals. Malaysia has had rapid growth coupled with low inflation, a product of decades of sound macroeconomic policies. Our balance of payments goes from strength to strength, as does the country's financial system. Debt levels continue to reduce. And all of these are achieved within a climate of political stability. A well developed Rule of Law guarantees protection of commercial rights. These fundamentals are a hallmark for Malaysia, a hallmark which has provided a superb environment for business.

In the process, Malaysia has also become more resilient and competitive. Economic growth was sustained at 5.3% last year despite SARS and Iraq. Growth in the first quarter of this year was 7.6% and the latest indicators suggest that we stand a good chance of achieving, if not surpassing growth forecasts for 2004. At the same time, Malaysia's standing in IMD's world competitiveness tables has been improving progressively, becoming the 5th most competitive economy in the Asia-Pacific region.

The new Malaysia still keeps a firm eye on these fundamentals. At the same time, the world has changed greatly, rapidly, and we need to respond to this

challenge. As every country finds its niche in the world, Malaysia too, has had to reflect on its direction and its vision for the future. Fortunately, the achievements of the last few decades have put us in good stead for the next level of development. From our strong fundamentals, the new Malaysia seeks to gradually restructure the foundation and the drivers of growth, in order to occupy a higher position in the global value chain.

This means that firstly, we are shifting from low-end manufacturing towards activities that better leverage our strengths and natural advantages. This translates into invigorating certain sectors such as agriculture, agro-based industries and biotechnology, to take advantage of our fertile bio-resources. We are also concentrating on business process outsourcing, to take advantage of our strategic regional location and educated workforce. In traditional areas of strength, we are striving to increase value-add. In line with this, we expect to see more downstream or support activities such as supply-chain management, research and development, product design and branding in long-established sectors like electrical and electronic manufacturing and palm oil.

In addition, Malaysia will continue to strengthen its services sector. This is a broad sector, which includes Islamic finance, ICT services, tertiary education, health tourism, transport and professional consultancy. This move would not only raise our level of development, it would also further diversify our economic base and reduce our vulnerability to external shocks.

Secondly, we aim to compete on the basis of performance, innovation and productivity improvements. After taking a hard look at the economy, we recognise that tackling the 'soft' side of development is critical. At the heart of every sustainable growth story is the achievement of ordinary people. Accordingly, a culture of high human performance needs to be ingrained at all levels of the economy. This means measuring and rewarding performance as well as attracting talent to key positions.

The government is beginning this effort with government-linked companies. The key performance indicators of government-linked companies (GLCs) are now closely tracked against international benchmarks by a central government committee to enforce performance accountability. Senior management has been put on 3-year contracts, with renewal and promotion subject to performance. As GLCs make up 34% of the Malaysian stock market, we foresee that this is a key step towards unlocking value and improving the market in the near term. In the longer term, we hope that these measures will set the performance bar higher, percolating to all sectors of the economy. A 'brain gain' initiative is also being launched to draw top talent to Malaysia, not only for GLCs, but also for other sectors of business, research and academia.

Thirdly, we are putting the private sector back into the driver's seat. After six years of countercyclical pump-priming, it is high time for the private sector to be



the prime mover and for government to play a more facilitative role. Correspondingly, one of the main aims of my administration is for the government to provide a healthy and supportive environment for businesses. A key component of this is to reduce the cost of doing business in Malaysia, which includes cracking down on corruption, improving the public service delivery system and reducing bureaucracy. As an example, the procedures under the Foreign Investment Committee (FIC) have been further liberalised to work on the principle of self-disclosure. The Securities Commission (SC) has also streamlined its rules and supervisory responsibilities significantly in tandem with the demutualisation of our stock exchange, Bursa Malaysia. At the same time, we continually seek to improve investor protection. Recent amendments to our securities laws have allowed for better safeguarding of investor interests and further enhancement of corporate governance standards. A high-level commercial crimes committee is also being formed for more effective enforcement.

Meanwhile, our central bank continues to ensure that businesses have access to funds at reasonable costs by developing strong and dynamic capital markets. We also acknowledge the importance of global confidence in the government's budgetary efficiency. So, we continue to be prudent in fiscal matters with a view to reduce the government's budget deficit progressively.

In short, ladies and gentlemen, the remaking of Malaysia means shifting the basis of growth towards more high-value activities which leverage our natural advantages and strengths. These activities will be driven by a higher emphasis on human performance and productivity gains. The government, in turn, will move towards becoming an expert and supportive enabler of business, creating conditions and opportunities for private business to thrive.

Even after taking these efforts into consideration, some parties may still be circumspect about the investment potential of Malaysia, new or old. I think that this is wholly understandable, considering the volatility of the global environment today as well as the seeming attractiveness of other places in Asia and beyond. Allow me then, ladies and gentlemen, as an interested but sincere party, to articulate Malaysia's value proposition to you.

When you consider the country's individual advantages in totality, Malaysia makes for a powerful and competitively valued gateway to Asia. We offer a stable socioeconomic environment located in the heart of the region. We have a first-class physical infrastructure combined with a trained and trainable workforce. Added up, these factors make Malaysia one of the most competitive places to do business. Investors and companies that have located to Malaysia found it ideal as a base in Asia, be it as an operational headquarters, distribution hub, centre for shared services or a place to do design and R&D.

The quality of the labour force especially, is making Malaysia known as one of the best places to carry out high-value, knowledge-based activities at a very

competitive cost. Malaysian workers are diverse and multi-lingual. The multiethnic character of the Malaysian population also provides a natural springboard to countries across the OIC, Indian sub-continent and East Asia. At the same time, our infrastructure keeps on improving, notably with the 2nd phase roll-out of the Multimedia Super Corridor (MSC) and the planned expansion of broadband.

Malaysia is also undoubtedly rich in natural resources, making it an ideal investment for commercial-scale agro-based activities. The country has been named as one of the 12 most bio-diverse places on Earth, which promises rich opportunities in biotech and herbal-based pharmaceuticals, amongst others.

Earlier, I mentioned the government's intention to make Malaysia a thriving place for business interests. I am reiterating that point as another value proposition for Malaysia. With the government's efforts to improve public services, strengthen financial markets and enhance the overall business environment, I believe that Malaysia will become an increasingly easier and better place to do business. Politically too, Malaysia is stable, safe and peaceful – a necessity for any investor interested in managing country risks.

And finally, it must be said, that Malaysia is a very good place to live. Many of your peers who are already here in Malaysia can attest to the people, the lifestyle, the food, the unique personality of the country. Perhaps it is true after all, that we are 'interesting' but 'not obvious' until you come here to visit and find yourself staying on.

Foreign trade and investment has always played a crucial role in Malaysia's development. Foreign portfolio investors have enabled Malaysian companies to raise funds to fuel expansion. Foreign direct investment from multinational corporations has transformed Malaysia, as evident by the rise of Penang as 'Silicon Island' and the emergence of the MSC.

The government has a long-standing policy of encouraging foreign investment into Malaysia. Although Malaysia is seeking to promote domestic investment and home-grown companies, I would like to state here that we have no intention of reducing foreign investment inflows. We view the development of domestic players as being highly complementary to the global supply chain of established global corporations. In this globalised business environment, Malaysia will continue to welcome FDI inflows. Specifically, we welcome partnerships in value-added activities as well as in new areas of growth such as the agriculture, sciences and services sectors.

I look forward to a brighter and more prosperous future for Malaysia, and I hope that you may be a part of the journey. Rather than presume to ask you to invest in Malaysia, I would simply like to invite you to take some time finding out more about us. Look up the facts. Study the numbers. Talk with those who have been here. I believe that the evidence will speak for itself.