

The NEAC Dialogue Forum

Thank you for taking time off from your busy schedules to join this forum today. I am pleased to be able to share my thoughts on the economy with so many corporate captains and industry leaders. Equally, I hope you will be frank and forthright in sharing your views with me, as we work together to build a stronger economy, one that is robust and resilient, yet fair and balanced.

Malaysia has always been able to confound its critics and delight its supporters. When we gained independence, no one gave us a chance. Malaysia was a new nation with a multiethnic community, with no experience of governing itself and with an economy that was agrarian and based on rubber and tin. We not only survived, but thrived. We have transformed to become an industrial powerhouse and a leading nation in the developing world. Our per capita income, in terms of purchasing power parity, is near US\$9,400. Wealth and income are fairly well distributed, and poverty has been reduced significantly.

But the challenges ahead are even more daunting than before. Globalisation and liberalisation draw us closer to more intense competition from transnational corporations and other nations across the globe. We must now face off against regional economies much larger than ours. We can no longer compete purely on labour costs against lower wage-based countries. We find it difficult to match the capabilities of more technologically advanced countries. We have no option but to move up the value chain. We have little choice but to transform again, to become a knowledge-based economy. We know and recognise this. But are we able to do it? Can we come up on top, once again against all odds?

That is the test before us. We cannot underestimate the magnitude of the challenge. Every part of our economy must perform, must be more productive, must be agile and must be flexible to respond. That is why I believe it is critical that we develop the human 'software' to match the infrastructure 'hardware' that

Speech by Dato' Seri Abdullah Ahmad Badawi, Prime Minister of Malaysia, at The National Economic Action Council (NEAC) Dialogue Forum at IOI Marriot Putrajaya, Selangor on 13 January 2004.



we have built. A change in mindset and values is critical if we are to overcome the hurdles and continue on our development path.

We have a set of very clear aspirations and targets encapsulated in our Vision 2020, which I fully subscribe to. I believe that the way forward to achieve those goals is a relentless and unyielding focus on quality and excellence, on building and reinforcing a strong 'national performance culture'. This, ladies and gentlemen, should be the key thrust that underscores our economic policies, our corporate strategies and our development priorities.

If Malaysia is to succeed in the face of the multitude of challenges that the global environment presents, we must equip ourselves with the right capacity and capabilities, as well as arm ourselves with the strong resolve, discipline and determination to continuously enhance our performance – be it our performance at the macroeconomic level, shareholder value-creation performance of our companies, or performance at the individual level. We must have a 'passion for performance', a thirst for quality and a psyche for success. We must never waiver in our continuous pursuit of economic betterment and a higher quality of life, because the day that we do is the day that we begin to accept complacency and mediocrity, and the day that the rest of the world will overtake us and leave us behind.

As such, I see three levels of performance priorities for our economy:

- First is public sector performance, as we pursue a commitment to fiscal discipline and a better public service delivery system;
- Second is corporate sector performance, in pursuing a commitment to productivity improvement and enhanced global competitiveness, as well as a search for new growth engines; and
- Third is human resource performance, as we pursue a commitment to 'software' development and enlarging our talent pool.

In terms of public sector performance, I see two immediate priorities. The first is to maintain strong fiscal discipline and prudence in moving towards a balanced budget. Secondly, the public sector must improve the delivery of its services in order to lower the cost of business and enhance the transparency and integrity of our governance. This I have already made known as key priorities of my administration.

The government plans to continue to act as a policy and business enabler. Recent decisions to tighten fiscal management should not be seen as contractionary. We must recognise that the government stimulated the economy during the previous downturns by increasing development expenditure to sustain economic growth. This was a temporary measure to tide over a bad stretch in the economy. I wish to state clearly that the financial crisis is long over. We paid a heavy price, but we were able to overcome the crisis our way.

The government has played its part as an engine of economic recovery. Now that we are out of the woods, the private sector must resume its role as an engine of economic growth. Deficit spending is not meant to be a way of life for us and I am committed to ensuring that the federal government budget deficit will be gradually reduced in the coming years. We have targeted to achieve a balanced budget in the medium term. We must, at this juncture, prioritise the nation's needs. Development will no doubt continue, as laid out by the Eighth Malaysia Plan, which will have a larger focus on enhancing the quality of life for all Malaysians.

One major thrust of my economic vision is to create a highly conducive business environment for the growth and health of the private sector. In line with this, I have turned my attention to how we can lower the cost of doing business in Malaysia. So far, we have built our economic competitiveness on the basis of low direct costs and incentive packages. It is now high time that we address sources of indirect cost to investors and businesses, such as public sector inefficiency and lack of information. The public sector has made various service improvements over the years, but red tape and bureaucracy still fester in some parts of the system, generating huge and costly delays.

Consequently, I have made red tape reduction and service improvement a key initiative for all government departments. All ministries have been instructed to establish special task forces to identify and cut bureaucratic processes. These task forces will be reporting on their improvement measures soon. All government agencies that interact directly with the private sector and the public have also been called upon to improve customer focus. In addition, a specific study has been commissioned, looking into re-engineering district offices, land offices and local councils to increase efficiency. Meanwhile, special 'flying squads' will be injected into land offices to scale back the backlog that have accumulated there over the years.

We also recognise the additional costs on business and the economy that are inflicted by lack of transparency. Having efficient and transparent processes will reduce uncertainty, as well as limit the opportunities for corruption and graft. One area that requires significant refining is the way we handle procurement and tender processes for government contracts. Tender processes need to be transparent, with open tendering being the norm. Direct negotiations will be limited to very special cases. In this manner, an open tendering system will help promote efficiency and competition, which would directly lower the cost of doing business.

Similarly, having useful information that is precise and timely is important for good business decision making. Since business information is usually financial or statistical in nature, it would be useful to overhaul the workings of the statistics department in order to make it more business friendly. Bank Negara



Malaysia will oversee the review of the statistics department and will spearhead the effort to draw up a precise reporting calendar of important public announcements relating to the economy. In addition, it would be good for all government-linked companies to commit themselves to a properly scheduled corporate reporting calendar well ahead of time. When these suggestions are adhered to, other private sector organisations are likely to follow suit.

Just as the public sector must commit to enhancing its performance, so too must the corporate sector reciprocate. The government will support and facilitate, but in a global economy where winners are based on innovation, branding, networks and operational excellence, we cannot rely on the government to keep handholding and pump priming the economy. I see two sets of priorities. First, Malaysian corporates must aggressively pursue productivity improvements to enhance their international competitiveness. Secondly, our economy as a whole must focus our investment resources on new sources of growth - both in terms of prioritising new growth areas where we have distinct comparative advantages, and supplementing traditional reliance of foreign direct investment with domestic direct investment and development of a robust cadre of SMEs.

Productivity-led growth is vital for the continued competitiveness of Malaysian companies. In general, companies that are more efficient and productive will enjoy more profitability. However, the motivation to invest in innovation to improve productivity comes from increased competitive intensity. This is why protected companies or monopolies are rarely ever leaders in innovation and creativity. With this in mind, the government is in the midst of formulating a comprehensive competition policy to ensure sufficient levels of healthy competition across various industries, to promote productivity-led growth. This clearly reinforces the need to build a strong performance mindset and ethic.

Furthermore, productivity is more likely to be improved if there is explicit accountability for performance levels. In March of last year, I announced that the government would push for the use of explicit key performance indicators (KPIs) as a means of enforcing performance accountability of senior management across all government-linked companies. The approach of tightly linking competitive levels of rewards to KPIs is now being piloted in companies such as Malaysian airports and Malaysia Airlines. I expect a performance management system with explicit KPIs and targets to be rigorously implemented in other companies such as Tenaga Nasional and Telekom Malaysia by this year. A steering committee led by the second finance minister will spearhead the task of implementing the use of KPIs across government-linked companies. Private sector companies are urged to follow suit as we raise the performance bar of corporate Malaysia.



While productivity-led growth is necessary, it is not a sufficient criterion for long-term success. In this respect, Malaysia must also continuously plan to reinvent its economic model by investing in new sectors that will become our future growth engines. Nonetheless, I strongly believe that we must focus on areas where we have a comparative advantage, and not spread our resources too thin. We cannot afford to be a 'jack of all trades, but master of none'.

While we have made good progress in ICT, particularly in the Multimedia Super Corridor (MSC), we need to catalyse other sectors. Industries that appear to have good potential given our distinct advantages include agriculture and agro-based industries; biotechnology – particularly related to agro-products; tourism; Islamic financial services; and healthcare. It is important to stress again that while these sectors are on the government's list of priorities, it is still incumbent on the private sector to lead the investment and promotion of viable businesses in these industries. The government will ensure that it supports these sectors, in terms of incentives and funds, but it will not participate in a manner that will crowd out the private sector.

Agriculture, long underestimated, is set to become one of the most exciting sources of income and growth for Malaysia. Despite our increasing industrialisation and urbanisation, palm oil is still one of our biggest export earners, bigger even than some manufactured products. This is not an indictment of our performance in industrialisation, but rather an affirmation of our competitive advantage in agriculture. When executed on a large scale using modern techniques, when reinvigorated by cutting-edge research and when popularised by global marketing efforts, the fruits of Malaysian soil prove to be a top revenue earner time after time.

This competitive advantage will be further explored in the coming years, as we extend the successful *modus operandi* of palm oil to other areas such as tropical fruits, aquaculture and herbs. Large-scale farming will be promoted. At the same time, more value-added activities such as processing and branding will be promoted, to increase agriculture's revenue-earning power. This does not mean that only big business will succeed in agriculture. These new approaches will be adjusted for small farmers, to increase their productivity and income-earning capability. We have seen some success in a few projects piloted by the Ministry of Agriculture, where small farmer incomes have been raised to as high RM11,000 per month, purely based on new techniques and use of best practice farming methods.

The development of Malaysia's biotechnology sector will also boost our agricultural performance, among others. Three new research institutions will be established in bio-valley, with one focusing on improving agricultural yields. With biotechnology, other fields of Malaysian competitive advantage will also be explored, such as herbal-based pharmaceuticals and treatments for tropical



diseases. Although Malaysian biotechnology is still in its infancy stage, I believe there is tremendous potential given the vast array of biodiversity that is available from our wealth of natural resources.

Islamic banking and finance is another strong platform for growth. Here, we have demonstrated Malaysia's ability to be a first-mover and lead the innovative developments that are shaping the global financial system. We were the first to issue the overwhelmingly popular global Islamic sovereign bond – our Sukuk Al-ijarah. Malaysian companies and financial advisors have a wealth of opportunities in Islamic finance that can be pursued, where demand is not limited to the domestic market alone, but encompasses the entire Islamic world and beyond.

Indeed, we must increasingly frame our productivity and competitiveness agenda at an international level. Choosing the right sectors with the brightest future prospects is not enough if our companies are merely focused on the domestic market and on aspiring to be only a *jaguh kampung*. In exercising the greatest of care in ensuring viability, we must be more ambitious in expanding in the region and beyond. Our businesses must work to penetrate new markets with well thought out overseas strategies and effective marketing and branding efforts. Malaysian companies should leverage on Malaysia's position in ASEAN, strong bilateral relationships in Asia, as well as its chairmanship of the Non-Aligned Movement (NAM) and Organisation of Islamic Conference (OIC) to grow its markets overseas.

Since early December last year, I have been following closely the thoughts and comments gleaned from CEO media interviews conducted on some of you present here today. I could not help but notice a common theme - one that speaks of better prospects this year, not only for Malaysia, but also for the global economy. This brings to relevance the important policy thrusts that were highlighted in detail during previous budget presentations, particularly in Budget 2004. Two of the key initiatives are to fine-tune our economic course from export-led growth to domestic consumption-led growth, and to increase the role of domestic direct investments (DDI). Strong emphasis has also been placed on the need for the private sector to be more dynamic and to spearhead economic growth for Malaysia to become a 'true trading nation'.

This has led to some confusion among some quarters as to the continued importance of foreign direct investment (FDI) in Malaysia. Let me clarify by stating in no uncertain terms that we do not intend to reduce the importance of foreign investment inflows, but that our objective is to maximise the level and participation of national wealth. Logically, since FDI has largely been flowing to low-wage economies, this would mean that we must increase the level of investments made by local companies. However, Malaysia will continue to welcome FDI inflows targeted at higher value-add sectors, such as high technology investment as well as in research and development.

I expect small and medium-scale enterprises (SMEs) to play a significant role in driving domestic direct investment in the country. To me, a major sign of a vibrant and strong economy is the existence of a dynamic and robust private sector that is capable of standing on its own. SMEs represent an important pillar within the supply chain that larger corporations require to operate.

Being smaller, SMEs are more agile in adapting to economic conditions, which can make them strong agents for industrial change. Furthermore, SMEs can contribute to significant economic growth on their own, by producing high-quality products and services that may be exported. As such, the government will continue to pursue policies that focus on the development of SMEs as an engine of growth. A National SME Development Council will be established for this purpose. I have agreed to chair the council, which illustrates my personal commitment to increasing the role of SMEs in the national economy.

At the heart of our quest for a strong performance culture is the need to build a world-class education system. This country can be rightly proud of the education infrastructure it has built since the very early days of independence. Through massive investments committed under successive Malaysia plans, we have been able to ensure that schools, technical colleges, universities, teachers and technology are made available up and down the country.

However, what we now have to ask ourselves is whether the quality of our education system has moved in tandem with its growth in quantity; whether the younger generation passing through our national education system is adequately equipped to thrive in an increasingly global and competitive environment. I believe we will need nothing less than an 'education revolution' to ensure that our aspirations to instill a new performance culture in the public and private sectors is not crippled by our inability to nurture a new kind of human capital that is equal to the tasks and challenges ahead.

Changes to the education system, no matter how ambitious and far reaching, will take some time to yield results. We must also think about the hidden talents, the undiscovered gems already in our midst. Since the days of Tunku Abdul Rahman, Malaysians have always been well represented in the best universities around the world. More recently, Malaysian professionals and managers have been recognised as highly skilled employees in leading multinationals, Fortune 500 companies, world-class research institutes around the globe and here at home. We have to ask whether more can be done to harness the creativity, skills and experience of these Malaysians in our own companies and within our own shores. It will require us as employers and as government, to re-examine the efficacy of our 'brain gain' initiatives and to develop a compelling value proposition to attract, develop and retain talented Malaysians both within and outside the country.



It has always been a core principle of my government to exclude no one and to include everyone in mainstream development. Growth with equity has been a hallmark of Malaysia and will continue to be so.

Accordingly, the Bumiputera agenda will have its rightful place in my administration's socio-economic policies. It will be my government's intention to create a more capable and competitive Bumiputera community. Efforts to spawn a larger Bumiputera Commercial and Industrial Community (BCIC) will be intensified. The creation of a Bumiputera scientific and technological community will be added to the agenda. Current efforts by my government to modernise the agriculture sector, to create agro-based industries and to narrow the gap between urban and rural areas, should assist in these efforts.

Furthermore, efforts to close the poverty and digital divides, across all communities, will receive special attention. We have made tremendous strides in combating poverty, but we must do so more effectively and also address issues of relative deprivation, particularly in urban centres. Meanwhile, the digital divide threatens to create new gaps and accentuate old ones. It is a very difficult problem that must be met with swift but considered action.

I am single-minded in my belief that focusing on our national performance culture and the three levels of strategic development priorities, is the key to our success. I now invite you to demonstrate your commitment to Malaysia's performance and engage in how specifically the public and private sectors can collaborate to achieve this objective.

Let us now enter into a 'performance contract'. The public sector hereby commits to maintaining strong fiscal discipline and growth-supporting policies, and at the same time strives to overhaul the levels of bureaucracy and red-tape to achieve higher levels of efficiency and transparency. In return, the corporate sector commits to leading the growth effort, by improving productivity and international competitiveness, while capitalising on focused investments in key sectors to build our future economic growth engines. Additionally, we will collectively commit to upgrading the quality of our human capital.

These collective efforts are needed for us to move closer towards Vision 2020. We have suffered a setback in recent years, which we have overcome. I am confident that with sustained effort and focused determination in pursuing our aspirations, by raising our performance across all sectors of the economy, we will yet be able to join the league of developed nations not too far into the future.