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KUALA LUMPUR: Prime Minister Datuk Seri Najib Razak yesterday called on the private sector to drive the economy amid a challenging global and domestic environment.

Najib said the country was facing external challenges, including the devaluation of the Chinese yuan, an anticipated interest rate hike in the United States and declining commodity prices.

He said Chinese growth was decelerating and US growth was lower than expected. Additionally, the Eurozone has yet to recover from an extended financial crisis.

"Never before have so many external events occurred at once. They have affected our economy — with a slight downturn in growth — below the five per cent to six per cent growth path that we had envisioned — and a depreciating ringgit," he said in his closing speech at the 11th Khazanah Megatrends Forum here.

The government, he said, had a more limited fiscal scope compared with 2008, when RM7 billion and RM60 billion stimulus packages were introduced to cushion the impact of the 2008 global financial crisis, adding that private consumption was expected to decline.

As such, said Najib, the private sector should take the lead in boosting the economy by investing in research and development, and innovation to drive the country forward.

"This is especially pertinent, given that they stand to be disrupted by competitors, known or unknown. These corporations have the capacity and I want them to play their part."

He said it was difficult explaining the economic slowdown to the public, given the country's goal to reduce its fiscal deficit and sovereign debt levels.

To get an understanding from the people has been a challenge. It's almost a losing battle to explain why prices are going up. I've always said when oil prices go up, we get the blame, but when they go down, it's due to market forces."

He said it was now more important than ever for Malaysia to transition into an innovation economy and determine the methods of doing so.

"A knowledge economy is where organisations and people acquire, create, disseminate and use knowledge more effectively for greater social and economic development. It relies on institutions that are able and willing to change, the transformative power of technology and dynamism of entrepreneurs to generate growth.

"Innovation and creativity must propel public- and private-sector performance if Malaysia is to become a developed, high-income nation able to compete with the best, regionally and globally."