

By : DATO' SRI MOHD NAJIB TUN ABD RAZAK
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Title: THE RINGGIT CONFERENCE: A RETURN TO RETURNS

It gives me great pleasure to be here today to address you all at this inaugural Ringgit Conference. I am heartened to note the theme of "Return to Returns" for this conference and I would like to commend the organisers, ECM Libra and The Edge, for bringing public focus to this important topic.

This morning I would like to approach the issue of "returns" from two different perspectives: Firstly, from an international perspective, I would like to make the case for Malaysia's merits as an investment destination in the light of serious efforts undertaken by the government to strengthen the overall economy, and provide an environment conducive for superior returns to investors. Secondly, I am also here to signal the government's desire for local investors to raise their level of performance in order to extract better returns on their investments.

Malaysia has a good success story to share with the world. However, we realise perhaps this story has not been well told to investors. In my many meetings with senior corporate executives from around the world, the common refrain has been that while Malaysia is a great place for investments and for the executives who manage these investments, so little of this good news travels beyond our shores. Therefore the good news on Malaysia needs to be told and retold again. We need to do this even more during a transition period such as the one we have just recently experienced. With Prime Minister Dato' Seri Abdullah Badawi as our new captain at the helm of the country, we are seeing a concerted effort being made to take Malaysia a few notches upwards in terms of competitiveness, opportunities and performance.

Let me at the outset say that the objectives this Government is committed to undertaking cannot be achieved easily and instantly. The process of changing mindsets, attitudes and behaviours simply cannot be done overnight. We must temper the urge for quick fixes and instant results. This journey of transformation is long and hard,

but we are committed to staying the course. The good news is that we are seeing some early results.

I believe the time has come to look at Malaysia again as a place that offers outstanding opportunities for investors - whether on its own merits or in comparison with other investment destinations. Politics is always a good place to start. Despite all the early misgivings, especially by those who may not quite appreciate our politics, we have made a remarkably smooth leadership transition from 22 years of Tun Dr. Mahathir Mohamad to the first months of Prime Minister Dato' Seri Abdullah Badawi. This has clearly been a change of personalities not a change in government.

With each new Prime Minister, we will and should expect a change in style and in emphasis, but not of the fundamental principles that have made this country successful since our Independence.

The Barisan Nasional coalition has achieved unparalleled continuity of government over the last 47 years. We have won all 11 general elections at the federal level since this country was formed. For a real, thriving democracy, that's a record of political stability that is hard to equal let alone beat. In the 11th general elections, the BN achieved a landslide victory by securing 198 seats or 90% of Parliament. We have rolled back the green line of opposition parties espousing a less than moderate vision of Islam. Malaysia remains the only country to have defeated radical Islam through the ballot box.

The resounding mandate we received from the people no doubt came on the back of what many have acknowledged as the "Abdullah factor", the feel-good element and confidence that has rallied virtually the entire nation behind the capable, charismatic and humble leadership of Prime Minister Dato' Seri Abdullah Badawi. For Muslims, they agree with the Prime Minister's moderate and progressive worldview of Islam. The Malaysian people have spoken and they have without question signalled that they want a BN government led by Datuk Seri Abdullah to take the country into the future. Clearly, the BN government today is stronger than it has ever been.

If the people of Malaysia have spoken, UMNO has listened and UMNO members are of one mind. Just last week, the UMNO grassroots via division meetings across the country gave overwhelming support to Dato' Seri Abdullah Badawi as our next party President. A strong UMNO, with a clear line of succession, makes for a strong and stable BN government. These mutually reinforcing trends in Malaysian politics can

only be good news for local and foreign investors alike.

On the economic front, the indicators are really beginning to tell a positive story. We are already looking towards economic growth on a quarterly basis of around 7%. For the first time since the financial crisis of 1997-98, this growth trajectory appears to be sustainable on a long-term basis. You may be aware that the 7% minimum target for economic growth is important for us to achieve developed country status by 2020.

Malaysia has a young population and a high population growth of around 2.5% a year. This makes it all the more important to maintain a high, but at the same time, a sustainable growth rate. A high and sustainable growth rate will allow businesses and the government to make long-term plans, achieve better private and public sector performance and ultimately improve the quality of life and standard of living of all Malaysians.

We are targeting different areas to achieve this. We must expect labour-intensive foreign direct investments to go down but we are focused on attracting higher value added investments where there is a greater need for a better trained and higher skilled workforce.

We are tightening up on immigration policies and examining more effective ways to deal with illegal immigration. We know that illegal immigration has been a significant cause of social problems and crime. But beyond this, illegal migrant workers have the unintended economic effect of suppressing wage levels in selected industries where we may no longer be competitive on our own. We no longer have any intention of promoting Malaysia as a low labour cost investment destination. We offer instead a well-trained and highly skilled workforce and world-class infrastructure for companies in leading edge, knowledge intensive industries.

While still important, we no longer think of manufacturing as the primary engine for growth for the future. Instead, we are targeting value-added large-scale agriculture and agricultural industries as future sources of domestic growth. We are promoting services sector growth - in particular tourism and education - and we are looking to encourage enterprises that cater to our domestic needs and population. This shift in emphasis will in the long term reduce our dependence on export markets as a source of

growth. And the opportunities in these new areas will be tremendous in terms of raising incomes and creating new jobs as the economy grows.

We fully recognise the need to encourage growth with appropriate manpower, infrastructure and government support. Just recently approval procedures for FDI have been further streamlined. We are placing greater emphasis on English in the teaching of science and mathematics as well as in higher education. We will continue to have one of the best educated workforce in the region.

Our efforts to develop infrastructure will continue unabated but we will ensure that this will be done with a greater emphasis on value for money. Open tenders and more transparent procedures will go a long way to improving the efficiency of our public sector spending. We are re-looking at our privatisation track record to see if we can get a better deal for the government and ultimately, better quality and cost effectiveness of service for our citizens. I believe the Minister of Energy, Water and Communications will have more to say about this issue later today. He has already caused quite a few ripples in the water industry and among those interested to participate in water projects.

To ensure greater efficiency of public spending, other areas of privatisation such as toll roads are being reviewed. We believe that the government should take the lead in privatisation by setting the parameters for privatisation i.e. identifying the highways that need to be built and the designs to be adopted. Once these parameters have been established, we can call for open tenders to ensure that the most competitive bidder, with the right experience and track record, is selected for the job. And as you know, the government has announced that open tenders will be the way we go for most projects going forward.

The government is also committed to a gradual return to fiscal balance. After six years of counter cyclical pump-priming, we feel it is prudent to cut back so that we can balance the budget in a few years. We also want to avoid crowding out the private sector as the main engine of growth for our economy. The private sector needs to be given room to once again take the lead.

You would also know that the government is one of the

largest investors in the Malaysian stock market. Government-linked companies (GLCs) make up a third of market capitalisation on Bursa Malaysia. But we know the performance of a lot of these GLCs could be further improved, with great impact for shareholders and the wider investing public. We are determined to change all that and we have started by making very significant changes at the top. The Prime Minister has kicked this off by asking GLCs to develop Key Performance Indicators that measure them against benchmarks and negotiated targets. Crucially, these KPIs are linked to real consequences in terms of compensation, appointments advancement and dismissal of senior management of GLCs. I am sure the Second Minister of Finance will provide you with more details on this particular initiative when he talks to you all after the tea break.

The government is serious about what needs to be done to set our economy on the path of sustainable growth. Apart from what I have described, a number of other critical measures have also been taken. We deferred the RM14.5 billion double-tracking rail project not because we did not think it was needed, but because we felt it was not needed right now. Similarly we are undertaking a review of the Bakun hydro-electric project to see how we can best undertake it based on our future energy needs. This government will continue to prioritise our plans based on affordability and cost and the impact on long term competitiveness and benefits to society.

Integrity and public accountability are important cornerstones that have made Malaysia successful, and a favoured investment destination. We are serious about eradicating corruption and strengthening the ethical fabric of our society - among civil servants, politicians, businessmen and ordinary citizens. Corruption charges have been taken against a number of high profile personalities. A Royal Commission has been appointed to look into how the police can do their work better.

We recognise that corruption results in bottlenecks in government service. By intensely focusing on improving the delivery systems in government, we hope to lower the opportunities for graft and abuse of power. The end result should be greater efficiency, better results, lower costs of doing business, and ultimately a vastly improved level of service for everyone dealing with government.

I believe we are doing all the right things to make Malaysia an even more attractive place for foreign investments and investors. But I believe this good news should not only be told to investors and investment professionals in New York, London, and Tokyo - for them to act accordingly. As we begin to mature, it is our local investors and investment professionals who should be taking the lead and making the bold decisions in the market place. I believe it may be time for Malaysia's local institutions to take the lead in "right timing" the market, instead of being mere followers to foreign institutional players.

Our market conditions make it ideal for domestic funds to seek and gain first mover advantage. Like many Asian economies, Malaysia has a very high savings rate of around 40%. This, coupled with a young growing population is fertile ground for the local fund management industry. Indeed, the enormous growth of the local fund management industry in recent years is testimony to the increasing sophistication and clout of the Malaysian investor.

As an example, I was made to understand that an established foreign investment firm billed as "the world's largest independent investment house" has just over a billion ringgit invested in Malaysia. However, this figure is dwarfed by the RM9 billion fund managed by one of our largest home-grown unit trust companies.

With size comes greater authority and power to significantly influence and change corporate behaviour. With the growing size of local funds, the government hopes that local investing institutions can play a more active role in the market. In particular, the government welcomes increasing institutional shareholder activism as a means to improving the corporate governance of our most important companies. Ultimately this should translate into better corporate performance and results for the benefit of all shareholders - be it Khazanah, pensions funds, unit trusts or the individual investor.

Let me end by urging all of us to reflect on the positive changes that are being brought in the Malaysian economy. We have built a strong foundation and a solid track record of performance in the past. The government is committed to the broad policies that have made this successful stewardship possible. Where appropriate, we will reinforce this by

identifying the right talent, setting the appropriate targets and fixing the most critical processes to ensure that Malaysia continues to be a prominent blip on the radar screen of foreign and local investors alike.

I wish you all a successful conference. May you all return more convinced, more enlightened and more ready to be our long-term partner in taking this country to greater heights.

Thank you.

Office of the Deputy Prime Minister of Malaysia