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Venue : THE PRINCE HOTEL AND RESIDENCE KUALA LUMPUR
Date : 24-01-2006
Title : 8TH MALAYSIAN STRATEGIC OUTLOOK CONFERENCE 2006

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Distinguished Guests

Ladies and Gentlemen,

1. There are three things in my yearly calendar that are more or less permanent features. The first is Rosmah's birthday. The second is our wedding anniversary. And the third – oddly enough – appears to be the annual Malaysian Strategic Outlook Conference. This is the 4th consecutive year I am opening this important gathering of minds, and I am honoured to have been invited by ASLI to be a repeat performer!

2. Meetings that have us gather around a crystal ball are always interesting, and even more so for politicians. I know a number of my colleagues, both on the front and back benches of Parliament, who would do just about anything at this very moment to have a glimpse of the Prime Minister's crystal ball! A small word of advice: no memorandums, please.

Ladies and Gentlemen,

3. I have been asked to share my views on the prospects for regional cooperation and economic integration as drivers for sustained competitiveness and resilience. It is obvious that cooperation and integration are the keys to unlocking Asia's vast economic potential, and help dramatically raise living standard for its people. Growing interdependence among the world's economies, the forces of global ideas, the borderless nature of giant corporations including our own, the free flow of talent and capital, make cooperation and integration within Asia a crucial and urgent imperative. Within this new paradigm, we in Asia have no choice but to intensify cooperation and integration of our economies even as we compete with one another for markets, resources, talent and capital.

4. This "co-opetition" as some economists have termed it, is the only way for Asia to promote broad and sustained economic growth, create a rapidly growing middle class and give hope to nearly 700 million people still mired in poverty across this vast continent.

5. In East Asia, trade within the region has grown from about one third of all trade in 1980 to over half of all trade 25 years on. This is still a lower proportion than in the EU, but significantly higher than the NAFTA region. The recent proliferation of Free Trade Agreements and Regional Trade Agreements suggests that trade will continue to be a driving force behind East Asia's integration. As the geographic scope of cooperative agreements expands across sub regions, trade integration in Asia as a whole is deepening.

Ladies and Gentlemen,

6. While there has been a great deal of progress, there is still a long way yet to go to broaden these efforts to create a panAsian community and an Asiawide future of hope and prosperity. Needless to say, such an effort will take time. Unlike Europe or North America, the region lacks a coherent and comprehensive strategy for intensifying its efforts toward integration.

7. This is, as we all know, an extremely diverse region in cultures, governments, income levels, living standards and overall socioeconomic conditions. And there are many hurdles to overcome development gaps, lack of government capacity, sensitivities about national sovereignty, historical differences, geographical barriers, to name a few. Yet overcoming these enormous hurdles remains so critical to the region's future, for several reasons.

8. First, we know that economic and social disparities in the region are widening, not narrowing due, at least in part, to unequal linkages to the global economy. Inadequate access to markets, finance and technology prevents some countries from benefiting from regional growth, and hinders opportunities for higher growth economies, such as China and India, to efficiently move capital, goods and people across the entire region. The disparity in per capita incomes between the wealthiest Asian nation and the least developed ones is far wider than the disparities that existed among the EU partner-countries that initiated continental cooperation in the 1950s -- and indeed much wider even than the differences between Germany and the prospective new entrants to Europe in the southern and eastern fringes. That, coupled with the baggage of historic differences between key nations in north Asia, potentially limits the scope for rapid progress in regional cooperation across Asia.

9. Second, the current arrangements for regional cooperation in Asia are at best modest and unlikely to achieve regional efficiencies on par with Europe and North America. More advanced levels of cooperation will be needed to harness the full potential of intraregional trade. ASEAN can continue to take the lead in this area, and encourage our neighbours to the north and west to bury old animosities in the interests of our collective future.

10. I firmly believe that for East Asia to move forward, it must rely on ASEAN as the locomotive engine to pull us into deeper and wider and more ambitious goals for cooperation and integration. ASEAN has been a model for pragmatism. Our leaders

are by and large, more focused on the future than the past, on the potential for partnerships rather than the reasons and constraints to avoid them.

11. Third, global investment trends are changing. FDI has traditionally been the main force behind international economic integration. However, global FDI has been falling dramatically, by 41% in 2001 and by a further 21% in 2002. And the share of FDI going to developing countries has fallen in tandem, from 30.4% in the mid-1990s to 25% in 2002. While we saw a revival of FDI in developing Asia in 2004, the traditional pulling factors of FDI – large domestic markets, low cost labour and abundant natural resources – no longer apply.

12. Countries that can attract investment – now and in the future – will be those that offer not only a skilled but also talented workforce, superior infrastructure, stable, transparent and efficient legal and financial systems, competent suppliers and service providers, and governments that consistently deliver the red carpet and slice through red tape.

13. Fourth, the proliferation of free trade agreements poses a challenge, as well as an opportunity. While bilateral and regional agreements are largely beneficial, they should be a building block – not a stumbling block – on the road to global trade integration. Thus, it is important to ensure consistency among these agreements, and with the multilateral trade liberalization under the WTO framework.

14. As of last year, there were more than 30 trade agreements under negotiation or under study in East Asia alone. Now is the time, as these deals are being struck, to assess and prevent the so-called "spaghetti bowl" effect by ensuring they will all work together in the long term. Within ASEAN, we must be ever vigilant that our bilateral trade agreements do not serve to undermine our overall aims of creating an integrated market under AFTA, by creating back doors for our trading partners to play us off one against the other.

15. And finally, for East Asia to truly progress along the path of integration, we must have the willingness to tackle a whole host of delicate and sensitive issues, from harmonising our customs practices and labour laws to remove non-trade barriers, to greater exchange of financial and economic information, to collective policy making and coordination in critical areas where going it alone has serious effects for the region as a whole. One such example is in our respective exchange rate policies. Given its enormous potential to destabilise economies across the region, we must encourage the practice of quiet consultations among policy makers to continue, to ensure exchange rate policies promote economic stability and sustainable growth across Asia.

Ladies and Gentlemen,

16. The hurdles that I have just outlined for East Asia as a whole are also mirrored as domestic challenges faced by many governments across the region. Overcoming

them will require us to deal with similar challenges within our own borders: addressing poverty and the gap between rural and urban incomes, infrastructure and amenities; balancing the need for equity and empowerment between regions, ethnic groups, women and minorities; reducing barriers to efficiency and overall costs of living and costs of doing business; and above all, maintaining an environment of peace, unity and stability in an increasingly open and free society. For East Asian cooperation and integration to succeed, the reality is that we must at the same time each ensure that we get our own house in order.

17. Malaysia has always had a dynamic and pragmatic economic structure that adapts to changing global conditions as they occur. In the eight years since the 1997 Asian crisis, we have run persistently-large current account surpluses – reflecting our still-high national savings rate (aided by greater confidence in our banking system), and a much more modest gross national investment rate. Having largely built much of the physical infrastructure we will need in the decade ahead, construction investment is likely to grow much slower going forward – thereby reducing its contribution to economic growth. This will also leave a large gap between our national investment and savings rates reflected now in a large current account surplus of 14% of GDP. In addition, FDI inflows have rebounded to about 4% of GDP.

18. The combined effect is a large basic balance surplus that needs to be “recycled” through the acquisition of foreign assets, and Malaysia is consequently going to be a major capital exporter and foreign investor in the medium term. In the coming phase of economic development, Malaysian companies will increasingly need to become MNCs themselves. Our early forays abroad in the eighties and nineties have revealed useful lessons and were perhaps borne out of our geopolitical advantages rather than our deep commercial strengths. In this second round, Malaysia Inc. will need to more hard nosed, more analytical, more discriminating in establishing our global footprint of assets, investments and talent.

19. At the macro-level, Malaysia continues to do well and our economy will charge ahead towards another year of reasonably buoyant growth. But at the micro-level, there are discernible rumblings that things are not moving fast enough and that business remains slow. This can be attributable the export-driven feature of our growth that is skewed towards oil and gas, palm oil and electronics exports. This dichotomy needs to be addressed quickly to accelerate growth and renew confidence in the Malaysian economy. We need to seriously address the savings-investment gap and stimulate stronger domestic investments.

Ladies and Gentlemen,

20. In the first quarter of this year, the government will unveil the 9th Malaysia Plan as the blueprint that will take us into the second half of our journey towards Vision 2020. Our overarching priority will be to enhance national competitiveness as the basis for sustained growth. A number of guiding principles form the foundations of the plan’s approach.

21. First, equitable distribution of income and opportunity within a growing economy remains a key pillar. We will continue to devote substantial resources that serve to close the gap between ethnic groups, between rural and urban communities, between Peninsular Malaysia and Sabah and Sarawak. We are resolute in our determination to eliminate hardcore poverty within the plan period.

22. In determining our priorities, we must be ever mindful of the need for national integration and unity as the bedrock of our success and resilience. We must never allow our communities to drift apart. In our social programmes and educational approaches, such as the National Service and our National Schools, we must strive to build understanding, respect and tolerance. Our recruitment policies, both in the public and private sector, must reflect genuine partnerships between the races in shouldering the responsibilities and reaping the rewards of nationhood. The responsibility for strengthening and preserving a united, cohesive Malaysia lies not only with the government but with each and every one of us.

23. Second, we will engage and incentivise the private sector – and in particular the SMEs – to participate more aggressively in areas that are crucial to our long term future – in agriculture, in life sciences, in ICT, in tourism, health and education. Public-private partnerships will be redefined to provide a more balanced and appropriate sharing of risks and rewards. Through projects to be implemented via the Private Financing Initiative (PFI), the government hopes to spur domestic demand and investments. We will stress on transparency and value for money.

24. Third, we will redouble efforts to put human capital development as the number one agenda to ensure Malaysia goes beyond the lip service and really builds a knowledge-based economy driven by innovation and ideas. We will focus less on the bricks and mortar of our hospitals, schools, government departments, police stations, barracks and universities, and more on the people, skills, technology, and mindset changes that will be required to make these institutions truly world class.

25. We must remind ourselves that human capital is not just about providing opportunities to the most talented in our society. It is also about ensuring we do not neglect those who have fallen by the wayside. We will therefore seek out new approaches to the problems of HIV/AIDS, drug abuse, gangsterism, and other social ills or else risk losing a whole generation of youth unable to become productive members of our society. In addressing these crucial problems, we can and must work together. The government does not always have all the answers.

26. Finally, we will ensure government continues to improve on public service delivery and reduces the cost of doing business in Malaysia. We are beginning to see signs that countries who were traditionally regarded as laggards, including some of our neighbours, are improving by leaps and bounds. Unless we change, it will be just a matter of time before we are overtaken. In strengthening the government machinery, we will not compromise on the deeper issues of building integrity, eliminating corruption and instilling ethical values and behaviours among all Malaysians.

27. These are some of the guiding principles behind the specific development goals, targets and allocations under the 9th Malaysia Plan. We are confident that when unveiled, the Plan will resonate strongly and be welcomed by all, including the private sector.

28. Let me end my remarks here and close by thanking you again for this opportunity. I look forward to our discussions to follow.