

**KEYNOTE ADDRESS BY
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'MALAYSIA 2000 AND BEYOND'
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Firstly, allow me to take this opportunity to thank ASLI for inviting me to deliver the keynote address this morning. I am happy to see many familiar faces here, both from the private sector and also from government. Your presence here today, together with the distinguished list of speakers and discussants, will ensure a fruitful summit where key issues facing the country can be analysed with objectivity and rationality.

1. I believe that it is also significant that this summit is being held in conjunction with the upcoming Hari Merdeka. I hope that our independence day will put into context the discussions that you will have. Economic progress and socioeconomic development would be mere reveries had the liberty and freedom of our country not been preserved. Even as we plan for the future, concepts such as peace, stability and independence will remain crucial. What is challenging is to preserve the importance of these objectives in this rapidly changing world of globalisation, the new economy and the digital revolution.

2. The most important question that we need to ask ourselves is, 'Where are we and where do we want to go from here?'. This question must be answered frankly and without any fear. Amid the bravura, rhetoric and chest thumping, we owe it to ourselves to ask searching questions about the direction in which this country is moving. In particular, we need to reassess our economic recovery. Has our rebound put us on stronger footing for long-term growth?. Have the lessons of the financial crisis been learnt, or are we back to business as usual?. We also need to ask if we are really ready for globalisation and the digital revolution, two of the most significant global trends in the new millennium. Attendant to this, we must figure out how we want to transform Malaysia into a knowledge based economy. The question is not 'Should we?' but rather 'Can we?'.

Ladies and gentlemen,

3. That our economy has recovered cannot be questioned. Key figures from growth rates to consumer spending to foreign direct investment to non performing loans to the strength of our stock market, have all shown positive signs of improvements. Many of our indicators put us ahead of all crisis stricken countries in terms of the efficacy of economic recovery. I am sure everyone here is familiar with the figures.

4. In the short-term, our recovery has been successful, more so when one considers that it was engineered through our own methods and executed through our own efforts. We have reason to be optimistic that the current recovery is sustainable. Government pump priming has been replaced by an uptake in private investment and consumption. Even FDIs have started to flow in, reversing a trend of stagnation. The increase in fixed capital formation reflects key investments in new growth areas such as information technology. And this has all been achieved in an environment of benign inflation.

5. On the socioeconomic level, the insulation of our economy prevented labour dislocation, unrest and mass retrenchment. The drop in the incidence of poverty has been reversed, and, most significantly, Malaysia was the only crisis-stricken country not to have reduced our spending on education.

6. I also believe that the right steps are being taken in some areas to strengthen our economy further. The development of the domestic bond market, for instance, is crucial in broadening and deepening our capital markets to allow businesses to hedge their borrowings against systemic risks and against the rapid movements of the international capital markets. We are also liberalising certain industries where we see benefits from strategic international alliances.

7. However, amid all of these developments, we must not allow triumphalism and complacency to creep in. The financial crisis that affected us may have been driven by the avarice of currency speculators and the amorality of the international capital markets, but this does not mean that we are entirely free of blame. I am afraid that if we do not own up to some of our mistakes they will be repeated and we will, once again, see an impending crisis in front of us.

8. In the heydays of privatisation, strategic infrastructure projects and the diversified Malaysian conglomerates, reckless investment decisions were made and managerial incompetence were abundant. This was allowed to perpetuate because of the existence of a moral hazard that certain businesses could not fail because the government would always step in to shore up liquidity, provide more concessions, or even engage in an all out rescue.

9. It is a fact, that both you and I know, that the government engaged in many rescue operations during the crisis. A more Laissez-faire government would have allowed many of our key companies to sink. A government that placed little importance in strategic economic thinking would have opened the economic floodgates so that foreign companies could pick up for a bargain the broken pieces of our key corporations. A government that was less courageous and innovative would have gone along with the IMF's one size fits all medicine.

10. We were brave enough, determined enough and smart enough to come through the crisis unscathed. If the government had not stepped in, many corporate empires would have crumbled. But we could not have allowed this to happen. The collapse of key conglomerates and any one of our major banks would have plunged our economy to depths that would have devastating socioeconomic consequences. We saw it happening elsewhere, and were not willing to throw away 43 years of nation-building.

11. But if another crisis were to happen in the future, I am not so sure that we will be able to insulate ourselves and recover in the manner we did this time around. To put it simply, the government may not be able to afford another round of rescues. It is for this reason that the business community must realise that there can no longer be a moral hazard situation. As we face globalisation and move into a knowledge-based economy, time and money cannot be wasted on rescuing the mediocre. In the future, there will be less insurance against failure.

Ladies and gentlemen,

12. This is a serious point. I am well aware of the rumblings and discontent among the professional business community that the government should not continue to protect those who have blatantly mismanaged their corporate empires and have repeatedly come back crying for help. I am aware that these criticisms are being made by Malaysians themselves and not merely by the foreign media or by foreign analysts. And I am aware that many of these criticisms are valid.

13. It is for this reason that I urge both the private and public sector to religiously adhere to a new corporate paradigm in which competitiveness, transparency and merit must rule supreme. Rentier businessmen and fat conglomerates must recede into history. This is an age of professional managers, lean corporations and sound capabilities. Know who must be combined with know how.

14. Perhaps what I am saying is not new, but I believe it is not said often enough. As we look around the globe and around our own region, we see how international economic dynamics are changing. The opening up of China and the emergence of Bangalore as the Silicon Valley of the East are examples of competing centres of growth. We are beginning to lose our wage-based competitiveness to countries that are able to offer cheaper labour. In some cases, such as in Bangalore, a significant number of this cheap labour hold PHDs in software engineering and are therefore more skilled than our workforce. We also see other countries beginning their process of liberalisation by throwing open telecommunications, financial and legal sectors. I am afraid that if we do not embrace a new corporate paradigm and if we merely return to business as usual, we will remain stagnant, as the world around us moves ahead.

15. As an open economy we must consider the issue of liberalisation dispassionately. We have benefited a great deal from open trade and foreign investments to propel our economic development. We are, in fact, the most trade dependent country in the world with the average of imports and exports amounting to over 130% of our gross domestic product.

16. We must recognise the role of FDI, not merely in fuelling growth but also in terms of technology transfer. And we must encourage our companies to form strategic alliances with international corporations. While we must ensure that liberalisation does not come at the expense of socioeconomic priorities, we must be practical about opening up our economy. In many sectors domestic deregulation must be speeded up to encourage competition at home before companies are ready to compete globally. And for the economy to work efficiently in the long run, we need to chase fewer lost causes and focus on areas in which we can or already have a comparative advantage.

Ladies and gentlemen,

17. In order that we achieve the economic objectives of vision 2020, a strategic shift towards a knowledge- based economy is crucial. Many people are still unclear or uncertain as to what a k-economy is and what it intends to achieve, and how different it will be to the 'P' or production economy that has helped Malaysia develop to this day. Contrary to the belief that a k- economy is yet another catchphrase coined in Malaysia's bid to be a premier regional I.T. hub, what our country is striving to achieve in the decision to move towards a knowledge economy is, in fact,

an effort which cuts across all sectors and all levels of our society. The critical success factor in becoming competitive in the new global economy rests with our ability to harness knowledge into all areas of economic activity. Winston Churchill once said, with great foresight, 'The empires of the future are the empires of the mind'.

18. This rings true today more than ever. Traditional economic thought has been supplanted by new growth theories that recognise the primacy of knowledge as a factor of production. Legislation protecting intellectual property have been passed in many countries signaling the importance of new discoveries and innovation. Knowledge is increasingly playing a vital role in traditional industries and, more so, in the businesses of the new economy. And there is much empirical evidence to show that economic prosperity can be sustained by investments into technology and R&D.

19. Malaysia's push towards this endeavour is an undertaking that hopes to enhance all our industries and sectors by treating knowledge as a key ingredient for success. Simply put, Malaysia intends to add more 'K', into all its 'P'. Everything from mining to agriculture to manufacturing to services stand to benefit from the infusion of knowledge. For example, business to business e-commerce, on-line procurement and supply chain management, R&D linkages, and on-the-job-training are just some examples of how the 'K' component can increase productivity in our manufacturing sector.

20. The transition to a k-economy must also be placed in the context of Malaysia's long standing socioeconomic obligations. Ever since a social contract was agreed upon 30 years ago with the adoption of the new economic policy, the government has remained committed to a growth with equity strategy. We believe that it is imperative to maintain social justice in our strategic shifts towards a k-economy. In particular, those who are outside of the workforce, those who have no education, and those who drop-out from the formal education stream must be given the opportunity to participate in the k-economy. We believe that a k-economy is not merely restricted to putting the knowledge component into all sectors, but it also entails the maximum utilisation of all productive resources, especially our human resources.

21. However, even as we ensure that the k-economy is characterised by equity and fairness, economic planning must place great emphasis on rewarding excellence. Our socioeconomic objectives must not come in the way of hindering those who are able to compete from succeeding. Incentives must be given for our best and brightest to thrive in a creative environment free of red-tape, feudal mentalities and mediocrity. Governments and corporations must allow and encourage upward-mobility that recognises talent and skill.

22. We must study and attempt to reverse the brain drain that has resulted in an exodus of skilled, knowledge workers moving elsewhere for opportunities. Just as we had policies in the 1980s that attracted FDIs, we must now formulate policies to attract human resource. Every sector of government and private corporations, from immigration to taxation to employment creation, must be geared to attracting the finest minds and to repatriate Malaysians who are successful internationally.

23. At home we need to reassess our education system to produce more knowledgeable human resources. We must encourage excellence in higher education, especially in the field of science and technology. In the spirit of social justice we

must create more 'second chance' programs so that many of those who are unable to attend institutes of higher learning are given various options to continue their schooling beyond secondary school level. We must formulate policies to facilitate life-long learning opportunities for those who want to improve their skills. Education and industry linkages must be enhanced to facilitate job placements, targeted human resource development and industrial research and development. Consider the fact, for example, that the United States, the most innovative country in the world invests 2.6 per cent of its GDP in R&D. Malaysia, by comparison spent 0.2 per cent of our GDP.

Ladies and gentlemen,

24. There is obviously much to do. The urgency of our task is all the more pressing in light of multilateral agreements that have committed us to liberalisation. Malaysia 2000 and Beyond, must confront the realities that I have outlined and attempt to overcome them.

25. The guiding principles that chart our economy in the next decade must be characterised by the following elements: One, COMPETITIVENESS. Malaysia must be committed to a sequenced liberalisation policy in which pragmatism replaces blind economic nationalism as an operational priority. Where appropriate, within the framework of our socioeconomic priorities, merit must serve as the determining factor in economic success. Excellence must be rewarded and mediocrity must not be preserved. Two, INNOVATIONS. There is a joke about developing countries such as Malaysia that our understanding of R&D is not Research and Development, but rather Rob and Duplicate. We must ensure therefore, that much of the value-added creative processes are done by Malaysians. Here, once again, I stress the role of industry-academic linkages and increased private sector spending in R&D.

26. Three, TRANSPARENCY. The improved corporate governance regime after the crisis must be implemented effectively by concerned authorities. Here I pledge the government's commitment to stamp out corruption both in the private and public sectors. If we need to make examples of prominent corporations or individuals, we will do so. Four, SOCIAL EQUITY. As much as we do not want to hold people behind, it has always been and always will be the tradition of this government to correct economic imbalances and provide opportunities for those who deserve it. The government's role in the provision of public goods must also be reassessed in the light of notable failures in our policy to privatise provision of social amenities. And five, NATIONAL UNITY. We must remind ourselves that the social contract that has helped keep this country together underpins our economic success.

Ladies and gentlemen,

27. You are all key decision-makers in your own right. As the corporate captains, senior government officials, intellectuals and leading social activists of Malaysia you are well aware of how difficult it is to manage this country. The preservation of peace and the safeguard of prosperity in a heterogeneous and plural society has not been easy. Every major decision the government makes is weighed against the objectives of national unity.

28. Many of the concerns that I spoke of earlier must be seen in the context of our social contract. But I believe that changes can be made to our economy and society without jeopardising stability and peace. The last thing that we want is for unity and harmony to be used as excuses to preserve the status quo. Ladies and gentlemen, change is in the air and the problems and challenges we face are obvious to us all. Success in Malaysia 2000 and Beyond will depend entirely on how we manage this change, together.

Thank you.