

**SPEECH BY
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1. Thank you for inviting me to speak at this event. Indeed, I congratulate Standard Chartered Malaysia for persuading their colleagues from around the world to hold this annual Group Leadership Team Meeting in Malaysia. I am happy to be in the presence of so many distinguished senior executives from your organisation, to share my views on some of the challenges facing Malaysia and how we intend to face them. I must confess that one of the reasons I accepted the invitation is because the first Standard Chartered branch to open in Malaysia 125 years ago was in my home state of Penang.

2. To those of you who have visited Malaysia before, I take this opportunity to welcome you back to our shores. To those of you who are here for the first time, I hope your stay will be memorable enough to merit repeat visits. I have always believed that to truly appreciate the charms and complexities of Malaysia, one has to personally spend an extended period of time in the country. Like many countries, Malaysia cannot be fully understood merely from reading analysts' reports in a remote location thousands of miles away. I appreciate that making the extra effort is not easy in this day and age, when information is broken down into small packets for easy consumption, when uniformity is encouraged to facilitate digestion of data. I am sure that as a bank with a 150-year history, and a track record of investing in emerging markets, I do not have to preach the benefits of treating each individual market as a distinct and separate proposition.

3. For the benefit of those who are unfamiliar, I would like to offer a thumbnail sketch. We are a nation that has made steady progress since achieving independence in 1957. From a country that relied almost exclusively on primary resources, such as rubber and tin, to a country that stands on the cusp of graduating to the ranks of the developed world. From a country in danger of being riven by racial divisions and discord, to a thriving, truly multi racial and multicultural society.

4. Consider these figures: Malaysia's GDP per capita has increased from about USD300 in 1957 to almost USD4,000. Literacy rates are about 90%. One third of all Malaysians are connected to the Internet and the number is increasing fast. 60% of the population own mobile telephones. Much of the physical infrastructure that dominates our towns and our countryside did not exist ten years ago. I have been fortunate to have witnessed and participated in many of these changes, having had the privilege of serving all of Malaysia's Prime Ministers to date. First as a civil servant, then as a Member of Parliament and subsequently as a Cabinet Minister.

5. The foundation stones for all this progress are peace and stability. By way of comparison with other countries, we have been fortuitous enough to avoid armed conflict or major social upheaval. This has enabled us to benefit from our considerable God-given natural resources. But not all Malaysia's success can be credited to providence. The government has worked hard at implementing policies that have improved the quality of life and raised our country's standing in the world.

6. Our economic planning strategies revolve around the concept of "Malaysia, Inc.", where the public sector and the private sector enjoy a mutually beneficial relationship. We pride ourselves on being a business friendly government. The government acts as the facilitator, enabling businesses to thrive. The private sector, on the other hand, assumes the role of the engine of economic growth. After all, we consider the government to be a 28% stakeholder in the corporate world, via the collection of corporate taxes. It is therefore in the country's broader interests to stimulate economic activity, encourage enterprise and welcome investment. Even when selective exchange controls were introduced in 1998, it was a temporary measure to insulate the economy from external shocks. As you are aware, the government kept to its word and rolled back all restrictions as restructuring initiatives were implemented. The only mechanism that has been retained is the peg to the US Dollar, which has served us well by providing stability. We remain committed to creating and fostering an environment that is conducive to trade, commerce and investment. Make no mistake - Malaysia is open for business.

7. Despite the progress and growth that we have enjoyed, we are under no illusions that we find ourselves at a crossroads. The economic landscape is changing rapidly, not only for Malaysia but for the rest of the region as well. Countries are being swept by the tempests that are globalisation and liberalisation. Goods, services and capital flow across national boundaries at a bewildering rate. The entry of China into the WTO is a significant milestone, and it accentuates the need for smaller countries, in the region and around the world, to carve effective and identifiable niches for themselves. More than at any time in the history of the world, survival of the fittest is the name of the game.

8. Malaysia is hardly spared from dealing with these pressures. Although we are continuing our ascent from the Third World, we can hardly consider ourselves to be a First World country. The increase in the quality of life has been accompanied by the attendant increase in the cost of living and consequently, the costs of production. We must therefore reduce our reliance on cost competitiveness, a strategy that has brought so much growth and prosperity in the past. Ironically, many of these issues have arisen because of our success. Sportsmen say that retaining a championship is sometimes more difficult than winning it in the first place. Similarly, effectively managing the success that we have achieved is a delicate and difficult challenge. It is one that we must master, for the sake of generations to come.

9. We will confront globalisation and liberalisation by keeping our doors open, not by retreating behind walls of protectionism. Malaysia is one of the top 5 most globalised economies in the world, with the total value of trade standing at double our GDP. Understandably, we will require time to enable our institutions to build the required capacity to be effective players. For example, both the Financial Sector Masterplan and the Capital Market Masterplan makes provision for our institutions to consolidate and strengthen before markets are further liberalised. However, the bottom line is that we will have to build capacity towards improving our competitiveness.

10. I personally regard the future with optimism. Malaysia has the energy and creativity of youth on its side, with over 65% of its population below the age of 40. This will put the nation in good stead as it adjusts and innovates to maintain its relevance in the global economy. In this regard, Malaysia has a number of potent arrows in its quiver. Our approach to economic policy making has a proven track record and we will continue to be open and engage with the business community to sustain economic growth. Our infrastructure, which includes a modern airport

recently voted second best in the world, world- class shipping ports, extensive road networks, and a Multimedia Supercorridor compares favourably with what the developed world has to offer. We have a large pool of trained and trainable workers, a feature that we wish to maintain. Hence, the government's decision to teach mathematics and science - technical subjects - in English. We have a set of well - developed institutions and laws, providing more than adequate commercial and intellectual property rights protection. Above all, we can offer high quality social amenities and facilities - Malaysia is a place where people can live, work and play in peace and comfort.

11. I am mindful that all these positive features must be complemented by an efficient and responsive civil service delivery system. Whilst we put in place frameworks to encourage corporate governance, we must also ensure good governance in public services. The Cabinet Committee on National Competitiveness, which I chair, devotes a substantial amount of its time and resources to developing ideas that can achieve this goal. It constantly explores ways that can improve public sector services through the reduction of bureaucracy and improving efficiency, thereby lowering the cost of doing business. This is a fluid and dynamic task, but one which is necessary in order to maintain the nation's competitive edge.

12. Events on the global political front have also given rise to instability and insecurities. When a group of terrorists converted passenger airplanes into guided missiles on September 11, 2001, they succeeded in destabilising the world order. They succeeded in seeding suspicion and amplifying prejudices. They succeeded in providing convenient justification for armed conflict and violent responses, as the recent military action in Iraq has amply illustrated.

13. Malaysia has been consistent in its position in relation to the conflict in Iraq. We cannot lend our support to any action that disregards the sovereignty of another nation, bypasses the multilateral process and diminishes the standing of international institutions. Any military solution should be sanctioned by the UN and should only be considered as a last resort after all other avenues have been exhausted. Neglect of international laws will only speed our descent into anarchy and encourage the law of the jungle to flourish.

14. I am aware that this view, which is the view of the vast majority of the Malaysian people, is unpopular among those who support the concept of regime change by force. However, we feel a moral imperative to voice what we believe to be right, especially since we have assumed the responsibility of leading the Non - Aligned Movement and will become Chair of the Organisation of Islamic Conference in October this year. In any event, we have always been clear that we are opposed to the policy of waging war unilaterally on another sovereign state. We have never fanned anti - West sentiment. We have never incited our people to launch attacks on foreign nationals or foreign interests.

15. On the broader issue of terrorism, we have always believed that war will never be a long lasting solution to the problem. The root causes, the reasons why people resort to terrorism must be determined first. Our experience in dealing with the Communist Insurgency from 1948 to 1960 has a grim resonance with the security issues that plague the world today. We successfully eradicated the communist threat by identifying the root causes of dissatisfaction and engaging in a battle to win hearts and minds. The child of a terrorist who is killed in armed struggle will seek vengeance. The child of a terrorist who is shown that a better way of life exists will

be persuaded to renounce terror.

16. Some quarters are attempting to use the present tensions to support the idea of an impending clash of civilisations between Islam and the West. This is an unfortunate, inflammatory interpretation and we do not subscribe to it. In fact, many Muslims around the world are affronted that Islam has been hijacked by a minority group to further their own narrow purposes. The Islam that the majority practice is a religion of peace. The Islam that the majority practice is a religion of tolerance and openness.

17. Malaysia is in a unique position to comment on the current scenario. The majority of our population are Muslims, who coexist peacefully alongside Christians, Buddhists, Hindus and followers of other faiths. As a Muslim country, we have long promoted a moderate and progressive brand of Islam. A brand that is consonant with our identity as a multiracial, multi-religious nation. We emphasise substance over form, ensuring that the tenets of administration are consistent with Islam. This means looking after the welfare of the people by ensuring good governance, efficient administration and the provision of critical social services. Our recipe has served us well - I dare say that although we cannot boast of a perfect society, we have succeeded in bridging the gaps between our various communities as successfully as any other country in the world.

18. Of course, we will have to face pressures from those who push a more conservative, more radical line of thinking. In the political arena, we will fight them at the ballot box and allow the people to choose which way of life they prefer. If the pressures manifest in a more sinister form - plans to violently overthrow the government, for example - then we will display zero tolerance. We will take firm steps to seek out and detain all and any kinds of extremism. The ways of tolerance and harmony, the very building blocks of the Malaysian way, will continue to be protected. Peace and stability has underpinned our growth thus far. It must be safeguarded to underscore our prosperity in the future.

Thank you.