

Keynote Address at Invest Malaysia Conference 2019

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Good morning and a very warm welcome to the 2019 edition of Invest Malaysia conference.

Distinguished guests; Members of the media; Ladies and gentlemen.

1. In less than two months, Malaysia will celebrate its first anniversary of the landmark 14th general election.

2. It was a very important election as it was an opportunity to bring an end to a corrupt Government. Now we are no longer known as nation of kleptocracy. I cannot imagine the disaster the nation would have been in if the majority of Malaysians did not rise to the occasion. We averted the financial disaster waiting to happen if the Ponzi scheme to cover the 1MDB hole was not discovered and reversed.

3. We have spent a good part of our first anniversary to plug the almost bottomless pit created by 1MDB. Even though the task has yet to be concluded and in fact, it will take several years to solve it, we have to move on to start developing the nation.

4. We have a lot of unfinished business. We have a nation to rebuild and to achieve that, we have to re-set Malaysia.

Ladies and gentlemen,

5. Our goal is clear – to be a developed nation in every sense of the word. It is a development that must benefit everyone, where prosperity is shared and growth is sustainable. We are committed to economic growth with social justice. I will share with you today on our progress and plans in meeting those objectives.

6. We can't develop if we don't grow our economy. We are committed to ensuring our policies are investor-friendly; to both foreign and domestic investors.

7. Economic policy priorities of the Pakatan Harapan Government had been deliberated in the mid-term review of the 11th Malaysia Plan through its six policy pillars.

8. Among them, the pillar on public governance reform is given the utmost priority aimed at restoring credibility and trustworthiness in public institutions.

9. Then, to ensure the economy remains resilient, the Government is implementing the following macro strategies:

I. Driving productivity at all levels to ensure sustainable and inclusive growth;

II. Promoting quality investment to spearhead economic growth;

III. Embarking on initiatives for industries to move up the value chain;

IV. Strengthening exports to improve the balance of payments; and

V. Emphasising a fiscal consolidation path to ensure sustainability in the medium-term.

10. Questions had been raised on where does growth comes from? Our growth focus in moving ahead are in the digital economy, high-tech and high-wage manufacturing, and services sector.

11. Foremost, the Government recognises the importance of the digital economy and the infrastructure required for it to grow. Both large and smaller companies need to embrace digital connectivity, use of data analytics and explore opportunities to build digital businesses. The Government will encourage and provide incentives to investments and collaborations in turning Malaysia into a hub for digital services and communications.

12. The Government is also encouraging Malaysian companies to enhance their capabilities in these areas by collaborating with multinationals in order to become global or regional champions. These businesses are increasingly becoming borderless and we need to look at building scale, which can only be achieved through collaborations within the country and with others outside.

13. To further strengthen Malaysia's economic fundamentals, industrial upgrading through the adoption of technologies is vital. It is in line with the National Policy on Industry 4.0 (Industry4WRD – Industry Forward) which we launched late last year. It focuses on encouraging the manufacturing sector to adopt smart manufacturing systems.

14. This policy outlines strategies and action plans covering financing, infrastructure, regulations, skills and technology to be implemented by relevant ministries and agencies in collaboration with industries to spearhead development of the manufacturing sector.

15. For the manufacturing sector, the Government will continue to attract high value-added, high technology and knowledge-intensive investment within the manufacturing sector to complete the value chain in the ecosystem of targeted industries.

16. We will focus on aerospace, chemicals & chemical products, machinery & equipment, medical devices and electrical & electronics industries.

17. The Government has identified the aerospace industry as one of the catalytic sub-sectors in the 11th Malaysian Plan mid-term review. We aim to become the leading aerospace nation in South East Asia and to be an integral part of the global market by 2030. Specific initiatives are being implemented covering industry facilitation, local supply chain development, competency development, research & technology (R&T), and international collaboration.

18. For services sectors, the focus will be on tourism, private healthcare and professional services, as well as retail and food & beverages. Next year is our Visit Malaysia Year 2020 and we want it to be a catalyst in driving the tourism industry in Malaysia.

Ladies and gentlemen,

19. We would like to see the private sector play a bigger role in contributing towards the Malaysian economy. The Government will also continue to welcome foreign investment from all countries. The focus is not about

which country the investment originates from, but it is about the value proposition of the ventures which have to bring balanced benefits to both sides. Fundamentally, the ventures must be commercially and economically sound and provide strategic advantages to our country.

20. We wish to re-iterate that Malaysia is committed to friendly economic ties with all our partners especially those with whom we have the strongest and closest links. We may have differences of views – as with Singapore and China – but let me tell you we see them as close partners. They are our top two key trading and investment partners. With mutual respect we will always find ways to benefit from mutual interests.

21. The Government Linked Companies (GLCs) are often said to crowd out the private sector. This is not the intention. Our desire is to have the GLCs play certain catalytic roles to support the economy. We would like to invite the private sector to join the GLCs in fulfilling some of national economic agenda.

22. However, it has always been said that no nation will survive without strong institutions. The rise and fall of nations depend heavily on the strengths of its institutions.

23. That is why the first order of the new government is to ensure our institutions which had been compromised, fixed and strengthened. Never again shall this nation go through the dark episode of the kleptocratic regime. A stronger check and balance on the Government should raise the trust and confidence of Malaysians and the global community.

24. Among others, we have formed a Special Cabinet Committee on Anti-Corruption, launched the National Centre for Governance, Integrity and Anti-Corruption Centre (GIACC) and the National Anti-Corruption Plan

(NACP), demand asset declarations and abolish the practice of issuing recommendation letters.

25. We have empowered the Election Commission and the Malaysian Anti-Corruption Agency. Discussions are in progress on transparency in political funding, strengthening the Parliament, the National Audit Department, reforming the electoral system and much more.

26. Restoring the dignity of the Parliament is important. Six select Committees have been established, which are essential for check and balance to the executive branch. These include the Budget Committee where parliamentarians and lawmakers can engage ministers on fiscal policies.

27. The Governance, Integrity and Anti-Corruption Centre (GIACC), has launched the National Anti-Corruption Plan on the 29 January 2019. The execution of the 115 initiatives in the Plan, will need the involvement of all Malaysians from all segments of society – from the Prime Minister to fund managers, analysts and all wage earners. Have a look at the NACP and you will discover how serious the Government is combatting corruption.

28. I must stress here that there is an important role for those in the investment community in helping eradicate corruption. And the least you can do is not to buy shares or make deals with directors or companies that are involved in corrupt practices.

29. On the Government's part, we have undertaken measures to ensure that there are no more active politicians appointed as Malaysian Head of Mission and in any listed GLCs.

30. We are also in the process of undertaking new initiatives which require amending the constitutions and certain Acts. They include;

I. Prime Minister's term is limited to two term, and the separation of the responsibilities of the AG and the Public Prosecutor. These two changes require amendments to the Federal Constitutions.

II. Reforms of the MACC whereby the appointment of the MACC chief commissioner will be done via Parliament Select Committee. Cabinet Special Committee on Anti-Corruption has given its approval and the MACC Act will be amended.

III. The Election Commission is reviewing the transparency and robustness of our election system, and they will present their findings and recommendations in two months' time to the Special Cabinet Committee on Anti-Corruption. The draft for Independent Police Complaints and Misconduct Commission (IPCMC) is almost finalised and we are in final discussions with AGC.

IV. To ensure transparency and budget integrity and budgeting process, it has been agreed that mid-year budget review will be undertaken, criteria for off-budget allocation should be scrutinised, and every expense on public money shall be recorded promptly and carefully monitored in accordance with the established financial procedures.

V. The Ministry of Finance is preparing a clear guideline on the criteria in the appointment of Chairmen and Board of Directors in GLCs and subsidiary companies. Only those capable, with integrity and high moral values will be selected to lead these entities. Those who in the wrong, will be removed. The Prime Minister's Office is also finalising the Guidelines on Remuneration of Directors and Key Senior Management of Government

Entities. We find that some of the remunerations package is obscenely high. From now on, rewards will be based on performance.

31. During my first stint as Prime Minister, through implementation of the “Look East Policy”, I wanted not only to secure investments from Japan or sending students to study there, but to learn from their work ethics, including to develop a sense of shame when failing to perform tasks. Hard work, honesty, and a sense of shame at failure will spur us to give our best.

Ladies and gentlemen,

32. While economic growth and institutions matter, the benefits to the people is equally important. We do know that a nation’s development is not just about its Gross Domestic Product or the Market Capitalisation of the stock market. It is about building a better standard of living for everyone.

33. We don’t want a thoroughly unequal society where capital owners take too much a chunk of national income, leaving the workers or low-income households with scraps. So, I urge all of you, to have a stakeholder mindset. Pay your workers better if you make more profits. We noticed that the pay for CEOs has been increasing multiple folds, but workers’ wages had been slow on the rise if not stagnant. This is not right.

34. Shared prosperity means that everyone benefits and such a situation is conducive for growth and stability. We cannot have one group succeeding, dominating or monopolising everything, while others lag behind. The gap between the haves and have-nots must be narrowed. If disparity is left unchecked, it will create tension and hostility, and eventually lead to confrontations.

Ladies and gentlemen

35. To restore credibility in the economic and financial policies while reducing our vulnerability, the immediate challenge is to reduce debt and liabilities and rebuild our fiscal space.

36. We are introducing the Fiscal Responsibility Act to ensure public sector accountability in presenting the accounts and balance sheet of the country – just as the private sector faces criminal liability for fiddling and cheating with the accounts of a company.

37. A debt and liability management committee has been formed to look at the Government's balance sheet and implement strategies to reduce debt and liabilities, including Government guarantees. The reckless utilisation of off-balance sheet instruments by the previous Government has led to a massive build-up of Contingent Liabilities to the Government, some already materialising. This committee is currently undertaking measures to strengthen the overall debt management framework.

38. The strategies, among others, include greater risk control parameters on issuances of Government Guarantees, better market access and identification of opportunities on potential asset monetisation, which means mature unlisted government entities may be listed in the stock market, as well reducing some of our GLCs shareholdings in the public-listed companies.

39. The key guiding principles for monetising any of our assets is that the disposal or monetization must never be done at fire-sale prices, and any disposal of shares, monetisation of assets, auctions or other measures will be done in an orderly manner and communicated cohesively across all implementing entities. There shall be no disruptions to the capital markets, confidence to the financial markets, ratings environment, and economic growth.

40. In term of overall fiscal management, the Fiscal Policy Committee (FPC), chaired by the Prime Minister, are monitoring key developments closely to ensure that our fiscal consolidation target will remain on its path. We are confident that we are on track.

41. The tax reform committee (TRC) are also in the final process of finalising the proposal in enhancing tax revenue. The proposal will address measures to reduce tax leakages, how to access the underground economy, enhancing tax administration, and finding new sources of revenue.

42. We are also rationalising tax incentives for investments, as the current administration and governance structures of investment incentives is highly fragmented, costly, and ineffective.

43. Malaysia currently offers over 130 types of incentives administered by 32 Investment Promotion Agencies (IPAs), with varied roles and responsibilities, and several approving agencies. Our proposal entails holistic and simplified tax investment incentives that would be attractive for future investments.

44. Incentives will be granted to desired sectors and types of investment that the country needs, and tie the incentives to specific KPIs. Agencies involved in granting and approving tax incentives will also be streamlined.

45. Corporate tax rate is already competitive. For this year, corporate tax rate will be reduced to 17% from 18% for SMEs with paid capital below RM2.5 million and businesses with annual taxable income of below RM500,000. For large companies, while the tax rate is slightly higher, the effective tax rate is less than 10% due to these incentives.

46. There will be no new tax for this year, except for sugar tax which we have already announced. It is delayed a bit as we want to ensure that the mechanism is effective to primarily meet our health objectives. Beginning next year, the government will use the revenue collected from this tax to provide free and healthy breakfast programme for all primary school children. We want our kids to be strong and healthy to perform in school.

47. We are currently rationalising our expenditures. For instance, the social protection and assistance programmes are being streamlined. We have over 110 programmes under 21 ministries and agencies. The current system is too fragmented, less targeted to households needing it most, and does not promote upward social mobility.

48. By consolidating and connecting these programmes, it allows us to create a more comprehensive social protection ecosystem. Coupled with effective monitoring and evaluation processes, this will ensure that the Government is getting the most out of them.

49. A social well-being council has been established and led by the Deputy Prime Minister. It will become a policy-setting centre for this important agenda. We want to create a safety net for those who are vulnerable, which will subsequently help them bounce back out of their vulnerabilities and move on to improve their social mobility.

50. The recently formed National Economic Action Council (the NEAC) has been given the mandate to act swiftly to address pain points and to identify quick wins to stimulate economic growth with which we can improve the well-being of the Rakyat.

Ladies and gentlemen,

51. In ensuring the sustainability of our economy, we must increase productivity. This depends on quality workforce. Quality workforce depends on quality education. We want our human capital that is e-Ready and e-fit.

52. Our vision is to produce quality, future-proof and values-driven graduates through three main outcomes – firstly, the emphasis on values in education; secondly, increasing quality across the system and thirdly, more autonomy and accountability.

53. In the last 10 months, key steps have been taken towards these ends. They include reforming the Curriculum where the national civic and religious education curriculum are currently under review to ensure values are practiced and inculcated. In other words, let's make national schools great again.

54. We have abolished exams for Standard 1 to 3 to make way for a more holistic development of each child.

55. Science, Technology, Engineering and Mathematics or STEM graduates will be increased by making it more accessible, experiential and meaningful. So is the development of a single Technical and Vocational Education and Training (TVET) system to ensure standardisation and industry-driven.

56. The government has also amended the Universities and Colleges Act (UCA) to give more freedom for students and cleaning up the procurement process to remove leakages and potential for corruption.

57. Moving forward there will be bigger reforms expected after the Special Taskforce to review in entirety our education policies, from preschool to

tertiary, complete their findings next month. The reforms, among others, will touch on several key areas: English language, quality of teachers and the employability of graduates.

Ladies and gentlemen,

58. Pakatan Harapan was formed to save Malaysia from a kleptocratic Government that siphoned and squandered tens of billions of ringgits from the people. Against all odds, we won the mandate from the people during the May 9th national polls last year.

59. We are now in the 10th month of our administration and we are fully aware of the feelings of the people on the ground.

60. We also now know the extent of the damage the kleptocratic government had done to the country. It is not an exaggeration to say that we are unearthing new damages almost on a daily basis.

61. We have taken many steps to stop the rot and to bring the country back on a strong footing. We have made many changes and have introduced many reform measures, some of which I have shared with you earlier.

62. With all these in place, it should be the impetus to the economy and the capital market in the long run.

63. Unfortunately, not everybody is informed or aware of these changes. We have to do more to explain them.

Ladies and gentlemen,

64. I am upbeat and excited about the initiatives that we have and plan to take. Amid some of the short-term remedies, our efforts are for the long haul.

65. With the economy fixed and the leadership well in motion for a smooth and orderly transition of power when the time comes, Malaysia is well poised to regain its rightful position as an Asian tiger. We are a democratic country, free and respected, and we want to regain our integrity. With your help and support, Malaysia will prevail.

66. It is my hope that during this Invest Malaysia conference, you will have the opportunity to reassess your views of our country. We have embarked on a journey to be a better nation and we need everyone's support in this important journey.

On that note, I wish you a productive conference.

Thank you.

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