

KEYNOTE ADDRESS AT THE ASEAN BUSINESS AND INVESTMENT SUMMIT (ABIS) 2018

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ASEAN BUSINESS AND INVESTMENT SUMMIT (ABIS) 2018

1. It is a pleasure to be here at the ASEAN Business and Investment Summit this afternoon. Firstly, I would like to thank the organisers for inviting me to deliver this address.
2. Having had the opportunity to see the growth of Asean from the very beginning in 1967 with its five founding members and participated actively during my first 22-year term as PM of Malaysia, it is clear that the grouping has succeeded far and beyond its original objectives. Not many other regional groupings have succeeded.
3. ASEAN has made the integration of countries with different levels of economic development, political systems, ethnicities and cultural backgrounds an achievement worthy to be told and shared. These remarkable achievements in economic integration and cooperation registered over the past years were not achieved merely by chance but through design, through sheer hard work,

commitment and above all, dedication. In many ways these are reflections of the values and determination shared across Asean nations by its leaders and people.

AEC is a Journey

4. To appreciate the strides made by this regional grouping, one has to explore ASEAN's economic journey from modest goals of a preferential trade agreement (PTA) in the 1970s through the establishment of the ASEAN Free Trade Area (AFTA) in 1992. This was followed by the 2015 ASEAN Economic Community (AEC) Blueprint and the 2025 AEC Blueprint. ASEAN leaders have always recognised that collectively ASEAN can do more for the region's economic success than as individual states. After more than 50 years, I still hold the same belief that ASEAN needs the collective strength of the AEC probably more now than ever before.

5. One key question underpinning regional economic integration is whether ASEAN's past experience and achievements are enough to sustain the attractiveness and competitiveness of the regional grouping. Rapid technological advancement places tremendous pressure on the way we do business. Governments must work more closely with the private sector to alleviate some of the difficulties that they face. A balanced and progressive approach is needed, taking into account national priorities as well. In doing so, I am not advocating Government adopting inward economic policies but rather to work together in facilitating businesses.

6. ASEAN cannot be reactive. It has to be proactive when it comes to setting regional integration of economic policies that will bring benefit to all 10 nations. We are fully aware of the different levels of economic developments within the region and perhaps the time has come for us to relook at the lowest common denominator approach to integration. Rather than doing the barest minimum, we could allow flexibility in adopting certain policies so that countries that are ready

to move fast will be allowed to do so first but to always be mindful of the constraints of the others.

Trade and Investment

7. We need foreign direct investments to create quality jobs in the region. While we encourage foreign direct investments, we should not allow ourselves to be mainly the consumers of foreign goods and expertise. We should develop our own capacities to produce goods and services for ourselves and for export. We should follow on the footsteps of the successful Asian countries. We need to improve our infrastructures and strengthen economic connectivity and make full use of the 640 million people of ASEAN as a domestic market. Although we may be poor, but numbers count in the strength of markets.

8. Regional integration must be accorded priority to grow intra-regional trade and create opportunities for the many SMEs in the region to grow their businesses and be part of the regional and global value chains. Intra-regional trade intensity has to be raised. Since the formation of AFTA, intra-regional trade has hovered around 22 to 26%. In Malaysia's case, our trade with ASEAN is around 27%. Trade intensity in other regional groupings is much higher, and in the case of EU, it is around 60 to 70%.

9. ASEAN's own agenda must aim to boost intra-regional trade from the current level that has been stagnant at around 25%, to over 30%. This is far below what the EU and NAFTA has achieved, which is 63% and 50% intra trade respectively. Achieving over 30% intra-trade in ASEAN is seemingly an ambitious target but still all in ASEAN must pursue and embrace this. Raising intra-regional trade does not mean ASEAN is inward-looking but rather opening up opportunities for SMEs as well as exploring new possibilities. The target can be realised as we can see that intra-regional investments are growing. From 5% some 20 years ago,

intra-regional investment is now close to 20%. This shows great promise and it must be capitalised to benefit ASEAN SMEs.

10. Investors look to several factors in deciding where to invest. Market size, political stability, trade facilitative and progressive regulatory framework, sound infrastructure and supply of talented human capital, are among some of these factors. Accordingly, ASEAN needs to focus on creating an ASEAN-wide entrepreneurial community by strengthening human resources capacity in the region. By equipping our people with strong knowledge of information technology and artificial intelligence, we do not need to look beyond ASEAN for our pool of skilled manpower.

11. The trade tension between the two world powers is bound to create a "domino" effect that will affect trade reactions and will be a reason for other developed countries to adopt protective measures against developing countries including the ASEAN countries. This includes the imposition of technical barriers to trade (TBTs) such as quotas, embargoes, sanctions, levies and other restrictions to regulate markets, consumer protection, and preservation of natural resources as well as discrimination against imports in order to protect big domestic industries.

12. The rise of trade protectionism, resurgent nationalistic movements and inward-looking policies also seems to be slowly taking place within ASEAN itself. However, this is not the time to close our doors by invoking trade protectionism measures but instead we should be actively engaged in finding amicable solutions and resolving trade issues through multilateral dialogues such as between ASEAN countries. It is now that we must continue to expand our intra-trade and deepen the economic integration within ASEAN.

13. As for Malaysia, we will continue to actively express our concerns over rising trade tensions and risks of escalating protectionism at the various WTO bodies as

it may impact all of us in the medium to long term. The Malaysian Government is ready to take the leading role through our active participation in the negotiations at the WTO level to ensure that the WTO remains a rules-based, open, and non-discriminatory platform for meaningful progress towards the development agenda of the developing countries and Least Developed Countries (LDCs). For Malaysia, free trade must also mean fair trade, taking into account the economic levels of all trading partners. This is to ensure that trade relationships would not descend into new forms of colonialism, and to prevent trade being used as weapons to dominate. As far as Malaysia is concerned, we would be happy to be involved in a trade pact that provides benefits to the developing countries, especially in integrating companies from developing countries and LDCs into the global supply chain.

Moving Forward

14. The world is currently in the midst of technological transformation that will fundamentally change the way we live and work. It is difficult to predict precisely how this transformation will impact different industries and countries. However, we know that this transformation is unlike anything we have seen before due to the sheer pace and depth of these changes. Many see these changes as an ushering of new era of growth, change and opportunity. The ramifications for manufacturing firms is forcing nations and governments to re-evaluate how the manufacturing industry operates and contributes to economic growth. Nations are now increasing their focus on developing advanced manufacturing capabilities by investing in high-tech infrastructure and quality education. These are done by facilitating the transformation of the manufacturing industry and its firms, advancing to the next technology frontier and raising their economic wellbeing.

15. Today, the fourth industrial revolution is the new buzzword. In reflection, the last three started with the advent of steam and waterpower that enabled

mechanisation of production processes, followed by the electric power and mass manufacturing techniques. In the third, it was Information technology and automation. Now, the widely taunted fourth industrial revolution is clamouring on a range of new technologies where there is no clear distinction between physical, digital and biological spaces. The fourth industrial revolution transforms how products are designed, fabricated, used and operated as well as how they are maintained and serviced.

16. It will also transform the operations, processes, supply chain management, and energy footprint of factories. It is imperative that ASEAN is not left behind in this Industry 4.0 wave and must strive to move along and keep pace with these latest developments. Malaysia has recently launched our National Policy on Industry 4.0 and will be more than happy to share it with our fellow ASEAN member countries.

17. ASEAN economies must be able to participate in these megatrends if their futures are to be assured. Threats to the value of their labour, skills sets, FDI, income and wealth distribution and ultimately governance systems are even now growing, and likely to become more critical in the future. The ability of ASEAN economies to participate in the 4th Industrial Revolution depends critically on their capacity to innovate in the future. For Malaysia, I am pleased to state that we just launched the National Policy on Industry 4.0 on 31st October 2018 that will drive the way forward for Malaysia's manufacturing industry.

18. Besides Industry 4.0, we must also keep abreast with the other emerging global trends. Financial technology or Fintech is beginning to gain stronghold in our region with investments rising about 33% from 2015 to USD252 million in 2016, as reported by Ernst & Young. The rapid adoption of technology, high levels of mobile usage and rising rates of internet penetration, coupled with increasingly urban, literate young population, as well as SMEs under-served by traditional banking systems, have created a demand for Fintech solutions.

Governments should be more receptive by embracing change and working out regulatory mechanisms to include these new trends into the current financial environment. Along with this, the need for financial sector integration that can facilitate SMEs in their regional pursuit of doing business should not be forgotten.

19. Despite new frontier challenges that we are facing, we must also be alert and firm with fundamentals such as good governance and the fight against corruption, without which, the cost of doing business in our region will escalate and will undermine our economies regardless of all the latest megatrends that we successfully embrace.

Private Sector Recommendations

20. The businesses are our main stakeholders and we need to continue improving the environment for the businesses to prosper. I am glad to see that ASEAN now is actively engaging the private sector. I understand that the ASEAN Business Advisory Council (ASEAN-BAC) has submitted many recommendations on areas where they want the governments to move fast and expand cooperation to leverage on the huge opportunities available in the region. One of which is to tackle several of the long standing issues that have stalled deeper integration efforts until now, including poor implementation of liberalisation commitments.

21. I note that ASEAN-BAC has been pushing for trade facilitation and opportunities offered by low hanging fruits such as speeding up cross-border shipments and reducing bureaucratic processes in order to boost trade volume and lower the costs of doing business. I also commend the proposed collaboration between ASEAN-BAC and Economic Research Institute for ASEAN and East Asia (ERIA) to formulate national level priorities for the reduction of non-tariff measures to support 10% reduction in trade costs by 2020. These are indeed initiatives which need to be accelerated in order to see higher rate of

growth within ASEAN in the next few years. Malaysia is undertaking structural reforms to ensure we remain competitive. Among the measures to be undertaken includes the formation of a Committee jointly-chaired by both the Ministers of Finance and International Trade and Industry to improve regulatory framework on trade facilitation and taxation.

22. Regional integration should not be viewed as an end in itself but rather a means to respond to the aspirations of people in the region for a better quality of life, addressing poverty and bring about improved wellbeing for the people in the region. Regional integration must promote economic transformation, industrialisation and diversification of economy in the region. Besides reducing barriers to trade, investments and services, we also need to pay closer attention to improving regional connectivity i.e. air and sea transport, e-commerce, telecommunication (for example ASEAN roaming services for mobile users), and financial integration.

FTAs and RCEP

23. As ASEAN works to make it easier, faster and cheaper to do business in the region, ASEAN needs to continue to expand its market by engaging in FTAs with its key Dialogue Partners. As such, on the external front, we must work to ensure ASEAN+1 FTAs and the Regional Comprehensive Economic Partnership (RCEP) Agreement that consists of 16 countries bring additional benefits to ASEAN as well as its partners. An integrated FTA of 16 countries, when realised, will be a huge market in its own, representing half of the global population and over 40% of global trade.

24. The South East Asian region may claim to be the fastest growing economies in the world. The completion of RCEP negotiations would validate ASEAN's role in the economic integration of this region as well as global trade and investments. Both the AEC and RCEP can work in tandem to provide a good template for the

rest of the world on moving forward towards inclusive and dynamic integration among countries of widely varying levels of development but with common aspirations for robust development and deeper economic engagement with one another and the rest of the world. ASEAN Dialogue Partners should complement ASEAN and acknowledge that some ASEAN countries would require assistance and flexibility in meeting the higher market aspirations of the developed economies. What we require is fair and mutually beneficial trade and investment cooperation rather than the dominance by anyone.

25. Some 65% of ASEAN's trade is with RCEP countries. We must therefore leverage on the existing high level of trade linkages. We must not just accept trade and investment measures that may be unfair to ASEAN nations, and ASEAN economic integration. RCEP must facilitate not only the interest of big firms but also the SMEs in the region. RCEP must see an enhanced role for SMEs to leverage and move towards becoming middle-sized and large-sized companies.

26. ASEAN is a region full of opportunities, blessed geographically with natural resources and endowed with hardworking and resilient people. Let us leverage on our strengths and work towards the global challenges not as ten individual countries, but as one regional power that is ASEAN.

Thank you.

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