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Distinguished guests,

Ladies and gentlemen,

1. It is a great honour and pleasure for me to be here with all of you this afternoon. I would like to record my deepest appreciation for the efforts of the National Economic Action Council (NEAC) and Khazanah Nasional in jointly undertaking the task of organising this regional economic forum. I am happy to note that the Malaysian private sector continues to work with the government in promoting business and economic activity internationally, which in turn builds bridges and reinforces ties between Malaysia and our friends around the globe, in this particular case China and India.

Ladies and gentlemen,

2. Malaysia should be a natural beneficiary of liberalisation. Measuring openness by the trade-to-GDP ratio, we are one of the most open economies in the world. But as more and more economies liberalise their trade regimes, we need to continually innovate and boost our own efficiency if we are to continue to benefit from the fruits of openness.

3. In a globalised era, the winners will be those who are open to outside influences, but are equally capable of leaving their own imprint on the world. While we have been blessed in that we have always punched above our weight internationally in economic and diplomatic terms, the fact remains that we are a small economy, and we therefore need to be nimble and clever in finding our niches in this fast-changing world. All late-comers to development and industrialisation must begin as imitators, adaptors and adopters of others' technology, ideas, products and brands. But now that we have achieved what economists term full employment, and lifted most of our people from poverty, want and ignorance, we can begin to lift our eyes toward the greater prize of influencing the broader world, creating products that are not only made by Malaysians but are distinctly Malaysian, and building on the creativity of our people to create brands, products, ideas and technology that are recognisably our own.

4. We will have to focus on specific niches where we can specialise and have natural advantages in the global supply chain. Success in this era of globalisation depends on steadily enhancing productivity and competitiveness. Most measures of competitiveness published by reputed international bodies still rate Malaysia behind more developed Asian countries such as Singapore, Hong Kong and South Korea, but ahead of other developing countries such as China, India and Thailand. But these countries are getting their act together too – as are Brazil and Argentina, Mexico and South Africa – so we can neither rest on our laurels nor stop striving to become ever more efficient goods producers and service providers.

Ladies and gentlemen,

5. Many see China and India as potential economic threats in the years ahead. I believe that China and India, with their huge and dynamic populations and rising skill levels, will inexorably become the world's economic giants. But rather than thinking of them merely as competitors, we should use our common background and close relationship with these two countries to complement and benefit from them.

6. But in order for our companies to capitalize on China's and India's growth, Malaysian companies must first acquaint themselves fully with their needs, demands and constraints. We must always bear in mind that many other countries are looking to both countries for the same purpose. Malaysian companies must be nimble enough to plug the existing and future gaps in China's and India's resource supply chain. Such a commitment is crucial for Malaysian companies to succeed in both countries, as fast growing economies inevitably run into potential shortages of certain production inputs, and need to constantly upgrade parts of their infrastructure, both physical and human.

Ladies and gentlemen,

7. In the eight years since the 1997 Asian crisis, Malaysia has 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 than in the pre-1997 period – thereby reducing its contribution to economic growth, but also leaving a large gap between our national investment and savings rates that is reflected now in a huge current account surplus of 14% of GDP. In addition, FDI inflows have rebounded to about 4% of GDP. This has resulted in 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 in the medium term.

8. In our next phase of economic development, Malaysian corporates will increasingly need to become MNCs themselves, building judicious international networks of assets. Petronas has already led the way by internationalising over the past decade and I am pleased to note that Khazanah Nasional has recently ventured into building economic linkages with India and China, as well as to other countries like Indonesia, Singapore and Saudi Arabia.

9. The experience of Korea and Japan shows that one pre-requisite to building a domestically-anchored MNC is to have vigorous competition at home, so that the local company builds up both the skills and the sharp elbows necessary to withstand competition. As an example, in the telecommunications sector, hectic competition in the early years prepared Malaysian telecommunication companies for external forays. Similarly, banks and brokers have also faced competition not only from domestic players but also from a large number of foreign players within their sectors (unlike in Korea, for instance, and China). Consequently, they are better-prepared to venture overseas than their Korean counterparts were prior to 1997, and their Chinese ones are today.

10. As our companies venture overseas, we will need to develop the expertise to

internationalise successfully, building a deeper reservoir of culturally-sensitive, internationally-aware management executives. This cannot happen overnight, but the large pools of Malaysians educated overseas in past decades (who have continued to live abroad) represent one good source of talent that we should be able to tap. A second source of international expertise will come from the rapid growth of our own internationally-competing services – including tourism, financial services, transportation (including shipping lines), and educational institutions. Here programs like “Malaysia My Second Home”, health tourism and educational tourism will help us build modest pools of multiculturally-attuned skilled workers whose talents can later be deployed in the service of our externally-oriented companies.

11. In internationalising our corporates, we can also use the networks that are part of our historic inheritance. Our multi-ethnic heritage gives us entrée into Indonesia, China and India – which, by virtue of their demographic weight, are bound to be three key pillars of Asia’s and the world’s economic future. With Indonesia, we share a language and ethnic roots that are common to both countries’ majority-communities; a third of our population is Chinese, with strong links to the dynamic coastal parts of China’s economy; and with India, we also share some ethnic links and common roots for our languages, which should make Hindi and Urdu relatively easy for us to learn. Islam gives us unique ties to the Arab world, central Asia and south-west Asia and north Africa, and our growing inflows of tourists from OIC countries are helping to deepen those links. And finally, because we are an English speaking nation, we can communicate effortlessly with the rest of the world. In short, we are ideally positioned to be the interlocutor between East and West, North and South.

Ladies and gentlemen,

12. Asia today is fully integrated as part of the global supply chain. By working together, Asian leaders can ensure that the region will continue to play a pivotal and constructive role in the global economy. Malaysian companies should seize the opportunity to export their goods and services to China and India, take advantage of the huge market available, and participate in the countries’ development process by directly investing in them, occasionally in collaboration with local players.

13. It is predicted that by 2050, China’s and India’s economy would become two of the three largest in the world. India’s huge middle class and China’s even larger population provide boundless opportunities for trade and investments, particularly in the consumer-related and infrastructure sectors.

14. As China increasingly emerges as the preferred destination for manufacturers -- especially for assembly of final products and most labour-intensive manufacturing – we will strive to remain suppliers of intermediate goods that embody more skills and capital. Our political stability – coupled with our proven record of successful leadership transitions – provides a significant competitive edge over China in the medium-term. We shall continue striving to retain our edge in skills, discipline and focus.

15. It is inevitable that China will initially be primarily a competitor for FDI and technology. Of all the FDI that flows into East Asia (excluding Japan), China now receives the lion’s share of 50% compared to 20% for ASEAN countries. With China’s emphasis on investment in human capital and technology-upgrading through FDI, China has within the short span of a decade, moved up from labour-intensive low-

end products to high-end capital intensive industries such as semi-conductor foundries. However, I am pleased to note that we in Malaysia have been receiving FDI inflows equivalent to 4-5% of GDP in the past three years, slightly larger than China's FDI inflows relative to the size of its own economy.

16. As China adapts to the latest technologies, improves its R&D and learns new production techniques, we can expect a widening and diversification of China's role in the region. China remains attractive as a hub for high technology and low-cost manufacturing, as well as a key consumer of energy and basic commodities. Whilst China has become a manufacturing hub for global markets, the potential for developing local infrastructure and businesses is also significant due to rising local demand. An ASEAN-China Free Trade Area by 2010 should greatly diversify and broaden opportunities for trade and investment. Currently between 60 and 70% of bilateral trade between Malaysia and China comprises of E&E products, palm oil and chemicals.

Ladies and gentlemen,

17. India represents that other huge opportunity that we cannot ignore. As India increasingly emerges as the preferred provider of software and IT-enabled services to the world, we have the opportunity to fill important niches in those market sectors – since we too have a large English-speaking population, and a telecommunications infrastructure that is better than India's. Here too, we will strive to ensure both relative strengths – in telecoms and English-speaking – are developed further in order to enhance our competitiveness further.

18. India is best-known around the world for the depth of its skills in the broadly-defined "software" of economic development,, relating to creativity, innovation and enterprise, and in ICT particularly. To reach international standards of excellence in the broader economy, the Indian government has embarked on a comprehensive program of infrastructure or 'hardware' investment and development, creating implicit opportunities for Malaysian companies in areas in which we are especially strong.

19. Our construction companies have taken the lead in India's highway-development programme, acquiring a market-share of over 21%, and have also won contracts to build an international airport in Hyderabad. We will continue to encourage our construction and infrastructure companies to deploy their expertise profitably in India and other emerging economies. While numerous bilateral opportunities have been created in the fields of infrastructure, engineering, ICT, and human resources, there is considerable untapped potential in healthcare, education, biotechnology and business process outsourcing (BPO). I urge our companies to explore these further.

Ladies and gentlemen,

20. Our own domestic economy also presents significant opportunities for partnership, investments and growth. Many of the industries that China is now focusing on are precisely those in which Malaysia has more than two decades of experience – such as semiconductors, computer peripherals, consumer-electronics and electrical appliances. We have a considerable depth of skills and managerial ability in these areas, and there is therefore a natural complementarity between our skills and those that China is seeking. We encourage MNCs and our own corporates to invest in the intermediate industries that can exploit Malaysia's long-standing base

of skills and management expertise in electrical and electronics products.

21. Similarly, our strong English-language skills and base of creative people – coupled with top-class infrastructure embodied in the Multimedia Super Corridor (MSC) and elsewhere – should make us a natural partner for India's software and business process outsourcing (BPO) companies as they seek second homes in their pursuit of Asian and global markets. Indeed we are already the third-largest BPO hub in the world, and the quality of our infrastructure – and continued output of young and eager graduates – should ensure that we are able to play an increasingly important intermediating role in software and BPO between India and China on the one hand and developed economies on the other.

22. Among consumer-related sectors, the broad services sector is one in which Malaysia is becoming increasingly competitive. Our strong fiscal position in the 1990s helped us create First-World physical infrastructure, while retaining a cost structure found only in the Third World. Malaysians have always ventured overseas, for tourism as well as for study. But our large deficit in services trade – both on account of students' overseas fees and the remittances of profits and royalties by foreign companies operating in Malaysia – are being gradually offset by the inward earnings generated by our rapidly-growing services sector.

23. We have identified three areas in the services sector, namely education, health, and tourism, as the flag bearers for our service industry. One spectacular manifestation of our success in developing our broad services sector is the enormous increase we have seen in visitor arrivals to Malaysia. Our foreign visitor arrivals have leapt from 5.5 million in 1998 to 15.7 million in 2004 a record unequalled in the region. Tourism not only contributes to our respective economies, but also enhances familiarity and understanding between peoples from Malaysia, China and India.

24. As an example, last year alone, more than half a million Chinese tourists have visited our country up from 351,000 in 2003. However, a recent NEAC study found that arrivals from China have declined approximately 49% year-on-year for the first half of 2005. Some of the reasons for this decline are beyond our control, such as China promoting its own domestic tourism sector and the effects of Tsunami. Given the recent negative publicity and concerns regarding tourist safety, difficulties in entry and unscrupulous travel agents, the government is undertaking a concerted effort to remedy these concerns as a matter of utmost priority.

25. According to a new study by UNESCO and the Organization for Economic Co-operation and Development (OECD), more students than ever are seeking higher education in middle-income countries, where tertiary enrolment has increased by 77% over the past decade. This trend augurs well for Malaysia as we are positioning ourselves as a center for quality education. In 2004, more than 26,000 foreign students from nearly 100 countries opted to study in Malaysia, generating export revenue of about RM778mil. It is interesting to note that more than a third of these foreign students are from China. These students have chosen to enrol in various educational programs in Malaysia because they know that Malaysia offers high-quality, value-for-money education. I am pleased to note this current upward trend, and it is my sincere hope that this pattern will strengthen in the years to come.

26. The healthcare sector in Malaysia offers a wide range of specialist services and is equipped with state-of-the-art medical facilities and equipment. Business visitors or ordinary tourists can take advantage of their time in Malaysia to receive dental

treatment, health screening, or cosmetic surgery. Malaysian hospitals treated almost 130,000 foreign patients in the first nine months of last year, generating an estimated RM65.5mil in revenue. With improvement in living standards in China and India, many people from these two countries would demand better medical care in modern hospitals, as they will be able to afford it.

Ladies and gentlemen,

27. As China and India grow and aspire to become international economic powerhouses, this will provide additional leverage for Malaysia to achieve our vision of fully developed status by the year 2020. We should be competitive and yet cooperative with the two emerging economic giants in facing globalisation and seizing the opportunities that are available to us. Some Malaysian companies have already made great inroads in China and India and I am glad some of them are here today to share their experience with us.

28. Let me conclude my remarks by reminding us all that Malaysia's multi-ethnic population provides us unique strengths that will enable us to capitalise on the opportunities arising from the rapid growth of China and India. We have more Indians than any other country outside the Indian sub-continent, and a larger population of Chinese than any country outside Greater China. Free-trade agreements with China and India will help to formalize and institutionalise our network of relationships with the nations with which we share ethnic kinship – while retaining our traditional links to the western world that have enabled us to remain at the forefront of globalisation.

29. We are on the right path and I am confident that with initiatives such as this forum today, we are laying a firmer foundation for national growth and success for years to come. I hope that today's forum will explore new ideas in making us more competitive globally. I wish you every success in your deliberations.