

DATO' SRI MOHD NAJIB BIN TUN HAJI ABDUL RAZAK
PERDANA MENTERI MALAYSIA
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KHAZANAH MEGATRENDS FORUM 2012

"THE BIG SHIFT - TRAVERSING THE COMPLEXITIES OF A NEW WORLD"

Ladies and Gentlemen,

1. Let me congratulate Tan Sri Azman and the team for organizing the 8th Khazanah Megatrends Forum.
2. From ambitious beginnings, it has evolved into an opportunity for global and local thought leaders to gather and share their views about the path ahead.
3. It is not just a series of presentations, delivered before a mute audience; it is an experience that celebrates knowledge and knowledge sharing. So it is my great pleasure to be here today, in the company of some of world's most enquiring minds.
4. I was made to understand that all of you had a very beneficial deliberations. The theme 'The Big Shift – Traversing The Complexities of a New World' indeed is brilliant, given the dynamics of global economy today.

Ladies and gentlemen,

5. The global financial crisis 4 years ago still remain as a significant event to global economy.
6. Let me share my personal experience with you today. In October 2008, the Dow Jones had just come out of the worst week in its history. In America and Britain, incredible sums had been committed to stabilising some of the biggest names in global finance.
7. A few months later, I had the privilege of being appointed both Prime Minister, and Finance Minister. Let me tell you: it was an interesting time to find yourself at the helm of an emerging economy!
8. In many ways, we were fortunate: we had been there before. The Asian economic crisis in the late 1990s had already caused us to take a good hard look at the structure of our financial systems.
9. Our response to that crisis – better governance, capitalisation and liquidity – prepared us well for the shocks to come this time round. We were better protected against this credit crunch, having suffered one before.
10. But back in 2008, our continued prosperity was not certain. With demand dampened by the downturn in household spending in consumer countries, producers – such as Malaysia, home to a thriving electronics manufacturing sector – were exposed. And the recession itself has affected the commodity markets; prices and demand remain volatile.
11. Nor has the threat of contagion been wholly contained, either. Our economies are more closely linked than they were in 1997. And with the opening up of markets and the emergence of high-frequency trading, the potential for regional shocks to spread fast, far and wide is greater than ever.
12. The risks still remain. But, thankfully, the Government's successful management of the economy meant that Malaysia was fortunate to emerge from the credit crisis in a position of relative strength.

Ladies and gentlemen,

13. This year, growth is expected to remain strong, at between 4.5 per cent and 5 per cent. Next year, our GDP is set to surpass a nominal RM1 trillion for the first time. Unemployment is low – less than 3 per cent - and our banking system is in good shape.

14. This strength is what allowed the Government to deliver a budget last week that was responsive to people's needs, but also fiscally responsible. We made a commitment to cut the fiscal deficit from 4.5 per cent to 4 per cent next year, with a medium term target of 3 per cent by 2015.

15. But the Budget was not just about current fiscal spending targets: it was also a budget for the future. It looks to address some of the questions that this conference has posed – how Asian economies can remain competitive, secure more investment, and capitalise on their comparative advantages.

Ladies and gentlemen,

16. As a recent World Bank report noted, '...with the global slowdown expected to continue, East Asia and the Pacific needs to reduce its reliance on exports and rebalance towards domestic demand, investing in productivity increases'.

17. That is why, to help our industries thrive in a closely connected global economy, Budget 2013 commits more than RM2.8 billion to projects that will drive innovation and increase productivity.

18. Sectors of strategic interest – like nanotechnology, biotechnology and aerospace – will be supported with funding for academic research.

19. And to make sure more of Malaysia's research makes the journey from the blackboard to the boardroom, we strengthened the tax incentives for the commercialisation of public research.

20. To help new businesses get off the ground, we made investments by 'angel investors' tax deductible.

21. And to give Malaysia's small and medium sized enterprises – often the engines of growth and employment – a helping hand, we created a new scheme to allow them to use intellectual property rights as collateral for financing.

22. These policies are designed to do two things: improve the productivity of our businesses, and encourage innovation.

23. Supporting innovation is one thing, but that innovation must take place in the right environment – where businesses have access to capital, and investors have the confidence to deploy it. Local and foreign investment is vital to our model of sustainable economic growth; so we are doing more to encourage it.

Ladies and gentlemen,

24. To stimulate the capital and equity market, the Securities Commission will provide a new framework on AgroSukuk.

25. To encourage SMEs, the budget provides a RM1 billion under the SME Development Scheme.

26. And the budget also proposes a group insurance coverage scheme for hawkers and owners of small businesses registered with the Companies Commission.

27. Right across the economic spectrum – from rubber and herbs to Islamic finance – we are putting

in place the measures to spark, encourage, and sustain investment.

28. And we are following this up with a commitment to improving the education of our people – and the skills of our workforce. For if there is a global shift to the East, Malaysian workers must be able to compete with the very best in the world.

29. Twenty one per cent of the budget - some RM39 billion – is therefore allocated to the education sector, including RM500 million to improve teaching in core subjects such as Languages, Science and Mathematics.

30. And to help align students' skills with the future needs of industry, RM3.7 billion is allocated to train students in technical and vocational fields.

31. These are real investments in our human potential. They will make a difference not just this year, nor the next; but over the course of generations to come.

32. So when it comes to encouraging innovation, securing inward investment, and educating our workforce, I believe the Government's economic programme is one that is well-designed to meet this century's challenges and uncertainties.

Ladies and gentlemen,

33. One such uncertainty is the question of our role in the region; and our region in the world.

34. I understand one of the theories discussed at this conference is that East and West have exchanged roles – in crude terms, the producer is now the consumer, and vice versa. There has been a real and sustained economic pivot from West to East.

35. Well before this hypothesis became popular, we had seen change coming. Thirty years ago, we embarked on the Look East Policy – recognition of the ascendancy of the Japan, of China and East Asia.

36. For most of our history, our economy has been largely dependent on investments and demand from the West. Today, our two-way trade is almost balanced between East and West.

37. So we are a barometer of global economic dynamics; an open economy that is influenced, if not dependent, on the prevailing investment and trade flows. In more ways than one, we are at one of the world's crossroads. But that exposes us to strong winds from all directions.

Ladies and gentlemen,

38. If I may – and I am conscious of the fact that there are many well-informed observers of markets in this room – I would like to offer an alternative hypothesis. It is possible that the big shift of this century is not from East to West, but from national and divided to global and interdependent. I think it is a valid hypothesis to consider in determining the big shift. This being said after considering all factors including macro stability and markets, firms and transformation growth and equalities and lastly leadership and complexities.

39. We can see clearly that technology bridges gaps between classes, countries and continents.

40. We see ripples from catastrophes spread through global supply chains. And efforts to tackle climate change show the difficulty of examining global problems through the narrow lens of national interest.

41. These abstract developments find their expression in the real economy. Data suggests that emerging and advanced economies are converging, and becoming more closely connected.

42. Over the past few decades, emerging economies has outperformed advanced economies; the differences created by the industrial revolution are slowly being erased. But there is still, as the IMF puts it, 'a strong cyclical link' between the two.

43. The easy divisions of the past – where rich world and poor world shall never meet, where developed and emerging economies are separated by clear blue water – are increasingly difficult to sustain.

Ladies and gentlemen,

44. In this new environment, the greatest challenge for Governments and businesses leaders is to look to this new horizon – and to think about the global implications of our local politics or markets.

45. I wonder whether that will prove the biggest economic shift of the century – and the most profound.

Thank you.

Wabillahitaufig Walhidayah Wassalamualaikum Warahmatullahi Wabarakatuh.

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