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Bismillahirrahmanirrahim.

Assalamualaikum Warahmatullahi Wabarakatuh and Good Morning.

Mr. Tsuneo Kita;

President and Chief Executive Officer Nikkei Inc,

Representatives of the Governments,

Distinguished Guests,

Ladies and gentlemen,

1. I am honoured to join you today. This is the second time I have spoken at the Future of Asia conference, and it is wonderful to be back in Japan. Under Prime Minister Abe's leadership, the Japanese economy has burst back into life, with strong early promise. Now Japan looks set to usher in a new period of sustained growth – and set a new standard for reform.

2. Japan's reputation for economic leadership is well known and well deserved. In the early 1980s, under Prime Minister Mahathir's leadership, Malaysia began a 'Look East' policy, turning to Japan and Korea for inspiration, helping to train the next generation of Malaysian students and businesses leaders in the East Asian way.

3. Not only has the Look East policy continued under my tenure, but in line with our transformation programme for Malaysia, it's moved into a second phase, focusing on high technology and highly skilled workers – helping us move our economy up the value chain, and onto high-income status.

4. Back in the 1980s, things were different. Asia was rising, but the truly explosive growth was still to come. The emergence of the 'Tiger' economies, and the reforms in China, showed the world that something was stirring in Asia. It was the 1980s that the phrase 'Asian Century' was coined. But for many observers, Asia was still tomorrow's story.

5. Tomorrow has come. Economically and politically, Asia is now at the heart of world affairs. The most populous region on earth is also one of the most dynamic – and increasingly, one of the more contested.

6. Remarkable economic development has focused global attention on Asia's prospects. When the recent financial crisis shook confidence in established markets, more companies – and countries – began to 'look East'.

7. This growing sense of economic momentum has also raised the geopolitical stakes, as emerging and established powers vie for influence in Asia.

8. This trend shows no sign of abating. Within twenty years, Asia is set to account for more than 40% of global GDP, and 60% of the world's middle class.

This phase of growth will be accompanied by growing global stature, influence – and interest. We must come to terms with life in the spotlight.

9. Asia's economy will remain in focus; our internal dynamics under the microscope. There will be, InsyaAllah, no return to Asia's age of isolation. We are one of the new centres of gravity in a newly multipolar world.

10. For the Asians of tomorrow, what matters is how we respond to this scrutiny; whether we build strong and sustainable economies, or simply inflate more bubbles. Whether we show security leadership, or allow internal tensions to derail the peace upon which prosperity depends.

11. That is what I would like to talk about today – the challenges to Asia's economy and security, and how we can respond.

Ladies and gentlemen,

12. Let me start with the economy. There are a number of trends which will determine Asia's continued success. The first is economic integration: the removal of trade barriers, and co-operation on monetary and fiscal policies.

13. According to McKinsey, in 2012 cross-border trade accounted for a third of global GDP. By 2025, that figure could reach half. In the past twenty years, emerging economies have more than doubled their share of cross-border goods, services and finance, but are still lagging far behind developed markets.

14. For Asian economies, integration offers significant benefits, including the ability to negotiate together. It can increase the power of middle nations, and raise living standards for all. It can help developing nations climb the ladder,

and ensure fewer citizens are left behind, as common standards and entry requirements filter back into domestic policy.

15. I believe Asian states must look to build stronger, more lasting economic connections – both within our region, and with the outside world. That is why I strongly support the push to create a single market in Southeast Asia. The ASEAN economic community will support jobs and growth for more than half a billion people, and help ensure South East Asia's growth spills across into all member states.

16. In an interdependent global economy, the benefits of greater co-operation extend far beyond Asia's borders. Malaysia looks forward to the completion of the Trans-Pacific Partnership on terms acceptable to us. The TPP will strengthen our ties with the wider world; as will the Regional Comprehensive Economic Partnership, which will bring three of the largest economies into the world's largest trading bloc.

17. For governments and businesses, trade agreements such as these often have a visible logic. We see the negotiations unfold, often over years. We see the compromises that are made, and the benefits that are secured.

18. But for ordinary people, they can be less clear-cut. The long-term benefits can be less tangible. Complexity can be mistaken for conspiracy, and the risk of public disaffection can grow. In an age of increasing integration, we must ensure we take people with us – explaining the process, and describing the benefits more clearly. Education and engagement can help address public concerns, and win support for agreements that can unlock growth and create higher paying jobs.

19. To prevent the build-up of risk, we must also ensure reforms to our financial and regulatory regimes keep pace with innovation in the financial sector. In the next decade, Asia's financial sector is projected to grow by 50%,

accounting for almost a third of global banking sector assets. Yet, as the International Monetary Fund points out, Asia's financial integration is not keeping pace.

20. As Asian firms 'build out' beyond their borders, and Asian investors seek new opportunities, they will be bound more closely into the global economy. There will be new regulatory challenges – such as the growth of shadow banking – and new problems of scale. As Asian capital stretches into other emerging markets, financial supervisors must be ready to address a much wider range of cross-border risks.

21. We must also focus on the reforms needed at home. As the Hong Kong Monetary Authority has pointed out, despite a considerable pool of savings, and strong inflows of capital, some Asian infrastructure projects struggle to attract investment due to political, legal and governance risks. Stronger credit, risk management and corporate governance norms can make it easier to secure foreign capital. These must be complemented by a commitment to institutional reform, to boost business and public confidence.

22. These reforms must be undertaken with an eye on the big picture: Asia's changing role in the world economy. For many years, emerging Asia's development model was based on a trade surplus with rich-world markets. But rebalancing is now under way, as our nations grow richer and our labour costs rise. Some Asian economies are focused on building domestic demand – laying the foundations for more independently sustainable growth.

23. Alongside macroprudential policies, this approach will help cushion us from the near-term problems – such as the on-going effects of sluggish growth in established markets, the withdrawal of US stimulus – whilst also preparing our economies for the next phase of development. They will pave the way for Asia to play a greater role in shaping the global financial architecture, for the ultimate benefit of our citizens. Such structural changes take time and

commitment. They can be socially disruptive. But the reward is a stronger and more secure economic future.

Ladies and gentlemen,

24. The second trend we must come to terms with is inequality.

25. Over the past few years, the growing gap between rich and poor in developed economies has become a pressing policy issue. This is not just the battle cry of the 'Occupy Wall Street' protesters: many research institutions have pointed to the corrosive effect of structural inequality.

26. A little inequality encourages individuals to work hard and innovate; but an unequal system creates hollow economies, where wealth and opportunity are kept for the few, at the expense of the many. Excessive inequality has serious – and avoidable – effects on health, education and life outcomes. When soaring GDP outstrips living standards, people feel they do not have a stake in their nation's economic success. That in turn undermines social progress and threatens stability.

27. With rapid growth at a time of globalisation and technological change, emerging Asia is particularly exposed to widening inequality. Over the past two decades, 8 out of 10 Asians found themselves living in areas where income inequality is rising, not falling. Whilst inequality has narrowed in emerging regions such as Latin America, it has widened in Asia. As the Asian Development Bank has pointed out, had inequality stayed static, an extra 240 million people would have been lifted out of poverty.

28. Behind the headline growth figures, it is clear that Asia's future success depends on broader and more diverse economic development. For Asia to

truly prosper, we must give our citizens greater equity, as well as greater equality.

29. Again, this will not be easy. Even the most successful economies have struggled to tackle inequality. There is no straightforward solution. But there are a number of things we can do.

30. We must invest more in public goods such as education and health: increasing access to quality education, and narrowing the divide between urban and rural sectors. It means strengthening social safety nets, and deploying targeted subsidies that support the poor at the point of need. It means encouraging the private sector to do its part, with corporations providing labour with flexibility, training and support. And it means building more balanced economies, with higher quality jobs, and more even growth spread across sectors.

31. It also requires a lasting commitment to the fight against corruption. Corruption suppresses meritocratic opportunity, undermines social cohesion, and eats away at people's confidence in the state. Tackling corruption is not the work of a year, or even a decade; but it can and must be done. Government procurement should be reformed to introduce open bidding, bringing transparency to a process often blighted by graft. Strengthening independent anti-corruption institutions, and increasing prosecutions for both bribe takers and bribe givers, can help change attitudes – even when corruption is deeply rooted.

Ladies and gentlemen,

32. Responding to these two trends – integration and inequality – will be critical. The changes I have spoken about will not always be easy; they require the investment not just of resources, but of political will. Difficult conversations will be had; in my country, for example, where income

inequality remains a concern, we are working to find the right balance between affirmative action and individual opportunity.

33. With courage and foresight, however we can deliver a stronger economic future for Asia. But, this future will not be assured unless we deliver the security and stability on which economic success depends.

34. To do so, we must manage our own rising influence, whilst responding to more intense outside interest in Asian security matters. We must make headway on non-state threats such as terrorism and piracy, and act on the 'new security' issues such as climate change. And we must prepare to play a new leadership role in global security issues.

35. First and foremost, we must ensure the rise in Asian military power delivers peace, not instability.

36. Over the past decades, Asia's strong economic growth has obscured a military build-up that is almost as strong. In 1988, Asian defence spending constituted 8% of global military expenditure. By 2012, that figure had risen to 20%. In the last twenty-five years, overall military expenditure has grown by 187%.

37. Countries have every right to defend themselves. But regular arms replacement programmes aside, this trend indicates deeper concerns about security and conflict – concerns that could swiftly become self-fulfilling. To address this risk, we should reject the siren song of competitive armament, and seek wherever possible to strengthen the multilateral and diplomatic ties that check instability.

38. We should also redouble our commitment to negotiation. Confronted with complex disagreements between states, Asia must place its trust in diplomatic

solutions. We should heed the fundamental principles on which good diplomacy is conducted: sovereign equality, respect for territorial integrity, peaceful settlement of disputes and mutual benefit in relations.

39. And we must affirm our commitment to rule-based solutions to competing claims. International law – and not economic or military coercion – should guide the resolution of disputes over resources.

40. I also believe Asia can explore ways to make a bigger contribution to global security challenges.

41. On non-proliferation, for example, the Association of Southeast Asian Nations has adopted a comprehensive treaty, the Southeast Asian Nuclear Weapon-Free Zone. We should also make a concerted effort to implement and enforce strategic trade controls to cut the risk of dual-use goods.

42. Our regional agreement on piracy is cited as a strong example of regional co-operation by the International Maritime Organisation, which seeks to replicate it elsewhere. The same principles – of sharing information and building capacity – could be applied to anti-terrorism initiatives, which, despite some successes, have sometimes lacked the co-ordination needed to be truly regional.

43. On peacekeeping and conflict resolution, Asian nations are already ramping up their involvement in the promotion of global peace. Malaysia, which has already played an active role resolving regional conflicts, is bidding for a non-permanent seat on the United Nation Security Council for 2015-2016. Japan has made peacebuilding one of its main diplomatic priorities, South Korea has markedly increased its peacekeeping and post-conflict work, and many ASEAN nations – such as Vietnam, which will join UN operations next year – are looking to play a more active role.

44. This is driven partly by pragmatism: we have seen from the rise of nations that growth in influence and hunger for resources can bring new tensions, and exacerbate old ones. But it is also about acknowledging that with rising influence comes rising responsibility; that for Asia to continue to prosper in a stable global security environment, we must play our part not just in the enforcement of international norms, but in their creation too.

Ladies and gentlemen,

45. By laying the foundations for greater Asian engagement in the international security agenda, and preparing our economies for more integrated and sustainable growth, we are recognising that our position in the world is changing.

46. As we leave behind the era of single-hyperpower dominance; as the global economy becomes more connected; and as nations converge around democratic market liberalism, a broader policy approach is needed. Today, more than ever, consensus, co-operation and constructive engagement are the basis for success.

47. Thirty years after it was proposed, the Asian century is upon us. By reforming at home, and assuming a greater international role, we can ensure it brings stability, prosperity and growth.

Thank you.