

**SPECIAL ADDRESS BY
YAB DATO' SRI MOHD NAJIB TUN HAJI ABDUL RAZAK, PRIME MINISTER
OF MALAYSIA
THE ASEM CONFERENCE:
“BEYOND THE GLOBAL CRISIS: A NEW ASIAN GROWTH MODEL”, 20
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THE ROYALE CHULAN, KUALA LUMPUR**

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Distinguished guests, ladies and gentlemen

1. Good afternoon everyone and thank you for coming. The Prime Minister sends his regrets. I am honoured to be here in his stead, to join all of you here at this Conference.
2. Today's conference presents us with an important opportunity to share our experiences and identify some important lessons that will help us navigate the next challenge to the global economy. I am convinced that the debates, discussions and discourse that emanate, not only from this conference but else where, at this time of our history, would lead us towards proposals and solutions that would serve our global community better.
3. The contributing voices are now more varied and multi-sourced. There has never been a higher level of participation from the developing and emerging economies in the affairs of the world. It is due to the collective efforts of all of

you here that have made this possible. Of this, I am unashamedly and unreservedly proud. Thank you.

Ladies and gentlemen

4. The discussions that have preceded us today have highlighted the many challenges that lie ahead for the Asian region as it stands on the cusp of what has been heralded as a period of Asia's economic Renaissance¹. Historical record provides us with an essential reminder. Periods of expansion often are followed with corrections. Each of us whether in Europe or Asia has a cultural anecdote about mending roofs during the dry season. What we do now will prepare us for the down times to come.

5. The discussions that have preceded us today have highlighted the many challenges that lie ahead for the Asian region as it continues to gain greater prominence in the global economy. Rather than crippling us, the economic slowdown has spurred many national governments in charting new approaches and processes to ensure sustained economic growth. At the regional level, the crisis has also reinforced our commitment for closer economic coordination and financial integration.

6. I believe the lessons we have learned over the past year of economic trials have led to a new growth model for Asia. This model may best be described as a balancing act to achieve a trinity of objectives:
 - to remain internationally integrated,
 - to achieve deeper regional integration, and
 - to further develop sustainable sources of indigenous growth at a national level.

I would like to share with you Malaysia's perspective, in particular on the key changes that we have made that have enabled us to strike the right balance in our development path thus far, and in doing so, mould the model of economic growth that suits us best for the future.

¹ World Bank "An East Asian Renaissance"; Gill & Kharas; 2007

Ladies and Gentlemen,

Malaysia's growth model

5. Over the last 50 years, Malaysia has achieved significant economic progress, demonstrated by our ability to attain a steady real gross domestic product growth rate within an environment of relatively low inflation. This achievement is attributed to the application of a pragmatic strategy aimed at transforming our natural resources into commodities and products that cater to global demand. In the early years, Malaysia supplied global markets with primary commodities such as rubber and tin and later on, palm oil and high-yielding agricultural crops. However, the global economic crisis in the early 1980s spurred Malaysia to diversify the sources of growth.

6. As a result, our economy is now significantly driven by the manufacturing industry and an increasingly sophisticated services sector. This economic transformation translates to significant improvements in the standards of living enjoyed by Malaysians today. As we have moved from a low- to a middle income economy, poverty rates have been reduced from 50% in 1957 to 3.6% in 2008. In addition, there has been an emergence of a large and growing middle-income group.

7. Though our economic model brought tangible progress and prosperity, we have decided to build on these foundations and set the target of becoming a developed nation by 2020. Our Vision 2020 is driven by the imperative for all Malaysians to strive towards reinventing and adapting ourselves and our economy, so that we may prosper amidst an environment of changing global, regional and domestic conditions.

Adapting to current challenges

11. This drive for developed nation status offers an important catalyst for promoting greater collaboration and engagement with our global economic partners. However, there is also an understanding that the very interdependence that has made our collective economies stronger has also created weaknesses that we must all manage together.

12. Nations in Asia and Europe face new and complex challenges in the period to come. First, global demand is expected to remain weak as advanced economies are experiencing a prolonged period of slow growth. In fact, the new global growth centres are likely to reside in Asia, with China and India being the new growth champions. Second, the global financial outlook is clouded with considerable uncertainties. Beyond the policy-induced rebound, it remains to be seen whether the advanced economies could revert to private sector driven growth and resume their pre-crisis growth trajectory. Together, these trends will have significant implications on small open economies like Malaysia. About half of our export demand comes from advanced economies. Competition for foreign direct investment also will be increasingly more intense given the lower FDI volume arising from the weaker economic conditions in the advanced economies.

Ladies and Gentlemen,

Promoting indigenous sources of growth

13. These global trends require Malaysia to adopt new approaches and improve our capacities to allow us to successfully graduate to a high-income economy befitting developed nation status by 2020. Our focus has increasingly turned towards strengthening indigenous sources of growth. Work is currently in progress to formulate a new economic model that will transform Malaysia into a high-income economy that is driven by creativity, innovation and high value-added activities which will ensure sustainable growth over the medium and long-term. Our new economic model will shift the emphasis from industrial manufacturing, which depends on semi-skilled and low cost labour, to one that is based on high technology and modern services, driven by skilled and highly paid workers. Growth will also be more centred on domestic demand, particularly in the services sector. Ultimately, our efforts are aimed at improving the welfare of all Malaysians.

Strategies being drawn but reforms underway.

14. While the new comprehensive strategies are still being drawn up, strategic key reforms and initiatives have already been initiated. Some of the broad reform areas are enhancing the role of private sector, improving the efficiency and effectiveness of the public sector, strengthening and broadening of the financial sector, developing human capital and putting greater emphasis on the environment.

Enhancing the role of private sector

15. Numerous initiatives have been put in place to enhance the role of the private sector. A key reform is the deregulation and liberalisation of the domestic services sector. In April this year, we embarked on a series of strategic liberalisation measures in our efforts to attract investments, promote innovation and create higher value employment opportunities. Our measures include a complete lifting of the equity restrictions in 27 service sub-sectors covering health and social services, tourism, transport, business and computer services. The financial services sector has also been liberalised with greater operational flexibilities, relaxation of foreign equity thresholds and the issuance of new licenses.

16. As a complement to the liberalisation of the services sectors, the Malaysian government has also announced a comprehensive deregulation of investment guidelines to sharpen our competitiveness in attracting new business opportunities. These measures include an abolishment of guidelines over equity stakes, mergers and takeovers for Malaysian companies seeking public listing.

17. Nevertheless, in promoting growth, the government is cognisant of the need to ensure that economic progress and development benefits the population at large. While we remain committed to the principle of growth with equity, we have changed our approach to achieving this objective. Instead of having micro targets for Bumiputera participation in the economy, this Government is adopting a more effective and market-oriented approach to achieving this outcome. This includes the establishment of a new investment institution, namely, Ekuiti Nasional Berhad (EKUINAS), which will invest in Bumiputera companies based in high growth sectors.

18. As Malaysia moves toward a knowledge and innovation-based economy, it is also crucial to respect and protect intellectual property rights. In this regard, the Intellectual Property Corporation of Malaysia has an important role in spearheading the development and management of the intellectual property system in Malaysia. Since innovation and creativity need not necessarily be confined to selected industries such as IT, communication and financial

services, the Intellectual Property Corporation of Malaysia has embarked on a concerted effort to focus on four knowledge areas. These include Traditional Knowledge, Genetic Resources, Traditional Cultural Expressions and Geographical Indications. This is in line with the promotion of green innovation by intellectual property organizations all over the world. The emphasis on greater research in the areas of herbal treatments and medication under the four areas of focus, for example, will not only bring tremendous growth in the medical industry but promises substantial commercial opportunities for Malaysia. Going forward, the challenges are in managing and converting such knowledge into marketable products, which involves more research and development, branding, marketing, and distribution.

Improving the efficiency and effectiveness of the public sector

19. In our efforts to improve public sector performance, let me now touch briefly on our effort to improve how the government supports businesses and reduces the cost of doing business in Malaysia. In this regard, we have formed a Special Task Force; PEMUDAH, comprised of the private sector and senior Government officials, to continuously review and enhance the approval process of Government agencies. Essentially, the role of PEMUDAH is to formulate measures to improve public service by reviewing procedures and recommending alternative processes to reduce the administrative and regulatory cost of doing business. To date, PEMUDAH has recorded significant achievements. Recently, PEMUDAH initiated MyCoID, which is a standard identification number of a business entity, which will significantly expedite and simplify the interaction process with Government agencies.
20. In enhancing the public sector, we have placed an emphasis on how the public sector should respond to facilitating private sector economic activity. “People First, Performance Now” is the central thread to this Government as we seek to transform the government to become more efficient and more responsive to the people’s needs. We will continue to stress that government must seek to put the people it serves first, and constantly seek ways to improve service delivery. To ensure measurable outcomes, we introduced highly transparent metrics, called the National Key Result Areas (KRA) and National Key Performance Indicators (KPI). These metrics are important to hold public offices accountable on important matters to the economy and society at large and to ensure that the transformation of the economy ultimately supports our social objectives.

21. Towards achieving greater social cohesiveness, we have established six KRAs, namely; reducing the crime rate, combating corruption, widening access to affordable and quality education, improving the standard of living for low income households, improving infrastructure in rural areas, and improving public transportation. We are striving harder to instil a culture of excellence and high performance in both the civil service and Government-linked companies (GLC), through the implementation of KPIs and the GLC Transformation Programme. Furthermore, as our economy becomes more sophisticated, the public sector is expected to develop ways to prevent and solve complex social problems. In order for us to achieve first-world prosperity, our government believes that the diversity of our population must be harnessed. Our principal of 1Malaysia is not just a social mantra; it is rallying cry for our nation to overcome our differences, to move to accepting each other rather than to merely tolerate one another. This spirit of service and opportunity for all Malaysians, irrespective of ethnic identity, is embodied in the KRAs and our government reform process.

Strengthening and broadening of the financial sector

22. Recognising the important role of the financial sector in facilitating the transformation of the real economy, the Financial Sector Master Plan and Capital Market Master Plan were established in 2001 to develop the banking sector and capital markets. Both these Plans provide the framework that has allowed us to finance and invest in knowledge, creativity and innovation as one way of elevating us to a high income economy.

23. The Financial Sector Master Plan has certainly contributed to the development of a resilient, diversified and efficient financial sector. The financial reforms and capacity building efforts have yielded impressive results, particularly in the banking sector and significant improvements have been achieved by the domestic financial institutions.

24. Stronger corporate governance, efficient internal structures, robust risk management practices and diversified sources of income have made domestic

banks more resilient. This strengthened capacity has enabled domestic banks to venture abroad and compete openly in the increasingly competitive environment to reap benefits from new business opportunities.

25. The development of Islamic finance has not only contributed towards diversifying and increasing the resilience of Malaysia's financial sector, but also strengthened the role and relevance of Islamic finance in the global system.
26. The Capital Market Master Plan has established strong foundations that have allowed for the rapid growth and continuous improvements of the market infrastructure in Malaysia. This includes the setting up of a landscape that has allowed for greater foreign participation and cross border partnerships. In addition to providing alternative access to financing for business expansion, the capital market also provides a trading platform that facilitates better risk diversification and wealth creation.
27. Under the Malaysia International Islamic Financial Centre (MIFC) initiative, the Islamic capital market has attracted issuers and investors from beyond the region and boosted Malaysia's position as an Islamic Financial Centre. As of today, Malaysia is the largest issuer of Islamic Sukuk in the world. The size of the capital market has grown by more than 141% from 2000 to 2007, highlighting its importance as an alternative source of funding and income.
28. The financial services sector has shifted from its role as a facilitator of growth, to become a driver of growth. Over the years, the financial sector contribution to gross domestic product (GDP) has increased from 9.2% in 2000 to 11% in 2008. This was achieved by generating value-added business, attracting investments and creating employment.
29. An important component of our financial sector policies is that of financial inclusion, to ensure that all segments of society get access to financial services irrespective of geographical location, income strata or which economic activity they belong to. Important in these policies is the access to financial services by micro-enterprises.

Development of human capital

30. Recognising the importance of enhancing our human capital, significant efforts have been directed towards improving the quality of the nation's education system at all levels, from pre-school to tertiary education. The development of the national education system is instrumental to leading us into 2020. Other complementary efforts are also underway to create a trained and competitive workforce. These efforts include the enhancement of training and skills programmes for the private sector.

Greater emphasis on the environment

31. We are of the view that the very short-term gain of achieving economic growth at the expense of environmental degradation is not a sustainable strategy. Thus, my final point is to emphasize the importance that Malaysians place on caring for our environment. The Ministry of Energy, Green Technology and Water under this Government's administration and Malaysia's Green Technology policy was established with the aim of promoting better and more efficient use of technology. This policy puts emphasis on accelerating economic growth through better and cleaner technology while concurrently addressing pressing environmental issues. The scope of this policy spans multiple sectors, from manufacturing to transportation, which will allow greater diversification in the economy as the number of green businesses grows and the number of 'green collar' jobs increases. Recognizing the opportunities that Green Technology offers, the Government has earmarked Green Technology as one of the new drivers of economic growth.

Ladies and Gentlemen,

32. Malaysia's economic history highlights our flexibility to adapt and transform in the face of challenges and opportunities. We have successfully weathered previous economic recessions in-mid-1980s and in 1997-98. Though we were severely affected, Malaysia responded quickly and implemented the necessary stabilization measures and reforms to ensure that our transformation process

did not experience a significant setback. The Government is committed to ensuring the transition to a high-income economy. This remains a key priority and resources will be committed to achieve this objective, particularly as we emerge from the current economic crisis.

33. The road to recovery will be long and challenging. For us to return to the situation where we stood prior to the crisis would be still a few years away. I believe that world that will emerge at the end of this tunnel will be quite different from the one we had upon entering it.

34. We all need to work very hard to prepare ourselves for this new future. Indeed, it is our intention that Malaysia stands proud in the family of advanced nations. We will leave no stone unturned and no effort untried. I thank you for your friendship and counsel which I am sure this Conference will provide. Thank you again for being here.