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KHAZANAH MEGATRENDS FORUM 2018
**“ON BALANCE: RECALIBRATING MARKETS,
FIRMS, SOCIETY AND PEOPLE”**

**OPENING ADDRESS BY
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Datuk Shahril Ridza Ridzuan,
Managing Director of Khazanah Nasional;

Board Members of Khazanah Nasional;

Nobel Laureates, Eminent Speakers;

Distinguished Guests, Ladies and Gentlemen;

1. First, let me thank the organising committee of the Khazanah Megatrends Forum for providing me the opportunity to address such a distinguished gathering. Congratulations to Datuk Shahril and his team for organising the forum with the theme – “On Balance: Recalibrating Markets, Firms, Society and People.”

2. On my part, I propose to share with you some thoughts on the global economic landscape, how it impacts Malaysia, and how Malaysia can go forward in the drive for greater national economic and social development.

3. To begin with, as we speak, the global landscape seems to be in turmoil. Emerging Markets are being severely hit with their major currencies heading south and some countries, in desperation to stem capital outflows, have raised interest rates to unprecedented levels.

4. The world's two largest economies are locked in what has become a full-blown trade war underscoring the repercussions of a breakdown in globalisation and the myth of free trade.

5. We are reminded of the saying, if you sow the wind, you shall reap the whirlwind. When you impose sweeping tariffs on billions of dollars' worth of goods, you cannot expect the other side to remain silent. And when the other side responds with a similar counter measure, it would be naïve to expect that the gunslinger would not fire back with even greater gusto. And that is the basic snapshot of what has been described as “the largest trade war in economic history to date.”

6. Now, I use the gun analogy not to single out any party but to sound out that this trade war is threatening to morph into a geopolitical dispute with military implications.

7. For nations sharing the common shores bordering the South China Sea, any incident or likelihood of any incident must therefore be of great concern to our sense of safety and security.

8. Prime Minister Tun Dr. Mahathir Mohamad said last week at the United Nations General Assembly:
“There is a trade war going on between the two most powerful economies. And the rest of the world feel the pain.”

Ladies and gentlemen,

9. The megatrends that have been tremendous tailwinds for Malaysia's growth are now slowing down. Malaysia remains stuck in the middle-income trap as we have not yet been able to transition towards becoming a high-income nation. Indeed, as of 2017, GDP per capita as measured in terms of nominal US Dollars has fallen to 9,944 from a peak of 11,183 in 2014.

10. Nevertheless, the government remains firm that we must continue to grow and break out of the middle-income trap to become an advanced high-income economy. This requires a different economic logic for Malaysia.

11. First, we need a focused shift towards new industries. In particular, we must adapt to the global technology landscape and establish ourselves as experts of the applications of breakthroughs in innovation and technology that will increase our economic productivity.

12. We also need to reverse the slide in the decline of Electrical and Electronics exports as compared to the rise in commodities exports. E&E went from a peak share of 60% of total exports in the early 2000s to about 40% as of 2017 while commodities rose from about 13% of exports to about 20% in 2017.

13. The second idea is economic complexity or diversification of the economy, via exports in agriculture, manufacturing or services because exporting to the world requires that whatever good or services we produce be globally competitive. Hence, our economy must be as far along the technology and efficiency frontiers as possible.

14. Indeed, many high-income countries around the world have become advanced nations in large part because of this. The United States has been at the frontiers of technological development for close to a hundred and fifty years. For instance, two globally widespread technologies today form a large backbone of today's world – the Internet and the GPS. But they arose from a strong push by the US Government.

15. Likewise, Toyota, Honda and Nissan emerged from a decision from the Japanese government to diversify their economy and build on their rapidly developing electronics industry.

16. The role of government is especially important in the area of R & D such as the new development of new technology, particularly those with long gestation periods and high initial fixed costs that are typically too risky for pure private sector firms. In this regard, government support is invariably needed.

17. Firms also need to move away from being too narrowly focused on chasing short-term profits. Short-term thinking necessarily means that companies will hold off on reinvesting for the future, therefore reducing their long-term sustainability and profitability.

18. In sum, we must pursue a balanced development path, with policies that enhance inclusion, integrity and sustainability as well as delivering economic growth for the continued prosperity of Malaysians.

19. While the current macroeconomic indicators display moderate GDP growth, stable and low inflation as well as technically full employment, the situation behind the headline indicators paints a different picture.

20. This may be an inconvenient truth, but we have to tell it like it is. Apart from the massive debt, even as the general unemployment rate is reported to have stabilised at 3.4%, there is also the problem of youth unemployment which as in 2017, stands at 13.2%.

21. Previous prescriptions by the Bretton Woods Institutions – IMF and the World Bank – on spending cuts, running budget surpluses, and belt-tightening, without more, may well take us on the road to even greater economic serfdom.

22. The idea of deregulation and obsession with private ownership and the numerous myths surrounding the success of capitalism have been debunked. Similarly, we know that rentier culture is an insidious form of economic parasitism while the idea of trickle-down economics should remain wishful thinking. I therefore shall not attempt to reinvent the wheel on the issue of neoliberal economics except to reiterate the point which I had made when I took office in June.

23. And that is, while our economy is built on principles of the free market (and I use the term 'free market' in a very loose sense bearing in mind the myths that I just mentioned), the notion that the "invisible hand" of the market will correct itself lacks empirical basis. If I may quote Professor Stiglitz, "The reason that the invisible hand often seems invisible is that it is often not there."

24. In this regard, the role of a responsible government is to do its best to ensure growth with equity within the matrix of instilling values of social justice in its socio-economic policies, programmes and projects.

25. But the basic challenge is that we are on uncharted waters brought by a government that was so profligate in spending on borrowed money that it has taken the nation to the brink of bankruptcy.

26. While the revelation of indebtedness approximating RM1 trillion making our debt-to-GDP ratio to about 80%, fiscal discipline is certainly needed. No doubt, such a course of action will have a depressing effect on growth. Hence, the need for countervailing measures to balance the impact.

Ladies and Gentlemen,

27. The outcome of the 14th General Elections tells us what the people want. They reject corruption and dishonesty and they want a clean and trustworthy government. They reject political oppression, persecution and the politics of intimidation and they want greater constitutional freedoms, the rule of law and the liberty to criticise without fear of reprisals.

28. The people reject the abuse of power, fiscal recklessness and financial irresponsibility and they want good governance, accountability, administrative transparency, and strong fiscal and financial discipline.

29. I say this not because they make good sound bites but the reality is that New Malaysia under Tun Dr. Mahathir Mohamad has set new directions and priorities to meet the aspirations of the people. In this regard, the theme of recalibrating markets, society and people is most pertinent.

30. Indeed, as I had alluded to earlier, I cannot overstress that sustaining growth of the economy is a priority, albeit with a greater focus on citizen-centric initiatives.

31. We have reprioritised our development projects according to our financial capacity. The ECRL is being closely scrutinised for holistic review while just last month we successfully secured a two-year deferment with the Singapore government on the High-Speed Rail Project.

32. Having said that, high-impact projects that can directly enhance the well-being of the people will be continued.

33. The damage inflicted by the 1MDB corruption scandal – the worst form of kleptocracy ever – together with the reckless accumulation of debt was far beyond our expectations. It is not a case of the dilemma faced by Hamlet. Do we continue to be in denial of the trillion-dollar debt or do we take stock of things and recalibrate our priorities? The choice is clear.

Ladies and Gentlemen,

34. Next week, the Prime Minister will be tabling in Parliament the Mid-Term Review of the Eleventh Malaysia Plan. Issues and development challenges will be identified and steps to tackle them will be proposed. Progressive socio-economic policies will be introduced to complement current institutional reforms.

35. Just last week at the 24th Ministerial Meeting of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) which I had the honour of chairing, we agreed that growth in terms of GDP alone could not be considered successful, unless translated into real benefits for the people.

36. Speaking from Malaysia's standpoint, we hold the position that real economic growth must also mean enhancement of the purchasing power of the people. This must be tackled hand in hand with measures to address the disparity of growth across the states and income inequities, particularly the B40 income group, high youth unemployment and the rising cost of living.

37. Other pressing concerns include addressing outstanding structural challenges, such as raising labour productivity, ensuring quality investment and innovation, and pushing industries to move up the value chain.

38. On the subject of foreign investments, we need to emphasise that while short-term capital inflows may do wonders to the stock market, that would not translate into value creation. That is why we encourage long-term FDIs in greenfield investments that would create jobs, boost purchasing power and help create better economic eco-system.

39. Going forward, economic growth will also be driven by high-tech sectors, underlining the potential of the digital economy in ensuring Malaysia's transition to a high-income and developed economy.

40. In this regard, public and private sector collaboration is essential to ensure quality investments and innovations bearing in mind that Malaysians are among the most digitally connected citizenry in the world.

41. While Malaysia is a country of 30 million people and therefore, a relatively small market, we are, however, part of ASEAN – home to approximately 650 million people. Being strategically placed at the heart of ASEAN, we must now consider ASEAN our de facto domestic market that would enable growth, scale, and an opportunity to be seized.

42. At the IMT-GT Meeting, we took a firm position that on account of the escalating US-China trade war, intra-regional trade must therefore be enhanced.

43. In closing, my number one task as Minister of Economic Affairs is to chart a development path and logic for Malaysia that brings us back to a more balanced development. This shift will help us deliver a more innovative, inclusive, sustainable and high-income economy, giving us the chance to rebalance our society and bring it into the future.

44. I wish you all the very best for the two days ahead.

Thank you