

Full text of PM Najib's speech on the New Economic Model

2010/03/30

Below is the full text of the speech by Prime Minister Datuk Seri Najib Tun Razak during today's launch of the New Economic Model at Bursa Malaysia's Invest Malaysia conference in Kuala Lumpur.

INTRODUCTION

1. Thank you for that very kind introduction. I want to say how delighted I am to be here with you today. Business leaders and investors are crucial to the health of Malaysia's economy - and our society. I want to thank you for the work you do, the contribution you make, and your involvement in the important discussions being held here over the coming days.

2. The theme of Invest Malaysia 2010, 'Powering Global Excellence', is a fitting one given the forward looking nature of Bursa Malaysia and the aspirations we share for our nation and our businesses. It is also precisely what I want to talk about with you today. In a new year, in a new context, in a world emerging from recession, we are focused on:

- How to ensure a sustainable and robust recovery in the short and medium term
- Enhancing Malaysia's competitiveness
- Sparking private investments and growth
- Putting the country on a trajectory to achieve high income levels
- Building an innovative economy and
- Bold transformation and economic reforms to modernize our economic model for the future.

3. Such an ambitious agenda may have seemed rather idealistic 12 months ago. When we gathered here last year, the economic context was very different. The world was in the depths of the first truly global recession. Over twenty million jobs were lost. Trillions of dollars of wealth evaporated. Economies around the world faced GDP contraction. Industrial production and capital investment fell dramatically.

4. We were all happy to welcome 2010. But, while Malaysia felt the impact of this

recession, I believe we weathered the storm and made progress against the odds. We refused to be passive bystanders as the downturn swept across Asia, and instead acted decisively and swiftly.

5. We injected RM67 billion of stimulus funding, and found the balance in our budget between investments our nation needs and belt-tightening required to reduce our deficit. We introduced a range of incentives and service-sector liberalisation initiatives that are opening Malaysia to high quality investment opportunities in key economic sectors.

6. We are now beginning to see the results of these actions. Fourth quarter 2009 GDP figures indicated growth of a higher-than-expected 4.5 percent. Stimulus packages are driving hundreds of job-creating infrastructure projects. Exports have rebounded, and quality foreign investments are flowing into Malaysia. The fiscal deficit is forecast to fall from 7 percent to 5.6 percent in 2010. The Industrial Production Index rebounded strongly to a 12.7 percent growth in January 2010. Total exports rose 37 percent to RM52 billion and imports increased by 31 percent to RM40 billion.

7. Positive private sector activity is also a deeply encouraging sign of recovery. Coca-Cola has announced a 1 billion Ringgit investment that could create up to 2,000 to 3,000 jobs in Malaysia. Maxis' multi-billion dollar IPO is the largest ever in Southeast Asia and represents the sort of entrepreneurial vision that I see every day in our Malaysian companies. JCY Berhad is also a proud example of a positive private sector activity that started small and now produces 25 percent of the world hard disc drives. Moving forward there will be more divestment of government holdings, capital can be raised, innovation can flourish, and wealth can be created in ways that benefit the wider Malaysian economy.

8. The global economy has not fully rebounded from the shockwaves of the past two years. No country - including ours - can be immune from the effects. But I can tell you today that Malaysia's economic recovery is on track. The decisions of this government - and the vision of a dynamic private sector - have helped lay a foundation for the next stage of Malaysia's economic development.

Ladies and gentlemen,

CHALLENGES WE FACE

9. But, we have so much farther to travel on our national journey. As a government - and as Prime Minister - our aspirations for Malaysia and the Malaysian people go far beyond guiding our nation through a recovery. Indeed, the work we have done over the past year will be wasted if we simply retreat back to the status quo. That is unacceptable to me. I pledge this: we will work tirelessly to develop and implement the economic reforms that our nation needs to grow, our businesses need to succeed and above all, for our people to

prosper.

10. The world economy - both before and especially since the financial crisis - has changed significantly. Policies which in the past led to high levels of growth and helped reduce hard core poverty will no longer be enough to raise income levels and create the high-value economy we want to see. We cannot depend solely on new capital to fuel growth. Rather we must use it more effectively to increase productivity, stimulate innovation and enhance the skills of the Malaysian workforce. We risk losing our competitive edge altogether if we do not act quickly to address structural barriers to growth that stand in the way of an effective response to the changing economic environment.

11. We can no longer rely on just a few sectors of the economy to drive our growth. We must diversify and provide incentives in new strategic industries where our nation has expertise, strength and potential for even greater success. As we expand into these areas, we should also consider the value that we can gain from the competencies of the Malaysian workforce - those living here and Malaysians abroad. They - with the support of foreign talent where appropriate - can provide the brainpower, the intellectual capital and skills to help us realize our goals more meaningfully. I invite Malaysians who have left our shores to look home once again and to participate in this transformation process to realize Malaysia's full potential.

12. Our education system must continue to be re-evaluated and improved to create the workforce of the future, with a commitment to merit-based programmes. These will reward excellence and nurture talented graduates who excel in strategic and creative thinking, and entrepreneurial and leadership skills that will drive success in the decades ahead.

13. We need a government that enables and empowers the private sector. This means re-shaping and energizing the public sector to be more responsive and accountable to the needs of private citizens and businesses.

14. We must also recognize that some policies, which served a purpose in a previous era, may now be impediments to success, distorting the market and putting us at a competitive disadvantage. For instance, the government is consulting on a series of fiscal reforms that will reassess the subsidy system that exists in Malaysia and broaden our revenue-raising base through the proposed introduction of a goods and services tax. They will bring Malaysia in line with international norms and reduce an unsustainable reliance on a small number of industries, businesses and taxpayers. These are essential, common sense reforms that will allow us to move forward together as a nation, while ensuring that we enhance and strengthen safety net programs that support the welfare of Malaysia's most vulnerable citizens.

15. Cumulatively, these deficiencies go a long way in explaining why Malaysia's private investment has not recovered to pre-Asian crisis levels and - as you know - pose a threat to our long-term position as a home for international and domestic investment.

16. Addressing these issues is not just about having a clear vision and the right policies. It's also about having a determined political will, effective execution and the full support of the Rakyat. Do we have the courage and boldness to rise out of the middle income trap? I believe we need to build a national consensus on this issue. Because growth is beginning to revive, some are questioning the need for urgency to break the habits of the past. There are now calls to protect the status quo. Do not be fooled. We need a new way of doing things. While the recovery has begun, we must act now to position Malaysia for the future. And this is the choice we now face: To rise out of the "middle-income" trap that will be a precarious position for any nation in the new global economy; or to stick to what we know, and what is comfortable, by hoping the world will adapt to us. Our choice, and the job of the government, is to pursue economic policies that succeed in the knowledge industries of the future, with high-wage jobs and prosperity that can be shared by all.

Ladies and gentlemen,

NEAC REPORT

17. Today, we take an important next step in that journey. The backbone of our long-term policy agenda will be a new economic model – which will be integrated into the 10th Malaysia Plan and with a longer-term vision that will be delivered through the 11th Malaysia Plan. These can transform the Malaysian economy to become one with high incomes and quality growth over the next decade.

18. The New Economic Model is a vital part of the Malaysia we are building, the structure that will serve our people for the future. As a metaphor, think of a house under the Malaysian sun. We need a roof – an overarching philosophy that encompasses all parts of the building. In our case, 1Malaysia is the roof that we gather under. The Government Transformation Program – a programme of delivery on six key areas – is one pillar of this home. A second pillar is the Economic Transformation Plan that will deliver the New Economic Model. And the floor, the basis where all Malaysians will move forward are the 10th and 11th Malaysian Plans.

19. In the months after I became Prime Minister, I set up an independent National Economic Advisory Council, and tasked it with a thorough review of Malaysia's economy. I asked it to make bold, yet practical, recommendations for a new economic model to transform the Malaysian economy. And I can announce today that I have received the NEAC report.

20. The Report details in a frank manner, the state of the nation's economy – its strengths and its shortcomings - and assesses the current policies and potential areas of future focus for Malaysia. It is a comprehensive and insightful analysis. I want to take this opportunity to publicly thank the Chairman of the National Economic Advisory Council, Senator Tan Sri Amirsham A Aziz, the members of the NEAC and the Secretariat team. Their work and service to the nation deserves not only our recognition, but our appreciation.

21. Today, I and the cabinet - with the counsel of NEAC - will begin our detailed deliberations on how we move forward from here, particularly as we move from this report to a roadmap for the future. But this cannot be an old-style political debate. The new economic model has wide-ranging implications for the people of Malaysia, and we cannot afford to bypass their views on this matter. Like investors, this government accords high marks for transparency. Whether in the budget or the recent Government Transformation Programme, where thousands of public citizens were involved in the process, I have instructed that this report be published and made available to the general public to gather their input and provide them with an opportunity to be part of the decision-making process over the coming months. It is only through consultation with the Rakyat and all the other stakeholders that we can achieve a strong, convincing and effective plan to implement our New Economic Model.

22. I have made clear on many previous occasions that the era of “government knows best” is over. The Rakyat - and groups such as business leaders and investors - want and deserve input into the policy making process. We must develop a more consultative approach to engaging our most important stakeholders. Only through such a process can we broaden our viewpoints, challenge conventional wisdom, and help build transparent and open consensus for the right way forward. This is the path we will follow. People will come first.

Ladies and gentlemen,

NEM PRINCIPLES

23. As this consultation moves forward, I want to set out three principles that I believe should guide our nation’s thinking and the development of a New Economic Model. I want – as Tan Sri Amirsham has outlined – for all of us to visualize the impact of the NEM by standing in the future and envisioning what the NEM should mean to each of us as an individual and as a business.

24. Three principles emerged clearly from the NEAC report – firstly, high income, secondly, sustainability and thirdly, inclusiveness. These three principles will drive our economic progress for us to become a fully developed nation; a competitive economy strategically positioned in the regional and global economic landscape, environmentally sustainable and a quality of life that is all inclusive and encompassing.

25. We should ask ourselves this fundamental question: Will the New Economic Model create High Income jobs where the Rakyat benefit from a competitive economy, and a better way of life? This is the *raison d’être* of the New Economic Model. We want to see a Malaysia that makes a quantum leap from the current 7,000 U.S. dollars per capita annual income to 15,000 U.S. dollars in ten years as stated in the NEAC Report. The new economic model must be built from here. It will be no easy task, but the rewards will be great if we make this transformation. The challenge is how will we do it. This means building upon existing sectors and maximizing the potential of new ones through

innovation.

26. Creating a high income nation will mean higher wages throughout the economy as growth is derived not only from capital, but from greater productivity through the use of skills and innovation, improved coordination, stronger branding and compliance with international standards and Intellectual Property Rights. In a knowledge economy, investment in new technology, multi skills, innovation and creativity, and increased competency are the drivers of public and private sector performance. We expect investment and competition for the best talent through paying higher wages. Even wages for blue collar workers will be based on them acquiring higher competencies, with their performance more readily benchmarked against international competitors. With more skills, comes greater responsibility, and better, higher paying jobs.

27. Among other findings, the NEAC Report highlights that today 80 percent of the workforce have education only up to SPM qualifications, Malaysia's equivalent to the O-levels. This is not in line with a high income economy that we aspire to be., We need continuous education ,on-the-job training and re-skilling to benefit from new technologies. And by building a highly skilled workforce where productivity and competitiveness drive growth, the costs of doing business will still be competitive as capital is used more efficiently and with emphasis on quality of workers. This means a reduced dependency on unskilled foreign labour, and greater attention to multi-skilling of employees who can increase productivity. This change will also require that government raise the quality and productivity of its own workforce. I believe we have begun along this path with the Government Transformation Program, amongst others, which will enhance the nation's infrastructure and improve access to quality education.

28. Second, the New Economic Model must include a commitment to Sustainability, not only in our economic activities, but in considering the impact of economic development on our environment and precious natural resources. There is little value in pursuing a future based entirely on wealth creation , Pursuing growth that deplete resources and displace communities will have dire consequences for future generations. This is a false and futile choice. We can have a powerful and dynamic economic approach, but one that protects the nation we love for future generations. High and sustained growth and environmental stewardship can and must go hand-in-hand. As I stated when setting up the NEAC, simply being richer falls far short of my expectations. Not only do I want the Rakyat to earn better but they must also live better. Raising the quality of life must be an integral part of the New Economic Model.

29. Finally, is the New Economic Model Inclusive? We must recognize the imperative that we harness the potential of all Malaysians, and that all share in the proceeds of increased national prosperity.

30. Inclusiveness is a key prerequisite for fostering a sense of belonging and engagement in the NEM. I want to take a moment here to touch on this issue of an inclusive New Economic Model that will ensure that no one is left out in contributing to and sharing in the creation of wealth as we progress. While perfect equality is in reality impossible to

achieve in an open, global economy, an inclusive society will ensure that we can narrow inequalities in our nation, help those who need help most and engage all of Malaysia's talents in our effort to build a competitive economic workforce.

31. Reforming our approach to fully meet these new challenges will require a change in our national mindset. In the short-term, there will be entrenched opposition. Some economic sectors may experience adverse effects. The process of change is never easy, and there will be painful moments. But for the long-term strength of our nation, we cannot afford to duck these issues any longer. If we are to truly tackle inequality and become a beacon of progress in our region, we must bring a sense of urgency to reform.

Ladies and gentlemen,

AFFIRMATIVE ACTION AS PART OF INCLUSIVENESS

32. The New Economy Policy launched about forty years ago with its affirmative action policy has served the nation well, balancing the economic growth strategies of our nation with the need to address structural inequalities and promote social harmony. Poverty has been drastically cut, standing today at around 3.7 percent. As a nation we should be proud of this achievement. It is one that many other multi-racial nations would like to emulate. However, we still have an unacceptably large segment of low-income households in Malaysia. We the Government are now dealing with 21st century problems that require fresh 21st century approaches.

33. The NEAC report sets out an approach to tackling poverty and renewing our affirmative action policies for a new and more competitive economic context. This will be part of the public consultation, but the government feels there is merit in much of this proposal and I want to set out the broad parameters here.

34. Our first priority must be to eradicate poverty, irrespective of race. We cannot have the high income, sustainable and inclusive economy we seek when disparities in income are not addressed.

35. So there will be a renewed affirmative action policy in the New Economic Model, with a focus on raising income levels of all disadvantaged groups. It will focus on the needs of all our people – those living in the long houses in Sabah and Sarawak and poor rural households in Semenanjung Malaysia (Peninsular Malaysia), who often feel disconnected from the mainstream economic activity. Fishermen, petty traders, and small farmers also fall under this category. Not forgetting the Orang Asli and low income urban dwellers, eeking out a livelihood in tough economic circumstances. The proposal in the NEAC report suggests a focus on the bottom 40 percent of Malaysia's income strata – both individually and regionally. These are the disadvantaged groups where special attention is still required.

36. The ultimate goal - in time - is that no Malaysian lives in poverty, that all get the chance to succeed and share in prosperity. While there are those who struggle on low-

incomes and in harsh conditions, we will always provide special support to help lift them out of the poverty trap.

37. The New Economic Policy has been a milestone of our society for decades, a policy I have fully supported and admired. Its original objectives are still relevant, but it is time to review its implementation. We will chase the same goals, but transform the way we do things. Our renewed affirmative action policy, therefore, will be built on four principles:

- it must be market friendly,
- it must be merit based,
- it must be transparent and
- it must be needs based.

38. For instance, one important consideration will be developing a competitive and transparent tender process, with set and clear rules for the whole Bumiputera community, made of both Malay and other indigenous groups. This is set out as a common-sense enhancement of our policies for a new economic reality and where Inclusiveness is a key component in our new economic model. In practice, this approach will mean greater support for the Bumiputera, a greater support based on needs, not race. The Bumiputera segment still forms the majority in the vulnerable groups by any measure, and while our new approach will help those on low-incomes from any group, it will still largely benefit the Bumiputera community and at same time provide for the disadvantaged of other communities.

39. In assessing the results, fair distribution must encompass the whole spectrum of measuring wealth such as equity ownership, other financial and non-financial assets, and access to wealth creating opportunities such as long-term concessions and contracts. Even in measuring ownership, it should go beyond equity to include other properties, business assets such as retail, landed properties, commercial building, intellectual property and other services as well as managerial positions. A valuable example would be the redevelopment of Kampung Baru, a holistic opportunity of wealth creation and value enhancement that goes deeper and well beyond equity ownership. I have instructed the NEAC to develop a detailed framework to operationalise this new model of affirmative action based on a transparent and market based mechanism to achieve fair distribution of the benefits of a high-income economy.

40. The NEAC report sets out its view that the previous mechanism that concentrated on target setting should now focus on structured and dedicated capacity building investment that allows the Bumiputera to take advantage of new opportunities in the economy. In addition, fair access and opportunities to retraining, upgrading of skills and ability to gain employment will also be emphasized for all Malaysians.

41. This approach builds on our experience in implementing the affirmative action policy

over many years. When they are implemented in a transparent, fair and empowering way they will yield better results. But for too long, the implementation of our affirmative action policies has not reached those who needed them the most. There is a perception that the non Bumiputera have not benefitted from the progress made to date although facts and figures show otherwise. Therefore with the new principles of affirmative action stated earlier, we need to change this perception. We can no longer tolerate practices that support the behavior of rent-seeking and patronage, which have long tarnished the altruistic aims of the New Economic Policy. Inclusiveness, where all Malaysians contribute and benefit from economic growth - must be a fundamental element of any new economic approach.

42. These are the principles I want to see guide this next phase of consultation. Can we build a new model that creates a high wage, sustainable and inclusive economy where together we prosper? I believe we are within striking distance. I believe there is widespread support for it across Malaysia. And I believe - knowing the ingenuity and creativity of the Malaysian people and Malaysian businesses - we can and will make such aspirations our national economic reality.

Ladies and gentlemen,

FROM PRINCIPLES TO A PLAN

43. The question then becomes: how do we get there? The work of the government and the NEAC is far from over with this initial report. This is a two stage approach. We must now ensure a robust and thorough consultation and then the development of a detailed blueprint or roadmap on how the New Economic Model and accompanying economic reforms are to be implemented. For instance, working groups akin to the labs that drive development of the NKRA Government Transformation Program will be held, made up of participants from both the public and private sectors to drive the strategies behind the new economic model, culminating in a second report that is a detailed transformation roadmap. We will, in effect, develop an Economic Transformation Program to deliver on this new economic model.

44. To achieve this transformation, the NEAC has set out a series of strategic reform initiatives.

45. The eight Strategic Reform Initiatives focus on:-

1) Re-energising the private sector to lead growth; 2) Developing a quality workforce and reducing dependency on foreign labour;

3) Creating a competitive domestic economy;

4) Strengthening the public sector;

5) Putting in place transparent and market friendly affirmative action;

6) Building knowledge base infrastructure;

7) Enhancing the sources of growth; and

8) Ensuring sustainability of growth.

46. All eight initiatives are complementary and cross cutting in their impact over all sectors of the economy. All three goals of the NEM require that we achieve significantly higher growth rates in GDP in the next decade. As such, several of the policies we must pursue relate to the foundational issues, to enable accelerating the growth momentum through a holistic approach to remove all barriers. They emphasize the need for capacity building rather than just nation building as the sustainable way forward.

47. Adding to the NEAC report, what I would like to suggest is to focus our efforts effectively by targeting specific key sectors, or what I would call the National Key Economic Activities (NKEAs). These are the areas where our economy has the potential to thrive as we move into the high income bracket. In the past, the government has played a paternalistic role in recommending and promoting the sources of growth that should be undertaken by the private sector. Yes we need to provide some guidance, but we are aware that the government should not be making investment decisions for the private-sector.

48. Based on the NEAC new approach that the private sector should drive growth, the government needs to enhance its role as the facilitator for industries to flourish. The majority of the initiatives that have been set out deal with all that is imperative to set the economy right – to remove distortions, barriers and impediments that hinder our economy from progressing up the value chain and to promote healthy competition. Implementing these policies is a pre-condition to successfully tapping new sources of growth. As long as these barriers remain, the growth opportunities in all sectors will not be realized.

49. The NEAC – with the input from across the private sector – has identified key sectors that can be leaders in generating high growth rates. Sectors where our nation is competitive, has a wealth of expertise, the opportunity to leverage specialisation and has gained first mover advantages, as well the traditional comparative advantages. There is much work to be done, but the potential upside requires us to place a focus on these key sectors.

Ladies and gentlemen,

50. Mirroring the process we followed for the Government Transformation Program and its National Key Results Areas, I am committed to undertake a thorough consultation process with all the stakeholders, and ensure the National Key Economic Activities will be selected with the sole criteria of Malaysia's best interest. The NEAC will work with PEMANDU to develop the NKEAs. They will consult the Rakyat and all other

stakeholders and, when the 10th Malaysia Plan will be unveiled together with the NKEAs, a special Economic Delivery Unit will be established to spearhead the reform process and finalise and implement the NKEAs. There is still a lot of work to be done to identify a successful strategy for execution and the NKEAs to focus on, but, as a mere indication of what may come in the future, let me give you a few examples of the possibilities we are looking at.

51. In the Electrical and Electronic sector, Malaysia can leverage its early mover advantage. Building on a strong foundation, Malaysia's future in this sector must be focused not only in manufacturing but in research and development and design, where Malaysian companies are driving innovation rather than simply importing it. Among the measures we must consider incentives for high-value research and support for SMEs supplying larger firms on a larger scale basis.

52. Resource based industries in the palm oil and oil and gas sector continue to be emphasized. In the palm oil sector, strengthening research initiatives should lead to indigenous technology that better meets market demand, such as healthy fats and oils, biofuel from biomass, cosmetics and bio-degradable plastics.

53. In oil and gas, we have one of our nation's most visible and valued champions in Petronas. It has built a strong brand internationally, and I believe now we must also help drive growth here in Malaysia with even greater support for local suppliers as it grows. Beyond the core oil and gas sector, however, Malaysia's international energy expertise can help companies in this industry and beyond expand internationally by sharing its know-how, partnering on international bids and offering support on a truly global scale. The strength of having a well-developed pool of local talent and companies which are able to compete globally gives us a lead advantage.

54. In services, the tourism sector has not been exploited to its potential. More can be done to attract new markets from Europe and the Americas to complement the markets from the United Kingdom and Asia. We have some of the oldest forests in the world, rich with flora and fauna and diving experiences acclaimed to be unforgettable. Malaysia can lead in providing environmentally sustainable eco-tourism adventures that are much sought after by the advanced markets. We should aim to provide services which will attract high-end tourists who seek exclusiveness and high value services. We must also be creative as we consider new areas of tourism. From medical tourism – a high-potential growth sector – to eco-tourism, luxury market tourism and visitors related to our growth as a regional education hub. Malaysia's tourism future is bright if we have the vision and creativity to support its diverse growth potential.

55. As an agriculture producing nation that is also heavily reliant on imports of food, there is a strategic need to focus on expansion of the high value agriculture sector. There is potential to create value in rural space through large-scale agriculture, higher yield methods, new technologies, better linkages to the marketplace that will result in greater production and income. We must also promote agro businesses through integrated and modern agriculture practices.. Given that the Bumiputera community is large in rural

areas in both Peninsular Malaysia and Sabah and Sarawak, an intensified expansion of modernised agriculture activities can contribute both to higher incomes and to the reduction in income inequality. And to compete globally, we must commit Malaysia's agricultural sector to cultivation and processes that meet, and exceed international standards and best practices, as well as marketing on an international scale.

56. Malaysia also has the potential to embrace a leadership role in green technology and develop a niche in high value green industries and services. We have on the ground expertise in complex manufacturing, and are early movers in the region's solar and alternative energy sectors. And with recent success in commercialization of natural biodiversity into high value products which are gaining traction among environmentally conscious consumers, Malaysia can become a green hub all the way along the business development continuum – from research to design to manufacturing to commercialization, we have the skills and the public sector's support.

57. There are many areas that Malaysia can explore to expand the sources of growth. I would like to mention another example--the financial services industry, which is both a growth sector as well as an enabler to growth of other sectors. Its growth potential is seen in Islamic financial services, as well as in the derivatives for risk management by local and regional players. Malaysia is now a world leader in Islamic finance, capital market and the takaful industries. We see the potential to become a hub for integrated Islamic financial services. For instance, Bank Negara Malaysia is currently finalizing the establishment of a physical Islamic financial centre and the imminent approval of two mega Islamic banks licences.

58. Competition is no longer only between nations but also between cities. For Malaysia to move into a higher income economy, we must exploit higher returns by adopting strategies to build density, develop clusters and specialize in high value sectors. Recognising this role, cities such as Kuala Lumpur and Johore Baru which includes Iskandar Malaysia must be developed to be more livable and be able to attract talent and be part and parcel of a more comprehensive and integrated urban-rural planning. We must develop stronger clusters that serve as incubators for start up companies, ensure shared services and develop more businesses and university linkages. Evidence shows that development of cities helped raise incomes of surrounding rural areas especially when they are integrated into the supply chain network.

59. There are many more sectors of strategic growth where Malaysia has the potential to flourish. We have strengths in the IT industry. The creative industries – our music, film, arts and cultural expertise – can be an important sector in Malaysia's future. And with a strong base of medical, scientific and manufacturing expertise, we can be a regional home for the fast-growing biotechnology and life sciences sectors.

60. So I call on Malaysian companies, investors and entrepreneurs - to seize the opportunities before us and become regional and even global champions. We must have concerted policy intervention to turn this into reality. Companies that show innovation and foresight to reshape and revitalize their activities would have unprecedented

prospects to be world leaders in the future.

Ladies and gentlemen,

PUBLIC-PRIVATE COOPERATION

61. If Malaysia is to achieve its goals, we must build a strong, solid and strategically demand driven market that connects sectors of growth to the ambitious goals I have set out for our New Economic Model. I have already touched on many of the strategies I believe we will require, including modernization of our education system to build a world-class workforce; prudent fiscal reforms that bring greater balance to our revenue and expenditure framework; and market-friendly affirmative action designed to ensure that all Malaysians benefit from this new approach.

62. But underlying all of these strategies must be a new and clear understanding of the respective roles of business and the government. The government is an enabler of wealth-creation. Our role is to ensure stability, openness and fairness in a secure environment that facilitates, rather than distorts or hinders, growth. Competition should be promoted to allow dynamic and efficient markets, and where appropriate, public sector support is needed, we should be there to help. We have also seen in the past 18 months - more clearly than ever - the need for governments to be vigilant in safeguarding economic stability when markets fail.

63. I look around this room today and I see some of the finest private sector talent in the world. You are the torchbearers of wealth creation and growth. We will be active in protecting the interests of the Malaysian economy and the Malaysian people, but we want private sector expertise and investment to flourish. Again, to succeed in a different economic context, we need to look at doing things differently.

64. One of these changes must be a new approach that expands the role of capital markets under our new economic model. Malaysia will not be successful - even in our key sectors - if we simply maintain the status quo. Sparking growth means cultivating innovation, risk-taking and creativity in development of new products or services.

65. Hence, in order to facilitate Malaysia's new economic model, support private sector innovation and to stimulate financing in the higher-risk services and knowledge driven sectors that are critical to Malaysia's future, I would like to see an expanded role for our capital markets, evolving from a primarily fundraising model to a liquidity-driven and risk-diversification model that encourages entrepreneurs and investors to be part of Malaysia's exciting economic future.

66. The development of our capital markets will be further strengthened in the Second Capital Market Master Plan currently being formulated by the Securities Commission, but I also see the acceleration of capital market industries such as the fund management, venture capital and private equity sectors as a crucial part of our drive to create the high wage, high skill economy of Malaysia's future.

67. Related to this issue, the Employees Provident Fund presently dominates local equity and bond markets with up to 50 percent of daily Bursa volume represented by EPF related trades, a situation that is not healthy for the market or for the EPF. Today I can announce that the EPF will be allowed to invest more assets overseas, both diversifying its portfolio and creating more room domestically for new participants. EPF presently has about 6 percent of assets invested offshore and this will increase significantly. EPF will also increase its direct investments in the real economy of Malaysia, as an alternative to market investments – taking positions in healthcare, commodities, property and other long-term investments that match EPF’s requirements to protect the real rate of return on its assets.

68. On the institutional front, the Malaysian Industrial Development Authority (MIDA) is the principal Government agency responsible for the promotion and facilitation of investments in the manufacturing and services sectors in Malaysia. MIDA has been instrumental in the nation’s transformation under different phases of industrial development over the last four decades and has emerged as a well recognised institution among both foreign and domestic investors. However, the time has come for key changes in MIDA in order to make it a more effective investment promotion agency.

69. I am pleased to announce that MIDA will be corporatized to give it the necessary organisational flexibility to attract and retain the manpower and talents it needs in order to be an internationally competitive national investment promotion agency. The Government has also agreed to empower MIDA with the necessary authority to negotiate directly with investors for targeted projects. In addition, MIDA will also be designated as the central investment promotion agency for the manufacturing and services sectors, excluding utilities and financial services, to enhance the coordination and cohesion among the various investment promotion bodies in the country. These changes will enable MIDA to approve incentives in real time and act swiftly to engage investors more effectively. Finally, MIDA will be renamed as the Malaysian Investment Development Authority while maintaining its acronym, MIDA, which is a well known brand name.

70. In addition to this important institutional reform, I believe that we need to look anew at ensuring an appropriate balance between government, GLCs and the private sector in our economy as part of this new economic model. In the years prior to the Asian financial crisis, the private sector contribution to GDP far outstripped that of the public sector, but in the first decade of the new century, the statistics have been reversed. What started as a cyclical necessity of fiscal pump priming has hardened into a dependency and an unsustainable structural condition.

71. I have touched on many of the key principles that will underpin this recalibration of the public-private sector relationship: government reforms to reduce bureaucracy and focus on creating a growth-enabling environment; encouragement and incentives to spur private sector innovation and productivity; a focus on strategic knowledge sectors of long-term growth; and a recognition of the crucial importance that pursuing opportunities in regional and global markets will play in Malaysia’s growth.

Ladies and gentlemen,

72. At this venue last year, I outlined a strategy that would see GLCs proceed to dispose of non-core assets; to catalyse and develop the eco-systems of their core sectors; and, to compete on a level playing field with the private sector. Building upon the third principle, I mentioned that Government Linked Investment Companies (GLICs) should be allowed to divest non-core and/or non-competitive assets.

73. Today I want to announce further steps that will enhance private sector opportunities and appropriately recalibrate the relationship between the public and private sectors.

74. Going forward, I would like to see GLCs and Government holding agencies pursuing strategic collaborations with private sources of capital in Malaysia in order to provide prospective investors with exposure to the government order book and build national competencies. These coalitions will not only drive the regionalization strategy of Malaysian companies which is vital given the size of the domestic market, but also ensure ready pools of capital are in place and available for quick deployment. In addition, the opportunity to form partnerships with a wider range of co-investors including retail investors, local and foreign mutual funds remains open. If successfully implemented on a large scale, these catalytic coalitions could become a unique form of Public Private Partnership. We already have initiatives moving in this direction. Examples include the upcoming privatisation of Astro and the partnership between Malakoff and Tenaga Nasional on a utilities project in Saudi Arabia.

75. We have made progress in the area of divesting non-core assets and Khazanah alone has over the course of the last nine months divested significant stakes in Tenaga Nasional, Malaysia Airports and PLUS for the purpose of increasing the liquidity of these counters. But more such progress in this area must be made.

76. We will be pursuing further such divestments of non-core and non competitive assets that operate in areas where new strategic shareholders have the potential to enhance the creation of value, as compared to them being left within the government stable. Of course, we must ensure that any such divestments stand up to rigorous checks to ensure that they are in the public interest.

77. A transparent process will be implemented to ensure that potential private sector bidders meet a minimum set of criteria, including financial standing, track record in business expansion and management excellence, and that their proposals help grow the Bumiputera and 1Malaysia causes. The bidders will have to demonstrate delivery against set benchmarks of innovation and value creation, and support the goals of the New Economic Model – high wages, inclusiveness and sustainability. To develop these processes, I propose evaluation panels consisting of financial professionals, international industry experts and senior Government officials be appointed to assess private sector bids for GLC-related assets.

78. And because it is so important that public and private sector performance are each enhanced, we will be vigilant in ensuring that transfer of GLC assets into the private sector does not compromise our goals for public sector reform and delivery, or lead to asset stripping that runs counter to the public interest. For a predetermined period of time, this may include the retention of key management and the prevention of involuntary staff layoffs. Equally, I recognize the importance of reviewing existing tariffs and incentives available to GLCs if we are to attract private sector investment, and I propose that any such reviews are taken up at the Cabinet.

79. With clear guidelines and strategic principles in place, I can say that the journey on GLC transformation continues to maintain its momentum, and I can go further today with the announcement that Khazanah has resolved to divest its controlling 32 percent stake in POS Malaysia through a two-stage strategic divestment process. In the first stage, that begins immediately, proper corporate governance and regulatory processes will be adhered to. A full consultation with the various stakeholders will be undertaken. POS Malaysia will be prepared for the strategic divestment by addressing various aspects of its business environment including its regulatory structure, usage of government controlled land and the position and welfare of its employees. The long outstanding matter of low income of some of the staff including postmen will be reviewed. To ensure both public and commercial interests are balanced, the government will undertake a comprehensive review and update the regulatory framework of the postal system. In stage two, Khazanah will draw up a bidding and evaluation process to select a new and entrepreneurial shareholder to further modernize POS Malaysia. Further details of this exercise will be announced later.

80. To promote higher levels of economic investment, expansion and growth, several parcels of land in Jalan Stonor, Jalan Ampang, Jalan Lidcol, Kuala Lumpur have been identified to be tendered out and developed by the private sector. This asset, if not developed will be wasteful and the Government will incur cost of maintaining it. This initiative will be a good kick-off for more outright sale and joint ventures between the public and private sectors in land development. In this regard, I would like to inform you that Government of Malaysia and the EPF will form a joint-venture to promote the development of 3,000 acres of land in Sungei Buloh into a new hub for the Klang Valley. This will lead to over RM5 billion of new investments being made that will have an immediate effect on domestic growth, with an enormous potential for the private sector to participate in prominently.

81. I can also share with you today that we will gradually reduce public sector involvement in activities that compete directly with the private sector. We have begun a review of a number of companies under Minister of Finance Incorporated and other agencies, and I can inform you that we are considering privatization measures related to, Percetakan Nasional Malaysia Berhad, CTRM Aero Composites Sdn Bhd, Nine Bio Sdn Bhd and Innobio Sdn Bhd with more under consideration.

82. In addition, Petronas has already identified two sizable subsidiaries with good track records to be listed this year. These initiatives have the goal to reduce the Government's

presence directly or indirectly in business activities that are best carried out by the private sector and are a clear signal of our commitment to promoting competition in the economy, risk taking and long-term economic growth that benefits all Malaysians.

83. As I have stressed today, we cannot afford to slip back to the status quo. The challenge that stands before us requires an urgent need to review the way things are being done. Institutions, approaches and systems that have worked well in the past may need to be altered to suit the changing global landscape.

84. The announcements I have made today – on new divestments, public and private partnerships, and a renewal of government processes to spark growth – are a sign of our commitment to reform and position our country, our workforce, our companies and our future generations for the challenges of a competitive global economy.

Ladies and gentlemen,

CLOSING

85. In my first days as Prime Minister, I said that Malaysia must be open to change. We have no alternative but to move forward and become a high income country with sustainable and inclusive growth. Change can be painful and short-cuts will be tempting. But we cannot seek only the quick wins. This will be a journey that may cause some short-term pain, but will pay off in a stronger Malaysian future. We need to have a sustained and consistent ‘big push’ if the reforms set out today are to gain momentum and help achieve our goals.

86. In this regard, this is a defining moment for Malaysia. As we emerge from a global recession, will we have the courage and the vision to pursue an ambitious agenda for change that can seem daunting, but is essential for our nation’s future? Our answer is to create high wage jobs, give our children the best educational opportunities, and attract the high quality investment that is the driving theme of this important gathering.

87. At this critical juncture, where we balance our nation’s history with its future, I believe we do have the courage to meet Malaysia’s hopes and ambitions.

88. But this is about far more than the economic goals of our nation. This is about the life chances open to future generations. This is about raising the sights of low-income families to help them out of poverty. This is about the very fabric of our society where we each have opportunities and responsibilities. It’s about placing Malaysia at the forefront of a high-income economy so that we can stand shoulder to shoulder with other fully developed nations. I am confident - with your support - we will choose the right path, move forward, not back, and build a fairer, stronger and dynamic Malaysia for many decades to come. I call upon you to join me in this momentous journey to build a truly prosperous and a new future for 1Malaysia.

Thank You.

