



SPEECH BY
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KHAZANAH MEGATRENDS FORUM (KMF) 2016
CLOSING ADDRESS

Date : 27 Sept 2016 (Tuesday)
Time : 5.00pm
Venue : Kuala Lumpur Convention Centre

YBhg Tan Sri Datuk Seri Utama Nor Mohamed Yakcop, Deputy Chairman Khazanah Nasional Berhad, and Chairman of Khazanah Research Institute

YBhg Tan Sri Azman Hj Mokhtar, Managing Director Khazanah Nasional Berhad

Distinguished KMF Speakers

Board Members of Khazanah Nasional Berhad

Distinguished guests
Members of the media

Ladies and gentlemen

Assalamu'alaikum w.b.t, Salam 1Malaysia and a very good afternoon.

INTRODUCTION

Ladies and gentlemen,

1. First and foremost, I am very grateful to be here today, to address this congregation of distinguished minds, who have gathered over the last two days in the spirit of meaningful dialogue about our collective future.

2. I offer my warmest congratulations to Tan Sri Azman and his team for organizing yet another successful Khazanah Megatrends Forum, the twelfth in its series, which is part of a wonderful tradition of engagement and discussion. Last year, the Forum recognized the role of institutions in transforming Malaysia into an 'innovation economy' that generates inclusive benefits for all Malaysians.

3. This year's theme – "Geography as Destiny: Reaping the Dividends of Good Stewardship" – builds on that by recognizing the role of institutions in allowing Malaysia to best harness her endowments for the benefit of future generations. The Forum reflects our recognition that good governance and stewardship practices allow the government to overcome obstacles for the benefit of all Malaysians.

ROLE OF GOOD STEWARDSHIP IN SHAPING MALAYSIA

Ladies and gentlemen,

4. For 59 years, our government, with the mandate from the people, has stewarded the developmental and structural change of our economy from the First Malaysia Plan in 1966 when Malaysia had an agricultural-based economy, to a manufacturing-based economy in the 1980s, and then onto a services-based economy with the 11th Malaysia Plan that came into effect this year.

5. Building on the New Economic Policy from 1971 and the National Development Policy that ran until 2000, our Prime Minister released the New Economic Model in 2010, through which the National Transformation Policy would put into motion the goals for Malaysia to become a high-income nation by 2020, in a manner that is both inclusive and sustainable.

6. The execution of such strategic plans has been vital to national development. Poverty is nearly totally eradicated in Malaysia and household income has increased from RM264 to RM6,141 from 1970 to 2014. In line with the Millennium Development Goals, our fight to reduce child mortality under five has fallen from 17 in 1990, to 7 per 1000 births, in 2015. Furthermore, our endeavour to

promote gender equality has also shown commendable progress in terms of female participation in the labour force, from a contribution of 45% in 1990 to 54% in 2013. Equally important is Malaysia's progress in achieving universal primary education, whereby enrolment has increased to 99% as of 2014. This progress is encouraging but we know that there is still much to be achieved.

7. It would be folly if we failed to acknowledge the hard truth – these are difficult times. The global economy – indeed, the global environment – is, in many ways, volatile, uncertain, complex and ambiguous. But even a difficult external environment should be no excuse for the government not to continue delivering for the rakyat, especially during troubling times. Yet, it is also true that, in these turbulent economic times the government is forced to make difficult decisions in pursuing the long term interests of the nation.

8. Over the years as we continue to develop and grow the nation, we have faced many challenges and obstacles. As an example, in 1998, the nation, for the time experienced significant economic challenges following the Asian Financial Crisis, which saw Malaysia's GDP growth contracted by 7.4 percent. Nevertheless, we came back strongly the next year in 1999 to register a positive growth of 6.1 percent. The key lesson learned during the period was the importance of having a strong and sustainable financial system to weather any potential financial disintermediation that may spillover to the rest of economy. We have also learned that stockbroking companies should have not acted like banks. Moreover, banks should have always embraced prudence in their lending activities. Given these learning experiences along with the implementation of crucial reforms, our financial system has been significantly strengthened in terms of governance and its sustainability to weather shocks.

9. In 2008, we are once again confronted by another major crisis, arising from sub-prime lending in North America which eventually escalated to the rest of the world as the Global Financial Crisis. Being an open economy, Malaysia was affected by these adverse developments which consequently led to the domestic economy contracting by 1.5 percent in 2009. And yet again, we recovered strongly in 2010 to register a growth of 7.4 percent. The crisis has, of course, provided another new learning experience for Malaysia. Policymakers in the country took the opportunity to further strengthen the sustainability of the financial system by enhancing responsible lending practices among financial institutions to better manage any potential financial imbalances such property bubbles.

10. More importantly, these reform initiatives over the past two decades have resulted in a more diversified, deep and robust domestic financial system, comprising the banking system and capital markets, which together amounted to RM4.3 trillion in 2015, about 4 times the country's GDP. The Malaysian equity market has also grown significantly over the years; with market capitalization now stood at RM1.7 trillion. Malaysia is also the third largest local currency bond market in Asia, behind Japan and Korea.

11. In a more recent period, the Malaysian economy was also confronted by another significant economic challenge, mainly from the plummeting global oil prices and prolonged volatility in commodities prices. Unlike in the last two crises where GDP growth contracted, Malaysia continues to register a positive growth rate of 5 percent in 2015 and expected to remain on steady growth path moving forward despite confronted by such economic hardship. This is a testament to our earlier reforms which have fundamentally strengthened the economy to weather shocks more effectively.

12. While our growth remain intact, the significant decline in oil prices have resulted the Government to lose an approximately about RM30 billion of revenue. But the recent commodity crisis has profoundly imparted another important lesson for the Government – the inherent need to have sizeable and sustainable reserve funds to provide stability and help insulate the economy from the volatile cycle of commodity prices. Countries like the UAE and Saudi with sizeable reserve funds of USD1.2 trillion and USD758 billion respectively, are some of the examples of nations which have

been successful in cushioning the impact of significant decline of oil price on public spending which is crucial to spur growth amid a more modest global economic conditions.

13 Thus, in light of this and in line with the KMF 2016 theme, I would like to humbly submit my view on stewardship and what it means to be a steward. I would position it as follows. Good stewardship is about striking a balance between what is best for all of the rakyat now and what is best for all of the rakyat in the future. As such, if you will allow me, I will discuss my two tenets of stewardship – finding the right balance between long-term and short-term goals, and the need to ensure that all stakeholders are well taken care of.

THE NEED TO HAVE SUSTAINABLE AND STRATEGIC PLANNING IN POLICY FRAMEWORKS

Ladies and gentlemen,

14 As I mentioned earlier, we live in an increasingly complex world. And in such a world, it may seem strange to some, silly even, to continue doing what the government of Malaysia does with regards to economic development – long-term economic Plans. If the global economy can shift so quickly, why should the government create and execute five year plans such as the Malaysia Plans? Look at the global economy today and look at it two years ago. In 2014, who would have imagined, for example, that oil prices would be as low as they are today? Or who would have imagined a Brexit scenario that affected 28 countries in Europe?

15 I will contend that, while it is absolutely true that a complex, ever-changing world implies that any future predictions of the global economic and political conditions should always be taken with a strong dose of skepticism, strategic planning is undoubtedly still a necessity. The reason for that, ladies and gentlemen, is good stewardship.

16 Herein lies my first tenet of good stewardship, which is about finding the right balance between the present and the future. An ever-changing world means that the changing conditions of the nation, the economy, the world, society and so on would always be most salient in our minds. In other words, there is a massive risk that we will always react to the short-term circumstances and make decisions as such.

17 Yet, when we have strategic plans, and when we set, in print, what direction in which we want to steward the nation, we have a True North of sorts. Using these long-term Plans and models as our True North ensures that we not lose sight of where we want to go, despite all the distractions that may occur in the short-term. Focusing on the long-term means we build an environment and an economy that is sustainable, a key pillar of the New Economic Model.

18 Building on that focus of sustainability, one example of the government's dedication to a sustainable future is via the launch of the Green Technology Master Plan in 2014, through the National Green Technology Policy. This policy outlines the importance of reducing Malaysia's carbon emissions by 40% and the need for growing the green technology industry with a target contribution of RM70 billion to the country's GDP by 2030. Investments in the industry reached RM2.59 billion in 2014, surpassing the target of RM2 billion. This refocus into sustainable power generation, reducing pollution, and sustainably using resources is a clear representation of the government's commitment to our mission in achieving sustainability.

19 However, there is still a need for great caution. Focusing too much on the long-term risks endangering livelihoods in the short-term to the point where long term goals are rendered futile. Hence, while it is undoubtedly reckless to forgo long term considerations, it is also just as reckless to ignore what is happening in front of you in the present. Nevertheless, it is not easy to balance between the two, and over-weighting one over the other without due consideration for either side is irresponsible.

INCLUSIVITY IN PEOPLE ECONOMY

Ladies and gentlemen,

20. Having stressed the importance of sustainability in strategic planning and in the pursuit of our nation's 2020 targets, let us not forget, the importance of inclusivity. Becoming a developed nation is only possible and worthwhile when all of Malaysia's diversity is represented and has a seat at the table. This, I propose, is my second tenet of good stewardship. After all, it makes no sense to have a truly sustainable economy if it is not inclusive, another pillar of the NEM.

21. As some of you may already know, two significant elements of the NEM includes narrowing disparities between Malaysians by reducing regional differences and intensifying human capital development overall in the country. The policies are focused on allowing more Malaysians to have a seat at the table, especially rural Malaysians that are part of the Bottom 40 percent (B40). Then there is also geographic inclusion. Consider the push for regional economic corridors across Malaysia such as SCORE, Iskandar Malaysia in Southern Johor, NCER, ECER, and the Sabah Development Corridor. This spreads growth opportunities across the country.

22. In addition, we have channelled our efforts into domestic construction projects that not only enhance the productive capacity of the economy but also narrow disparities and connect Malaysians such as, MRT and LRT, the High-Speed Rail connecting Malaysia and Singapore, and the Pan-Borneo Highway, to name a few. By doing so, we reduce regional differences by allowing access to more Malaysians through these public transformation projects. Malaysia as a nation cannot progress if certain regions, certain ethnicities and certain races are left behind, which is why projects of significance such as this one are needed to support the wellbeing of the rakyat – our 'people economy'.

23. Furthermore, in the spirit of inclusiveness embodied in the New Economic Model, the government has implemented The Minimum Wages Order 2016, which – on the recommendation of the National Wages Consultative Council – sets a minimum wage of RM1000 for Peninsular Malaysia and RM920 for Sabah, Labuan and Sarawak, which came into effect on July 1st. This move will help to uplift the most vulnerable segments of the society, with benefits that feedback into the overall economy.

24. Thus, sustainability alone is not enough to represent good stewardship. The other necessary ingredient is inclusiveness. Only when we can ensure that all stakeholders are represented, with future and present prospects appropriately balanced, can we truly engender good stewardship.

SUSTAINABLE FISCAL POLICIES TO ENGENDER SUSTAINED GROWTH

Ladies and gentlemen,

25. Since my recent appointment as the Minister of Finance II, I have learned, quite quickly, how unique the Ministry of Finance is, with relations to the KMF theme for this year. Specifically, I have learned just how crucially positioned the Ministry of Finance is in engendering good stewardship for the Malaysian economy via its role as the custodian of one of the government's most important, if not the most important, policy instrument – fiscal policy.

26. In delivering on our responsibilities, often times, the Ministry of Finance has had to make difficult decisions for the long term benefit of the nation's finances, which has led to policies such as the Goods and Services Tax (GST) and subsidy rationalisations. These policies were certainly not populist in nature but were particularly necessary in order to keep our fiscal deficit on target – that is - 3.1% for 2016, especially given the challenging economic climate this past year, and to ensure the

continued reduction of our deficit for years to come.

27. But as I have mentioned, to focus only on long term goals, while ignoring the difficulties we face in the short term, would simply be irresponsible and unethical. Notwithstanding the policies to enhance the sustainability of our fiscal position, the Government, of course, recognise that the rakyat faces increasing costs of living. Hence, the Addressing Cost of Living as a National Key Result Area under the Government Transformation Programme. Moreover, targeted cash handouts such as BR1M have been instrumental in helping Malaysians, particularly the B40 citizens in overcoming the rising cost of living and cushioning the impact of the GST on their spending abilities. The latest State of Households Report by the Khazanah Research Institute has shown that initiatives such as BR1M are indeed beneficial, with the incomes of the B40 group having grown the fastest, when compared to the middle 40% (M40) and the top 20% (T20), from 1979 to 2014.

28. We are firmly focused on continuing the reduction of our fiscal deficit, as we have for the past seven years to 3.1% of GDP this year. Yet, we also want to ensure that we do not overly weight the future at the expense of the present.

29. Addressing the welfare of the rakyat in the short term is necessary to ensure we have a stable foundation to build upon before we can even go after our long term goals. From this, we can see that the greatest challenge of good stewardship essentially comes down to how we balance competing interests among all stakeholders.

CONCLUDING REMARKS

Ladies and Gentlemen,

30. Malaysia's journey to becoming a high-income nation by 2020 is not a straightforward task but with confidence, we hope our robust policy frameworks will continue to position the nation where it can withstand external shocks and persevere through economic hardships, as it has for the past 59 years of our independence.

31. It was no coincidence that Malaysia has, over several decades demonstrated time and time again, the ability to emerge stronger from commodity price shocks, financial crisis and spill overs from disruptions generated from other parts of the world. This is a testament to the solid foundations and the resilience of the nation, built over decades of reforms which accorded us the flexibility and the strength to rapidly rebound from any economic hardship.

32. In overcoming the obstacles we will inevitably face, we must carefully strike the balance between short-term needs and long-term goals, while ensuring that the present and the future is beneficial to the welfare of all Malaysians. Doing this is not easy. It does not just require a change in mindset but it also requires us to understand and empathise. For this reason, it is so critical that we continue to make decisions based on data and facts to tackle the challenges we and our fellow Malaysians face today.

33. We must never forget to anchor on what is real – hence, the need for concrete data and facts – while also being constantly guided by our True North, acting thus as good stewards of our beloved nation.

34. While many factors has undoubtedly played a role in what and where Malaysia is today, it is the challenge of good stewardship shared by all Malaysians that will either pave the way or hinder our path towards greater productivity, transparency and mediation of competing interests, in achieving a happy abode for us all.

Thank you.