



## **CLOSING ADDRESS**

**YB SENATOR TENGKU DATUK SERI UTAMA  
ZAFRUL AZIZ  
MINISTER OF FINANCE MALAYSIA**

**KHAZANAH MEGATRENDS FORUM 2022**

**4 OCTOBER 2022 | 6.20PM – 6.35PM |  
MANDARIN ORIENTAL**

*Bismillahirrahmannirrahim*

Yang Berbahagia Dato' Amirul Feisal, Managing Director of Khazanah Nasional,

Board members of Khazanah Nasional,

Distinguished speakers,

Ladies and Gentlemen,

**Assalamualaikum wbt, Salam Sejahtera, Salam Keluarga Malaysia,**

1. It gives me great pleasure to be here today. It's an honour and privilege to close the **2022 Khazanah Megatrends Forum (KMF)**. Listening via the livestream to a few of the distinguished speakers was certainly stimulating, especially during my final prep for the 2023 Budget. Likewise, I trust everyone had a productive past two days.
2. Congratulations to Khazanah Nasional for organising another successful KMF.

## THE PERFECT STORM?

Ladies and gentlemen:

3. The nautical theme of this year's KMF: "*Development and its Complexities: Steering Our Way Through a Perfect Storm*" is apt, not just because I am a navy reservist, but because it also echoes the themes I raised in my recently launched book: "*Weathering the Economic Storm: A Journey through the Uncharted Waters of Covid-19*". Also, because the Budget is this Friday, I am sure many here expect me to drop hints on what the Government has planned, especially for your business sectors. I completely understand; remember, I was once in your shoes!
4. I promise that Budget 2023 will be forward-looking and inclusive. It will be **pro-investment, pro-development, pro-environment, pro-empowerment, and most importantly, pro-rakyat.**
5. As such, today I will speak briefly about the global economic situation and how Malaysia is navigating the headwinds. I'll then provide some views on how we might not just accelerate our recovery, but also emerge stronger.
6. Over the last two days, we have had the pleasure of hearing ideas on navigating development, especially given the complexities of the 21st century. Expressed through the lens of macro, markets, firms and people, these include:
  - a. Ideas by Professor Ha-Joon on the need to democratise economics and having a varied "diet" of economic ideas

- b. During the ‘Macro and Markets’ session, I was intrigued by the idea that we cannot have a fast-moving and stable world at the same time (Joke: Thank you for also highlighting that CFAs and MBAs are not useful in fighting climate change if they do not include geopolitics); and
- c. During the ‘Innovation without Borders’ session, thank you to Florence Tan for sharing NASA’s insights on some its missions and for reminding us that failure is the mother of invention.

## **THE CHALLENGES FACING THE GLOBAL ECONOMY ARE IMPACTING THE DOMESTIC ECONOMY**

Ladies and Gentlemen,

- 7. These are powerful ideas that are timely, not only because Malaysia is on the point of becoming a high-income nation, but also because of the circumstances we find ourselves in today. In many ways, the recipe for economic development has remained the same. It still requires technological mastery, capital and human development, strong institutions, and a shift in economic structure towards higher value-added, higher-productivity work.
- 8. As I have stated, the global economy is indeed facing a “perfect storm” from all directions. Most of these are well-known to us all, such as:
  - a) **One, increased inflation, as well as monetary and fiscal tightening** because of rising commodity and food

prices, prolonged global supply chain disruptions, and **US Federal Reserve rate hikes**.

- b) **Two, on-going geopolitical tensions**, including the **Russia-Ukraine war**, as well as the **South China Sea and Taiwan disputes**.
  - c) **Three, in terms of public health, we cannot agree that the Covid-19 pandemic is over**. Moreover, China's strict adherence to its zero-Covid policy complicates the global economy.
  - d) **Finally, Covid-19 has worsened social polarisation**, which was already a concern prior to the pandemic. How can we secure equitable distribution of wealth when the gap has become even wider?
9. All of these factors will have an influence on global growth, with the **IMF revising downwards its 2023 growth forecast to 2.9% for the global economy**, and 3.9% for developing economies.
10. On top of that, there is the **threat of climate change to grapple with**. Malaysians are still affected from the devastating floods that occurred late last year. Climate mitigation and adaptation are urgent priorities.
11. Furthermore, as our Constitutions requires, **Malaysia will have to have General Elections sooner or later**. And, while I don't know when it will be held, I strongly feel that we must not allow our political differences to tear our societies apart. In a healthy democracy, disagreement is normal; vilification is not.

## MALAYSIA STILL RESILIENT AND COMPETITIVE

Ladies and gentlemen:

12. The challenges I have highlighted have global implications that will affect the growth trajectories of various countries. But how does Malaysia fare? I am pleased to share that, despite the perfect storm, our economic ship has remained steady. As a member of the crew manning it, the figures speak for themselves.

- a) **First, Malaysia's GDP has increased for three consecutive quarters:** 3.6% in 4Q2021; 5.0% in 1Q2022 and, most recently 8.9% in 2Q2022. We anticipate an equally strong third quarter growth.
- b) **Second, we are confident we will meet or even exceed the official 2022 GDP projection of 5.3% to 6.3%.** In fact, the World Bank has raised Malaysia's GDP growth forecast to 6.4% for 2022.
- c) Finally, our **unemployment rate fell to 3.7% in July 2022, the lowest since the pandemic.**

13. I can cite so many other numbers:

- a) external trade (+43.4% to RM270.4 billion in June, double-digit growth for 17 consecutive months since February 2021);
- b) exports (RM146.2 billion or +38.8%, growth for 22 consecutive months since September 2020);
- c) imports (+49.3% to RM124.2 billion)

- d) total external trade (+28.2% in 1H 2022, at RM1.36 trillion, i.e., the highest half-year value for trade, exports, imports, and trade surplus ever recorded.)
- e) Net FDI (has remained positive, at RM17.3 billion).

14. So, **the Malaysian economy is clearly on a better footing today**. I believe it is irresponsible to claim that Malaysia is in an economic crisis.

15. Our growth is robust. Investment, resilient. The labour market, healthy. Financial and capital markets, deep and diverse. **But I also want to highlight that none of these achievements happened by chance.**

16. For the past two and a half years, the Government and the Ministry of Finance (MOF) has been focused not only on being RESPONSIVE to the short-term needs of the people and businesses, but also on being RESPONSIBLE and REFORMIST in building resilience.

17. We have been RESPONSIVE in terms of, among other things, our expansionary fiscal policy through Budgets 2021 and 2022, our assistance and stimulus packages, as well as monetary policy which has remained accommodative.

18. But most importantly **we have also been RESPONSIBLE to ensure that policies crafted** – such as wage subsidies and grants for micro businesses – **would place the country in the best position to ride on the growth trajectory upon the reopening of the economy, while ensuring we**

**remain fiscally prudent.** On that score, for the record, our borrowings in foreign currency make up only 2.8% of total government debt, which means there is only minimal exposure to foreign exchange risk.

19. Further, the government statutory debt stands at 60.4% of GDP as at end-June, below the statutory limit of 65% of its GDP. **In fact, this statutory debt limit was introduced for the first time in 2020, when the pandemic hit us. We also had the COVID bill, which segregated pandemic fiscal needs from regular requirements. As a result, Malaysia's sovereign credit rating is better relative to our ASEAN peers** (Ref: S&P Global Ratings: Malaysia A-, Thailand BBB+, Philippines BBB+, Indonesia BBB).
  
20. **Nonetheless, we are aware that our fiscal position can and must be improved, including via subsidy rationalisation measures and a wider revenue base.** We will work to increase our tax revenue-to-GDP ratio above the current 11% in line with the Medium-term Revenue Strategy and the Fiscal Responsibility Act, to be tabled in Parliament by end-2022.
  
21. What is equally important is that we have also made good progress on implementing our REFORMIST policies to address structural issues, such as:
  - a) **First, widening the social safety net under SOCSO and opening up the EPF retirement fund to the self-employed and housewives** so they, too, can leverage on the EPF's investment expertise to build their retirement fund.



- b) **Second, uplifting Malaysia's competitiveness in the global market** by developing the National Investment Aspirations (NIA) as a basis for reforms of investment policies, focusing on fostering coherence, creating high-value jobs, and improving inclusivity.
- c) **Third, by positioning ourselves to benefit from the ongoing supply chain reorganisation triggered by the heightened geopolitical tension.** FDI into Malaysia has risen by a CAGR of 15.1% over 2018-2021. Companies in Penang's E&E hub are reporting both rising investment/interest by US and Chinese companies.
- d) Additionally, the **implementation of the MyMudah initiative, under the Malaysia Productivity Corporation will reduce regulatory compliance costs for businesses by 25%** from an estimated RM40 billion currently, allowing businesses to utilise their resources more productively.

22. And yet, there is more to be done on to address decades-old structural issues. To that end, we will continue with our 3R approach in the upcoming Budget 2023. My third since becoming Minister of Finance, the upcoming **Budget 2023** which will be unveiled this Friday, 7 October.

23. Next year's budget will prioritise **reinforcing the momentum of the current economic recovery, strengthen economic resilience against future storms and implementing comprehensive reforms for the nation to thrive in new global norms while advancing the agenda of inclusive and sustainable development.** On that last point, I am happy to share that, for the last two (2)

annual budgets, MOF has mapped as many of our measures as possible to the SDG goals. Budget 2023 will be no different

Ladies and gentlemen,

24. Rest assured that the **Government is highly aware of the incoming global economic turbulence, for which we must implement proactive mitigative and adaptive measures.** Yes, the years ahead will be challenging, but it will not be without its bright spots. Navigating the turbulence ahead and capitalising on opportunities will require support from all sectors of society. We must strive to ensure that we build back better from the last two years, so that the pandemic years do not affect our trajectory, and amount to a lost decade for us.
25. Indeed, I was struck by something that Professor Ha-Joon Chang said during the course of the Forum, namely on the need to **democratise economics and varied “diet” of economic ideas.**
26. Professor Ha-J’o’n’s allusion that the **methods that got Malaysia to where we are today – an economic model based on “learning”, cost minimisation and low-value added – no longer suffice to get to where would like to be.** New tools or software are needed – one that is based on innovation at the technological frontier, premium maximisation and high-value added.

27. So today, I would like to suggest three (3) major ways that will help Malaysia achieve this imperative to conquer the “perfect storm” ahead. I hope these suggestions can become points for future debate and productive discourse.

**(1) Food and energy security must be secured**

28. **First, we must insulate our food and energy security from rising production and price volatility amid geopolitical conflicts, supply chain disruptions, de-globalisation movements and climate change.**

29. On the inflation front, for example, Malaysia’s CPI increased to 4.7% in August 2022 or 3.1% year-to-date, partly due to price hikes in imported components that feed into our agriculture and food industry, like fertilisers and feedstock.

30. But do note that, despite global cost-push pressures, **inflation remains well anchored**, thanks to spare capacity in the economy, existing price controls and Government subsidies amounting to nearly RM80 billion for 2022. The government is also currently working to ensure the sustainability of Malaysia’s food supply via the National Food Security Policy Action Plan 2021-2025, which tackles key issues from agricultural inputs to food waste.

31. **But we need to think bigger, and we need to do this faster. Given the heightened global geopolitical tensions, we must seriously consider investing in**

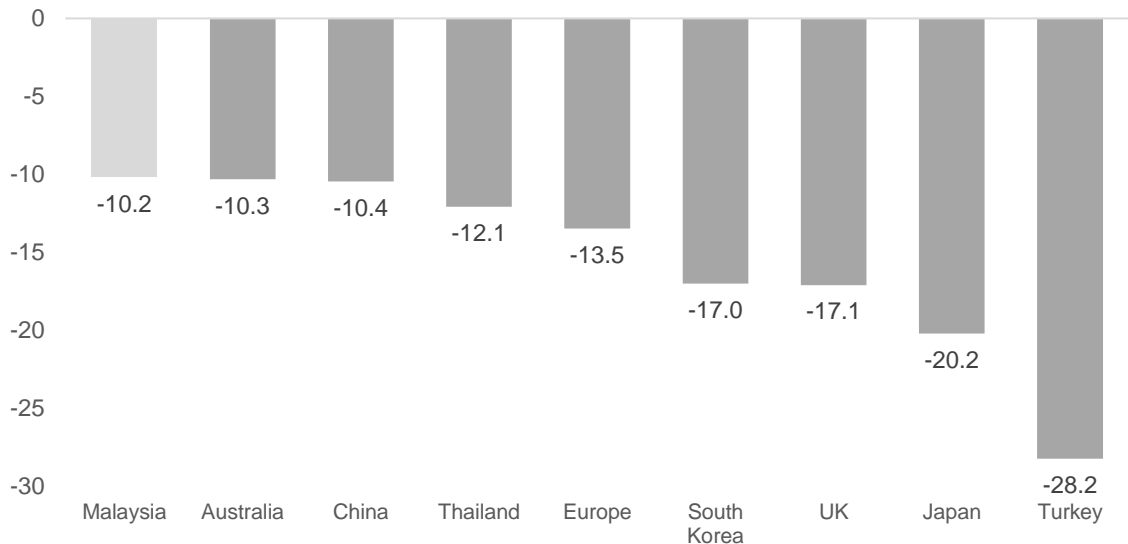
**building a strong ASEAN-wide supply chain, especially for food and energy security.**

32. ASEAN was in fact founded at a difficult time when the newly independent ASEAN nation states were grappling with threats of the spread of communist ideology. We were at risk of being torn apart by the then Cold War between the US and Soviet Union. ASEAN united us then, and we have prospered since.
33. Fast forward more than half a century later, in the age where superpowers rivalry is threatening global stability, we must re-affirm and re-strengthen the ASEAN fortress and mitigate the risks in navigating the current global dynamics.
34. Malaysian corporations, many of you are present here today, have been successful in expanding your footprints across the region. But we must go one step ahead and now invest in building strong ASEAN supply chains in critical industries. We are now competing for investments. Given the varying degrees of development in each of our economy, investors are picking and choosing where they want to invest and being opportunistic with their business decisions.
35. If ASEAN policymakers can coordinate and work closely together, we can identify critical industries where we can scale up and enhance to be a critical part of the global supply chain. This will benefit not just our individual economies, but also serve as a mitigating strategy against calamities such as the pandemic, and geopolitical tensions happening in other parts of the world.

36. For industries such as E&E, commodities like palm oil, Oil & Gas, rubber gloves, medical devices, even new industries such as EV, we need to identify the verticals we want, and develop them properly, and this will be not just a source of economic benefits in terms of investments and jobs, but also a glue that binds us together and a hedge against global uncertainties and supply chain disruptions stemming from geopolitical tensions outside ASEAN.
37. In short, ASEAN is an under-utilised platform, but if we put our sincere efforts into thinking about regional stability and economic prosperity, it can find itself as a driving force for greater benefits for more than its 600 million population. There can be no Asian Century without a strong ASEAN at its core.

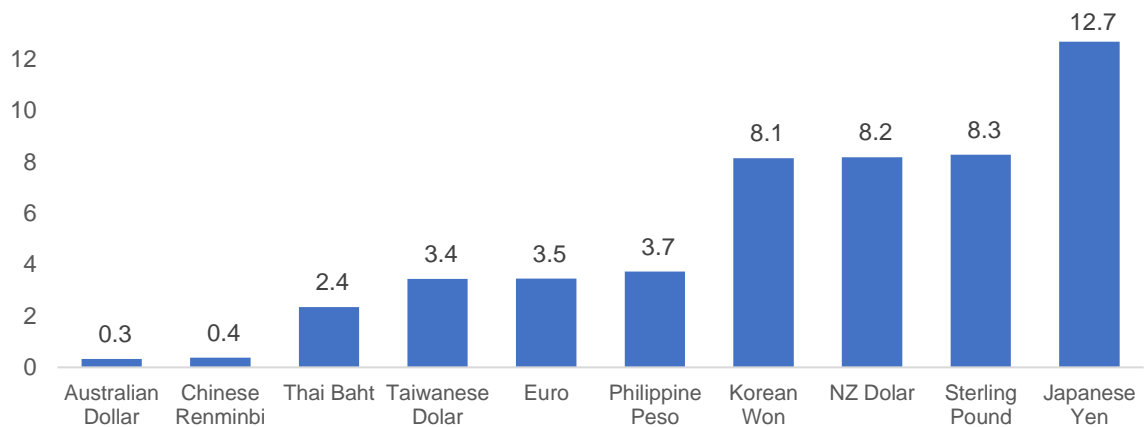
## **(2) Thinking outside the (dollar) box?**

38. Next, **I acknowledge that what's been happening to the ringgit may seem alarming.** But as all of you are well aware, the strengthening of the dollar is a **global phenomenon.** Yes, the Ringgit has contracted 10.2% against the Dollar, but this has been **more manageable relative to our regional peers and key trading partners.**



Source: Bloomberg

39. In fact, the Ringgit has appreciated respectably against currencies like, among others the Yen, Pound Sterling, Euro, and Thai Baht. Its performance, if weighed against the currencies of Malaysia's trading partners have been relatively stable at a Nominal Effective Exchange Rate (NEER) of -0.7% as of end-September 2022.



Source: Bloomberg

40. **Our goods are in demand, and our economic fundamentals are strong. All these will eventually**

**strengthen the ringgit.** What is not needed is archaic, knee-jerk solutions such as currency pegs, which also require capital controls. Ultimately, these will complicate our monetary policy, burden the public with higher financing costs and shake investor confidence. It's a risk that arguably no longer pays off.

41. **But more importantly, perhaps the time has come for the nations of the world, especially in Asia, to think of solutions to the global economy's reliance on the US dollar.** With its 4.7-billion population, Asia is arguably the dynamo of global economic growth, now and in the future. Much of the commodities needed to make the leap to the so-called "digital" and "green" economies are to be found on our turf.
42. And yet, **Asian economies perpetually seem to be at the mercy of decisions and market fluctuations occurring a few continents away.** I am not advocating abandon the greenback for another currency like some have. **Malaysia remains committed to the global financial architecture as it exists, but sooner or later, these are questions smaller trading nations must consider, uncomfortable as they may be.**
43. Given the unique position of the Dollar as the reserve currency of the world, one that often appreciates in periods of uncertainty, a currency's position versus the greenback – especially in the short term – is hardly a yardstick of the state of the economy.

44. A world where key countries can adversely affect the growth trajectories of others, including Malaysia, is unsustainable. Certain policies may benefit one superpower domestically but they must not end up hurting others and potentially jeopardizing global prosperity.
45. There must be a sense of responsibility, as well as justice, towards collective global growth, as well as improved monetary cooperation and coordination. It is high time we get the job done by creating a viable **International Monetary Cooperation Mechanism** to ensure financial systems are not only effective and fair, but also consider the unique needs of small, emerging and developing countries equitably. Dialogues are crucial, but action is more important.
46. I am not advocating anything revolutionary. Indeed, the world did it before:
- a. In 1985, the Plaza Accords were signed to stabilise the US Dollar against the Japanese Yen and German Mark.
  - b. Between 1985 and 1987, the accords stabilised the U.S. current account balance, while solidifying Japan's presence as a major player in the international market.
  - c. A second agreement, the Louvre Accord, was signed in 1987 to stop the continuing decline of the dollar and stabilise exchange rates.
  - d. During the Global Financial Crisis, central banks in developed countries coordinated to prevent financial contagion from spreading to the rest of the world.
  - e. Finally, at the onset of the COVID-19 pandemic, the Global Financial Safety Net provided ample financing to



quickly stabilise the global financial markets and contain the economic crisis.

47. Further, existing institutions like the Bank of International Settlements (BIS) and International Organization of Securities Commissions (IOSCO) also have an important role in aiding developing countries and emerging economies.
48. The cost of uneven growth between countries, or even de-globalisation, will be high especially when we are trying to tackle global issues such as poverty and sustainability. Indeed, these are issues I have been raising with some of my counterparts in the past few weeks and definitely these are some of the key ideas I hope to take with me at the upcoming IMF and WB Fall Meetings later this month.
49. As an emerging economy that strives to be a high-income nation, Malaysia must continue voicing out for a fairer more equitable global policy and regulatory environment that will benefit the wider world and not just the select few.

**(3) Climate change is the next perfect storm, yet ESG must not be a rich man's club**

50. This ties in to my third suggestion, **the next perfect storm will be one of climate change**. In this respect, Malaysia remains committed to aligning our economic development with the global ESG trend.

51. MOF, as part of its reformist approach, has initiated various measures to institutionalise ESG. This includes the proposed establishment of an **Integrated National Financing Framework, the establishment of the MySDG Foundation, and the Sustainable Finance Roadmap**, which features a more comprehensive and unified framework for sustainable finance.

52. But we are aware that financing is only one component of the ecosystem. We are serious on decarbonization market reforms. which include:

- a. **One**, developing Malaysia's Voluntary Carbon Market (or VCM) which will be launched by Bursa Malaysia by end-2022.
- b. **Two**, studying the feasibility of implementing a carbon pricing mechanism to further encourage industries to transition to low carbon pathways; and
- c. **Three**, laying the groundwork for tabling a climate change bill next year.

53. **ESG may be the antidote to climate change and other ills, but it also presents its own complications.** Therefore, there is a moral imperative to **make ESG work for everyone**; not simply a means to enrich the rich further and impoverish the poor more.

54. Inculcating the principles of ESG is neither easy nor cheap. How do we ensure that it does not become yet another means to disenfranchise poor nations or smaller companies with no capacity to comply with the "rules"?

55. In our attempt to become a carbon-neutral nation by 2050, for example, apart from transition challenges, there is a serious risk of disruption towards the labour market, infrastructure and geographical landscape and as such, we must minimise any adverse outcomes from the transition.
56. Indeed, an unjust transition will be costly for us all. The International Labour Organisation recently issued a report highlighting that ASEAN could potentially lose half a million jobs in fossil fuels by 2050. While it could also gain up to five (5) million jobs, mainly in renewable energy (RE), we need to be wary of job losses due to such a shift that will impact jobs, livelihoods and economies, particularly in developing Asia that may be slower to build capacity in RE.
57. On this, I echo what Dato' Amirul Feisal highlighted in his welcoming remarks, which is the issue of **just transition**. And herein lies a great opportunity among the Government Linked Investment Companies (GLICs). With their **RM1.7 trillion assets under management**, I feel our **GLICs can not only build capacity for RE and other ESG initiatives, but must also guide and assist the rest of corporate Malaysia**, especially smaller companies, in meeting the challenges of higher ESG compliance costs.
58. I am proud to note, many of the GLICs, like Khazanah itself, EPF, KWAP, and PNB have started rolling out their sustainability blueprints in the past two years. **This momentum must be sustained in building capacity and ensuring a just transition for meaningful outcomes to emerge.** For example:

- a. PETRONAS recently launched their subsidiary, Gentari, with a view of becoming a one-stop integrated clean energy solutions provider. In doing so, they have created new jobs in their green business, which will benefit existing employees and new hires.
- b. Meanwhile, TNB, plans to invest approximately RM20 billion per year in CAPEX over the next 28 years to accelerate its energy transition plan, which aims to reduce emissions intensity to zero by 2050.

59. In short, ESG considerations **will be a mainstay of business decisions by the GLICs and other corporates going forward**, and they will only grow in importance. For Malaysia, **striking an optimal balance between advancing green transition and securing near term growth is also critical**.

60. On this, I am happy to share that there will be various ESG-related measures in Budget 2023 to support corporate Malaysia's endeavours to make our business ecosystem not only more vibrant and resilient, but also equitable. If we collectively play our part, the sum of all our efforts will amount to a better, brighter future for Malaysia, insya-Allah.

## **CONCLUDING REMARKS**

Ladies and gentlemen:

61. As the past two days' discussions have highlighted, we need to anticipate a period of possible worsening turbulence that

requires us to future-proof our economy. Neither a business-as-usual approach nor emotive reactions will suffice.

62. It is essential for us to be fully equipped with strategies to sail through the storm and emerge stronger afterwards. This is not the time for despair or cynicism. Our ancestors were seafaring people, from different lands.
63. To set out to sea like they did, requires courage, an open mind, and a willingness to embrace new things. If we can seize on this spirit, there's no reason we can't bring Malaysia out of the perfect storm. With wise leadership, unity and hard work, things can only get better.
64. My message to all of you in corporate Malaysia is this: never stop working hard for the country we dream of!
65. My appreciation once again to Khazanah for the honour of closing this year's KMF. **May our minds be enriched, our souls enlightened, our spirits lifted and our commitments to Malaysia renewed and reinvigorated** by our continuous discourse to uplift humanity.

Thank you, wabillahitaufikwalhidayah wassalamualaikum wbt.