

# **The Malaysia-UK Partnership Dialogue**

27 April 2009 ~ National Liberal Club, London

Jointly organised by the Asian Strategy & Leadership Institute (ASLI)  
and the British Malaysian Society (BMS)

## **Brief summary of proceedings**

### **Keynote Address: Malaysia and UK Partnership: Scaling New Heights, Building on Past Success**

**The Hon. Dato' Mustapa Mohamed, Minister of International Trade & Industry, Malaysia**

- On the back of a 4.6% growth in 2008, the Malaysian GDP, pending a revision, is expected to grow between -1% and 1% in 2009, given that the country is not as badly affected by the global economic downturn as the US and the UK.
- Such confidence is based on the potential of Malaysia' diversified economy to weather the economic storm. Despite an expected fall in manufacturing and exports, Malaysia's commodity sector has performed rather well, helped in no small part by the upward trend in palm oil and rubber prices. In addition, the banking and financial services sector is robust, and is expected to come through the current downturn rather unscathed as a result of the reforms and consolidation that took place after the 1998 Asian financial crisis.
- At the same time, the Malaysian Government is implementing a raft of strategies designed to counter the downturn and an expected fall in FDI in the manufacturing sector, which received an all-time high of RM17 billion in FDI last year. Chief among these strategies is the RM67 billion stimulus package. Other new initiatives include the tasking of MIDA to oversee new investments in the services sector, the liberalisation of 27 services sub-sectors to allow for 100% foreign equity ownership and the easing of foreign ownership rules in the banking and financial services sector to allow for 70% foreign equity in local Islamic and investment banks and insurers and the opening of up to 7 new foreign banks by 2012.
- The new Malaysian Prime Minister's key initiatives will include a commitment to better governance, improving transparency and, where appropriate, continuity in existing policies formed by the previous administration. The Prime Minister is also giving significant emphasis on social justice and national unity through his One Malaysia initiative, committing himself to reducing the income disparities among Malaysians and driving socio-economic development in East Malaysia. The political stability in Malaysia that makes it conducive to foreign investment has long been a key factor in the country's economic success, and will remain the bedrock for future economic growth.

### **Dialogue Session on Malaysia and UK Partnership with The Hon. Dato' Mustapa Mohamed, Minister of International Trade & Industry, Malaysia**

#### ***On the further liberalisation of the services sector in Malaysia***

Several British participants enquired if the Malaysian GLCs will likewise be opened up to allow for foreign equity participation. A key concern of foreign investors was the lack of liquidity in the market, which had made Malaysia rather unattractive to them. Liberalising the GLCs will represent a step in the right direction towards attracting more

foreign investment. In addition, given the Malaysian Government's decision to allow for 5 international legal firms to participate in a part-liberalised Islamic banking and financial services sector, one British participant asked why the initiative was limited to just 5 firms and only within the said sector. Several British participants also wanted to know what constituted the "pre-determined criteria" in the Malaysian Government's selection of foreign institutions as participants in a further liberalised banking and financial services sector.

The Minister acknowledged that the reduction in Government equity held in listed GLCs a few years ago had not been to a desirable extent. In similar vein, the limited liberalisation in the Islamic banking and financial services sector to allow for the participation of only 5 foreign legal firms was due to the current lack of capacity among local legal firms to compete on a level playing field with their foreign counterparts. In what he expressed as an imminent move, it would be a matter of time before the sector was opened up to foreign players. The gradual liberalisation of the Islamic banking and financial services sector may well be the pre-cursor to the opening up of other sectors. The Minister also reiterated the Malaysian Central Bank's stated criteria of "flexibility of operations" and "being a strong and world-class bank" in awarding licences to foreign institutions.

### ***On the economy***

One participant drew attention to Malaysia's economic stimulus package by asking whether more could still be done as alluded to by the IMF.

The Minister explained that monetary (quantitative) easing, a measure adopted in many Western economies, was not warranted for the time being. Interest rates had already been reduced in Malaysia, while there was at the same time sufficient liquidity in the money market. All factors considered, a further easing of monetary policy, i.e. a further reduction in interest rates, was not necessary in the meantime.

### ***On the environment***

With reference to the construction industry in Malaysia, one British participant asked if Malaysia was already driven by environmental legislation or was only beginning to head towards that direction.

The Minister replied that the Malaysian construction industry was slowing down as most of the required basic infrastructure had already been built. While Environmental Impact Assessments had always been carried out, it was acknowledged that they could have been done more stringently. Nevertheless, there will be a tightening up of rules and enforcement of the EIA, particularly in the aftermath of several high rise building tragedies in Malaysia.

### ***On human capital development***

One participant expressed the need for more Government initiatives, particularly those of a medium term lasting 3 to 5 years, for education and training in the Islamic banking and financial services sector, which was growing in popularity.

The Minister explained that almost all universities in Malaysia were currently offering courses in Islamic finance, while INSEAD offered specialised programmes at the graduate level. Some RM500 million had also been allocated to the Malaysian Central Bank to spearhead training in the sector. The Minister further emphasised that Malaysia was building, if it hadn't already achieved, a global reputation as *the* centre for training in Islamic finance.

### ***On social-economic policies***

There was a brief question on whether the New Economic Policy was still relevant for Malaysia, and if it was no longer relevant, whether the policy should be abolished.

The Minister replied that the NEP had technically ceased to exist in 1990. However, the spirit of the NEP remained, as the focus had now been trained towards helping all ethnic groups and not merely the Bumiputeras. Even as discussions on the 30% Bumiputera equity continued, the political reality was such that, not unlike the imminent liberalisation of the services sector, the dismantling of any remaining traces of the policy was very much a matter of timing. The Minister emphasised the importance of a gradual easing off, given that the Bumiputeras were currently in need of some "breathing space" before they could become suitably able to compete with other ethnic groups.

### ***On exports***

A Malaysian restaurateur in London expressed his wish to procure ingredients, particularly *halal* food, from Malaysia, but had long been put off doing so due to the inability of Malaysian producers to meet foreign demand. As a result, he and other Malaysian restaurateurs in Britain had little option but to source for ingredients from Thailand. He wanted to know what could be done to enable them to procure from Malaysia.

The Minister acknowledged the shortcomings in the food export industry, not least the inability of Malaysian factories to meet the considerably large volume of demand from Britain. He accepted that MIDA will need to find solutions for this and the agency will soon be compiling more information on the matter and will seek ways to assist both parties. In addition, the Minister identified the costs of agro-products to be relatively higher in Malaysia than in Thailand and Indonesia, rendering food products from neighbouring countries more attractive for exports. He cited labour costs as the main factor driving up prices, and acknowledged it will be a challenge to find ways to reduce both labour and overall costs so as to remain competitive.

## **Roundtable Discussion: Enhancing Bilateral Business Ties between Malaysia and the UK**

### **Lord Charles Powell, Chairman, Asia Task Force, UK Trade & Investment**

- Malaysia must not fall back into protectionism, but must set an example for the rest of ASEAN and Asia by engaging in free trade negotiations with the EU. This is particularly crucial as ASEAN-EU free trade negotiations are deadlocked. Malaysia should therefore play a leading role and "apply pressure" on other ASEAN nations to resume serious discussions.
- The amount of bilateral investments between the UK and Malaysia is satisfactory, although there is admittedly an appetite for more. The UK Trade & Investment Asia Task Force will assemble a cadre of British businesspeople with experience of trading with and investing in Malaysia to brief the rest of the British business community and companies keen to do business with Malaysia. The UKTI's structure is sufficiently well-devolved into various regional offices to provide good service to British companies.
- However, it will take quite a lot of convincing before British investors are sufficiently keen to do business with and in Malaysia. Some of the areas where the Malaysian Government should look into include:
  - There are far too many licences and other bureaucratic procedures that seem to impede investments into sectors such as retail, automotive and the GLCs – the latter sector is almost closed to foreign participation.

- Many British investors are still unconvinced that the once necessary restrictions, i.e. the raft of protectionist policies, can boost the Malaysian economy in any way.
- Instead, opening up the economy to foreign participation by eliminating licences, restrictions and quotas can actually benefit the Malaysian economy tremendously.

***Comments from the floor***

- Most of the time the larger British companies aren't those that need help to access the Malaysian market owing to their size and scale; the smaller companies are the ones in greatest need of assistance. As such, these are the ones the UKTI should target and to which much needed assistance should be directed.
- Many British companies in knowledge-intensive industries and services have discovered that the "leakage" of intellectual property is rampant in Malaysia. This is often due to the failure of Malaysian counterparts to honour MoUs and the lack of seriousness in safeguarding intellectual property among lower level staff in Government agencies. One of the possible reasons for the weak protection of intellectual property could be attributed to the absence of foreign legal firms in Malaysia. It is imperative that MIDA polices intellectual property rights more stringently.

**Roundtable Discussion: Good Governance and Democracy**

**The Hon. Meg Munn MP, Chair of the Westminster Foundation for Democracy and former Minister in the Foreign and Commonwealth Office**

- A secure democratic framework is a necessary foundation that enables development to flourish in any country. A strong democratic framework, including governance institutions, is also pivotal in giving credibility to any government on the international stage.
- Such framework is one that allows for debate and for public questions to be asked without being penalised. A democratic framework is enshrined in the British tradition of openness and debate, as evidenced by various platforms including the weekly Prime Minister's Questions in the House of Commons and the live broadcast of parliament sessions and debates on national television.
- Democratic frameworks and institutions must also evolve alongside the society that they represent. As part of good governance and democracy, it is essential for modern governments to find new ways of communicating with the public across all walks of life. The embracing of new/social media – something that even 10 Downing Street is already doing – is particularly relevant in the present day and age.

**Roundtable Discussion: Human Rights and Race Relations**

**Datuk Dr Denison Jayasooria, Human Rights Commissioner and Principal Research Fellow, Institute of Ethics Studies, National University of Malaysia (UKM)**

- In many instances all over the world, the creation of capital has unfortunately resulted in the alienation of certain groups in society by virtue of race, colour, religion or other demographics. The strengthening of democratic institutions is therefore highly important in upholding human rights, including safeguarding certain pockets of society from exploitation and marginalisation.
- Towards building a just, equitable and sustainable society, a six-pronged approach is proposed:
  - Strengthening collaborative public policy research.
  - Strengthening collaboration between business schools and entrepreneurs and the industry.

- Strengthening collaboration between public policy makers and the third sector, including social enterprises and think tanks.
- Strengthening collaboration among “people’s organisations”.
- Strengthening democratic institutions (e.g. the police, equality and human rights commissions) to combat discrimination.
- Strengthening ethnic and race relations.

### **Roundtable Discussion: Social Enterprises**

**Wan Saiful Wan Jan, Director General, Malaysia Think Thank**

- One major difference between social enterprises and commercial organisations is in the treatment of profits. While it is common knowledge what profits are made for in commercial organisations, any profits reaped by social enterprises, which exist solely for the community, are reinvested into community initiatives.
- Given the proven effectiveness of social enterprises in delivering what are equivalent to public services, such as social care, there is an explicit effort by the UK Government to promote social enterprises. The Department for Business Enterprise and Regulatory Reform is one of those responsible for publishing social enterprise policy papers.
- Three main lessons can be learned from the mushrooming of social enterprises in the UK:
  - Social enterprises are particularly good in reaching hard-to-reach and deprived pockets of the community.
  - Given the right environment and supporting institutions, social enterprises can grow organically to work very effectively alongside the government and public services.
  - One drawback in the UK, though, is the apparent lack of involvement of the private sector in supporting the work of social enterprises.
- Two suggestions are proposed for enhancing bilateral relations between the UK and Malaysia in the social enterprise sector:
  - There should be more exchange visits between social enterprises in both countries.
  - There ought to be a sharing of knowledge and expertise, particularly from the more developed social enterprises in the UK, so as to allow Malaysian social enterprise to learn rapidly without having to start from scratch.

### **Roundtable Discussion: Islamic Finance and Insurance**

**Lord Sheikh, Founder of the Conservative Muslim Forum and Chairman, Camberford Law plc**

- Among the major attractive features of Islamic finance include:
  - The sharing of risks.
  - The prohibition of interest.
  - The backing of investments and leverage with tangible assets.
  - The prohibition of investing in *haram* activities including the gaming, alcohol and tobacco industries and conventional financial services.
- Islamic finance and Takaful appeals to both Muslims and non-Muslims alike due in large part to their ethical principles and the fulfilment of a “social function”. As such, if the non-Muslim market in Europe, which currently has low awareness of Islamic finance and Takaful, can be tapped, there are potentially huge growth opportunities in these two areas.
- The UK is the first European country to seriously promote Islamic finance, and is the most prominent centre for Islamic finance in the world after Malaysia and the Gulf states. The UK Government provides incentives to encourage the growth of the

sector. One of these is the waiver of stamp duty for properties purchased with Islamic financing.

### **Roundtable Discussion: Telecommunications and High Technology**

**Tan Sri Radzi Mansor, Chairman, Telekom Malaysia Berhad and Chairman, Malaysia-Industry Government Group on High Technology (MIGHT)**

- Telekom Malaysia initiatives in human capital development include the rapidly growing Multimedia University, where approximately 30% of its students are foreign, mainly from developing countries.
- In the area of infrastructure, Telekom Malaysia is currently involved in the building of a high-speed fibre optic broadband network linking higher institutions of learning in Malaysia.
- There is a possibility that BT Innovate (formerly BTextact) might reduce its presence in Malaysia, in which case Telekom Malaysia is well positioned to undertake some of the more pertinent R&D work left behind.

### **Roundtable Discussion: Technical and Professional Education**

**Clare Minchington, Executive Director – Learning & Customer Service, ACCA London**

- The ACCA alone has around 870 Malaysian students in the UK, whereas there are around 12000 Malaysian university students in the UK overall.
- In recent years, there had been an increasing blurring of the lines and distinction between academic and professional education qualifications. The latter is receiving growing recognition of its value to the industry.
- However, more visibility and recognition at the policy level, i.e. education and human capital development, are necessary to further promote the growth of technical and professional education.
- Although ACCA qualifications are well recognised, to enhance the mobility of members or those holding professional qualifications, greater cooperation and reciprocal initiatives among professional bodies are needed.
- Greater efforts are needed in working with the Ministry of Education and universities in Malaysia to articulate the distinctions, synergies and compatibility of various related academic and professional qualifications.
- The Government should also consider giving recognition to more professional bodies as well as affording greater visibility to the existing bodies and their initiatives, which have thus far enjoyed only a much lower profile than public universities.

### **Roundtable Discussion: Climate Change**

**Dr Kenny Tang, Founder and Chief Executive Officer, Oxbridge Capital**

- While a relatively strong regulatory framework for climate change is existent in the UK, Malaysia has some catching up to do in this regard. It is recommended that Malaysia set up, in the first instance, a committee to look into climate change matters and, in the longer run, establish a regulatory framework similar to that in the UK.
- Malaysia seems to be too focused on palm oil as the main lever in generating carbon credits. It would be advisable for Malaysia to diversify its carbon credit-generating sources into other areas such as low-carbon farms.
- Other initiatives that Malaysia can consider include:
  - Applying innovative technological solutions to policy and development projects. For instance, Merton Council in south of London has devised a groundbreaking

planning policy called the "Merton Rule", which requires 10% of all local projects to use clean/renewable energy.

- Pioneering climate change education. For instance, in the UK, the University of East Anglia offers an MBA in carbon management, while many other universities have climate change or energy related courses and research programmes.
- Given their respective potential, tapping into the synergies between climate change/clean energy and Islamic finance may be an innovative way forward. For instance, Malaysia may want to consider extending Islamic financing to projects involving the building of renewable or clean energy facilities, including power stations.
- One rather revolutionary idea that may warrant discussion even at this early stage is "weather hedging".

### **Roundtable Discussion: Tourism and Air Travel**

**Tim Claydon, Commercial Adviser, AirAsia X**

- In its first full month of operations, AirAsia X flights between Kuala Lumpur and London Stansted achieved a very encouraging 85% load factor. As such, a decision has been taken to begin daily flights from July 2009 onwards.
- Several areas in which AirAsia X sees tremendous growth potential include:
  - Tourism market – AirAsia X is committed to further support onward travel to and from Malaysia and Thailand, and to promote travel within Malaysia itself.
  - Social visitors market – VFR (visiting friends and relatives) gives this considerable segment of the market more than once in a lifetime opportunities to fly abroad.
  - Education/student market – Given the long-standing reputation of British education and the popularity of the UK as a destination for Malaysian students, AirAsia X sees this segment of the market as a huge potential for more frequent travel.
  - Business market – Considering the current economic climate, the business segment is one where there is much potential for growth.