

Closing Speech

19TH MALAYSIA STRATEGIC OUTLOOK CONFERENCE 2017

MALAYSIA'S STRATEGIC ECONOMIC DEVELOPMENT: THE ROAD FORWARD

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Sunway Putra Hotel

Thank you, Mr. / Miss. / Madam Emcee

[Salutations]

YBhg Tan Sri Dr Jeffrey Cheah, AO, Chairman of ASLI,

YBhg Tan Sri Dr Michael Yeoh, CEO of ASLI,

Your Excellencies,

Distinguished Guests,

Members of the media,

Ladies and Gentlemen,

1. Good afternoon. It is indeed an honor and a privilege to be invited here to deliver the closing address of the 19th Malaysia Strategic Outlook Conference. This is a conference for policy makers, diplomatic corps and both public and private sectors to begin the year-with the assessment of key trends, strategic challenges and critical issues facing the nation in the coming year.
2. I commend ASLI's initiative in creating a platform to take stock of current developments and trends that will have an impact on the business environment and investment climate. I, therefore, am delighted that ASLI invited me to share my thoughts and views on how to move toward Malaysia's Strategic Economic Development in this challenging time.

MALAYSIAN ECONOMY

3. So, where does Malaysia stand exactly in this time of global uncertainty?
4. We are living in a critical moment in international affairs with the reemergence of increased terrorism, unprecedented rise of populism which brought us to Brexit and the new American administration. These are things that very few ever predicted would happen. It remains to be seen whether such evolving situation is for the better or worse.
5. As Trump's proposed protectionist policies would affect investor sentiment in Asia's export-led economies, Malaysian exports rebounded strongly in November, recording an expansion of 7.8% in contrast to a contraction of 8.6% in October. That is a strong turnaround of 16.4%.

6. While growth in exports to China was strong last year, it was offset by declines in export sales to Singapore, the European Union and other countries in the ASEAN region. The ringgit traded in offshore markets dropped to 20 year low following Donald Trump's victory in the U.S. presidential elections.
7. The ringgit has depreciated against the US Dollar by more than 5% since Trump's surprising victory in the U.S. presidential elections. However, the recent initiatives done by Bank Negara to manage the Ringgit has shown positive signs as it has resulted in the reduction of excessive volatility of our currency.

Ladies and Gentlemen,

MALAYSIAN ECONOMY IN THE NEAR TERM

8. Although we have seen growth moderating, the Malaysian economy remains resilient to external challenges. The World Bank projected Malaysia's GDP to reach 4.3% for the year 2017, in line with BNM's estimate range of 4%-5% growth.
9. Furthermore, we are pleased to see some encouraging statements on the Malaysian economy from respected institutions.
 - a) Firstly, Maybank Investment has indicated that our domestic economic fundamentals will remain supportive of the country's bond market, which has become attractive to investors,

- b) Secondly, Kenanga Investors stated that corporate earnings stand a good chance for a rebound, thanks to higher commodity prices and the low base effect,
- c) Thirdly, the President of the Financial Markets Association of Malaysia who is also a director at CIMB Group Holdings Bhd expects the Ringgit to rebound as official measures to boost demand will eventually kick-in and thus significantly improve Malaysia's risk profile,
- d) The banking sector has also estimated that the Initial public offerings market in Malaysia will likely gain pace this year after four years of decline, as faster economic growth is expected to attract some investors back into our once red-hot IPO market,
- e) Meanwhile Franklin Templeton, one of the world's largest asset management groups has seen the weaker Ringgit as an opportunity especially in terms of the equity perspective. They are pleased with the resilience of the economy and the fact that it is still growing at a very healthy rate; and finally,
- f) Grant Thornton, the sixth largest accounting network in the world recently announced in their international business report that Malaysia's key economic indicators are still strong. They highlighted that Malaysia has the highest proportion of businesses in the ASEAN region that are planning to increase employee salary, expect higher revenue, higher exports, competitive selling prices,

increase employment and see profit to gear up over the next 12 months.

Ladies and Gentlemen,

10. An interesting fact that I'd like to call your attention to is that Malaysia is no longer a major oil and commodities exporter, as these items represent just 20% of total value of our goods exported abroad. Though a decline in oil and palm oil prices has had a negative impact on trade flows and government revenue, our economic resilience can be explained by our increasingly diversified economy.
11. Under Prime Minister Najib's leadership, we have seen bold steps taken to introduce tough and politically unpopular measures that has kept Malaysia's finances in place. For example, the gradual removal of blanket subsidies under the subsidy rationalization measure would have had a political cost to us but it had to be done in the interest of our country's economy in the long-run.
12. Initiatives like the Economic Transformation Program (ETP) and the Government Transformation Program (GTP) under the National Transformation Program have borne fruits as Malaysia's economy now is less vulnerable to external shocks such as the plummeting commodities over the past 2 years and the decreasing Government's dependency on petroleum related revenue that has decreased from 40% in 2009 to just 15% in 2015. This shortfall in petroleum related revenue was partly offset by the GST collection that was implemented in the 2nd quarter of 2015. GST on the other hand has been in our pipelines for

over two decades. Other leaders had talked about doing it, but it is the current Prime Minister who eventually had the courage to implement the GST.

13. We have realized that there are some concerns with regards to private investment growth as it has been seen moderating. This is in line with lower commodity prices and global economic activity remaining subdued. On the other hand, private consumption is expected to remain as a key driver, as it rebounded from 5.8% in the 2nd half of 2015 to 7% in 2016.
14. In order to move forward, there is a strong need to reduce external vulnerabilities and there is a need to boost domestic sources of growth. Manufacturing and services in particular are expected to increase their contribution, accounting for 75% of GDP by 2020. This will be achieved via strategies that we have introduced to chart a new direction for these sectors to produce high value, diverse and complex products. Therefore, research and development (R&D) must be intensified, compliance to standards must be disciplined, market intelligence will be enhanced and collaboration between stakeholders has to be stronger.
15. Despite the challenges, our commitment to fiscal consolidation remains on track amidst declining oil-related revenues. Fiscal deficit ratio-to-GDP remained at 3.1% in 2016 and we are on track to achieve 3.0% for this year.

16. Uncertainties around the rebalancing of the Chinese economy, further declines in the world commodities' prices, and evolving US economic policies on global trade are some of the key sources of risks to Malaysia's economic outlook.

Ladies and Gentlemen,

AGENDA FOR MALAYSIA'S FUTURE

17. As we look forward, Malaysia is ahead of its curve in its development agenda. This agenda focuses on inclusivity and sustainable development. We will continue to identify and invest in potential building blocks of new megatrends to realize this agenda for Malaysia.
18. Investment in mega infrastructure such as the ECRL, HSR & MRT will improve connectivity and productivity. Enhanced environmental measures in renewable energy & green technology meanwhile will reduce our reliance on fossil fuel and at the same time protect the environment altogether. This is evident with the various mini hydro projects that Malaysia Green Tech Corporation oversees, a national program for Biomass-based Power Generation & Cogeneration in the Malaysian Palm Oil Industry and more emphasis for solar energy as the Government has ensured higher participation for training programs with regards to renewable energy capacity building trainings as per the 11th Malaysia Plan.
19. I also believe that new economic game changers such as the digital economy and big data will become the next

catalyst of growth should we embrace and adapt to this disruptive technology effectively.

20. In line with that notion, Prime Minister Dato' Sri Najib during his visit to Beijing last November has appointed Jack Ma as Malaysia's Digital Economy Adviser to spearhead Malaysia's E-Commerce development. Malaysia will echo Jack Ma's call to formulate a Digital Free Trade Zone with an attractive package of incentives and regulations to stimulate digital activities.
21. On top of that, productivity growth also plays a vital role in forming an inclusive and a sustainable development across all sectors. How? By ensuring a sustained productivity growth, greater female labor-force participation as supported by 52 companies implementing flexible work arrangements (FWA) since 2013, and continued investment in human capital development. All of these proactive measures are necessary for Malaysia to achieve a high-income nation status.
22. Challenges in skills gap, quality of infrastructure, research and development systems need to be addressed in order to refocus attention on productivity growth. Hence, existing institutional architecture and ecosystem must remain supportive and conducive in order to sustain consistent productivity growth.

Ladies and gentlemen,

23. Before I end my speech, I want to reiterate the resilience that underpins the Malaysian economy which is contributed by the fact that we still have strong economic fundamentals and that we are able to register respectable growth. We are moving towards the right direction in terms of fiscal and economic reforms.

24. I continue to envision that Malaysia will remain a leading nation in regional integration, with strong fundamentals for stable growth throughout the 11th Malaysia Plan. Overall, I believe we have a fantastic opportunity to make 2017 better, stronger and more optimistic.

25. Thank you and I hope you enjoy the rest of the evening.