

Ladies and Gentlemen,

Permit me this opportunity to thank the host for the kind invitation to launch this Economic Roundtable. I am deeply honoured to have been asked to deliver the keynote address before such a distinguished audience of economists and intellectuals. To my mind, the setting up of this grouping has not come a moment too soon.

2. We are at a critical juncture in our history. The result of the 13th general election (PRU 13) and the so-called 2008 “political tsunami” demand a new action plan in order that we may be better prepared to deal with the recurring challenges facing us in the wake of the decisions by the voters. Among these are: the need for a clean government of integrity to combat the rampant and pervasive corruption, during the last decade, reports say Malaysia lost USD338bn through illicit money outflows; 50% of Malaysian companies report that they lose business opportunities because rival companies pay bribes to decision makers; the rising cost of living and high personal debt levels, the ratio of household debt in Malaysia is among the highest at 140% or household debt is 1.4 times their disposable income, the economic imbalances that remain after 40 years of the New Economic Policy (NEP) and its variants, and the capability of an UMNO-led government to deliver on the economy, in view of the shift in Chinese votes to opposition parties. The Prime Minister has since launched in response a new policy initiative on 14th September called the "Bumiputera Economic Empowerment Plan".

3. PRU13 results saw Barisan Nasional (BN) winning the election by a simple majority for the second time. The victory was achieved through a heavy reliance on the support of Sabah and Sarawak voters as well as that of the rural Peninsular Malay voters. Just as it was in 2008, a majority of the urban Malays, the middle class and the Chinese voted for the Opposition. Moving forward, the national economic agenda will have to be recast to take into account these new political realities and the economic dictates, both domestic and foreign confronting us as a nation.

Ladies and Gentlemen,

4. I would submit that this task will require new and bold ideas. These ideas need to be implemented over the next five to 10 years with supporting institutional reforms to generate maximum impact and to ensure success. I am confident that such an action will provide a new

impetus to move the country forward.

5. It is unfortunate, however, that this needed reset of our economic policy comes at a time when the Malaysian economy is facing internal budget constraints and external structural adjustments in the world economy consequent to the financial crisis of 2008 that will have an impact on our growth prospects in the short and medium terms. Economic projections available to me forecast a strong dip next year, with recovery being uncertain as to whether it is going to be fast (that is, V-shaped) or U-shaped and take a longer time.

6. I think there are several issues here that need to be considered in this new remodeling of the Malaysian economy:

First, the 1Malaysia concept which provides the ideological underpinning of the New Economic Model and the national development blueprint (ETP and GTP) introduced by the Barisan government in 2010 was clearly misdirected. This was evidenced by the Chinese largely voting the opposition in PRU13 whose support Barisan needed in order for the coalition to obtain a two-thirds majority. Neither was the policy welcomed by the Malays. Now the government is diluting its 1Malaysia concept towards an ambiguous slogan of "Endless Possibilities." This shift will assuage no one!

Secondly, the pump-priming programme which was launched in 2009 in order to recover from the 2008 crisis in the world economy clearly met its objectives of stimulating short-term growth. However, its extension to BRIM1 and BRIM2 prior to the 2013 General Elections received cynical reception and is not sustainable in the long term. In fact, it merely led to a doubling of the national debt over the last three years. In 2012 Public debt was RM502bn and by the end of this year is expected to be around RM546 billion. The 2013 public debt will surely exceed the 55% legislated ceiling.

Thirdly, the New Economic Model and the Economic Transformation Program (ETP) was rejected by MPM (the Malay Consultative Council) and such other Malay interests as DPMM (the Malay Chamber of Commerce, Malaysia). This was because of the dilution of the government's commitment to the Malay Economic Agenda, for which the formation of the Majlis Tindakan Ekonomi Bumiputra and its executive body Teraju was scant compensation. As a stark reminder, the share of Malay equity in 1Malaysia's corporate wealth is around 23%. We are now presented with a new Majlis Ekonomi Bumiputera, and Teraju's head being elevated to ministerial status. It is unclear to me whether this will have its desired impact.

Fourthly, political parties across both aisles are seen by Malay and non-Malay voters as being riddled with pervasive corruption, nepotism, cronyism and racism. This negative image is especially held by professionals, the urban middle class and the younger generation. This less than savory image has to be cleaned up through committed government leadership displaying a positive political will.

Fifthly, institutional distortions are one of the hidden issues in plain sight. Unfortunately, both the government and the public have not fully absorbed the significance of these distortions. They have most certainly not been addressed satisfactorily because of political constraints on the government machinery itself. These institutional issues include the rule of law, the independence of the judiciary and the distorted role of the Attorney General's Chambers; government control over the mass media, the abuse of social media and sedition issues, and the question of freedom of information; the legal shackles on the Malaysian Anti-Corruption Commission (MACC); and the soft-paddling on the proposed independent police commission.

Finally, there is an urgent need to relook at and review the government delivery system, including the Government Transformation Programme (GTP) because of the rising crime rate, intractable corruption, wastage and inefficiency through operational largesse. This will eventually have an impact on the government's fiscal position going forward.

7. The needed reformulation of the National Economic Agenda should take advantage of the new findings in the UNDP-EPU National Human Development Report 2013 for Malaysia under the theme of "Inclusive Growth". The report will also be submitting policy recommendations to the government for incorporation into the Eleventh Malaysia Plan (2015-2020). I understand that a summary of these results will be presented by Dr. Muhammed Abdul Khalid at this inaugural meeting of the Economic Roundtable.

Ladies and Gentlemen,

8. Malaysia is a complex society and economy to govern in any circumstances because of her multi-ethnic, multi-cultural and multi-religious character. Ironically to fight for the welfare of the majority while protecting the rights of the minority in Malaysia, we have to take it outside the NEP. We need to address the social contract frontally, reaffirm the Federal Constitution, and set the NEP into remission. We need to turn the Malay Agenda argument on its head, and treat

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it as part of the National Agenda. The Barisan Government had set this struggle as implementing the NEP to achieve Vision 2020. To be sure, the NEP has done its job, though critical problems of distribution remain. I am proposing that a new Economic Model be adopted to replace the NEP to achieve a more equitable society. I believe it is time to move on to new horizons.

9. Let me stress that what we need, today, is a new economic plan that will ensure Malaysia's future economic growth is accompanied by an equitable development of the nation's wealth and prosperity; one that guarantees that all segments of the Malaysian society have a stake in the economy. I would like to propose that we establish a stakeholder economy for Malaysia over the next decade; an economic system that will ensure an equitable sharing of the benefits of development for all stakeholders and for future generations, under the protection of the Federal Constitution.

10. Let me call this plan to achieve the just mentioned stakeholder economy, the Pelan Tindakan Ekonomi Amanah Negara or the National Stakeholders' Economic Action Plan; the Amanah Plan for short. I propose that this Amanah Plan be accepted as the roadmap for the country's way forward. It would be the definitive blueprint in our national effort to unite all races, to ensure prosperity for all, and to achieve a shared destiny for our beloved country.

11. A stakeholder economy is one in which education, health, employment and business opportunities are available to all. In such an economy, advancement is through merit in conjunction with a criteria of need for the upliftment of the poor and the marginalized groups affected by the forces of liberalization and globalization.

12. A stakeholder economy and society must have in place:

1. A welfare system, that ensures security and opportunity for all segments of society, rich and poor.
2. An education system for all people and not just for the elites.
3. A knowledge-based economy that embraces new technology and new knowledge.
4. A relationship of trust between government and business, and similarly, between business and workers.
5. A nation of smallholders and small businesses and self employment collectively contributing to national wealth.

6. A system of fair and just laws to protect the sanctity of state institutions, and the rights of minorities and the legitimate interests of civil society.

13. This will involve the promotion of good governance, transparency of policies and their efficient implementation, and the elimination of corruption and wastage in the government and the private sector.

14. In adopting economic strategies to ensure sustainable growth through macroeconomic balance, the Amanah Plan must ensure the efficient utilization of national resources and a sustainable environment for present and future generations.

15. The Amanah Plan seeks a new balance in federal-state fiscal relations through greater empowerment of the state governments. It also seeks a reform of government institutions to eliminate waste, enhance productivity and restoring trust between government and civil society.

16. The Amanah Plan promotes international and regional economic integration as a deliberate policy of growth through market expansion and cross-border cooperation without undermining national sovereignty.

17. The formulation and implementation of the Amanah Plan must be carried out within the ambit of and consistent with the Federal Constitution which represents the written social contract between the peoples of the Federation.

18. The implementation of the Amanah Plan involves reform of the judicial processes to ensure the protection of the Malaysian social contract and human rights through the rule of law, and the updating of laws and legislations to meet current and future requirements and the promotion of a true democracy.

19. Finally, the Amanah Plan seeks to ensure a fair and equitable distribution of the benefits of national growth amongst all ethnic groups, gender, regions and minorities, in order to

reestablish trust and confidence in the government as the protector and implementor of the peoples' mandate.

20. The Amanah Plan will adopt a pro-growth distributive economic strategy. I believe the market works best when it works for the people. I also believe that some quarters – in their effort to seek free market freedoms – are erroneous when they put capital before work. More importantly, the government has a role to play in ensuring that markets work for the people. The triangular trust between the government, the market and the people has to be restored. Indeed, these are what the proposed Amanah Plan seeks to do:

- Regain the economy's historical GDP growth potential of 7 to 8 per cent per annum through a New Round of Infrastructure Development in the next ten years as achieved in the 1990s;
- Trade the current means and instruments of social restructuring in the NEP with new horizontal equity programmes in order to achieve higher incomes for all, based on productivity, meritocracy and need, and to create an expanded middle class through a reformed education system and asset acquisition strategies that include affordable housing;
- Strengthen the Islamic-based financial system not just for Muslims but for all patrons,
- Securitise national assets, such as Petronas reserves and de-privatized toll roads and distribute stakes through national unit trusts to the rakyat; and
- Monitor closely the above strategies for their impact on the Amanah Plan targets, and use new "trust economy" instruments to promote wealth creation and distribution.

21. The Amanah Plan will have four strategic components. These are an Accelerated Infrastructure Development (AID) Strategy, a Human Capital Development (HCD) Strategy, an Agriculture and Industry (AI) Growth Strategy, and a Comprehensive Islamic Financial (CIF) Strategy to complement the ongoing implementation of the Financial Sector Master Plan.

22. The component on infrastructure development (AID) is key to the Amanah Plan in the effort to bring back the economy on a higher growth path and take it to the next level. Recent studies document the fact that public investment in infrastructure, such as roads, communications, and utilities, stimulates private investment. The Amanah Plan envisages a national high speed railway (HSR) system, to link the north, south and eastern parts of the Peninsular, and not just between KL and Singapore. Together with a Pan-Borneo Highway along the lines of the Peninsula North-South Highway, this AID project will enhance not only

existing urban areas but will also open up the whole country to new cities, enhance land values in urban and rural areas and turn it into a middle-class nation.

23. The Agriculture and Industry (AI) project grouping should be integrated for the benefit of all including bumiputera communities, either as individual SMEs or as Cooperatives. Such cooperatives should be revived and given new impetus to contribute to economic development as has been achieved in the Netherlands, New Zealand and the Scandinavian countries..

24. The strategic grouping on the need for skill upgrading and Human Capital Development covers projects to increase productivity amongst first-time entrants, be they secondary or tertiary, into the labour force. This upgrading constitutes a retooling among existing workers through a reconstituted academic or vocational or technical training system to coordinate the existing programmes run by MARA and the Community Colleges, and Private-Public Partnership Education (PPPE) programmes to link industry to the HCD institutions, including universities. A reengineering of secondary and tertiary education is necessary to enhance national competitiveness in the new global economy.

25. Funding of a programme of this size and nature is always a ticklish issue, and given its anticipated scale, it is naturally relevant to ask how the Amanah Plan would be financed. I have the outlines of a Financial Strategy to achieve our funding requirements as the fourth pillar of the Amanah Plan.

26. We all here know that the government has been running a fiscal deficit for over two decades and that the Federal debt level is nearly 60 per cent of the GDP. Dividends from Petronas profits, which in the past helped to provide such funding, will in the future become a constraining factor to finance operating expenditures. But I assure you there are funds available. It is only a question of how you mobilize and for what purpose you are going to use such funds.

27. The needed funding can come from many sources. It could come in the form of direct foreign investment; but those that had contributed to recent financial inflows are now pulling back their assets due to the expected recovery of the US and European economies after the Financial Crisis of 2008. That has been putting pressure recently on the value of the Ringgit.

28. The government had previously announced measures to expand the tax revenue base by introducing the GST, which could be accompanied by the lowering of personal income tax. The GST should also be secured by exemptions for essential items to prevent regressive impacts on lower income groups.

29. Rationalization of food and energy subsidies should enable major savings by the government. Such savings could be used to part-finance this new round of infrastructure spending. Gas subsidies by Petronas have disproportionately gone to independent power producers in lopsided contracts that enjoy huge profits at the expense of the public. This situation does not make good sense, and is patently unfair to the people. Industrialists should pay market prices and let the government use the savings to finance projects that benefit the people such as zero-interest housing mortgages, thereby making such housing more affordable to all the middle and lower income classes.

30. Undoubtedly the Amanah Plan requires huge funds, especially to implement the infrastructure projects. It has been reported that globally, over US\$5 trillion in infrastructure investment is required to both maintain existing assets as well as to build new infrastructure in transportation, water, energy, telecommunications, and environmental services. National, state, and local governments face tremendous budget gaps worldwide and are, therefore, increasingly adopting Public-Private Partnership models (PPPs) as a means to provide critical infrastructure service delivery.

31. Previous Malaysian administrations have adopted this financing model including privatization vehicles and the aborted Private Finance Initiatives (PFI) funding model. But these have been marred by accusations of mismanagement and corruption due to the lack of an open tender system. It is unfortunate for us that private infrastructure investments merely provide political insiders with a disproportionate share of the investment returns leaving the public to hold on to the increased costs.

32. I think there are successful PPP/PFI models in other countries especially the United Kingdom which we can follow and learn from. I believe that this is the way we should move forward. I am suggesting that these PPP financing models using the conventional system be enhanced by adopting new Islamic financial instruments such as an Islamic version of PIPES (Private Investment in Public Equities) and similar innovations, to enable wider participation in investment that currently are available only to asset-surplus players in the market, and thus enhance and broaden the asset acquisition game to the larger population.

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33. All the above programmes where applicable undertaken on a public-private sector partnership (PPP) basis at the Federal as well as state governments and agencies, for purposes of land approvals and licenses, requires considerable coordination. This coordination must be located in a central government body empowered as a one-stop decision centre to replace the current Economic Council which we can call the National Planning Commission answerable to Parliament with the EPU as its executive body. The planning and implementation of these projects should follow all rules of good governance, integrity and transparency that must be clear to everybody.

Ladies and Gentlemen,

34. We, as an economy and society, do not have much time on our side to dilly-dally and fiddle on the margins of our great national concerns. We cannot afford the luxury of idly gazing at our political navels. The people expect bold changes. We certainly cannot deny them the answers to their concerns and aspirations. Leaders will have failed the mandate given to them if we are only toying with political slogans and creating myths about our development experience in the NEP and post-NEP years that do not hold up to the facts. We – you and I, and every Malaysian – must renew our resolve to build a united and prosperous nation on the foundation that the founding fathers had built, which are now threatened by political gamesmanship, empty promises and obfuscation. Only with this commitment to fundamental reform of our policies and the institutions that support them will we be able to restore the people's trust in the government. Only with this resolve will we be able to offer our good people a secure feeling about Malaysia's future.

Thank you.

NATIONAL STAKEHOLDERS ECONOMIC ACTION PLAN (Pelan Tindakan Ekonomi Amanah Negara)

The Amanah Plan

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Keynote speech by

Y.B.M. Tengku Razaleigh Hamzah

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