“GROWING IN THE AGE OF VOLATILITY”

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Distinguished Guests, Ladies and Gentlemen,

Good Morning

1. I am honoured today to be invited to address this select group of distinguished participants at the 2nd Emerging Markets Conference. It is very challenging to talk about the prospects in the emerging markets from the perspective of a policy maker given current developments.

2. While the Global Financial Crisis is eight years in the rearview mirror, we still find ourselves on a bumpy ride, trying to navigate a troubling trifecta, namely a world economy marked by subdued growth, bouts of sharp financial market volatility and growing discontent over globalisation and inequality.

3. Therefore it is challenging, to say the least, to talk about the prospects for emerging markets given the current global economic conditions. As a grouping, while we share similarities, we have to acknowledge that some are struggling to maintain macroeconomic stability, some are doing alright while some are doing well.

Trends around the world

Ladies and Gentlemen,

4. As we all know, in July this year, the International Monetary Fund (IMF) has slashed its forecast of global growth to 3.1% in 2016, before recovering to 3.4% in 2017. Emerging markets and developing countries are expected to register growth of 4.2% in 2016 and 4.6% in 2017. Growth in advanced economies has been revised to 1.6%, which is lower than the 2.1% recorded last year.

5. China's "Golden Years", where the country's growth rate was for many years at around 10% per annum, are gone. The world's 2nd largest economy is also experiencing slower growth of 6.6% this year down from 6.9% last year, and is expected to grow at a much slower pace of 6.2% in 2017.

6. The IMF report reveals that several Latin American countries are still in recession and growth in the region is only expected to recover in 2017. The BRICS economies -- Brazil, Russia, India, China and South Africa – are no longer the darlings of international investors. The only bright spot appears to be India, where growth is expected to remain steady at 7.6%.

There is nothing new about volatility

Ladies and Gentlemen,

7. Volatility is not a new phenomenon. We have gone through this a number of times:
    i. the 1973 oil price crisis which led to the major stock market crash
    ii. the 1997 Asian Financial Crisis – which affected many of us in the region
    iii. the collapse of Lehman Brothers which subsequently led to the 2008 Global Financial Crisis and the malaise in the world economy

8. While volatility is not something new, we must acknowledge that we are now facing some new challenges. There has been a rise in the anti-globalisation sentiment, uncertainties in the future direction of monetary policy in some major economies, plus some geopolitical challenges.

9. What sets this period apart are two factors. First, the intensity of the frequency of episodes of shift in global capital flows and the ensuing volatility. According to data from the IMF, in 2015, emerging markets saw an estimated USD531 billion in net capital outflows, compared with USD48 billion in net inflows in the year before. Second, it is also marked by the unconventional measures undertaken by policymakers to attenuate these volatile capital flows. At the same time, a number of

countries have built up sufficient buffers to help absorb short-term outflows of capital. Foreign currency reserves can cover multiple months of imports and short-term external debt. Flexible exchange rates have also helped cushion the impact of external shocks. Overall, the emerging market economies have done quite well to absorb these challenges.

10. Having said that, we are faced with a new reality – “the new mediocre”, a phrase coined by Christine Lagarde, the IMF Managing Director. This is a period characterized by low growth in output, investment, trade, and earnings. As warned by Madam Lagarde, the challenge to policymakers is to prevent “the new mediocre” from becoming “the new reality”. Whether we like it or not, volatility will be with us for quite a while and we need to navigate our ways through shifting sands.

Challenges confronting emerging markets

Ladies and Gentlemen,

11. As a group, the emerging markets have been affected by the slowdown in the Chinese economy. Many have relied on debt-fueled investment and infrastructure spending in China to consume their commodity exports. As the Chinese economy is expected to experience slower growth in the coming years as it continues to rebalance its

economy from industry to services, from exports to domestic markets, and from investment to consumption, spillover effects through trade and lower demand for commodities would pose challenges to the rest of the world.

12. Commodity prices especially of oil and metals have been under pressure. Analysts are expecting oil prices to stay low around USD50 per barrel for the next few months.

13. The monetary policies of major countries are also impacting the currencies of some emerging markets. There is a great deal of uncertainty caused by shifting expectations regarding the "tapering" of monetary easing and "tightening" monetary policy by the US Federal Reserve.

14. Added to all these, emerging markets will have to confront the rising anti-globalisation sentiment around the world as exemplified by the Brexit and the strong anti-market voices in the US and Europe. These developments will add to the uncertainty in the global market, which may leave emerging markets assets vulnerable to a full-on retreat to safe havens from riskier investments.

15. And, there are also geopolitical uncertainties in some parts of the world.

16. And these challenges do not only stop at the economic and political fronts. There are several other factors in play that narrow the latitude for action by policy makers, which include rising income inequality, growing frustration with the neoliberal economic model, increasing mistrust of institutions and questions about the very nature of capitalism itself. Indeed, to quote Bob Dylan, this year's winner of the Nobel Prize in Literature, "The times, they are a-changing."

Emerging markets – the crisis bystanders

Ladies and Gentlemen,

17. Yes, we are living in challenging times. However, we must acknowledge that some of the emerging markets have improved upon their fundamentals and they are better prepared to face volatility now than ever before. For this reason, capital flight from emerging markets has not triggered a crisis similar to that experienced in the past.

18. A number of reasons could explain why some countries are in a much better position to cope with uncertainty. First, they are more integrated and connected in global capital markets, with higher foreign assets, including foreign exchange reserves. Better integration with the global capital market has given these economies greater latitude to manage the decline in capital flows.

19. Second, policy frameworks in a number of emerging market economies have generally improved over time. Such policy frameworks include better strategies in dealing with debt and macroprudential policies.

Growing together in ASEAN

Ladies and Gentlemen,

20. Let me now turn to ASEAN. Despite the concerns in some emerging markets, I am convinced that ASEAN remains one of the bright spots for investors. While external headwinds are expected to weigh on growth prospects, the regional economic outlook is projected to remain resilient at 4.5% in 2016, underpinned by strong public and private consumption, robust infrastructure spending and accommodative fiscal policy, before accelerating to 4.8% in 2017. In fact, some ASEAN Member States are forecast to grow above 6%. These include Myanmar, Cambodia, Laos PDR, the Philippines and Viet Nam. Growth in the region will be supported by strong private and public consumption and increased investments in infrastructure.

21. ASEAN has come a long way. Following the formation of the ASEAN Economic Community (AEC) at the end of 2015, ASEAN will become an even more important production base for multinational companies and indigenous ASEAN companies.

22. In 2015, ASEAN's trade amounted to USD2.28 trillion, of which 24% was intra-ASEAN trade. The gradual removal of non-tariff barriers, I believe, will provide a further boost to intra-ASEAN trade. With greater integration and expansion of intra-ASEAN investments, intra-ASEAN trade will increase to 30% can be achieved by 2020.

23. Investors' perception of ASEAN remains positive. ASEAN today is the host to many multinational companies. For example, more than 30% of U.S. direct investment in Asia is in ASEAN, and this number is greater than the combined total of US investment in China, Japan and the Republic of Korea. 70% of the 130 U.S. multinationals listed in the Global Fortune 500 are present in ASEAN.

24. Many have compared ASEAN to EU, but we are different. ASEAN is a regional forum where policies are formulated via consensus. We may appear to be moving slowly to some but we are surely moving towards closer integration.

25. These achievements are commendable, but ASEAN cannot afford to be complacent. While the step-by- step integration process has driven both political development and economic growth in the region, the challenging global economic environment demands that ASEAN adopt a bolder approach in enhancing its competitiveness. With tariffs on almost all products currently at zero, we are now according very high priority on

trade facilitation, and the gradual removal of non-tariff barriers to improve the flow of goods and services in the region.

The way forward for ASEAN

Ladies and Gentlemen

26. The top priorities for ASEAN on the economic front, going forward are as follows:

- First, accelerating implementation of trade-facilitation initiatives. These include the full implementation of the ASEAN Single Window (ASW), establishment of ASEAN Solutions for Investments, Services and Trade (ASSIST), ASEAN Trade Repository, ASEAN Customs Transit System, Self-Certification Scheme and other Customs related procedures, including movement of passengers, commercial vehicles and cargo through land;
- Second, reducing regulatory barriers and procedures to trade, which include harmonisation and alignment of standards across all sectors;
- Third, further integration of financial services and capital markets, and liberalisation of the services sector. This includes allowing majority foreign equity ownership and promoting mobility of skilled workers in the region through streamlined visa procedures;
- Fourth, enhancing the participation of Micro Small Medium Enterprises in the AEC process.

The resilience of Malaysian economy

Ladies and Gentlemen

27. Allow me now to briefly touch on developments in Malaysia. Yes, political developments in Malaysia has been attracting quite a bit of attention in recent months. Let me assure you that the National Front which was elected in May 2013 remains strong. We have a good majority in Parliament. The Government is functioning and delivering. Malaysia remains stable politically under Dato' Seri Najib Tun Razak. Malaysia continues to be an attractive destination for many investors.

28. In case you had missed it, the latest HSBC Expat Explorer Report reveals that about 78% of expatriates say that Malaysia offers a good work and life balance, a friendly culture and lower costs for raising a child. We are committed to enhance Malaysia's competitiveness in the region. We continue to do well in tourism including medical tourism.

29. The Government remains committed to improving the business environment and to progressively liberalise the economy. We introduced the New Economic Model in 2010, which was designed to transform Malaysia into a high income nation and built on sustainable foundations that would serve both the people and generations to come. Later in the same year, we launched the Economic Transformation Programme

(ETP) and the Government Transformation Programme (GTP) to address key areas.

30. Our efforts have borne fruits. In the period of 2009-2015, our Gross National Income has increased by nearly 50%. We have created 1.8 million jobs and kept inflation at a low level. Malaysia remains on a steady economic path, with GDP growth projection of 4-4.5% in 2016. Our Foreign Direct Investment flows have been growing around 20% per annum during the period 2009-2015.

31. Malaysia is currently the 23rd largest exporter in the world and we remain committed to continue diversifying our trade. As a relatively small country with a limited domestic market, we need to be connected to the world. To date, we have signed and implemented 13 Free Trade Agreements (FTAs) as part of our efforts to expand markets beyond the borders of Malaysia. We are also in the process of amending some of our domestic laws as part of the Trans-Pacific Partnership (TPP) ratification process while at the same time continue to be involved, together with our ASEAN partners in the Regional Comprehensive Economic Partnership (RCEP) negotiations. As an open economy, both the TPPA and RCEP will serve as building blocks towards a more comprehensive FTA in the Asia Pacific region.

Ladies and Gentlemen,

32. Other sectors of the Malaysia's economy have demonstrated similar resilience. The overall size of the capital market increased to RM2.8

trillion in 2015, standing at two and a half times our GDP. The Malaysian capital market continues to be an important facilitator for financing business growth.

33. On the Bursa Malaysia stock exchange, market capitalisation has been growing at a tremendous pace, up 154% since 2009. Diversification of Malaysia's economy has translated into an interestingly diverse equity market.

34. Despite heavy foreign portfolio outflow from South East Asian emerging markets in the last two years, foreign shareholding in Malaysian listed equities has remained stable at around its medium term average of 22%-23%. Foreign investors have been especially fond of Malaysian government debt, holding 49.5% of outstanding Malaysian Government Securities at the end of June 2016.

35. In addition, we are seeing significant contribution from the services sectors. Multinationals are increasingly establishing their Principal Hubs, Regional Headquarters, Supply Chain Hub and Centres of Excellence in Malaysia. When you think of Malaysia, think of High Tech, Business Services, Innovation and Talent. Of importance, we have steadily advanced higher in the value chain in electrical and electronics, aerospace, medical devices and in advanced services such as Islamic banking and finance. Malaysia remains firmly plugged in within the global supply chain network.

36. Meanwhile, manufacturing remains an important sector for Malaysia – targeted to grow at an annual rate of 5.1% during the current 11th Malaysian Plan period and contribute to 22.1% to our GDP in 2020.

Ladies and Gentlemen,

37. Malaysia has invested significantly in developing and building infrastructure. We have invested heavily in highways, sea ports, airports, telecommunications, industrial parks and integrated economic zones. We will continue to put money in infrastructure to make Malaysia more competitive in the region.

38. We will be investing heavily to expand the Light Rapid Transit (LRT) and Mass Rapid Transit (MRT) phase I and II in Kuala Lumpur. The High-Speed Rail (HSR), linking Malaysia and Singapore will be a game changer in transforming the economic landscape of Malaysia and improving connectivity between our two countries. Once it is completed, one can have nasi lemak in Kuala Lumpur, chilli crab in Singapore and be back in time for dinner in Kuala Lumpur. This is the shape of things to come.

39. Earlier this week, the Prime Minister announced a plan to build a brand new 600-kilometre railway line from Kuala Lumpur to Kelantan in

the East Coast, the state where I came from. The construction of the Pan-Borneo Highway in East Malaysia has begun.

40. Malaysia has also introduced measures to increase its resilience and reduce dependency on oil-based revenues, with a marked reduction of government income from oil from 40% in 2009 to less than 20% in 2016. The Government deficit has also been reduced from 7% of GDP in 2009 to 3.2%of GDP in 2015. We are on track in improving our fiscal position.

41. You will hear more details of our economic transformation and our commitment to growth when the Prime Minister presents Budget 2017 in our Parliament tomorrow. It has been tough for many countries since the 2008 Global Financial Crisis but we have been able to ensure that Malaysia continues to enjoy a sustainable rate of economic growth.

Ladies and Gentlemen:

42. Malaysia and Singapore have always enjoyed close economic relations, thanks to the physical proximity of the two countries. Trade between both countries has grown steadily over the past 10 years at an average of 5% per annum with Singapore consistently registering as Malaysia's second largest trading partner, after China. From January-August 2016, trade with Singapore amounted to about USD30 billion, representing the lion's share of Malaysia's trade with ASEAN countries at 46.5%.

43. Two-way investment between Malaysia and Singapore remain robust, despite the challenging economic conditions in the region. Last year, Malaysia's direct investment in Singapore totaled RM3.0 billion (RM914 million in 2014). Singapore's FDI in Malaysia in 2015 registered at RM7.58 billion (RM7.09 billion in 2014).

44. Malaysia's direct investment abroad in Singapore for the first two quarters of 2016 amounted to RM1.96 billion. Whilst Singapore's FDI in Malaysia for the first two quarters of 2016 was RM4.37 billion.

45. Iskandar Malaysia will be celebrating its 10^{th} anniversary this year, and is set to become Southern Peninsular Malaysia's most developed region, where living, entertainment, environment and business seamlessly converge within a bustling and vibrant metropolis. Singapore was the largest investor in Iskandar until 2014. Among the foreign investments, Singapore currently ranks the second highest at 9.2% after China at 11.4%, amounting to RM19.1 billion from 2006 to June 2016, with a strong presence in manufacturing and services.

46. In addition, our capital city, Kuala Lumpur continues to do well. In the last 5 years, we have seen many multinationals using both Kuala Lumpur and Singapore – setting up their regional hubs in Kuala Lumpur as well as in Singapore, demonstrating that while Kuala Lumpur and Singapore compete for the investment dollar, we are complementing each other.

47. The strong political relations as well as excellent connectivity between Malaysia and Singapore will continue to be important factors in our trade and investment ties.

Conclusion

Ladies and Gentlemen,

48. Let me conclude by saying that despite the volatility, ASEAN has been able to weather to storm. ASEAN will be one of the most dynamic regions in the world. In Malaysia, we are committed to enhance our competitiveness and build upon our previous successes to be an open, dynamic and resilient economy.

Thank you