Esteemed speaker: Tan Sri Dr Zeti Aziz at the PNB Corporate Summit.

Rebooting Corporate Malaysia

PNB to work with corporate leaders towards strengthening Malaysia's economic prowess

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AS Malaysia works towards becoming an economic powerhouse, it is timely that Corporate Malaysia looks at recalibration measures.

Particularly, given the current subdued economic scenario, a fortified and efficient corporate structure would be crucial in bolstering external shocks and innovating further growth.

Permodalan Nasional Bhd (PNB) kick-started the rebuilding of Corporate Malaysia by setting the tone with the befitting theme of 'Rebooting Corporate Malaysia' that marked its inaugural PNB Corporate Summit on Wednesday.

Being one of Malaysia's largest funds and an asset owner with strategic stakes in a number of public-listed companies, PNB requires a platform to cohesively engage and deliberate on important issues confronting the corporate sector with its investee companies and industry specialists.

In her welcoming remarks during the summit, PNB group chairman Tan Sri Dr Zeti Aziz hoped that the PNB Corporate Summit would provide the impetus for participants to take up the mantle of change to drive Corporate Malaysia to its next stage of growth and development, towards the ultimate goal of achieving sustainable shared prosperity.

"Despite the difficult economic environment, Malaysia has the potential to rise up to the challenge.

"To harness this inherent potential and drive sustainable growth, Corporate Malaysia must be a key proponent in strengthening the nation's institutional foundation and creating a more resilient economy, including enhancing transparency and corporate governance frameworks," she said.

Zeti said that for the public sector, there are three imperatives.

First is to enhance efficiency and productivity. This is to be achieved by leveraging on technology and putting in place governance systems that will avoid leakages.

The second relates to having a strengthened education system, while the third relates to strengthening the financial position of the public sector.

"While not in a condition of debt distress, the prevailing position limits a greater potential role for fiscal policy," she said.

As for the private sector, there is a need to have stronger corporations that are keeping up with global trends.

She added that government-linked investment companies (GLICs) and government-linked companies (GLCs) must be conscious of their role in the economy and the need to re-evaluate their priorities.

Meanwhile, in an interview with *StarBizWeek*, PNB president and group chief executive Jalil Rasheed notes that the creation of a better Corporate Malaysia is a collective responsibility among three layers, namely, asset owners, boards of directors and management.

The asset owner or manager's role is to appoint the board of directors, ensuring that there is a right composition of diversity in terms of gender, experience and age.

The board then implements and upholds the governance structure to appoint the management that runs the company's operations on a daily basis.

"The aspiration for Corporate Malaysia is that if the corporate governance structure is robust, we as asset owners will not need to be too involved in the management of the company.

"It should be a system that functions on its own, with the management being accountable for their actions, a responsive board and asset owners who are on the same wavelength.

"The ideal role of asset owners is to be asset 'allocators' – thinking about matters like where to deploy the money and which asset class to invest in and in which country, as well as having optimal investment allocation without needing to hand-hold companies, which would function entirely by themselves," he says.

To begin rebooting Corporate Malaysia, corporations will first need to acknowledge that there may not have been a proper system in place.

Only then can corporations address, rectify or improve on what needs to be done, says Jalil.

"Additionally, changes are occurring all over the world at a rapid pace.

"We do not want corporations to be left behind and only start to think about changing or adapting when it is too late.

"So, the whole idea of the summit is to get people to think of the possible eventualities that can happen, learning about where the world is heading and how our peers are handling such changes," says Jalil.

For instance, markets have been weak over the past 18 months. The downturn was not caused by poor company fundamentals, but rather by external factors such as geopolitical issues.

He notes that while investors, fund managers and asset owners could be doing everything right in terms of fund management and picking the right stocks, their gains are being wiped out by geopolitical issues they have no control over.

"Geopolitical issues are something that we must keep abreast of, but the reality is that we can get affected by events that are not within our control.

"From our perspective, we can control and focus on things like corporate governance.

> It is our responsibility to ensure that the right governance structure is put in place in our investee companies.
>
> **Jalil Rasheed**

"It is our responsibility to ensure that the right governance structure is put in place in our investee companies," says Jalil.

The robust discussion sessions held during the summit provided insight to corporates on global occurrences and how they can implement changes in their role as board members, which is crucial for the success of the companies.

Jalil notes that the summit was not meant to be a magic wand for Corporate Malaysia to make changes, but the first step in bringing all PNB's investee companies together to hear the message, have their views challenged and learn about best practices from their regional counterparts.

"We are, in a way, in uncharted territories.

"Many things happening in the world today are unprecedented, and there have been no similarities between each of the global market slowdowns over the years.

"Hence, the summit helps Corporate Malaysia address the similarities of what is happening globally and understand what needs to be done better," he says.

Jalil also highlights that the long-term view is to see Corporate Malaysia branching out in various sectors and industries - new industries even.

Currently, the companies on the FBM KLCI are largely skewed towards finance, telecommunications and industrial companies.

Digitalisation, technology and Industrial Revolution 4.0 (IR4.0) are pertinent matters that Malaysia needs to address, given the bulk of traditional industries that Corporate Malaysia is involved in.

Looking at the US stock market today, the top-10 companies are no longer in traditional industries like real estate, industrials and finance.

Instead, the top companies on the US stock market operate in the technology and software industries.

"Thus, we need to understand why that has happened. How soon will that change affect Malaysia, and how will it affect our companies?

"It would be nice to have more companies in non-traditional industries and see more entrepreneurs coming up in these sectors.

"We need to find a happy balance between our role as business owners and at the same time, not stifle entrepreneurship.

"I think this is where Malaysia is in a bit of a struggle – in terms of finding that balance. We hope that over time, and with better understanding and robust discussions, we will be able to create an avenue for entrepreneurship," says Jalil.

Enhancing skill sets and productivity to advance nation status

IN a move to regain its status as an Asian Tiger economy, Malaysia is working towards strengthening its economy and fiscal status by 2021.

It is also aiming to be a hub for Industry Revolution 4.0 (IR4.0) in South-East Asia.

Prime Minister Tun Dr Mahathir Mohamad has said that in view of the accelerated speed new technologies are evolving, Malaysia cannot waste any time in adopting IR4.0.

Despite facing some headwinds, the government intends to reduce the current debt and liabilities of RM1.087 trillion or 80.3% of the gross domestic product (GDP) in the course of this period to 65%, through the renegotiation of mega projects, such as the mass rapid transit.

Meanwhile, the confidence of some foreign investors in Malaysia remains strong. Malaysia's credit rating has also remained intact.

The country's foreign direct investments (FDIs) grew by 48% in 2018, while exports and the current accounts are also in positive territory.

Last year, there was a 48% increase in approved FDIs across all sectors at RM80.5bil.

IQI Global chief economist Shan Saeed *(pic)* provides his opinions and strategies on Malaysia's journey towards regaining economic prowess:

The Asian Tiger countries have seen tremendous successes in their economies. What are the key factors that Malaysia can emulate?

Malaysia is currently emulating certain variables that other Asian Tigers are applying, namely:

> Political stability,
> Maintain economic confidence,
> Solid macro fundamentals,
> Enhanced skill set and productivity,
> Price inflation is under control, and
> Balance sheet is on solid footing.

In terms of adoption strategy, Malaysia can adopt a more aggressive stance towards output; specifically, a speed to market strategy.

It is about the game of speed, efficiency and reaching markets profitably.

Is there a need for Malaysia to study its economic model in order to achieve the same success that these countries have achieved?

The government is already focused on moving faster in terms of technology and its deliverables.

The government is in control of the economy and doing its utmost to maintain strong aggregate demand.

In the end, the consumption pattern needs to remain solid in order to bolster GDP growth, given that consumption holds significant weightage in the overall GDP equation.

The government is taking steps to reduce debt levels and improve revenue streams to buttress tax to GDP ratio, in order to strengthen the balance sheet.

What are the priority areas that Malaysia should look into?

Malaysia needs to look into enhancing its skill sets and productivity, in order to enable income levels to increase, which in turn will benefit the masses at the macroeconomic level.

The Government needs to continue to provide incentives to people to upgrade their skill set to achieve better productivity and enhance marketability for their careers or income level.

A technology driven labour force can actually help drive the growth of many economies globally in the next five to 10 years.

Is the Malaysian tax structure efficient enough for the government to raise enough tax revenue to not only fund development objectives but also over the long term pare down the growing debt burden and also to rely less on fiscal stimulus?

The Malaysian tax structure is in line with market forces and lower in comparison to the APAC region.

According to KPMG, the corporate tax rates of neighbouring countries are as follows:

> Indonesia - 25%
> Malaysia - 24%
> Thailand - 20%
> Vietnam - 20%
> Singapore - 17%

Asian Tiger economies have achieved significant progress in attracting FDI from global players.

In my opinion, the best way to increase tax to GDP ratio is by increasing the GDP size.

Malaysia was an Asian Tiger economy. What went wrong? How do we correct our mistakes?

The economy cannot be played like a piano, where one can press specific fiscal, monetary and structural notes to get standard answers.

The only method to achieve standard answers is through mathematics. The economy is a combination of complex variables.

The way to accomplish positive economic results is an art for governments.

Whenever there are momentous aspirations to achieve, there are inevitable bumps and hiccups along the way.

It is how you tackle those impediments and challenges that will make the road smoother towards the hill.

At times, you need to revisit your economic strategy which might have gone wayward and bring it back to the original plan.

Efforts and energies should be focused on realigning all important variables which are significant in the overall economic strategy.

Moreover, all stakeholders need to be on the same page in order to execute the strategy with utmost professionalism to achieve Asian Tiger status.

Economic outcomes delivered efficiently should become the new priority for the government.

Economist: M'sia needs to implement structural reforms

GLOBAL trade and investment trends play a significant role in open economies like Malaysia.

A freer environment for trade, investments and for doing business in the world has tremendous power to drive prosperity across the globe.

Recent experience has shown that prolonged trade tensions between the United States and China, as well as a disorderly Brexit has been a factor in a softening global environment, with particularly significant consequences for trade and investment.

World Bank senior economist Smita Kuriakose (*pic*) says it is imperative for Malaysia to implement structural reforms to improve the business environment and foster private investment and job creation.

"These include strengthening infrastructure services such as increasing access to affordable and reliable electricity, improving transport and logistics services, and leveraging digital technologies including bridging the skills gap that could support productivity and crowd in private investments.

"To weather growing risks, the recent East Asia Pacific Update 2019 recommends that countries in the region with sufficient policy space use fiscal and/or monetary measures to help stimulate their economies, while guarding fiscal and debt sustainability," she says.

The Malaysian economy grew moderately at 4.5% and 4.9% in the first two quarters of 2019.

This was on the back of softer-than-expected investment growth and weakening export demand, particularly in the export growth of electronics and electrical (E&E) products that is consistent with the cyclical slowdown in the global technology cycle.

Kuriakose notes that sharper than expected slowdowns in major economies, unresolved trade tensions and a maturing global technology cycle could weigh on Malaysia's export demand in the near term.

The increased uncertainty could also lead to more subdued business sentiment and a moderation in private sector activity.

"Proposals to reform Malaysia's investment incentives framework, focusing particularly on job creation and small and medium enterprises (SMEs) linkages as well as enhanced monitoring and evaluation, are an important step in the right direction," says Kuriakose.

Hence, in order to attract investments as Malaysia competes with its regional peers, Malaysia would need to attract knowledge intensive investments.

This would in turn require high skills and adequate infrastructure.

"Firms will be required to invest in skills, research and development as well as effectively embrace integrated technologies and solutions, to attract investments that would increase high quality jobs.

"At the same time, it would be important for Malaysia to clearly articulate a new set of 'National Investment Aspirations' that outlines its expectations from investments, such as high-quality job creation and increased economic complexity.

"Then, the investment ecosystem has to be calibrated to support the achievement of these goals, and any incentives offered are aligned with these aspirations, utilising objective and transparent eligibility criteria," Kuriakose elaborates.

Apart from that, structural reforms aimed at improving the business climate can boost growth prospects.

The recent reforms that have led to a steady increase in the ease of doing business in Malaysia, with Malaysia now ranked 12th globally, is reflective of the strong reforms implemented to this end.

New technologies associated with the 4th Industrial Revolution (IR4.0) are transforming production processes by reducing the importance of low wages in determining competitiveness.

To accelerate the adoption of IR4.0 in Malaysia, the government plays a crucial role.

In response to the IR4.0, the government has launched the Industry4WRD: National Policy on Industry 4.0 to drive digital transformation in various sectors in Malaysia and one of the initiatives is setting up an Industry Digitalisation Transformation Fund to encourage industries to utilise artificial intelligence.

Malaysia aims to be an IR4.0 hub in South-East Asia.

In order to achieve this ambition, firms especially SMEs would need to aggressively adopt new technologies and effectively participate in global value chains.

The emphasis in the recent Budget 2020 on measures to boost jobs and private investment, particularly by SMEs through increased digital adoption are an important step in this direction.

As the government restructures its priorities for Malaysia's development to achieve high income status, the overarching vision and commitment is that of inclusive growth for shared prosperity with strong institutions, a robust education and health care system and strong social safety nets.

"In the medium to long run, structural reforms that build strong institutions, raise competitiveness, enhance trade and innovation are needed to boost productivity and growth.

"Concurrently, well-designed social safety nets and active labour market policies are key to managing risks and protecting vulnerable groups, to ensure that everyone is a beneficiary of the proceeds from growth," says Kuriakose.