

Zeti Akhtar Aziz: Implications of emerging global economy trends for Malaysia

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, on the occasion of the International Women's Day Forum, Kuala Lumpur, 1 April 2008.

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Fundamental changes occurring in the international environment have dramatically altered the configuration of the global economy. A global shift is taking place resulting in a rebalancing of economic power. Accompanying these changes is the increase in the international mobility of talent and capital flows. In this more dynamic environment, comparative advantages and distinct capabilities are also shifting. This has resulted in a rethinking of the business models and the manner in which we operate to achieve performance. In addition, corporate cultures have needed to change. This reorientation has entailed reviews of the strategic focus, the strategies, approach and processes as well as the redeployment of resources.

In conjunction with the International Women's Day that was on March 8, it is my honour to be here today to speak at this forum organised by Accenture. My remarks will focus on the implications of these newly emerging trends in the global economy on Malaysia. More specifically, to discuss the new future that is emerging before us, and the opportunities it accords. Equally important, is the ability to raise the level of our flexibility and capacity to adjust to these changing conditions. On the occasion of the celebration of the International Women's Day, it is important for us to reflect on the implications of this rapidly changing environment for women. Women account for almost half of the world's population. The integration and full deployment of women in the workforce is therefore a vital part of our quest for higher performance in this new era of the modern economy.

Let me begin with some brief words on the economic and financial transformation that is occurring in Malaysia. Indeed, Malaysia is very much a part of this new phase of globalisation in which the concentration of economic power in the global economy is now becoming more dispersed. International trade, investment and financial flows have now become increasingly a two-way process. In fact, it is these very changes that have increased the tolerance level and strengthened the resilience of the economy.

The Malaysian economy continues to be transformed in several ways. Firstly, domestic demand has become an important driver of growth compared to previously being export driven. Malaysia has thus become part of the massive cumulative market that is growing in Asia. Secondly, this has contributed to changing significantly the pattern of our international trade. Previously, our trade was predominantly with the major developed economies. Now, almost two-thirds of our trade is with Asia. As the Asian markets continue to expand and as the trade increases, it becomes a mutually reinforcing trend in the region.

Thirdly, our economic structure has become increasingly more diversified with new areas of comparative advantages emerging. As this occurs, we are seeing the increased two way flows of investment, financial flows and talent. With full employment, activities requiring low labour cost are no longer our comparative advantage. Both multi-nationals and domestic corporations in such activities have since the 1990s relocated to other parts of the region. Resources are now redeployed to new areas of comparative advantage which are generating new areas of growth. As part of this transformation, the services sector has continued to become an important driver of growth, reflecting the flexibility and agility of the economy to shift resources to new areas of growth. While Malaysia continues to be a recipient of foreign direct investment amounting to 7.2% of GNP, outward foreign direct investment by Malaysian corporations account for 6.9% of GNP.

The financial landscape has also been dramatically transformed to become more diversified, more market oriented and more liberalised. The sector has also evolved from being fragmented to becoming more consolidated, operating with higher levels of efficiency. There are also stronger international linkages not only in terms of increased foreign presence in our financial system but also our financial institutions are increasingly venturing abroad. This trend has increased our international inter-linkages resulting in greater economic and financial integration with the global economy and international financial system. New areas of growth are also emerging in the financial system including in investment banking and Islamic finance. The development of our domestic financial markets, and the more liberalised environment has contributed to increased two-way flow of funds. These two-way flows have promoted the orderly functioning of our foreign exchange market. In addition, the more diversified financial markets have in turn reduced our vulnerability to extreme volatility.

These transformations have brought about significant payoffs for our nation. Today, the income per capita exceeds USD7,000, double of what it was seven years ago in 2001. With the increased resilience, the future prospects remain positive with the economy on a steady growth path going forward. There is however, significant uncertainty in the global economy in the current environment, with some of the largest economies in the world bracing for slower growth and continued turmoil in the financial markets. In addition, rising inflationary pressures in the global economy arising from high energy, commodity and food prices has resulted in the erosion of the purchasing power. Despite a slower performance in the external sector the continued expansion of the Asian economies is expected to be sustained. Growth is predominantly supported by strong domestic demand and the increased intra-regional trade and investment activities.

A more recent phenomenon is the increased mobility of labour in the region. Increasingly, talent from our region have ventured beyond domestic borders. This trend is not limited to our immediate borders but also to more distant emerging and developed economies. Again, we are seeing the two-way flow of talent for the different areas of professional expertise and the workforce leading to an increasingly diversified background of employment in different parts of the world. Malaysian professionals can be found in every continent in wide ranging areas of employment.

Let me turn to the participation of women in the economy. About half of the Malaysian population are women and they account for about 47% of the workforce. The representation of women at the professional, managerial and technical levels has increased from less than 30% in 1990 to about 40% currently. Such progress has been achieved given the educational opportunities that have been made available to women. Literacy rates among women is about 90% due to the countries comprehensive and inclusive education system. Female primary and secondary students account for half of total enrolment, while at the public universities, female students account for 55% of the total enrolment. It is this educational foundation which has accorded equality to women in Malaysia . It has enabled women from all walks of life and backgrounds to contribute and participate fully in Malaysia's economic prosperity.

Women in Malaysia have also participated significantly in the small and medium enterprise sector of the economy. A significant number of women run family businesses makes up a large part of this sector. Another area in which there is significant participation of women is the services sector which has now become one of the most important sources of growth for the Malaysian economy projected to expand by 7.7% in 2008. Ninety percent of women-owned SMEs in Malaysia are in fact in the services sector. Some of these activities are also developing in the informal sector. As, the formal economy in Malaysia continues to prosper, there is significant scope to integrate the informal sectors of our economy with the formal sector. Deliberate actions to integrate the informal economy into the formal economy will give this segment of society increased opportunities. As part of the efforts to promote greater engagement of women in the modern economy and their increased participation in the formal economy, significant initiatives have been taken to raise the level of financial literacy among

women. Greater empowerment can be achieved through the resulting greater financial independence.

In many countries, the success of various national and international socio-economic reform programs have resulted in women becoming an increasing part of the formal economy. Through the concerted efforts of women's rights movements, economic policy intervention and gradual shifts in cultural norms, women today have more opportunities for education, careers and political representation. This has allowed for increased participation in the economy. Bringing women into the economic mainstream would contribute to the economic potential of the nation. Women are now also part of the increased mobility of talent that is able to relocate to different parts of the country or to venture abroad.

Increasingly, women are now rising to senior and key top management positions in both private corporations and in government, although we are still less than where we should be. The changing corporate cultures, the shift away from hierarchical structures, in fact, are to the advantage for women professionals. We have seen these changes taking place in international corporations, where the previous power structures have resulted in limited opportunities for women. Changes in corporate cultures towards more collegial environment have inculcated organisational values and behaviours that have been more conducive for increased opportunities for women.

Let me turn to the implications of an environment of constant change and transformation. Indeed, as we go forward, we can expect this pace of change to intensify. To succeed in this ever changing environment, there needs to be an awareness and an understanding of the nature of these changes and its radical implications and consequences. Survival in the modern economy requires the adoption of new approaches and strategies. Approaches that have brought previous successes will no longer become relevant. It will require radically different ways of doing things. Prospering on a short-term business trend without developing capabilities and competitive positions will risk the future of any business. The new environment requires strategies that aim to secure durability and sustainability.

This new environment will be characterised by increasing competitive pressures. Thus, the ability to compete is no longer based on access to raw materials of land, capital and labour. It will demand much more. It will depend on how these resources are exploited. The new environment thus calls for greater focus on building capabilities. The new environment also presents increased uncertainty affecting the level of preparedness. In addition, under an increasingly more uncertain environment, the traditional approach can no longer be applied. Making sound strategic decisions under uncertainty requires a different approach. In this case, understanding the range of possibilities and the ability to perform under different circumstances becomes important.

Knowledge and speed becomes the essence in this new environment. The speed of access to knowledge therefore needs to be continuously enhanced. Smart partnerships becomes highly relevant in this new economic order. Tremendous benefit can be gained from collaboration and partnerships. Such collaborations in this new economy needs to extend across borders.

Distinct efforts need to be made to prepare for this new economic age. The strategies have to be developmental. High fliers that do not develop capabilities will not be equipped for the long-term. Investment, therefore, has to be made for the future. Among the key strategies will be the continuous investment in building the capabilities and capacity, setting the performance standards and promoting strategic alliances. This has to be achieved with a clarity of the goals. This is particularly important in an environment of intense short-term pressures.

The rapid changes that are taking place in our environment thus demands new skills and ability to manage new challenges and capitalise on the new opportunities. Indeed, the role of leadership has changed. Leaders not only must be able to see the new emerging opportunities, but also to be able to deal with the high level of unpredictability. The industry leaders need to

be visionary and comprehend future trends, chart strategic directions and adapt to change. Effective leaders in this era, will be those who are continuous learners, who are on the cutting edge of excellence, and who have the humility to recognise the need to reinvent themselves and inspire their organization to adapt to the new environment.

The investment in human capital development is thus important for future survival. Human capital development has become of strategic importance and is integral to the success of an organisation. This needs to occur at all levels of the organisation. Senior executives need to take the lead and devote a considerable amount of their time to this initiative. Human resource development functions is integral to the talent management process and in supporting the human capital management strategy.

Let me conclude my remarks. The inclusion of women into mainstream economic activity is no longer an option, but a prerequisite for sustained economic development. The strive therefore has to be to provide the enabling environment and to set the standards so that the new multi-polar world will be a more inclusive one.

Thank you for your attention.