

**Keynote Address by  
Yang Berhormat Dato' Jacob Dungau Sagan  
Deputy Minister of International Trade and Industry, Malaysia**

**At the Malaysian Corporate Governance Index 2011  
On 7th December 2011, 8:00 pm  
Sime Darby Convention Centre, Kuala Lumpur**

**Yang Amat Berbahagia Tun Mohamed Dzaiddin Haji Abdullah  
Chairman of Bursa Malaysia**

**Yang Berbahagia Tan Sri Zarinah Anwar  
Chairman of the Securities Commission Malaysia &  
Chairman of the Capital Market Development Fund**

**Yang Berbahagia Tan Sri Halim Ali  
Chairman Minority Shareholder Watchdog Group**

**Yang Berusaha Puan Rita Benoy Bushon  
Chief Executive Officer, Minority Shareholder Watchdog Group**

**Distinguished guests**

**Tan Sri-Tan Sri, Dato'-Dato', Datin-Datin**

**Ladies and gentlemen**

**Selamat Sejahtera**

**Salam Satu Malaysia**

**And Good Evening**

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1. It is indeed a great pleasure to speak to you tonight at the **Malaysian Corporate Governance Index 2011: Survey Findings and Awards Presentation**. I must congratulate the Minority Shareholder Watchdog Group (MSWG) for organizing this annual event for the third time to provide information on the state of corporate governance in Malaysia, and for recognizing companies that have demonstrated exemplary governance standards in their operations over the past year.
2. I bring with me the warm greetings of my Minister, Yang Berhormat Dato' Sri Mustapa bin Mohamed, who was called away on urgent business and therefore unable to be here with you this evening.
3. I am pleased to see the interest that Malaysia's public-listed companies have shown in good corporate governance practices and their interest in discovering how they compare to their peers in this regard, as witnessed by the excellent turnout of captains of industry here tonight.

**Ladies and Gentlemen**

3. Much of the world continues to live in economic uncertainty with the lingering effects of 2009's global financial crisis. Although Malaysia was not touched as badly as North America and Europe, our open and small economy saw a decline in industrial production and manufacturing exports due to weak global demand. High international commodity prices have also forced up domestic prices, making the prices of our exports more expensive. The biggest

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effects that our nation has seen were a 17.2% drop in private investment and the contraction of our economy by 1.7% in 2009.

4. Since then, the Malaysian economy has regained some of its momentum. Foreign direct investment increased to RM29 billion in 2010 and reached a level of RM21.2 billion in the first half of 2011 alone. Private investment is predicted to increase by 15.9% in 2012 as a result of more national and foreign direct investment.

5. Economic growth measured 4.4% in the first half of 2011 and is expected to top out at between 5% and 5.5% for the year, as a whole. The global economic growth rate for 2012 is expected to be in the area of 4%, due to the continuing economic slowdown in Europe, Japan and the US, lingering effects of the European debt crisis and the effects of inflation. All these are likely to have a direct effect on the Malaysian economy. To counter this, the Government intends to stimulate public and private investment and private consumption in 2012. By doing so, we anticipate a growth rate of between 5% and 6%.

4. In terms of other economic trends that we have seen, globalisation has increased competition between nations and we now see other developing nations growing faster than our own, along with some of the more developed nations competing with Malaysia in regional markets.

5. There has also been a distinct shift in the balance of economic power from the G-7 economies of North America and Europe to the BRIC countries (Brazil, Russia, India, and China) and emerging economies in Asia and elsewhere. A more dispersed power structure in an increasingly interconnected world will see wealth and economic power vested in countries and regions that have advantages of geography, timing and governance over others. Malaysia is well positioned to benefit from these advantages, but to continue to remain competitive and achieve sustainable growth in the global race, we must discard once and for all the notion that we can rely on old business models to carry on doing business as usual. Government spending is neither a consistent nor efficient driver of high and sustainable economic growth, and so we look to the private sector to take on its natural role in this area.

6. In response to this challenge to keep the Malaysian economy strong and competitive, and to increase private sector involvement in the economy, the Government released the 10<sup>th</sup> Malaysian Plan and the New Economic Model (NEM) in 2010. The main premise of the NEM was to identify new ways of doing business to propel Malaysia into the ranks of the high-income economies by 2020. The 10<sup>th</sup> Malaysia Plan sets out the Government's development agenda based on the NEM.

7. Two concrete plans were identified to implement the economic and social changes required by the NEM. The Government Transformation Program (GTP) is the first plan, which identifies strategies and projects in National Key Results Areas (NKRAs) to achieve systemic changes that will support economic growth identified in the second plan, the Economic Transformation Plan (ETP).

8. The ETP is the main driver behind Malaysian's move to a high-income economy by 2020. A gross national income growth rate of 6% per year will be needed to make this happen, and the program targets 12 National Key Economic Areas (NKEAs) with the best chances for achieving this growth. These areas will receive prioritised public investment and policy support. A total of 131 projects have been identified as "Entry Point Projects" under the NKEAs. The NKEAs will be underpinned with strategic policy measures designed to, among others, improve performance, streamline business processes, ensure the adoption and use of international standards, and liberalise entry and exit for business. The ETP has been designed to be fine-tuned "on the go" so that strategies, NKEAs, and projects can be added, removed, or shifted depending on the state, direction and needs of the economy.

9. Approximately RM1.4 trillion will be required to implement the NKEAs from 2010 to 2020. In line with our desire to have the private sector taking the lead role in implementation, 92% of funds – some RM120 billion per year – is expected to come from the private sector. To encourage the private sector to make the necessary investments, government must fulfil its promises to cut

red tape, break down silos, streamline business processes, tackle corruption, and re-energize as well as transform the public service into an efficient and professional service delivery body.

### **Ladies and gentlemen**

10. The tremendous need for capital from the private sector will require both on- and offshore investment. Offshore investment, as a share of GDP in Malaysia has never recovered to the levels achieved prior to the 1997/98 Asian Financial Crisis. As investment will be the primarily driver of economic growth through 2020, it must return and rise rapidly to reach almost 20% of GDP by 2020, as opposed to the level of approximately 10% in 2010.

11. To compete in attracting investment, especially at international levels, our governance standards need to meet global standards. Although Malaysia does better than its neighbours in South East Asia, according to the World Bank, governance still lags behind the developed nations of the OECD in the areas of:

- Transparency and accountability
- Strategic focus
- Agility
- Responsiveness
- Inclusiveness
- Effectiveness

12. Focusing on the element of corporate governance, Malaysia has undertaken a number of measures and initiatives over the past two years to strengthen and enhance corporate governance to keep our country's capital market healthy, competitive, robust and relevant. These initiatives include:

- The broadening of SC's enforcement powers with changes to the Capital Markets and Services Act 2007, in 2009.
- The formation of the Audit Oversight Board in 2010 to oversee the auditors of public interest companies, thereby protecting investors by promoting confidence in the quality and reliability of the audited financial statements of those companies.
- The establishment of the Securities Industry Dispute Resolution Centre (SIDREC) in 2010 to provide an alternative avenue for investors to settle disputes with capital market intermediaries.

13. The Capital Market Masterplan 2, with its theme "Governance for Growth" and released by the Securities Commission in April 2011, establishes a framework for further improvements to our country's capital market over the next 10 years, to 2020. These improvements are needed to support a market that has doubled in size from RM1 trillion to RM2 trillion over the past decade, and which is expected to almost triple to RM5.8 trillion by the year 2020.

Key improvements to support this growth include:

- Enhancing product regulation to manage risks.

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- Expanding accountabilities as intermediation scope widens.
- Ensuring a robust regulatory framework for a changing market landscape.
- Effective oversight of risks.
- Strengthening corporate governance.
- Broadening participation in governance.

**Ladies and Gentlemen**

14. The first deliverable from the Capital Market Masterplan 2 was the Corporate Governance Blueprint 2011 released by the Securities Commission in July 2011. The Blueprint contains 35 specific recommendations to achieve the corporate governance goals set out in the Masterplan. These will be implemented over a five-year period, beginning in 2012 and ending in 2016. Recommendations have been identified in the following areas:

- Empowering shareholders and their rights through a fair, efficient and transparent voting process.
- Encouraging institutional investors to take a leadership role in governance by exercising responsible ownership.
- Increasing the Board's role in governance by amplifying the role of boards as active and responsible fiduciaries.



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- The enhancement of disclosure standards and practices to promote informed decision-making by shareholders.
- Recognizing the critical role that Gatekeepers and Influencers play in fortifying self- and market- discipline.
- Reinforcing the critical and complementary roles of public and private enforcement to maintain market confidence.

15. Focusing on institutional investors for a moment, these market players have important leverage at their disposal, in terms of the size of their investments, to influence and encourage good corporate governance practices at their investee companies. It is important, therefore, for institutional investors to exercise this influence – whenever warranted and beneficial – for the protection of their beneficiaries and the sustainability of their companies.

16. Through the Blueprint's recommendations, which will be achieved through a combination of study, consultation, legal and regulatory changes, Malaysia will achieve a competitive capital market where regulatory discipline, market discipline and self-discipline all play equal roles in creating a healthy and sustainable corporate governance ecosystem.

17. In as much as boards, institutional investors, and other stakeholders have a role to play to ensure good corporate governance, we cannot forget the importance of public enforcement to ensure investor and market confidence –

particularly when market players fail to exercise the discipline expected of them in their roles. Nothing demonstrates the commitment to ensuring this, more than enforcement action taken to address CG-related transgressions.

18. The recent jailing and fining of two former independent non-executive PLC directors for providing misleading information to regulators is just one example of the ongoing commitment of Government and the Securities Commission to bring those who abuse the faith and trust of investors – particularly minority investors – to book.

#### **Ladies and Gentlemen**

19. The country's economic success has come from the hard work of all Malaysians; it is only fitting that we should pay tribute to their efforts by recognizing some of that success here tonight.

20. In the World Bank's *Doing Business Survey 2012*, Malaysia was ranked 18<sup>th</sup> out of 183 countries for the ease of doing business. This is an improvement from 23<sup>rd</sup> place in 2011. We were also ranked 1<sup>st</sup> for ease in getting credit and 4<sup>th</sup> for investor protection.

21. The World Economic Forum's *2012 Global Competitiveness Report* ranks Malaysia 21<sup>st</sup> among 142 countries in terms of competitiveness. The ranking has gone up five places from 26<sup>th</sup> place in 2011. In the same report, Malaysia

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was ranked 3<sup>rd</sup> in terms of financial market development – just behind Hong Kong and Singapore.

These are notable accomplishments. But, being a small and open economy, we are more easily affected by the vagaries of world financial markets. To remain resilient, relevant, and competitive in the global economy, there is more work that needs to be done – as the details in these surveys and reports point out. We must build further upon the foundation that we have laid.

**Ladies and Gentlemen**

22. Corporate governance is a journey, not a destination. It requires continuous monitoring and periodic adjusting to ensure that international corporate governance standards and best practices are adhered to, and that our country remains an attractive destination for investment capital needed to sustain economic growth and launch Malaysia into the ranks of high income economies for the benefit of all Malaysians.

23 The Securities Commission of Malaysia is spearheading the development of a standardised scorecard to rank Public Listed Companies on Corporate Governance for adoption by the ASEAN countries under the ASEAN Capital Market Forum funded by the Asian Development Bank. This initiative is aimed at raising the standards and practices in ASEAN and enhancing the visibility and investment profile of quality ASEAN PLCs internationally. It is to establish ASEAN as an asset class. The ranking is leveraged on the established

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methodologies in these countries. The pilot year, expected in the first quarter of 2012, will include the 30 top PLCs from each participating country, that is: Malaysia, Indonesia, Singapore, Thailand, Philippines and Vietnam. In Malaysia, we already have MSWG which has been far-sighted in preparing the corporates through its annual Malaysian CG Index for three years, thus only befitting to carry out this initiative with the support of the Capital Market Development Fund.

23. In closing, I would like to take this opportunity to commend the PLCs for their progress in advancing the corporate governance yardstick from year to year. In particular, I would like to congratulate the companies that have succeeded in making the ranks of the Top 100 companies in the Malaysian Corporate Governance Index 2011. Your recognition of the importance of implementing high standards is seen in your accomplishment here tonight, and serves as an inspiration that other companies should emulate.

24. I would also like to once again thank MSWG for its efforts in recognizing and incentivizing exemplary corporate governance practices through the annual MCG Index. I commend you for hard work and effort in continuing to raise the corporate governance bar through initiatives such as this.

Thank you very much and good evening.

**The End**