

21/09/1998

Need to boost corporate governance

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THE 16th Commonwealth Games are almost over. All the blood, sweat and tears have borne the fruits of success. We have silenced the many critics who doubted our ability to stage the world's second biggest sporting event.

Malaysians have proven that the economic crisis has not prevented them from making the Games a roaring success. One only has to look at the huge crowd that turned out for the lawn bowling finals on Saturday where Malaysia and the Republic of South Africa fought for the gold in the lady's singles tournament.

The rhythmic gymnastics finals and the hockey semi-finals also played to packed stadiums. Malaysia may not have participated in every single event, but warm-hearted Malaysians who were also ardent sports fans turned up to cheer the other teams along in events like rugby.

The light rapid transit (LRT) system was fully utilised as thousands of people sought to pile into coaches that would take them to the various Games venues. Before the Games began, the LRT stations would generally be empty for most of the day. The crowds were only visible during the morning and evening rush hours.

At the time of writing, Malaysia holds fifth place in the Games medal tally. 70 Commonwealth nations are participating in these Games, making the Kuala Lumpur 98 Games the biggest in the history of the Games.

Malaysians have won medals in events for which we have never won medals before and never expected to win any this time either. In some of these events. for example the women's shooting event, Malaysia even managed to sweep the gold.

The cycling event set the pace for Malaysia with a silver medal. Then came Kenny Ang with a gold in bowling, Hidayat with his gold for weight-lifting, the four rhythmic gymnasts with their gold, the men's badminton team won a gold, the women's badminton team with their very unexpected silver, a gold in boxing and many more.

Nurulhuda, despite having broken her arm just before the Games started, went on to win the shooting gold medal for Malaysia in Langkawi.

Given Malaysia's performance in these Commonwealth Games and the splendid manner in which we have hosted the Games, it is certainly not too far-fetched to say that we could field some very good teams in the 2000 Olympics and even put in a bid to host the 2008 Olympics.

The sceptics, who had doubted our ability to host the Commonwealth Games will now have to eat their words. And, they will not be the only ones who will have to do so.

The many people who had criticised the need to introduce drastic foreign exchange controls in order to insulate the Malaysian economy have also been forced to admit that they were wrong.

The United Nations Conference on Trade and Development, in its report last week, clearly proclaimed the merits of measures such as these to revitalise economies during times of crisis. (I call these measures Mahathirnomics).

Meanwhile, the International Monetary Fund (IMF) also admitted last week that it had failed to resuscitate the economies of South Korea, Thailand and Indonesia with its economic prescriptions.

The US is now beginning to feel the crunch brought about by a weakening demand from the troubled Asian countries. The currency crisis has also

spread to Russia and is beginning to knock on Latin America and South Africa's doors.

In line with the growing concern surrounding declining profits, the Dow Jones Industrial Average has become more sensitive to the current developments and the chairman of the US Federal Reserve Alan Greenspan has even hinted that the Fed may lower interest rates.

The Fed is now seriously talking about lowering interest rates, but the IMF wanted the Asian nations in crisis to increase their interest rates as a condition for assistance. It is hoped that these events will spur the developed nations towards implementing rules and guidelines to curb the destructive activities of global currency speculators.

We were also told last week that RM11 billion was brought back into the country from Singapore - in order to avoid the October 1 deadline after which the ringgit will cease to have any value abroad.

The RM11 billion and the RM8 billion - which had been released into the financial system with the lowering of the statutory reserve requirement (SRR) from 6 per cent to 4 per cent by Bank Negara Malaysia - should be enough to stimulate the revival of the private sector.

The introduction of the foreign exchange controls has bought Malaysia a much needed breathing space which will be utilised to review the various components of the capital market.

There has also been a great deal of talk about the issuance of corporate bonds although very little has been done to turn these words into reality. There has been a continued focus on equities although derivatives such as the stock index futures have attracted 17 per cent of the retail investors. The very low level of institutional participation in the Kuala Lumpur Options and Financial Futures Exchange requires to be seriously reviewed if Malaysia intends to encourage the use of these hedging instruments in the market.

The market, by definition, is still largely retail and since prices are always determined by market forces, it is no wonder that such markets are more susceptible to volatility when compared to markets with a greater percentage of institutional investor participation.

Unfortunately, the participation of institutional investors in the Malaysian market is very much lopsided with only a single institution's exposure amounting to almost 95 per cent of the total value of institutional exposure.

With a declining stock market, almost all state unit trust funds are also experiencing sharp declines in their funds' prices and increased anxiety among unitholders everywhere. Perhaps, the only consolation to the managers of these funds is the low level of knowledge among unitholders.

With the margin facilities normally enjoyed by investors already addressed, the one burning issue which had been contributing towards the volatility of the market is now history.

However, the contra system - a unique feature of our market - seems to be alive and kicking. Certain quarters seem to feel that the 5-day settlement system encourages this form of trading and discourages upfront payment, while others feel that the system is sacrosanct and should not be meddled with.

Learning from the experiences of other countries, the onus of accuracy and transparency should be placed squarely on the shoulders of the issuer. This has been set as a requirement for a disclosure policy to be implemented by the year 2001.

Regulatory bodies should free themselves from the responsibilities of carrying out due diligence on issuers. Malaysia has all the rules and regulations required to run a very efficient market. Therefore enforcement of these rules must be paramount. Unfortunately, in Malaysia's case, the

rules are often violated and the perpetrators go relatively unpunished.

Perhaps the sight of a few offenders serving prison sentences will act as a negative incentive and encourage better corporate governance.

(This article represents the writer's personal views)

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