

# Malaysia Turns Around

In a remarkably short time, Malaysia has shrugged off its post-crisis image of a state-managed economy with poor corporate governance. Foreign investors are flocking back

*FUCK 2000 2002*

By S. Jayasankaran/KUALA LUMPUR

"From 1998 till 2001, the phone barely rang here and, when it did, it was usually a wrong number. But since January we have been inundated with requests, telephone calls and visitors"

-Steve Haggart, Credit Suisse First Boston in Kuala Lumpur

"The political risk is sharply down while transparency is sharply up"

-Dominic Armstrong, ABN Amro in Singapore

IT'S HARD TO BELIEVE, but they're actually talking about Malaysia. Change is afoot as a new sense of pragmatism wafts through Putrajaya's corridors of power. And presiding over this is Prime Minister Mahathir Mohamad, now in his 21st year in office. As finance minister as well, he's setting a new economic agenda. It stems from a newly found political confidence that has spilled over to a market-driven decision-making process—largely, though not completely, within a framework of transparency and good governance.

It has restocked foreign-investor interest in Malaysian credit and equity markets and marks an amazing turnaround for a country until quite recently deemed an international financial pariah. "It isn't the same marketplace we fled three years ago," says Dominic Armstrong, regional research head of ABN Amro in Singapore. "Apart from Korea, Malaysia could be the best-regulated and most transparent market in Asia right now."

Today, Malaysia's banks are among the best in the region. They have been recapitalized, consolidated to 10 from 58 banks and financial institutions previously and have had their bad debts pruned to internationally acceptable levels. Danaharta, the asset-management agency set up to resolve the bad-debt crisis in 1998, could become the first such global agency to turn a profit when it ceases operations in 2005. It took out 48 billion ringgit (\$12.6 billion) worth of bad loans at 45 cents on the dollar in 1999-2000 and expects to recover almost 60 cents on the dollar. The banks have received almost 9 billion ringgit from Danaharta. In fact, China and Turkey recently sent teams to study the Malaysian debt-recovery model.

Meanwhile, the state has driven corporate-debt workouts by taking over indebted private companies it considers strategic and replacing their owners with professional management—spending over 11 billion ringgit in the process. Another 28 billion ringgit in bad debt owed by 12 companies is expected to be amicably resolved by August through bank-creditor meetings mediated by the Corporate Debt Restructuring Committee.

The CDRC is a state-sponsored debt-workout agency with no real powers except the government's moral backing. It was set up for the so-called hard cases—companies employing large numbers and

owing more than 100 million ringgit to at least five banks. And it typified the Malaysian approach to restructuring as opposed to simply forcing them into bankruptcy. "Rather than having one creditor foreclose, leaving other creditors unhappy and scores of people jobless, it was felt that the government could mediate so long as there were viable cash-generating businesses still around," says an official familiar with the CDRC. Even so, its job got easier after July last year when Mahathir granted it more powers. A scheme is now considered viable after approval is received from 75% of lenders by value or 50% by number: Previously the decision had to be unanimous.

All these efforts have been well rewarded. Foreigners have ploughed \$2 billion into the stock exchange, sending it 36% higher since May last year. Growth could hit 6% this year, from 0.4% in 2001 while tax revenues reached 24% of GDP in 2001, among the highest figures in Asia. Meanwhile, Malaysia's sovereign ratings have been upgraded by every international agency, making the country's debt hugely saleable. Credit spreads on an upcoming jumbo bond by national oil corporation Petronas, considered quasi-sovereign, are expected to trade at around 175 basis points above U.S. Treasury Bonds. In 1998, similar bonds traded at almost junk levels.

So what explains this turnaround?

**"APART FROM KOREA, MALAYSIA COULD BE THE best-regulated and most transparent market in Asia right now"**

DOMINIC ARMSTRONG, ABN AMRO, SINGAPORE

Foreigners fled the Kuala Lumpur market following the imposition of capital controls in September 1998 and Mahathir's sacking of Anwar Ibrahim, his popular deputy in party and government. Nor did the premier's rants against globalization and international currency speculators and his various moves to prop the local stock exchange-help matters. Subsequently, Anwar's trials tarnished Malaysia's international image, as the cases were widely considered unfair.

The capital controls, imposed against the advice of the International Monetary Fund, have since been clearly vindicated but even when they were all but removed for foreigners by 2001, few rushed back. The main reason was the perception of poor corporate governance. As Malaysia's markets had declined after capital controls were imposed relative to others like

those in China, India and Taiwan, its companies had to be seen to clean up their act to attract portfolio flows.

By mid-2000, new rules made it compulsory for all listed companies to submit quarterly results complete with balance sheets and profit-and-loss statements--something that neither Singapore nor Hong Kong requires. And complete disclosure, from directors' salaries to board composition, had to be observed.

But political interference to protect influential businessman continued to hamper Malaysia's cause internationally. This included the "restructuring" of politically connected conglomerate Renong in 1999: the rescue of Malaysia Airlines' controlling shareholder in February, 2001, at a huge cost to taxpayers; and the revelation that state funds had to underwrite a failed initial public offering by Time dot-

Corn, a Renong unit, in March, 2001. Businessmen Halim Saad and Tajudin Ramli, both proteges of then Finance Minister Daim Zainuddin, controlled Renong and Malaysia Airlines respectively.

The subsequent public uproar and foreign disapproval of the transactions ruptured Daim's ties with Mahathir, forcing him to quit in June 2001. Since then Halim has been removed from Renong and Tajudin is under a police investigation for alleged irregularities at Malaysia Airlines. That sparked a renewal of foreign interest in Malaysia as it was seen as a serious effort to curb cronyism. "You had all these great rules but waivers kept being given," says ABN Amro's Armstrong, "so the impression was Kuala Lumpur wasn't serious."

#### **FREED FROM POLITICS**

Fast-forward to September 11, which at one stroke allowed Mahathir to consolidate his political base. It discredited the main opposition Islamic Party, which had been giving him a hard time, and divided the opposition. Mahathir was thus freed to concentrate on the economy. It also allowed him to repair ties with the United States, Malaysia's largest trading partner, which were strained by Anwar's ouster.

So has Malaysia turned the corner? Not quite. Companies linked with Mahathir's ruling party, the United Malays National Organization, such as Malaysian Resources, continue to be awarded government contracts without competitive bidding, while Mahathir-associated businessmen like Syed Mokhtar Al-Bukhary have seen their fortunes rising on the back of state contracts. And questionable mega-projects like the Bakun hydroelectric dam and an enormous 600 million-ringgit convention centre south of Kuala Lumpur are back on track.

"It's naïve to assume that political patronage will completely disappear," says an ethnic Malay businessman close to government. "Umno still has to be funded but the scale will no longer be there." That's the hope that's been drawing a procession of international fund managers to Kuala Lumpur since February. And it's the reason why Credit Suisse First Boston, long bearish on Malaysia, released a glowing mid-April report titled "Malaysia—Back on the Investment Map." ≡