

SPEECH BY: DATO' SERI DR. MAHATHIR BIN MOHAMAD
(PRIME MINISTER)

EVENT: THE OPENING OF THE CONFERENCE OF THE 10TH ASIAN
SECURITIES ANALYSTS COUNCIL (ASAC) AND OF THE 7TH EAST ASIAN
STOCK EXCHANGES (EASEC)

VENUE: THE SHANGRI-LA HOTEL KUALA LUMPUR

DATE: 18 JUL 1988

TIME:

Encik Nik Mohamed Din,
Chairman of The Organising Committee;
Honourable Ministers;
Distinguished Guests;
Ladies and Gentlemen;

I am happy to welcome delegates to this 7th East Asian
Stock Exchanges Conference and the 10th Asian Securities
Analysts Council Conference. I understand we have among us
here today representatives not only from our neighbouring
Asian countries but also from other parts of the world. We
are honoured that Kuala Lumpur has been chosen to host this
gathering of distinguished officials of the East Asian Stock
Exchanges, analysts and prominent speakers. This event will
be another important milestone in the efforts towards a
better understanding and a more accurate perception of the
Malaysian capital market and its place in the global capital
market.

Ladies and Gentlemen,

2. The shock of the Pan-Electric affair, which resulted in
an unprecedented three-day closure of the market in Kuala
Lumpur and Singapore, followed by the October '87 Crash
which virtually left no securities market unaffected, has
tested the resilience and underlying strength of the
Malaysian stock market. The combined effect of these two
crises have, in fact, undermine the Malaysian stock market
to an extent that it created serious doubts as to its
ability to recover. Investors confidence was greatly shaken
and foreign institutional investors scampered for cover.
But apparently even this disaster can bring some good.
There is now a greater sense of responsibility and
willingness to self-regulate the securities industry. I am
glad to note that the Kuala Lumpur Stock Exchange or the
KLSE and relevant regulatory authorities had spared no
efforts to strengthen the stockbroking industry and to
protect the interests of the investing public.

3. Despite the Pan-Electric crisis which wiped off 33% of
total market capitalisation in the KLSE in five days and the
recent October Crash which wiped off 36% of total market
capitalisation of the KLSE in 14 days, the year 1987 has

generally reflected a strong build-up of market sentiment. These improved sentiments started in early 1986 and continued to be felt in the first 7 months of 1987 except for a few short bearish periods. During this time, the buoyant market sentiments were to a large extent supported by foreign institutional investors. The Malaysian Government's efforts towards strengthening the securities market and the relatively cheaper bourse had a positive influence in encouraging a steady inflow of foreign institutional funds into this country. It is noted that interest to invest by both local and foreign investors have also increased considerably during the first quarter of this year which reflects the strengthening of confidence among investors in response to the better economic condition.

4. Underlining this improved investors' confidence is the turnaround of the Malaysian economy. Since the second half of 1987, most of the major economic indicators have shown steady improvements in response to higher commodity prices, strong external demand as well as a gradual recovery in the domestic market. These favourable factors have continued to prevail during the first half of 1988. With the strong fundamentals already in place, the Malaysian Government is quite certain that the economy will expand faster to record a real GDP growth rate of more than 5 per cent in 1988. As indicated earlier on, our optimism is not without support. Some economists have expressed the view that growth this year may even be in the region of 6 to 7 per cent.

5. The current lower interest rates and liquidity in the market had set the stage for the gradual switching of funds from fixed-income investments to the stock market. This was reflected in both the higher volume and value of shares transacted on the KLSE in 1987. In sharp contrast to 1986, the volume of shares transacted in 1987 rose by nearly two-and-a-half times while turnover increased fourfold. The first six months of this year has seen the Malaysian stock market staging a remarkable recovery with share prices being around pre-Crash levels during the same period. The total market capitalisation of the top 100 listed companies was an impressive \$82.35 billion ringgit which reflected an increase of 33.8 per cent above the market value of the top 100 listed companies at the end of last year, and 49.8 per cent over the value at the end of 1986. The KLSE has learnt well from the major crises faced during the past two years and has undoubtedly emerged much stronger and more resilient.

Ladies and Gentlemen,

6. It is Malaysia's earnest desire to develop her capital market comparable to those of advanced nations. Towards this end, serious efforts are currently being undertaken to develop, amongst others, a more active bond market, unit trust market and property trust. This desire stems from the realisation that the world of securities today is developing at an unprecedented rate with globalisation. We cannot

afford to lag behind.

7. The Malaysian Government has, in an effort to strengthen the equities market, taken positive measures to boost investors' confidence. A recent major step towards this was the move to corporatise the stockbroking industry, with the objective of improving the financial strength of the industry as well as of allowing corporations to take the lead in making the KLSE an international stock exchange through improving technical expertise, professionalism and widening the network of operations. Initial entry was regulated, with only selected corporate participants being allowed to participate in the stockbroking companies. This was to ensure orderliness and a smooth transitional development. In an effort to expedite the corporatisation process, the Government has also issued new licenses to the three largest domestic banks in late 1987. These banks, with their capital resources and technical expertise, are expected to spearhead the corporatisation of the stockbroking industry. Whilst it is accepted that the banks are relatively new in this business, we have reason to believe that in time they will demonstrate their leadership in the industry.

8. Foreign brokerage houses have also been invited to participate in the Malaysian stockbroking industry. At present, the Malaysian market gets by-passed essentially due to lack of exposure. We hope that through foreign participation in the Corporatisation Programme, the image of local stockbroking companies would be enhanced. These foreign partners have a significant role in promoting and internationalising Malaysian stocks. The corporatised stockbroking companies, especially those with significant foreign participation, are expected to be more aggressive in projecting their image abroad and hopefully they will capture a larger share of foreign business and promote the Malaysian stockbroking industry. In line with this, we have now taken a decision to allow foreign stockbroking companies to increase their equity participation from the current level of 30% to 49% if the foreign stockbroking partner can demonstrate that it can contribute positively to the business of the local stockbroking companies.

Ladies and Gentlemen,

9. I wish to stress that we have spared no efforts to restore confidence and to create a suitable environment for a healthy development of the capital market. In this regard, the KLSE has taken serious measures to improve its systems and procedures, to widen and deepen its market, and especially to keep pace with developments in their international stock exchanges. These include, amongst others, the proposed establishment of the Centralised Depository System, the Advanced Warning and Surveillance Unit, and the introduction of the Second Board.

10. It is recognised that the KLSE is now fairly

well-developed. The KLSE has one of the highest market capitalisations in Asia and has been identified as one of the five largest emerging markets among developing countries by the International Finance Corporation. The Exchange offers a wide and diversified range of equities from various sectors of the Malaysian economy. It boasts of a good selection of plantation stocks not commonly available on other stock exchanges. In addition, the potential development of our bond market, unit trusts, the property trust and the Second Board on the KLSE would provide further avenues for investment opportunities to the investors. It is notable that, despite the sluggish economic conditions during the past years, public companies listed on the KLSE are reasonably profitable. The growth in corporate profits during these years was reported at 13.2%. It is envisaged that with the current economic recovery, the corporate sector would respond even more positively to the turnaround. With the relatively lower price earnings multiples of Malaysian equities, the KLSE would be a relatively cheaper bourse and should be more attractive to foreign portfolio investors.

11. Taking into consideration the various improvements made by the Exchange to facilitate trading, the stage is now set to project the KLSE as a leading Exchange in this part of the world. Now is the opportune time for investors, particularly foreign investors, to tap the potential of the Malaysian stock market. Towards this end, let me assure the foreign investors that the Government will endeavour to assist them in any way possible to overcome bureaucratic and other obstacles. The Government may even consider the liberalisation of the corporatisation process to further boost its stockbroking industry.

12. As the stock market is often taken as a barometer of the economic health of the nation, it is highly desirable that market performance should reflect the economic situation with reasonable accuracy. However, it is unfortunate that the market is highly vulnerable to speculation and rumours which distort the market. Rumours are unavoidable but there seems to be some unscrupulous people who manufacture rumours for speculative purposes. This is surely an unhealthy state of affairs for all parties concerned. The nation's economic growth can be adversely affected resulting in poor market performance. It is hoped that more responsibility will be shown by those with short term benefits in mind.

13. You would agree that, in any market, the dissemination of accurate information is of vital importance. There have been too many instances in which we have become victims of inaccurate information which only serves to defeat all efforts made to develop a healthy capital market. We believe Malaysia has much to offer the foreign investors, if only those who are responsible would provide them with good, reliable information. However, much lies with you, as advisers and analysts, to promote Malaysian securities

abroad and to provide potential investors with accurate and reliable information on our Malaysian equities.

14. You are in a strategic position to play a role in assisting us to promote the KLSE to foreign investors as it now possesses all the necessary financial infrastructure and technology required for development into a leading securities market in this region. In this respect, we ask you to place before the investing public information about our market obtained from reliable sources and not from questionable ones. We would want you to get to know the various organisations and institutions capable of providing you with the right information. We would urge you to assist in building up research and development in the stockbroking industry which would be able to contribute positively to a healthy development of investment knowledge and techniques in the market.

Ladies and Gentlemen,

15. I wish to thank the sponsors of this Conference for inviting me to officiate the opening ceremony. I wish you all every success in your deliberations and a pleasant stay in Malaysia. On this note, I have much pleasure in declaring open this Conference.