

BRIDGING THE GAP

Malaysia eyes China's capital and securities market for its vast potential.

By Clarence Y K Ngui

BUILDING bridges to China is no easy task. The market is known for its pitfalls, highly regulated nature, and sometimes, complicated ways of doing business. Nonetheless, it is hard to deny the importance of this market. With a burgeoning population of 1.3 billion, its economic potential and leaping annual growth rates dwarf even that of the collective economy of Asean.

'Our bridge to China requires a strong foundation and a commitment for the long term,' says Deputy Finance Minister I, Datuk Dr Ng Yen Yen, who led a trade mission to Beijing and Shanghai in December 2004. Her entourage included Securities Commission Chairman Datuk Md Nor Md Yusof, Bursa Malaysia Chief Executive Officer (CEO) Yusli Yusoff, and key players of the stockbroking and fund management industry.

Unlike Malaysia's earlier trade and business missions to China, Ng focused on a completely new arena – the Chinese capital and securities market. Here, Ng acknowledges that the Chinese capital and securities markets are restrictive, rigid and heavily regulated, but she believes in building 'bridges' at the earliest possible time.

'It is only natural that China would gradually liberalise its capital markets. The Chinese are learning and reforming, and the current restrictions will be lifted in the future. Thus, we must have an early presence in China. If not, we will be too late,' she says. Unlike New York, Zurich and London, the Chinese capital markets are relatively new.

But why the capital markets? And what are the benefits for Malaysian investors? Statistically, as of November 2004, the Chinese equity market was valued at US\$

472.8 billion. There are more than 1,373 listed companies on both the Shanghai Stock Exchange and Shenzhen Stock Exchange. The Chinese capital markets represent 29.8% of China's gross domestic product (GDP) and the industry has 131 securities companies with over 2,900 branches nationwide.

'In an effort to enlarge the Malaysian capital markets with foreign funds, the China platform will be among the best ways to move ahead,' says Ng. Accordingly, the potential of the Chinese capital markets is largely untapped, and this trade mission could secure Malaysia a vital pioneer position once the markets are liberalised.

Furthermore, with rapid economic growth rates in China, 'Changes will be in terms of months, and not years. It'll have to come sooner than later,' she adds. The Malaysian delegates met up with

industry players such as China International Capital Corp (CICC)'s Managing Director Weiqiang Han, and China International Trust and Investment Corporation (CITIC)'s CEO Zhang Yichen.

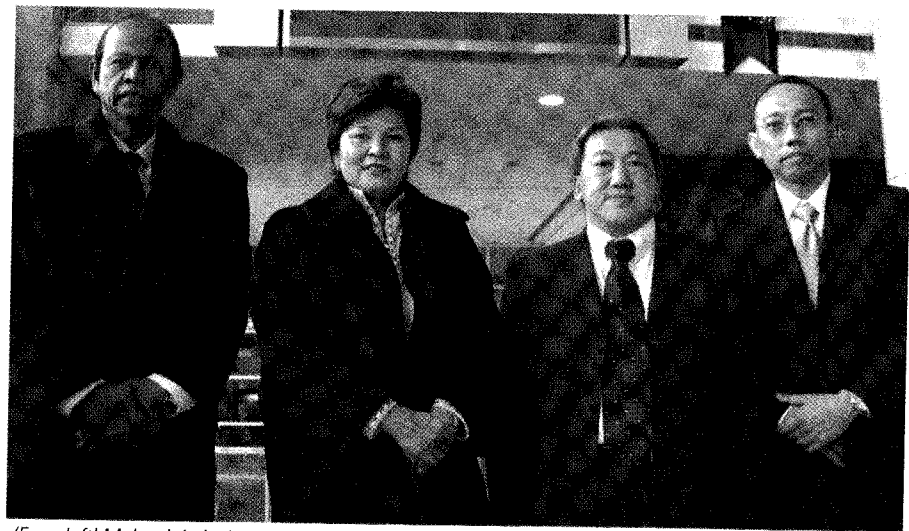
While no memorandum of understanding (MOU) was signed during the Malaysian mission, Ng is seeing a strong response from her mission. For instance, Bursa Malaysia is currently looking into various areas of possible cooperation for the mutual benefit of the local bourse and the Shanghai Stock Exchange. Ng believes that both Bursa Malaysia and Shanghai Stock Exchange will be signing a MOU soon.

As for the development of the derivatives market, Bursa Malaysia recently received an application from a Tianjin-based company, Vibrant Diversified Ltd, to trade crude palm oil (CPO) contracts on the Bursa Derivatives. According to Ng, with the entry of Vibrant Diversified, Bursa Malaysia can expect more participation from China-based companies in the future.

'With China's ambition to create globally competitive companies through foreign listings, Bursa Malaysia can emerge as an important launch pad for Chinese companies in Southeast Asia.'

Emphasising on the concept of building bridges, Ng notes that the main agenda of her working visit to China was to build closer ties with the Chinese capital market players and to explore potential areas of collaboration between the exchanges and market intermediaries. This trip, she says, is part of a longer-term effort to attract funds from China to the Malaysian capital market, and encourage joint ventures that would allow Malaysian companies to benefit from the Chinese capital markets' growth.

'If Taiwanese investors are currently listing their investments and companies on Bursa Malaysia, why can't the Chinese



(From left) Malaysia's Ambassador to China Datuk A K Majid, Ng, Malaysia Consul General Jamal Hassan and Yusli during a visit to the Shanghai Stock Exchange

investors do the same?' Ng questions. She points out that China's 109 counters of H-shares and 84 red-chip shares valued at US\$ 59.4 billion and US\$ 181.3 billion respectively are listed on the Hong Kong Stock Exchange.

'With China's ambition to create globally competitive companies through

Chinese can learn from us, and we can learn from them,' says Ng.

Nonetheless, she adds, 'We must learn to seize opportunities. We have to learn from our past investments in China. Our success is not a 100 metre dash, but a long term endeavour which requires painstaking effort and determination, and we must always be ready for future challenges.'

The visit to China has also been a learning curve for Ng. For instance, she was surprised to learn that for any Initial Public Offerings to be listed in China, it has to be accompanied by a merchant bank guarantee, as otherwise, the merchant banks would be fined and reprimanded. 'Isn't this a step forward in corporate governance?' she asks, pointing out an example of how Malaysians can learn from their Chinese counterparts. She was also surprised to note that CPO futures are traded on the Dalian Stock Exchange.

If doing business in China is all about *guanxi* or personal connections, then maybe Ng has struck the right chord. Well known for her efforts as the previous Deputy Minister of Tourism, Ng has opened the Malaysian market to more than one million Chinese tourists annually. Perhaps, in her current role at the Treasury, she will again produce her 'magic touch' with pioneering efforts in a new wave of China-Malaysia capital markets economic cooperation. **mb**

foreign listings, Bursa Malaysia can emerge as an important launch pad for Chinese companies in Southeast Asia,' Ng says. She believes, with a common language and a lot of shared heritage, Chinese investors would be able to reap maximum benefits from their investments in Malaysia and Southeast Asia.

Ultimately, the mission, says Ng, will allow Malaysian companies to gain an insight into the opportunities and challenges faced by local and foreign capital market intermediaries in China. It can also be a stepping-stone of collaborative efforts between Malaysian and Chinese capital markets. 'The