

THE OPENING OF THE ASIAN CAPITAL MARKETS: GROWTH FRONTIERS CONFERENCE

HILTON HOTEL, KUALA LUMPUR, 20 JUNE 1994

I am pleased and honoured to have this opportunity to address such a distinguished gathering and to declare open this international conference on Asian Capital Markets. I understand that besides participants from our neighbouring countries, we also have delegates from other parts of the world.

2. That the Conference ranks very high in the efforts towards creating better understanding and a more accurate perception of the capital markets in Asia is evident from the wide array of internationally renowned speakers and the range of topics to be discussed. I believe the proceedings over the next two days will be both interesting and stimulating.

3. Asia has caught unprecedented attention in the last one decade. The spectacular growth of the Asian economies should continue to outpace the world average. The year 1993 saw an average growth of 8.4 percent compared to the sluggish world GDP growth of 2.3 percent.

4. The Asian capital markets, riding on the waves of the economic growth, has also reached new heights. The turnover of shares in terms of value has been phenomenal. Taiwan's turnover was 236 percent of capitalisation, South Korea 172 percent and Malaysia 90 percent. By comparison, the turnover ratio of capitalisation on Wall Street was only 53 percent and in Japan 25 percent. The popular cliché 'when industrialised nations sneeze Asia catches a cold' has virtually turned on its head. Economic growth in the region is now largely independent of the rest of the world.

5. The triumphant development of Asian economies is a result of far-reaching economic reforms and liberalisation, large scale investment in education and infrastructure projects, privatisation of public enterprises and the increasing flow of foreign investment and intra-regional trade.

6. The Asian capital markets have developed along with the Asian economies, rendered possible by more efficient market operations, automated trading systems, strong corporate performance and the opening up of the market to foreign participation and funds. The emergence of an increasingly affluent population, aware of higher long-term returns from equities, has also assisted the burgeoning markets.

7. Privatisation has contributed very significantly towards economic growth within the region through replacing

Governmental bureaucratic conservativeness with commercial management and concern for the bottom line. At the same time the flotation of public enterprises has contributed much towards stock market capitalisation. For instance Tenaga Nasional the National Power Co. and Syarikat Telekom Malaysia together account for over 30 percent of the market capitalisation of the KLSE. In Malaysia, to date, 94 projects have been privatised, with a number of them being listed. The privatisation exercise and listing have played a major role in propelling the local bourse into one of the leading stock markets within the Asia Pacific rim.

8. Meanwhile, direct foreign investment (FDI) continues to be associated with the region's economic dynamism, with China as the largest recipient. The increasing flow of FDI into this region stems from efforts of transnational corporations to find cost-efficient locations for international production and new markets combined with the on-going relaxation of investment restrictions. Another source of foreign funds is the foreign equity funds. Lured by strong economic performance, booming stock market and superior returns, foreign equity funds flow into Asia Pacific showed a tremendous jump from US\$10 billion in 1992 to US\$25 billion in 1993.

9. Intra-regional trade which currently accounts for 35 percent of total trade within the East Asian region, has also become increasingly important. Trade among countries within developing Asia benefitted from the on-going process of specialisation within the region, and the related investment and relocation of production capacities mainly from Japan and the Newly Industrialised Economies. Developing Asia encompasses three of the four most populous nations -- China, India and Indonesia where a swelling number of middle-class consumers can be relied upon to create high demands for exports within the region.

10. All over Asia's emerging markets, reforms have been introduced to encourage liquidity, market efficiency and transparency. For example, relaxed rules on foreign participation have attracted huge amounts of money into the regional stock markets. Given the increased liquidity and trading volumes, most bourses either have or are in the midst of computerising trading systems to ensure that technology, trading, clearance and settlement procedures are sufficiently well developed.

11. Some of the enhancements that have evolved in the various stock markets include the corporatisation of stockbroking houses, real-time information dissemination, automated trading as well as the establishment of scripless trading and central

depositories. Malaysia aims to complete this process within the next three years.

12. A significant contributor towards the development of the regional markets has been the presence of foreign stock-broking interest which has contributed towards greater professionalism and has lifted the quality of investment research. Accordingly, Asia would also benefit from the transfer of expertise from the more sophisticated and mature markets.

13. Stock markets by nature cannot be totally free of supervision. They have to be regulated. But the problem is that if they are too tightly regulated, then there cannot be the rapid responses to various factors which affect prices and contribute to active trading. If every transaction has to be scrutinised by the supervising agencies then trading will cease almost completely. Effectively there will be no market.

14. On the other hand without supervision all kinds of unhealthy practices will take place. In the end if unhealthy practices are not checked, then there will be a loss of investor confidence. If things are really bad, then again the stock market will grind to a halt.

15. No one has really found the right measure of freedom and supervision. Perhaps your conference can come up with some answers. In the meanwhile it is clear that all efforts are focused towards achieving sustainable economic growth as well as transforming Asia's capital markets to the levels of global financial markets of New York, London or Tokyo. For Asia, the 1990s promise to be the era of securities, i.e. of stocks, bonds and financial instruments. The region's long-term prospects would be driven by the demand for infrastructure expansion, continued privatisation of governmental functions and the demand for international capital flows.

16. A strong impetus to Asia's capital markets should be the financing of infrastructure projects through equity or loans. An estimated investment of US\$1 trillion will be required over the next six years to overcome serious infrastructure bottlenecks. Countries within this region face a colossal task of extending or overhauling their transport system, roads, ports and airports, power generation and communications system in order to meet needs arising from higher productivity and greater urbanisation.

17. The strong privatisation thrust sweeping across Asia will continue to fuel the development of capital markets. In the case of Malaysia, some 40 projects have been identified for privatisation in 1994. These include water supply projects

across the country and power generation. The preferred privatisation route in Malaysia is two-staged. The agency concerned is first corporatised in order to remove it away from bureaucratic procedures as laid out in the general orders under which the administration functions. Freed from these restrictive practices the corporatised agency becomes financially autonomous and hence able to adopt commercial practices. After about two years when the performance improves, and they usually do, a percentage of the shares is sold to the public. By the time the company is listed its shares would have gained a premium. The Government may then sell more shares at the higher price. The Government may divest completely but where public interest or national interest need looking after the Government may insist on a golden share.

18. Malaysia is fortunate in that there is sufficient local capital for the shares to be purchased by local investors. Foreign investors can buy through the market or, sometimes, directly. But in some countries privatisation simply means selling the whole agency to foreign investors with expertise in the field. While this is a good way for the Government to earn foreign exchange, the loss of control to foreign nationals can cause some painful reaction in the country. For privatisation to really work there must be a fairly well-developed private sector and private capital. Then the capital market can develop and be healthy.

19. Private debt securities (PDS) which forms an alternative source of finance is largely undeveloped in Asia. PDS not only provides an avenue for investment for state organisations and large institutions but it is also a cheaper source of finance for the borrowers.

20. Recognising the enormous potential of this market, PDS was introduced by the regulators in Malaysia's Central Bank or Bank Negara in 1987. Since then the government has introduced fiscal and financial incentives to stimulate the market. A fully independent and wholly private sector-owned credit rating agency, Rating Agency Malaysia, was set up in 1990. The response to the government's move has been tremendous since the contribution of debt securities to the total funds raised in the capital market rose from a tiny 3.4 percent in 1987 to 22.6 percent in 1992. By May 1994, this amount went up to 28 percent. Nevertheless this is still below the international level whereby bonds account for more than half of the total international capital flows.

21. Apart from a wider range of products, market growth could be further enhanced by greater participation from large institutions such as the unit trusts. The Malaysian unit trust

industry accounts for only 4.3 percent of market capitalisation with 90 percent of the industry dominated by two large institutions.

22. There is a potential for greater participation by such institutions especially when large government utilities are privatised. Increasing involvement from large institutions could quicken the pace of privatisation through absorbing new equity or bond issues. For instance Malaysia's first power project was awarded in record time (just 18 months) after tenders were invited by the government. The Employees Provident Fund expedited the matter by taking up the largest bond issue in Malaysia's history.

23. Given that Asia is still full of vitality and that vast opportunities prevail, it would be beneficial for the region to establish links or alliances amongst the countries within Asia. There is a wealth of regional capabilities and experience to draw upon. Strategic alliances for regional cooperation among capital market could pave the route towards standardising regulations and developing their respective capital markets.

24. The stock market is vital to a country's economy as it not only facilitates the raising of funds by companies to fund new businesses and expansion but it is also often taken as a barometer of the economic health of the nation. As such, the stock market enables us to gauge the level of confidence among investors in the country's economy and reflects the direction in which the economy is heading.

25. However, at times, especially in the present trend towards increasing globalisation of the securities markets, what happens elsewhere will also have an effect on the local stock market. For instance, despite the continued buoyant economic conditions, the prospects of a sustained healthy GDP growth and the high profitability of Malaysian companies, the Malaysian equities market, in line with other markets in the region, has become quiet.

26. While it is accepted that the performance of the global economy and especially that of trading partners have a direct bearing on the performance of a country's economy, exceptions should be noted and taken into consideration. Malaysia has been doing well in the last decade despite dismal performance by its major trading partners. This should influence positively those who invest for the long term.

27. Ownership of shares could be a rewarding one if the investor identifies good quality stocks and buys stocks only when they can be had at attractive prices. Although it is true

that in a speculative market, one can make handsome capital gains if one picks on the right counter, the question is how often can one do so.

28. Investors, instead, should base their decisions on fundamentals and strive to avoid excessive speculation. In this respect, the investor must make the effort to know more about the company that he is investing in. More importantly, the investor should not be misled by rumours and so-called tips. It is incredible that even experienced investors could fall for the same rumour over and over again despite the rumours proving baseless as many times.

29. There is a need for a more concerted effort in educating the investing public on the fundamentals of the stock market if one wants to develop a healthy stock market. A nation of well-informed and knowledgeable investors will certainly go a long way towards developing a healthy and progressive stock market that can provide the nation with ample capital for its commercial development.

30. In this respect, I would like to congratulate the KLSE for its efforts to come out with the Annual Companies Handbook in the national language, Bahasa Malaysia. This book will go a long way towards creating awareness among the local investing community, particularly those who in the past had stayed away for lack of knowledge of stock and shares.

31. I wish to thank the organisers of this conference for inviting me to officiate the opening ceremony. I wish all delegates every success in their deliberations.

32. On this note, I have much pleasure in declaring open this "Asian Capital Markets: Growth Frontiers" conference.