

## **THE DIALOGUE ON "THE MALAYSIAN ECONOMY AND CAPITAL MARKET"**

LONDON, UNITED KINGDOM, 26 SEPTEMBER 1995

About a month ago, Malaysia celebrated its 38th year of independence. We have come a long way since the days when the plantation and mining sectors formed the cornerstones of our economy. Today, Malaysia's economic achievements are comparable to those of many countries in East Asia.

2. For seven years, we have experienced economic growth of more than 8.5 percent. GDP growth for this year was 9.9 percent for the first quarter and 9.3 percent for the second. It is clear that our economic growth has outpaced the economies within the ASEAN region. This rapid growth is achieved with inflation rates averaging only 3.2 percent.

3. Things are going well in Malaysia. But many are saying that it cannot possibly last. Growth must be followed by overheating. And the economy will soon nose-dive. I may be wrong but I think we can manage our economy better than most. Not everything is fortuitous in Malaysia.

4. Right from the time when Malaysia gained independence in 1957, the Government had adopted a pro-business attitude. Instead of nationalising private holdings, a favourite with most newly independent countries, Malaysia actually encouraged private investments, including those by foreigners. Very early on, incentives were provided for private investors. Being business friendly has become a part of the national culture. It is not surprising therefore that huge investment proposals are received every year, and the economic growth has always been high. The expansion in 1996 is expected to continue to be broad-based, coming from the manufacturing, construction and service sectors.

5. With higher incomes and ample employment opportunities, the incidence of poverty in Malaysia declined to 8.8 percent. Along with this affluence comes the need to inculcate the savings habit among the general population, which would not only help meet the nation's financial requirements but also assist in maintaining low inflation rates. Still our savings rate of 34 percent, although relatively high, falls short of our investment requirements.

6. The growth of the Malaysian economy has been largely investment driven. By international standards, the level of investment has been high as mirrored by its ratio to Gross National Product (GNP) of 40.5 percent in 1994. I strongly believe that as far as investment inflow to Malaysia is concerned, the relationship between investors and the community should be a symbiotic one. Once you have decided to

do business in Malaysia, your interest and welfare becomes the concern to the Government. If you do well, we would be happy; if you do not, we would like to know whether we can do anything to help.

7. This is in line with the Malaysia Incorporated Policy which was formulated in the early 80's. Briefly, this policy encourages public-private sector cooperation for the benefit of the nation. At the ministerial levels, annual dialogues lasting several days are held with the private sector, which enables them to make constructive contributions to the formulation of Government policies as well as help better understand the social aspirations of the country. To explain the workings of the Malaysia Incorporated concept, the Government has recently published a book, "Malaysia Incorporated" which will be distributed today to all guests.

8. Malaysia's privatisation scheme is an off-shoot of this policy. To date, 109 agencies and Government companies have been privatised, involving various sectors, including infrastructure, energy supply and telecommunications. The privatisation strategy has generated new and innovative ideas, resulting in greater efficiency of services and acceleration of our economic development. The capitalisation of the stock market has been much boosted by the listing of the privatised utilities. This is a winning formula and we plan to continue our efforts.

9. To a large extent, policies and measures to meet the challenges of a high growth economy are already in place. These will be further strengthened as Malaysia enters the Seventh Malaysia Plan Period beginning 1996 until the year 2000. This plan will accelerate the building of the necessary physical and financial infrastructure as well as support services.

10. A case in point is Malaysia's aim to convert Labuan into one of the world's largest International Offshore Financial Centres (IOFC). Since its inception as an IOFC in October 1990, 44 offshore banking licences have been issued by the Central Bank. Of these, 37 were given to foreign banks, reflecting the interest of the international banking community in Labuan.

11. In addition the Government has set up a fund to promote Labuan IOFC and has also drawn up a master plan for its development. We are also looking into the setting up of an International Stock Exchange and Monetary Exchange in Labuan, further expanding the scope of financial and capital market services that the island offers.

12. I am happy to inform you that the Malaysian Capital Market registered impressive growth in the last few years, in tandem with the country's high economic growth. We are at the threshold of developing into a regional capital market centre.

13. This we plan to do with a streamlined regulatory and administrative framework and conducive market environment. We have recently introduced an 18-point liberalisation package that aims to provide a competitive environment to attract foreign financial institutions to site their regional base in Malaysia. Some pertinent aspects of this package include:-

- greater participation by the Employees Provident Fund (EPF) in developing the capital market. (The EPF with well over 100 billion ringgit, roughly 25 billion pound is the biggest fund in Malaysia);
- a new unit trust that is open to all Malaysians;
- allowing qualified stockbroking houses to operate unit trust funds;
- introduction of a graduated commission system to reduce brokerage charges and allowing foreign fund management firms to manage 100 percent of their funds locally;
- listing of infrastructure projects; and
- setting up another rating agency to meet the growing demands of the Private Debt Securities (PDS) market.

14. In fact, the PDS, with its financial papers, such as bonds, warrant and notes, have grown over the years to become an important alternative source of funds. For the first half of this year, RM22.7 billion was raised from the domestic PDS market. Asset-backed securities, which will broaden the investment base and concurrently enhance the efficiency of pricing and trading of PDS, will be launched before the end of October this year.

15. The Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) and Malaysia Monetary Exchange (MME) are expected to be operational by year's end. KLOFFE will offer stock options and stock index futures while the MME will offer interest rate futures. The recent developments in derivatives trading highlight the need to educate investors on this new instrument and also ensure that financial institutions have stringent internal controls.

16. Meanwhile, in the financial industry, commercial banks are expected to continue charting growths with the introduction of new banking facilities and tapping new areas like asset management.

17. Malaysia has an established securities market in the form of the Kuala Lumpur Stock Exchange (KLSE). In terms of market capitalisation the KLSE is ranked fourteenth in the world and third in the Asia-Pacific region. In the ASEAN region, the KLSE is the largest bourse ahead of Singapore and Bangkok. Indeed the Singapore market would be negligible without their over the counter trading in Malaysian shares.

18. Recognising its vital role in mobilising funds, the KLSE has intensified its efforts to provide a more conducive market place and bring itself to a greater level of sophistication and professionalism in line with the globalisation of securities trading.

19. Priority areas of action for the KLSE include upgrading market infrastructure and offering diverse market instruments, instilling greater professionalism amongst stockbroking companies, listing them, intensifying market promotion activities and developing further its human resources.

20. Some of the KLSE efforts to date include:- - accelerated implementation of the Central Depository System (CDS). End 1996 is targetted for all companies to begin "scripless trading". This will result in more efficient and convenient share settlement. KLSE will by then shorten its settlement cycle from five to three days, in line with international trends;

- the KLSE has recently introduced trading in small lots of 200 units for certain companies. This will attract more investors to the market and increase saleability of expensive shares;

- in its effort to provide a wider choice of trading instruments in the market, call warrants were recently introduced and traded on KLSE. The exchange will continue evaluating new financial instruments to be introduced to the market;

- the KLSE is working closely with the Securities Commission towards formalising and enhancing securities lending activities in the market. In line with this, the authorities are also looking into making short-selling less restrictive;

- with the objective of increasing investor participation in the local bourse, guidelines are being drawn up by the

authorities to enable close-ended funds to be listed on the KLSE; and

- to enable broking houses to expand their activities, those qualifying will now be allowed to operate unit trusts funds. In addition, as the ceiling on the listing of stockbroking companies has now been lifted, more broking houses are expected to be listed on the KLSE.

21. Malaysia's greatest advantage as a profitable investment centre is its political stability. The ruling coalition has been voted to power by the people in regular democratic election repeatedly. Consequently one does not see the kind of abrupt policy changes and reversals that take place with radical changes of Governments. The policy towards foreign private investments, for example, has not changed. If at all, conditions are repeatedly made more attractive.

22. Since investments usually have long gestation periods the constancy of policies over long periods must be good for investors, both domestic and foreign. That the people endorse this constancy of policies is made amply clear by the National Coalition winning with the biggest majority ever in the General Election held in April this year.

23. The business-friendly Government is aware that investor interest and confidence in the market, as well as financial stability, are of paramount importance for the success of any capital market. In this respect, regulations must be balanced to give confidence to the market without being so excessive as to hinder development.

24. In Malaysia, the relevant authorities and industry players are working together to further develop the financial market. Everyone is welcome to profit from one of South East Asia's most dynamic and stable economy and financial centres.