

## **The Malaysian Capital Market Summit 2001**

The Nikko Hotel, Kuala Lumpur 3 September 2001

" RESUSCITATING THE MALAYSIAN CAPITAL MARKET AND REGAINING INVESTOR CONFIDENCE "

I would like to take this opportunity to thank the organisers, the Kuala Lumpur Stock Exchange and ASLI for inviting me to address the distinguished delegates and participants in this capital market event of the year. I join the organisers to bid a warm welcome to all the delegates, especially foreign investors and fund managers, to the Malaysian Capital Market Summit 2001.

2. This Summit is timely and significant as it will provide a platform to disseminate correct and accurate information on the many policies and measures undertaken by the Malaysian Government and market regulators to build a resilient, efficient and competitive capital market. In this way, misconceptions and distortions about the Malaysian capital market can be addressed. I trust that the many foreign fund managers present here will find the Summit beneficial and informative. I hope they will take this opportunity to discuss and deliberate on the critical issues and strategic challenges facing the Malaysian capital market today and to objectively assess the directions and opportunities in the market independent of rumours and biased predictions.

3. Malaysia's remarkable economic recovery from the devastating Asian crisis has now catapulted the nation onto a platform for revival and sustained growth once again. The recovery was made possible by policy measures to strengthen the nation's external reserves position, financial system and the corporate sector. The Malaysian economy rebounded to register a growth of 5.8 per cent in 1999 and GDP growth last year was a heartening 8.5 per cent. This was higher than the growth recorded by many other countries in the region including Japan, Taiwan, Indonesia and Thailand. We are, nevertheless, expecting GDP growth this year to moderate given the less favourable global economic conditions precipitated by a slowdown in the economy of the United States and the inability of Japan to recover.

4. The performance of the Malaysian economy last year belied the predictions of the many sceptics who had long prophesied doom for the Malaysian economy since the days of the crisis. While growth was supported by external demand, it was rising private consumption and the strong revival in domestic investment that had contributed significantly to economic growth. Despite higher oil prices, lower excess capacity,

strong demand and employment conditions, inflation was contained below two per cent. Labour market conditions also improved significantly with unemployment rate declining to 3.1 per cent. Non-performing loans were being kept at manageable levels, far from their heights during the crisis. On the trade front, the external balance remained strong as the large surplus in the current account and sustained long-term capital inflows provided a buffer to outflows for the repayment of debt and foreign investment by Malaysians.

5. Having said that, I must admit that we are, like many countries in the world, we are also affected by the slowdown in the economy of the United States and the bearish global economy as a whole. Fortunately, there is enough resilience in the Malaysian economy to mitigate the adverse impact of the United States economic slowdown. The Government has drawn up various strategies and measures to weather the economic storm that is now blowing. These measures are directed at stimulating domestic demand and can be expected to compensate for the slower external demand without creating new risks. The fiscal expenditure is aimed at industries with strong domestic linkages and with minimum import content so as to maintain the favourable current account position in the balance of payments. In the immediate term, the stimulus programme will benefit the construction and services sectors particularly. Increased allocations are also directed at projects and programmes that would lead to a strengthening of long-term productivity. The monetary policy stance will continue to remain accommodative to support growth.

6. With the prospect of low domestic inflation, the strong financial position of the Government and low levels of foreign indebtedness, the current pegged exchange rate at 3.80 Ringgit per U.S. Dollar remains sustainable and is consistent with our economic fundamentals. This is despite the call from certain quarters to devalue the Ringgit in order to make exports more competitive and to hike up export growth. In effect, there would probably be minimal impact from any devaluation because regional exports are dropping drastically. Lack of demand in export markets lies behind the listless global absorption of export goods and services, and this can be primarily attributed to the sluggish economy of the United States, formerly the world's most lucrative market for exports. The United States downturn has also affected all the trading partners of that country, which also happens to be Malaysia's market.

7. In this regard, may I also take this opportunity to correct myths concerning Malaysia's competitiveness. Apart from currency parity, factors like productivity of labour, political and social stability and the efficiency of the

underlying infrastructure are equally important determinants of competitiveness. Thus, it is wrong to assess a country's competitiveness exclusively on the basis of the currency's value against the currencies of competing countries. When all the other factors, which contribute to productivity are taken into consideration, the claim that Malaysia's competitiveness is fast eroding does not really hold water. Given Malaysia's many positive attributes, the idea that devaluing the Ringgit would make the country's products competitive does seem to reflect rather casual and shallow thinking. In the management of a country's economy there is no one single factor, which can be manipulated in order to effect a positive turnaround. On the other hand the mishandling of a major economic factor can bring about a real disaster. Thus the devaluing of the currency can cause economic collapse.

8. Malaysia does not depend on fiddling with the interest rates or exchange rate or pump priming on their own in order to grow the economy. We study and correct every segment of the economy in order to keep it on the right track.

9. Clearly Malaysia's approach has paid off. Malaysia's fundamentals remain strong and full recovery in the face of adversities is much more likely.

10. The Malaysian capital market continues to provide excellent investment opportunities for people who can see through the political bias and agenda of certain parties. We have gone through many changes and trials over the years. In the final decade of the last century, some 85 billion Ringgit was raised through the equity market, from just under 20 billion Ringgit in the ten years prior. Over the same period, about 133 billion Ringgit was raised in the form of private debt securities, compared to only seven billion Ringgit between 1981 to 1990. I understand that projections by the Securities Commission suggest that total investment spending for the next ten years may double to 1.5 trillion Ringgit. These are heady figures but they are real and credible.

11. The Malaysian capital market had certainly taken a beating when in September 1998 the KLSE Composite Index sank to a humiliating low of 262.7 points -- a mere shadow of the mighty heights it had scaled in the years prior to the crisis. We, and subsequently also the rest of the world, have learnt that herd-like movements of hot money or short-term capital flows can be potentially devastating. A relentless attack on the Ringgit and a mass exodus of short-term portfolio funds when there was seemingly no indication of fundamental macroeconomic weaknesses had left the Malaysian capital market in a limbo.

12. We have come a long way since then. On the one hand, we have seen our selective capital and exchange controls bearing fruit and insulating our economy from external threats beyond our control, especially the unscrupulous activities of rogue speculators. On the other, we have carefully examined our own weaknesses and have taken various measures to correct our past mistakes. Just as much as the world is vindicating Malaysia on the justification of our so-called unorthodox controls, we are also beginning to see our efforts in enhancing corporate governance and transparency, restructuring and cleaning up poor performing companies, and reducing extensive exposure to risks bearing fruit. All these efforts are aimed at regaining investor confidence in our capital market and local corporations.

13. The KLSE Composite Index is today back at relatively more accurate and sustainable levels, although it must be noted that there are still some companies whose stocks are still trading below their fair value. By and large, investors who truly know Malaysia and understand the fundamentals of our economy do not doubt the attractiveness and potential of the Malaysian capital market today. It is good to see investor confidence returning. The recent twice over subscription of the one billion U.S. Dollar, Malaysian ten year sovereign bond issue gave a direct indication that there was good demand for Malaysian sovereign debt abroad and has also indirectly lent credence to the fact that investor confidence has, indeed, not waned.

14. When Morgan Stanley Capital International (MSCI) released details regarding its new free float methodology back in May, some investment pundits were quick to prophesy a fatal blow to the Malaysian stock market. They had predicted the MSCI move to adjust its benchmark indices to take into account the free-float of constituent securities will lead to an exodus of billions of Ringgit by foreign portfolio funds in line with Malaysia's reduced weighting in the revised indices. The proposed move was certainly not cheery news for Malaysia, but the predictions of the detractors proved unfounded. A growing number of experts now believe Malaysia will not only be minimally affected, but might very well see a net inflow of foreign portfolio funds. In fact H.P. Morgan's comment on the health of the Malaysian market in comparison to other Southeast Asian markets is typical of this view.

15. The Malaysian Government takes seriously the efforts to create a capital market that is resilient, efficient and competitive. We believe our efforts should lead to our regaining and increasing investor confidence in our capital market.

16. The unveiling of the Capital Market Masterplan in February this year has further underscored the seriousness and aspirations of the Malaysian Government to propel the Malaysian capital market towards greater resilience, efficiency and competitiveness. The Masterplan is also aimed at equipping and positioning the capital market strategically towards gradual liberalisation and towards meeting the challenges of globalisation. During the crisis years, we were virtually fire-fighting. That was primarily because there was no single integrated strategic plan for the capital market -- one that would chart the course of development of the capital market to become more resilient in the midst of global challenges. Without a Masterplan, there would be chaos and ad hoc formulation of excessive regulations that treat just the symptoms during a crisis. But with the Masterplan in place now, we have a sense of direction as to where our capital market should be heading. Besides, the Masterplan also gives clarity of vision to all stakeholders in the capital market -- the issuers, intermediaries and investors. This, we earnestly hope, will further increase the confidence of investors in our capital market.

17. One of the groundbreaking strategies to create a stronger capital market is the envisioned consolidation of all existing exchanges by 2002 to establish a single Malaysian exchange. This will enable securities and futures markets to better align their respective business development strategies and to facilitate efforts to enhance their overall strategic positioning. The creation of a single bourse would allow for a more coordinated approach to product development, investor education and market promotion. From the viewpoint of international competitiveness, a single exchange would be able to pursue strategic alliances and other international business strategies from a position of strength, compared to individual efforts of separate exchanges. The breadth of listings in the Malaysian equity market would also be gradually widened to include listings of foreign companies. Ultimately, the envisaged demutualisation of the single exchange by 2003 will undoubtedly be a milestone in the history of capital market development in Malaysia.

18. We have already embarked upon the consolidation of our banking system, which has seen the emergence of ten anchor banks and the process is now in its concluding stages. The restructuring of the financial sector was achieved at a lower than expected cost of seven per cent of GDP last year. As a result of the exercise, the banking sector has emerged stronger with a higher level of capitalisation and profitability, and improved portfolio quality.

19. Now we are looking at strengthening the stock broking industry by forming a group of well-capitalised domestic stock broking companies, known as universal brokers, which can provide efficient and cost-effective intermediation for investors. Further to our efforts in gradually liberalising the industry, and subject to the state of readiness of stock broking companies, the doors will be opened to foreign equity participation in domestic stock broking industry in two phases beginning 2003. As part of the liberalisation process, we are also committed to lowering transaction costs.

20. The Corporate Debt Restructuring Committee (CDRC) has so far helped to restructure 37 ailing companies by resolving debts amounting to 28.5 billion Ringgit. To benefit and strengthen the economy in the long run, the CDRC also played a pivotal role in driving the restructuring of the public transportation industry, for which the debt restructuring scheme has been finalised and will be implemented in the near term.

21. The Asian crisis had revealed the need for unhealthy corporate practices to be eradicated and companies to be more transparent in order to gain investor confidence. I can assure the investors present here today that we are fully committed to enhancing transparency and a high standard of corporate governance. Higher levels of corporate governance will certainly help reassure investors and also contribute towards a healthier and stronger capital market.

22. We must also seriously consider expanding electronic trading. Information and communications technology (ICT) clearly waits for no one. If we fail to tap into opportunities arising from the application of ICT in our capital market, we may well lose our competitive edge. The web today is not merely for buying stocks. Small investors in the United States are shedding their traditional brokers and, in some cases, making as much as 20 per cent of their bond purchases online. For instance, currently about one-fifth of all fixed income trades at Charles Schwab are done through its web site. Traders in London put the figure of the electronically traded bond market at 70 per cent to 80 per cent -- a gargantuan increase considering most deals were done over the telephone less than five years ago. Many are increasingly keen on e-trading as it helps enhance liquidity. We too must seriously broaden our trading activities online to keep up with the new economy.

23. Last, but certainly not least, I wish to remind market participants and investors alike to view the stock market as a platform for constructive and strategic investments. The stock market should not be considered as a playground for quick

bucks without due consideration for the potential destructive repercussions of irresponsible actions. The stock market is certainly not a barometer for political speculations nor is it a gauge for economic rumours. Investors, therefore, should not make rash decisions based on fleeting sentiments and herd instincts. Instead, I urge investors to carefully examine the fundamentals and prospects of listed companies and the soundness of the economy before deciding whether to park or repatriate their funds. As we have realised, herd behaviour that has its roots in instincts and mindlessness can be so damaging that the economies of many nations can be reduced to rubble overnight.

24. With special regard to Malaysia, may I once again remind investors that the Malaysian stock market is one for serious investors with strategic outlook and sincere intention to make profitable long-term investments. Do not gamble on the stock market simply because rumours may be circling freely. For those who have short memory, recent history has proven that most of these rumours were blatantly untrue. We are striving hard to build a capital market that will be reflective of the strong form of the efficient market hypothesis, where the prices of stocks in the market fully reflect all available information and where there will not be any trading based on rumours.

25. The Malaysian capital market is heading towards a destiny carefully and strategically mapped out by the Capital Market Masterplan. But in our arduous journey to that goal, we will undoubtedly face a number of challenges in this era of globalisation and liberalisation. Therefore, we must earnestly and zealously push through with the reforms marked out in the Masterplan, learn the lessons from the crisis, and change the way we invest and conduct businesses.

26. Capital markets in Southeast Asia may have gone through dark days. But today the Malaysian capital market remains an attractive investment destination for those who are serious and discerning. I hope that this Summit will dispel the remaining doubts concerning putting your money in Malaysia.

27. On that note, I have great pleasure in declaring open the Malaysian Capital Market Summit 2001.