

**The Official Opening Of The International Islamic Capital Market Conference And The Launching Of The International Islamic Capital Market Week At The Securities Commission**

Bukit Kiara, Kuala Lumpur 26 March 2002

Thank you for inviting me to officiate at this International Islamic Capital Market Conference and to officially launch the Islamic Capital Market Week, an event which is jointly organised by the Securities Commission and the Asian Strategy and Leadership Institute. Let me also say a warm welcome to the many foreign speakers and participants at this conference. I hope you will find time to see and experience for yourself the peace, stability and prosperity of multiracial Malaysia. By the time you leave Malaysia, I hope that you will be convinced that the only things that we would like to launch from the Malaysian 'launching pad' are new and more innovative financial products to whet the increasing appetite of fellow Muslims for more Syari'ah compliant financial instruments.

2. The Malaysian economy is private sector-driven and has been so all along. The government sees itself as a facilitator, providing the necessary policies, structures and framework to ensure that the private sector can continue to effectively play its role as the main engine of growth. This formula has worked well for us, in good times and in bad times. This is because both the government and the private sector as stakeholders in all economic enterprises have interests that are closely aligned.

3. The nature and extent of the government's role as facilitator of economic growth will change from time to time - difficult times call for a more proactive role in the mobilisation of funds and stimulation of economic activities while good times allow us to create a healthy climate for investment and economic activity, ensure good housekeeping and collect our dividends. The Government considers itself as a substantial shareholder in all businesses because 28 percent of the profit belongs to the Government.

4. We therefore make no apologies for our business- friendly policy. The government is committed to ensuring that the market for capital, which is the fuel that drives the private sector engine of growth, continues to be developed and strengthened so that it can continue to effectively mobilise funds to meet the increasingly huge financing needs of the private sector.

5. Let me make it clear that Malaysia is a Muslim country, perhaps even a model Muslim country. Our economy has grown

from strength to strength, from the day of our independence almost forty-five years ago. From being reliant on tin and rubber we have now a diversified economic base and we are the 18th largest trading nation in the world.

6. Our financial and capital market has also grown in parallel with the growth of the economy. The Malaysian capital market which took a beating in 1998 is today back at relatively more reasonable and sustainable levels. With a 2.4 per cent gain over the year, the KL Composite Index (KLCI) is a bright spot compared to a drop of six per cent for the Dow Jones, 23.5 per cent for the Nikkei and 24.3 per cent in the Hang Seng. Contrary to the expectation of many, GDP growth for 2001 remained in positive territory.

7. Our Islamic capital market has grown from strength to strength, complementing and benefiting from the infrastructure within the conventional capital market, and providing a vital third component to Islamic banking and Takaful.

8. In recent years, the Islamic capital market has contributed significantly to the broadening and deepening of the Islamic financial sector. Since almost a decade ago when the first Islamic Private Debt Securities were issued, the Islamic capital market has developed a wide range of equity products, debt securities and managed funds.

9. Supporting institutions and structures have also been developed. We have a core of specialist Islamic financial institutions as well as conventional financial institutions that offer Islamic financial products and services. The government, through the Securities Commission and Bank Negara Malaysia, ensures by way of supervision and monitoring, that the activities carried out are not in conflict with the tenets of the Syari'ah.

10. We have successfully replicated our earlier successes with Islamic Banking and Takaful in the newer area of Islamic capital market. Today, approximately three quarters of the stocks on the KLSE are Syari'ah compliant, with the KLSE Syari'ah Index or KLSI index providing a benchmark for the performance of the Syari'ah-approved securities. There has also been a steady increase in the percentage of Islamic debt securities relative to total debt securities in terms of the value of funds raised. Many large domestic companies are seeking financing through the issue of long-term Islamic papers. Islamic financing has also started to provide money for the venture capital industry, turning innovative ideas into businesses.

11. While Islamic unit trust currently forms only a small portion of the entire unit trust industry, I am confident that this sector will grow in parallel with the growth of the entire unit trust industry. With the increasing prosperity of our people and the relative success of the government's affirmative actions, coupled with savings averaging almost 33 per cent, we expect the unit trust industry, including the Islamic unit trust industry to see rapid growth in the years ahead.

12. Indeed we expect the Islamic capital market to mobilise more domestic and institutional funds to finance our economic activities. After all there is a large pool of Islamic funds being mobilised by the Islamic banking sector, Takaful industry and various Muslim savings schemes such as the Pilgrims Fund Board. All three have been growing rapidly for the past five years, and it is expected that given the size of the assets and deposits held by these sectors, the potential for strong growth of funds available for investment in the Islamic capital market is tremendous.

13. In the Islamic banking sector, deposits have grown from RM4.9 billion in 1995 to RM35.9 billion in 1999. I would like to add here that although the USD is worth 3.8 Ringgit, in purchasing power terms the Malaysian Ringgit in Malaysia is equal to one USD in America. While total assets in the Islamic banking sector stood at only 6.9 per cent of total banking assets in the year 2000, the Islamic banking sector is targeted to capture at least 20 per cent of the banking market share by year 2010.

14. Takaful assets account for a relatively low percentage of the total assets of insurance funds, but there is significant potential for increasing market penetration, given that there is a low level of life insurance penetration, especially among the Muslim population.

15. In the offshore market we have established an International Offshore Financial Centre to provide a platform for banking and fund raising activities denominated in foreign currencies. The Labuan Offshore Financial Services Authority (LOFSA) has identified Islamic financial services and products as a niche area.

16. We have learnt many lessons from the Asian currency crisis. We learnt about the greed of currency traders; we learnt about the fickleness of portfolio flows; we learnt about the "credibility and professionalism" of the so-called analysts and economic experts - cheering an economy one day and blowing it to smithereens the next day, basing their comments usually on tendentious media reports, having almost

never visited or studied in depth the situation on the ground.

17. Most importantly, we learnt about the pains that unfettered globalisation and unchecked liberalisation can inflict on developing economies. We learnt about the importance of equipping ourselves, our institutions, our enterprises and indeed our economy with the knowledge and the skills and the intrinsic strengths to cope with the tidal wave of globalisation. We learnt that for developing economies, political sovereignty without economic sovereignty cannot ensure true independence for our nation. The people who conceived globalisation did not do it for charity. They had and they still have their own acquisitive interest at heart. This fact we have always borne in mind.

18. In this regard we in Malaysia are determined to ensure that we put the lessons that we have learnt especially from the currency manipulations to good use.

19. On the international front, Malaysia together with other developing economies must continue to demand a more equitable distribution of the fruits of globalisation and a check on economic bullying practices which are carried out in the name of globalisation, free markets and portfolio flows. The pressure tactics, the 'green room' approach, used at WTO meetings must cease.

20. On the domestic front, we have resolved to strengthen ourselves, our institutions, our markets, our intermediaries and our investors so that we are better prepared to face the ups and downs of the economic cycle.

21. As we pursue all these measures, it is imperative that we ensure efficient and sufficient mobilisation of funds at home and abroad to support these increasingly capital intensive economic activities. It is vital that the capital market efficiently allocate available funds to further generate growth and to ensure that we are not overly reliant on foreign capital even as we welcome long-term foreign capital with open arms. FDI is not always about bringing in capital. More often the capital is borrowed locally and used to pay for imported machinery etc., resulting in an outflow of capital rather than inflow. If local borrowing is not allowed then the investments may not be made. This talk about inflow of funds due to FDI need to be clarified. We must therefore ensure that our capital market, indeed our entire financial system, are made more resilient and the supporting framework more robust, so that we can better absorb future shocks arising from a yet to be regulated international financial market. It is for this reason that just over a year ago the

government endorsed the Capital Market Masterplan and the Financial Sector Masterplan initiated and prepared by the Securities Commission and Bank Negara Malaysia respectively.

22. The Capital Market Masterplan is a comprehensive 10-year plan which charts the strategic positioning and future direction of the Malaysian capital market for the next 10 years. It seeks to ensure that the private sector as the engine of economic growth will continue to be able to have all their financing needs met - with market institutions that are strong, resilient and competitive; with intermediaries having high standards of professionalism and technical skills; a regulatory framework that is strong yet facilitative and, most importantly, a sufficient array of products to meet risk-reward profiles of issuers and the increasingly sophisticated and deep-pocketed investors.

23. With respect to the Islamic capital market, the Capital Market Masterplan has identified as a key objective the establishment of a Malaysian international Islamic capital market centre. In the pursuit of these objectives, four key strategies have been identified, namely: to facilitate the development of a wide range of competitive products and related services; to create a viable market for the effective mobilisation of Islamic funds; to ensure appropriate and comprehensive accounting, tax and regulatory framework; to enhance the value recognition of the Malaysian Islamic capital market internationally.

24. In the early stages of the Islamic financial market development, products offered in the conventional financial market were evaluated, assessed and where appropriate adapted to ensure conformance with the Syari'ah.

25. While the approach of imitation and adaptation has served us well in getting the Islamic capital market started and in enabling it to leapfrog into the wider financial system, it is clear that this approach alone is not sufficient for us to efficiently mobilise Muslim funds and provide a sufficient array of instruments for investors and issuers looking for Syari'ah compliant instruments. Neither does such an approach do justice to the completeness of Islam as a way of life and the richness of `fiqh-muamalat`.

26. Going forward, for the Islamic capital markets to remain competitive, attractive and innovative, we must be able to introduce indigenous Islamic financial products, products that meet the risk-reward profiles of investors and issuers, fulfil all the tenets of the Syari'ah while remaining sufficiently cost-effective and competitive vis-...-vis conventional products. If we are merely to confine our

product development efforts to evaluation and adaptation of products in conventional markets, the Islamic capital market will have to play a perpetual catch-up game with the conventional financial system. We will also have to continuously rely on the expertise within the conventional market to take the Islamic capital market forward. Failure to fulfil the demand for Syari'ah compliant instruments, may well result in Muslims returning to or relying totally on conventional products with the elements of `riba' and `gharar'. Indeed, we should see the development of a sufficient array of Islamic financial products as `fardhu kifayah', since we have the intellect, strength and skills to use for the benefit of the Muslim community.

27. In Malaysia, efforts to diversify Islamic financial products have been quite successful. This is no doubt the result of the relentless efforts of Islamic scholars, practitioners and academics and supported and facilitated by the government and regulators such as SC, KLSE, BNM and LOFSA. I am particularly pleased with the active and continuous involvement of Syari'ah scholars (ulama) to ensure compliance with Syari'ah principles and standards. Participation of and contribution from Syari'ah scholars is indeed critical for the continued success and further development of the Islamic capital market.

28. Of course there are bound to be differences in views and opinion among scholars with respect to the interpretation of the Syari'ah. This however should not be a cause for paralysis and an excuse for inaction. Rather it should be regarded as both a challenge and an opportunity - a challenge because differences in views will call for deeper analysis and evaluation, and an opportunity because it allows for the vigorous exercise of `ijtihad' among the scholars and the flexibility to test new grounds.

29. To progress further, we need to look at the possibility of moving towards some convergences of Syari'ah interpretations. We need to give careful thought to the interpretations of the teachings of Islam and how they relate to today's and future financial matters, while meeting the `maslahah' (public interest) and `umum balwa' (common plight) of the ummah.

30. Towards this effort, the Quran and the Sunnah will of course be our ultimate guide supported by the application of `qiyas' and `ijma`' taking through the process of `Ijtihad'. Islam is the most complete of religions because it governs all aspects of life at all times. In terms of trade and financial matters, there is a lot of guidance provided in the Quran and the Hadith. Trying to recreate the conditions

prevailing during the lifetime of the Prophet amounts to admission that Islam is only relevant to the society of that period. This amounts to degrading Islam as a religion only suitable for the first century of the Hijrah or the 7th century Masehi. Those who want us to return to that period are really insulting the eternity and universality of Islam.

31. Whether we like it or not rapid advances in ICT will have a tremendous impact on all aspects of our life - the way we live, the way we communicate, the way we do business and indeed the way the entire market operates. If we do not want to be left behind in the race into the information age, we cannot isolate or insulate ourselves from the information revolution and the technology which is driving it. We must move with the tide into the information age without being drowned in the process. Never again must we allow ourselves to miss the opportunities and need for keeping pace with the advanced countries as we did with the industrial revolution.

32. Islam is not and has never been synonymous with conservatism. Islam does not call for rejection of technology or modernity. While the Islamic capital market is all about complying with Syariah principles, we must take advantage of progress in ICT for efficiency, effectiveness and competitiveness of our products and markets.

33. In the new globalised economy, ICT has the potential to raise productivity, stimulate innovation in economic organisation and entrepreneurship, and create and disseminate knowledge and wealth. The Islamic capital market will pay a heavy price if the professionals and the policy makers involved do not use ICT for our benefit.

34. In the capital market in particular, we need to broaden on-line trading activities to keep up with the new economy and increase the distribution channels and transaction volumes. In this regard, I am pleased to note that there have been efforts to establish Islamic financial portals providing a wide spectrum of on-line service, including by several Malaysian-based companies.

35. For economic prosperity to be widely shared, it must be founded upon progress in the areas of research and innovation and human and institutional capacity building. There is need therefore, to develop clear and comprehensive strategies that will foster innovation and entrepreneurship, promote a broad distribution of the opportunities of the new economy, facilitate the diffusion of information and communication technology and programmes that will promote life-long learning, education and training of our human capital. Across developing countries today, a majority of Islamic countries

included, there remains a dearth of technical, professional and managerial talents and skills, so essential and critical in delivering development.

36. Thus human capacity building must be accorded high priority in the development efforts of all Muslim countries. It must be integrated with the overall economic, social and human resources development strategies, while adhering closely to the true and fundamental teachings of Islam.

37. At this stage I would like to say a few words about the Gold Dinar. The proposal is to make this Dinar a currency for international trade only. It is not meant to replace the currency of any country.

38. International trade requires the determination of the exchange rates of the currencies of the trading countries. With paper currency there is no intrinsic value. The exchange rate is therefore arbitrary and subject to manipulation as we saw during the Asian financial crisis.

39. Gold has a definite value based on the demand for the metal. Its value may appreciate or depreciate according to world's demand and the demand in a given country. But the fluctuation would be minimal. The Gold Dinar being made of gold will largely follow the price of gold.

40. The local gold price will determine the exchange rate for the local currency against the Dinar. Thus the price of imported goods in Dinar can be computed in local currency and vice versa for local goods to be exported.

41. The Dinar can be held as central bank reserve. Trade need not be paid in actual Dinar but the imports and exports of a pair of trading nations can be balanced and only the difference paid in Dinar. This will minimise the need to move the Gold Dinar. In fact the surplus or deficit can be credited or debited against future imports or exports.

42. We have already worked out the mechanics for using the Gold Dinar and any problem arising can be resolved. The risk of speculation will be reduced to almost nothing. World trade can actually expand because the cost of business will be much reduced as the need to hedge would practically disappear.

43. I hope the delegates will give some time to think about this idea of a Gold Dinar.

44. The Muslim population of the world currently stands at 1.3 billion, representing a very significant portion of the

world's population. Although there is much more that Muslim nations can do for the socio-economic upliftment of the `ummah', I am certain that we have among us an abundance of talent and expertise in all fields including conventional and Islamic finance, conventional and Islamic economics, Islamic financial systems, structuring of capital market products, `fiqh-muamalat' and the like. Together let us use the resources and expertise available and help enhance capacity in the areas of Islamic finance, economics and capital market. Let us replicate in the areas of Islamic finance and capital market, the earlier successes of Muslim scholars in areas like mathematics, astronomy, and medicine that contributed to the transformation of Islam as a world civilisation.

45. Greater and improved cooperation is also needed in our efforts to build a sustainable pool of human capital among and within the Islamic nations. In this regard, Islamic countries should leverage on the organisations that are already available to us such as those within IDB and OIC. By enhancing partnerships via the existing institutions, member states can be prevailed upon to provide all kinds of training and education to bridge the knowledge and skills divide among our peoples and communities. Through the OIC, much progress in the area of institutional and human capacity building has been made, but more can and needs to be done. In particular, Muslim academics, prominent business leaders and technical experts should be invited to expand our knowledge and research in the areas of Islamic economics and development, banking and finance.

46. While the thrust of company and securities regulation has always been about accountability, trust, transparency, avoidance of conflict, board responsibility and shareholder rights, the term `corporate governance' seems to have become fashionable since the Asian currency crisis. Time and time again we in this part of the world have been lectured about how good corporate governance is lacking and that is the sole cause of all our ills and ailments.

47. Indeed the elements of good governance are inherent values in Islam. If we are guided in our business transactions by the Islamic injunctions of professionalism, high ethical conduct and the concept of trust or `amanah' that is so fundamental in Islam, good governance will be an inevitable by-product.

48. Surah Al-Baqarah (verses 282 and 283) for instance highlight the importance of transparency by providing step by step process that should be followed when carrying out a transaction, highlighting the importance of record-keeping so

as to avoid injustice to the parties involved and emphasising the need for accountability and transparency.

49. Furthermore the concept of trust (amanah) is pervasive in Islam. In Surah Al-Anfal (verse 27) we are enjoined to "betray not the trust of God and the Apostle, nor misappropriate knowingly things entrusted to you". The prophet (Peace be unto him) was reported in one of the 'Hadith' as saying that each of us is a guardian and each guardian is accountable to everything under our care.

50. In Surah An Nisa (verse 58) Allah commands us to render back the trust to those whom they are due.

51. Let us therefore not see good governance as something alien to us or externally imposed upon us. In Islam the elements of good governance - trust, accountability, ethical conduct - are indeed our way of life not something that became fashionable only recently. If we ensure that we are always guided by these principles in all our dealings, good governance will be second nature to us all.

52. I am sure your deliberations at this conference and your active participation towards developing the Islamic capital market will ensure the continuing, indeed increasing, relevance and vitality of the Syari'ah in today's world. I wish you every success in your deliberation and endeavours.

53. On this note, I have great pleasure to declare open the Kuala Lumpur International Islamic Capital Market Conference and to officially launch the Islamic Capital Market Week.