

**SPEECH BY
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I would like to thank the organisers for the invitation to speak at this Investment and Capital Market Conference. I hope I can shed some light on this important sector based on Malaysia's experience.

2. When we think about the Arab world we cannot help but link it with oil wealth, of billions of petro-dollars, of capital waiting to be invested.

3. With its wealth and living standards the Arab countries should really be regarded as developed nations. But Arab countries are not considered as developed. This is because Arab nations have not got the other criteria of developed nations such as indigenous industrial capacities, technological know-how and a complex economy.

4. The huge funds of the Arab countries are largely deposited in the banks of the very rich Western countries earning very small returns. According to conservative estimates, there is at least One trillion US Dollars of Arab funds sitting in Western financial centres (New York, London and Switzerland). Some of these funds have now been frozen. If there is investment in industries, it is in the blue chip shares of well-known Western corporations.

5. There are very few industries in the Arab countries themselves. Without foreign workers the industries cannot be run. Wages for the locals are often too high and productivity low.

6. Interestingly, even in the area of crude oil, the Arab world does not have significant refinery capacity. The petro-chemical industries are not as well developed and dominant as they should be. There is therefore not much value added returns from this resource.

7. Still many Arab countries are doing quite well as they are. But sooner or later the oil reserves would be depleted. Unless new sources of income are found, the future will be very bleak for many of the Arab countries.

8. There is therefore a strong need to diversify and to improve the yield on the petro-dollars. In other words Arab countries have to industrialise and modernise their economies, to produce goods for export and trade in a diversity of products. Economies based on more than just oil must be created. Indeed Arab countries should have all the manufacturing industries found in developed countries and more.

9. Diversifying the economy will take time. Fortunately the one ingredient most needed to diversify, i.e. capital is available. It is the deployment of this that this conference is, I believe, concerned with.

10. Money, sometimes referred to as capital, Malaysia has learnt, is unreliable. We accept that currencies cannot have a fixed value. Even if pegged against gold, currency value can fluctuate. Gold prices fluctuate in any currency. But floating exchange rates are even less stable. It becomes worse of course when currency is traded as if it is another commodity, no different from rubber or tin or sugar or oil.

11. The traders speculate and manipulate the rates, making trade difficult, creating a need to hedge, thus increasing the risk and cost of business. When the currency is devalued substantially whole economies can collapse. Only the few currency traders make money but whole nations and their people can go bankrupt.

12. Malaysia had tried to overcome the uncertainties of fluctuating rates by pegging its currency to the US Dollar. But today the US Dollar has depreciated by as much as 40% against the Euro. In terms of the Euro, the Yen, the British Pound and even the Australian Dollar Malaysia now earns less from its exports but has to pay more for imports, particularly oil, the prices of which have been marked up.

13. The oil exporting countries may earn more US Dollar because of the increases in the price of oil but that increase is not as high as the figures indicate because of the depreciation in the value of the US Dollar. The real price now based on old prices and the old strength of the US Dollar is 90 Dollars not 40 Dollars of the depreciated US Dollar. Of course reserves held in US Dollars have lost much of their value.

14. All these point to the unreliability of holding any currency for any length of time. Capital has to be invested in higher yielding economic activities and more durable assets.

15. Holding a mix of currencies may help provided they are skilfully managed.

16. As has been pointed out even gold fluctuates in value. But gold has an intrinsic value. It can be sold as gold for ornaments and the like which paper

currency cannot. The fluctuation in the value of gold is therefore much less. It is safer to hold capital in gold than in Government papers.

17. That is why we have suggested the use of the gold dinar in trade. Certain mechanisms can be agreed upon so that payments based on gold can be made without actually moving gold around.

18. When the Malaysian currency was attacked, foreign investors sold their shares in order to convert to US Dollars. This caused share prices to plunge further, putting companies and banks in distress and undermining the economy. Liquidating share holdings in times of crisis can cause severe losses to the investors.

19. The better thing the investors should have done was to hold on to the shares and wait for recovery. In Malaysia the slide in share prices was arrested by the Government stopping the repatriation of the proceeds from the sale of shares. After one year the shares had appreciated by 200% and the investors recovered most of their investments. Investors can learn something from this.

20. Before I move on to the subject of Arab investments, perhaps I should explain about an apparent paradox. The paradox is that the economy of the United States has significant structural imbalances, with huge deficits in Government budget and in trade, yet it continues to be considered a strong economy. The answer to this paradox lies in the role of the US Dollar as a reserve currency, and a trading currency, particularly for trade in petroleum. Loans are also designated in US Dollars.

21. All these work to the advantage of the US so that it can sustain huge deficits and live on borrowed money for years without its economy being adversely affected. But this cannot last forever especially as the Euro and the Yen are backed by more sound economies.

22. There is clearly a need to reduce dependence on the US Dollars and for better management of capital and reserves.

23. Actually Arab countries have better backing for their own currencies because of their oil reserves. If they care to do so their currencies could be the trading currency and held as reserves. This is another paradox. A currency that has no solid backing is used as backing for currencies which are already solidly backed. We should ponder this as we think about capital management. We need to find a long term solution to the above issues.

24. Clearly capital and reserves are not safe whether held in hard currencies or invested in blue chip companies. Currencies can devalue. And the US Dollar has devalued. Shares too can fall and blue chip companies can go bankrupt. Capital that is not invested will depreciate due to inflation.

25. But we have to keep the money somewhere. Presently the West appear to have better infrastructure for investments, in terms of the rule of law, level playing field, ease of doing business, investment opportunities, range and sophistication of products, privacy, security and freedom of lifestyle. Unfortunately, after September 11 America and Europe are not as attractive as before.

26. Arab countries do present some opportunities for investments. But since most Arab countries are flushed with their own funds, they are not really in need of capital from foreign, including Arab sources. The opportunities are therefore limited at the moment.

27. If Europe and America are not attractive and the Arab countries present few investment opportunities, then Arab capital will have to look at other regions of the world for investment opportunities.

28. It is the considered opinion of most economic experts that economic growth in Asia will outstrip Europe and America in the near future. This is because the most economically dynamic countries are found in Asia, in particular East Asia. Japan has recovered while South Korea's economy is still very sound. China is potentially the biggest economy in the world and has welcomed foreign capital.

29. China's needs are huge, and its demands will determine the prices of commodities including oil and gas. The spin-off from this demand will be considerable.

30. Southeast Asia has formed an association of all the 10 countries of the region. The manufactured products of Southeast Asia are of high quality and are in demand all over the world. Southeast Asia has a market of 500 million people.

31. India is now opening up. With a population of 1 billion people, India complements China's huge economy. India's highly educated people are turning the country into the biggest computer software centre in the world. India has a huge middle class whose needs must create a big market for its own products and for imports.

32. It is clear that Asia, or more specifically East Asia and India, with a population of 3 billion people will become a huge industrial powerhouse and a huge market. Companies in these regions are bound to be very active and profitable.

33. East Asia's policies, incentives and legal framework for investments are attractive. The banking system is modern and bankers there are familiar with foreign investments. Arab capital will be welcome in most instances.

34. Perhaps Arab investors are not yet ready to put up their own manufacturing plants in these countries. But certainly they can invest in the stock markets and in specific companies and banks in these countries. There are of course opportunities for venture capital investments. New Information Technology based industries show a lot of promise.

35. Eventually Arab countries must have their own industries to cater not only for their own needs but also of the world. There is absolutely no reason why Arab countries cannot be as industrialised as other developed industrial nations. The capital is there. And so are the skills. We see a lot of Arabs involved in research and development and in successful industrial ventures and trade in such developed countries as the United States of America. Why are they not doing these things in their own countries?

36. The reason is that few Arab countries encourage research and development and promote local investments aggressively. Schools, universities and training institutions are not focused on the knowledge and skills needed for modern industries.

37. Industrialisation requires a certain culture that differs from the culture of agrarian nations. Discipline in the work place is important. And nothing is more important than a high respect for time. Precision is getting ever more important as more and more products demand high reliability. If this culture is not inherent then it has to be cultivated. Only if the culture and work ethics is right, can industrialisation be successful.

38. Malaysia had the same problems but some progress has been made to instil a work culture that is compatible with industrialisation by sending students and workers to Japan and South Korea to learn ethics and the culture of the work place.

39. Capital has an important role to play in human society. Even if it is invested in order to enrich the investor it will still generate some spin-offs for society. But capital can actually be positively employed in order to maximise the development of a society or nation.

40. If capital is invested purely to enrich the investor, there are many avenues for investments all over the world. The investors need not even care for the dividends paid out. By pushing up prices they can make huge capital gains. They can then sell off and take their profits leaving the market in shambles.

41. But sincere investors look at the returns in terms of dividend and regard growth in share values as long term assets that are worth keeping. The investors may also want to participate in the affairs of the company at director's level. The

benefit of this kind of investment goes beyond financial returns. It increases the skills in capital deployment and makes good corporate citizens of the investors.

42. Clearly Arab capital has a big choice whether to invest at home or abroad. Serious investors are always welcome whether at home or abroad. Buying Government papers may be safe but the yield is usually low. And in some cases they may run political risks. But investments in the fast growing economies of the East can be more exciting and can yield good returns and long-term stakes in growth industries. Finally opportunities to invest at home can be created and nursed so that eventually Arab countries become fully developed.

43. I know what I have said is common knowledge. But I hope you will now act on this knowledge to avoid future catastrophe.
