



## Plenary 2

### The Rapidly Developing Economies

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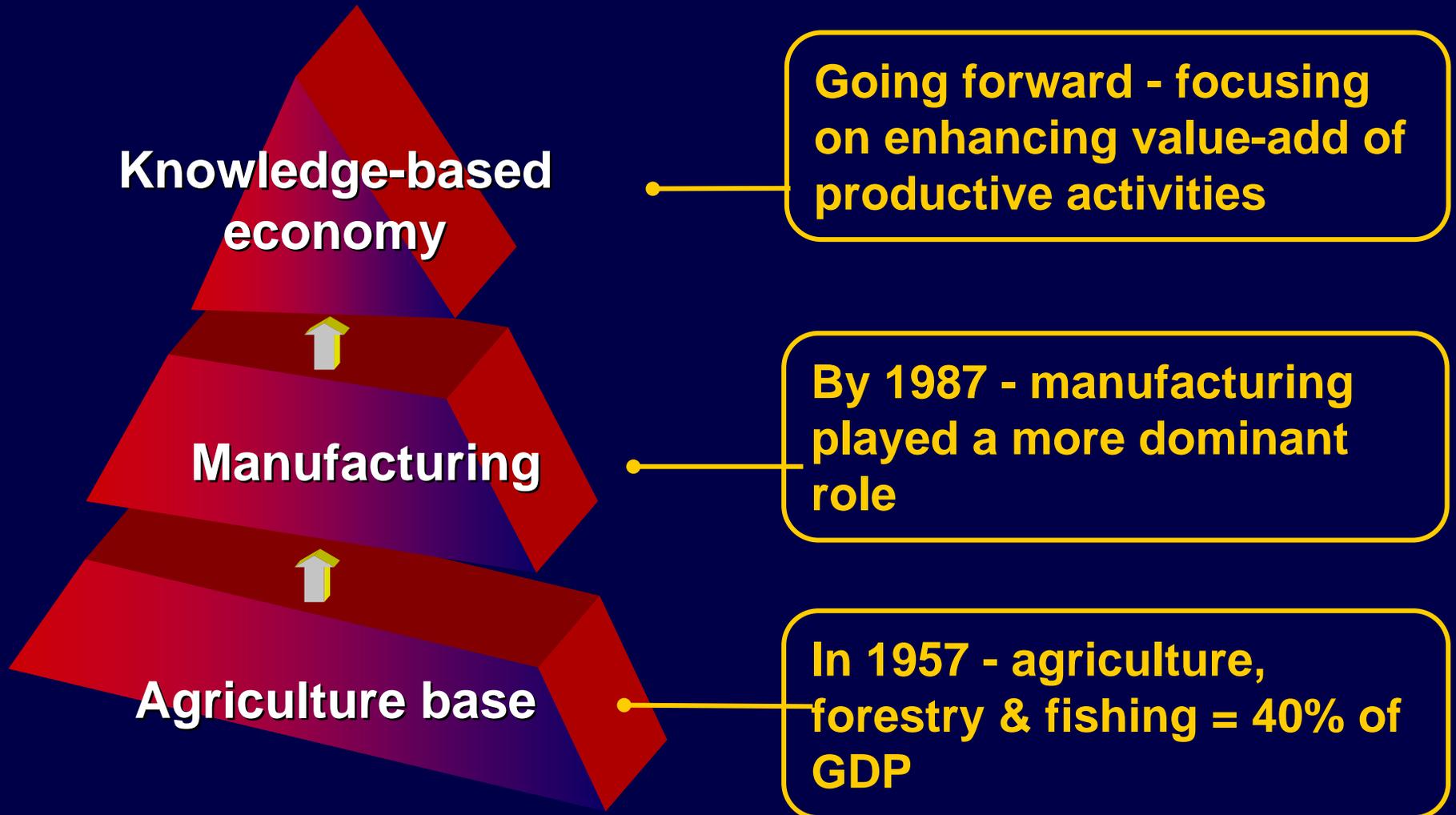
# Challenges in Rapidly Developing Economies – The Malaysian Experience



# Agenda

- **The Malaysian Experience**
- **Main Success Factors**
- **Challenges Faced**
- **Meeting the Challenges**

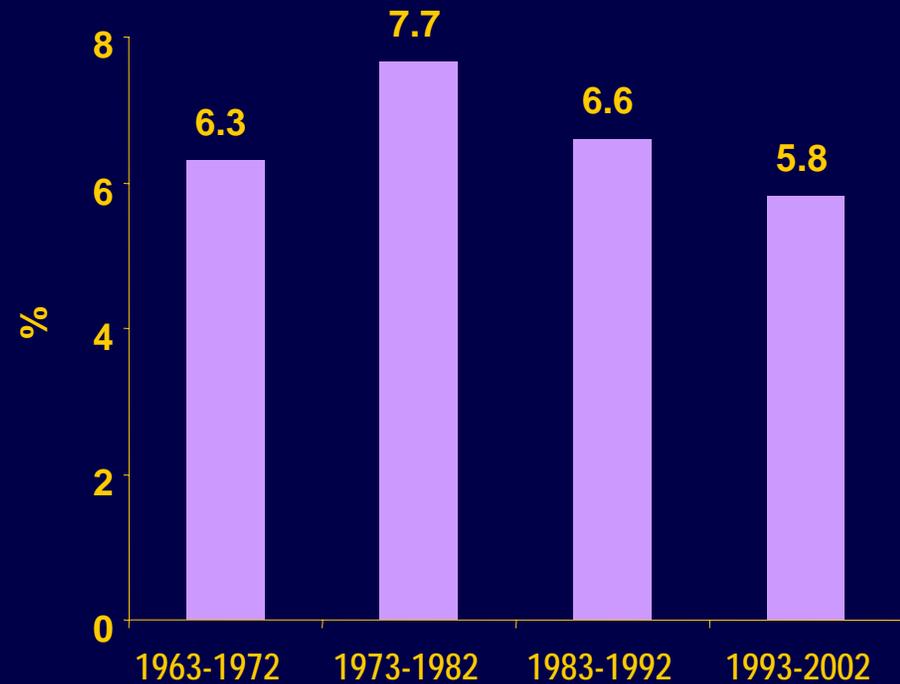
# The Malaysian economy has undergone profound structural changes



# Malaysia's GDP growth has been relatively robust since the 1960s

- GDP grown by average 6.3% per annum in this period
- GNP per capita grew 18 times since independence → from US\$200 in 1957 to US\$3,600.8 in 2002
- By 2002, unemployment fell to 3.5% (1970: 7.7%), and incidence of poverty fell to 4.5% (1970: 52.4%)

**Average annual real GDP growth**



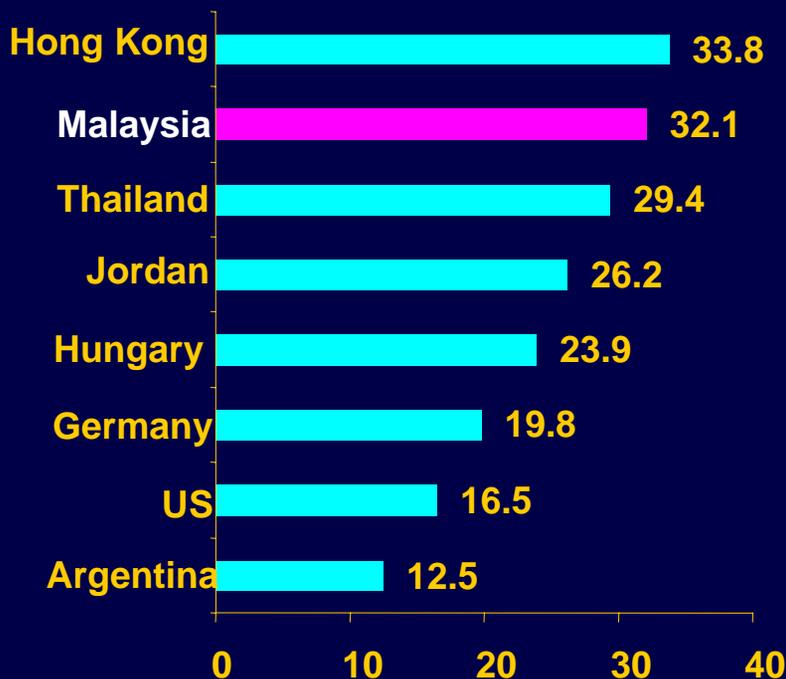
Source: Bank Negara Malaysia

# High savings rates enabled strong economic growth with relative stable price

Malaysia has a relatively high savings rate

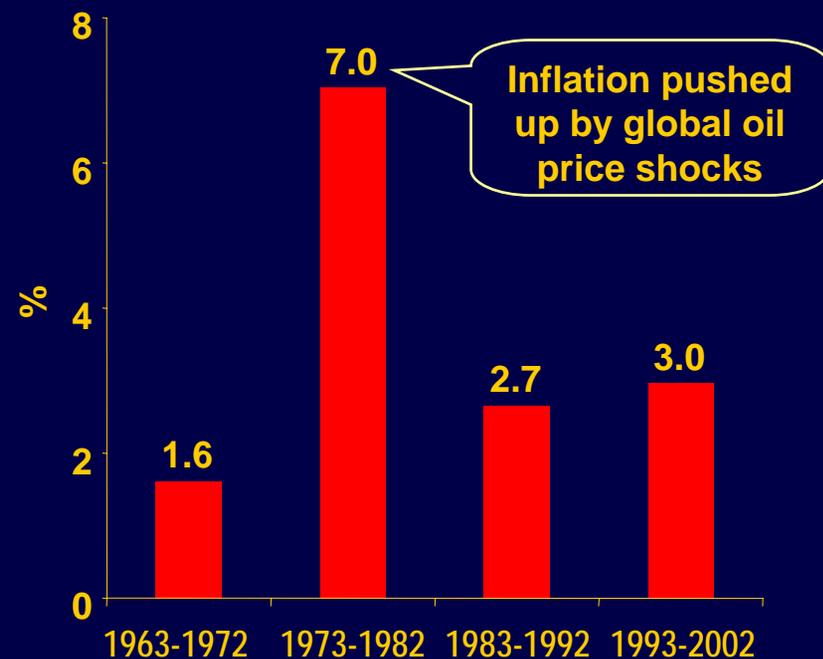
This has helped keep inflation low

## Gross national savings in 2001 (% of GDP)



Source: IMF

## Average annual CPI growth in Malaysia

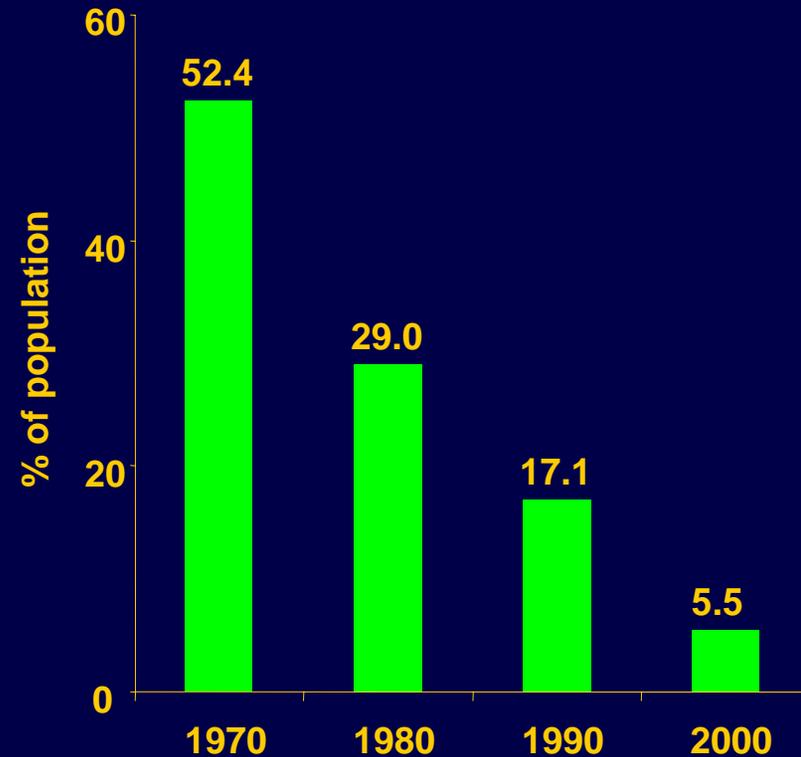


Source: Bank Negara Malaysia

# Social progress to ensure “growth with equity”

- New Economic Policy (NEP) introduced in 1970 aimed at:
  - Promoting national unity
  - Restructuring society
  - Eradicating poverty
  - Equitable distribution of wealth
  - Public sector to play major role
- Targets:
  - No deprivation of economic benefits to any ethnic group / sector of society
  - Employment patterns at all levels to reflect racial composition of the population

## Population below national poverty line



Source: Economic Planning Unit, Malaysia

# Diversifying the economy by pursuing industrialisation

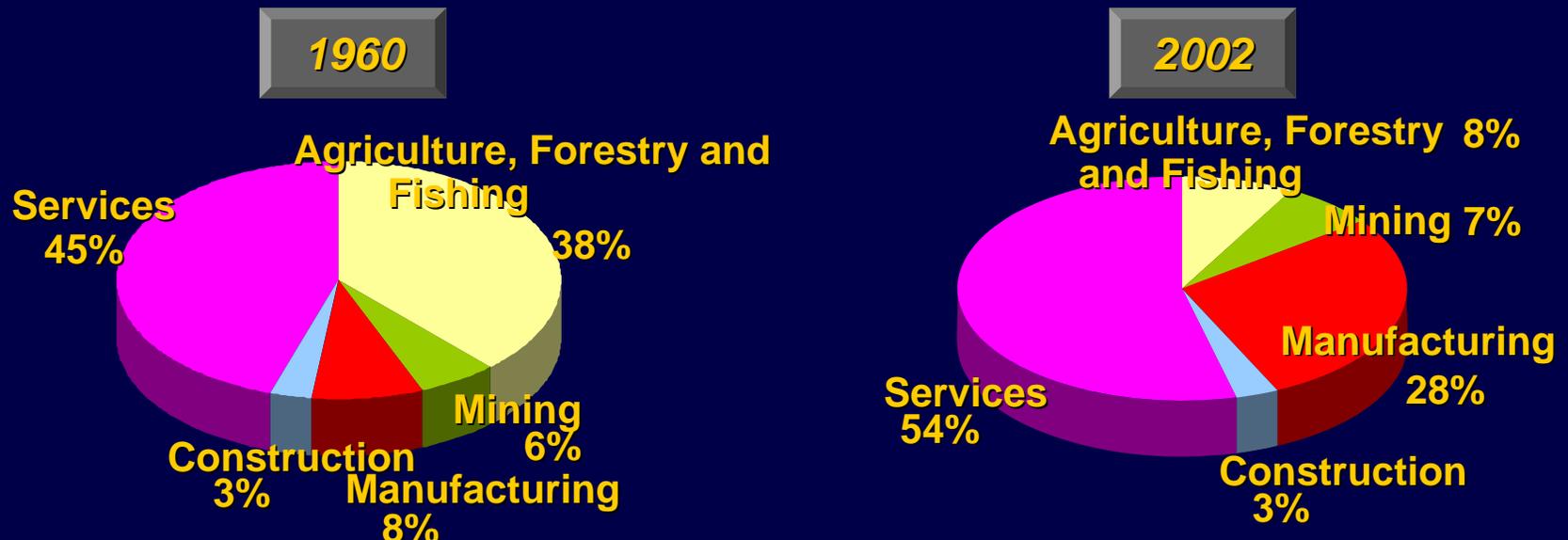


- **First Industrial Master Plan (IMP) outlined industrial strategy and established framework of developmental strategies to be undertaken from 1986-1995**
  - **To create a more broad-based manufacturing sector**
  - **To promote an export-led industrialisation strategy**

# Malaysia now has a widely-diversified production structure and range of exports

- Manufacturing accounts for 28% of GDP in 2002 (1960: 8%)
- In 2002, Electrical & Electronic goods comprise 51% of exports

## Composition of GDP by sector

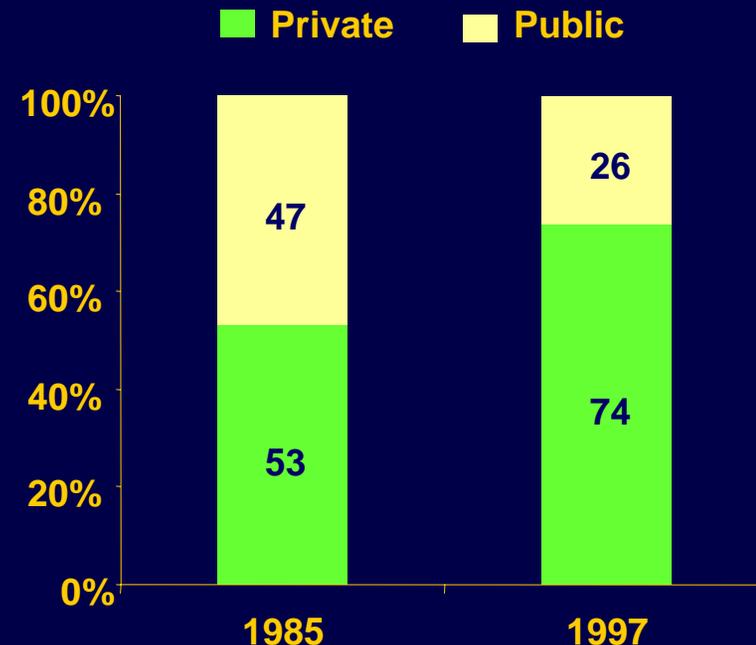


Source: Bank Negara Malaysia

# “Malaysia Inc” policy to promote private sector as main engine of growth

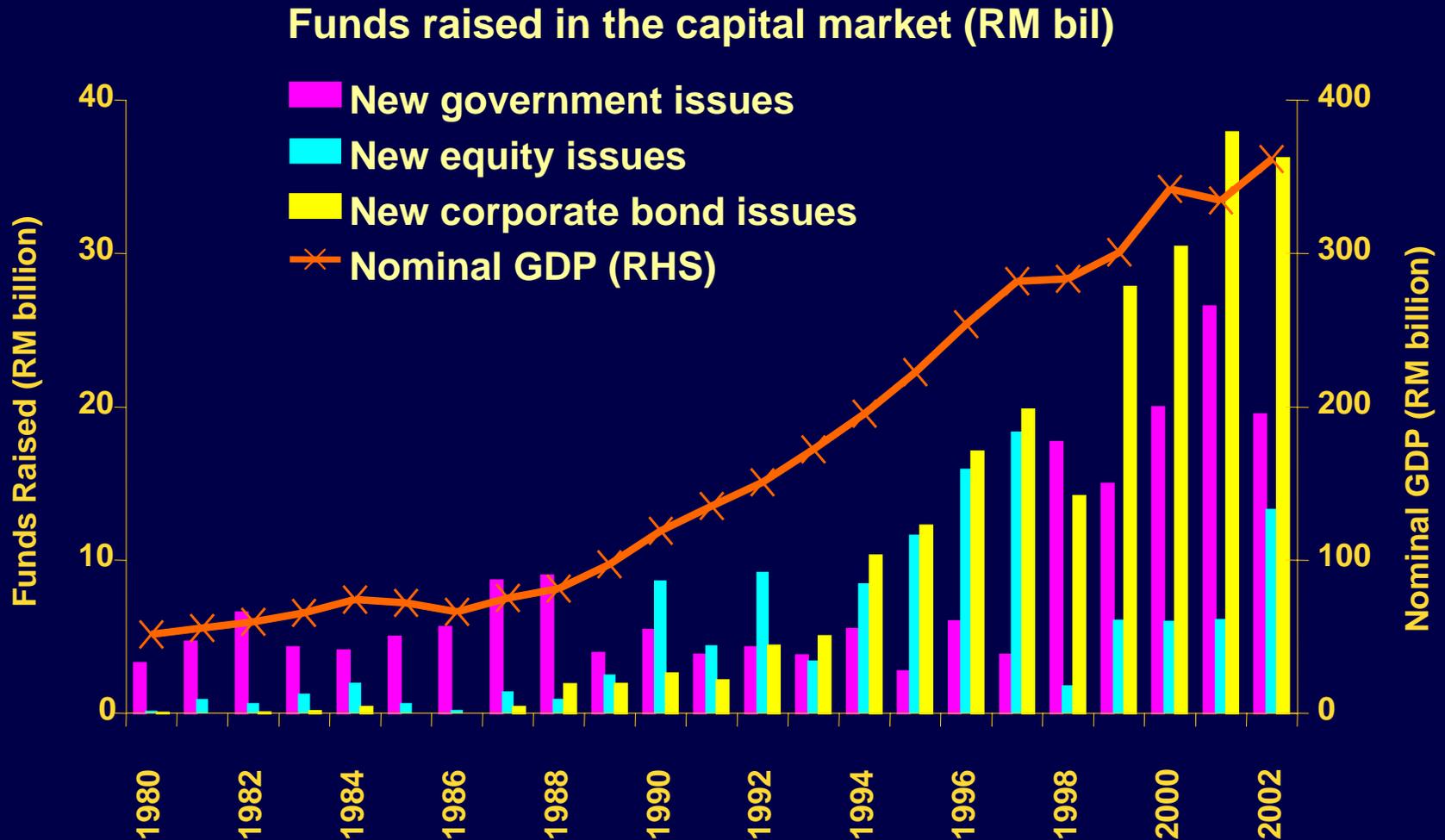
- Privatisation of major govt entities:
  - Telecom services transferred from Telecom Dept. to Telekom PLC, which was successfully listed on the KLSE in 1990
  - National Electricity Board was corporatised and privatised in 1990; listed on KLSE in 1992
- Capital market provided efficient access to funding and facilitated social agenda on wealth creation

## Private sector investment as % of total investment



Source: EPU

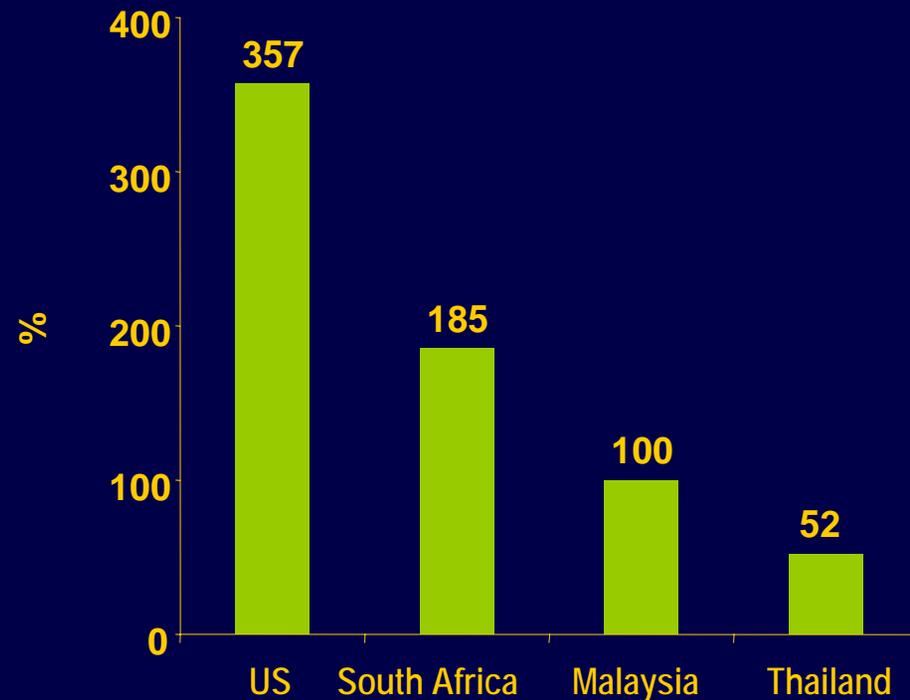
# The capital market has been a key driver of growth over the years



# Financial sector development

- The corporate sector increasingly turning to the capital market for funding needs
- In doing so, they reduce their over-dependence on the banking sector
- Ratio of the size of the capital market (equities and bonds) to banking sector assets is now 100% (at end-2002)

**Ratio of capital market size to banking sector assets**

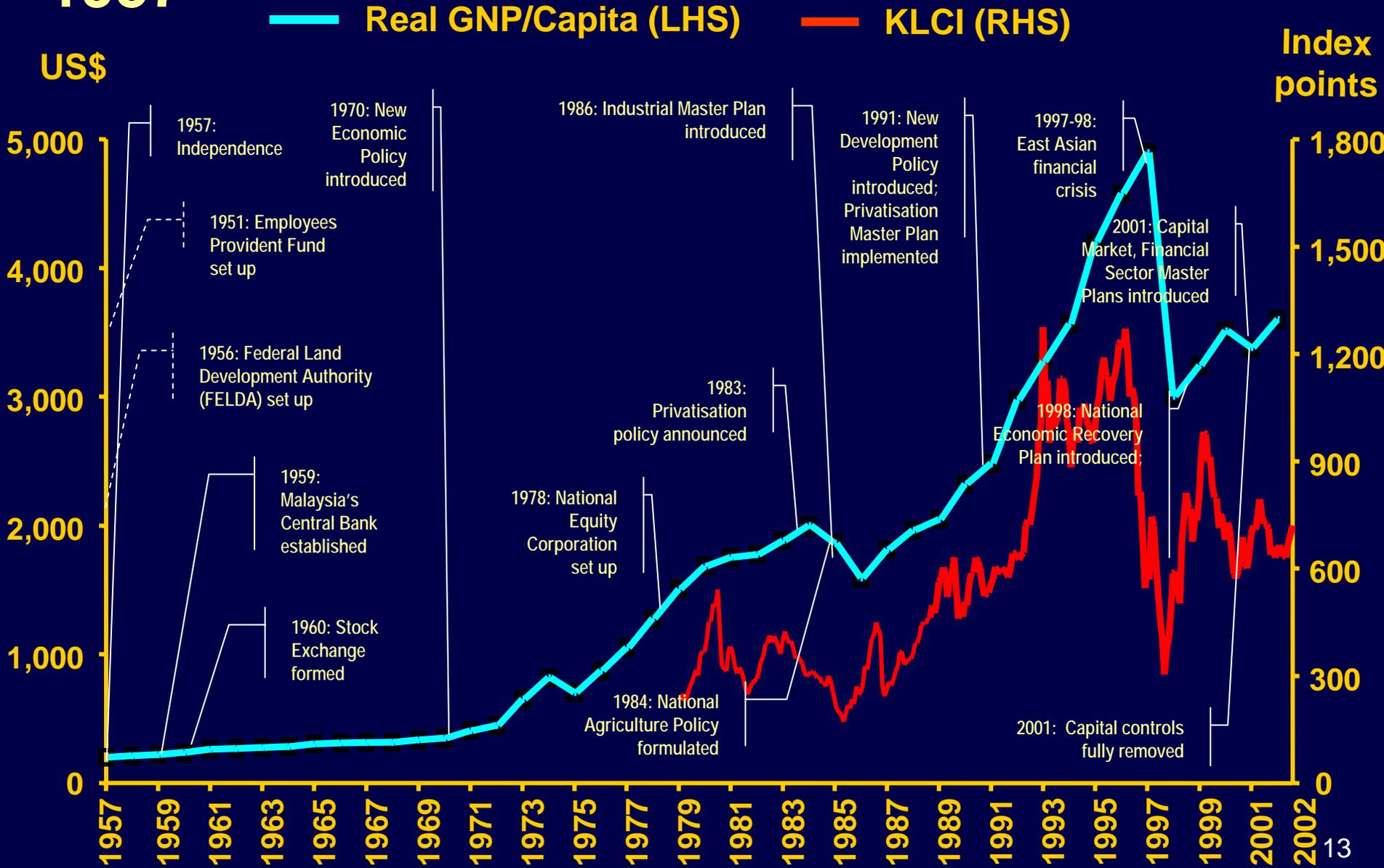


*Sources: Respective central banks, World Federation of Exchanges, Bank for Intl Settlements*

# Development of a knowledge-based economy is important going forward

- **New Development Policy (NDP) announced in 1991:**
  - Led to formation of Multimedia Super Corridor in 1996
  - Formed the basis of “Vision 2020”
- **8th Malaysia Plan (5-year plan)**
  - Achieving sustainable growth with resilience to meet challenges of globalisation and liberalisation
  - Facilitate devt of knowledge-based economy to raise value-added of all economic sectors
  - Priority to increase supply of quality manpower, enhance R&D

# Snapshot of economic development since 1957



# The Malaysian Economy – Main success factors

## STABLE POLITICAL CLIMATE

- **Strong ruling coalition**

## PLANNING & IMPLEMENTATION

- **National Agriculture Policy**
- **Industrial Masterplans**
- **Privatisation Masterplan**
- **National Economic Recovery Plan**
- **Capital Market Masterplan**
- **Outline Perspective Plans**
- **1<sup>st</sup> – 8<sup>th</sup> Malaysia Plans**

# MAIN SUCCESS FACTORS

## - Key Policies and Key Enablers

### Well Planned Structural Changes to Economy

- National Agricultural Policy (Federal Land Development Authority)
- Development of Manufacturing Sector (Malaysian Industrial Development Authority)
- Development of Knowledge Based Economy (Multi-media Super Corridor)

### Mobilisation of Savings to Fund Development

- Compulsory Savings (Employees Provident Fund)
- Voluntary Savings & Investments (National Equity Corporation, Pilgrim Savings Fund Board)

### Development of Private Sector as Main Engine of Growth

- Privatisation Masterplan (Economic Planning Unit)
- Regional Development (State Economic Development Corporations)

# MAIN SUCCESS FACTORS

## - Key Policies and Key Enablers (Con'td)

### Capital Market as Key Driver of Growth

- Access to Cheaper Funds (Kuala Lumpur Stock Exchange)
- Capital Market Masterplan (Securities Commission)

### Economic Growth with Equity

- New Economic Policy (Foreign Investment Committee)
- Distribution of Wealth (National Equity Corporation, Bumiputra Participation Unit)

# Challenges Faced

- **National Savings Rate is too high at 39.7% and is stifling domestic consumption.**
- **The Statutory Pension Fund grew to RM203.7 Billion by 2003 (40% of the Exchanges' Market Capitalisation) has created liquidity in the Capital Market .**
- **The Government's hand in the economy is still strong. The Privatisation Masterplan has resulted in 7 out of the Top 10 largest firms being Government-linked, and 34% of total market capitalisation of the Exchange (or more than half of Malaysia's GDP)!**
- **The Industrial Masterplan was too successful, now more than 51% of Malaysia's exports are electronic and electrical goods, accounting for more than the exports of oil and gas, palm-oil, timber, pepper and other exports combined!!.**

# Move Challenges!

**The Asian Financial Crisis of 1997/98 highlighted the vulnerability of the Malaysian Financial sector e.g.**

- The export boom internationalised the Ringgit, exposing it to manipulative attacks.**
- Mismatch of borrowings to income by corporate sector.**
- Exposure to short term capital flows without shareholder value and corporate governance.**
- Unconsolidated markets and intermediaries.**

# Meeting the Challenges

- **Liberalisation of credit to encourage domestic consumption.**
  - **Savings rate has stopped growing and declined to 35%**
- **Review of Pension Funds Industry still on-going.**
  - **Other provident funds being promoted.**
- **Government Linked Companies are being re-vamped.**
  - **New CEOs with performance incentives, more independent boards,**

# Meeting the Challenges (Cont'd)

- **Government Linked Companies are being re-vamped.  
(Cont'd)**
  - **Government looking at reducing its shareholding in the GLCs.**
- **The 9<sup>th</sup> Malaysia Plan will push for a more knowledge-based economy.**
  - **This will reduce over-dependence on export of E & E goods**

# Recovery from the Financial Crisis

- **The Government implemented its National Economic Recovery Plan.**
  - **Protecting the Malaysian Ringgit from attacks.**
  - **Capital controls, Ringgit-peg.**
  - **Danaharta, the National Asset Management Company, handled non-performing loans.**
  - **Recapitalisation of weakened banks through Danamodal.**
  - **Revamp of Corporate Governance values, launch of Code of Ethics.**

# Recovery from the Financial Crisis (Con'td)

- **After recovery, launch of Capital Market Masterplan and Financial Sector Masterplan.**
  - **Improving Corporate Governnance and Investor Protection**
  - **Developing the Bond Market to reduce mismatch of borrowings to Income.**
  - **Consolidating, demutualising and listing the Malaysian Exchanges.**
  - **Consolidating and strengthening the intermediaries.**
  - **Improving areas to Capital Market by introduction of REITS etc.**

# A wide range of initiatives already completed or actively in progress



# Corporate Governance

## Investor Protection



### Report on Corporate Governance (1999)

- Some 70 recommendations for improving CG practices

### Malaysian Code on Corporate Governance (2000)

- Principles and best practices
- Statement of extent of compliance with Code required by revised KLSE Listing Rules (2001)

### Audit Quality

- Guidelines on Internal Audit function released July 2002

### Capital Market Masterplan (2001)

Holistic framework for longer-term market development, also covering corporate governance

### Enhanced Enforcement Focus

- Increased emphasis on enforcing accountability of principal officers/controlling stakeholders

### Shareholder activism

- Minority Shareholder Watchdog Group
- Enhanced legal provisions for recourse

### Malaysian Accounting Standards Board

- Frameworks for accounting standard setting, compliance and enforcement are internationally benchmarked

### Professional management of companies

- Mandatory accreditation programme for directors
- Regulatory reforms to encourage participation of non-executive directors
- Change in management in some companies

### Transparency & disclosure

- Quarterly reporting (1999)
- Enhanced disclosure in prospectuses

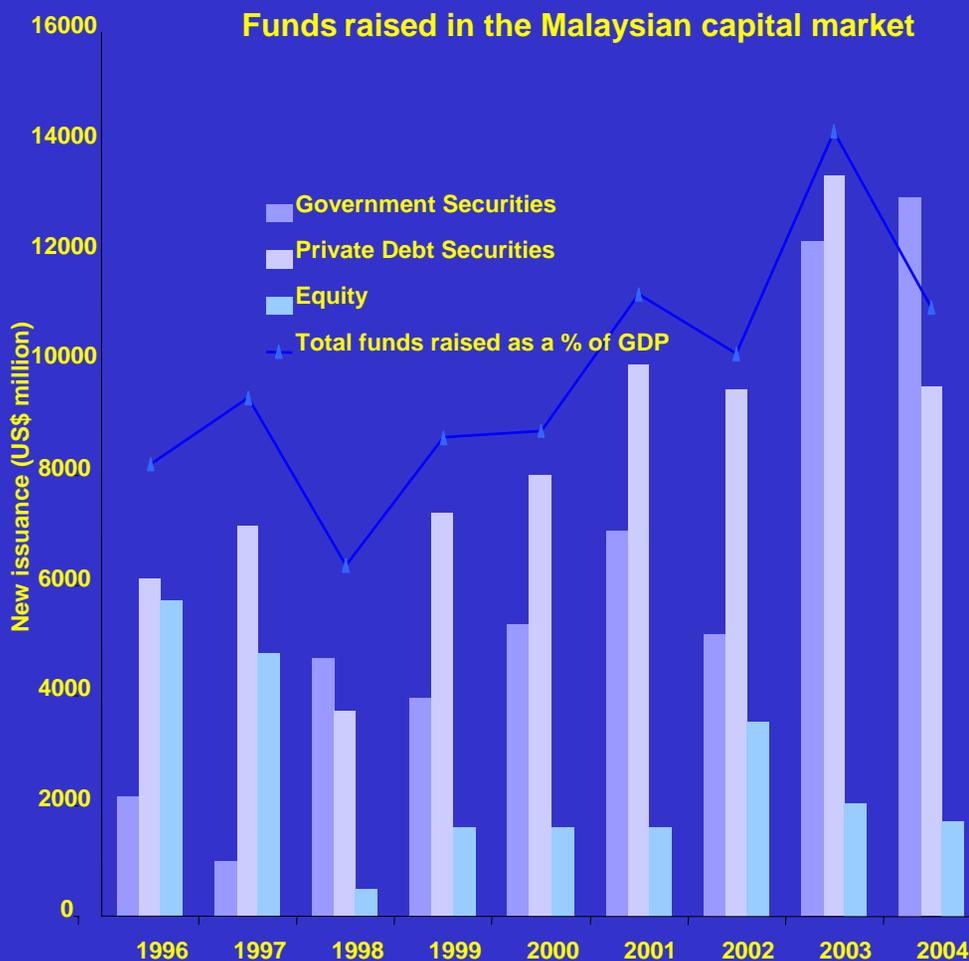
# Bond market development has been significant...

Capital raising

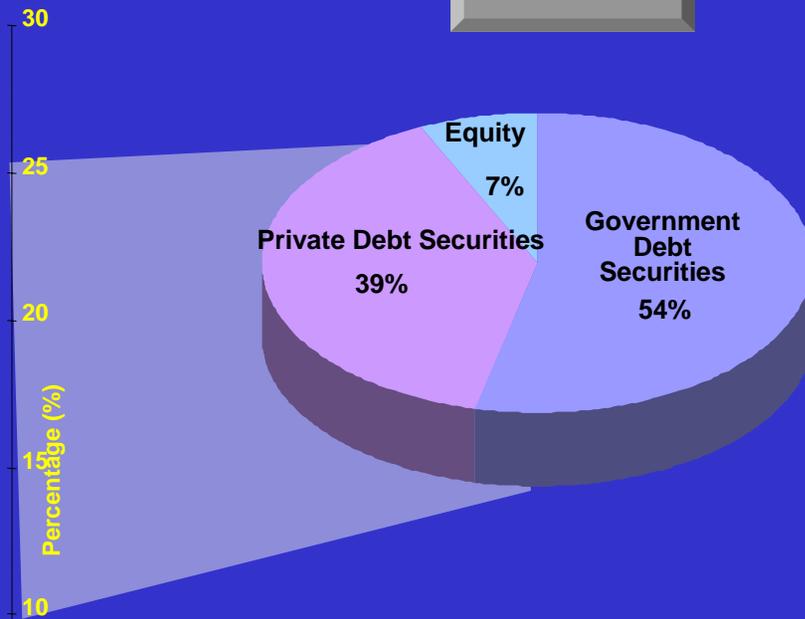


- **Enhanced efficiency of issuance process**
  - Revised issuance framework → regulatory requirements streamlined
- **Broadened participation**
  - Reduced minimum investment in government bonds from 20% to 10% for insurance co.s
  - Introduction of guidelines for UBs to deal directly in unlisted PDS
- **Asset-backed securitisation framework**
  - Exemption on stamp duty and real property gains tax on transactions

# Bond market development has been significant, broadening the sources of financing



In 2004



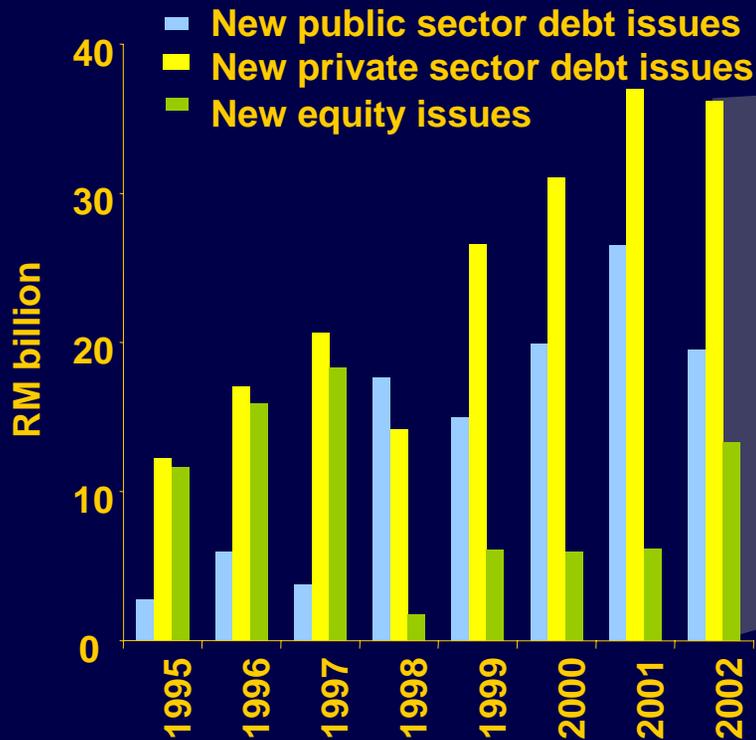
Source: Bank Negara Malaysia

# ...helping co.s raise funds amid challenging conditions

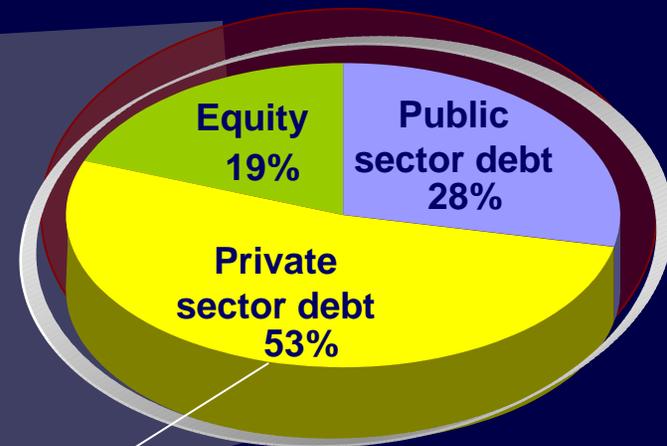
## Capital raising



### New funds raised in the capital market (1995 – 2002)



### New funds raised in the capital market in 2002



Proportion of corporate debt over total funds raised has doubled to 53%, from 25% in 1992



**Thank you**