MALAYSIA
Beyond Expectations

Against all expectations, 2017 turned out to be a bumper year for the Malaysian economy. Thanks to a combination of the government's prudent economic management and success in creating a user-friendly business environment, the World Bank felt obliged to revise growth estimates upward not once or twice, but three times. Once all the data has been collated, Malaysia's GDP will be forecast to have grown by 5.9% over the 12-month period.

The international investment community has taken due note. Last February, Saudi Aramco announced that it was planning to invest US$7 billion in the Petronas Refinery and Petrochemical Integrated Development Refinery in Johor, making it the company's largest downstream investment outside Saudi Arabia. In November, the Chinese ecommerce giant Alibaba's founder and chairman Jack Ma chose to launch the world's first Digital Free Trade Zone (DFTZ) outside of China on two brownfield sites close to Kuala Lumpur International Airport.

One reason Ma settled on Malaysia for this milestone initiative was, of course, the country's strategic location close to the Strait of Malacca. Already one of the world's busiest ship channels, it is only likely to see traffic volumes increase over the next few decades on account of China's multibillion-dollar investment in its Belt and Road initiative, President Xi's plan to boost commercial links between Asia and Europe by reviving the historic Silk Road trade routes.

As a founder member of the relatively new ASEAN Community economic bloc, Malaysia's geographic position is also playing into the hands of its financial sector. "Historically, companies and investors based in Central Asian countries like Kazakhstan would normally look to Dubai or London as their default financial hub," observes Kenanga Investors CEO Ismitz Matthew De Alwis. "These days, they are more likely to be factoring Malaysia into their decision-making process because we are both geographically and culturally closer. It is also more practical to work with us because we are in the same time zone and find it easier to work with Japan, Singapore, China, and Hong Kong."

There are other reasons why Malaysia is increasingly being perceived as a good place to both invest and do business in. High among these are the series of transport and infrastructure projects initiated by the authorities as part of their drive to nurture a business-friendly environment. These include the Pan-Borneo Highway and the three-line Klang Valley Mass Rapid Transit System serving the Greater Kuala Lumpur area.

Then there are its five economic corridors. Beginning with Iskandar Malaysia, established more than 10 years ago, the corridors act as hubs for the promotion of free trade and business incentives in strategic investment regions and are designed to give some sort of regional balance to Malaysian economic development.

At least one them has fulfilled its objective. "We have seen a significant interest from investors since the introduction of the corridor," says Datuk Yaakub Johari, president of SEDIA (Sabah Economic Development and Investment Authority), which acts as a one-stop shop for investors looking for opportunities along the Sabah Development Corridor. "I think the most important thing is that, because the state and federal authorities are working in unison and giving out the same message, it gives potential investors confidence."

So what of Malaysia's immediate future? More of the same, appears to be the general consensus, with the economy on track to maintain a growth rate of between 5.5% and 5.8% again this year driven largely by private-sector domestic demand and supported by stable labor market conditions and continued income growth. If these predictions prove correct, there is every possibility that Malaysia remains on track to attain its goal of earning reclassification as a high-income developed nation by the end of the decade.

If the government has its way (a general election is due to be held sometime during 2018), this is only one step on a longer journey. In October 2016, Prime Minister Datuk Seri Najib Razak launched the Transformasi Nasional 2050 (TN50) project that aims to use this anticipated upgrade in status as a platform from which to transform Malaysia into one of the world's leading countries in terms of economic development, citizen well-being, and innovation. ●

CAGAMAS—HOUSING THE NATION

With homeownership rates running close to 73%, Malaysia can lay claim to having one of the most highly developed housing markets of the booming economies of Southeast Asia.

Datuk Chung Chee Leong
Cagamas CEO

As ever-greater numbers of Malaysians flock to its conurbations to fill new posts being created in the energy and white-collar sectors such as ICT, finance, and biotechnology, this is quite an achievement.

It was not always so. Even as recently as the 1970s and early 1980s, a mismatch between the time it would take the average consumer to pay off a mortgage (around 15 years) and the relatively short deposit liability of commercial banks (nearer 12 months) meant that banks were reluctant to lend to housebuyers.

Cagamas emerged as the government's solution. Established in 1986 as the National Mortgage Corporation of Malaysia, Cagamas was tasked with both broadening the spread of homeownership and expanding the country's secondary mortgage market through the issuance of corporate bonds and sukuk (Shariah-compliant bonds) to finance the purchase of housing loans and receivables from financial institutions, select corporations, and the public sector.

In the 30 years that have elapsed since then, Cagamas has been responsible for issuing some US$70 billion worth of bonds and sukuk and has refinanced US$31 billion worth of housing loans that equates to approximately 1.9 million homes.

"In many senses, we fulfill the same role as Fannie Mae in the U.S., except that we only purchase loans that meet our eligibility criteria," explains Cagamas CEO Datuk Chung Chee Leong. "And because of this prudent risk-management strategy coupled with a track record of strong capitalization and stable profitability, we have been assigned both local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service, which are in line with Malaysian sovereign ratings."

CAGAMAS' COMMITMENT TO PRUDENCE IS CENTRAL TO ITS STRATEGY AND HAS HAD THE DESIRED EFFECT OF ENABLING THE CORPORATION TO SOURCE FUNDS

in the capital markets at more cost-effective rates than some of the country's banks, which means that it in turn can pass the savings to the end users in the form of cheaper rates.

In recent years, Chung and his colleagues have begun to reap the rewards of this reputation for sound financial governance in the international markets. In 2014, a year after obtaining an international Moody's credit rating, it launched two US$2.5 billion multicurrency EMTN (Euro medium-term note) programs, one for conventional and one for Islamic markets.

The response, according to the Cagamas CEO, was "phenomenal" with the Chinese RMB1.5 billion (US$230 million) issue oversubscribed by 3.1 times. At the time, the choice of the renminbi for its first bond issue in a foreign currency was inspiring, but it was, in fact, simply a continuation of the corporation's determination to provide Malaysia's banks and ultimately its homeowners with the very best value for money.

"We were expected to issue our first international bond in U.S. dollars," Chung recalls, "but we chose renminbi because we recognized that there was a huge pool of funds in the RMB market just waiting to be invested, which allowed us to obtain some very competitive pricing and to avoid paying the premium that tends to be imposed on most new issuers." Cagamas remains currency-neutral to this day and is constantly on the lookout for the best deals available across the world.

The corporation has also been instrumental in educating Western markets about the potential of sukuk that it sells on to investors inclusive of Malaysia's burgeoning Islamic banking sector and on whom many of the country's Muslims and non-Muslims alike rely for their financial services, including their mortgages.

"Back in 2013 when we started talking to investors in the U.K. and Hong Kong about sukuk, they were reluctant to get involved because they didn't really understand them," says Chung. "But after their governments started issuing sukuk, demand has risen." Domestic demand for sukuk is, in fact, higher than it is for the conventional bonds, he remarks, and the math makes sense: While Malaysia's Islamic banks and other Islamic financial institutions are restricted to only buying sukuk, its conventional lenders and funds are under no such constraint.

As well over half of Malaysia's adult population currently owns their own home, Cagamas is in discussion with the central bank about the extension of its remit. It is already actively involved in two government initiatives—the My First Home Scheme and the Youth Housing Scheme—aimed at providing affordable house financing to low- and middle-income earners through its subsidiary, which guarantees the first 10% of loans to homebuyers earning a maximum of US$1,200 per individual or $2,400 per household. It is also exploring ways to translate its business model to help with the country's infrastructure development and the growth of its SME sector.

Given Cagamas' strong track record, sound corporate governance, and commercial acumen, they are both set to be in very safe hands indeed. ●

Cagamas
National Mortgage Corporation of Malaysia