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Inside insights

IT is often said that one week in politics is a long time. Well, we can now add that to capital markets too.

A week ago, this column spoke about the US Federal Reserve's (Fed) relentless pursuit of raising rates to the extent the market was pricing in a 50 basis points (bps) hike in the coming Federal Open Market Committee (FOMC) meeting followed by an additional 25 bps each in May and June before the Fed reaches the pivot point.

Now, everything has changed due to the collapse of Silicon Valley Bank (SVB), which incidentally is the second largest US bank failure in history after the 2008 demise of Washington Mutual. Other than SVB, two other US banks were shut down – Silvergate Bank two days before SVB and Signature Bank, two days after the collapse of SVB.

Unmanaged interest rate risk

SVB attracted deposits from all over the world and typically these were venture capital funds as well as investee companies that are sit-

The one that broke the camel's back

ting on cash, which then deposited funds into the bank for mediocre returns or safe-keeping.

SVB's business model was rather simple. Since the bank's liability was deposits that were placed with it, as long as it is able to lend out monies at a higher rate and earn a decent net interest margin, the bank has achieved its objective and is home free.

The pandemic, which brought global interest rates to record lows also saw markets and investors flush with liquidity and SVB was not the exception as its deposit base went exponential.

However, as its fortunes or rather misfortunes were also tied to the tech and startup mania, its ability to lend to borrowers who were looking for funding was slowly eroding when interest rates start to increase about a year ago. SVB had an excessive inflow of funds and was not able to lend out and hence decided to invest them instead.

As merger and acquisition activities in the market or even fundraising for new startups was also drying up, SVB saw an opportunity to invest in fixed income instruments, which included both the US treasur-

ies as well as mortgage back securities, but without realising that the move is a double-edged sword. When rates increase, SVB's asset in these instruments diminishes in value as higher bond yields will result in lower bond prices due to the inverse relationship.

Imagine a two-year US treasury that was purchased about a year ago, and today (or rather before the SVB collapse), that same paper is down in price as the yield on the two-year paper spiked more than 400 bps following the Fed's rate hikes due to persistently high inflation prints. The higher interest rate environment also means that borrowing cost has increased and thus the traditional borrowers – the tech sector and venture capitalists, were shying away from making big investment decisions.

Gyrating US Treasuries

The US treasuries, one of the "safest" investments a global portfolio manager could have in his or her books went through a turbulent

> SEE PAGE 10

Industry reform policies among requisites for better-paying jobs

By **TENGKU DATUK SERI ZAFRUL ABDUL AZIZ**

THE return of political stability with the formation of the unity government a little over 100 days ago, and the bleak prospects in many markets have placed Malaysia back on the radar of the foreign business and investment community.

This is evident especially during my visits abroad to promote Malaysia since being appointed the International Trade and Industry Minister in December 2022. From Jakarta to Davos, Abu Dhabi to Milan, and most recently, Singapore and Seoul for trade and investment missions, we were met with renewed interest by current and potential investors.

The goodwill is still evident and many international investors have, for many years, wished for Malaysia to again be one of the top performing economies in Asean, instead of a sliding mid-table nation in the region.

Thankfully, Malaysia's stellar economic performance of 8.7% gross domestic product (GDP) growth for 2022 – the highest in Asean last year – together with a low unemployment rate of 3.6% in December 2022 and low headline inflation of 3.2% despite global inflationary pressures, mean that we must be taken seriously.

These numbers also validate the effectiveness of many of our pandemic policy responses and aid measures.

Whilst some of the international businesses do reminisce the good old days of the low-cost manufacturing ecosystem, they do understand that this is not sustainable in the long run.

Further, given the global inflation and disrupted supply chains that have increased costs, we must work hard to enhance the positive considerations of operating in

We can and must do better if we want to keep attracting and retaining high quality investors!

Malaysia. This is where the ministry or Miti, together with our agencies, have our reform priorities cut out for us.

Since joining Miti, I have repeatedly stressed to officials and its agencies that we must rethink our strategic approach to align trade, industrial and investment policies if we want to unlock future growth and set our economy on a more sustainable path.

Besides our trade figures (which matters a great deal because Malaysia is a trading nation), what is also at stake is the future of our small and medium enterprises (SMEs), better-paying jobs for countless Malaysians and the well-being of their families: these are our overarching key performance indicators (KPIs).

To that end, we have been guided by our priorities, the key ones of which are: Firstly, to increase trade growth and ensure an inclusive and sustainable global trade environment. When it comes to Free Trade Agreements (FTAs), feedback from all segments of society – government, private sector, civil society and individuals – will be taken into account when conducting cost-benefit analyses.

This facilitates more efficient decision-making and ensures the FTAs' benefits are aligned to our socio-economic priorities such as supporting SMEs, closing rural-urban gaps, and fostering gender empowerment.

In short, our people remain our top priority in new FTA negotiations, including the Regional Compre-

hensive Economic Partnership and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, where we have worked closely with our traditional as well as new trade partners.

Secondly, environmental, social and governance (ESG) and digitalisation are key to future-proofing our industries, especially the SMEs. Disregard ESG and our exporters' market access and businesses will suffer.

To prevent that, Miti is currently crafting the National Environmental, Social and Governance Industry Framework or i-ESG, for the manufacturing sector to adapt to ESG. This comprises four components, namely standards, financial support and incentives, capacity building, and market mechanisms, including carbon trading and carbon pricing.

On digitalisation, I once did an interview on RTM, where they had also invited the founder of Claire Organics, Louise Chu, a government grant recipient who successfully digitalised and expanded her business during the pandemic.

There are many micro SMEs (MSMEs) like her who must be supported digitally to scale up, or to partake in the green economy, because these MSMEs contribute 37.4% to our GDP and employ 47.8% of Malaysia's working population. Our future economic expansion will also depend on our MSMEs' ability to secure and adapt to green technology.

Third, we must attract high-quality investments that create jobs and encourage re-investments:

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The global economy is changing fast, and competition for foreign direct investment within Asean is intense, so we must create a super-conducive environment, particularly for the focus industries in our New Investment Policy – higher value electrical and electronic, medical devices, pharmaceuticals, digital economy, aerospace, and chemicals, as well as sectors such as electronic vehicle, data centres and food security.

We are also determined to move Malaysia up the value-chain in manufacturing and services, which is vital for us to transition to a more tech advanced economic model, with a higher complexity.

Fourth, Miti must ensure that Malaysia regain its glory as the investment destination of choice in South-East Asia.

Since December 2022, my team and I have been busy positioning Malaysia as stable, pro-business, pro-investments, and pro-trade. But we know these promises must be substantiated by real policy reforms, and the ease of doing business.

One-stop centre

These include the proposed creation of a one stop centre via the Miti e-Gov platform, reforming the halal certification process, creating a competitive industry and services ecosystem, ensuring a robust talent pipeline for key sectors, and appropriate skilling, reskilling and upskilling programmes for industries' human resource needs.

I have also repeatedly emphasised the need to set appropriate KPIs and monitor outcomes of key projects. For example, on foreign direct investment and domestic direct investment received, we must religiously track, among others, the number of jobs created, tax revenue generated, ESG compliance level and the corporate social responsibility contribution

to surrounding communities.

On improving the ease of doing business, we must identify and resolve the pain points track in the investors' journey, from the decision to invest, right up to the operationalisation of their facilities and beyond. I personally do not perceive a 24-month gestation period between decision-making and operationalisation as acceptable. We can and must do better if we want to keep attracting and retaining high quality investors!

The logic is simple: investments create economic activities, which create business for SMEs and jobs for our people. For example, the RM264.6bil that Malaysia attracted in approved investments for 2022 are expected to create 140,370 new job opportunities – those which pay a decent wage.

Highly capable team

With a highly capable team at Miti and its agencies, appropriate strategies and properly monitored execution, I am confident Malaysia can achieve so much more in nurturing industry, expanding trade and attracting investments.

Some of our early efforts are already bearing fruit, through confirmed commitments from major multinational corporations (MNCs) such as Tesla, Intel Corp, Amazon Web Services, Shopee's parent – Sea Ltd, the Yondr Group, INSEACT, Samsung Engineering, SKC, Lotte Fine Chemicals, Hyundai, Coway, Lotte Energy Materials and Posco Holdings in the last couple of months.

Gaining commitments from these major MNCs validates our belief in Malaysia's huge potential. For Miti, this is only the beginning, so watch this space!

Tengku Datuk Seri Zafrul Abdul Aziz is International Trade and Industry Minister. The views expressed here are the writer's own.