PROTECTIONISM VERSUS LIBERALISATION

PROTECTIONISM versus liberalisation.

They're as far from opposites as can be.

The debate between these two points of view has always been robust. That is because it is easier to see life as opposing states. Things are either black or white. Minds are open or closed. There is a state of order or chaos. And of course, the perennial favourite – capital markets can either be protected or liberalised.

The ideals of protectionism are the same forces applied by the gardener growing a bonsai plant. It's highly controlled, from the pot size to branch pruning, placement in relation to the sun and a myriad of other activities in the chase for perfection.

These analogies are easy, but not very accurate. The emphasis when looking at jungles tends to be that it is entirely lawless – this is not true at all. Jungles do have natural "rules" that they abide by – size, space, available sources of nutrition, climate and external factors such as the wind and migrating wildlife affect the overall shape and functioning of a thriving jungle. The point is, jungles do have limited but essential rules and aren't over-regulated.

Arguably, capital markets can serve their role better if they were large, thriving jungles as opposed to a neatly ordered garden of bonsai plants which are beautiful, probably valuable but ultimately, stunted.

Limiting the effects of protectionism just as it is done in a natural jungle helps drive the entire ecosystem forward. It creates a robust, competition-ready and forward-looking mentality – a valuable proposition for any economy in these modern, globally interconnected times.

Malaysia experienced rapid economic growth and capital market vibrancy in the 1990s as a result of careful liberalisation. In 1989, there were 307 companies listed on Bursa Malaysia.

Today there are over 900. While this looks good, is this enough to keep us ahead? It's tempting to only look within the Malaysian economy, but realistically, we are in competition for all business that flows through the Asean – an area that holds over 20 times our population and much more potential economic growth.

As we move towards becoming a developed market, a few things are expected of us. We would be expected to have an openness to international trade, a growing sophistication of investors and expanding access to opportunities across the board. Free and open trade builds confidence and investment along with it. The key is to do this judiciously, bearing in mind the pace of competition in the Asean and wider Asian and global markets.

This is difficult as recent financial crises and shocks and the global rise of populism has created a fear that manifests itself as a greater thirst for regulation, threatening to reverse the development and growth of liberalisation.

It’s not hard to agree with the imposition of prudent regulations to protect investors and ensure integrity and stability in the financial system and capital market. But if we consider the analogy of the “natural rules” in a thriving jungle, perhaps there needs to be much greater awareness of the total effects that regulations will lead to.

We can start by recognising that systemic risk will always remain and that a “fail-proof” financial system may not be the most efficient in delivering economic growth. Some risks arise from new sources or from unforeseen interactions between markets and agents, or side effects of new regulations. They are as hard to spot as black swans – the risks that are entirely unanticipated.

The magic lies in the ability to set rules that do not fight imaginary enemies, or worse, create enemies where there are none. Too often, when fear drives policy, the wider market can end up taking that as a cue that larger fundamental problems are hidden away.

We are all human, and it is human nature to read between the lines, to speculate and ultimately, invent our own realities.

This is the thought process behind Bursa Malaysia’s decade-long shift in regulatory approach – from prescriptive to principle-based rules, and moving away from managing the market with a pre-emptive mindset.

By inculcating greater self-regulation amongst our market participants, we’ve observed an increase in the quality of practices and conduct of our listed companies and intermediaries and a reduction of pre-emptive actions on our part. There was a significant reduction in the number of violations such as market offences, issues with disclosure obligations in financial reporting, a greater adoption of best practices and fewer unusual market activities (UMA) queries issued.

This facilitative approach promotes market development and helps cultivate a developed market mentality – where participants are responsible players and develop their own strengths, rather than rely on the crutches of protection. And just as it happens in a jungle, individuals within the system own the agility and ability to respond at the onset of a financial crisis to mitigate impact.

This is not a smooth process that moves forward in a straight line. It is good to remember, that even in the “free” system of a jungle, the ecosystem is continuously adjusting itself to thrive given the external conditions that may be blowing over it. Ultimately, it emerges stronger. Allowing this sometimes lumpy process to progress clearly requires a higher comfort level when dealing with risks.

It takes wisdom to design policy and to have it implemented in the right manner. The key point is that we must realise its purpose – to build a solid base from where liberalisations can play their key role in building a thriving economy – just as how the natural rules help a jungle thrive. At least then, none of us would be engaging in a bi-polar debate between two camps. There would be one path forward. And it would be called “smart”.

About Datuk Seri Tajuddin Atan

Datuk Seri Tajuddin Atan is the chief executive officer of Bursa Malaysia. A seasoned banker before taking on the exchange’s leadership role, he believes that innovation and creativity can tackle the fundamental changes facing nations, businesses and the capital markets of today.