

Notes for a speech on the opening of the new offices of the Johannesburg Stock Exchange

November 8, 2000

Minister of Finance, Trevor Manuel

Good evening, Russell Loubscher, executive president of the JSE, Geoff Rothschild, JSE chairman and the honourable mayor of Johannesburg Mr Mogase, and guests.

Thank you for asking me to be with you tonight on an occasion which surely must mean more than just an office move.

We know that this occasion commemorates the 113th anniversary of the JSE, making it, probably, the oldest financial institution in Africa.

By my count this must be at least its sixth office move since it was formed more than a century ago. Each move tells a story. In its first decade of operation, the JSE was so busy and grew so quickly it grew out of its office accommodation twice in less than a decade.

By the end of the last century the Mining Commission had closed off a section of Simmonds Street to traffic to conduct trading on the street. It was called, appropriately "between the chains", referring to the chains that cut off the horse-drawn traffic.

Through all its ensuing moves – as from its inception – the JSE played a central and critical role in raising capital for new ventures; it has been both a landmark and a symbol of this, our biggest city, Johannesburg. It became world renowned and has made Johannesburg a name that is mentioned in the same breath, although perhaps not in the same tone, as Tokyo, London, Toronto, or New York.

Although – and I've raised this with Russell Loubscher already – is this really Johannesburg? Are you the Sandton Stock Exchange now, having joined the flight to the suburbs. The SSE. There's more alliteration in the name but it just doesn't have the same historical ring to it, does it?

On a more serious note, we in government have learnt well that the only consistent thing we have to deal with is the constancy of change.

Today, there is no more street trading. No more "between the chains." No more nasty initiations of novice traders as some stockbrokers will recall – whose initiations were only possible in the loud, noisy, overwhelming open market place of the trading floor.

Some of you may remember that when a rookie trader came onto the floor for the first time he was often the victim of a massive set up that involved everyone from his firm down. His desk would pass on orders to him: "do 100,000 Anglos," they may say.

And he'd buy and buy and buy, and the prices would go higher and higher and higher on the board. Then he would come and report to the fellow at the desk who'd say, "Buy? Who told you to buy? I meant sell."

Then he'd have to go down and try to sell, but usually there were no takers.

But it was all a set-up, I'm told. The prices would be wiped off at the end of the trading day, the newcomer might have been reduced to tears, but he'd be back next day none the poorer. Whoever

said the markets were amorphous? Here was a case when structure, planning, foresight– and sheer collusion was their essence.

Can the traders still do this sort of thing today on their new computers? Well, perhaps its harder to make the collaboration you need watertight, and its also less satisfying to have someone weeping behind a lonely computer rather than on a busy trading floor. I didn't know you traders were like that.

But some things haven't changed.

There are people old enough here to remember the bustle of the trading floor, but there can't be anyone old enough to remember the real days of street trading, the days "between the chains". But we know, since Paul Kruger declared as public diggings the nine farms on the Witwatersrand, which then contained the richest goldfields in the world, that almost any company with the name "Underground" or "Diggings" in it could attract its share of hopeful investors on the JSE.

Today, the same principle seems to operate in the virtual world of cybertrading.

A recent article in the New Yorker, called "Day Trading made easy" suggests three basic rules for successful investment. The first, is the "name game". Allow me to quote: "Amazon. Com, America Online and Amgen have been three of the stock markets biggest success stories. What do these stocks have in common? They all begin with the letters "Am."

"Using history as my guide, " advises the writer, "I recommend the following stocks for every day trader's portfolio:

- Amalgamated Toxic Spilling
- American Lint Supply
- Amourouschimps. Com."

I'll tell you the two other rules of day trading later, but while we're on the subject of names, what could be better than the name challenge that our newest billionaire Mark Shuttleworth has thrown at the JSE. He wants to set up an alternate pan-African stock exchange with the name HBD, which stands for "Here be Dragons." Initials apparently written all over early maps covering uncharted territory. So what sounds better: JSE, HBD, SSE?

But this is the world we live in – a world of constant challenge and competition, of constant change. The last six years since the demise of the siege economy of apartheid, our country and our business are faced with new opportunities, new challenges, new threats on a daily basis.

We have many challenges still to meet but we sometimes need to remind ourselves that we haven't done to badly. The JSE ranks, now about 18th in the world in terms of market capitalization measured in dollars. Considering the mammoth strength of the dollar in recent years, that's a pretty respectable place to be.

The liquidity of the Exchange has increased from less than seven percent in 1995 to about 34% last year, a sign of more openness, of more trade, of more investment. We have much more participation of small investors, measured by the explosion in unit trust investments on the exchange. Russell Loubser estimates that five years ago there were only about 20 unit trust participating in the JSE; today there are well over 300.

And as a developing country particularly vulnerable to the tidal waves of capital flows that can begin in the markets of the developed countries, we've managed to ride those hostile seas pretty well.

True, in the wake of the south-east Asian crisis, the industrial index on our exchange plunged by 47%, a more dramatic drop than after the '87 crash. But then, on the other hand, it's a testimony to the relative stability of our economy that our average annual rate of return on the all-share index has been about 10,75% a year over the past five years. Compare that with other developing countries, such as Malaysia, where its been -2,6%, or the Nikkei where its -1,9% or indeed Thailand, which admittedly took the biggest bash, where its sitting at -23,47%!

Our peaks and valleys, by and large, in the past two years, have followed the peaks and valleys somewhere between the Dow and Nasdaq.

So the waves have rocked us, but not drowned us.

But in order that we can do what's right in our own country, and also so that we make the keel of our ship a little stronger, we urgently have to expand our economic base here. More people need more access to wealth and to capital. We need more investors, more owners, more job-creators.

We need to hasten change because otherwise our economy is unstable, our whole society is unstable. We need only to think about the unspeakable cruelty we saw on television last night – the racism, the inhumanity, in short the worst of our society writ large – to remind ourselves how urgent change is.

We still have a long way to go before our society is a safe, happy and prosperous one.

Let's remember in our economy there is still a wall of exclusion that has to be breached. According to Business Times, only 11% of the directors in the JSE-listed companies are black.

And in the year ending in May, although the JSE's All-Share index had increased by 14%, the share price of all but two of the black-controlled firms decreased, according to Business Map.

But to change things, what do we need to do?

Businesses and financial institutions need to make active attempts to change their own management structures. The JSE is already playing a role in encouraging more black people to invest in the JSE, and offering bursaries to previously disadvantaged people.

As government we need to help make the environment for growth and development, and the more equitable spread of wealth, as attractive as possible.

This is why I'd like to announce here tonight that Cabinet has approved in principle a proposal that we position South Africa as the international financial centre for the whole sub-Saharan region.

Already the JSE accounts for more than 90% of the continent's total market capitalization, and we know that there are fewer than 20 stock exchanges in Africa.

So our government believes that the promotion and support of financial services in South Africa should form a key part of the Government's overall growth strategy

We believe that South Africa is in a position to compete with London to intermediate the financial flows that will increasingly drive African economic development.

Government is thus four-square behind a push to make South Africa the leading bond market for the region, and the world's leading market in South African and African equities, as well as pushing for the country to become an international banking centre.

We also believe that, between us, we can develop South Africa as a generator and home of world-class financial skills and a world-class telecommunications industry.

We intend to investigate tax changes that may be necessary to develop our country as an offshore financial centre for the registration of holding companies, and will recommend that the Financial Markets Advisory Board investigate the best possible regulatory frameworks for our financial services sector.

We have a lot going for us. We can, together, turn our economy into one that drives our country into a period of prosperity. The JSE plays a crucial role in this respect. It can harness investment, it can promote the savings culture that we so badly need here, it can attract foreign capital from around the world.

We believe we must grasp change and compete in the global markets that have opened up to us. We are a little old-fashioned about some things, though – for instance, we believe that companies should at least produce some value, unlike Andy Borowitz the New Yorker writer whose second rule of day-trading is: never own stock long enough to know what the company does.

She admits its *someone's* job to know what the business is about – but “*it's the CEO's not the day-trader's*”

Her third rule involves a dartboard and a computer mouse, which I won't go into lest I be thought to be encouraging speculative capital flows.

In every economic era we will get emptiness posing behind a name – whether it's an “Underground mining rights” company of the last century or a dot.com company in this one.

But our job – our joint task – is to look for the value and to nurture it, through investments, through trust, through providing a friendly economic environment.

On behalf of the Treasury and the Government, I wish you all the best in your new offices, and in your future growth in our country. But don't change your name, even to compete with dragons.

I thank you.