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Deeper knowledge of modern financial markets needed

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A FEW days ago, when the country's share and money markets were under severe attack, talk of immanence pending recession were widespread and found many willing listeners.

This is often the case with defeatist psychology. It easily found believers and if said often enough can become self-fulfilling.

But a reputable city stockbroker - one who is often described as sharp but conservative - scoffed at the suggestion that the economy may spin into a recession as a result of the ringgit and the stock market decline.

Noting that the economic fundamentals are sufficiently strong to enable the country to retain the growth forecast of 8 per cent, the broker said the problem was not with the economy but with the attack on the share and money markets, and the manner it was handled.

But following Thursday evening's announcement that the Government was allowing the Kuala Lumpur Stock Exchange to lift the designation of the 100 index-linked counters, both the stock market and the ringgit shot up on the following day.

The KLSE Composite index closed 90.47 points up on Friday at 821.59 after hitting the low of 675.15 on Thursday and the ringgit recovered to 2.9425/75 against the US dollar after its historic low on Thursday.

Announcing the lifting of the week-old curb, Prime Minister Datuk Seri Dr Mahathir Mohamad said the objective of curbing short-selling had been achieved.

The Prime Minister's announcement was further reinforced by his deputy, Datuk Seri Anwar Ibrahim, who told the press at the same news conference that the Economic Adviser to the Government, Tun Daim Zainuddin, would be meeting foreign fund managers.

Since then, both Dr Mahathir and Daim have met foreign fund managers and were encouraged by the outcome. Before the Thursday announcement, many apprehensive investors and observers had warned that any attempt at defending the ringgit and the stock market should not be at the expense of the strong economic fundamentals and the long-term interest of the share and money markets. On their part, the foreign fund managers were encouraged by the lifting of trading curbs and the news that the Government will either delay, scale down or shelve the implementation of major projects.

Apart from recognising the importance of economic fundamentals, which include sound fiscal, monetary and policy measures, there is the continuing need to strengthen the foundation of the country's open economy.

Our economy has always been an open one. The golden days of the Malay Empire that preceded the colonial era were founded on trade. This was later strengthened by the production and export of industrial raw materials.

In the second decade of independence, large-scale manufacturing was added, initially to replace imports of manufactured goods, using largely imported technology and capital.

Today, the Malaysian economy is on the threshold of achieving industrial status and more Malaysians are directly involved in the sector as investors and managers.

It is inevitable that as the depth and width of the economy grows, the services and financial sectors will grow even more rapidly than the

manufacturing components.

For this we need, not only a framework to encourage the wider use of local financial markets but also to enable the creation of a wider range of financial products with appropriate build-in guarantees to ensure that they are not easily misused, abused and manipulated.

Instead of frightening us into adopting measures that can jeopardise our growing reputation as an open and stable economy, the speculative attack on the stock market and the ringgit should provoke us into deepening our knowledge of the mechanics and workings of modern financial markets.

Only in this manner can we expect to have sufficient safeguards against the occurrence of such an attack and to be able to detect such a trend before it turns into a "bloodbath" of the type we saw in the last few weeks.

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