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Unorthodox moves pay dividends

WHETHER the Government's move to designate the Kuala Lumpur Stock Exchange's (KLSE) 100 blue-chip stocks was really effective in driving off the spectre of manipulators is arguable. But whichever way the verdict on Malaysia's wisdom in dealing with its currency and stock market crisis goes, the Government's measures certainly captured global attention.

The measures included making it illegal to short sell and to lend scrip. The Government also declared an economic war against market manipulators, ordered local funds to flex their muscles in the local bourse, offered to buy shares at a premium from troubled players, and named the culprits behind the regional currency and share market ills. Compared to measures taken by other governments in the region that were facing similar currency and share market turmoil, Malaysia's move was unorthodox and tough - even gung-ho - and it challenged conventional thinking. It was certainly not liked by many foreign fund managers, partly because the rules of the game had changed and they were not changed by them.

Understandably, when the Government announced it was lifting the ruling to designate the 100 stocks, commentators jumped on the bandwagon to ridicule the authorities. They said Malaysia was "backtracking" and "reversing" a decision that was not too clever in the first place. Some blamed the drop in the KLCI to the ruling. They argued, that foreign investors had lost confidence and were staying away from the Kuala Lumpur bourse. Fund managers said that they did not appreciate the rules being changed in this manner.

But people - players especially - forgot very quickly that the KLCI was on a downward spiral and the trend just before the KLSE announcement on August 27 showed that the KLCI was going to continue falling. The currency, affected by, or affecting, the bearish sentiments on the local bourse, was also fading. It could have been called a "steady" decline or a slow, painful death. In a briefing for editors on the measures being taken by the Government last week, Prime Minister Datuk Seri Dr Mahathir Mohamad said the Government expected the designated securities ruling to "expedite" the fall in the KLCI. The ban on short selling meant players would have to deliver before sale while the call for local funds to buy meant that there would be enough support to ensure that the supply of shares was controlled. This would also expedite the departure of the manipulators and allow the KLCI to find its bottom. If not for the ruling, the index would only have fallen to this week's level in a month or so.

Indeed, as expected, the KLCI saw drastic drops in trading during last week and saw the index rising on the back of support from local institutional players. At the end of yesterday's trading - a full eight hours after the KLCI stocks were no longer classified as designated stocks - the KLCI gained 90.47 points to close at 821.59. This was higher than the close on August 27, the day before the KLSE ruling took effect. It was also probably the single largest gain in terms of percentage and helped pull up all markets in the region.

As expected, foreign analysts and reports started blaming the new ruling for the even more bearish sentiments on the KLSE. They accused Malaysia of being panicky, shortsighted and stupid. But the fact remains that the market is now a lot more bullish than it was a week ago. And there has been no other good news to attribute the sudden bullishness to, except the announcement about the KLSE going back to status quo. The foreign analysts

and funds are not likely to give any credit for this to the authorities, not do we crave any. At the end of the day, the track record of this country will speak for itself. Malaysia did not achieve a decade of uninterrupted high growth by having shortsighted policymakers. It did not succeed in being an industrialised nation, eliminating poverty, and promoting harmony by being panicky. It did not survive in the face of vicious attacks on its currency and stock market by being stupid.

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