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Countries have every right to defend economies

Mustapha Kamil

HONG Kong nailed market speculators to the wall for some days last week but in the process had to eat its own words that markets should remain absolutely free of government intervention.

The Hong Kong Government last week intervened in the stock market several times to fence out speculators who tried to make a killing on the securities market after failing to rattle the Hong Kong dollar.

By buying up shares, the Hong Kong authorities forced short-sellers to cover their positions by likewise making purchases in the market, ultimately pushing the Hang Seng Index up again.

The presence of market speculators is old news in Malaysia. Instead, the raised eyebrows were in response to the Hong Kong Government's intervention itself.

Hong Kong? Wasn't that the market which dismissed assertions by Prime Minister Datuk Seri Dr Mahathir Mohamad a year ago of dangers posed by marauding market speculators, saying instead that the economic and currency problems of most Asian economies were self-inflicted?

Indeed, Hong Kong has always prided itself as a haven for believers in total market freedom. A place where every opportunity from simple buying and selling of securities to the most complex of derivatives that almost completely squares off commercial risks are transacted, and where government intervention is taboo.

But not anymore, as it seems Hong Kong is beginning to notice the cold fact that the freedom it advocated and its shunning of intervention have not been reciprocated by an equal level of gentlemenly conduct by certain players. Hong Kong must have felt betrayed.

However, since the Hong Kong authorities' action did lift the market, some have wondered whether Malaysia should consider the option as well.

But before one gets too excited over the seemingly effective intervention by Hong Kong authorities, perhaps the whole jigsaw puzzle making up the entire international financial and securities market must first be understood, especially taking into account the very volatile state the domestic market is in now.

It must be borne in mind that the Hong Kong Government intervened in the stock market not to lift share prices, but primarily to shake out short-sellers.

The phenomenon on the Kuala Lumpur Stock Exchange (KLSE) was similar to Hong Kong's. When the Government announced it was looking into the possibility of intervening, the Kuala Lumpur Composite Index rose sharply, although whether actual intervention took place is uncertain.

However, as many had expected, the Kuala Lumpur stock market declined as fast as it rose, indicating that the buying interest generated since last Wednesday was artificial and only for the short-term.

That even with the dramatic surge the market is still very fragile should compel the Government to think carefully about entering the market, with the sole purpose of boosting share prices.

The volatile movements on the KLSE indicate that speculative short-sellers are still very much present and are pumping in money now will not guarantee that Malaysian stocks will hold on to their fair market values, given the financial strength some of the speculators have.

However, if the Government should intervene solely for the purpose of preventing equities in domestic corporations from falling into foreign

hands, the time could not be more appropriate than now.

Share prices are low, making them relatively cheap for the Government to acquire, although the sole rationale for intervention must be to ensure that the equities remain in Malaysian hands.

While government intervention alone will not guarantee that ownership of equities will remain at home, the authorities can introduce rules to ensure that they do.

There is concern is that currently cheap stocks could attract a deluge of foreign parties which may end up controlling many Malaysian corporations. This in turn leads to the danger of asset-stripping - with the new owners selling their new acquisitions' assets and closing the companies down.

Asset-stripping was common during the leveraged takeover boom in the mid-1980s in America and the result was devastating for the US economy and its employment situation.

The Government's efforts to prevent this from happening should be supported, even though the measures may seem drastic in the eyes of foreigners. Such moves by the Malaysian authorities will be viewed by some foreign parties as being "anti-market forces".

Whatever reasons voiced by analysts, governments have every right to defend their countries' economies, especially from attacks by speculators who themselves do not conform to market norms.

Analysts questioning government intervention in markets should direct their objections at speculative activities, not the efforts of those who want nothing more than to preserve their markets and economies.

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