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NEAC studying ways to modify controls

Long Hui Ching

KUALA LUMPUR, Wed. - A working group within the National Economic Action Council is studying ways to modify the controls placed on the outflow of short-term capital, Special Functions Minister Tun Daim Zainuddin said today.

Daim, who is also NEAC executive director, said the working group was evaluating proposals by foreign fund managers for Malaysia to either impose an exit tax on the withdrawal of foreign portfolio investments or have a system of most-favoured investors.

On Sept 1, the Government imposed the condition that foreign portfolio investments must remain in the country for one year until Sept 1 next year or later. This does not affect interests and dividends.

The ringgit was also pegged at RM3.80 to US\$1 from Oct 1 and made non-tradeable outside Malaysia to insulate the country from wildly fluctuating exchange rates.

Since Malaysia introduced a series of measures to contain the economic crisis, many economists, investors and politicians have expressed concern that the long-term effects on Malaysia may not be good.

"From a Composite Index of 260 points, we have gone up to 550 points. How could you even suggest we are really badly hit?" Daim asked when responding to questions posed to him by this newspaper. He was asked whether Malaysia was badly hit by the controls imposed.

Daim said foreign fund managers who left in a hurry lost a great opportunity to make money when the Kuala Lumpur Stock Exchange Composite Index moved from 260 points to 550 points. The CI today ended at 551.11 points.

"They want to invest but their trust instructions do not allow them to unless they can buy and sell without restrictions," he said referring to the constraints imposed on fund managers by their respective trust deeds or prospectuses.

"We are not interested in hot money. We want long-term investors. Those who want to invest must be prepared to stay for one year. But, because they want to invest, they came to see us and put up these proposals.

"We are considering (them). If it benefits the country, and we accept the proposals, we will implement as soon as possible."

He said the Government wanted to prevent the repeat of a scenario where a sudden pullout of foreign funds caused the CI to drop from about 1,200 points to 260 points. He estimated about RM600 billion was wiped out in market capitalisation.

Chile, which has an entry tax, was named as an example of a country with similar controls on the flow of funds.

Meanwhile, in an interview with the International Herald Tribune published today, Daim said Malaysia was studying two options for replacing the one-year moratorium on the repatriation of foreign capital invested in shares.

In the interview, he said the Government was considering an exit tax on the withdrawal of foreign portfolio investments.

It is also studying a system of "most-favoured investors" which would allow investors judged to have a long-term interest in the country more freedom to move money in and out.

"These are the options we are looking at," Daim said. "We hope to implement one of them as soon as possible. We want to move very quickly

and settle this once and for all."

Bank Negara was expected this week to announce new guidelines on the repatriation of foreign capital invested in the stock market.

Reuters reported that foreign investors had criticised the one-year rule, saying it was a major impediment to capital inflows.

Prime Minister Datuk Seri Dr Mahathir Mohamad recently told foreign fund managers that the Government would consider modifying the one-year rule.

Investment bankers have been seeking ways to sidestep the one-year rule, and British construction group, Blue Circle Industries Plc, has been in the forefront of these efforts.

Investment bankers are reported to have proposed that portfolio funds seeking ways to circumvent the one-year ban swap their portfolios with foreign direct investments by Blue Circle at a price discount.

There are no controls on the flow of foreign direct investments.

Bank Negara later announced details of the swap arrangement approved for Blue Circle to partly finance its RM2.4 billion further investment in the cement industry.

* Bank Negara explains Blue Circle approval: P23

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