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No risk no gain

THE message is clear. No caprices, no nasty surprises and no vacillations. The country's economic policy-formulation and implementation will not be subject to sudden flights of fancy.

The assurances, which came forth from Prime Minister Datuk Seri Dr Mahathir Mohamad in a dialogue with major international foreign fund managers on Friday, are necessary to dispel their fear that the country's economic policy-making is without direction.

Doubtless, many of these managers would have been surprised by the openness of Dr Mahathir in providing the rationale behind the country's current policies and in responding to their queries. Such a dialogue is a good start in removing the misconceptions over the economic policies and in regaining the confidence of foreign institutional investors, whose participation in our capital market is deemed important.

Their concerns are legitimate. Not only they have to be accountable to their clients, they have a duty to ensure the portfolio they managed are invested in a sound and safe manner. This is perfectly understood by the Government. Which is why Dr Mahathir used the occasion to explain that the measures, particularly the exchange rate controls, are aimed at curbing speculative activities.

One of the most erroneous assumptions about the country's selective capital control measures is that they will be perpetuated and worse, prevent efforts to address any structural weaknesses within the financial system. Looking at it from portfolio fund managers' viewpoint, it is reasonable that they would want assurance that the one-year holding rule on foreign ownership of shares and capital is temporary.

But Dr Mahathir never tires of reiterating that they are meant as short-term measures and would be removed once the Government is convinced that normalcy is returning to the marketplace. The measures are meant to provide breathing space for the needful reforms and the Government has never intended them to be the walls which enclose the country from the global economy.

It is worthwhile to consider the fact that the Government is considering to modify the currency exchange rate and capital control regulations, including the introduction of an exit tax on early repatriation of funds from the Kuala Lumpur Stock Exchange. Such a tax rate is high if the money remains in the country only briefly (which will not apply to most foreign portfolio investors since many are interested in a medium to long-term positioning). This would assist the Government's aim in wanting the KLSE to reflect fundamental values and not gyrate wildly.

It is quite plausible that the time for their removal may be sooner than later as there are signs that on-going efforts to improve certain areas such as the financial sector are yielding the desired results - evidence of the expected progress will surface in months to come. This is no figment of the imagination since Danaharta and Danamodal have been in action to aid the recovery of the banks. Where recapitalisation of the sector is concerned, the country has made far better progress than Thailand and Indonesia. As it is, there are brokerage houses in the region which opine that the worst is over for Malaysia's banking sector. These are farsighted managers who are urging their clients to enter the market while share prices are still cheap and therefore, make excellent buying opportunities for medium to long-term investment. It is a case of no risk,

no gain.

The benefits of the dialogue may not be immediately seen although the Composite Index closed higher on Friday. Nonetheless, it is a sign of renewed confidence that will lead to renewed inflow of foreign funds. The overwhelming success of Japanese government-guaranteed 66.6 billion euro-yen (US\$570 million) bonds issue for Malaysia is a harbinger of good things to come. There is more optimism that the upward trend will continue.

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