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Decision on exit tax in a few weeks, says PM (H)

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THE Government will decide "in a few weeks" whether to introduce an exit tax on repatriation of portfolio investments, Datuk Seri Dr Mahathir Mohamad said.

The Prime Minister said the Government will await a National Economic Action Council (NEAC) study on the proposed exit tax and how the Government should treat repatriation of capital brought in against the profit made.

"About 23 per cent of the present total capitalisation (of the Kuala Lumpur Stock Exchange) is held by foreign investors. At the 600-level the market capitalisation of the KLSE is RM300 billion. So 23 per cent of RM300 billion (about RM69 billion) is a lot of money," Dr Mahathir said. Speaking at a press conference at the Kuala Lumpur International Airport in Sepang on his return from the World Economic Forum in Davos, Switzerland, the Prime Minister said the amount of money foreigners now hold is more than what they had first invested.

On September 1 1998, the Government introduced selective currency controls which require, among other things, require foreign equity investors to lock in their investments in the country for a year. The KLSE Composite Index, which was below 300 points then, is now trading above 600.

During his meetings with foreign fund managers in Kuala Lumpur last week, Dr Mahathir had said the Government is studying the possibility of having an exit tax to replace the one-year moratorium.

"When we impose an exit tax, we will get some money when foreign investors take out their funds. If we wait for one year and they take out their money we get nothing," he said.

Dr Mahathir said although it is possible that a lot of money will be taken out come September 1 1999, he does not think it will happen. "A lot of them want to come in, not go out."

The Prime Minister was received at the airport by among others, Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi, Transport Minister Datuk Seri Dr Ling Liong Sik, and Deputy Science, Technology and Environment Minister Datuk Abu Bakar Daud.

Before leaving for Davos, Dr Mahathir had said one of the objectives of the trip will be to find out why Malaysia is being criticised for its measures to revive the economy, particularly the selective capital controls.

When asked about this, Dr Mahathir said: "The real reason is because they do not understand the currency controls in Malaysia. They think we do not allow at all any money to come in or go out of the country. I explained that there are no restrictions, except that the ringgit cannot leave."

He said while bankers, fund managers and investors may understand the measures taken by Malaysia, there is still a problem with the media and economic analysts who write in the media.

"They repeat the same thing. They do not recognise what we do. They forecast that it is destructive to the economy in the long run. But when we say that China has had restrictions for a long time and yet still enjoys robust growth, they have nothing to comment," Dr Mahathir added. He said there is now better understanding, appreciation and support for some control or regulation of currency trading. Those who are against it

claim that what is needed instead is more transparency in the countries involved.

"But again, when asked whether currency trading itself is transparent, they appear embarrassed," Dr Mahathir added.

Asked about a United Nations proposal for a panel to look at restructuring the international financial system, the Prime Minister said he doubts that those involved understand what to do.

"I was asked (at Davos) many times what can be done? I told them first, currency trading must be done in the open, where we know who is involved and how much money.

"Second, banks should not give such high leverage of 20 times that they have been giving to these currency traders," Dr Mahathir added.

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