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Discard herd mentality, Daim tells local investors

LOCAL portfolio investors should discard the "herd mentality" and not follow the lead of their foreign counterparts, First Finance Minister Tun Daim Zainuddin said yesterday.

He said as Malaysians, they should act independently as they knew the country's economy better.

Daim said by adopting the herd mentality, local portfolio investors were making foreign investors their leaders.

He said this in a statement issued to the Press yesterday following a meeting with editors from Saudi Arabia and Africa at his office on Tuesday.

Citing an example, Daim said by following the lead of foreign investors, Malaysians had contributed to the exodus of funds during the onset of the economic crisis about two years ago.

By adopting a herd mentality, local investors had contributed to the panic and loss of confidence that had ensued when foreign investors pulled out their funds.

This was also the case as far as the currency market was concerned as there were Malaysians who transferred their ringgit overseas during the economic crisis.

Citing an example, Daim said up to RM32 billion was moved to Singapore at the height of the economic crisis.

He said the amount of ringgit in circulation in Malaysia then was only RM20 billion.

He told the visiting editors that with the implementation of selective exchange controls on Sept 1 last year, all ringgit savings overseas had been brought back. (Under the controls, the ringgit is no longer legal tender overseas.)

Daim said the selective exchange controls also meant that Malaysians could not invest overseas unless they borrowed in foreign currencies. This, he said, had dampened Malaysian investments in African countries to a certain extent.

Daim also briefed the editors on the consequences countries had to face if they were to turn to the International Monetary Fund for assistance.

Replying to a question from a Ghanaian journalist, Daim said since the IMF stepped in, the Ghanaian currency had seen wide fluctuations with high interest rates and spiralling inflation.

"How can investors in these countries do business? The moment you give in to the IMF, you cannot get out," he said.

Daim said even the IMF was now suggesting that currency controls might be the right solution for small economies.

Asked whether the crisis would affect Malaysia's commitment to South-South Co-operation, Daim said for the time being, this would have to take a pause as Malaysia had to put its economy in order.

The editors who attended the meeting were from South Africa, Mozambique, Ghana, Tanzania, Zimbabwe, Republic of Guinea, Namibia, Kenya and Saudi Arabia.

The group also met Prime Minister Datuk Seri Dr Mahathir Mohamad on Tuesday.

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