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Fund managers' trip to Malaysia reflects confidence

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THEY came... and they saw. They were conquered. A group of 28 foreign fund managers were in Kuala Lumpur this week for a "reverse roadshow", organised by the financial advisor to the Government Salomon Smith Barney. A tight schedule was arranged for the two-day visit, aimed at rebuilding the confidence of the investors through first hand assessment of the economic situation in Malaysia.

They met with Prime Minister Datuk Seri Dr Mahathir Mohamad, First Finance Minister and Special Functions Minister Tun Daim Zainuddin, the chief executive officers of Danamodal Nasional Bhd and Pengurusan Danaharta Nasional Bhd, Corporate Debt Restructuring Committee chairman Datuk C. Rajandram, and Bank Negara deputy governor Datuk Dr Zeti Akhtar Aziz.

They also met with corporate leaders of several heavyweight companies on the Kuala Lumpur Stock Exchange (KLSE), including Telekom Malaysia, Tenaga Nasional, Petronas, and YTL Corp Bhd.

The group itself comprised heavyweight investors from Asia and Europe including Prudential Investment Management, Loomis, AIG London, Black Rock Financial, TCW, Guinness Flight Hambro Asset Management, Columbus Advisors and Fineco.

The fact that these managers took the time to come here reflects their interest, no matter what has been reported about their lack of confidence. Those who attended the meetings were medium to long-term investors interested to invest in companies with the ability to generate sustainable cash flows.

Indeed, some of the fund managers told the press that they felt Malaysia's investment climate right now is positive.

During the meetings with the Government they were briefed on Malaysia's selective capital controls and other measures undertaken to overcome the economic crisis.

The meeting with corporate leaders also gave the group valuable insight into how the private sector is responding to the financial turbulence. The talks have paid off. Salomon Smith Barney officials said the fund managers now have better understanding of the economy, and are beginning to see the wisdom of Malaysia's capital control measures.

The controls themselves have shown positive results, judging from the trade surplus and the increase in Malaysia's foreign reserves. Exports in US dollar terms have also increased.

Domestic demand is increasing based on property and car sales, while share prices on the KLSE are trading above the 600-level from a low of 262 in September last year.

More and more people are recognising the merits of Malaysia's currency exchange rate controls. They see the benefits to the economy and now realise that these measures are never aimed at genuine business and investors.

The same message was conveyed to the first group of international fund managers brought in by Salomon Smith Barney in December last year.

That 13-member group comprised fund managers from Singapore and Hong Kong representing Morgan Grenfell, Rothchilds, HSBC Asset Management, Invesco Asia Ltd, Aberdeen, UOB-OSK Asset Management, Mercury, Schroder, Henderson and Allianz.

In this week's meeting, Dr Mahathir addressed the fund managers'

concerns about the present one-year waiting period for portfolio investments and indicated that Malaysia is considering the introduction of an exit tax for early repatriation of capital.

The holding period was introduced on September 1 1998 as part of a series of controls to insulate the country and the ringgit from speculation, and to minimise effects of the economic crisis.

It was reported that a working group within the National Economic Action Council (NEAC) is studying ways to modify the controls. It is evaluating proposals by foreign fund managers for Malaysia to either impose an exit tax or have a system of most-favoured investors.

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

The Government has consistently maintained that the control measures were short-term and that they will be lifted once Malaysia is convinced that normalcy is returning to the marketplace.

The Government's readiness now to consider an exit tax only reaffirms the fact that Malaysia has never abandoned its pro-business stance.

Malaysia wants long-term investors, not hot money. The Government does not want a repeat scenario where a sudden pullout of foreign funds caused the KLSE Composite Index to drop from about 1,200 points to 260 points. Excessive speculation in the KLSE and unethical practices must be curbed. The local bourse should be one that reflects the fundamentals of the companies listed, not one which is wildly gyrating.

So a word of caution to investors interested only to make a quick buck out of developing markets: Malaysia is not about to bow to their whims. It has shown that it is willing to protect, at all cost, its own economy and the genuine businesses and investors who help build that economy.

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