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No bang, just a soft sigh

YESTERDAY, the end of the one-year moratorium on the repatriation of proceeds from the sale of securities investments by foreigners, went by as a non-event. The outflow of funds eagerly awaited by those who hated the guts of this small nation turned out to be no more than a trickle; an anti-climax, a tight slap in the face of those who had declared that Malaysia's moratorium would backfire when it was lifted. The amount of funds taken out yesterday was US$328 million (US$1 = RM3.80), not US$3 billion or US$4 billion as anticipated. It is a sign that foreign investors understood that the measure was necessary to safeguard the domestic markets from the external threats that had caused so much destruction to the socio-economic structures of several countries in the region since the crisis began in July 1997.

Now that Malaysia has proven its point, should it lift the controls altogether? That would be tempting but also be akin to fixing something that is not broken. Malaysia introduced the controls to weather the regional economic and financial crisis and today, these measures have resulted in the economy's quick return to growth. Prime Minister Datuk Seri Dr Mahathir Mohamad said yesterday that he was in favour of maintaining the present exit levy structure, at least. The exit levy was imposed on February 15 to facilitate the repatriation of profits or capital gains from investments after the imposition of exchange rate controls on September 1 last year. It is adequate since foreigners are making money from capital gains which are not taxed, he argued.

There are other reasons why Malaysia should not give up the controls yet. Although there is little doubt that the domestic economy could achieve its pre-crisis growth levels by doing what it has been doing the last one year, the world is still not a safe place for small economies like Malaysia. Before the controls can be done away with, the international community must undertake to fix the one thing that is broken, and that is the existing international monetary system. It needs to establish the proposed new financial architecture that will make it safer for countries like Malaysia to come out and play. International debates on the subject are on-going but by the look of things, it may take a while before something actually happens. As long as the Group of Seven industrialised countries drag their feet over the issue, the threat of a similar financial crisis happening again to Asia and other regions remains very real.

Domestic situations too may influence the timing for the removal of the control measures. One cannot expect Malaysia to remove them until it has put its house in order. As it is, Malaysia has just begun to strengthen its domestic banking system by rationalising an industry, which has proven to be overcrowded, into one with fewer but financially stronger players. It is conducting extensive repair work on the loan portfolios of the banks to ensure that they are not overly burdened by non-performing loans that rose sharply during the crisis period. In the corporate sector, the country is also undertaking efforts to allow companies room to strengthen their bottomlines. And those with debt defaults could approach the Corporate Debt Restructuring Committee for assistence in reconstruction plans in order to avoid the unneccessary liquidation of companies which would result in the loss of employment.

In any case, the controls are intended only to keep out speculative funds from the domestic market. In one year, the Government has managed to bring back a remarkable degree of stability into Malaysia's economic and financial system. It says a lot about how much Malaysia values the real investors who come to participate in the country's growth. So those with genuine investments are welcome - as they have always been - to invest in the country and make their profits. And they would, too, because Malaysia's selective capital measures have served to protect their interests as much as Malaysia's own.

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