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A capital exit tax being studied: PM (HL)

Kamarul Yunus

MALAYSIA is considering the introduction of an exit tax for the early repatriation of capital as part of adjustments to the selective capital control measures introduced last September, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

The easing of the controls is aimed at addressing the possible outflow of capital upon the expiry of the 12-month moratorium on funds repatriation as well as to attract more foreign investors, he told a team of 28 foreign fund managers in town yesterday for a "reverse roadshow".

"(These adjustments) will be announced in due course," the Prime Minister was quoted as saying by the National Economic Action Council (NEAC) in a statement on the meeting.

The Prime Minister was responding to concerns that foreign investors may withdraw capital come September, a year after the introduction of the controls, among which foreign investors are required to retain their profits in the country for at least 12 months.

Dr Mahathir reiterated that the Government is not against foreign direct investment.

"We are not going to cut ourselves (off from the global economy)," he said, noting that over the years foreign investors had played a major role in the country's development.

"The economic problems were due to currency trading and stock market manipulation. We have dealt with that and the rest remains unchanged," he assured the fund managers with regards to the Government's economic policies.

In fact, the measures have produced positive results, judging from the trade surplus and remarkable increase in foreign reserves. Exports in US dollar terms have increased lately as well, he said.

The closure of Singapore's Central Limit Order Book (CLOB) over-the-counter market, as a consequence of the measures, have also been positive on the Kuala Lumpur Stock Exchange (KLSE), Dr Mahathir said.

"The KLSE (Composite Index) is now trading at more than 600 points, after falling to as low as 262 on September 1 1998," he added.

As for the re-trading of the CLOB shares on the KLSE, Dr Mahathir said the Government will work out a solution.

"However, the solution should not damage us. In order to be fair to them, we cannot be unfair to us... we are studying the matter carefully."

The fund managers' visit was arranged by Salomon Smith Barney, the Government's financial adviser, during which they also met First Finance Minister and Special Functions Minister Tun Daim Zainuddin, Danamodal Nasional Bhd chief executive officer Mohamad Daud Dol Moin, Pengurusan Danaharta Nasional Bhd chief executive officer Azman Yahya, Corporate Debt Restructuring Committee chairman Datuk C. Rajendram, and Bank Negara Malaysia deputy governor Datuk Dr Zeti Akhtar Aziz.

It was aimed at providing them with first hand insight on the Malaysian economy and how the Government is engineering a recovery from the crisis which has ravaged East and South-East Asia since July 1997.

A report prepared by Salomon Smith Barney for the fund managers noted that the country's economy is on the mend, with the gross domestic product (GDP) for the third quarter of 1998 growing by 2.3 per cent from the previous three months.

Stability has been restored in the currency, stock market and the

financial system, contributing to discernible revival in consumer and investor sentiment.

For example, in the four months following the introduction of the capital controls, foreign exchange reserves grew by US\$6 billion to US\$27 billion as at end December 1998.

In addition, passenger car sales surged to 16,427 units in November, from a low of 5,724 units last February. The number of employees retrenched also declined to 5,137 workers in December, from a peak of 12,335 employees in July, the report said.

Exports in US dollar terms declined by 8.4 per cent in the first 11 months of last year but year-on-year they started growing in October. Over the same period, imports declined by 27.1 per cent, resulting in a trade surplus of US\$13.1 billion.

Daim, who is also the NEAC's executive director, meanwhile, briefed the fund managers on the role and functions of the council. He took the opportunity to express concern on the latest developments in Brazil, as well as the possibility of a yuan devaluation.