

27/01/1999

Proposed exit tax `likely to be investor-friendly'

Long Hui Ching; A. Devaraj

THE widely-speculated exit tax on repatriated investments is likely to be at an "investor-friendly" rate, said YTL Corporation Bhd managing director Tan Sri Francis Yeoh.

Describing the Government as "a pragmatic one that welcomes investors", he said it would not want to punish those unwittingly caught when the regulation was introduced on Sept 1 last year.

"I think the Government will come up with some formula that the market will like, that will have the net effect of the foreign investors wanting to put some money in Malaysia.

"(First Finance Minister) Tun Daim Zainuddin is the maestro in this and his track record shows that he is investor-friendly."

Malaysia introduced a series of controls to insulate the economy and the ringgit from speculative attacks on Sept 1 last year, such as a 12-month moratorium on the repatriation of the principal of portfolio investments, as well as a ringgit peg at RM3.80 to one US dollar.

Concerns were raised that on Sept 1 this year, there would be an exodus of funds from the country, and talks of an exit tax to replace the moratorium have surfaced.

Speaking to reporters after a meeting with 28 fund managers at the Ritz-Carlton Hotel in Kuala Lumpur yesterday, Yeoh said the recent Blue Circle Industries Plc deal was a litmus test of an exit tax.

British construction group Blue Circle wanted to buy 65 per cent in Kedah Cement Bhd and had proposed to pay for its investment by swapping US dollars for ringgit with foreign investors here.

Based on his understanding from discussions with "practitioners of the deal", Yeoh said Blue Circle offered to take up some RM1.2 billion from foreign investors who want to exit the country, at a rate of RM4.20 to one US dollar instead of the official RM3.80 rate.

This, he said, is akin to an exit tax of more than 10 per cent. However, only RM700 million was taken up, indicating that there is no exodus of funds from Malaysia.

Yeoh added that the 12-month moratorium would be redundant if the exit tax was implemented but was necessary at the time it was introduced as speculators were using the stock market to short the ringgit.

Bank Negara, clarifying the deal previously, had stated this was a one-off case where such a swap was allowed, as Blue Circle had been a long-term investor since 1953 and was making further investments. It stated the conversion rate was RM3.80 to the greenback.

YTL Corp was one of four corporations to meet with the fund managers brought in by Government adviser Salomon Smith Barney to enable them to get first-hand information on the situation and correctly assess Malaysia and its economic environment.

The other companies are Petronas, Telekom Malaysia Bhd and Tenaga Nasional Bhd.

The fund managers from Asia, the United States and Europe left for home yesterday. They met Prime Minister Datuk Seri Dr Mahathir Mohamad, Daim, who is also Special Functions Minister, and other government officials on Monday.

The fund managers were tight lipped when approached by reporters but one from Britain characterised the meeting with companies yesterday as informative and very interesting.

Yeoh said it was a positive sign that so many fund managers were here to meet with government officials and companies, as Malaysia had long been caricatured as a maverick.

This was inaccurate and Malaysia had always been an open economy, being one of the first to sign the World Trade Organisation accord.

Yeoh also expressed optimism in Malaysia's economic recovery based on the measures taken by the Government.

"The ringgit is not legal tender outside. Is this so bad? Singapore and Taiwan do not internationalise their currency, but Singapore looks like they are floating their currency.

"Why should we need to change our peg? It is market-led and is a competitive peg."

He also expressed his belief that if Malaysia continues to peg it at RM3.80, it would make the country very competitive vis-a-vis other Asian countries in three years.

"Today, I think you are going to find fund managers understanding the wisdom of this peg or exchange rate control."

He said the fund managers' reservations about Malaysia are 95 per cent due to perception, and these are eradicated once they visit the country.

Instead of the idea that Malaysia introduced the ringgit peg to close the economy to the outside world, the fund managers should now realise that it was just for the single purpose of isolating Malaysia from speculation in the ringgit.

He was confident that within one year, the fund managers will return to Malaysia like a "charging bull".

"Economic revival is continuing. The big picture is the construction and infrastructure sectors which must be boosted so it will have a trickle-down effect that will be dramatic."

Yeoh expressed his pleasant surprise there are already signs of recovery only four months after the controls were introduced.

In Kota Kinabalu, Bernama reports Minister of International Trade and Industry Datuk Seri Rafidah Aziz as saying that Malaysia's intention to study the possibility of introducing an exit tax indicated the country's determination to continue to create stability in the stock market.

"We are aware of some pressures by those who invest in the stock market for the Government to reconsider some form of flexibility which would enable foreign investors to repatriate capital at an earlier stage.

"I am confident that whatever form of flexibility we offer would portray our intention to create stability in the stock market, taking into consideration investors' interest, especially foreign ones," she said.

Rafidah was speaking after officiating Concept Marketing plant at Kota Kinabalu Industrial Park, Teluk Sepanggar.

(END)