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September 1 proving to be a non-event despite the sceptics

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AFTER all that fuss over the Sept 1 deadline, it came and went rather - pardon the cliché - uneventfully.

To the uninitiated, yesterday was the day that foreigners who had invested in the local stock market were allowed to take out their capital without having to pay any levy.

Before yesterday, under the selective capital controls introduced by the Government in September last year, foreign funds leaving the country were subject to a graduated levy.

After the introduction of the selective measures, which also included pegging the ringgit to the US dollar, Malaysia or specifically Prime Minister Datuk Seri Dr Mahathir Mohamad was ridiculed by many.

Many were predicting the worst for the country and in the case of the levy on the foreign portfolio capital, the sceptics used words such as "hysteria, panic or massive" selling to describe the situation on the Kuala Lumpur Stock Exchange on Sept 1.

Even the approach of D-day was described as "... the first anniversary of the announcement looms this Wednesday ...".

Yes, there was some foreign selling which is part of a programmed selling by the foreigners. But, it was a minimal US\$328 million (RM1.24 billion) which was far from the US\$5-US\$6 billion predicted earlier.

The 100-stock Kuala Lumpur Stock Exchange Composite Index ended the day lower by 14.15 points or two per cent to 752.91 yesterday, proving that there was no major sell-down.

Volume rose marginally to 340.20 million shares worth RM594.549 million from 213.23 million shares worth RM448.55 million on Monday. The KLSE was closed for the National Day holiday on Tuesday.

Dealers attributed the lower CI mainly to retail selling in the face of weaknesses in the US market rather than foreign fund liquidation.

The Dow Jones Industrial Average fell 84.85 points to 10,829.28 on Tuesday after the release of statistics raising fears of a return of US inflation.

Yesterday's withdrawal of US\$328 million is within Bank Negara's expectations of no great concern.

With foreign reserves at US\$32.3 billion or RM122.740 billion, it would not be a problem for Malaysia to cushion the outflow of funds. Our foreign reserves are enough to pay for seven months of retained imports.

The foreign reserves of a country, or specifically the amount of US dollars that a country has, is important when one considers that the currency is largely accepted as a world currency. It is used by everyone when paying off debts or for products and services internationally.

Even if there is further sell-down on the KLSE later in the week, (a big IF because everyone says all the selling had been done weeks ago) Malaysia will be able to weather it quite nicely.

The reason: too much good news to suppress the uplifting mood.

Apart from the the 4.1 per cent Gross Domestic Product growth registered for the second half of the year, we also received the latest glowing report on trade yesterday.

Malaysia reported its 21st consecutive monthly trade surplus of RM5.8 billion in July, thanks to a faster growth in exports versus imports. This was a 46.2 per cent increase from a surplus of RM3.9 billion in July last year.

Total exports for the seven-month period were at RM175.3 billion from RM161.4 billion in the same period last year while imports were valued at RM135.9 billion compared with RM135.1 billion previously.

Market observers said the figures reflected the country's improving economic fundamentals.

According to Bank Negara statistics from Feb 15 to Aug 18 this year, foreign funds made up 65 per cent of all proposed investments in the last seven months.

For the rest of the year, there is strong potential for higher foreign direct investments, especially in electronics, chemicals and petrochemicals - which are the country's major income earners.

Malaysia has always preferred long-term investors i.e. FDIs who spend money to build up their presence in plant facilities and land acquisition to short-term investors i.e. portfolio investors who take in and take out funds at random or at their whims and fancies.

Anyway, back to the Sept 1 story. When the controls including the repatriation ruling were announced last September, investors declared them unworkable, proclaiming that "the mad Prime Minister" was on the road to disaster.

It gives such great satisfaction when Malaysia has managed, once again, in its own unorthodox way, to prove the critics wrong.

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