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Tweaking FIC guidelines

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THE stimulus package unveiled on May 21 - the third in three years - has been crafted to reduce barriers to investments, both local and foreign, while stimulating the overall economy.

The RM7.3 billion loans and spending package carries eight measures, the most significant being the liberalisation of the Foreign Investment Committee (FIC) guidelines. The changes are aimed at providing 'greater flexibility on foreign equity participation'.

There is a significant change relating to acquisitions, mergers and takeovers. The plan announces the replacement of the Acquisition of Assets, Mergers and Takeovers (1974) with two new sets of FIC guidelines.

The FIC-tweaking also touches on the Bumiputera equity stake, a potentially contentious issue in local politics. One measure states that the only equity condition for acquisitions by Malaysian and foreign interests will be the Bumiputera equity of at least 30 per cent. In the case of foreign buyers, they can hold the remaining equity stake on their own or jointly with local partners. Another measure provides for skipping the Bumiputera stake requirement where exemptions have been granted by the Government. 'We will consider this where the country stands to benefit,' says Datuk Sri Iskandar Dzakurnain Badarudin, director general of the Economic Planning Unit (EPU) at the Prime Minister's department. 'One situation is where we will gain access to high-end technology.'

In a nation pretty open to foreign investors - simply look at the number of foreign controlled banks and insurers - the FIC adjustments will position Malaysia more favourably in its battle for foreign investment. 'Over the medium-term, the government appears committed to fine-tuning existing institutional policies to rectify any long-term structural impediments,' says Lee Heng Guie, head economist at CIMB Securities. He ranks FIC guidelines liberalisation pertaining to equity participation in local companies as a 'significant' change.

The flexibility is a tested formula, the insurance industry consolidation bearing witness to its success. The urge to merge then came from Bank Negara Malaysia. With the regulators themselves in the driver's seat, it went easy on the Bumiputera equity stake requirement. 'During our meetings with them (the central bank, to thrash out consolidation-related matters), they never made the Bumi-stake an issue,' says an insurance company chief executive.

The insurer believes that the move may encourage foreigners to give Malaysia a second look. Datuk Mustapa Mohamed, National Economic Action Council (NEAC) executive director, agrees. 'The relaxation of the FIC conditions will encourage domestic investments as well as the inflow of funds from abroad,' says the former second finance minister. 'Certainly, they will help create a more conducive and investor-friendly environment.'

To woo foreigners, the threshold level for acquisitions exempted from FIC's approval is raised to RM10 million from RM5 million. To cut red tape, FIC will no longer process acquisition proposals by licensed manufacturing companies. It will instead be handled by the Ministry of International Trade and Industry. And, to catch the bigger fish, another bait has been thrown in. The finance minister has been given the authority to use his discretion to exempt acquisitions exceeding RM100 million from FIC guidelines. Deadline for applications: end-May 2004.

These are some of the measures in the economic package titled 'New

Strategies: Towards Stimulating the Nation's Economic Growth' announced by Prime Minister Datuk Seri Dr Mahathir Mohamad. Also present at the announcement were his deputy, Datuk Seri Abdullah Ahmad Badawi and the second Finance Minister, Datuk Dr Jamaludin Jarjis. Delayed by the invasion of Iraq and almost derailed by the Severe Acute Respiratory Syndrome (SARS) outbreak, the package of 90 measures aims to 'stimulate the country's economic growth'.

As for the ringgit and sen involved, the government estimates a loss of revenue to the tune of RM800 million from the provision of incentives and tax exemptions. The package will require Federal spending of RM1.7 billion, a mere 0.5 per cent of the total gross domestic product (GDP). The amount is much smaller than the two previous stimulus packages. In March 2001, the government came out with a RM3 billion financial pre-emptive package aimed at countering the impact of the US economic slowdown. Six months later, following the terrorist attacks on the United States, an additional RM4.3 billion was made available.

This time around, the bigger chunk comes from the central bank and the development financial institutions (DFIs) loans. Bank Negara will provide RM2 billion while DFIs are expected to make available some RM3.6 billion.

The overall package, according to a report by local research portal - Surff88.com - does not signal a sharp increase in spending, which would then have negative budgetary implications. International rating agency Standard & Poor's has retained Malaysia's rating. The agency expects a general government deficit of about 5.5 per cent for this year's GDP. 'As a result, general government net debt is expected to increase to 37 per cent of GDP by year-end 2003, up from 36 per cent of 2002 GDP.'

A cursory inspection of the DFIs financial performance, however, shows that the government may end up spending more than the projected RM1.7 billion. Among the institutions involved in the recently announced package are Bank Pertanian Malaysia, Bank Simpanan Nasional, Bank Pembangunan dan Infrastruktur Malaysia, and Bank Industri. These are specialised government-controlled financial institutions established to develop and promote specific strategic sectors like agriculture, small and medium-sized enterprises (SMEs) and high-technology industries. They will be expected to play that very role in this package - dishing out micro credit loans.

According to the central bank's annual report, 'a substantial amount' of funding came from government borrowings. As at end-2002, it stood at RM8.9 billion or 17.8 per cent of total funding. Under the new stimulus package, the institutions will be forking out RM3.6 billion for various loan programmes. Of course, the package has already provided for re-capitalisation totaling RM500 million.

So, will the package work? According to the responses from some economists the package is a medium and long-term game plan. The answer probably lies in the successful implementation of the various measures.

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