

Malaysian investors brace for Sept 16
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Political stability has long been a plus factor underscoring much of the country's economic success through the decades, but even so, Malaysian investors - a hardened breed - are not saying 'No' to change if opposition icon Anwar Ibrahim does indeed manage the 'impossible' and forms a new government by his stated time-line of Sept 16.

Experts interviewed by Malaysiakini said despite being unused to dramatic changes in the local political scene, investors should nevertheless have little difficulty accepting Anwar as prime minister and his Pakatan Rakyat alliance as replacement for the ruling Barisan Nasional coalition.

cpps bar council roundtable 030407 tricia yeoh "Any change in government is bound to elicit some trepidation from the ground since the market will be dealing with uncertainties of how policies will be affected, I tend to take the view that most in the business sector would be pragmatic in aligning themselves with the powers that eventually be," Tricia Yeoh, director of Centre of Public Policy Studies.

"If the present administration maintains its current stand on economic policy, and if investors are not seeing the results of their capital now, they are not likely to see it in a year's time. If they are far-sighted, perhaps the lack of monetary fruition would provoke some desire for change - to end the already uncertain period sooner than later," she added.

Sept 16 or Malaysia Day is the anniversary day of the formation of Malaysia in 1963, when eastern states Sabah and Sarawak formally became a part of the country.

The day has now taken on an additional meaning, becoming the rallying cry for Anwar's newly-minted alliance, as it pushes on with its bid to overthrow the Barisan from a long-entrenched position in parliament. Not only has Sept 16 become the nation's top talking point, it is also the time-line most closely watched by investors.

"Anwar used to be deputy prime minister and finance minister as well," said Dr PHS Lim, president of Malaysian Investors' Association. "So investors here know him from those days. He was also very popular with international investors when he was finance minister. There shouldn't be recognition problems with them either."

anwar ibrahim enters parliament building as mp 280808 10Anwar, who re-joined Parliament only last week after spending most of the past 10 years in political deep-freeze, is confident he can meet the deadline.

"That he does have past experience in managing the country and the economy is a definite boost," said Vishnu Varathan, an economist at Forecast Singapore Pte Ltd.

"But at the end of the day, investors weigh country and political risks. So first of all, Anwar has to show his party has enough support in Parliament. That it can stand strong in Parliament, that there is no factional infighting. Investors would certainly be anxious to see if the new team can produce coherent policies to govern the country and manage the economy," Vishnu added.

Ending the stalemate

Anwar's Pakatan coalition currently holds 82 out of 222 parliamentary seats and they are banking on defections from the Barisan to reverse the majority. A Pakatan leader has said the alliance could now count on more than 40 Barisan members of parliament to change camp. That's 10 more than the minimum 30 needed to take control of the government. Prime Minister Abdullah Ahmad Badawi has however rubbished the claims.

Barring external shocks, analysts expect quiet trading, with the KLSE Composite Index wavering between plus/minus 5 points for most days as investors keep to the sidelines ahead of what could be the most dramatic sea change the country has ever witnessed.

"There is a possibility the stock market may drop for several days due to volatility initially, but this should eventually stabilise as the players adapt to the new environment," Yeoh said.

"Many have complained that the economy has slowed significantly anyway and that any uncertainty should be done with at present, doubts cleared, and should change take place let it take place - and the market will respond naturally. The main question about whether this trend will exacerbate or not is dependent on the responses taken by the existing administration to that sudden change," she added.

mahathir pak lah angry 190508Like the man-in-the-street, investors here have never known any government other than that led by the Barisan, which is controlled by Abdullah's Umno party. While Abdullah is known for his simplicity and softness, his predecessor Dr Mahathir Mohamad ruled with a fist of iron for 22 years. Despite their contrasting styles, both leaders relied heavily on pro-business policies and big government to pump-prime economic growth.

But while the resource-rich economy has thrived, coming in second only to Singapore in the region in terms of infrastructure development and economic wealth, analysts have long warned of a day of reckoning. For years, they pointed to rising bottle-necks in the form of rampant corruption and mounting socio-economic inefficiencies wrought by cronyism and racial favouritism.

"The economic slowdown during Abdullah's tenure can be attributed to continued wastage of federal money through endemic corruption, the inability to respond quickly to market trends and the global downturn, which is unavoidable. Further, it continued to embark on several mega projects such as the numerous economic corridors," Yeoh said.

Policy flip-flops made by both Abdullah and Mahathir are another sore point with investors, who especially remember the huge losses triggered when Mahathir suddenly banned overseas trading in Malaysian shares and the ringgit in a bid to stem capital flight during the Asian financial crisis.

"Investors like to see a more democratic Malaysia that is more stable and strong in the medium to long term. After 51 years of independence, it would be debilitating to follow the old ways that have slowed down growth and income distribution goals," said prominent economist Ramon Navaratnam.

May soften before rebounding

MIA's Dr Lim reckons that Malaysians have 'come of age' and as long as any change in government was peacefully carried out, investors would cheer the 'transformation'.

"Most Malaysian investors believe a change is better because honestly, when a government has been around so long, it becomes stale," Lim said. "It's just like Obama in the US. He is advocating fresh ideas and fresh policies. The caveat here is - the process must be peaceful."

"If, however, there are severe reactions to this change in government, resulting in physical violence, mass demonstrations from the current regime, or at worst the rule of emergency, then without a doubt the country's economy will suffer from investment flight out," Yeoh said.

Malaysian shares have lost about 25 percent in market value since the start of this year, hit by weak global markets, sky-high oil prices and domestic political uncertainty. At the close of trade on Friday, the KLSE Composite Index stood at 1,070.54 points, down 1.34 percent for the day. Some chartists have pegged strong support at the 900 points level.

The ringgit, at 3.284 against the US dollar on Jan 1, has also lost ground amid fears runaway inflation could further erode its value after the central bank resisted raising interest rates to counter record fuel and commodity prices. At 5 pm on Friday, the ringgit was trading at about 3.459 to the dollar, down by about 5.3 percent on the year.

Whether or not Anwar succeeds within his stated time-line, Lim warned against any euphoric reaction from stock investors, saying sharp gains may be temporary, given the increasing challenges in the global economy. Ultimately, Anwar would have to find ways to counter these and deliver, just like any other leader, he said.

Lim, who agreed with Yeoh that Malaysian markets might get worse before they could get better, also said it was premature to pick winners and losers.

"It's definitely easier to spot the losers at this point in time. Obviously, these will be firms that have close links to the current government - some oil-related and construction firms. For the winners, we have to wait and see what sort of economic direction Anwar plots if he does take over the government," Lim said.

Unhappy with Abdullah's budget

budget 2009 290808 04To counter Abdullah's budget for 2009 presented last week, the 61-year old Anwar has promised to unveil a brand new and even better budget once he comes into power. Among improvements that Anwar has assured are a faster pace of economic liberalisation, stronger role for the private sector, extensive investment in education and lower fuel prices.

"These are still promises on paper and the burden lies on his administration should they take over, to deliver on these promises. I would caution however that downward adjustment of fuel prices is not sustainable in the long run and some measured estimates are necessary if global oil price rises," Yeoh said.

Abdullah had announced a RM207.9 billion budget for 2009, the country's biggest spending plan ever, aimed at returning spending power to the people. It included a one-month bonus

for all civil servants, income tax cuts and a slew of reductions in import duties and sales tax for food and agro-based products.

While analysts praised Abdullah's efforts to help the poor and lower middle-income groups, they also see the plan as an inflationary spending spree, lacking in concrete drivers to stimulate private sector investment and demand.

"Longer-term solutions are necessary and we hope this is visible through Anwar should he take over - but this is premised on the assumption that key deliverables are accompanied by political will, and that we will see some quick results in the short term. The economy is stale presently. A major boost is required, that will mark significant reform in operational and distributional implementation," Yeoh said.

Analysts also pointed to the widening budget deficit which is set to hit 4.8 percent of GDP by the end of this year, compared with 3.2 percent last year. They were also unhappy with the government's ballooning operating expenditure, which has risen sharply since Abdullah took office in 2004, nearly doubling from RM80.5 billion then to RM154.2 billion in 2009.

"Whether the government has enough money, nobody really knows because there is a lack of transparency," said political and economics analyst Khoo Kay Peng.

"We have one of the biggest bureaucracies in the region, we are too labour-centric and this is why we have the image of not being efficient. Yes, in the past the public administration is used as a political tool, a vote bank. But we must take politics out of the equation. Anyway, it hasn't helped them (Abdullah and his Umno party) in the elections anymore," Khoo said.

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