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SLOWING DOWN GROWTH NOT SOLUTION TO BOP DEFICIT PROBLEM, SAYS PM

KUALA LUMPUR, Jan 11 (Bernama) -- Prime Minister Datuk Seri Dr. Mahathir Mohamad says slowing down growth and fiddling with interest rates and exchange rates are not the solutions to address the Balance of Payments (BOP) deficit problem affecting Malaysia.

"Fiddling with interest rates is a two-edged weapon," he said, adding the solution lies in increasing exports and reducing imports which means Malaysia should continue its high growth path.

As for exports of manufactured goods, "more of the components must be produced locally if export earnings are to be maximised, he said in his keynote address at the National Economic Forum on "Reducing the BOP Deficit" here today.

Organised by the Asian Strategy and Leadership Institute (ASLI), the forum is being attended by over 200 top government and business leaders providing a platform to exchange ideas as well as to conceptualise new strategies and prepare to meet future economic challenges.

Dr. Mahathir, who said the BOP deficit had gone up to RM18 billion, called on Malaysian manufacturers to manufacture in sufficient quantities and achieve economies of scale by looking not just at the domestic market but also the global market as well.

Dr. Mahathir also called on Malaysian manufacturers to manufacture in sufficient quantities and achieve economies of scale by looking not just at the domestic market but the global market as well.

Production for the export market must be maximised while only a fraction are to be produced for the local market, he said, adding "Malaysian-owned industries will then not deprive the government of tax revenue but will increase the nation's export earnings while reducing imports."

Apart from achieving economies of scale, manufacturing in large quantities in products like building materials, steel, plastics, motor vehicles, electrical appliances as well as those using local raw materials, would stimulate support industries, minimise imports and earn export earnings, he said.

"Malaysian companies operating abroad should help by sourcing their requirements as much as possible from Malaysia," said Dr. Mahathir.

Referring to the outflow of funds from Malaysians vacationing abroad and students studying abroad, he said domestic tourism must be highly developed while more educational institutions must be set up in Malaysia to counter these outflows.

The educational institutions should be designed to attract as many foreign students as possible so that Malaysia would earn foreign exchange while reducing the outflow caused by local students going abroad, he said.

On recommendations by experts to slow down the economy to overcome the BOP deficit, he said there was no constant relationship between the two, citing low growth in many European and North American countries were accompanied by high deficits in the BOP.

"But low growth in Japan does not result in a deficit in the balance of payments ... instead the big trade surpluses persist," Dr. Mahathir added.

Pointing to Malaysia's trade deficit with Japan which amounted to RM19.5 billion, which was more than Malaysia's total trade deficit, he said it was the deficit with Japan that was causing the negative imbalances in Malaysia's total trade.

"If the trade with Japan is corrected then there should be no deficit in Malaysia's trade," he said.

Elaborating on fiddling with interest rates, he said it would dampen investments and consumption and result in inflation.

"While total trade may decrease, and with it the import bill, but as a percentage of total trade, the import bill can still remain high and the deficit uncorrected.

"Exports will cost more and more and become uncompetitive. This will cause a reduction in export earnings without reducing the deficit.

The end result may be an intractable depression," said Dr. Mahathir.--
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