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Analysts welcome Malaysia-Japan trade task force

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OBSERVERS and analysts greeted favourably the move by both Malaysia and Japan to set up a task force to redress the imbalance in flows of goods and services between the two countries.

"It should be viewed as a good move," a foreign observer said, when contacted by Business Times yesterday.

"Malaysia-Japan relations have had their moments of tension, which include Japan's earlier opposition to the East Asia Economic Caucus (EAEC) idea and the issue of yen loans last year," he said.

"If it works, then it could very well help in averting future trade tensions," he said further.

The decision to set up the task force was reached by Japanese Prime Minister Ryutaro Hashimoto and Prime Minister Datuk Seri Dr Mahathir, during the former's visit to Malaysia on January 8-9.

International Trade and Industry Minister Datuk Seri Rafidah Aziz, who announced the decision on Tuesday, said that the first reports from the task force would be "out within this year".

Both ministries are expected to thrash out terms of reference for their working relationship before an inaugural meeting to be held "soon". Both ministries will work on ways to reduce a chronic deficit which has been in Japan's favour since 1987.

Breaking into the Japanese market has been notoriously hard because of "hidden" trade barriers Japan imposes on imports, analysts said.

These include rigid controls over quality and specifications set by Japanese ministries, which must be met before imports are permitted to be used or consumed.

"The task force could address these issues, which will help more Malaysian products make into the Japanese market," said an analyst.

Economists contacted by Business Times maintained some reservations to the merits of a task force. "It very much depends how much of Malaysia's deficit 'problems' can be addressed through a task force," an economist said.

For example, electronic goods, which are Malaysia's major export-earner, depend heavily on parts imported from Japan. This of course deepens the deficit in trade between the two countries.

But some maintain that this phenomena could be a necessary feature of Malaysia's developing economy. "Time could see the deficit shrink once Malaysia moves beyond this stage, and, say, makes more of those components locally," an economist said.

Currently, Malaysia's trade accounts do not accurately reflect the country's dependence on Japanese electronic goods, as some imports of these items are categorised as "thermionic valves" in the monthly trade balance accounts, one economist said.

The machinery and transport categories - which include the rest of the electronic components and goods not caught under "thermionic valves" - remain Malaysia's big-ticket imports.

Economists said the easiest gains could be seen in electronic industries, as these industries are more likely to begin to produce more value-added goods than others. "The reason this may not be such a hard shift for industries to make can be seen in current investment flows," another economist said.

Though Malaysia is no longer viewed as a cheap manufacturing base and

foreign direct investment (FDI), most re-investments made last year were in the electronics industry, he said.

"This means Malaysia still maintains a comparative advantage here, and that companies are making these investments based on this knowledge and Miti's new principles," he said.

Miti currently approves investments that are not towards labour-intensive industries and that encourage more value-added production.

Still, much of the progress will also depend on the sincerity of Japan's task force initiatives. Observers have queried Japan's concession to a task force when it was reluctant to do so in the past, particularly during a time when Asean leaders were cool in their response to a broader Japanese presence in Asia.

"The level of sincerity will become apparent once a more constructive framework comes forward from the task force's endeavours," a foreign observer said. "After all, the proof in the pie is in the eating."

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