

24/05/1997

Trade surplus no accident, says PM (HL)

Hardev Kaur in London

LONDON, Fri: The trade surplus that Malaysia registered during the first quarter of this year was not an "accident" but was "carefully managed" by the Government, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

Asked to explain how the Government "managed" the large surplus, he said the private sector has been instructed not to import unnecessary items.

Citing an example, he said earth-moving equipment can be reconditioned and used instead of importing new ones. There are a large number of used earth-movers lying around which are still good and can be reconditioned for use, thus reducing the need to import such equipment.

In addition, people have been instructed to try and export CIF and import FOB rather than the current practice of selling FOB and importing CIF, which results in outflow of funds.

Malaysia recorded a trade surplus of RM1.751 billion for March this year for the highest monthly trade surplus gain since 1980. It was 375 per cent higher than the surplus of RM368.5 million for February. In January, there was a deficit of RM102.9 million.

In an effort to reduce the country's trade deficit, the Government is also encouraging exports including of the Perodua, the second national car, in addition to Proton and other manufactured items.

According to the Statistics Department, the trade surplus for the January-March period was RM2.02 billion, compared with a deficit of RM1.357 billion in the first quarter of 1996. The department attributed the surplus to the double effects of higher exports, which increased by RM1.6 billion or 3.5 per cent to RM48.96 billion and lower imports, which dropped RM1.7 billion or 3.5 per cent to RM46.94 billion.

The trade figures were released by the department last Friday. Some analysts, reacting to the better-than-expected figures, had attributed the surplus to the ringgit's appreciation against the yen in March. The Malaysian currency's year-on-year gain against the yen was 16 per cent.

Dr Mahathir admitted that the currency factor, and especially the strengthening of the ringgit vis-a-vis the yen, had had a positive effect on Malaysia's trade balance but that was not the only reason for the strong surplus.

He pointed out that previously the ringgit had also appreciated against the yen but it did not have such an impact on Malaysia's trade balance.

Asked about the suggestion that reverse investments, and Malaysian ventures overseas, could further aggravate Malaysia's current account situation, the Prime Minister said, "yes and no".

He explained that not all the financing for investments overseas is sourced from within Malaysia. Some funds are raised in the host countries and some from the International Offshore Financial Centre in Labuan. These funds do not flow out of the country and thus do not impact on the country's current account.

In any case, these investments help to open up new markets for Malaysian goods and services as well as strengthen existing markets.

Citing Japan as an example, Dr Mahathir said Japanese investments in Malaysia have not only helped increase the demand for Japanese goods in Malaysia but also increased bilateral trade tremendously.

From a surplus trade position with Japan, Malaysia now records a huge bilateral deficit as a result of the larger and higher value-added imports.

Meanwhile, at a meeting with Malaysian students at the University of Warwick yesterday, Dr Mahathir said one of the greatest achievements of the country was its ability to manage and grow, much to the surprise of the prophets of doom who offered all kinds of advice "gratis".

Many of these "prophets" had said that the country, with its rapid development, was overheating and that growth should be slowed "to cool it".

Dr Mahathir said Malaysia rejects this theory and continues to go for high growth but has kept a close watch on inflation.

Amid laughter from the students, Dr Mahathir said the engine of a car overheats only if the cooling system is not good. Thus to say that recession is inevitable is not true as the economy can be managed as Malaysia has proven, by even posting a sharp jump in trade surplus in the first three months of this year.

Today Malaysia is cash rich, he told the students, and the country is manufacturing many products for export. For a small country with a population of 20 million, it is the 17th largest trader in the world.

Advising the students that they should have a sense of pride in their work, Dr Mahathir said: "One must aim to be the best in whatever one does... we want to be developed and want to have pride in our own achievements."

"Malaysia needs only an economic growth rate of 7 per cent annually to achieve the target of becoming an industrialised nation by the year 2020. This means we need only to improve by 0.3 per cent from the rate we achieved 20 years ago with only rubber and tin," he said.

Today, 80 per cent of Malaysia's total earnings comes from exports of manufactured goods. Total exports have reached US\$80 billion (US\$1 = RM2.50) annually while total trade amounts to US\$170 billion.

(END)