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Task force set to correct trade imbalance with Japan

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BEING one of our largest trading partners and investors - and having chalked up billions of ringgit annually in terms of trade surplus with Malaysia - Japan brought a lot of consolation to our economy by setting up a joint task force to redress the bilateral trade's imbalance.

Trade imbalance with Japan has always been the core topic of discussion whenever Malaysian and Japanese leaders meet, be it in Tokyo, Kuala Lumpur or at any other forums.

The deficit, which has been a cause for concern among Malaysians, was RM20.6 billion in the first 11 months of 1996 and RM29.5 billion for the whole of 1995.

Although latest official statistics showed that Malaysia had reduced its trade deficit with Japan to RM18.9 billion in the first 10 months of last year from RM25.2 billion in the corresponding period of 1995, the general scenario is still the huge surplus being enjoyed by the Japanese.

As trading partners, of course surplus and deficit are common norms in international trades, but efforts should be multiplied to redress it into a win-win situation. Maybe it will be quite difficult for Malaysia to match the Japanese share of the world market, but at least the imbalance could be trimmed down, gradually.

Announcing the setting up of the task force on Tuesday, Minister of International Trade and Industry Datuk Seri Rafidah Aziz said the task force will identify various approaches as well as bilateral initiatives which can be undertaken by the two governments and private sectors to balance the trade.

With Japanese Miti on the committee, both sides are already looking into a wider area of bilateral trade cooperation, with the main intention of making the flow more significant and with less hassle.

The decision to set up the task force was reached by Japanese Prime Minister Ryutaro Hashimoto and Prime Minister Datuk Seri Dr Mahathir Mohamad during Hashimoto's visit to Malaysia on January 8-9. It will be jointly headed by the Japanese Miti's International Economic Affairs Department director-general Kazamasa Kusaka and Miti secretary-general Datuk Asmat Kamaluddin.

Previously, trade deficit issues were addressed at the Asean level and Japan had responded by setting up the Asean-Japanese Development Fund. Somehow, it has not been too helpful in dealing with Malaysia.

Over the years, Malaysia had asked Japan to import more of its products and materials to help redress the bilateral trade imbalance and reflect their growing trade ties.

Even Dr Mahathir had said that while the balance of trade has been in Japan's favour, it was hoped that with the on-going process of liberalisation and deregulation in Japan, its import of Malaysian products will increase, particularly of manufactured goods.

Japanese companies and joint-venture firms in Malaysia should also be encouraged to source more local materials for use in their products here as this will help to balance the trade.

After three consecutive years of surplus in 1985-87, Malaysia has since suffered a persistent deficit, growing from RM805.9 million in 1988 to RM29.5 billion in 1995.

Japan remains Malaysia's largest trading partner, currently accounting for 19 per cent of Malaysia's total trade. Since 1980, bilateral trade has

been expanding at an annual rate of 14 per cent, and is continuing to grow.

Japan is also Malaysia's biggest foreign investor with total cumulative capital investment of RM25.3 billion between 1980 and October last year.

Malaysia has always hoped that Tokyo will reconsider its bilateral trade, not only with Malaysia but also with other Asean countries. Japan must realise that it is time to redress the trade imbalances, or face the consequences of becoming less popular among its Asian trading partners.

But Malaysia too should re-examine its strength in the export sector and must seriously take a look at its distribution and export mechanism because most of its exports into Japan were through Singapore and not directly.

Japan's Overseas Economic Cooperation Fund (OECF) new chief representative to Malaysia Dr Katsumi Nishina said in August last year that if this could be overcome it could help Malaysia to minimise the current large trade deficit with Japan.

In an effort to see a better Malaysia-Japan bilateral trade position, Malaysia can speed up its merchandise and goods exports into Japan to balance up Japan's Foreign Direct Investment (FDI) into Malaysia.

Malaysia had approached Japan to reduce the deficit, including proposals for a new formula to repay loans, but Japan was not responsive.

Malaysia's decision not to pursue new borrowings from Japan's OECF is expected to be extended for the next one to two years. It is not only because of the continuing appreciation of the yen but also the prolonged instability of interest rates.

The movement of Japan's interest rates are currently at a level that is higher than Malaysia's as well as the international interest rates market levels, which make loans more and more expensive.

Malaysia had stopped seeking loans from Japan through OECF since 1994. However, Malaysia may change its stand and seek loans for new projects if the movement of the countries' currencies and interest rates stabilise.

As interest rates and foreign currencies move in a cyclical trend, reducing its dependence on the OECF will virtually graduate Malaysia from the heavy influence of the yen.

Since its establishment in the mid-1960s, the fund organisation has provided loans of around 500 billion to 600 billion yen (100 yen = RM2.29), covering more than 50 projects in Malaysia.

Trade sentiment has a lot to do with such loans. Heavy loan will mean heavy repayment schedule which will put mounting pressure on the economy.

While the task force seeks ways to enhance the bilateral trade and overcome its imbalances, Malaysia will continue to rely much on the Japanese technology. Malaysia can benefit from Japan's economic and technical superiority and welcomes its cooperation to attain the country's goal of becoming fully developed by the year 2020.

Malaysia also welcomes Japanese investments, through partnerships between Malaysian and Japanese companies, especially in the high-technology and capital-intensive small- and medium-scale industries to produce sophisticated components.

As such a move will bring about better results to the entire evolvement of Malaysia-Japan trade, both countries can expect hefty returns from a more conducive economic cooperation.

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