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Investing in innovation

IT is encouraging to note that in spite of the economic slowdown, the Penang-based factories have reinvested more than RM1 billion in technology and product development this year. As Prime Minister Datuk Seri Dr Mahathir Mohamad said in his speech at the 1998 Industrial Excellence Award, industries must not neglect the development of value-added products and high expertise.

It is a call which has been reiterated tirelessly by the Government. Indeed, the need for our industries to develop greater technological capabilities and produce more innovations has become an economic compulsion. These efforts are crucial if the country wishes to increase its export competitiveness. While it is true that some Malaysian manufacturers have already achieved a high level of excellence as seen from the various international awards won by their products, they must not be lulled into complacency.

The export-oriented industries have been identified as one of the important sectors in facilitating the country's economic recovery. Higher export growth will contribute to a greater surplus in the country's foreign reserves. As it is, the current surplus of RM93 billion in our reserves has been contributed by the trade account which shows a surplus of RM45 billion in the external trade balance in the first 10 months of the year. However, the encouraging surplus in the external trade balance should not be construed as a verdict that all is well with the country's current growth in exports.

It must be borne in mind that the phenomenal rise in exports of palm oil and other commodity-based manufactured goods on the back of a competitive exchange rate as well as lower imports would have contributed to this surplus. But as indicated by Bank Negara's third quarterly report, export-oriented industries under the manufacturing sector has suffered a decline due to sluggish external demand.

It is instructive to note the lessons from the past. The deceleration in the export growth of non-commodity-based manufactured products in Malaysia and elsewhere in Southeast Asia is a trend which started since mid-1995. The saturation of developed country markets for machinery, transport equipment and semiconductors may well be the cause. But the appreciation of the dollar in 1995 and 1996 had caused a surge in the international prices of the region's exports. The surge in the dollar had cut deeply into the competitiveness of export-oriented economies like ours. Then, the upgrading of quality of exports could have counteracted the rise in export prices. Unfortunately, this was not the case with manufacturers who channelled their investments into areas that brought quick profits instead of pouring them into research and development to increase their technological and product competitiveness.

In the current economic scenario, our exports enjoy a certain competitive advantage due to the currency exchange rate. Manufacturers can take solace in the fact that the Government will adjust the peg if currencies of neighbouring countries move to a level that render the RM3.80 to the dollar uncompetitive. But they must pay heed to Dr Mahathir's advice that over-dependence on the Government will not equip them with the resilience and competitiveness to face the challenges of globalisation and trade liberalisation. By inculcating innovation practices in their corporate culture, they will be able to race ahead of

their competitors.

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