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`No such thing as creative destruction'

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THERE is no such thing as "creative destruction" - the need to destroy the old in order to create the new. Despite the economic textbooks' endorsement of such tactics to build better, finer economies, the concept does not take into account the human misery and turmoil that inevitably ensue.

US-Asean Business Council senior adviser Scott Butler agrees with Prime Minister Datuk Seri Dr Mahathir Mohamad's view that a phoenix will rise out of the ashes of the present economic downturn is only a myth.

"When you're sitting back on a current orthodoxy that says you sometimes need to destroy to create, you have to be very careful because what the books say, what the highly trained economists say, and the reality of it all is very different.

"Creative destruction is fine for the textbook but it is not a realistic concept," Butler said, adding that people are dying in Indonesia as a result of the economic collapse.

He admitted that the world will have to deal with the reality that each country has its own specific concerns.

On the flip side, however, it is important to understand where the US is coming from, he said. "These countries have to understand that a lot of people have got jobs because of the global economy and so, not act in a way to deter global trade."

Butler said the objective of the US-Asean Council is to encourage American companies to come out here and show their continued interest in the area. "Companies which are considering long-term investments are not so much interested in a firesale, as in sound opportunities."

In Malaysia now, he added, with the liberalisation of regulations on foreign ownership of companies, there should be more interest.

"Before, when Malaysian companies were looking for foreign partners, they wanted good companies which could bring in technology and global marketing capabilities.

"Now, access to capital is much tighter so it is a different environment. The Government reflects this in the change in equity requirements on manufacturing.

"Except for seven selected sectors, companies can now come into Malaysia without restraints on equity. It gives businesses a choice of what type of structure they want to have," he pointed out.

Butler said there was a case of a US company which wanted to shift its manufacturing facility to Malaysia to be nearer to its customers.

This company manufactured an epoxy encapsulation resin for computer chips, so its main customers would have been the semiconductor companies in Penang. Because the component was not directly for export, although the finished product (semiconductor) was exported, the company was not given the same tax breaks as the semiconductor producers, nor was it allowed to hold 100 per cent equity.

This resulted in the company scrapping its decision to move to Malaysia, as it saw no strategic purpose in taking on a partner and had only contemplated the move to be closer to its customers.

"Under the new regulations and the new policy in effect, they could come in and have 100 per cent foreign ownership," Butler said.

Another aspect which may encourage foreign investment in the country is access to quality people, he said. "One and a half years ago there was a

real bottleneck and the Japanese companies actually had to have an unofficial peace treaty among themselves not to raid each other and steal employees.

"Now you have a number of highly trained people who do not have jobs because of the economic situation.

"It is a very good time for companies which were previously deterred to come in now because of the labour shortage."

Butler said many US companies have been here before and know what Malaysia is capable of. "They have seen the impact of political stability and visionary leadership to instil a will to move ahead."

On what governments in this part of the world can do to encourage investment, he said the main thing is to make sure that their policies do not choke demand. "It is also important for them to ensure that good companies have access to lending, so that they are not killed off in the general slaughter."

As for the US, Butler said the most important thing for the world's largest economy to do will be to keep its markets open and to push for Japan to open up its markets, as well as to deal with some of the more urgent human needs.

"The problem with aid is that it is distortive. Emergency relief is no replacement for getting into a normal demand situation. It's kind of like the difference between giving a man a fish and teaching him how to fish," he explained.

Butler said the US' efforts with Japan are not in effect one country trying to bully the other, but rather to hurry it along the path to an open market. "And when in fact they do open their market, it will be the South-East Asian nations that benefit the most because of the proximity."

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