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Prestowitz: Selective controls could be big factor in recovery

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A FORMER US trade official Clyde V. Prestowitz Jr, described by National Journal as "When Clyde Prestowitz talks about trade, the White House listens", yesterday supported Malaysia's selective capital controls and said that they could probably be a major factor to the country's economic recovery.

"I am a supporter of limited capital controls. Frankly, I am surprised that many (crisis-afflicted) countries did not adopt limited capital controls...

"I've been sympathetic with the measures that Malaysia has taken for which it was criticised by the IMF (International Monetary Fund) and many leading economists.

"But I think experience at the moment is showing that Malaysia is recovering and apparently the capital controls have done no harm and probably contributed to the economy," he said.

On when the controls - which included the fixing of the ringgit to RM3.80 per US dollar and making the currency non-convertible overseas - should be lifted, he said:

"The Government is aware of the dangers of the risks involved in implementing controls.

"I think they are looking carefully at the international situation and recognise the need to maintain a positive environment for investment, but I can't make recommendations on when they should lift them."

Prestowitz, who was briefing the Press in Kuala Lumpur on his four-day visit to Malaysia, is the founder and president of Economic Strategy Institute, a non-profit research organisation specialising in issues of globalisation and competitiveness.

From 1981 until 1986, he was successively deputy assistant secretary of commerce, acting assistant secretary of commerce and counselor to the commerce secretary.

Prestowitz had previously held discussions with Prime Minister Datuk Seri Dr Mahathir Mohamed and First Finance Minister Tun Daim Zainuddin on Malaysia's economic policies and the regional crisis, among others.

He also had been briefed by officials of the International Trade and Industry Ministry, Bank Negara, the National Economic Action Council, the Kuala Lumpur Stock Exchange, Malaysian Industrial Development Authority, Pengurusan Danaharta Nasional Bhd and Danamodal Nasional Bhd.

Prestowitz said the country was "definitely on the recovery path".

He outlined three major contributing factors; the substantial surge in export volume, the various stimulus measures taken by the Government, and the banking and financial sector recapitalisation and rehabilitation efforts.

He said the return of confidence from the efforts had led to the stabilisation of the local stock market and increase in investments and domestic demand.

On whether the country's recovery is sustainable, he said: "In short to medium-term, the prospect is reasonably good. But, the country has to be realistic that the global economy remains fragile."

He cautioned that developments in other countries especially the world's largest economy, the US, would influence the situation in Malaysia, and that the country must diversify its export base to reduce its heavy reliance on electronics.

"It is a fairly narrow basis for economic recovery as electronics exports in turn are heavily dependent on the American market.

"(Also) it seems that every country in the world wants to be an electronics exporter."

Elaborating on some of the vulnerabilities of the economy, Prestowitz said that up until now, Malaysia had been competing on the basis of low to medium value-added but it can no longer compete on the basis of cheap labour.

"I know that the Government is taking great efforts to increase training programmes and educational opportunities in new technologies and the opening of the Multimedia Super Corridor is a very encouraging sign.

"I think that is an important kind of diversification," Prestowitz said.

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