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MSIA-RECOVERY

REDUCE DEPENDENCE ON ELECTRONICS, SAYS EX-U.S. TRADE OFFICIAL

KUALA LUMPUR, July 15 (Bernama) -- A former U.S. trade official says Malaysia is firmly on the road to recovery, but 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," Clyde Prestowitz Jr, President of the Washington-based Economic Strategy Institute, said.

Also, "it seems that every country in the world wants to be electronics exporter," he told a press conference here today after a four-day visit to Malaysia where he met key government and business leaders.

In January-May 1999, electrical and electronics products accounted for 57.3 percent of export earnings netting RM69.2 billion, with integrated circuits comprising the largest item within this category.

In commenting on some of the vulnerabilities of the economy, he said that up till now, Malaysia has been competing on the basis of low to medium value-added but it can no longer compete on the basis of cheap labour.

Prestowitz, whose views are often cited in congressional debates, said that Malaysia should not look to competing with China, India or Pakistan but "should move up on developing technological skills."

"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," said Prestowitz, who from 1981 until 1986, was successively deputy assistant secretary of commerce, acting assistant secretary of commerce and counselor to the commerce secretary.

The US-based National Journal, said in a recent issue that "when Clyde Prestowitz talks about trade, the White House listens," while his views are often cited in congressional debates.

A non-profit institute, the Economy Strategy Institute is a non-profit, non-partisan research centre specialising in globalisation and competitiveness.

While here, he has had discussions with Prime Minister Datuk Seri Dr Mahathir Mohamad and First Finance Minister Tun Daim Zainuddin, as well as officials of the National Economic Action Council.

Besides this, he had discussions with Pengurusan Danaharta Nasional Bhd, Danamodal Nasional Bhd, Malaysian Industrial Development Authority, the Kuala Lumpur Stock Exchange and the Ministry of International Trade and Industry.

As for capital controls, Prestowitz said he was "surprised that more countries did not consider more quickly some form of limited capital controls as the economic crisis developed."

Claiming to be a supporter of limited capital controls, he said that Chile had used controls "for quite some time, quite successfully."

"It was clear that some countries like Taiwan and China which had less open capital markets were less affected by the crisis.

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

"But I think experience at the moment is demonstrating that Malaysia is recovering and apparently the capital controls certainly have done no harm

and probably contributed to the economy," he said.

Asked when they should be lifted, he said that the Malaysian government was aware of the dangers of some of the risks involved in capital controls.

"I think that 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."

He also said that while Asian economies such as South Korea and Thailand were recovering from the economic crisis, Malaysia was much better off although there was room for progress.

As for Thailand, he said it was in a better condition today than a year ago but there are still significant problems.

Besides this, it has not had the benefit of some of the regulatory and legal infrastructures and procedures which have been present in Malaysia for a long time, he said.

For instance, he said Thailand has been struggling to introduce a bankruptcy law and create a marketplace for banking.

Prestowitz also expressed confidence that "there was going to be a period of adjustment in global financial rules and procedures (but) I don't expect there will be a whole new architecture."

Nevertheless, he said "there are already a number of steps taken both at the international and national levels to create more transparency, safeguards and to discipline hedge funds...I think that will continue."

When asked whether currency speculators should be controlled, he said there was a certain amount of difficulty, "but we must recognise there is a thin line between speculation and what might be called investment."

"On the one hand, we must be careful in assuring that it is not market manipulation and that steps have been taken in several places to bring market manipulation under control.

"It is important that we establish solid international rules and procedures for assuring that trading is done on the basis of market principles," he said.

Prestowitz said procedures to create a more solid international economic financial structure were discussed at the meeting of the Bank of Settlement (BIS) in Shanghai recently.

"But, I think that we have to be realistic, we cannot suspend (currency) trading, we can try to develop mechanisms to deal with the problem that we had in the past.

"We are in a period of rapid globalisation (and) technology is driving the market and products, and procedures very rapidly," he said.

"We can't always see exactly when the next crisis is going to be, so I think that while we need to learn from what has happened, we also need to improve structures," he said.--BERNAMA

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