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`Malaysia can cope with Japan slowdown'

MALAYSIA's economy is expected to experience minor setbacks from the economic slowdown in Japan, according to an official at the Institute of Strategic and International Studies Malaysia.

Deputy director general (economics) Datuk Dr Zainal Aznam Yusof said he foresees Malaysia capable of coping well despite the slumping Japanese economy.

He said nevertheless, the behaviour of the Japanese economy is adding worries to its neighbouring economies and this has to be monitored closely.

"We have to take into account that Japan, like the US, is Malaysia's important trading partner ... But the effects for now will not be substantial and sizeable," he told Business Times in Kuala Lumpur yesterday.

The Bank of Japan (BOJ) had recently downgraded its view of Japan's economy for a second straight month, citing flagging exports and slowing industrial output.

BOJ pointed to faltering Japanese exports due to the slowing of the US and Asian economies, which had led to a drop in production.

The bleak assessment in the BOJ report followed the downgrade in the Government's economic assessment last Friday, which used the word "weakening" for the first time since September 1995 to describe Japan's struggling economy.

Zainal Aznam said the latest downgrading by BOJ is no longer surprising as it has been slumping for quite a while now.

"However, what we have to monitor closely now is the size of its trade deficit because Malaysia has been running on a trade deficit with Japan since the mid-1990s," he added.

Malaysia registered a trade deficit of RM2.4 billion with Japan in 1995 before increasing to RM14.5 billion in 1999.

"It will be hard for me to predict on how the slowdown will further impact Malaysia's trade deficit but I suspect it will be reduced," Zainal Aznam said.

He noted that Japan's exports and also investments into Malaysia are expected to be affected since the parent Japanese companies are not spared by the slowdown.

"Japanese companies which are already here will be affected if their parent companies decide to stop financing overseas operations. The manufacturing sector will most likely be the hardest hit, although not sizeable."

On the country's gross domestic product, Zainal Aznam said the Bank Negara forecast of between 5 and 6 per cent for Malaysia for this year is possible and within reach.

"Malaysia, to a certain extent, has done enough to anticipate and contain the adverse repercussions of both the US and Japan economic slowdown.

"The injection of RM3 billion through the fiscal stimulus package by Prime Minister Datuk Seri Dr Mahathir Mohamad earlier this month will help cushion the effects of the slowdown," he said.

Another analyst said the Japanese economy tends to dry up and perform weak during the first quarter of every year.

"This is partly because its financial fiscal stimulus ends in April

every year," said the analyst.

He added the slowdown is already visible from the slowdown in Malaysia's exports to Japan which dropped from 10 per cent in January this year to 4.6 per cent in February 2001.

"And Japan's foreign direct investments to Malaysia will also be affected because business sentiments there are weak at the moment.

He added Japan will be very lucky if it records a growth of between zero to 1 per cent.

"Unless the US performs in the second quarter of this year, we can expect a gloomy economic outlook not only for Japan but for the rest of the world," he said.

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