

26/12/2002

Economic fallout of second Gulf War will be felt less: PM

Zainul Arifin

A US-led military action against Iraq will likely affect global business sentiment, but the impact on the domestic economy is expected to be much less following Malaysia's deliberate efforts to diversify the markets for its products.

Prime Minister Datuk Seri Dr Mahathir Mohamad said that if Malaysia had not made a conscious effort to seek new markets and gradually reduce its dependence on the US, one of the major markets for the country's products, things would have been much worse.

Many economists have suggested that a war in the Gulf, which is looking more likely with each day of Washington's posturing, could worsen the already depressed business environment and economic sentiment in the world's largest economy, the effects of which would be felt far and wide.

The US has long been a major trading partner of Malaysia but of late, Malaysia has been diversifying its export destinations, including improving trade ties with fellow Asean (Association of South-East Asian Nations) states, West Asian (Middle Eastern) economies as well as emerging regional giant China.

"The impact (of war) would not be as bad as it would have been had we not changed directions," Dr Mahathir, who is also the Finance Minister, said in an interview with New Straits Times and Berita Harian at the ministry in Putrajaya on Monday.

He said the likelihood of war is great, for Washington seems determined to get at Iraqi President Saddam Hussein's administration over allegations of Baghdad's dabbling in weapons of mass destructions.

"I think the US will go to war in Iraq. If they can find an excuse, they will. They are bent on having this war."

Exports to the US constitute almost a fifth of Malaysia's total exports. While the ratio has not moved much since 2000, exports to Asean countries, which constitute about a quarter of total exports, and regional economies have been slowly inching ahead.

For example, exports to China, excluding Hong Kong, have been on a steady rise. The Statistics Department indicated that China's share of Malaysia's exports has grown from 3.08 per cent of the country's total exports in 2000 to 4.34 per cent in 2001 and 5.46 per cent for the first three quarters of this year.

In fact, total exports to China for the first nine months of this year, at RM14.36 billion, have surpassed the whole of last year's. Total exports for January to September were RM262.88 billion. Economists predict total exports for the year to exceed last year's RMRM334,42 billion by at least 10 per cent.

Local economists expect the numbers with China to improve further, especially with its entry into the World Trade Organisation.

The same is expected of trade with Asean countries in conjunction with the Asean Free Trade Area, which is expected to kick off in earnest in the new year.

"Today, our trade with Asean is very big. Our trade with China and the Middle East is also growing. The percentage of trade with the US is growing less."

The attempt to diversify from being over-dependent on the US also stems from the fact that the country's economy is weakening following corporate scandals and a generally depressed business environment.

"I think the US will face a lot of difficulties in the next few years even if it does not go to war with Iraq," Dr Mahathir said.

There are more bankruptcies in the US now, he said, with several major corporations filing for protection against creditors. At the same time, those who have not are not doing too well either.

For example, the airline, hotel, travel and services industries are all suffering, he said.

"If you read today, more people are begging and unemployment may even be higher. So, I don't think the US can recover so soon."