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Preparing for impact of war (HL)

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PUTRAJAYA, Fri. - The Government is preparing for an economic impact in the event of war in Iraq and has devised a specific action plan to face any eventuality.

Prime Minister Datuk Seri Dr Mahathir Mohamad said the plan had been formulated but was yet to be carried out as the situation was still under control.

Policymakers are preparing their response based on three possible scenarios - a short war; an intermediate war and a protracted war lasting more than three months.

The plan includes a new growth stimulus package expected to be announced at the end of next month by Dr Mahathir, who is also Finance Minister.

"The Government of course looks at the various scenarios - if there is a war in Iraq then we are prepared for that.

"There will be all kinds of disruptions, for example in the movement of people, people will fear to fly and then of course trade in certain areas becomes difficult, there will be higher insurance rates. We have to learn to accept this ... be prepared for it so that when it happens we can handle it," he said at a Press conference after launching the e-Syariah, a web-enabled integrated electronic application system for Syariah courts nationwide, at Marriot Hotel.

Dr Mahathir was asked to elaborate on his advice yesterday that Malaysians should be psychologically prepared for a possible war in Iraq.

Economists predict that several sectors of the Malaysian economy, including tourism and the export sector, may be affected.

Second Finance Minister Datuk Dr Jamaludin Jarjis, in a statement this afternoon, said pre-emptive measures would be introduced to sustain Malaysia's economic growth for the year. The measures will also be extended to chart medium and longer-term economic growth.

Malaysia expects a four per cent growth for 2002 against a 0.4 per cent expansion in the preceding year but estimates show that the world economy will remain sluggish this year.

In preparing the stimulus package, the Government has formed 10 special committees to look into areas that need the focus.

They seek to:

- \* improve the national competitive edge. The committee is headed by Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi while the Ministry of International Trade and Industry will act as the committee's secretariat;

- \* improve the country's delivery system, including minimising red tape and bureaucracy in business;

- \* promote new sources of growth, particularly in the services and biotechnology sectors;

- \* further strengthen the capital market;

- \* encourage domestic investments. The committee is jointly-chaired by the Ministry of International Trade and Industry and the Ministry of Domestic Trade and Consumer Affairs;

- \* improve the Government's revenue collection, both at the Federal and State levels;

- \* monitor Malaysia's macroeconomic policies to control the Government's balance sheet;

- \* encourage investments and tourism from new markets particularly West

Asia, East Asia and the emerging economies;

- \* spur the agriculture sector and improve rural economy; and,
- \* improve security especially in the transportation chain.

A special task force led by the National Economic Action Council and comprising senior government officials and private sector representatives will monitor the 10 committees.

Recommendations by the committees will be used to draw the stimulus package to be announced by Dr Mahathir.

If war breaks out in Iraq, Jamaludin said the Government was prepared to consider additional economic measures to sustain the growth momentum.

Meanwhile, Dr Mahathir said the Government would also be closely monitoring the situation in Venezuela as it had effects on the oil price.

"Venezuela supplies about one third of the US oil needs, so when there is a breakdown in the supply the price of oil is going to be affected," he said.

Asked about Venezuelan President Hugo Chavez's move to peg his currency (bolivar) to the US dollar due to the drastic devaluation of the currency, Dr Mahathir said: "Well I wish them all the very best, it is not an easy thing to do".

To another question, Dr Mahathir said that although the Government undertook expansionary measures to support the economy it would still be based on affordability.

"We will spend money, expansionary to support the economy but only the money that we have or the amount of borrowings that we are able to support, but people are demanding that things be constructed by the Government which is not in a position to give. So because of that we must be very careful. We are expansionary but also prudent ...we would not have survived up to now if we don't know how to manage our money," he added.