

TWENTY-FOURTH CORPORATE ECONOMIC BRIEFING



16 APRIL 2019

MAHKOTA 1 BALLROOM,
HOTEL ISTANA KUALA
LUMPUR

Anarchy in
International
Trade: US-China
Trade War and its
Impact on
Malaysia



MALAYSIAN INSTITUTE OF ECONOMIC RESEARCH

Anarchy in International Trade: US-China Trade war and its impact on Malaysia

In terms of contribution to the global economic output, at present the United States (US) contributes some 25%, followed by China's 15%. Combined they produce some 40% of the global economic output, whereas Malaysia produces about 0.4% or about one hundredth of the combined output. However, it ought to be remembered that the standard of living between the US and China differs significantly.

International System

The current International system with its Bretton Woods Institutions was conceived towards the end of the Second World War. Nearly twenty-five years ago, following the fall of the Berlin Wall and the end of the Cold War, the U.S.-sponsored liberal international order seemed to be sole dominant system and hence the term Unipolar World and Unipolar Superpower System.

In its recent publication the *Foreign Affairs* magazine argues that prevailing system is in crisis, and that the future is up for grabs. There are many elements of the story—military and economic blunders, stagnation for the middle and lower classes in the developed world, a populist backlash against globalization, dizzying technological change—but a shifting balance of power may be the most important of all. Arguably a case for a transition from unipolar to a multipolar world with the United States being the troubled hegemon and China the confident challenger.

Why this matters to Malaysia?

There is growing concern that the Malaysian economy will shift into lower gear, while at the same time the global economic outlook is certainly not very promising.

To substantiate this point of view, for example the International Monetary Fund (IMF) has cut its 2019 growth forecast for this region from its earlier estimate of 3.9% to 3.7%. Similarly, the Asian Development Bank (ADB) has put the region's growth rate expectation at 5.8%, down from an earlier forecast of 5.9%. The underlying concern that contributes to these downward revisions is the US-China trade war and how it could upset markets.

There are two reasons why the US-China tension matters to Malaysia. First, because it affects global markets and the resulting global demand for Malaysian exports, second, and more directly, because China is Malaysia's most important trade partner. Consequently any trade policies that harm trade between these countries could affect Malaysia's trading position, especially since Malaysia's intermediate goods exports with China is significant.

Malaysia's export profile will also be impacted by the state of the global electronics industry in 2019. At least in the near term the global electronics industry is expected to grow at a slower pace, although one cannot rule out a downturn in electronics exports.

Another important export item, palm oil does not seem to have a bright outlook looking forward, despite India cutting its import tax on palm oil, simply because other factors tend to moderate that phenomenon. The price of another commodity, oil, is

also an issue of concern. Analysts are inclined to think that oil prices could take a tumble, and while this has repercussions for export revenue, it also matters for fiscal soundness.

A slowdown in export, would result in the current account surplus narrowing in 2019. The exchange rate could fall. If it does, that may be a blessing in disguise because a weak ringgit could give Malaysian exports the impetus they need to make them more attractive. In a weak external environment, a softer ringgit will turn out to be a positive. Taking all things into consideration, 2019 will certainly witness lower growth figures.

Faced with weaker numbers in a much left to be desired external environment. If there is any good news it is that we are heading for a slowdown and not for negative growth.

The months ahead will need to see more forward-looking guidance on the government's policies. On the fiscal side, the government has maintained its commitment to a prudent fiscal policy. That is surely commendable. On the monetary side, the central bank has maintained the benchmark interest rate at 3.25%.

Trading Nation

International trade as a share of GDP, Malaysia's trade has been consistently greater than 100% since 1988, and is currently above 130 % in 2017. While in comparison, the world average was less than 60 %. And so, International trade is of crucial importance to Malaysian Economy, generating income through import and exports.

Our biggest trading partners are in this descending order -China, Singapore, the EU, Japan and the US, although not too long ago, some fifteen years ago, the US was our largest trading partner.

In the final analysis, being a small open economy, Malaysia is highly interconnected with the global economy, through the active participation in Global Value Chains (GVCs). However, this would also mean that her economy is vulnerable and highly susceptible to external shocks and disruptions, such as volatile movements or fluctuations in global commodity prices, or in this case, risks arising from a trade war between two of the world's largest economies.

Time	Agenda
08.30 a.m. - 09.00 a.m. :	Registration
09.00 a.m. - 10.30 a.m. :	24th Corporate Economic Briefing by Emeritus Professor Datuk Dr Zakariah Abdul Rashid Executive Director, MIER
10.30 a.m. - 11.00 a.m. :	Q & A
11.00 a.m. - 11.30 a.m. :	Refreshments
11.30 a.m. - 12.30 p.m. :	Special topic: How will the trade dispute between China and the United States affect Malaysia? by Dr Haji Ahmad Fauzi Haji Puasa Deputy Director, MIER and Samirul Ariff Othman Senior Research Officer, MIER
12.30 p.m. - 01.00 p.m. :	Q & A
01.00 p.m. - 02.00 p.m. :	Lunch (Taman Sari Brasserie, Lobby Level)

Venue

Hotel Istana Kuala Lumpur
73, Jalan Raja Chulan
50200 Kuala Lumpur
Tel No. : 603 2141 9988
Fax No : 603 2144 0111
Website : www.hotelistana.com.my

Date

16 April 2019

Registration & Conference Secretariat

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HRDF claimable



REGISTRATION FORM

TWENTY-FOURTH CORPORATE ECONOMIC BRIEFING

16 April 2019

Mahkota 1 Ballroom
Hotel Istana Kuala Lumpur

PARTICIPANT'S DETAILS

Name	
Designation	
Organisation	
Address	
Contact Person	
Tel No.	
Fax No.	
Email	

REGISTRATION FEE

Full conference registration fee includes presentation materials, refreshment and lunch.

MIER Members	Others
<input type="checkbox"/> RM 500.00	<input type="checkbox"/> RM 600.00

All registration must be received by MIER no later than **12 April 2019**. Cancellations and refunds will not be made after that date. However, substitution will be allowed if made at least 72 hours before the conference.

RSVP: Pn Isnani Bt Ismail and Pn Nur Faizah Bt Bakri (603) 2142 0091/5895/5897 Fax: (603) 2141 0131, Email: secretariat@mier.org.my

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