2019 set to be a challenging year

MAKING SENS (TAG/-/META/MAKING-SENS) - TAN SIOK CHOO (TAG/-/META/TAN-SIOK-CHOO) / 27 DEC 2018 / 09:00 H.

Next year looks set to be exceptionally challenging for Malaysia politically and economically.

For a start, the aftermath of Pakatan Harapan (PH) ending the 60-year rule of Barisan Nasional in the 14th general election this year will continue to reverberate — even if less intensely — next year.

Because voter support for Umno, the linchpin of BN, is now limited largely to Malays in Peninsular Malaysia, its leaders are likely to rely increasingly on issues involving race and religion to boost their popularity. One example is the imbruglio over ratifying the International Convention on the Elimination of All Forms of Racial Discrimination.
Two other events could cause the political temperature to climb next year. First, continuing party hopping by Umno politicians that could reconfigure PH’s internal dynamics. Second, growing uncertainty as the time for the proposed changeover in power from Prime Minister Tun Dr Mahathir Mohamad to Parti Keadilan Rakyat president Datuk Seri Anwar Ibrahim draws closer.

Economically, an immediate concern is plummeting oil prices. On Monday, Brent crude futures sank to US$50.47 a barrel — a 16-month low and sharply lower than the forecast of US$70/barrel estimated in Budget 2019.

That Putrajaya remains disproportionately reliant on a commodity, notable for price volatility, to bridge the gap between revenue and expenditure, underscores the urgent need to minimise this unhealthy dependence — a vulnerability exacerbated by PH’s decision to scrap the politically-unpopular, revenue-boosting goods and services tax (GST).

GST’s replacement, the sales and service tax, carrying a lower rate levied on a narrower range of goods and services, is likely to generate less revenue.

Recently, the World Bank highlighted another major worry. Federal government revenue has failed to keep pace with growth in its gross domestic product (GDP). This means the federal government’s ability to intervene in the event of an economic shock will be limited, the World Bank said. After including a one-off RM30 billion dividend from Petronas, the World Bank forecasts government revenue to GDP will fall to 18% next year — significantly lower than the 25.8% recorded in 2012.

Excluding one-off contributions from KWAP in 2018 and Petronas in 2019, the declining ratio of Malaysian government revenue to GDP is one of the steepest among developing countries. On this score, even Indonesia and Laos outperformed Malaysia, World Bank data show.

The World Bank’s assessment that Putrajaya is losing its ability to counteract economic shocks could be tested soon. Fears are rising that the US could be heading for a recession. One indicator is plummeting share prices on Wall Street.

In a holiday-shortened trading session last Monday, the Dow Jones industrial average smashed its century record for a percentage drop on Christmas eve, falling 653 points or just under 3%, Thomas Heath and Philip Rucker wrote in The Washington Post.

Not only did the broader-based Standard & Poor’s 500-stock index also plunge 2.71% to close at 2,351 last Monday, all 11 sectors of the S&P are negative for 2018.

Last Monday’s carnage on Wall Street was roiled by these developments, including:

» the partial federal government shutdown triggered by President Trump’s insistence on funds for the wall on the US-Mexico border;

» reports Trump is considering sacking Federal Reserve chairman Jerome Powell;

» US Treasury Secretary Steven Mnuchin’s phone calls last Sunday to major US banks that were intended to soothe nervous investors but had the opposite effect;

» Trump’s announcement of his US troops withdrawal from Syria a decision that prompted a surprised Defence Secretary Jim Mattis to resign.

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Earlier this month, a Duke University survey showed 48.6% of US chief financial officers (CFOs) believe the US will be in a recession by end-2019 while an even higher proportion – 82% of CFOs – said a recession will begin by end-2020.

Duke University Professor Campbell Harvey suggested three indicators are in place – elevated stock market volatility, the impact of “growth-reducing protectionism” and the “ominous” inversion of the yield curve gap between 10-year and two-year Treasury bonds.

An inverted yield curve occurs when the return on the longer Treasury bond is higher than the shorter-term Treasury bond. An inverted yield curve has occurred before every US recession over the past 50 years, Matt Egan writes in CNN.

Furthermore, the US economic expansion, which began in June 2009, is the second-longest in history, prompting fears the good times could end soon. If the US economy continues to grow until July 2019, this will surpass the 1991-2001 boom as the longest expansion.

On Jan 3 next year, victories in the mid-term US Congressional elections will give the Democrats control of the House of Representatives. Continuing Republican control of the Senate may make impeaching Trump impossible. However, the contentious relationship between Trump and the Democrats suggests legislative gridlock is a strong probability.

One factor could determine the overall political and economic outlook for 2019 – confidence, or the lack of it, in Trump’s leadership.

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<th>Score</th>
<th>Schedule</th>
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<td>Wolves</td>
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<tr>
<td>Man Utd</td>
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<td>Huddersfield</td>
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<td>Liverpool</td>
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## UEFA Champions League

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<tr>
<td>Man Utd</td>
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## Primera Division

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<td>Vallecano</td>
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<td>2:1 (1:0)</td>
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<td>Levante</td>
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<td>Villarreal</td>
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**SUN MEDIA CORPORATION SDN BHD**  
(221220-K)  
Level 4, Lot 6 Jalan 51/217  
46050 Petaling Jaya, Selangor,  
Malaysia

Tel: +603-7784 6688  
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