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SUPPLY CHAIN FACTOR

RISING RISK FROM TRADE WAR

Malaysia's export performance in current quarter remains vulnerable, says MIDF Research

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THE escalating trade tensions between the United States and China may add risks to the global economy, including Malaysia's, due to the supply chain factor, said analysts.

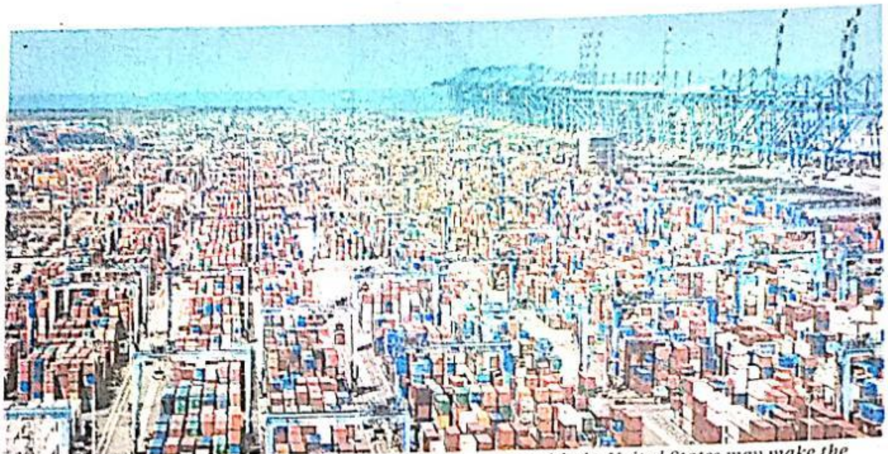
Abrupt decisions by US President Donald Trump recently included imposing a 10 per cent tariff on another US\$300 billion (RM1.3 billion) worth of imports from China. This means all US\$550 billion worth of China imports by the US will be subjected to additional taxes.

MIDF Research said Malaysia's export performance was expected to be quite vulnerable in the third quarter, based on its regional partners' trade performance last month.

"Vietnam's exports has grown 9.3 per cent year-on-year while South Korea's has shrunk 11 per cent. This provides cues on what to expect for Malaysia's exports in the upcoming months," it said.

Bank Islam Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid said while trade diversion could be beneficial to Malaysia, a potential rise in trade surplus balance with the US could make Malaysia the US' next target.

"Malaysia will benefit from US import substitution, such as for semiconductors. Malaysia will also benefit from China's import substitution in terms of natural gas.



An analyst says a potential increase in Malaysia's trade surplus with the United States may make the country the latter's next target. PIC BY SADDAM YUSOFF

"However, in May, Malaysia was put in the Monitoring List by the US Treasury Department... One of the criteria (for inclusion) is bilateral trade surplus with the US of a minimum of US\$20 billion," he said.

Exports to the US, which accounted for 10 per cent of Malaysia's total trade, expanded 8.8 per cent year-on-year last month, moderating from an 11.7 per cent expansion in June.

Exports to China (13.2 per cent of total trade) continued to fall, with a 12 per cent growth rate — the worst since August 2016.

Putra Business School associate professor and manager of business development Dr Ahmed Razman Abdul Latiff said Malaysia would have the advantage of receiving more investments from China as Chinese companies had started to relocate their factories to Asean countries, such as Vietnam, Thailand and Malaysia.

"We are already part of the Belt and Road Initiative where logistic infrastructures such as airports, ports and railroads are taking shape. Therefore, it is easier for Chinese companies to relocate their businesses here," he told the *New Straits Times*.

On yuan's devaluation, Afzanizam said this should lead to the ringgit remaining volatile in the immediate terms.

"The yuan has been the trendsetter in the foreign exchange market. We saw such trend on August 11 2015 when the currency was devalued from 6.2097 to 6.3250 per US dollar... The ringgit depreciated significantly from 3.9365 to 3.9735," he said.

The local unit eased 0.3 per cent against the US dollar yesterday to 4.1910 from 4.1775 on Monday.

IHS Markit Asia Pacific chief economist Rajiv Biswas said the yuan's slide would reinforce negative sentiment in global financial markets.

"Risk aversion towards emerging market currencies is also increasing due to the escalating US-China trade war and the recent wave of policy easing by Asia-Pacific central banks, including the Bank of Korea (BOK), Reserve Bank of India (RBI), Bank Negara Malaysia, Bangko Sentral ng Pilipinas (BSP), Bank Indonesia, Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand.

"The (Federal Reserve's) Federal Open Market Committee's rate cut on July 31 and the latest trade war escalation has also opened the door for another round of rate cuts by Asia-Pacific central banks, with the BOK, RBI, BSP, Bank Indonesia and RBA all having an easing bias in the remainder of 2019," he said.

Meanwhile, the escalating trade war adversely affected Bursa Malaysia yesterday.

The FTSE Bursa Malaysia KLCI lost about one per cent in early trade, hitting a low of 1,588.98 before recovering to close 1.38 points higher at 1,611.79.

"It has caused global market selloffs with our local market affected, too. However, 1,600 is a crucial psychological level where it rebounded strongly from intraday 1.588.98 points to close at 1,611.79 points," said Vincent Lau, Rakuten Trade Sdn Bhd research vice-president.