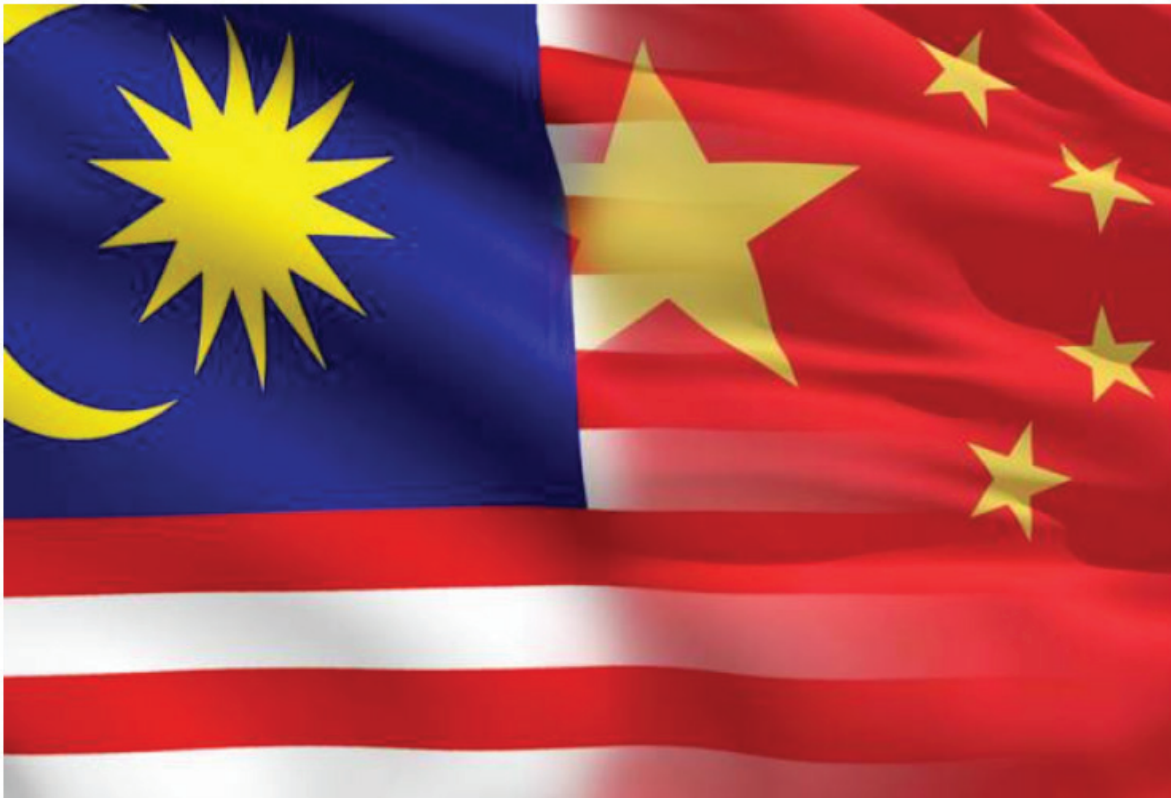


Strong China-Malaysia Partnership Expected To Mitigate US Recession Impact

By **Shahrizal** - August 8, 2024



Pic: Awani

A robust Malaysia-China economic relationship is anticipated to help Malaysia navigate the challenges posed by a potential US recession, according to Capital Dynamics Asset Management Sdn Bhd. The firm's managing director, Tan Teng Boo, highlighted that China is likely to implement aggressive policies to stabilise its economy in response to recent developments in both China and the US. This, he suggested, would help mitigate the effects of a possible global recession.

Tan expressed confidence that Malaysia's economy would perform relatively better than other countries due to its strong ties with China. He remarked, "China has always been an important country to the world and Malaysia, not just for businesses and investments but also for the nation's economy and foreign policies," during a media conference today.

Discussing the potential impact on financial markets, Tan predicted that Bursa Malaysia's FBM KLCI could end the year at the 1,600 level, with the ringgit trading between 4.40 and 4.50 against the US dollar. He believes the risks of a US recession could prompt significant changes in US monetary policy, potentially leading to substantial interest rate cuts. "I will not be surprised if the US cuts interest rates to near zero again," Tan remarked.

He further explained that the US government, facing a 2024 budget deficit estimated at 7.0 per cent of gross domestic product, has limited options to deploy fiscal stimulus to revive its economy. In contrast, he noted that China is well-positioned to utilise fiscal measures and has ample room to ease its monetary policy. Tan added, "With the decoupling already ongoing with the US, the resilient Chinese economy will be able to safely sail through another US-led financial crisis, just like 2008 – 2009."

Reflecting on past events, Tan pointed out that China played a crucial role in saving the global economy during the 2008-2009 financial crisis with massive fiscal stimulus, and again in 2022-2023 by avoiding a fiscal-bazooka stimulus amidst a cost of living crisis. "This time, we may see China saving the global economy for the third time," he asserted.

China has been Malaysia's largest trading partner since 2009, accounting for 14 per cent of its exports. Additionally, tourist arrivals from China have seen a significant increase, with nearly 1.2 million Chinese tourists visiting Malaysia in the first five months of 2024—a 200 per cent rise compared to the same period last year.

Tan also suggested that Bank Negara Malaysia may maintain its overnight policy rate at the current 3.00 per cent to ensure a conducive environment for sustainable economic growth, particularly if the US begins cutting interest rates later this year.