Farewell to the Goldilocks economy?

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Overall, 2019 looks likely to be a more challenging year for the Muslim world

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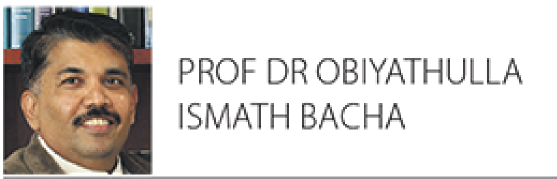

In 2018, the global economy began with much promise. The prior year had seen fairly strong and synchronised growth across the US, Western Europe and industrialised Asia. Stock markets rose to reflect this steady stable growth. The S&P 500 had one of its most consistent and strongest runs in the 10-month period leading to October 2018. The broad-based index reached its historic peak in late September.

Since then, from October, both the global economy and stock markets appeared to have gone through a series of jolts. Risk and volatility appear to have returned with a vengeance. The last quarter (4Q) of 2018 was tumultuous from an economic viewpoint.

Why the sudden turn of fortune? For one thing, the bull run in the US stocks has aged. The post-crisis recovery is now 10 years old. The monetary stimulus is a spent force, but the resulting build-up in global debt remains.

With global debt to GDP in excess of 300%, the global economy is sitting on a tinderbox. The fiscal stimulus of US President Donald Trump's tax cuts now appears to have only provided a sugar rush.

However, the real turn in global economic fortune has more to do with politics than economics. A series of self-inflicted political wounds across several countries, the Brexit in the UK, Saudi Arabia's Jamal Khashoggi affair, Italy's budgetary problems with the European Union, American sanctions on Russia and renewed sanctions on Iran, have all pushed the global economy away from its steady, stable Goldilocks state of the prior two years into one of turbulence and uncertainty. More than anything, the single biggest cause of the sudden rise in global economic risk has been the US-China trade war.

A site of crude oil storage tanks at Saudi Aramco's Ras Tanura oil refinery and oil terminal. It is estimated that Saudi Arabia needs oil at US$80 to balance its budget

World's Workshop

China, the world's workshop and Asia's growth locomotive, now appears to be stumbling. Its growth, funded by a huge build-up of domestic debt, has made it highly vulnerable to global economic shocks. The US imposition of tariffs on Chinese imports and threats of further restrictions have taken the wind out of China's stellar GDP growth.

But, more than hurting China, the rest of Asia's exporters who are plugged into the global value chain centred on China have been the real losers. It is countries like South Korea, Singapore, Malaysia and even Japan that have taken the brunt of China's slowdown. The downturn in Japan's 3Q GDP of negative 2.5%, was twice more than what was expected. Trump's trade war has inflicted serious collateral damage on Asia. If China and Asia stumble in 2019, the prognosis for global growth cannot be good. Europe, which has had relatively good growth, is still fragile. With the potential fallout from Brexit, continuing fiscal problems with Italy and the European Central Bank's scheduled removal of quantitative easing by year-end, Europe too appears challenged for 2019.

It should be no surprise therefore that both the International Monetary Fund and World Bank have cut global growth forecasts for 2019. The 4% growth earlier has been cut to between 3.7% and 3.5%, with warnings that even these may be subject to further reductions.

The trade war, sanctions and the political uncertainties arising from poor, whimsical leadership — especially of the US — are the causes for the negative outlook. The global trend for populist right wing politics in many countries cannot be good for the world economy either. Meanwhile, the flash points for armed conflict from 2018 continue into the new year.

If 2019 looks set to be a year in which the global economy promises to muddle through, the same could be said for the Muslim world. With discord in the OPEC, oil prices, like stock markets, have taken a tumble since October. With the West Texas Intermediate crude currently below US$50 (RM206.50), the Gulf Cooperation Council (GCC) nations, especially Saudi Arabia, face budgetary pressures. It is estimated that Saudi Arabia needs oil at US$80 to balance its budget.

Muslim World

So, for the oil exporters of the Muslim world, 2019 looks to be yet another challenging year. Thus, the Saudi leadership's attempt at reforming and reinvigorating the economy away from oil was certainly a good strategic move. US investment bank Morgan Stanley's inclusion of Saudi stocks into its emerging markets, the MSCI Index, was a huge endorsement. However, much of these positives may have been set back by the Khashoggi episode.

Diplomatically, the GCC appears not to have made much headway in the past year. Their entanglement in Yemen continues. Qatar remains isolated, has left OPEC and appears intent on beating its own path. Despite the sanctions of its neighbours, Qatar has had a stellar year where its stock market is concerned. Whether it can repeat that performance in 2019, is doubtful.

Relatively speaking, 2018 saw some successes in the Muslim world. Malaysia held elections that saw the demise of its 61-year ruling coalition that had ruled since independence. That a corrupt and heavily entrenched ruling class was overthrown peacefully, and a new government installed through the ballot box, offers a shining example of democracy for the Muslim world.

Turkey, which saw a massive attack on its currency in July/ August, appears to have withstood the onslaught. The lira, which fell nearly 30% against the US dollar within a five-week period, appears to have stabilised and even regained some ground. The country's current account balance also seems to be improving. Even so, Turkey needs to address its build-up of foreigncurrency debt, especially eurodenominated foreign debt within its corporate and banking sectors.

Like Turkey, Indonesia too appears to have withstood external pressures on its currency, the rupiah. The rupiah, which had fallen 8% over a four-month period to levels not seen since the Asian financial crisis of 1997/98, has also stabilised from its October lows. While Turkey's currency problem had to do with foreign currency debt, Indonesia's problem was its current account deficit.

Overall, 2019 looks likely to be a more challenging year for the Muslim world. Even the Muslim nations that successfully withstood pressures in 2018 would need to strengthen their domestic economies and improve resilience. The gathering clouds of global political and economic uncertainties simply mean that governments and policymakers have to be even more watchful this year than the last.

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