

**Goodbye 2017, Hello 2018
Brighter Prospects, Optimistic Markets, Challenges Ahead**



The International Monetary of Fund (IMF) has recently on January 22, 2018 released its latest economic report titled Brighter Prospects, Optimistic Markets, Challenges Ahead.

According to the report, the global economic activity continues to firm up. The global economic growth is estimated to grow by 3.7% in 2017, which is 0.1 percentage point higher than the earlier forecast in October 2017.



The pick-up in the growth has been broad based, with notable upside in Europe and Asia.

For 2018 and 2019, global growth have been revised upward by 0.2 percentage point to 3.9%. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

The U.S. tax policy changes are expected to stimulate activity, with the short-term impact in the United States mostly driven by the investment response to the corporate income tax cuts.

The effect on U.S. growth is estimated to be positive through 2020, cumulating to 1.2 percent through that year, with a range of uncertainty around this central scenario.

Due to the temporary nature of some of its provisions, the tax policy package is projected to lower growth for a few years from 2022 onwards.

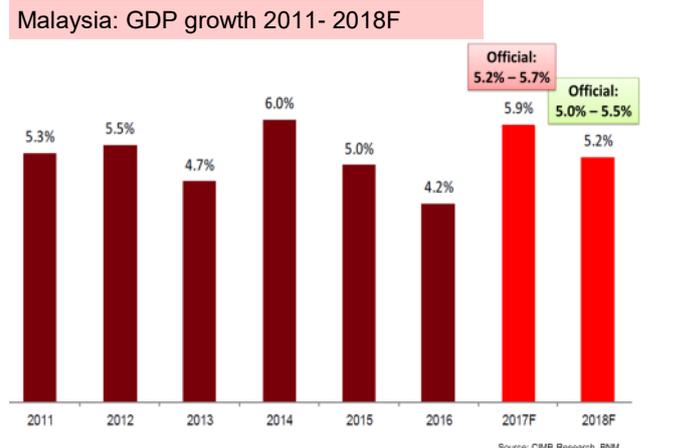
The effects of the package on output in the United States and its trading partners contribute about half of the cumulative revision to global growth over 2018 – 2019.

For Malaysia, the economy is expected to grow within the upper range of the official forecast of between 5.2% and 5.7% for 2017 and between 5.0% and 5.5% for 2018. Although growth for 2018 is slower than the projected for 2017, this is attributed to a stronger base in 2017.



It is interesting to note that Malaysia's projected GDP growth of 5.2% - 5.7% in 2017 and for 2018 is higher than the projected growth of emerging markets & developing economics under IMF's projection of 4.7% and 4.9% respectively showing a significant contribution from Malaysia besides the GDP giants such as China and India.

One area of concern moving forward is the increasing inflation rate.



US Tax Policy Changes

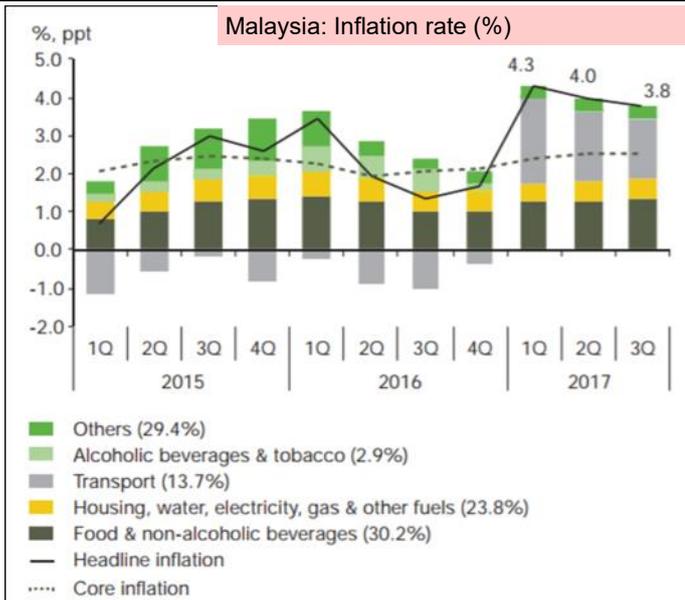
On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act. It cuts the corporate tax rate from 35 percent to 21 percent beginning in 2018. The top individual tax rate will drop to 37 percent. It cuts income tax rates, doubles the standard deduction, and eliminates personal exemptions. The corporate cuts are permanent, while the individual changes expire at the end of 2025.

The reduction of corporate income tax to 21% is the lowest since 1939 and US has the highest corporate income tax in the world. At 21%, it is lower than the average tax rate in OECD countries as well as many countries in Asia/ASEAN. Malaysia's corporate income tax is 24%.

Trump's tax plan advocates a change from the current "worldwide" tax system to a "territorial" system. Under the worldwide system, multinationals are taxed on foreign income earned and many corporations leave their income parked overseas. Under the territorial system, they aren't taxed on that foreign profit and the change will encourage them to bring back the income to reinvest it in the United States.

Malaysia's tax system is based on 'territorial' system.

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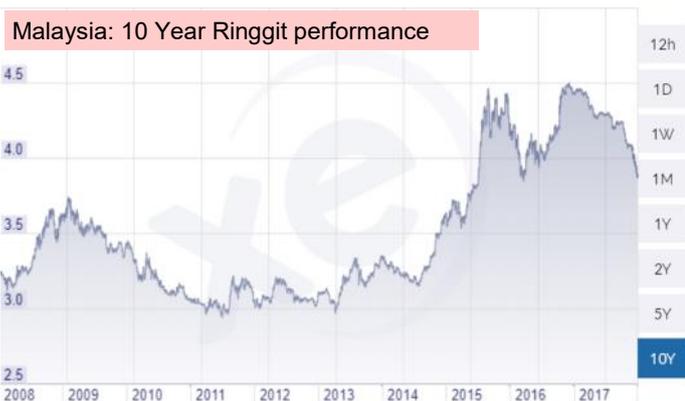


The December headline inflation inched higher to 3.5% YoY in December as compared with 3.4% YoY in November due to the increment in fuel of 11.5% YoY vs 10.8% YoY in November and food of 4.1% YoY in December vs 4.0% in November.

In 2017, inflation rate rose to 3.7% yoy as compared with 2.1% yoy in 2016.

As a result of the above, the Bank Negara on January 25, 2018 had the Overnight Policy Rate (OPR) by 25 basis points from 3.00% to 3.25% to tame the inflationary pressure.

To the man on the street, the growing inflation is impacting costs of living. The average price of the 'nasi campur' and 'teh tarik' is rising despite assurances and measures from Government to manage the rising costs of living.



The Ringgit has strengthened against most of the major currencies across the world on the back of improving economic activities in the country.

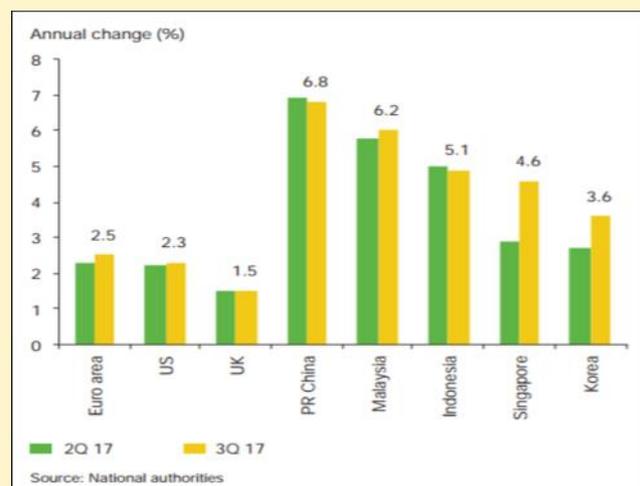
The Ringgit had broken the psychological barrier of RM4.00 against USD since the beginning of 2018 and continues to strengthen against the USD. As of January 25, 2018, the Ringgit further strengthen to RM3.87150 against USD and this is a good sign for Malaysian as their buying power internationally improves.

While these are the good news on the global and the Malaysian economy, there are also risks that need to be observed throughout the year. Among the risks that might disrupt the economic growth would be as follows:

- ◆ Geopolitical uncertainty which include the continuous tension between the U.S and North Korea.
- ◆ Domestic uncertainty on whether there will be a change of government post 14th General election.
- ◆ Cost push inflation
- ◆ Trade protectionism
- ◆ Faster than expected monetary tightening

BizWatch

The year 2017 has witnessed most of the economies across the globe registering commendable growth as illustrated in the chart below.



The strong economic growth registered was contributed by the accommodative monetary policy and quantitative easing program embarked by major central banks. The historical low policy rates of between 0% and 0.25% as well the massive amount of money injected to the economies since the US subprime crisis has started showing positive signs to the economies.

For Malaysia, the country is expected to grow between 5.2% and 5.7% in 2017 and between 5.0% and 5.5% in 2018 as compared with growth of 4.2% in 2016 supported by the improving world economic situation as well as strong domestic activities.



For Iskandar Malaysia, the region is expected to grow by 6.6% in 2017 supported by the implementation of projects and economic activities taking place such as the continuous development in Forest City, Capital 21 Entertainment Mall, Sunway Citrine Hub and many more.....We can expect more happenings in 2018 with the completion of more strategic projects.

Malaysian Passport Climbs Global 2018 Passport Ranking Index



Malaysians with wanderlust will be happy to note that the Malaysian passport has climbed up one spot globally to 12th place in the latest edition of the Henley Passport Index.

Malaysia is the second highest ranking country in South-East Asia after Singapore, according to the index (formerly known as the *Henley & Partners Visa Restriction Index*) which looked into the travel freedom of countries based on an authoritative database of travel information.

The index, a collaboration between global residence and citizenship advisory firm Henley & Partners and the International Air Transport Association, indicated that Malaysia now offers visa-free travel to 166 countries instead of 164 countries.

Henley & Partners Singapore managing partner Dominic Volek said the need for visa-free access to global markets, whether it be for business or leisure, is more important than ever before.

"We live in a challenging economy today. Looking at factors such as the US travel ban, isolationist and protectionist practices, it is evident that that seamless global mobility will continue to face impediments that need to be bridged," he said.

Globally, the Malaysian passport is ranked markedly higher compared to several other countries in the region this year.

Thailand ranks in 64th place with visa-free access to 73 countries. Indonesia and the Philippines share the 72nd spot with three other countries on the index, allowing its passport holders visa-free travel to 63 countries.

The new ranking is good news for the Malaysian passport that loses its ground in last year's index by placing 13th globally.

Why is it important to have visa-free access?

Malaysia is attracting more and more multinational corporations (MNCs) to set up their regional operations. The focus of Global Business Services (GBS) in Medini and Iskandar Malaysia continues to draw more MNCs to base their back office operations. The ability of the staff (especially Malaysian employees) to travel to different overseas countries (or with visa-free access) can be an important determinant on the location of the knowledge centre or GBS office. This could be one of the important factor why many MNCs are located in Singapore.

BizWatch

Henley's Top 5 in 2018

Rank	Country	No of Countries Accessible
1	Germany	177
2	Singapore	176
3	Denmark, Finland, France, Italy, Japan, Norway, Sweden, United Kingdom	175
4	Austria, Belgium, Luxembourg, Netherlands, Spain, Switzerland	174
5	Ireland, Portugal, South Korea, United States	173
12	Malaysia	166
22	Brunei	153
64	Thailand	73
72	Indonesia, Philippines	63

Malaysia & Singapore Sign Agreement on RTS Link



Malaysia and Singapore on January 16, 2018, signed a bilateral agreement on the 4 km Rapid Transit System (RTS) Link between Johor Bahru and Singapore at the 8th Singapore-Malaysia Leaders' Retreat.

The cross-border mass rapid transit system, first announced in 2010, will run from Bukit Chagar in Johor to Woodlands North station in Singapore.

The RTS Link will be able to carry up to 10,000 passengers per hour in each direction once ready in 2024 and can translate into additional capacity of 60,000 users crossing the Causeway during peak hours.

Prime Minister Datuk Seri Mohd Najib Razak and Singapore Prime Minister Lee Hsien Loong witnessed the signing of the agreement by Singapore Coordinating Minister for Infrastructure and Minister for Transport Khaw Boon Wan, and Minister in the Prime Minister's Department Datuk Seri Abdul Rahman Dahlan at the Istana in Singapore.

Malaysia & Singapore Sign Agreement on RTS Link (cont.)

The RTS is expected to shorten the travel period between both countries to 30 minutes from more than one hour by road currently.

Najib said the RTS would provide seamless connectivity.

Acknowledging that it is a complex project, but very do-able, Najib said the technical challenges could be overcome and was very optimistic that the RTS could change the nature of connectivity between Malaysia and Singapore in the future.

He said both countries were looking at increasing Keretapi Tanah Melayu Bhd (KTMB) shuttle frequency to Woodlands from 26 trips to 31 trips. The current KTMB shuttle from JB Sentral to Woodlands CIQ takes 5 mins while the overall journey (inclusive of CIQ clearance) may take up to 30 mins or more.

Apart from that, the two countries are also looking at reviewing tolls at the Second Link to make it attractive for people to use as one of the ways to ease congestion at the Causeway,

The enhanced connectivity will also boost economic cooperation in Iskandar Malaysia," Lee added.

For ease of commute, the RTS Link will have co-located Custom, Immigration and Quarantine (CIQ) facilities in both the Bukit Chagar station in Johor Baru and Woodlands North station in Singapore.

"Passengers travelling in either direction will clear both Malaysia and Singapore authorities at the point of departure, and need not go through immigration clearance again at the point of arrival," the joint media statement release on the above event said.

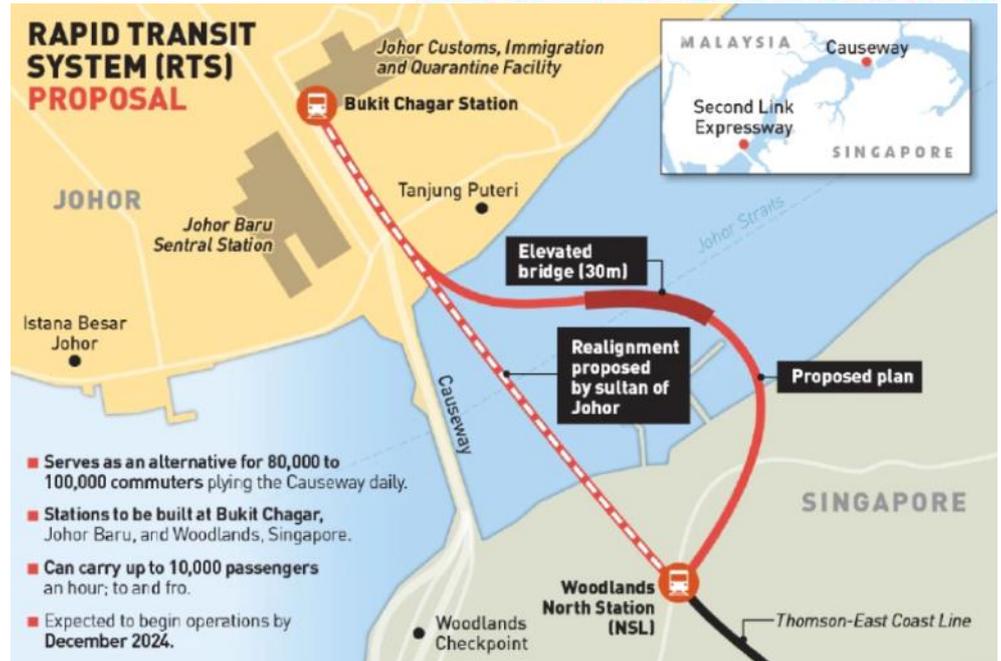
ROUTE, MAINTENANCE AND APPOINTMENT OF INFRASTRUCTURE COMPANIES

The media release also said the service will cross the Straits of Johor via a 25-metre high bridge linking both the stations. It said the RTS Link will utilise the same "four core systems" as the upcoming Thomson-East Coast Line (TEL). These systems include the same trains, signalling system, communications system and the Integrated Supervisory Control System.

Heavy maintenance will be outsourced to SMRT Trains, which will operate TEL. This will be done at its Mandai Depot, although there will also be a light maintenance facility at Bukit Chagar.

Each country will appoint an Infrastructure Company (InfraCo) to fund, build, own, maintain and renew the civil infrastructure and stations within their territories. In Malaysia, the InfraCo will be Prasarana Malaysia Berhad, while LTA will be Singapore's InfraCo.

Both governments will also jointly appoint an operating company (OpCo) to own, design, build, finance, operate, maintain



and renew the RTS Link's operating assets such as trains, tracks and systems. Under the terms of the agreement, the OpCo for the first concession period of 30 years, will be a joint venture between a Malaysian and a Singaporean company.

These companies are Prasarana from Malaysia and SMRT Corporation in Singapore.

The companies have committed to incorporate the JV (Joint Venture) by 30 June 2018, and to sign the concession agreement by 30 September 2018. Subsequent concessions will be awarded through open tender," the statement said.

High Speed Rail Project

To a question on the criteria both governments would use in choosing the winning bidder for the assets company (AssetsCo) for the high-speed rail (HSR) project, Najib said it would be a comprehensive assessment, multidimensional assessment and would not only take into account technical and cost, but also longevity of the project, which means life cycle cost, maintenance and to maximise local content.

Since the countries called for a joint tender for the AssetsCo last month, there has been a strong international interest, he said, adding that the procurement would be done in a fair, open and transparent manner.



Editorial

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