TIMBER DESIGN & TECHNOLOGY

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Malaysia's Response to COVID-19 and the State of its Timber Industry

Image credit: MTC

The world had yet to fully recover economically from the post-2009 Global Financial Crisis (GFC) when it was hit by a bigger challenge in the form of the Coronavirus 2019 (COVID-19) pandemic, which is touted as one of the worst 'black swans' the world is experiencing. The World Bank is estimating the global Gross Domestic Product (GDP) to be hit harder than even the GFC, going deeper into the negative territory as more countries struggle to contain the pandemic.

Lockdown Measures and the State of Malaysian Economy

Malaysia's response strategy against COVID-19 centered on its 6R recovery plan – Resolve, Resilience, Restart, Recovery, Revitalize and Reform – where lockdown measures fell within the 'Resolve' stage, which involved the Movement Control Order (MCO), Conditional Movement Control Order (CMCO) and Recovery Movement Control Order (RMCO), which has now been extended to 31 December 2020.

MCO consisted of four phases and served as the basis of the latter two types of movement control orders. The restrictions covered, among others, the general prohibition of social activities and gatherings. Travellers were restricted from going to Malaysia, while outbound travels by Malaysians were also restricted and returning citizens were subjected to a 14-day quarantine. Schools and other government and private premises were closed with the exception of a number of 'essential' sectors and services with many operating at half capacity with strict adherence to health and hygiene standard operating procedures (SOPs) set by the Ministry of Health (MOH).

The imposition of CMCO relaxed most of the restrictions enforced during the MCO as most economic sectors were allowed to operate. Businesses were required to enforce social distancing policy at their premises and set up a contact tracing measure by recording the details of their customers and/or workers. Most social activities were still restricted except for non-contact sports and small gathering of not more than 10 persons. Interstate travels were also restricted to avoid cross-infection among high-risk and low-risk states.

The current stage of MCO is the RMCO – the fourth stage of the 6R recovery plan – where it is geared towards reviving the economy for the short-term once the infection rate of COVID-19 is under control. Under the RMCO, almost all economic and social activities, including interstate travels are allowed while observing the usual new normal SOPs. However, mass gathering and activities with mass audience are still banned.

Image credit: MTC

Malaysia was also affected by disrupted global supply chains due to lockdown measures imposed at different timings by its major trading partners, which act as important logistical and import-export hubs such as Singapore and China. Businesses in the country were reportedly losing as much as RM 2.4 billion (USD 550 million) every day when Malaysia imposed the MCO from March 18 to May 3, 2020.

The impact of MCO could be seen from the report by IHS Markit Malaysia Manufacturing Purchasing Managers' Index (PMI) standing at 45.6 in May compared to 31.3 in April, 48.4 in March, 48.5 in February and 48.8 in January 2020 as concerns on the lockdown situation in China and deteriorating global trade and consumer confidence picked up. The situation improved in June and July 2020, however, with the index showing an expansionary trend by sitting at 51.0 and 50.0 levels, respectively, as the economy reopened during CMCO and further restriction relaxation during RMCO. A number further below 50.0 in the PMI denotes a more severe contraction in manufacturing activity.

The recently released trade figures up to July 2020 matched analysts expectation with Malaysia's exports declining 6.8 percent year-on-year to RM 541.5 billion (USD 127 billion) and imports falling by 7.4 percent year-on-year to RM 451.8 billion (USD 105.9 billion). Exports of timber products also suffered, decreasing by 9.1 percent to RM9.6 billion (USD2.2 billion) while, in contrast, imports exponentially increased by 13 percent to RM3 billion (USD702 million) in the first six months of 2020.

In addition, the unexpected oil price crisis stemming from the dispute within the Organization of the Petroleum Exporting Countries (OPEC) and Russia had caused oil prices to tank and the Ringgit to depreciate from RM 4.09 per US dollar on December 31, 2019 to as low as RM 4.44 per US dollar on March 23, 2020 before recovering to RM 4.15 per US dollar on September 2, 2020. Taking these and other headwind factors at the global landscape into account, the World Bank, in its June 2020 Global Economic Prospects, has estimated Malaysia's economy to shrink by 3.1 percent in 2020.

Government and Private Initiatives

The government of Malaysia recognised the threat of COVID-19 to the economy and its people, starting from the first positive cases back in January 2020 and had taken measures to support businesses and salaried persons to temporarily insulate them from the abrupt negative impacts of the pandemic and MCO.

The over RM 260 billion (USD 59.6 billion) PRIHATIN stimulus package was rolled out for three reasons: to protect the people, to support businesses and strengthen the economy. Of this amount, RM 110 billion (USD 25.2 billion) was allocated to support businesses. The stimulus package was worth 17 percent of the country's GDP, compared to RM 67 billion (USD 15.2 billion) or 8 percent of GDP rolled out during the 2009 Global Financial Crisis.

Image credit: MTC

Among the programmes and incentives provided by the government for businesses under the PRIHATIN Stimulus Package were deferment/exemption of statutory contributions, tax, and levy; reduction of operating cost; and financing facilities/relief, among others.

The Malaysian government also injected further assistance to businesses through the PENJANA Short-Term Economic Recovery Plan worth RM 35 billion (USD 8 billion) on the verge of entering the 'Recovery' stage of the 6R Recovery Plan. The plan, partly supplementing the PRIHATIN package, also expands the coverage of the earlier stimulus plans for the benefit of micro businesses and SMEs.

In August, the government supplemented towards the COVID-19 recovery fund through the issuance of Sukuk Prihatin worth RM 500 million (USD 117.2 million) with a profit rate of 2 percent. The proceeds from this programme will contribute, among others, towards financing micro SMEs, particularly women entrepreneurs.

Timber Industry

The commodities sector including the timber industry in Malaysia, under the Ministry of Plantation Industries and Commodities (MPIC), received a special approval from MOH to continue operating during MCO. As of May 4, 2020, more than 30 percent of the timber-based manufacturers and processors had received the approvals to operate.

The Malaysian Timber Council (MTC) played an active role in getting, analysing, and channelling feedback from the industry on issues related to the MCO to the relevant ministries and agencies for further action in facilitating the smooth operation of the timber industry. The Council also worked closely with the Ministry of International Trade and Industry (MITI) and the Malaysian Timber Industry Board which helped evaluate and approve the companies to operate during the MCO.

MTC had also conducted an industry-wide survey on the impact of MCO on the Malaysian timber industry in April 2020. Majority of the respondents were small and medium enterprises (SMEs) employing between 5 to 75 employees and earning between RM 300,000 to RM 3 million annually.

The respondents ranked the issue of loss of income as the top impact of COVID-19 and the MCO. This was followed by financial challenges, unable to fulfil existing orders, difficulty in obtaining raw material/components, postponement of orders and staffing problems.

Manufacturers also cited the availability of raw materials and input components as problems. Most of the companies employed cost-saving measures which included changing their business models, downsizing, diversifying their business into other sectors or increasing their product range, diversifying sources of raw material and components as well as embarking on digital transformation.

Image credit: MTC

MTC conducted another survey between June 1 – 2, 2020 where 90 percent of the companies surveyed had resumed operations whereas 60 percent respondents replied that they were operating at more than 70 percent capacity after the implementation of the CMCO. The survey also found that 63 percent of the respondents had resumed export activities with the US, Japan and Australia being the top three destinations.

Several consultation sessions on managing the impact of the COVID-19 pandemic were also held with major timber associations and key industry players. Among the concerns highlighted were the slowing global and domestic demand, cashflow management, order fulfilling issues, sustaining workforce, and losing business to competitors.

The survey findings and consultation discussions have been crucial towards MTC making a drastic change to its operation model and revising its activities for 2020 to help the timber industry build resilience during this crisis and sustain businesses. MTC has recalibrated its budget to focus on initiatives that will increase the timber industry's productivity and capabilities as well as to leverage on digital platforms and channels for more effective promotional and communication programmes.

Way Forward

The global economic landscape will remain challenging until a reliable vaccine to COVID-19 is found and mass produced. The timber industry in Malaysia will also experience the downturn cycle. However, with the right corrective measures in place, businesses can remain viable. The government of Malaysia has signalled of more assistance to stimulate the economy and businesses to weather the storm once it has assessed the impact of the PRIHATIN Stimulus Package and PENJANA Short-Term Economic Recovery Plan.

MTC, too, in line with the aspiration of the country, will continue to take necessary measures in view of the challenges faced by the timber industry, to sustain its business and emerge more resilient after the crisis.

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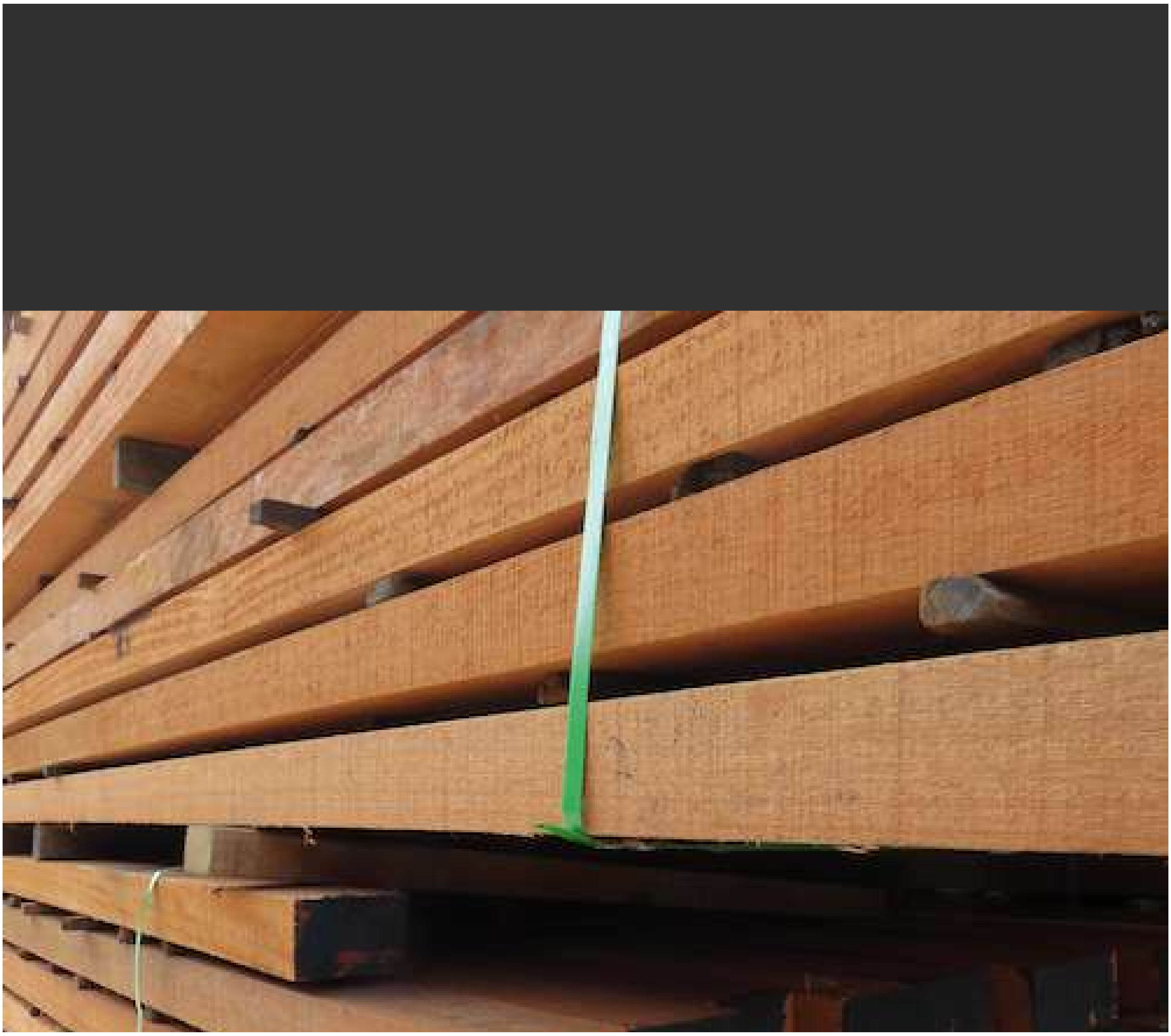

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