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SHIFTING STRATEGIC PRIORITIES

In *The Pandemic Is a Portal*, Booker prize-winner Arundhati Roy writes: "Historically, pandemics have forced humans to break with the past and imagine their world anew." The COVID-19 pandemic is no different. So, what does the pandemic mean for the strategic priorities of industries and businesses?

Risk to the global growth outlook remains firmly on the downside given the high likelihood of spillovers and spillbacks across countries. The situation is dire for trade-dependent economies. Global goods trade has contracted sharply, as evidenced by the steep fall of the World Trade Organization's Goods Trade Barometer to 87.6 in May 2020 from 95.5 three months earlier.

According to the Asian Development Bank, GDP growth in Southeast Asia will likely decline by 2.7% in 2020 before recovering and growing by 5.2% in 2021. On August 14, 2020, Bank Negara Malaysia announced that the Malaysian economy contracted by 17.1% year-on-year in 2Q2020 (1Q2020: 0.7%), more severely than that experienced in 4Q1998 (-11.2%) during the height of the Asian Financial Crisis.

On the supply side, only agriculture registered growth (+1.0%) while other sectors suffered steep contractions. For example, manufacturing and services, the two largest contributors towards Malaysia's national output with shares of 22.3% and 57.8%, saw output contracting by 18.3% and 16.2%. Real GDP in China, Malaysia's largest trading partner with a market share of around 16.0%, did rebound by 3.2% in 2Q2020. However, the pick-up in manufacturing activities in China had not been enough to support our manufactured exporters.

A recession in 2020 is a foregone conclusion. However, it is important to note that the downturn is largely due to the residual impact from restrictions imposed under the MCO and not because of a material change in Malaysia's economic fundamentals. In any case, we expect the decline in economic activity to be less severe in 2H2020 as domestic and external conditions slowly improve. As the growth numbers will likely remain negative for the rest of the year, we expect full year GDP growth in 2020 to come in at between -5.5% and -7.0% (BNM: -3.5% to -5.5%). As for 2021, we forecast growth to rebound to between +6.2% and +6.7% (BNM: +5.5% to +8.0%) due to the low base effect.

For businesses, the situation is unprecedented. According to the results of a recent survey by the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), 4.5% of respondents indicated they will most likely cease operations altogether while 24.1% say a lot will depend on how long the pandemic's impact lasts. It does not help that the global economy had been facing potentially devastating tail risks even before the pandemic outbreak.

Technology has emerged as a salvation for some businesses. Robots, for example, are being used to do disinfection work and to prepare food. Over the long term, however, a key issue for many businesses will be finding a suitable balance between what worked in the past and what will be needed to survive in the new world. The pandemic, which has fast-tracked decoupling and reshoring of economic activity, has overturned fundamental assumptions underpinning many business models. These developments have, as such, triggered a reassessment of several beliefs.

A case in point is supply chain efficiency versus supply chain resilience. The COVID-19 pandemic has forced many companies in goods-producing value chains to rethink just-in-time supply chains. In an environment of rising volatility, uncertainty, complexity and ambiguity, disruptions are the new normal. According to a recent McKinsey Global Institute study, supply chain disruptions lasting a month or longer now happen, on average, every 3.7 years.

Against this backdrop, just-in-case supply chains trump just-in-time supply chains in terms of resilience. This is because in just-in-case supply chains, businesses build contingency plans into every link and choose essential alliances, rather than transactional ones. While the cost of doing business will inevitably rise, just-in-case supply chains will improve resilience and consequently corporate survivability.

It is safe to say that the strategic priorities of businesses will continue to evolve rapidly as new challenges emerge in the pandemic-hit world. Nations will also need to shift their strategic priorities and adapt the rules of the game to new realities. This needs to happen if both governments and firms are to successfully navigate this uncertain period between shock and recovery.

This article is co-authored by The Malaysian Institute of Certified Public Accountants (MICPA) & Malaysian Rating Corporation Berhad (MARC)