JOINT RELEASE BY
THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (MICPA)
AND MALAYSIAN RATING CORPORATION BERHAD (MARC)

APRIL 23, 2021

IT'S SURVIVABILITY, NOT ECONOMIC EFFICIENCY

The grounding of the mega golden-class container ship Ever Given in the Suez Canal for close to a week on March 23 and causing a global traffic jam provides many lessons. An obvious takeaway from the incident is that bigger container ships, while probably making sense from the perspective of economic efficiency, are more unwieldy and therefore riskier to operate.

The incident raises questions about the vulnerabilities of our current transport system, and in turn, global supply chains. We expect it to give the world a further nudge towards the redrawing of supply chains. This redrawing, driven in large part by the US-China trade dispute, has led to trade and investment diversions. Over these past three years, America has introduced tariffs worth USD550 billion on Chinese-made goods, and China USD185 billion on American-made goods.

Given these trade tariff developments, China has announced a new economic strategy. The strategy is aimed at cultivating domestic demand, capital, and ideas, as well as diversifying its supply chains to ensure access to technology and know-how without pressure from geopolitical competitors. This is interesting because the strategy flies in the face of the theory of comparative advantage. The upshot of this theory is that everyone gains from trade when they focus on goods and services that they can produce at a comparatively lower cost.

China's strategy will complicate things in a globally connected world upended by COVID-19. The pandemic has brought about a sharpening sense of urgency about problems that have long simmered in the background. It has accelerated the Fourth Industrial Revolution, which while promising huge benefits, will also exacerbate and create further inequalities. This is important because a widening digital gap can worsen societal fractures.

In the face of multi-dimensional challenges and risks, governments and businesses thus face many difficult choices. There is a lot to do and ponder over.

For Malaysian policymakers, there will be, among other things, renewed focus on keeping the country relevant in the global arena. For example, how can Malaysia position itself in terms of policy space to become a more attractive destination for foreign direct investment (FDI) so that it can benefit more significantly from expected further investment diversions? While doing this, they will need to avoid being distracted by the pandemic and economic contraction from the important task of creating new opportunities fundamental to social cohesion and viability of the population.

Unfortunately, the recent spate of news reports about high-profile FDIs bypassing Malaysia raises the concern that the country has lost a lot of its shine as an investment destination. This despite its high ranking (12 out of 190 countries) in the World Bank's Doing Business 2020 report. The list of FDIs bypassing Malaysia includes the following:

a) Tesla building a factory in Indonesia;
b) Amazon building a localised data centre in Indonesia;
c) Alibaba setting up a regional headquarter in Singapore; and
d) Facebook and Google planning to lay two huge subsea cables to connect the US to Singapore and Indonesia.

The concerns of corporate strategists are no less important given that, among other things, firms' survivability will consequently impact jobs and national output. At best, they could be left behind in the markets of the future; at worse, they might disappear completely. As it is, weak firms are already being winnowed out at an unprecedented pace.

For a start, firms will have to become more proactive, agile, and flexible in the way they run their operations to ensure survivability. They will have to, among other things, consider the impact of China's new strategy that flies in the face of the theory of comparative advantage. In other words, they will have to start running scenarios of how best to face the possibility of Asia's largest economy becoming less dependent on Malaysian supply chains.

The primary aim of firms – particularly in the pandemic environment – should be about improving survivability, not economic efficiency amid a fast-evolving geopolitical, geo-economic, and technological landscape. From the perspective of firms when choosing alliances, they may now need to favour resilient partners who are not necessarily economically efficient choices. They may also likely need to seriously consider a regional strategy of producing a substantial proportion of key goods within the region where they are consumed to ensure the timely, sustained, and uninterrupted supply of goods of assured quality.

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