

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

SUMMARY

The global economic and health crises caused by the coronavirus 2019 (Covid-19) pandemic have pulled the world's activities down to a halt as positive cases and deaths climbed since December 2019 and with many countries put into lockdown. Malaysia was not spared when its economic indicators, trade statistics and feedback from individual businesses showed a worrying trend of economic contraction due to the Movement Control Order (MCO) which was implemented by the Malaysian government to contain the pandemic. While the timber industry has been granted a special approval to operate under strict SOP during the MCO, it is facing mounting challenges like other business sectors to survive as supply and demand both in domestic and overseas markets were disrupted, posing cashflow issues to timber companies and other supporting industries. The government of Malaysia recognises these concerns and has rolled out the RM260 billion *PRIHATIN* Stimulus Package and the RM35 billion *PENJANA* Short-Term Economic Recovery Plan to assist the people and businesses to weather the Covid-19 storm.

Together with many public and private sector organisations, the Malaysian Timber Council (MTC) played a vital role in facilitating the smooth operation of the timber industry in getting, analysing and channelling feedback from businesses to the government through consultation sessions and two industry-wide surveys. MTC is also transforming its operation model and activities to suit the urgent need of the timber industry and together with the cooperation and collaboration among various ministries, agencies and the private sector, MTC will play its role to ensure that the Malaysian economy and timber industry will emerge to be more resilient post-Covid-19.

ARTICLE

The world has yet to fully recover economically post-2009 Global Financial Crisis (GFC) when it was hit by a bigger challenge in the form of the ongoing coronavirus 2019 (Covid-19) pandemic which has paused economic activities across most parts of the world as economies struggled to contain the infectious disease. Covid-19 is touted as the worst 'black swan' or unexpected global event than the past few crises the world has experienced due to the fact that it affected the movement of goods and people on health concerns.

Lockdown Measures and the State of Malaysian Economy

The response strategy by Malaysia against the mounting risk of widespread infection of Covid-19 could be defined within the 6R recovery plan – Resolve, Resilience, Restart, Recovery, Revitalise and Reform – where the lockdown measure falls within the "Resolve" stage and could be categorised into three types: the Movement Control Order (MCO), Conditional Movement Control Order (CMCO) and Recovery Movement Control Order (RMCO).

MCO consists of four phases and serves as the basis of the latter two types of movement control order. The restrictions cover, among others, the general prohibition of social activities and gatherings including religious, sports and cultural activities. Travellers are banned from going into Malaysia, while outbound travels by Malaysian are also banned and returning citizens would be subjected to a 14-day quarantine. Schools and other governments 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 (SOP) set by the Ministry of Health (MOH).

The imposition of CMCO voids most of the restrictions enforced during the four phases of MCO as most economic sectors are allowed to operate. Businesses are required to enforce social distancing policy at their premises and workplace as well as setting up a contact tracing measure by recording the details of their customers and/or workers. Most social activities are still banned with the exception of non-contact sports and small gathering of not more than 10 persons. CMCO was also active throughout the earlier part of the major festive season of *Eid al-Fitr* with interstate travels are banned 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 RMCO, almost all economic and social activities are allowed, such as education, religion and non-contact sports while observing the usual new normal SOPs. However, mass gathering and activities with mass audience are still banned. Interstate travels will now be permitted without restrictions at interstate borders. Details of the implementation of each movement control order is as per **Appendix I**.

Malaysia, as a trading nation, is not exempted from the impact of Covid-19 as it was also affected by the disrupted global supply chain stemming from lockdown measures imposed at different timing by its major trading partners which act as important logistical and import-export hubs such as Singapore and China. Businesses in the country are reportedly losing as much as RM2.4 billion (USD550 million) every day when Malaysia imposed MCO from 18 March to 3 May 2020 as most companies other than those labelled as “essential” were restricted from operating.

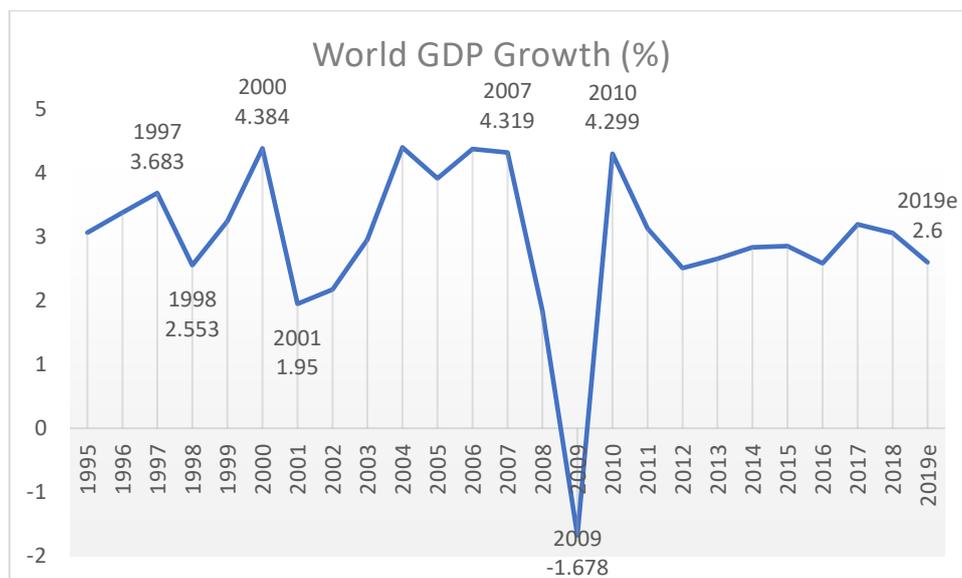


Chart 1: Historical GDP growth rate of the world pre- and post-crisis (*e – estimate). [Source: World Bank]

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 2020 however, with the index showing an expansionary trend by sitting at 51.0 level as the economy reopens 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 May 2020 matched analysts expectation with Malaysia’s exports declining 9.7% year-on-year to RM366.16 billion (USD77.3 billion) and imports falling by 7.5%

year-on-year to RM322.41 billion (USD74.1 billion). Exports of timber products also suffered, decreasing by 10.3% to RM6.41 billion (USD1.48 billion) while, in contrast, imports exponentially increased by 17.4% to RM1.97 billion (USD455.4 million) in the first four months of 2020.

Product	Import (RM mil)		% Change Year-on-Year	Export (RM mil)		% Change Year-on-Year
	Jan-Apr 2019	Jan-Apr 2020		Jan-Apr 2019	Jan-Apr 2020	
Logs	50.5	26.5	-47.6	272.8	183.8	-32.6
Sawntimber	180.7	169.6	-6.2	1,178.1	734.5	-37.7
Plywood	358.0	320.9	-10.3	1,244.4	1,088.8	-12.5
Veneer	150.5	146.9	-2.4	66.9	36.3	-45.5
Mouldings	35.4	27.9	-21.2	306.0	219.4	-28.3
Chipboard/ Particleboard	75.3	61.2	-18.8	107.5	92.4	-14.1
Fibreboard	46.3	41.7	-10.0	380.9	276.8	-27.3
Wooden Frame	3.2	4.9	56.0	44.0	24.4	-44.5
Builders' Joinery and Carpentry	39.0	37.3	-4.2	317.0	267.0	-15.8
Wooden Furniture	6.8	4.7	-31.1	2,649.3	2,622.5	-1.0
Other Products	434.7	620.8	42.8	574.0	862.7	50.4
Total	1,676.5	1,967.4	17.4	7,141.0	6,409.0	-10.3

Exhibit 1: Malaysia's timber products trade performance for January-April 2020. [Source: DOSM, MTIB]

In addition, the unexpected oil price crisis stemming from the dispute within the Organization of the Petroleum Exporting Countries (OPEC) and Russia has caused oil prices to tank and the Ringgit to depreciate from RM4.09 per US dollar on 31 December 2019 to RM4.26 per US dollar on 9 July 2020. Taking these and other headwind factors at the global landscape into account, the International Monetary Fund has estimated Malaysia's economy to shrink by 3.8% in 2020.

To strike a balance between the need to restart economic activities and safeguarding public health, CMCO (4 May – 9 June 2020) and subsequently RMCO (10 June – 31 August 2020) are implemented where almost all economic sectors are allowed to operate at full capacity or, at their respective discretion, self-imposing work schedule rotation to reduce workplace coronavirus infection risk while maintaining strict adherence to the health and hygiene SOPs.

Government and Private Initiatives

The government of Malaysia recognises the threat of Covid-19 to the economy and its people starting from the first positive cases back in January 2020 and has taken measures to support the businesses and salaried persons to temporarily insulate them from the abrupt negative impacts from the pandemic and MCO. The RM260 billion (USD59.6 billion) *PRIHATIN* stimulus package was rolled out to achieve three goals: protecting *rakyat* (the people), supporting businesses and strengthening economy. Of the above amount, RM110 billion (USD25.2 billion) was allocated to support businesses. The stimulus package worth 17% of the country's GDP, compared to RM67 billion or 8% of GDP rolled out during the 2009 Global Financial Crisis

PROGRAMME/INCENTIVES	DETAILS
Deferment/Exemption of Statutory Contributions, Tax and Levy	<ul style="list-style-type: none"> • Employer Advisory Services (EAS) programme for deferral of payments, restructuring and rescheduling of employer contributions to employees' pension fund. • Deferment of Human Resource Development Fund (HRDF) levy payment • Postponement of income tax instalment payments for all SMEs. • Tax deduction for expenses incurred by companies to provide employees with disposable personal protective equipment (PPE).
Reduction of Operating Cost	<ul style="list-style-type: none"> • Discount on electricity bill at 2% discount for commercial, industrial, agricultural and household sectors in Peninsular Malaysia. • Wage Subsidy Programme of up to RM1,200 (USD275) per month for three months to assist employers in retaining workers. • Employment Retention Programme with immediate financial assistance of RM600 per month to every worker forced to take No-Pay Leave (NPL) due to Covid-19. • Improvements to the Employment Insurance System (EIS) Benefits and for Skills Training Programme. • Reduction of levy on foreign workers by 25% for SMEs with employee permits expiring between 1 April 2020 and 31 December 2020.
Financing Facilities/Relief	<ul style="list-style-type: none"> • Six-month moratorium, conversion of credit card balance to term loans and restructuring of corporate loans from banking institutions. • Assistance for Bottom 40% (B40) entrepreneurs and people who lose their jobs. • Increased allocations for micro and soft loan schemes (e.g., Special Relief Facility, All Economic Sector Facility, etc.) for SMEs and micro entrepreneurs. • Increased guarantee coverage for financing for SMEs to increase access to loans (e.g., ProKhas and DanaJamin). • Tax deduction for owners that provide rental reduction or waiver to SMEs.
Others	<ul style="list-style-type: none"> • SME Automation and Digitalisation Facility (ADF) for upgrading, modernizing and rejuvenating SMEs' productive assets. • Moratorium of 30 days for submission of statutory documents by SMEs to the Companies Commission of Malaysia (SSM)

Exhibit 2: Summary of incentives for businesses under the *Prihatin* Stimulus Package. [Source: Government of Malaysia]

The government recently injected further assistance to businesses through the *PENJANA* Short-Term Economic Recovery Plan worth RM35 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 and streamlined and simplified the procedures for applying these offerings which would benefit micro businesses and SMEs.

CATEGORY	DETAILS
Financing for Businesses	<ul style="list-style-type: none"> • Extension of Wage Subsidy Programme. • Incentives to push businesses for e-commerce adoption and consumers on increasing domestic spending on e-commerce platforms. • Expanding soft loan coverage for micro businesses, SMEs and woman entrepreneurs. • Increasing the scope for tax reliefs for businesses

Digitalisation, Technology and Innovation	<ul style="list-style-type: none"> • Grant, matching grant and soft loan facility for SMEs to digitalize operation and innovate. • National Technology & Innovation Sandbox to test new technology.
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Exhibit 3: Summary of relevant incentives for businesses under the PENJANA Short-Term Economic Recovery Plan. [Source: Government of Malaysia]

Numerous consultation sessions among various government agencies, ministries and the private sector took place throughout the various stages of MCO discussing on matters, among others, to fine-tune the implementation of the regulation and SOPs for approved businesses to run during the lockdown period. Surveys were also conducted by government agencies and the private sector to gauge the concerns on the ground among businesses.

SURVEY IMPLEMENTOR	SURVEY DETAILS
Department of Statistics Malaysia (DOSM)	<ul style="list-style-type: none"> • Special Survey on Effects of Covid-19 on Economy and Individual (Round 1) (23 Feb – 31 Mar 2020) • Special Survey on Effects of Covid-19 on Economy and Individual (Round 2) (10-24 Apr 2020)
Malaysian Timber Certification Council (MTCC)	<ul style="list-style-type: none"> • Survey on the Impact of Movement Control Order (MCO) on Forest Management and Chain of Custody Certificate Holders (10-20 Apr 2020)
American-Malaysian Chamber of Commerce (AMCHAM)	<ul style="list-style-type: none"> • COVID-19 and Movement Control Order (MCO) Business Impact Survey (17-24 Apr 2020)
Malaysian Timber Council (MTC)	<ul style="list-style-type: none"> • Survey on the Impact of the Movement Control Order (MCO) to the Malaysian Timber Industry (17-21 Apr 2020) • Survey – Operation Level of the Timber Industry as at May 2020 (1-2 June 2020)
EU-Malaysia Chamber of Commerce and Industry	<ul style="list-style-type: none"> • COVID-19 Survey to Evaluate Impact & Measures to Mitigate the Movement Control Order (MCO) (30 Apr – ongoing)
Federation of Malaysian Manufacturers (FMM)	<ul style="list-style-type: none"> • Survey on Post MCO & Economic Recovery Plan (6-10 Apr 2020)

Exhibit 4: Examples of surveys conducted across industries on the impact of MCO on businesses.

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 and therefore experienced minimal interruption to its operation. As at 4 May 2020, a total of 515 timber product manufacturers and processors have received the approval to operate, making up about 33% of the 1,565 factories registered with the Malaysian Timber Industries Board (MTIB) in Peninsular Malaysia. From that amount, 307 are furniture factories, 72 are sawmills, 96 are moulding mills, 14 are plywood mills and 26 are producing other products. The Malaysian Timber Council (MTC) has also played an active role in getting, analysing and channelling feedback from the industry on issues and suggestions related to MCO to the relevant ministries and agencies for further action in facilitating the smooth operation of the timber industry.

To further add value to its initiative, MTC has conducted an industry-wide survey on the impact of MCO to the Malaysian timber industry in April 2020 where 172 responses were obtained from the

timber companies. From the total number of respondents of the survey, 47% are manufacturers, 35% are exporters while the rest are traders (12%) and importers (6%). A majority of the respondents falls in the small and medium enterprises (SME) employing between five to 75 employees and earning between RM300,000 to RM3 million annually. Meanwhile, the top three exported timber products by the respondents are sawntimber (23%), wooden furniture (19%) and mouldings (15%).

The survey further found that most of the respondents ranked the issue of loss of income as the top significant area of impact caused by COVID-19 pandemic and MCO. This is followed by financial challenges, unable to fulfil existing orders, difficulty in obtaining raw material/components, postponement of orders and staffing challenges. As for their concerns on post-MCO issues, most respondents felt that the slowing global and domestic demand and financial challenges are the top two issues to be faced by businesses, followed by getting new and fulfilling existing orders and the availability of raw material and input components. Most of the companies surveyed also plan to introduce cost saving measures after MCO and possibly change their business model and size, followed by diversifying business into other sectors or increasing product range, diversifying sources of raw material and components and embarking on digital transformation for business operations.

A recently concluded second survey by MTC on the timber industry was conducted from 1-2 June 2020 covering 164 respondents where 29% of the respondents are in the business of furniture, 16% are on sawntimber and 12% are on mouldings. About 82% of those surveyed are manufacturers while the remaining 18% are traders. Ninety percent of the companies surveyed have resumed operations whereas 60% respondents replied that they are operating at more than 70% capacity after the implementation of CMCO. The survey also found that 63% of the respondents have resumed export activities with the US, Japan and Australia the top three destinations.

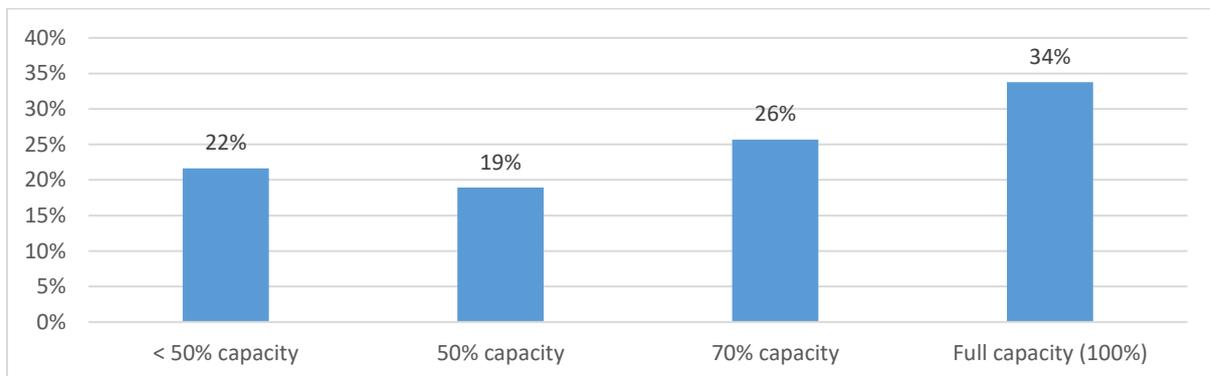


Chart 2: Operating capacity level by the surveyed companies in the 2nd MTC Industry Survey (1-2 June 2020)
[Source: MTC]

Several consultations on managing the impact of the Covid-19 pandemic to the timber industry were also conducted with the major timber associations and key players via online platform. Among the highlights of the findings point towards the concern by these timber businesses on 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 in making a drastic change to its operation model and revision of activities for 2020 to help the industry build resilience during this crisis and sustain their business. MTC has recalibrated its budget to focus on initiatives that will increase the 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 undoubtedly see a prolonged challenging time until a reliable vaccine to Covid-19 has been found and mass produced. The timber industry in Malaysia will also experience the downturn cycle felt equally hard by other economic sectors, hence it would need to reassess its current situation and business model in anticipation of a different way of conducting business post-Covid-19.

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 current *PRIHATIN* Stimulus Package and subsequently the *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 remain in business and to emerge more resilient and innovative after the crisis ends. Together, with continued cooperation and collaboration between the public and private sectors, the country and the timber industry will be more resilient to future crisis.

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Appendix I – Chronology of events during the Movement Control Order and Conditional Movement Control Order in Malaysia

DATE	EVENT DETAILS
March 18	<ul style="list-style-type: none"> • The federal government imposed the Movement Control order (MCO) from March 18 to March 31. • The control order is made under the Prevention and Control of Infectious Diseases Act 1988 and the Police Act 1967. • Essential Services: <ul style="list-style-type: none"> – Water – Electricity – Energy – Telecommunications – Post – Transportation – Irrigation – Oil, gas, fuel, lubricants – Broadcasting – Finance and banking – Health and Pharmacy – Firefighter – Prison – Port and airport – Security and defense – Cleaning – Retail – Food supply • Prohibition: <ul style="list-style-type: none"> – All gathering activities including religion, sports, social and culture – A total restriction on all Malaysians travelling abroad – Restriction on entry of all tourists and foreign visitors into the country – Closing all kindergartens, government and private schools including daily schools, boarding schools, international schools, <i>tahfiz</i> centers and other primary, secondary and pre-university institutions – closure of all public and private higher education institutions (IPTs) and skills training institutes nationwide – closure of all government and private premises except those involved in essential services
April 1	<ul style="list-style-type: none"> • Movement Control Order Phase 2 started from 1-14 April with 10 critical services allowed to operate • Some higher risk municipalities are imposed Enhanced Movement Control Order (EMCO) where no movement is allowed and all businesses are closed with some exceptions. • 10 critical services allowed to operate: <ul style="list-style-type: none"> – Food – Water – Energy – Communication and Internet – Security and defense – Solid waste management and public cleaning sewerage – Health and Medicare including dietary supplement – Banking and finance – E-commerce – Logistic limited to service delivery required

April 15	<ul style="list-style-type: none"> • Movement Control Order Phase 3 started from 15-28 April 2020. • 15 essential sectors allowed to operate: <ul style="list-style-type: none"> – Food – Water – Energy – Communication and Internet – Security and defense – Solid waste management and public cleaning sewerage – Health and Medicare including dietary supplement – Banking and finance – E-commerce – Logistics confined to the provision of essential services – Transportation by land, water or air – Port, dock and airport services and undertakings, including stevedoring, lighterage, cargo handling, and pilotage, and storing or bulking of commodities – Production, refining, storage, supply and distribution of fuel and lubricant – Hotels and accommodations – Any service, work or industry determined as ‘essential’ by the Minister after consultation with authorities regulating the service, work or industry
April 29	<ul style="list-style-type: none"> • Movement Control Order Phase 4 started from 29 April – 12 May 2020, with gradual lifting of restrictions.
May 4	<ul style="list-style-type: none"> • Government implemented the Conditional Movement Control Order (CMCO), voiding the restrictions imposed in MCO Phase 4. • Most economic sectors are allowed to operate based on the regulated SOPs except for activities that include gathering and expose public to the virus infection.
June 10	<ul style="list-style-type: none"> • Recovery Movement Control Order (RMCO) is implemented to last between 10 June – 31 August 2020. • Almost all economic sectors and social activities are allowed with strict adherence to social and hygiene SOPs. • Prohibited activities and premises: <ul style="list-style-type: none"> – Competitions with mass audience, swimming and public pools and contact sports – Pubs and night clubs – Reflexology centres – Karaoke centres – Theme parks • Interstate travels are allowed without restriction.

Source: Government of Malaysia