INSTITUTE OF STRATEGIC ANALYSIS & POLICY RESEARCH

DELIVERING ADDED IMPACT TO THE PRIHATIN ECONOMIC STIMULUS PACKAGE: ADDRESSING THE CONCERNS OF MALAYSIAN SMES, SECTORAL ANALYSIS AND RECOMMENDATIONS

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Summary

This report will highlight areas of focus needed for an added perspective to the challenges facing Malaysian SMEs, the performance of different sectors of the economy, what are the potential remedies and solutions available and where the focus of policy-making should be directed to.

Introduction on SMEs

SMEs remain an integral part of Malaysia's economy, constituting over 98.5% or 907,065 of total registered companies across the nation. According to SME Corp, SME's represent millions of jobs nationally, equating to roughly 66% of total employment and contributes RM521.8bil or 38.3% of total GDP in 2018 as well as being responsible for 17.3% of Malaysia's total exports.

Malaysia's SME landscape is unique in itself, mainly due to government policies during its industrialization period. Since the 1980s, Malaysia has undergone a rapid industrial transformation in its economic landscape, as the government became more centralized in the economic sphere which resulted in many Government-Linked Companies (GLCs) that were in part established to ensure the economic redistribution towards one ethnic group and secondly to enhance the technological and industrial capacity of the domestic economy. This had resulted in a shift in economic entrants, where many from minority communities had migrated towards SME operations resulting in supply chains that are generally networked along ethnic lines. This should be kept in mind as

Effects of the MCO on SMEs

Since the start of the MCO, business operations were ordered to cease placing a huge restriction on the entire national supply chain and creating a cascading effect on all SME operations nationally. Unsurprisingly, SMEs were up in arms about the MCO and the fact that the RM250bil 2020 stimulus package announced by Prime Minister Muhyiddin Yassin did not address the concerns of SMEs specifically, many SMEs felt side lined by the federal government, as the stimulus mostly focused on low-wage earners and government servants as opposed to the concerns of the main employment generators of the nation.

According to the categorization by SME Corp and statistics from DOSM, SMEs can be roughly broken down into three categories - micro, small and medium sized SMEs, which are separated based on annual sales turnovers, micro enterprises have a sales turnover of RM300,000 or less, whereas small to medium have an annual sales turnover of between RM300,000 to RM15mil with definitions further split by sector category (between manufacturing or services).

A breakdown on the total SME sizes reveals that roughly 78.5% of SMEs are in the micro category, 21.2% in the small and 2.3% in the medium categories. Among sectors, 89.2% were in the service sector, 5.3% in manufacturing, 4.3% in construction, 1.1% in agriculture and 0.1% in quarrying and mining. Thus, we can see that the vast majority, almost 9 in 10 SMEs are in services, or 809,102 registered businesses.

The MCO has caused a number of effects on the SME landscape. Notably, supply chains excluding essential services have been highly disrupted, this translates to a vast number of businesses unable to conduct operations, especially in the manufacturing and services sector, with the manufacturing sector suffering a loss in income due to an inability to meet purchase orders and service sectors suffer a loss in supplies used in day to day operations.

A few observations also stand out from the statistics, firstly, the vast majority of SMEs are in the micro category, with 78.5% of SME's having an annual turnover less than RM300,000, this means that in the event of a severe economic disruption, these businesses would not be able to generate the required level of cash reserves to sustain operations for more than a month or 3 months at most.

This will have greater impact as long as the MCO is extended, especially towards the end of the month when financial obligations become due. Therefore, SMEs in the food and beverage industry, retail and hospitality will bear the brunt of challenges from the MCO, as they have to endure major challenges in a drop in cashflow amid rental and payroll obligations.

Secondly, the vast majority (89.2%) of SMEs are employed in the services sector, several services such as hospitality and retail are particularly more labour intensive than other categories, with its consumer demand being more elastic and depends on the performance of other sectors in the overall economy especially since the performance of the service sectors depend on the healthy growth of all other sectors in the economy and is not a closed circuit in itself.

Thirdly, banking institutions are highly correlated to the performance of the SME sector, as they supply 97% of total lending facilities. This makes the banking sector highly and especially exposed to widespread disruptions in the SME sector. In addition to this, with 35.7% of SMEs citing problems with cashflow in 2018, a disruption could send this figure soaring much higher, resulting in widespread illiquidity and a slowdown in operating cashflows.

Concerns from the SME sector

It was recently reported in a published statement by SME Magazine that only one third of SMEs were able to meet cashflow requirements for March. This is extremely worrying as this indicates that one third of Malaysian SMEs are highly dependent on day to day operations to stay afloat.

National President of SME Malaysia, Datuk Michael Kang said that they had been receiving calls since the first day of the MCO where many have highlighted the already challenging environment in business operations and fear the sustainability of their businesses. Therefore, they had organized a survey to collate inputs from all SMEs to establish facts.

According to SME Magazine, only a third of Malaysian SMEs had enough cash flow to last till end of March, this was based on a survey done on the 29 March which had attracted 15,627 responses. This survey dubbed "Business Sustainability of SMEs during the COVID-19 Crisis" and was initially done to gauge the sustainability of Malaysia's SMEs during the COVID-19 crisis and impact from the MCO.

The survey managed to garner 10,000 responses in 5 hours, signalling the severity of situation and the urgency at which SMEs view the current MCO crisis and wish to make their concerns heard. The survey statistics will be explored here.

Survey statistics showed that 59.2% of the survey responses were made by small size SMEs, while micro SMEs made up 22.3% and 18.5% from the medium tier. This represents a heavily skewed representation, departing from the national figure of 78.5% micro-SMEs and with 21.2% in the small and 2.3% in the medium category. However, it may just show how dire the situation is, suppose the small category SMEs are the most concerned, it must be much more severe for the Micro-SME category who have substantially smaller cash inflows and size.

Further, it was noted that 53.3% of SMEs employ less than 75 workers, with 46.7% giving a larger figure. It found that more than half or 51.2% of SMEs project to experience more than RM500,000 in losses within 6 months from March to September 2020. The biggest hurdle for SMEs is in its cashflow with most SMEs in very tight circumstances, the situation of having insufficient to no cash flows is expected to last at least 3 months from the MCO date. Yet despite this, SMEs are still expected to pay full salaries, rental and fixed payments as 33.3% of SMEs report having enough cashflow to sustain until the end of March, and 37.8% stating that they are only able to sustain until the end of April 2020.

Regardless of the purported intention of the RM250bil stimulus package, only 26.3% of SMEs reported that the promised government assistance through the Stimulus Package would help sustain business, and even the promised allocation of RM100bil in loans under the Prihatin Stimulus Package was not perceived to have much positive impact on their businesses. An alarmingly high 77.6% of SMEs stated that they have yet to apply for the Special Relief Fund, due to the fact that many SMEs are already highly leveraged with existing loans and are reluctant to take on more loans. The economic uncertainty for the next 6 months will likely burden payment capability and many SMEs risk going into insolvency. Additionally, of the 22.4% who applied for the Special Relief Loan, 4% had their applications to the bank rejected, this represents 18% of all applications made to the scheme.

Perhaps the most salient point of all, SMEs had different reactions when asked what they were planning to do to manage their employees from April onwards if without a strong backing of support from the government to SMEs. Of the responses, 43.8% had said that they would persuade employees to utilize their own leaves on a voluntary basis, over a quarter or 25.6% said that they will retrench employees and reduce the total amount of people employed. For reference, SMEs employ 66%-70% of workers in the country out of a total of an estimated 10 million strong workforce. Assuming the statistics were accurate, this could potentially translate to possible job losses of up to 2.5 million people. This is a remarkably scary number if the government doesn't manage SMEs well.

To make things worse, business confidence among SMEs were seriously lacking, 82% of SMEs predicted that they would be in the red for the FY20. While 29.2% of SMEs believe that business as usual will only return after 6 months whilst 61.7% believe that normal business operations will only return and stabilize after 9 months.

Concerns from the COVID 19 Special Task Force

There were several concerns voiced by the COVID 19 Special Task Force (CSTF) headed by Shamsul Dawood and was set up to represent the interest of over 100 organizations from the SMEs, SMIs, NGOs and the entrepreneurial community. While the 2020 Stimulus Package had helped alleviate the concerns of workers and daily wage earners, not enough was done to help SMEs weather the disruption caused by the MCO and COVID 19 outbreak.

Particularly, while the government had prioritized the rescheduling and restructuring financial facilities that SMEs have with financial institutions, freeing up more liquidity for companies to sustain operations and staff, the reality on the ground is much different. In reality, the underlying financial accessibility has changed little, noting that all the chambers of commerce and business organizations have received rejections and rebuffs in applying for loan restructuring due to their financial situation. This is owing to the lack of directive from banks at the top, as banks are still concerned with risk mitigation and therefore reluctant to come forward to help proactively.

SMEs suggested that there should be a penalty-free approach in banking facilities that should be extended automatically without risk and without hurting its credit score as allowing banks to cherry pick their preferred investments gives rise to adverse selection, In this regard, the CSTF suggested that all loans registered with affected SMEs should be rescheduled immediately without penalties for late payment or punitive interest rates, lest the interest and penalty payments snowball into a 6-month windfall at the end of the period.

The CSTF suggests that all credit scoring should be waived for the time being, as financial institutions still use internal and external credit scoring like CTOS to determine who should or shouldn't be eligible for refinancing. This is important as this will create unequal social and economic equitability among both SMEs and business communities.

Anecdotal Evidence

In regard to this report, there has also been anecdotal evidence gathered from conversation with an affected individual in the light manufacturing industry which stressed the severity of the situation. Several points were made clear during our conversation.

Notably, it was mentioned by this individual that if the lockdown continues until the 30 April, he would be forced into early retirement by closing down his factory. The underlying reason is that they are not able to afford salaries, rental, instalments, loans and other payments. They further stated that from January till April, a total of 50 days of work will be done (assuming the MCO extend through the month of April) out of a total of 80 (20 working days x 4 months). In addition, he noted that the month of May would bring extra challenges to worker productivity due to the Ramadan fasting month. He mentioned that he was not able to use his out of pocket savings to pay worker salaries and further suggested the possibility to be allowed to use worker bonuses as a retrenchment benefit for workers.

He mentioned that many SMEs were facing a similar crisis, a business colleague in the manufacturing industry of his was facing a severe cash flow crunch, he similarly employs 60 employees and 5 rented factories with instalments paying off the loans acquired for the purchase and leasing of such equipment. His cash flow requirements are therefore very high, at RM300,000 per month and is at risk of losing many years of hard work.

Finally, he stressed that their credit terms were very important, as most Malaysian manufacturers give 60-day credit terms on average and that there were outstanding accounts receivables from December, January and February before the MCO. If the nation were to restart operations in May, they would not be able to meet proper collection of their receivables due since December 2019 as their clients would be unable to pay. This unsettled receivable payment may persist until June or July before they are able to receive payment and they are unable to meet cashflow requirements till then, putting them at risk of closure before the dust settles.

His story echoes the plight of many SMEs throughout the country and if the government is unable to soften the blow in the short term, many hardworking Malaysians are at risk of losing their life's work.

Comments from ACCCIIM

ACCCIM initially expressed general disappointment over the original provisions of financial relief towards SMEs and in easing their cash flow, especially on the wage subsidy and employment retention program after the first announcement of the stimulus package. Mainly, the general consensus was that it had to be enhanced, as the provisions were insufficient to meet the cash crisis SMEs are facing.

Subsequently however, with the revision of the stimulus package to meet the demands of SMEs in the country, the group expressed general satisfaction with the changes and expressed that the government's enhanced financial assistance is much needed not only for now but also for a post-COVID-19 recovery plan as they expect that this crisis would take at least 6-12 months for the economy to contain the spread of the virus and the stabilization of the economy before the economy can return to normalcy.

The enhanced stimulus package it should be noted comes amid an acute drop in cashflow across the board, unprecedented in the history of Malaysia's history. The crisis threatens to push many businesses into bankruptcy and hence more layoffs and redundancies.

They applauded the employee retention programme (ERP) which now provides a RM1,200 wage subsidy per employee per month for a maximum period of six (6) months for employees who earn less than RM4,000 monthly, on the condition that the employer does not terminate their employee and is not allowed to reduce the employees existing salaries. However, they lamented that the special clause that this program be only for companies who has had a fall in revenue by over 50% limits the effectiveness of the program and suggested that this clause be removed as all companies are being impacted by the economic crisis. There were also concerns however that the scheme to encourage rental waivers from building owners in the private sector would be difficult even with the tax deductions on offer.

The group also proposed a Special Payroll Loan Facility to assist companies, especially SMEs in making salary payments to help preserve jobs and income, where the criteria and conditions for access to the funds should be made open to all companies without hassle. This special fund should be made specifically for the payment of salaries and wages payable to the employee and would be credited directly to the employee's bank account, ensuring that no company can abuse this facility. The loan facility should also be charged at a 0% interest rate for an equivalent of a 12-month payroll.

The most recent change to social distancing work regulations have implemented additional measures, including allowing 100% of workers in several industries to continue. In this regard, the ACCCIM had reacted positively to this change, as companies were allowed to continue production, limiting the widespread impact of a halt in production.

The ACCCIM released a poll among business entrepreneurs which revealed that of the 916 respondents, 90% of respondents expect conditions such as work distancing measures, mask-wearing and sanitation being made mandatory in the workplace upon the lifting of the MCO showing that increased health measures were within expectations for most business people. The poll also revealed that 84% agreed to these measures indicating a strong commitment among companies in improving their health regulations and 76% of companies surveyed are already prepared to implement these policies. The 24% of companies who responded in the negative were not prepared for the additional measures, citing reasons such as higher costs and unsuitability of the workplace layout.

The organization expressed its appreciation for the government's engagement with chambers and industry associations, leading to the lifting of the MCO. However, they maintained that more could be done, including a co-sharing of implementation costs through a tax deduction on the health costs incurred by companies, a standardized, clear and transparent SOP process and its consistent interpretation and enforcement in addition to constant disinfection nationwide.

In addition, the group also proposed the setting up of an Economic Revival Plan to stabilize the economy and help businesses restart after the MCO is lifted. Some measures should include a reduction in corporate income tax for SMEs, the acceleration of e-government services and e-payments, reconstructing and reimagining a package for micro-enterprises and SMEs and a jump to the property sector. Besides this, the group also urged a return to the GST, increasing export capacity and increased incentives for private investments and upskilling of the workforce.

Sectoral Analysis and Recommendations

Manufacturing

As the MCO makes the utilization of labour difficult, the manufacturing sector needs to be allowed to continue operations to some degree of capacity, which had also been mentioned by ACCIM. As the tourism and service sectors have essentially been temporarily been wiped out, we need sectors like manufacturing and mining to prop up the economy.

Light Industry

Light industries, in particular industries such as electrical and electronic (E&E) - which will be discussed separately- and other intermediate manufactures form a major component of our export strength and thus much of our foreign currency earnings, therefore it is important that we keep such industries running efficiently. The MCO has certainly meant a decline in export opportunities, as global demand drops. In addition, many of our E&E components are manufactured and exported by larger medium sized SMEs dealing a sharp blow to larger SME's.

It should be noted that the biggest challenge such industries face is in wages and salaries. In general, the salaries of workers in the manufacturing industry are calculated via piece-rate, a mechanism where the salary increases according to the amount of output per worker increases. In a scenario where an MCO is enforced, employers are not able to pay their workers simply because they are not allowed to work. Therefore, it is likely that many workers will only make the statutory minimum wage for the MCO period.

As the MCO is lifted and workers are allowed to continue producing at a 100% rate of the potential workforce, this would translate to higher wages for many in the manufacturing sector compared to the MCO period, relieving the manufacturer the burden of maintaining salary payments as output increases. However, the drop in global export demand may complicate matters and its likely that manufacturing wages may take time to return to the pre-MCO wage rate.

Compounding these, the disruption to the global supply chain can be catastrophic for manufacturers as global demand drops sharply as consumers stay at home, therefore, the effects of opening our export industries may prove to be unfruitful even if the manufacturing industry were to open early. This is evidenced in China when industrial production was shown to fall by 13.5% during the combined January and February months compared to the prior year. This can have severe repercussions for

Malaysia, especially given its position in the global value chain in producing cheap semi-conductors and chips for consumer electronics.

In addition, according to official statistics, China's exports were shown to have dipped by 17% compared to the prior year in line with the global contraction in international trade flows while imports decreased by 4% resulting in a higher net trade deficit during the period. Among the declined export goods, were in the E&E sector, textiles and garments sector and motor vehicles. This is in line with a sharp contraction in US imports, with US data showing a 32%, 17% and 15% decrease in imports of electronic phones, motor vehicles and computers respectively from a year earlier. It should be noted however that the more dramatic decline in US imports may be in part due to increasing trade tensions between the two economic giants.

The decline in global trade flows does not auger well for Malaysia as many of our industries are locked into the global supply chain with much of the final consumption of our intermediate manufacturing being exported to the US and EU. Therefore, it is safe to assume that Malaysia's manufacturing sector will likely experience an across-the-board decline in manufacturing output and performance for the current year if these conditions don't improve during the year.

E&E Sector

The E&E sector is arguably one of the most important export good in Malaysia, accounting for 38% of all exports in 2018 and is therefore a large source of foreign currency earnings for the domestic economy. According to The Star, the total trade surplus arising from the E&E industry equals the entire overall trade surplus for 2018. Therefore, not only is E&E the only sector of manufacturing with a trade surplus, but it also shows that without this industry, Malaysia would have registered a trade deficit, leading to a negative current account balance, potentially downgrading the international sovereign rating for Malaysian bonds.

The successful growth of the E&E ecosystem has placed the industry in the economic spotlight and hence the importance of this sector cannot be understated. The industry has had much investment and involvement by MNCs, upgrading the sector's technological capabilities and increasing the productivity of output, with added automation and computing power.

According to a paper by Cheong Chee Fook of Universiti Sains Malaysia, the growth of the E&E sector was prevalent during the 1970s when Malaysia had a relative abundance of cheap and well-trained labour force, owing to the fact that the E&E industry is relatively more labour-intensive. Initially, value-added was limited to more labour-intensive assembly operations as Malaysia had initially operated on a low-cost model which had allowed the local ecosystem and supply chain to mature and develop.

Gradually, as more MNCs entered the market, Malaysia's E&E industry made the shift toward the upper end of the value chain and assembly operations were replaced with more sophisticated high-tech manufacturing, reducing its dependence on labour. Despite this, several segments of the production chain still utilize low cost labour as part of its operations, making E&E in the Malaysian context still relatively reliant on its workers.

A result of being relatively labour reliant is that the industry employs a relatively higher number of people per output unit, contributing to a boon in employment as output increases. However, with the rise of regional economies such as Indonesia and Thailand who have similar infrastructure and lower cost labour, the industry needs to develop greater technological capability, towards LED and solar panel manufacturing instead of relying on more labour-intensive sections of the value chain as a source of comparative advantage.

As such, for the labour reliant sections of light industry, wages and salaries may become a challenge to fulfil and it may be necessary to ensure that the government implements policies that encourages and eases the burden of payment for full salary obligations. However, for workers that are on piece rate salaries, it is likely that they would earn little more than the minimum wage, which the government should consider targeted cash transfers for such individuals. Nevertheless, a healthy inflow and outflow of cash is important for the functioning of businesses and the payment of salaries in this industry, it may therefore be necessary to organize a Special Salary Payment Relief Fund for the payment of salaries for the duration of the MCO, such a fund should be charged at a low rate of interest or zero-rated.

The coronavirus pandemic has forced players in the E&E industry to temporarily shut their doors, devastating the fulfilment of production orders and putting our international exports at risk. The biggest challenge is therefore to ensure that their purchase orders are settled. Two factors thus apply here, the rate at which orders are being met and the rate at which receivables are being collected. As industries across the board are hit with the MCO, it can be deduced that their normal credit terms are taking a large hit as payments are not being settled and made efficiently. Therefore, it may be prudent to ensure that purchase orders for raw materials and input are fulfilled through a purchase order financing scheme.

In essence, a purchase order financing scheme is a short-term commercial funding solution which boosts a company's financial needs when facing low cash flows. The scheme would provide an upfront payment to the business's suppliers for verified purchases to cover its cost of sales. It enables a business to ensure an available supply of goods for its customers. When E&E firms face cashflow problems and is unable to buy its required amount of goods, the government should guarantee a percentage of the purchase order, on an inverted graduating scale based on the company's sales thus allowing the company to continue to sell beyond its current financial capability.

Another cause for concern is the issue of collection of receivables, companies in this field generally have a receivable collection period of 60 to 90 days from its original purchase date. Unfortunately, when there is a halt in operations for an extended period, companies will not be able to make good on payments for purchases made a month or two months prior as most of that cashflow will be spent on other commitments such as rental, wages and other immediate payments.

This can potentially balloon into a major crisis once the MCO is lifted as companies would have to pay purchase orders in arrears for up to several months while having an extended slowdown in the economy, potentially collapsing the working capital cycle in the industry. The government should therefore take an active role in the smoothening of working capital requirements by providing partially guaranteed soft working capital loans of up to 80% of prior year's revenue with low interest rates and a longer period of 6 to 9 months to nip this potential disaster in the bud before it hatches in full force.

Heavy industry

Heavy industries include sectors such as mining, shipbuilding, steelworks, chemical refinement and machinery. These industries are undoubtedly very important because many goods produced in this sector contribute to the production of goods Malaysia has a competitive advantage in such as E&E, chemical and petrochemical products and light equipment.

It is worthwhile noting that heavy industries are by its very nature more investment intensive than most other sectors and tend to be very costly in overhead expenditure such as specialized warehousing, large rental spaces and industry specific components, without which they would not be able to function efficiently. It is common that these parts are derived from either domestic light industry, which then feeds back into the production loop or are imported from foreign specialists such as 3M, the world's leading manufacturer of industrial products.

Therefore, it is imperative that policymakers allow full worker participation to ensure the alleviation on the potential ramifications on the downstream supply chain of introducing an MCO for many kinds of products. For example, mineral mining and chemical refinery products produced by heavy industry such as in inorganic chemicals that are used in a variety of goods in light industry such as pharmaceuticals, commercial insecticides, plastic production and the like in both essential and non-essential sectors, thus highlighting the need for an industry-wide perspective. The recent reversal of policy to allow full worker participation in these economic sectors are therefore welcome and will prove to be instrumental on the fulfilment of the supply chain.

Further, it is imperative that policymakers should consider the cashflow needs of such industries, which tend to be higher than other sectors. As such, loan facilities tend to be much higher in quantum, requiring larger gross margins to be met to offset the cost of loans. As the MCO is imposed and logistics become more difficult, relief facilities must not be charged at high interest rates during this period to reduce the burden of its per unit cost as greater health regulations means that productive efficiency is non-optimal which can result in a higher base unit cost and consequently cost increases that will inevitably flow into the final selling price of the product.

In such capital-heavy industries therefore, the majority of monetary returns go toward the interest servicing of previous capital expenditure. Therefore, in terms of financing, it is of paramount importance that heavy industries are able to have access to the financing facilities it needs to maintain and replace their equipment.

It should be mentioned here that heavy industries have a high barrier to entry due to their high up-front investment costs and technical expertise. This has the consequence of being extremely hard to restart from scratch if heavy industry manufacturers go bust. Therefore, it is imperative that heavy industries are responsibly dealt with in order to keep the sector afloat.

Recommendations for the Manufacturing Sector

1. Ensuring the short-term sustainability and long-term efficiency of the E&E manufacturing sector
    - The instalment of a council to serve as a constant communication channel between the government and the E&E association of Malaysia, plastic manufacturers association and other light industry groups to ensure that any efficiency shortcomings in the physical chain are quickly dealt with, with support from the federal government. In addition, this council should set its agenda to increase the rate of new technology adoption to climb up the value chain and ensure our regional competitiveness compared to Thailand and Indonesia.
    - Setting up a Special Salary Payment Relief for workers in the manufacturing sector, these should be based on a low interest or zero-rated loan mechanism to ensure that workers in

this sector are not neglected as some manufacturers have high upkeep costs on overheads outside of salary payments.
- Ensuring that payments for purchase orders for manufacturers are met through a government-backed purchase order financing scheme, which ensures that manufacturers are less burdened by financial obligations in arrears for purchasing the raw materials necessary for production.
- Alternatively, an expansion on the government-backed soft working capital loan mechanism to ensure that manufacturers have a reliable source of funding to ensure that they are not kept in arrears during the MCO period which could produce adverse effects when these commitments become due.

2. Restoring the heavy industry supply chain
    - A move toward the full restoration of heavy industries is necessary for the functioning of the downstream supply chain. In this regard, the recent reinstatement of the workforce will prove to be instrumental to the success of further sectors in the downstream.
    - A government-backed council with representation from the heavy industry sector, especially in chemical processing should be set up to establish a consistent line of communication to ensure that the consistent production of such goods are available for the downstream sectors.

Services Sector

The impact of social distancing from the pandemic will mostly be felt in the services sector, comprising over 89.2% of all SMEs, the worst hit industries in the services sector are those that rely on person-to-person contact, including shops and retail while the least impacted sectors are service industries that are most resistant to the need for interpersonal contact, such as in IT services and certain office jobs that can be done from home. Therefore, the focal point of any package should be aimed at reducing the burden on Malaysian SMEs.

It should be noted that the services sector encompasses many forms of economic activity, from insurance to audit to call centres and is therefore the only sector with the capacity to absorb excess labour supply not in other sectors of the economy. An extended MCO would severely limit the ability for firms in the services sector to justify its absorption of the nation's excess labour supply as the sector is for the most part heavily reliant on the freedom of movement of people especially those involved in the traditional shop-keeping medium of sales who have not yet made the transition to online retailing.

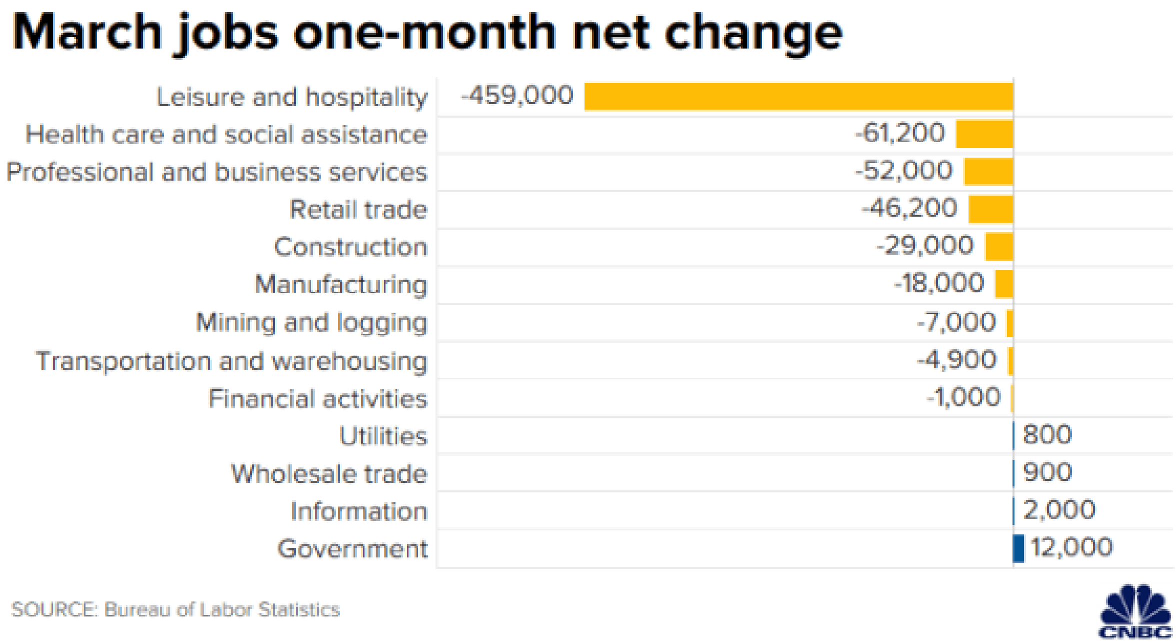
The logic follows that because the majority of the nation's workforce is in engaged in the services sector and the added impact from the MCO, the most aid should be granted to this grouping to avoid a huge spike in unemployment.

There following are several policy strategies based on the economic sub-sectors:

Accommodation and Food Services

This category includes the largest segment of the service SMEs, with the food and beverage sector comprising by some estimates as high as 20% of all SMEs. This includes a large network of mum-and-pop and self-employed shops throughout the country as well as larger established restaurants with capacity to serve. The accommodation and hotel industry are also likely to face a massive shortfall during this crisis, with Malaysia being a hotspot for foreign tourism.

The most recent labour market data from the United States shows that in March, the single most impacted industry is in the leisure and hospitality industry, with 459,000 job losses in the month as shown below.



CNBC further elaborates that among sectors in the leisure and hospitality sector, the hardest-hit area of the economy is in the accommodation and food services sector, which comprised more than half of the month's net losses. Out of the 459,000 job losses, the accommodation and food services industry were responsible for 417,000 job losses, an astonishing 90.8% of total job losses in the leisure and hospitality sector.

Using US data, we can draw an inferential assumption of the scale of the impact on this all-important sector on the food-loving Malaysian market. It should come as no surprise that Malaysia should focus its initiatives to soften the impact on job losses.

In the Malaysian context, most low income and foreign workers are involved to a large degree in the provision of food services. In light of the MCO, it is likely that many job losses will occur in this sector. This could cause many social as well as economic consequences for this occurrence, as foreign workers who have little social protection from the government could possibly even prey upon locals. Therefore, a greater security and police presence is important to mitigate these effects.

It should be noted that workers in the food services industry are usually lowly paid (below RM2,000 per month) because they are allotted a certain amount of free meals while on the job, depending on the company. This means that they are not likely to have sufficient income to weather through the economic downturn. Therefore, additional cash handouts may be necessary especially if their employers are not subscribed to the Employee Retention Scheme as they are anticipating retrenching its workers.

Due to social distancing policies (even after the lifting of the MCO), there are limited policy strategies that can be implemented for dine-in facilities, rather the focus should be on enhancing takeaway services and their capacity to fulfil customer orders. Therefore, the government should play an active role in connecting traditionally person-to-person food industries, such as Chinese hawker stalls and Malay cafeterias (medan selera) who have been most impacted by this downturn, to the online service industry. This will promote price competition between companies on the platform generating consumer surpluses for buyers.

This however comes at the cost of the producer who will see squeezed margins due to the increased price competition, despite this, the lower staff and overhead costs will help to offset the consequences of having more intense price competition.

A remedy would be for the government to encourage the provision of a temporary online credit scheme on online delivery platforms such as grab food or food panda for traditional hawkers and medan selera's to incentivize their migration to the online platform. In addition, to level the playing field, grab food or food panda should be encouraged to temporarily lower the rate of takings for low cost Chinese hawkers and medan selera's who have been essentially forced to adopt these new technologies to survive.

Administration and IT Business Support Services

Administration and IT services would perhaps the best performer among all industries during the economic downturn. Simply due to the number of food and other retail services being forced to adopt new technologies, demand for this sector will skyrocket during the year. In this regard, we will likely see better performance in this sector in particular.

This is evident in the rise of the stock price of Zoom and other IT related service businesses. In Malaysia, an increasing number of IT services companies are owned by SMEs, this includes IT repair services and internet configuration services, however these sectors may face headwinds in the form of the MCO limiting their necessary physical connectivity to their customers. Sub-sectors that that will perform well will be those services that do not require physical contact and can be performed online, such as in business services like human resource services, online services and cloud storage services.

Despite the upside in this sector, the government should increase the uptake of SMEs into new digital technologies. A policy of full tax deduction status for all investments and maintenance of online services should be implemented to encourage investment into the digital infrastructure. In addition, it may be possible to introduce a soft loan fund dedicated to upgrading IT investments for SMEs. This will turbo-charge the movement from the traditional face-to-face transactions to the online space.
Business advisory services that will be hardest hit however, will be in audit and business advisory services. This is due to the fact that audits need to be physically verified, which due to the MCO, would necessarily be limited. Therefore, it may be necessary to suspend the statutory audit filings for companies, it is advised that statutory filings should be made two months after the lifting of the MCO for mid-sized firms and up to three months for large companies.

The impact on business advisory services will vary, with some experiencing a downturn due to increased bankruptcies, business failures of SMEs and new start-ups. While larger companies who will be able to weather the economic storm may actually need increased advisory services to plan their investments ahead. This sub-sector may therefore experience a mixed bag of outcomes as competition intensifies and creative destruction takes its toll on the economy.

Arts and Entertainment

The performing arts sector has experienced massive decline in revenue during the MCO, due to the stoppage of ticket sales. Among these performers, musicians, comedians and actors had been badly hit. Due to the closure of hotels, restaurants, pubs and clubs, these groups have very limited options for where they can perform if at all. For many such performers, especially those with families to support, there will be little to no income from their professions.

In Malaysia, the traditional method of in-house performances which means that performers rely on booked slots and performance fees for their livelihood instead of being online. To overcome this, it is advisable for the government to take an active role in encouraging performers to venture into the online space. Avenues are available through YouTube and other online platforms to distribute their content.

In this regard, the government should allow tax credits or a small cash grant for the purchase of video recording and media equipment for individuals who are registered in the national tax register as being in the arts and entertainment industry. This will allow such individuals to showcase their talents through online platforms while the MCO is underway. In addition, the government should promote free webinar programs on video editing and recording broadcasted nationally during the MCO. This will both provide extra skills to equip people in the entertainment industry with and foster the development of web content for other viewers.

It is likely that as the MCO measures are in effect, there will be greater consumption of online material due to the fact that people are not allowed to leave their houses. As such, it is wise to develop the talent and skillset to make the transition from traditional-based to online based entertainment services.

Cinemas and theatres will experience a sharp downturn in ticket sales and advertisement revenue as consumers stop frequenting mass congregations due to social distancing measures even after the MCO is lifted. Workers in such sectors will likely experience considerable layoffs and cuts in salaries as profit margins become squeezed. Cinemas usually spend a large bulk of their expenses on rental space and overheads due to the nature of their business operations. Unfortunately, there are limited policy recommendations other than to retrain such workers for other sectors as their business models are solely dependent on mass congregations.

In the short term, we will see mass retrenchments and salary cuts. In the medium term, we will see mass bankruptcies in mid-tier companies such as MCO cinemas and the like, and in the long term, the whole industry, including large ones such as TGV and GSC cinemas will begin to file for bankruptcy should social distancing measures continue.

Educational Services

Malaysia's private educational services will be severely impacted, private universities are particularly reliant on foreign students as many institutions have already factored a high level of foreign entries into their cash flow projections even before commencing operations.

According to a report by Murray Hunter first published in the Asia Sentinel, the fallout from the COVID19 epidemic could lead to permanent closure to up to half of the nation's private educational institutions, leaving only a handful that survives. The report claims that according to recent research, an estimated 55% of private educational institutions are already making trading losses, 44% are already technically insolvent and taking out more and more debt to fund their day to day operations.

In 2018, an estimated 64% were noted as being in dire financial distress and the value of its assets are quickly receding relative to its debt, eroding shareholder value and the only way such institutions can continue to run is through new funding from lenders or continual equity injections from investors. In a sensitivity analysis, a 5% drop in revenue across the board will result in 70% of private education institutions in the red (negative net profit) and with a 15% drop, half of all institutions will enter insolvency.

Around half of Malaysian tertiary students and 70% of the foreign student population of 130,000 attend private educational institutions despite the myriad of public and government linked institutions available and approximately RM2.6bil or 60% of all PTPTN loans contribute to half of the income to private universities. In addition, in late 2018, over half of private educational institutions have a student enrolment of less than 3,000 students and 25% have less than 1,000 students in attendance.

One needs to ask why such investments were made in the first place when the actual outcomes were so poor and how did it get this far. The answer is that many institutions were grossly mislead by the Malaysian Education Blueprint 2016-2025, which estimated that an estimated 2.5 million students, with 10% being comprised of foreign student enrolment and the Malaysian economy would continue to grow at a rate that is able to absorb new graduates. This estimate had allowed many universities to grossly overestimate and inflate enrolment numbers and overlook the realities on the ground.

The advent of the COVID19 epidemic is potentially catastrophic for the whole industry where private institutions depend on receiving income only twice a year and the epidemic will cause most students to defer their semesters reducing the inflow of cash. Many institutions do not have unencumbered assets to collateralize for fresh loans and many will have to depend on cash from either the government or private investment to survive.

This will result in a mass layoff of mostly highly educated personnel and a rise in zero-hour contracts. In fact, we are already seeing this happen across the board with many part time non-permanent contact teaching staff being laid off. The moratorium on loan payments may come as a small relief to such institutions as many are already heavily indebted, however the complete loss of income will inevitably force many institutions to file for bankruptcy.

In many cases, a transition to online teaching is not possible for many hands-on vocational colleges as an alternative to being physically present in classrooms. In the medium to long term, larger and more well-established institutions with solid financial backers will come out on top. It is possible that after the MCO is lifted, there will be many acquisitions by larger on smaller institutions as the weak are gradually swallowed up, paradoxically causing an overall increase in teaching quality as educational synergies arise where good teachers replace the bad.

There are potential solutions available however, the government can introduce an enterprise investment scheme (EIS) for currently operating and non-insolvent institutes, where investors are allowed to claim a percentage of their investment for tax deduction. This will reduce the burden on investors who take on struggling institutions and allow well-run institutions access cash flow for their operating needs. In addition, the government can set up a cash fund to support critical courses such as in IT or STEM, alternatively the government can provide public-backed lines of credit to such struggling institutions.

Alternatively, a matching grant mechanism can be proposed to reduce the burden of fees for privately enrolled students, this can complement PTPTN loan arrangements where the nominal value of PTPTN borrowings may be offset with payments to the matching grant, resulting in lower overall loan repayment amounts. This however comes at the long-term cost for the government as they will end up not being able to realize interest payments from the amount equivalent to the matching grant. Effectively, this becomes an expenditure into human capital instead of a long-term investment strategy from the government.

In a larger sense, the consolidation of industry players will occur regardless of whether the government chooses to intervene. Therefore, the government should allow such consolidations to happen, strengthening the position of the private educational sector in the long term.

It should however be noted that additional job losses are to be expected as synergies occur and requires less staff to operate, thus encouraging competition for hiring and fostering a more meritocratic system of employee selection. I am of the view however that due to the gross initial profit overestimation of these institutions, the education sector is anyway in dire need of a correction, the abovementioned measures however should be mooted to soften the blow.

Financial Services and Banking

The disruption caused by the COVID19 pandemic has upended the banking and finance industry, disrupting fair market values of banking assets and carries with it the potential disruption of industries across the board. The path ahead is one filled with uncertainty, a unique blend of supply and demand disruption and exacerbating pre-existing conditions in the global and local economy.

This being said, not all companies in the financial sector will suffer a fallout to the same degree. Financial exchanges and market data companies should remain relatively unscathed as data is essential for investment decisions and higher market volatilities will stimulate equity trading and derivatives. The long-term impacts however are harder to assess as a prolonged bear market may reduce investor appetite for an uncertain duration, earnings and cashflow liquidity may remain low despite a market recovery.

An outcome on the equity markets will be that fewer companies will decide to go public. The reason being that when markets are volatile, the equity underwriting will be heavily impacted. Restructuring advisory however will improve, as firms become more unable to service their cashflow position, but it’s likely that it wouldn’t be enough to offset the losses incurred from mergers and acquisitions due to the downturn in the local economy.

In addition, although trading exchanges may face an upswing in trading activity, interest income lost from the recent OPR cut will nonetheless impact their bottom lines. The effect on financial insurers will also be heavily negative with declining investment income and unusual liabilities associated with the disruptions emerging.

For the banking industry however, results could be mixed as two key metrics determine its sustainability, net income and capitalization level. Banks require a certain level of capital to remain liquid and they need a certain level of net income to continue dividend payments. Credit losses in the form of loan defaults will eat away at its level of capitalization while also hurting their bottom line and dividend payments to shareholders.

As capital becomes depleted, the bank needs to use its net income to replenish its capital stock, potentially putting its dividend sustainability at risk. As banks suffer from lower net income and default levels, it acts as a double strain on the bank as it has to use a more limited net income stream to fund its capital rebuilding, without much left for dividend payments and any dividend payment that exceeds net income will further eat away at its capital stock.

While it is tough to tell what the long-term impacts to the bank are, we can say that the banking industry is much better positioned today than it was back during the 2008 GFC, with a higher capital coverage ratio. The danger here is if there is a severe and drawn out recession that causes net income to fall dramatically over a significant period. Therefore, the most sustainable move for banks is to adopt a conservative strategy and be cautious about its loans provided, however this will come at the cost of the overall economy as companies have less flexibility in obtaining the operational financing it needs during the economic downturn.

Current measures such as a moratorium declaration on loans will not achieve much in the long term, as the only impact in this exercise is that in the near term, thus individuals can effectively apply for a 6-month extension in their loan payback period. This comes with an added risk to the borrower however, as the interest accrued during the few months will effectively be charged either as a lump sum repayment or effectively treated as part of the loan amount after the moratorium period with interest accrued on top of the interest in suspense.

Besides the moratorium, there are several measures that can be taken, such as implementing more generous monetary policies including reducing the reserve ratio, another round of OPR cuts and we may even experiment with limited Quantitative Easing (QE) if necessary as we approach lower bound interest rates. However, such drastic monetary actions should be reserved as the final course of action if the banking sector does not recover in the next few years. This is because quantitative easing is traditionally a policy prescription for developed economies like Japan, the EU and the USA. This is because QE may cause a rapid devaluation of the purchasing power of a currency, especially in currencies of emerging economies as the market floods with extra liquidity. The government should therefore be ready to stand by with additional funding or even to consider a bailout to maintain the health of the banking sector if all else fails.

Retail Sector

It should come as no surprise that retail have been badly hit as income and consumer confidence drops, leaving many to save their discretionary income for other necessities instead of purchasing retail goods. In addition, due to social distancing policies, consumers are no longer frequenting malls and shops since the start of the pandemic which will lead to a decline in the sales growth rate during this year. This is worrying as over 60% of Malaysia’s GDP consist of private consumption.

It should come as no surprise that the Malaysian Retailers Association (MRA) have stated in mid-march that both the outbreak and change in government have affected retail sales and consumption in the first 2 months of the year, dropping as much as 80% for many. If this remains unresolved, the consumption pattern of the consumer market will be drastically impacted.

Accordingly, retail data showed that between 10%-50% of shopping traffic had declined immediately after the MCO, with shopping areas dedicated to tourists affected more than those affected in residential areas and small towns. The MRA expects a decline of 3.9% in 2020 compared to 2019, this is considerably worse than the pre-MCO estimation of 0.4% growth during the year.

Subsequently, on 14 April, it was further estimated that Malaysia's full year retail sales growth forecast was revised downwards further to -5.5% in 2020, from a 4.6% growth in December 2019 with the MCO demonstrably dragging sales growth in the first 2 quarters of 2020. First quarter sales are expected to contract by 18.8% while second quarter sales are expected to dip by 9.3% according to revised projections by Retail Group Malaysia (RGM).

The RGM further estimates that retailers are expected to bear RM20.48bil in operational and staff costs over the original 6-week MCO duration. This burden on non-essential retailers would be even higher as their stores remain closed. Out of the RM20.48bil in costs, RM14.31bil is borne by their retail operating costs which include rental of premises, office expenses, insurance, advertising and repair and maintenance. RM6.18bil will be borne through salaries, EPF and SOSCO contributions. This means that roughly three quarters of the expense burden will be in the form of overheads and rental and only one quarter will comprise staffing costs.

The most current stimulus program allows for tax deductions for shopping malls and property developers if they provide rent free accommodation to existing retailers will come as an intensely positive move for retailers and a RM1,200 wage subsidy for workers should relieve the burden of salary payments.

However, more can be done to relieve the burden on retailers such as providing a greater direct cash grant to retailers who have problems meeting their cash flow requirements. It is commendable that the current stimulus package has already addressed this by providing a RM3,000 cash grant to all SMEs and micro SMEs, the further aid should be regarded as a top-up to the original. It is recommended to increase this cash grant up to RM5,000 per licensed business.

Real Estate and Property Development

Property ownership is set to perform worse than the rest of the economy as property is always a corollary in relation to other sectors of the market. According to the World Bank, there is a considerable shortage of affordable homes - typically under RM500,000 - and an oversupply of luxury homes - typically over RM1mil - leading the market to reckoning with corrections expected in the fair value market price for homes.

In the short-term, purchasers are unlikely to commit to the big-ticket purchases on property and hire purchases on homes, leading to weaker sales and forecasted earnings for 2020, with property developers likely to revise down their sales targets. Revising downward their sales target may eventually lead to a reorientation of their future pipeline launches of new housing. Therefore, we expect that both the demand for and supply of new housing will be heavily reduced, potentially causing higher unemployment in the construction sector which formed 4.2% of GDP in 2018.

It is likely that in the current scenario, short term debts will have to be met by spending cash reserves and progress profits in the short to medium term. Unfortunately, during the MCO, developers cannot recognize progress billings as force majeure prevents its collection, marketing and promotion to secure confirmed buys are not feasible and is unlikely to convert bookings into sales as well as recognizing Sales and Purchase Agreements (SPA) as many documents are pending legal documentation. This will have a large negative impact on their earnings for the year.

Prior to the pandemic crisis, the local property market was operating on reduced margins due to an oversupply of luxury homes and affordability issues for local consumers. The recent pandemic has the potential to toss both primary and secondary markets into freefall as property developers and secondary sellers may in fact begin to sell houses at a considerable discount which would drive down prices and profits in both the primary and secondary markets. This is evidenced by the property index falling 30% year-to-date (YTD).

However, consumer confidence is at an all-time low due to the abrupt drop in income for consumers and uncertainties about future income opportunities. Therefore, even as consumers step into a "buyer's market", it is unlikely that housing purchases would be made for the time being and willing buyers may decide to wait for market prices to bottom out before deciding on buying property.

Policy recommendations will include measures to reduce taxes on property owners and developers for the FY20-21 period in order to reduce the burden of taxation on such sectors. To stimulate demand for housing, it's possible to allow full tax deduction for payments made by home buyers, giving them extra incentive to make big ticket purchases. In addition, it will be wise to impose a one-year payment moratorium on the RPGT for individually held properties. Despite these measures however, it may not be possible to entirely avert a collapse in the housing market however, effort must be taken by the government to soften the impact and avoid a potential unravelling in the medium to long term.

Recommendations for the Service Sector

1. To speed up the rate of transition of traditional food operators towards online services.
   - As many traditional food operators have limited capacity to ensure a smooth transition towards online delivery, an effort should be made by the government to encourage this transition. Tools such as temporary credit schemes for traditional operators on web delivery platforms should be considered.

2. Encouragement of IT and business advisory services
   - The IT industry should be encouraged to smoothen the transition towards online services for the rest of the economy. Prudent measures such as permanent tax deductibility for businesses who upgrade their IT facilities would be welcomed by the business community and will help accelerate the uptake of IT services.
   - A vocational training fund for employees and students who undertake approved IT courses should be introduced to increase the number of graduates and skilled workers in this field.
   - Statutory deadlines for business advisory services should be extended to at least three months from the lifting of the MCO to help such firms cope with the order.

3. Increased attention for employees in the entertainment sector
   - Employees in the entertainment sector should have a special focus as many have experienced a sustained drop in their main source of income. A targeted one-off cash transfer should be mooted for such individuals.

- To transition from physical to online entertainment, tax credits for the purchase of musical instruments and video equipment for the purpose of online entertainment should be considered.

4. Softening the impact on the education sector
    - The federal government should introduce an EIS to encourage private investment, this will encourage private capital towards industries, such as in education who are in need of investment capital. This will also help toward relieving the government the need to inject new cash into an already troubled sector and provides institutional investors an incentive to make such capital investments.
    - A grant matching mechanism to complement the PTPTN scheme should be mooted to both reduce the burden of fees for students.

5. Boosting the financial services sector
    - The federal government must aim to strike a balance between the increased cautiousness of the banking sector and the demand for private sector financing during this period of heightened uncertainty.
    - More generous implementation of monetary easing policies including further reducing the reserve ratio and considering another round of OPR rate cuts, effectively increasing the money supply.
    - The government should stand at the ready with limited QE as an option if the economy does not recover by the end of the year or the next. QE must be targeted and limited in scope so as to not cause a flood of new capital than what the market is able to absorb as this is a prescription primarily of developed economies.

6. Ensuring sustainability in the retail sector
    - The government can expand the one-off cash grant scheme to SMEs and Micro enterprises without exception from the current RM3,000 to RM5,000. This will cost an additional estimated RM1.95bil from the current scheme.
    - The current employee retention scheme, while helpful, will not be a sustainable medium-term solution for retailers given the downturn in the economy. To alleviate the burden of the majority of expenses, the government should consider:
        - Allowing tax credits on rental expenses,
        - Expanding the SOSCO and EPF contribution exemption until the end of the year and
        - Extending and increasing the discount of utility bills to retailers

7. Boosting the property development and real estate sectors
    - Reduction of taxes on property owners by imposing a one-year payment moratorium of the RPGT on properties held by individuals.
    - Providing full mortgage and rental tax deduction for individual income tax payers to soften the burden on renters and gives an incentive for taxpayers not to default on their mortgage or rent.

Agriculture

Due to the MCO, agricultural produce was not able to be delivered the markets and buyers domestically and in Singapore, leaving many farmers throwing away their produce and incurred heavy losses. Restrictions placed on open morning and night markets which traditionally are a quintessential component of selling agricultural produce have forced operators to endure lower earnings for the time being, or donate the produce to charities.

Therefore, a less inter-personal method of transaction must be in place in order for agricultural produce to hit the market, such as a contactless agro-dealer logistic network connecting farmers to their markets with a defined SOP in place. if this is not performed however, it is likely that agricultural producers may decide to produce less, reducing the supply in the market and consequently raising the average price of food.

Therefore, the current RM1bil in agro-food funding facilities provided by BNM will entice workers to continue producing the same amount but is nonetheless insufficient to spur the production needed to offset Malaysia's reliance on food imports which costs the economy RM50bil per year (25% of the nation's food supply). In addition, in light of measures taken by regional markets, it will make our food imports more uncertain and precarious.

Previous suggestions by economist Muhammad Abdul Khalid recommend a RM10bil agro-food fund, up from the announced RM1bil earmarked to boost agricultural output to ensure that ordinary Malaysians don't starve. This plan on a cursory level certainly has its benefits as despite Malaysia being an agriculturally rich nation, the utilization of arable land to produce food is abysmal. It is estimated that less than 8% of our arable land is used to produce food, with the vast majority (~73%) producing palm oil instead.

It is abundantly clear that especially during times like these, that our food security should be one of national concern and it is on that basis that I completely agree with the concept of upgrading Malaysia's food production capacity and enhancing the national agriculture supply chain, with just 1.1% of SMEs constituting over 51% of total agricultural GDP, there is huge potential for growth in this sector.

The RM10bil fund to boost agro-food production however is something to be debated as to boost the productivity of the sector doesn't require more loans and cash grants, rather more needs to be invested in industry cooperation in R&D and encouragement of technology transfers from foreign nations, such as from the Dutch who despite being a small country below sea level has become the world's second largest exporter of agricultural produce after the United States, a remarkable achievement by any standard.

It is therefore in my view that a RM10bil cash injection into the agro-food industry should be targeted at the most productive areas to develop better cost efficiency per output as opposed to a large cash handout to the agriculture sector without increasing its per unit productivity. This would not solve our disadvantage compared to our regional neighbours with lower per unit costs than Malaysia, defeating the entire purpose of this investment.

Recommendations for the Agriculture Sector Development Fund

The SME Agro-fund must consider some basic aspects of the weaknesses in the agriculture sector, chiefly, a focus on the two policy goals below are required:

1. Upgrading efficiency in the agriculture sector
    - The agriculture sector relies heavily on labour-based production and has not invested enough into capital equipment unlike the US, Japan and the EU who have largely automated many parts of the agriculture production chain.

- The fund must have added incentivization on the importation of machinery and capital goods to upgrade the productivity of the land measured in terms of yields produced per hectare.
- Developing a strong agro-dealer logistics network, to achieve economies of scale in the delivery of agricultural goods and provides a direct link between the agricultural producer and a network of agriculture dealers nationwide through the use of digital technology.

2. Boosting SME participation in agriculture
    - Encourage more land to be opened up for value added agricultural production with an increased focus on downstream agriculture opportunities such as the packaging and development of tropical herbs for medicines and MCT coconut oil extraction that command high prices on the overseas market are such examples.
    - The recent downturn in the price of palm oil offers Malaysia an opportunity to steer away our over-reliance on the commodity and open up greater opportunities for a diversified agricultural base and a developed agricultural downstream industry mainly operated by SMEs to export across the ASEAN region and major trade partners.

Final Thoughts

In conclusion, the COVID19 pandemic threatens to displace global economic stability after the 2008 GFC and the government needs to be ready with sound policies to help both SME and larger companies. Though the implemented economic policies thus far have been a tremendous benefit to the economy, Malaysia may not necessarily be allowed to avert the full extent of the crisis and all economic stakeholders should be prepared for a further downturn in the economy, especially if the epidemic does not subside in a timely fashion or if the MCO is imposed again after its lifting.

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