中总 ACCCIM 马来西亚中华总商会

SERC

ACCCIM M-BECS 2H 2019 and 1H 2020F

4 March 2020

Key agenda

- ACCCIM M-BECS: Survey Coverage
- Sentiment Tracker for 2H 2019, 2020E and 2021F
- Business Pulse Diagnosis
- Current Issues:
  Digital Transformation & Foreign Workers
- Conclusion

Survey Coverage

- **ACCCIM Malaysia's Business and Economic Conditions Survey (M-BECS)** is a key barometer measuring the **sentiments and expectations of Chinese business community**.

- The survey, which was conducted in Dec 2019 – mid-Feb 2020 covers the **second half-year of 2019 (Jul-Dec or 2H 2019)** and **expectations for the first half-year (Jan-Jun or 1H 2020) of 2020** as well as **outlook for 2021**.

- M-BECS is intended to gauge:
  - **i. Economic and Business Performance and Outlook**;
  - **ii. Factors Affecting Business Performance**; and
  - **iii. Current Issues Confronting Businesses**.

Profile of Respondents

864 responses encompass a broad-based of sectors and industries.

By sector:

Services **(70.9%)** Manufacturing **(15.5%)** Construction **(10.6%)** = 97%

Agriculture, forestry and fishery **(2.5%)** Mining & quarrying **(0.3%)**

Top FIVE industries (69.5%):

Wholesale and retail trade **(20.1%)**

Manufacturing **(15.5%)**

Professional and business services **(15.5%)**

Construction **(10.6%)**

Tourism, shopping, hotels, restaurants, recreation and entertainment **(7.8%)**

By size

Large enterprises (5.8%)

SMEs (94.2%)

By sales orientation

Domestic market (82.8%)

Overseas market (12.6%)

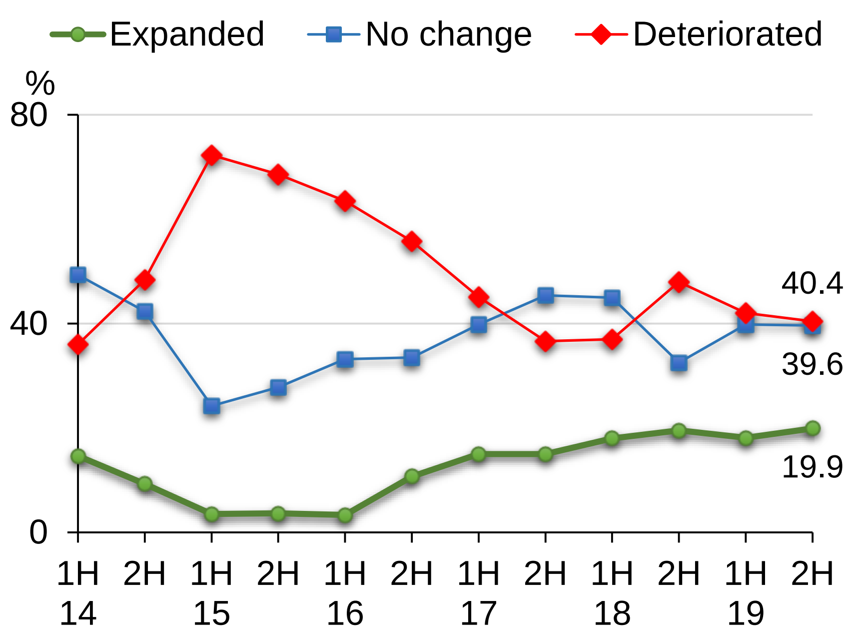
Neutral (4.6%)

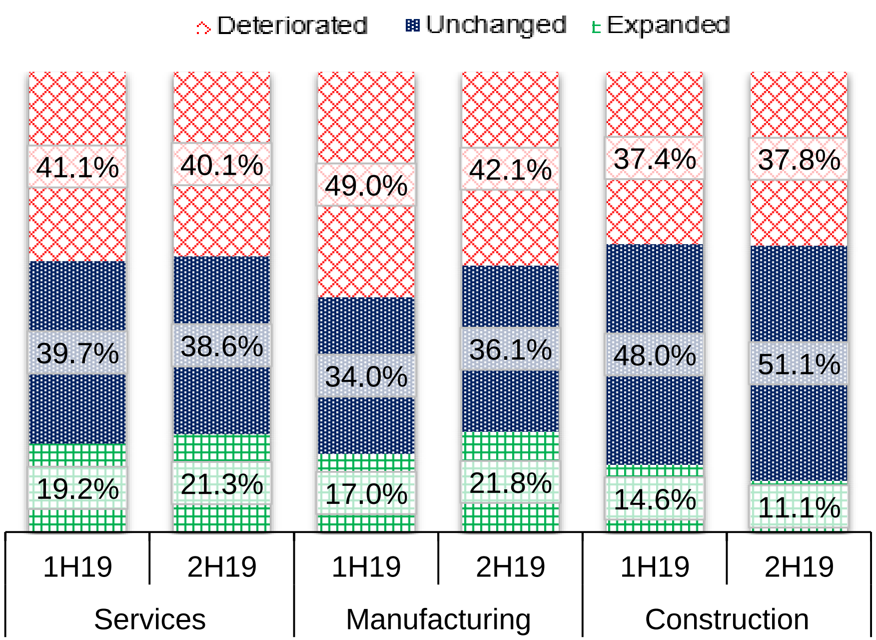
M-BECS 2H 2019 and 1H 2020F

Sentiment Tracker

Business Conditions "Deteriorated" in 2H 2019

- **Most sectors have more than 30% of respondents suffered a deteriorated in business conditions**, due to lingering uncertainty about the US-China's trade spat, slowing global demand, dampened domestic consumer sentiment and the stubbornly high overhang in non-residential property,
- Amongst these were **tourism, shopping, hotels, restaurants, recreation and entertainment sector** (49.3%), **real estate** (49.1%), **trading** (46.9%), **wholesale and retail trade** (44.5%) and **manufacturing** (42.1%).

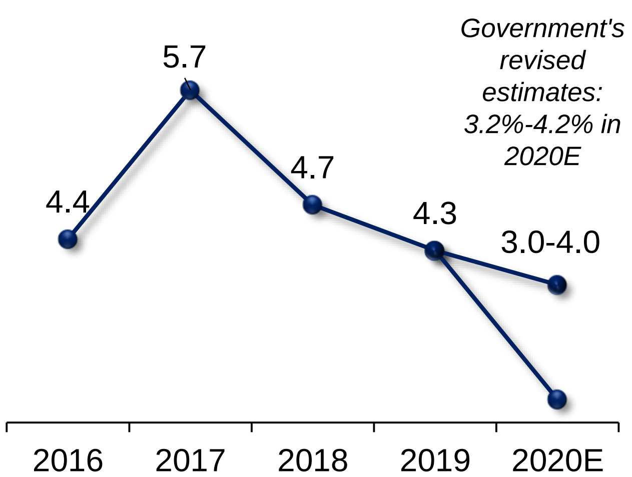




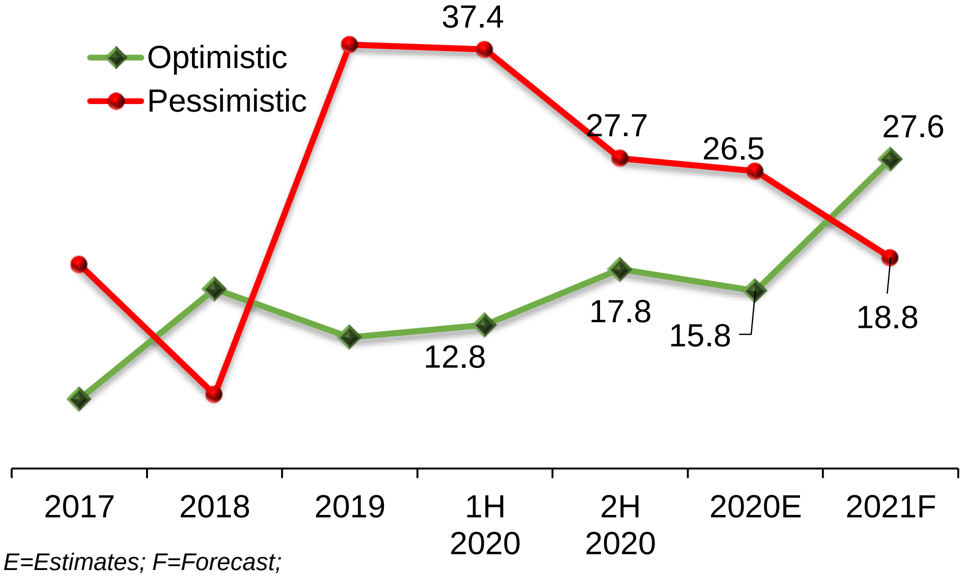
Economic Conditions and Prospects

- Businesses were **increasingly pessimistic about economic conditions in 2H 2019** (37.8% vs. 33.0% estimated in the previous survey), which is in tandem with the weakening domestic economic growth and slowing global demand.
- **Domestic economic prospects are expected to remain challenging in 2020**, especially in 1H 2020 due to the negative spillover effects from the COVID-19 outbreak. The RM20.0 billion Economic Stimulus Package is expected to provide a partial growth stabilisation as well as to mitigate the virus impact on the tourism-related services.

Real GDP Growth (%)



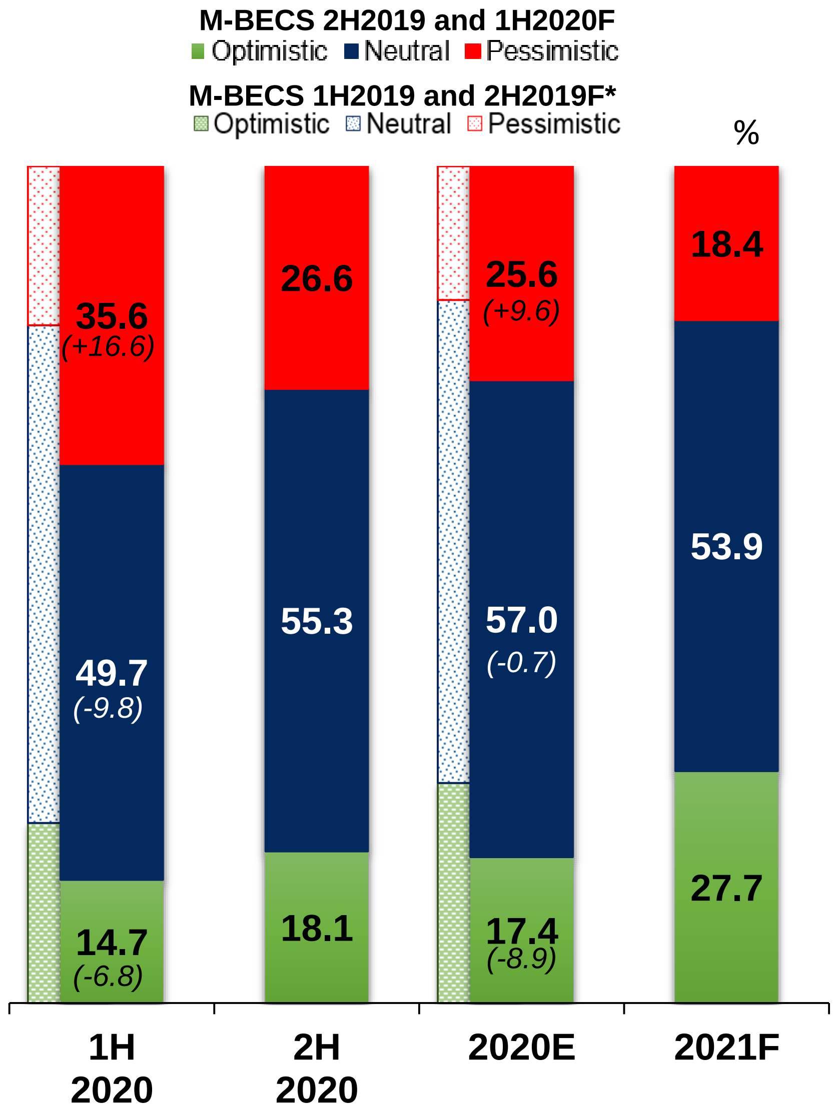
Source: DOSM; SERC estimates



E=Estimates; F=Forecast;

Business Conditions and Prospects

- **Businesses' pessimistic views about business conditions and prospects have increased in 2H 2019** (39.3% vs. 29.6% in the previous survey).
- **Respondents' pessimism rose higher to 35.6% in 1H 2020** from 19.0% in the previous survey, due to the COVID-19 outbreak and lingering concerns about domestic political situation.
- **Higher respondents (27.7% vs 17.4% in 2020) are expecting better business prospects in 2021**, especially in the construction sector as a resumption of mega projects in the pipeline, which will provide the much needed impetus to revive the sluggish construction activities since 2018.



*Note: E=Estimates; F=Forecast; * denotes data obtained from previous survey. Figure in ( ) denotes changes in % respondents from previous survey*

Comparison between "M-BECS 1H 2019 and 2H 2019" and "M-BECS 2H 2019 and 1H 2020F"

Economic prospect

	Overall								
	2H2019			1H 2020			2020		
	Est. %	Act. %	Changes	Est. %	Est.(R) %	Changes	F %	Est. %	Changes
Neutral	53.0	50.5	▼	58.3	49.8	▼	58.1	57.6	≈
Optimistic	14.0	11.7	▼	21.4	12.8	▼	24.9	15.8	▼
Pessimistic	33.0	37.8	▲	20.3	37.4	▲	17.0	26.5	▲

Business prospect

	Overall								
	2H2019			1H 2020			2020		
	Est. %	Act. %	Changes	Est. %	Est.(R) %	Changes	F %	Est. %	Changes
Neutral	54.9	47.4	▼	59.5	49.7	▼	57.7	57.0	≈
Optimistic	15.5	13.3	▼	21.5	14.7	▼	26.3	17.4	▼
Pessimistic	29.6	39.3	▲	19.0	35.6	▲	16.0	25.6	▲

Act. = Actual; Est. = Estimates; Est.(R) = Revised estimates; F = Forecast

Note: Approximately equal sign for changes within 1 percentage point.

M-BECS 2H 2019 and 1H 2020F

Business Pulse Diagnosis

Top FIVE Factors Affecting Business Performance

1st

Government policies
(51.5%)

2nd

Domestic competition
(47.3%)

3rd

The Ringgit's fluctuations
(39.5%)

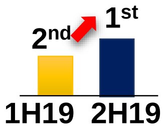
4th

Domestic political situation
(38.8%)

5th

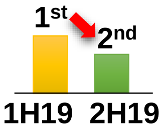
Manpower shortage
(31.3%)

Government Policies (51.5%)



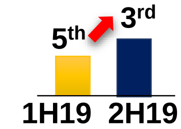
- **Nine out of 12 sectors have ranked it** as the most important factor affecting business performance. The notable ones are agriculture, forestry and fishery (63.6%) and real estate (62.5%).
- **3Cs (Clarity, Consistency and Continuity) are what investors and businesses need for policy certainty and continuity as well as better planning.**
- The immediate priority now is for the Government to contain and mitigate the impact of the outbreak of novel coronavirus.
- Other priority measure is to ease shortage of foreign manpower (ranked as the fifth factor by respondents), particularly to expedite a resumption of recruitment process of foreign workers from Bangladesh.

Domestic Competition (47.3%)



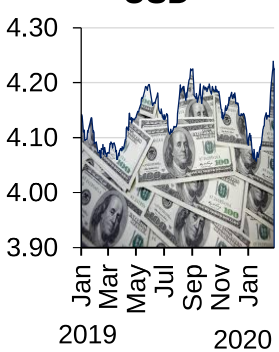
- **Ten out of 12 sectors have ranked “domestic competition**” as top three factors and has consistently remained on the list since previous surveys.
- Notwithstanding the competition among offline businesses, there are many traders importing goods from cheaper alternative sources, specifically from China and have utilised online platform or e-commerce to compete with local retailers.
- Many retailers are facing severe challenges as these online traders are compete on competitive cost of goods and lower operating costs (such as rental and manpower cost) compared to physical retail shop.
- The nature of competition comes from large enterprises is definitely impacting SMEs as SMEs’ margin is generally lower relative to large enterprises, **SMEs may not able to cut price level further but have to compete in terms of product quality and related services.**

The Ringgit's Fluctuations (39.5%)

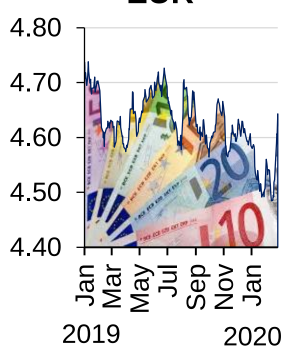


- As at 28 February 2020, the ringgit has appreciated against the euro (2.0%) and Singapore dollar (0.3%), but depreciated against Thai baht (4.9%), Japanese yen (3.2%), Taiwan new dollar (2.8%), the US dollar (2.1%) and Chinese renminbi (0.2%) compared to end-Dec 2018. In Jan-Feb 2020, the ringgit down by 3.2% against the US dollar.
- **A weak exchange rate means higher cost of imported raw materials and capital goods and hence, lead to higher selling prices if the traders cannot absorb increased costs.**
- 27.1% of respondents anticipate 1%-5% increase in cost of imported raw materials in Jan-Jun 2020, followed by 15.2% of respondents expect an increase of 6%-10% and 15.0% expects more than 10% increase.

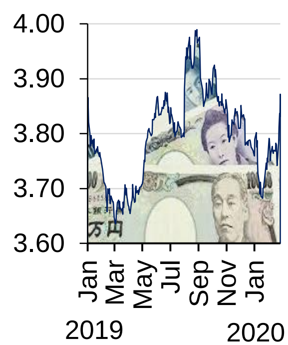
USD



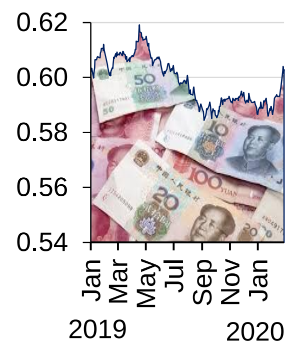
EUR



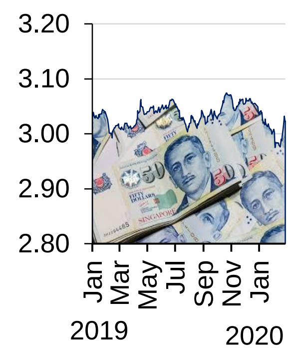
JPY100



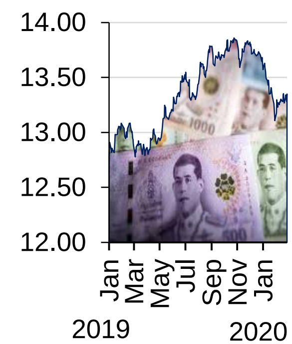
CNY



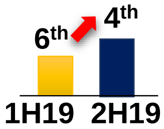
SGD



THB100

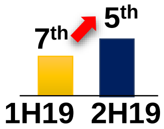


Domestic Political Situation (38.8%)



- **Domestic political stability** has always been Malaysia's selling point in attracting foreign investors.
- Since 2018, investors and businesses have generally viewed that there are too much political bickering and politicking amid persistent uncertainties about the leadership transition that have distracted the policymakers' focus on managing and addressing economic issues and cost of living issues matter to average joe.
- **Political stability is a variable of great importance in building a coherent and continuous path for sustainable development**. Unstable political environment would undermine investors' confidence, deter investment decision by both local and international investors on wary about policy continuity, and hinder the pace of economic development.

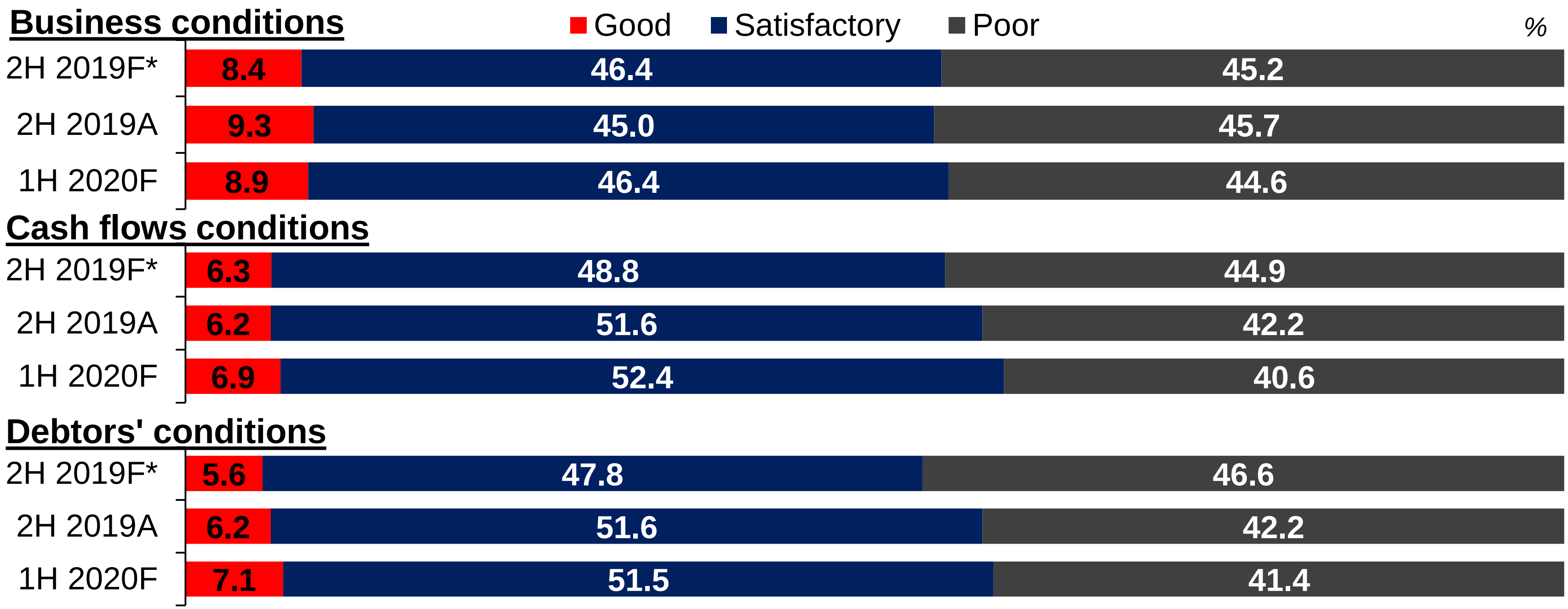
Manpower Shortage (31.3%)



- Job vacancies stood at 974,612 in 2019 while the number of unemployed persons only stood at 512,200 persons in 2019. Therefore, businesses would face insufficient workers even absorbed all the unemployed.
- Some of the major reasons responsible for the manpower shortage are the **shortage of high-skilled workers, talent mismatch, divergence of jobs locations in relation to the location of unemployed persons, reluctant of local workers to work in 3D (Dirty, Dangerous and Difficult) jobs**.
- As of June 2019, there are 2.0 million documented foreign workers in Malaysia. Nevertheless, the recruitment portal for FW from Bangladesh (main source of FW), namely SPPA has been suspended since September 2018 due to high processing fees of up to RM20,000 charged by selected agents to facilitate work permit approvals and other arrangements to work in Malaysia.
- Many businesses are facing disruptions in their production and some have taken risk to hire undocumented foreign workers to ease the production disruptions.
- The Government should **expedite a resumption of recruitment portal of foreign workers from Bangladesh**.

Business Assessment in 2H 2019 and 1H 2020F

- **Most respondents** forecast that **business conditions would be "satisfactory" (46.4%) and "poor" (44.6%) respectively in 1H 2020** while the balance 8.9% feels that business conditions would be better compared to 2H 2019, particularly in the ICT sector (19.0%).
- **A majority of respondents (52.4%)** continue to hold a similar view that their **cash flow conditions would be "satisfactory" in 1H 2020 compared to 2H 2019.**
- **For debtor' conditions, about half of respondents (51.5%) expect "satisfactory conditions"** and 41.4% expect "poor conditions" in 1H 2020**.**

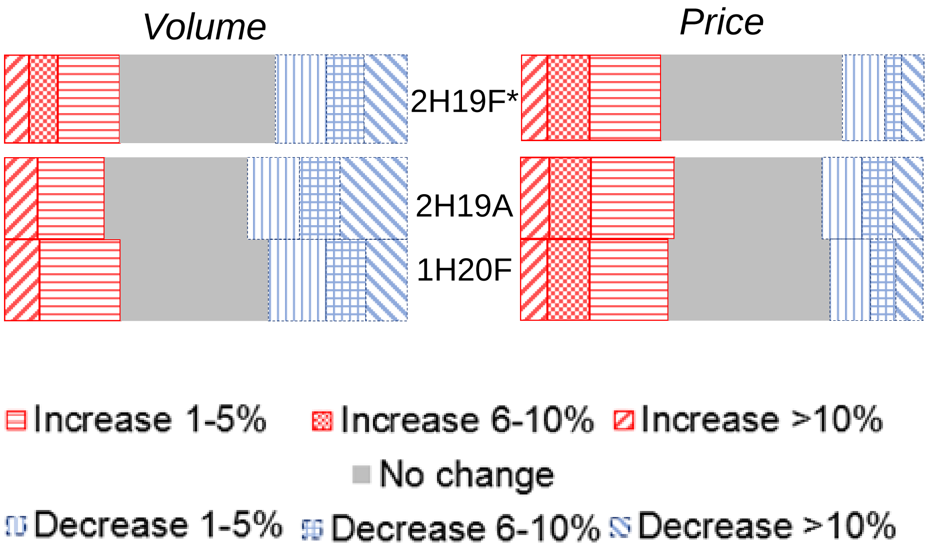


*Note: A=Actual; F=Forecast; *The results of 2H 2019F were from previous survey (M-BECS 1H 2019 and 2H 2019F).*

Business Operations Diagnosis

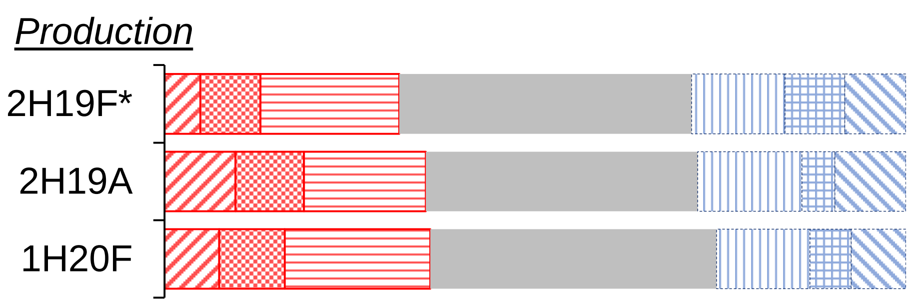
Domestic Sales - Hit by COVID-19

- A higher percentage of respondents (36.4% vs. 32.8% forecasted previously) reported a decrease in sales volume in 2H 2019.
- **Any positive assessment may be discounted, at least in 1H 2020 as businesses' expectations are expected to worsen.**



Production – Potential supply chain disruptions

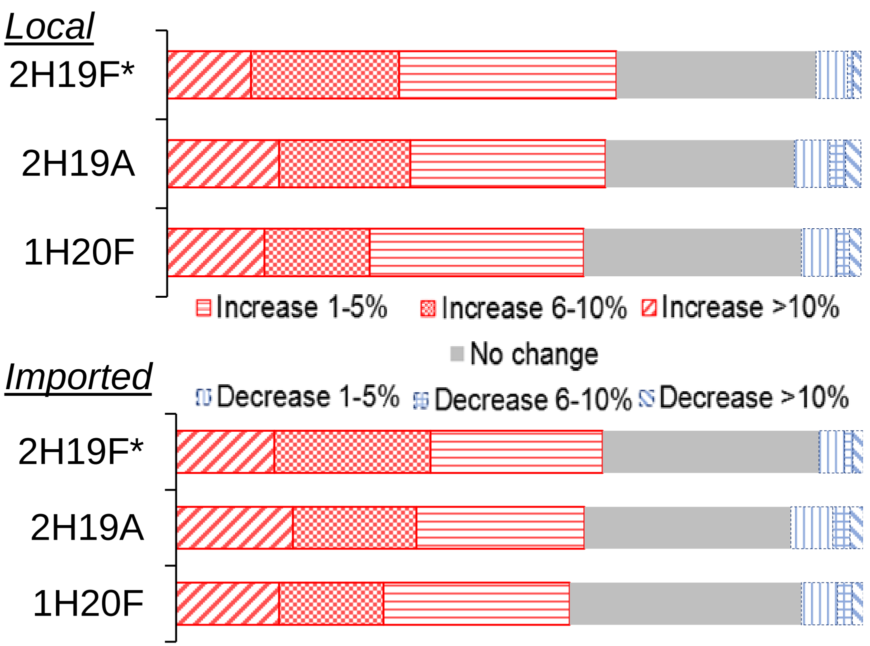
- **36.7% of respondents maintained the same level of production** while a higher percentage of respondents reported increases in production in 2H 2019.
- A majority of respondents will either maintain production (38.6%) or slightly increase production by merely 1%-5% (19.6%) in 1H 2020.



*Note: A=Actual; F=Forecast; *The results of 2H 2019F were from previous survey (M-BECS 1H 2019 and 2H 2019F).*

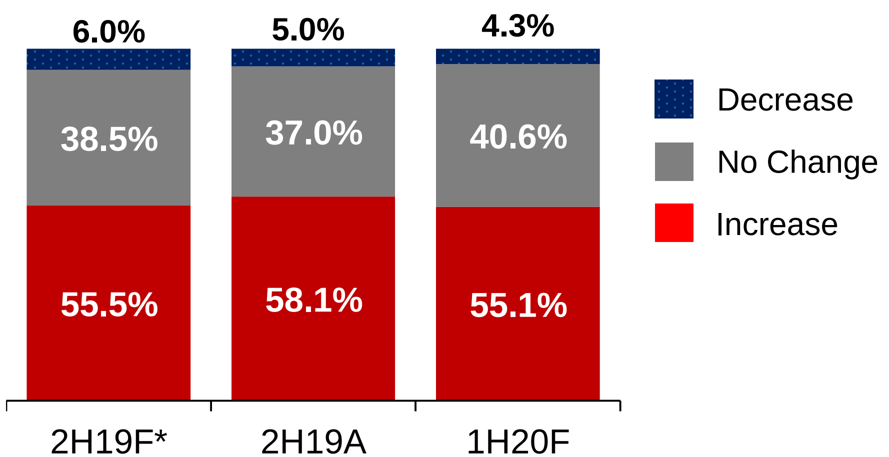
Cost of both local and imported raw materials remain elevated

- In 2H 2019, 63.2% and 59.5% of respondents indicated an increase in costs of local and imported raw materials respectively.
- **Cost of local raw materials is expected to increase further as indicated by 60.1% of respondents**, similar to cost of imported raw materials (57.3%).



Capital expenditure – Lack of fund and poor sentiments

- **In 2H 2019, 58.1% of respondents** indicated that **they have increased their capital expenditure**, particularly in the manufacturing sector (63.2%).
- **A lower percentage of respondents (55.1% vs. 58.1% in 2H 2019) will increase capital expenditure** while 40.6% will maintain the same level of capital investments in 1H 2020.



By sector scorecard - 1H 2020F vs 2H 2019

	Business conditions	Production	Sales (Volume)*		Cost of raw materials		Capital expenditure
			Local	Overseas	Local	Imported	
Overall	🙂 😐	=	= ↑	= ↑	↑	↑	↑
Wholesale & retail trade	🙂 😐	=	▨	↑	↑	↑	↑
Manufacturing	🙂	↑	↑	↑	↑	↑	↑
Professional & business services	🙂 😐	↑	= ↑	↑	↑	↑	↑
Construction	🙂	↓	= ↓	=	↑	↑	↑

😊 Good 🙂 Satisfactory 😐 Poor ↑ Increase = No change ↓ Decrease

▨ Increase, no change decrease hold 33.3% respectively

* COVID-19 outbreak is expected to change the original forecast on a significant downward bias.

1

Digital Transformation and Industry 4.0

M-BECS 2H 2019 and 1H 2020F

Current Issues

Foreign Workers (FWs)

2

Digital Transformation and Industry 4.0

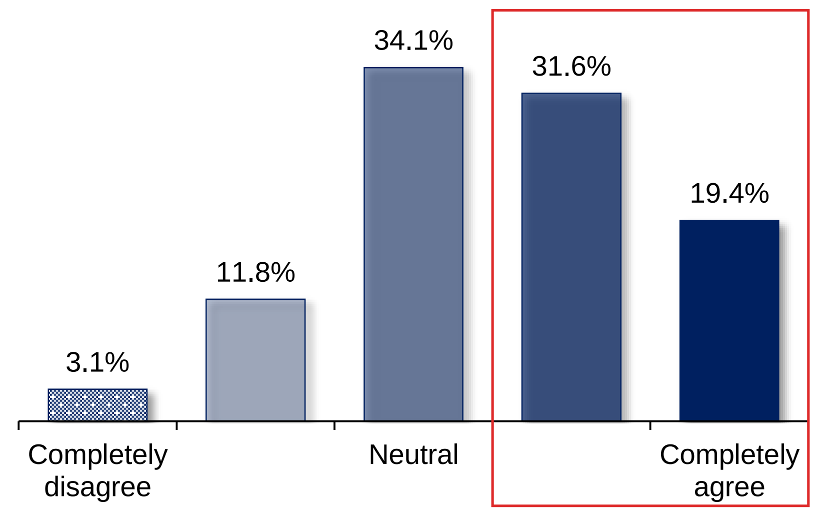
- The National policy on Industry 4.0 (Industry4WRD) and National Fiberisation and Connectivity Plan (NFCP) are key drivers to stimulus the growth of digital transformation and Industry 4.0 in Malaysia.
- The number of industry indicators revealed that the Government and businesses must step up efforts to overcome the weaknesses in order to achieve the Industry 4.0.
  - **Despite Malaysia's ranking had improved from 27^{th} in 2018 to 26^{th} in 2019, Singapore was ranked (2019: 2^{nd}) way ahead of us in terms of knowledge, technology and future readiness**
  - **Research and development as well as resident patenting levels in Malaysia were still low (Global Innovation Index 2019: 35^{th})**.
  - The **digital infrastructure must be strengthened in order to facilitate the transformation of our industry base into high-tech driven industry** (Malaysia ranked 79^{th} in mobile speed (24 Mbps) and 38^{th} in fixed broadband speed (81 Mbps))

Less than 40% of Respondents Noted "Impactful" or "Substantial impact" from Industry 4.0

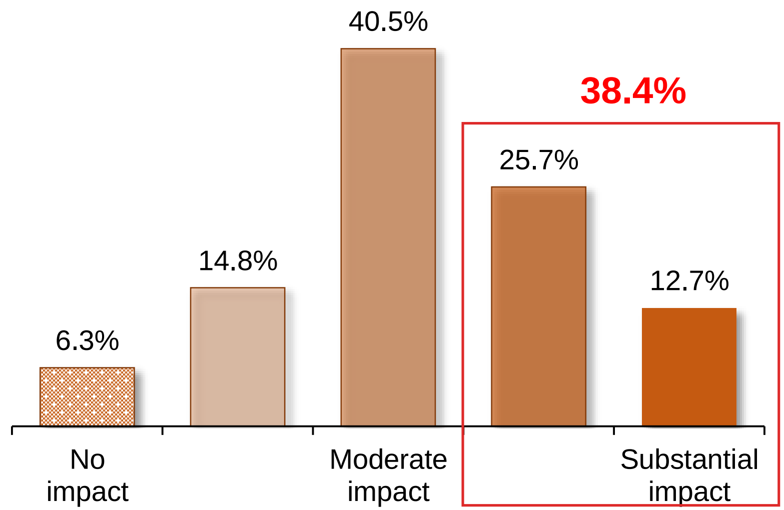
General perception

1. Some **businesses are lacking of industry knowledge understanding and unsure how Industry 4.0 would help to drive their business growth and sustain competitiveness in global market place** as adopting automation or digitalisation would incur high cost of fixed capital investment.
2. The **magnitude of impact is associated with the level of adoption and readiness to embrace digitalisation and Industry 4.0**.

1. "Digital transformation to Industry 4.0 could boost the industry's and Malaysia's global competitiveness"



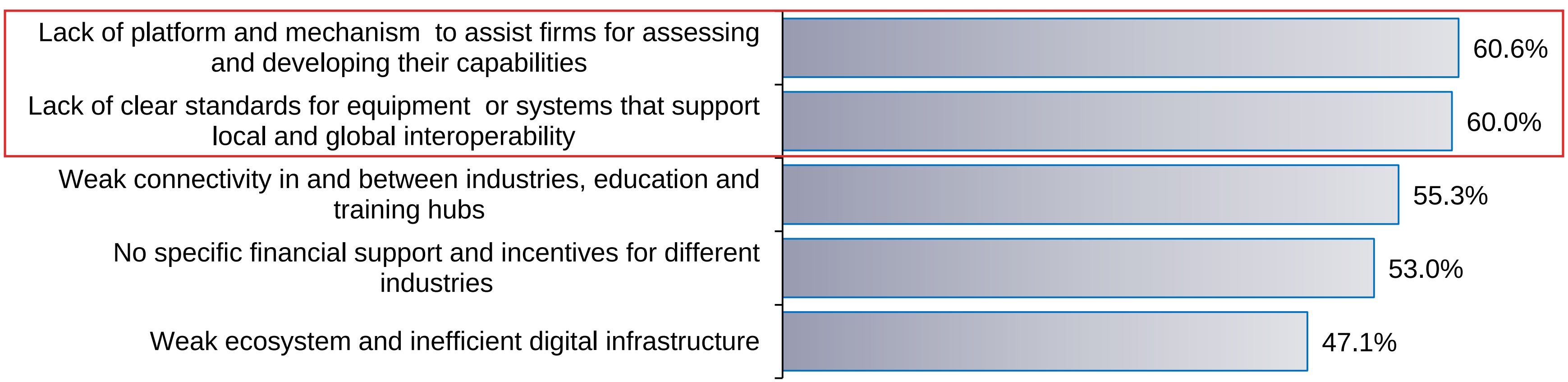
2. "Impact of digitalisation and Industry 4.0"



Lack of Platform (60.6%) and Lack of Clear Standards (60.0%) in Malaysia

- **For the manufacturing sector**, Industry4WRD Readiness Assessment (RA) is the only well-known platform available for businesses, specifically SMEs to assess their capabilities.
- **Agriculture** (72.7% of respondents), **construction** (60.4%) and **overall services sector** (60.1%) have commented that **there is a lack of platform and mechanism available** for them to access and develop their capabilities.
- Currently, **there is lack of clear standards for equipment or system** that a company purchases can enhance product value as well as to fulfil local and global standards.

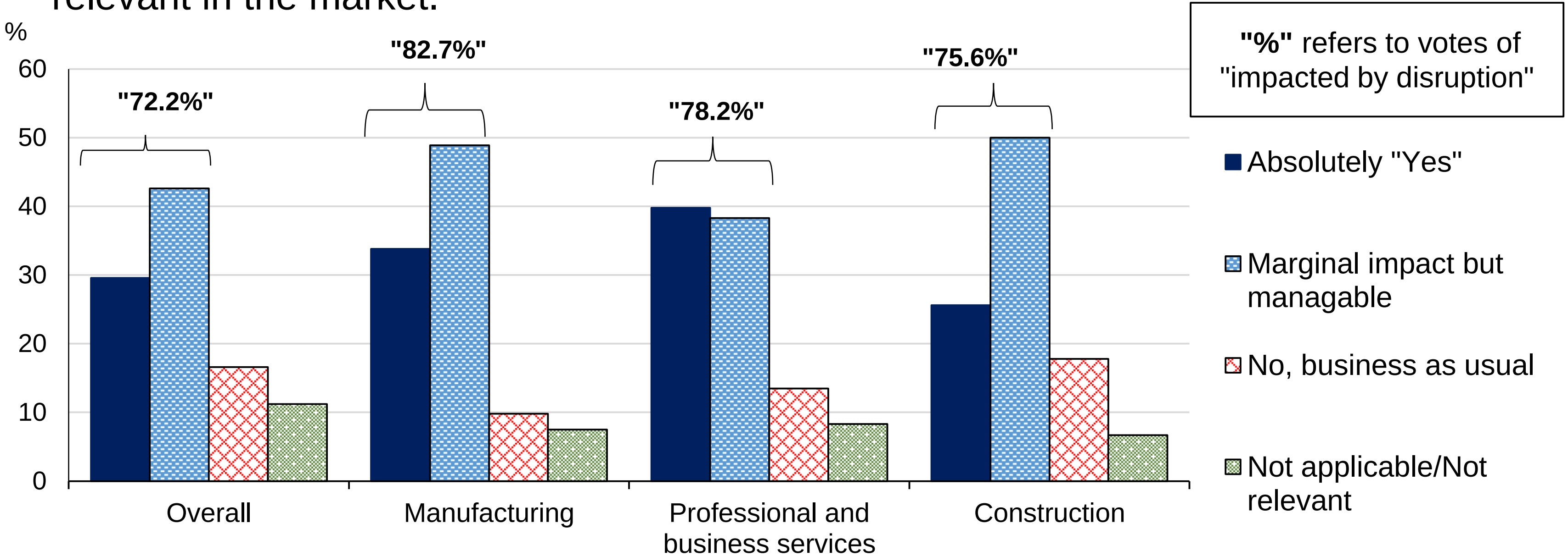
Problems for embracing or adopting digital transformation and Industry 4.0 in Malaysia



Disruption of Digitalisation and Industry 4.0 will Impact Conservative Businesses Within 3 years

At company level

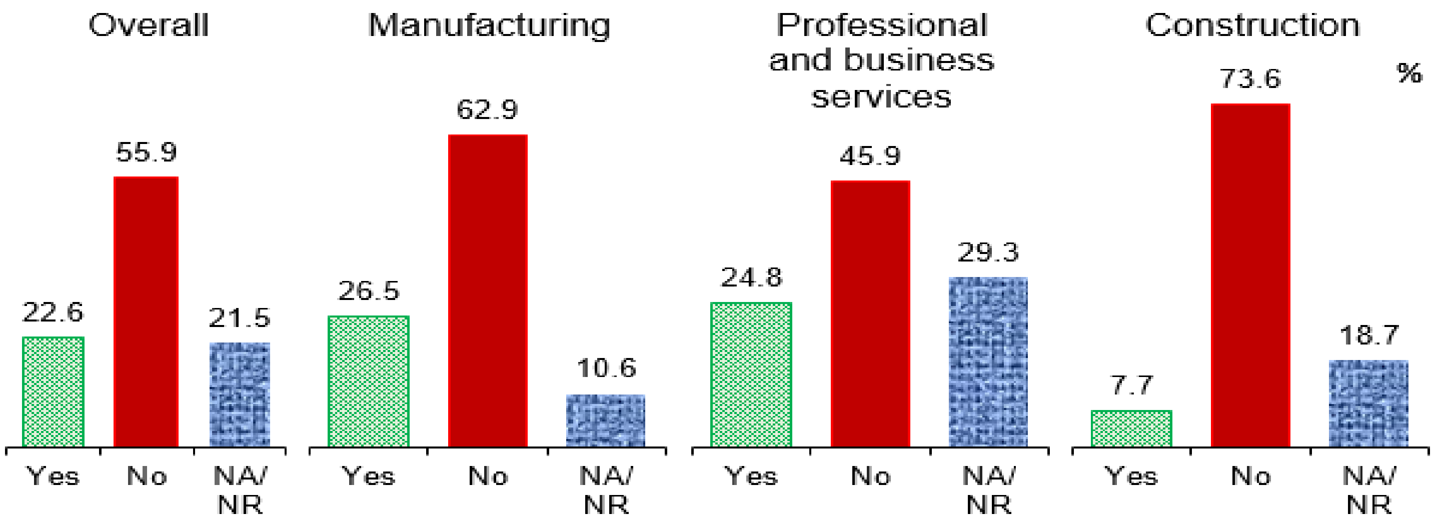
- **72.2% of respondents** have acknowledged that **existing business model will be disrupted by digitalisation and Industry 4.0 over next three years**, whereby **29.6% of respondents** stated **“Absolutely YES”** while **42.6% of respondents** rated **“Marginal impact but manageable”**.
- The findings show that businesses are **highly aware that their current business processes must be digitalised or automated within three years** in order to stay relevant in the market.



Malaysian Businesses yet to Fully Embrace into Automation and Digitalisation

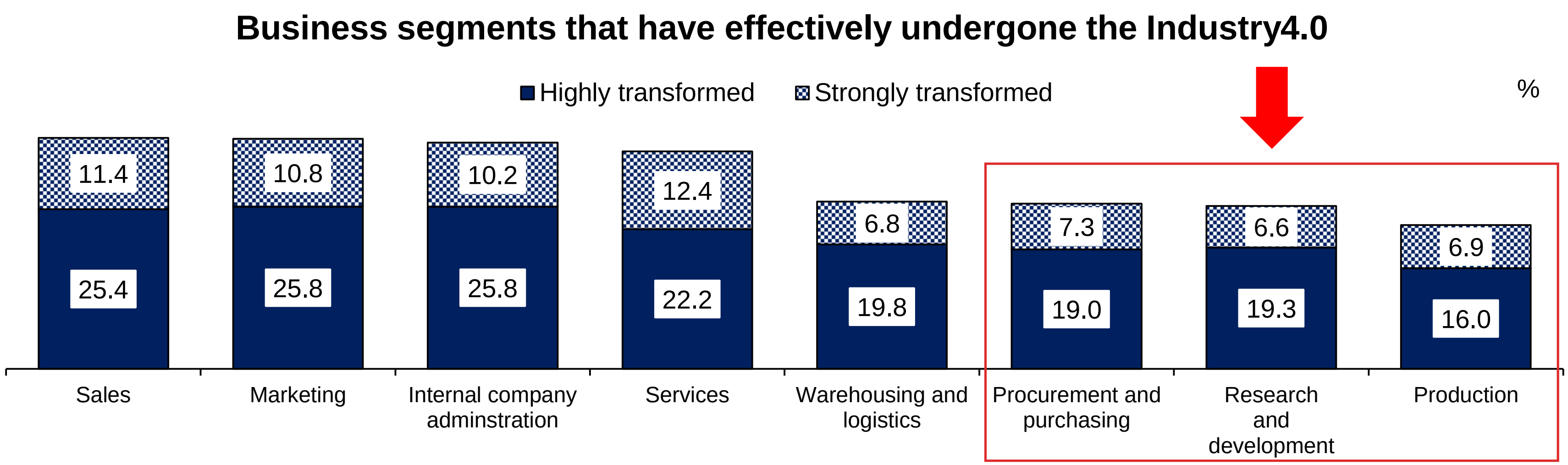
- **Only 22.6% of respondents have implemented digital transformation and Industry 4.0**.
- Respondents who voted “Not applicable (NA)” and “Not relevant (NR)” accounted for about one-fifth of total votes. **Most of them may be either not keen to acquire or refused to learn new knowledge for application in business operation**.

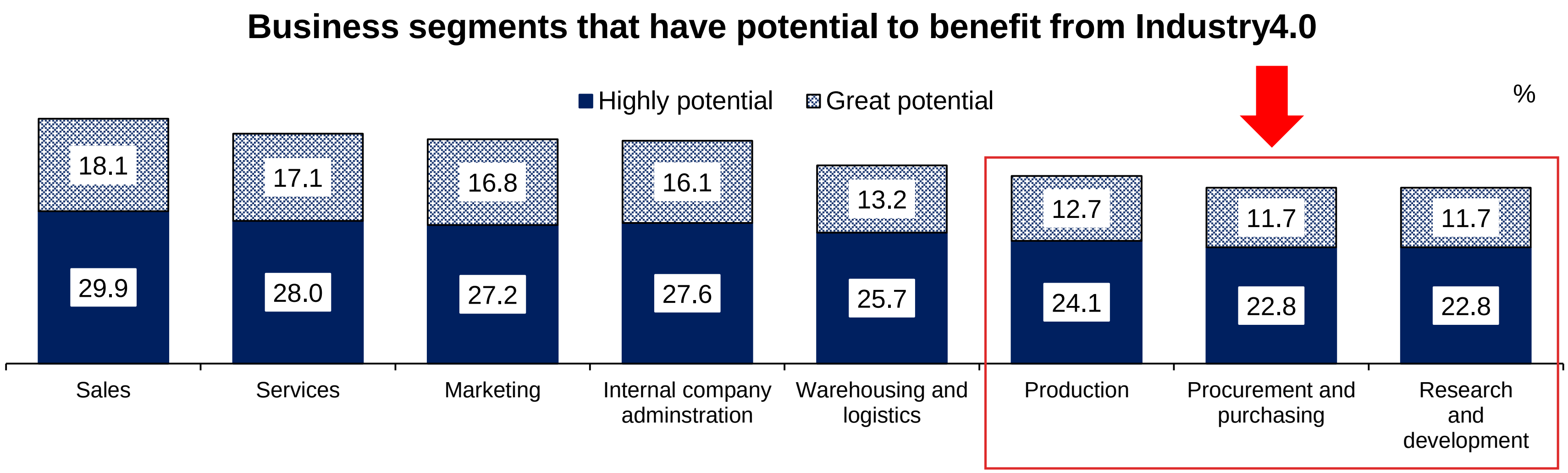
Adoption of digital transformation and Industry 4.0



Note: N/A = Not applicable; NR=Not Relevant

Low Adoption of Complex Software or Technological Applications

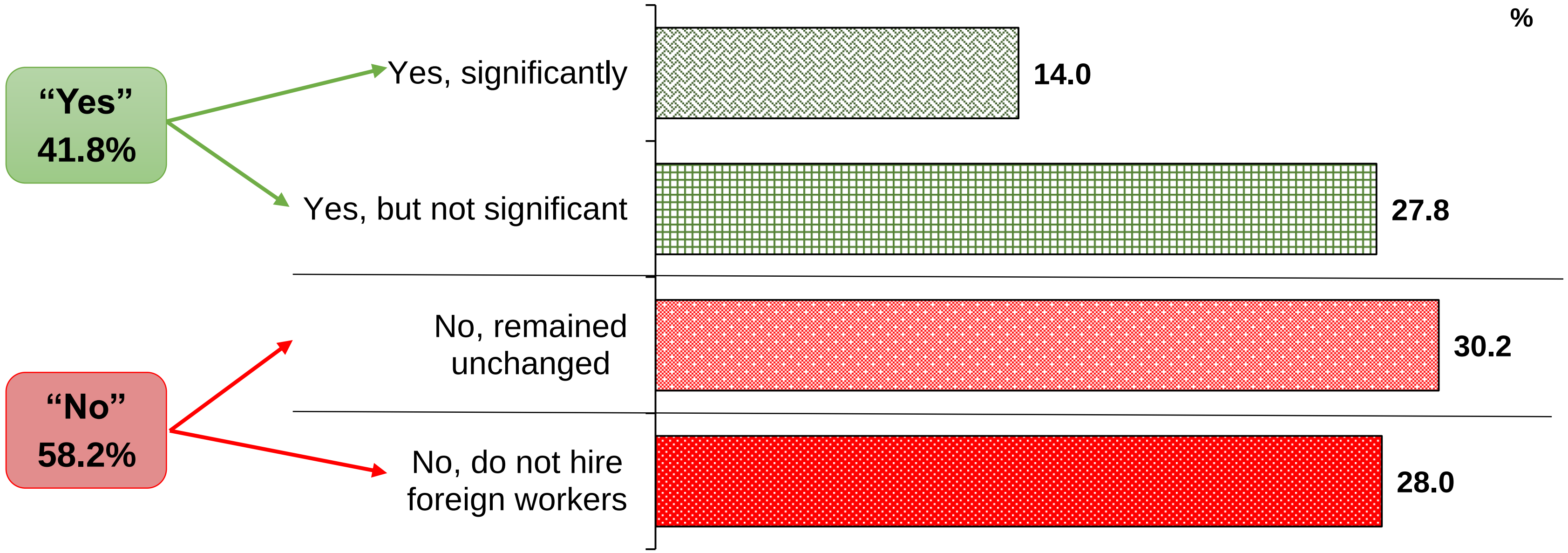




Automation will Reduce the Dependency of Foreign Workers (FWs)

- **41.8% of respondents** agreed that **there is a reduction in over-dependency on foreign workers via digital transformation and Industry 4.0**. However, **30.2% of respondents stated "No, remained unchanged".**
- Generally, over-dependency of FW can be reduced via digital transformation and Industry 4.0, but may not be very significant and applicable across-the-board.

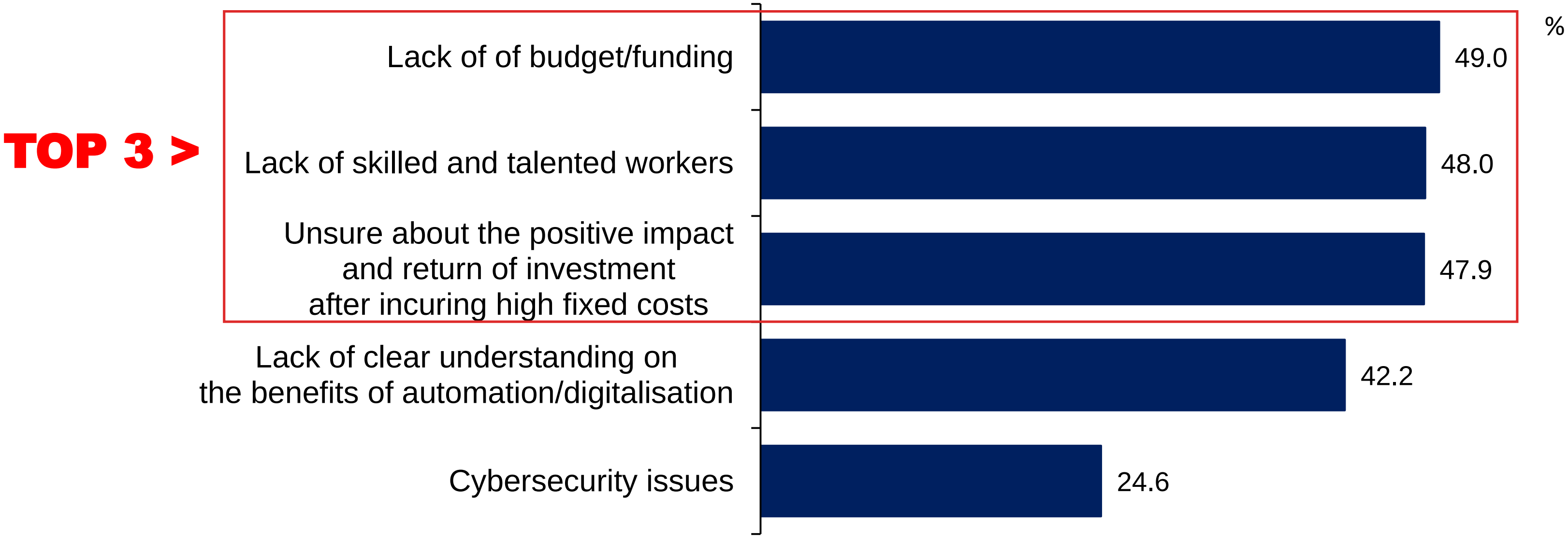
Reduction in dependency of foreign workers via digital transformation and Industry 4.0



Lack of Funding and Skilled Talented Workers to Adopt Automation/Digitalisation

- In Malaysia, **equipment and machineries are costly** as most are imported from advanced countries.
- **Imported skilled workers are required to operate those advanced equipment and machineries**, which mean additional costs incurred.

Factors restrict Malaysian businesses in adopting automation/digitalisation

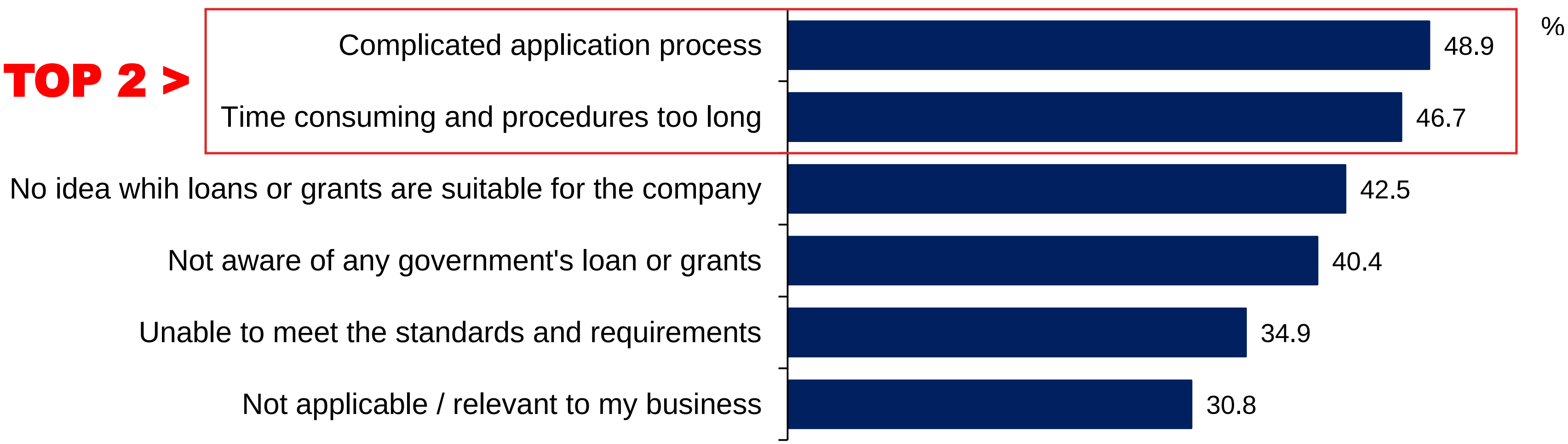


Complicated Application Process, Time Consuming and Tedious Procedures

Government support – Loans or Grants

- Some of the **feedback and experiences given are listed as follows**:
  - ➢ Some representatives in Malaysia Productivity Corporation (MPC) and MITI are not clear about the grants due to no "actual name" is given or announced by the Cabinet or Ministers. Standard operating procedure (SOP) releases are late and reduced business enthusiasm to apply it.
  - ➢ Officers are not industry friendly and not well trained to serve businesses
  - ➢ Different officers provide different interpretation of SOPs to businesses

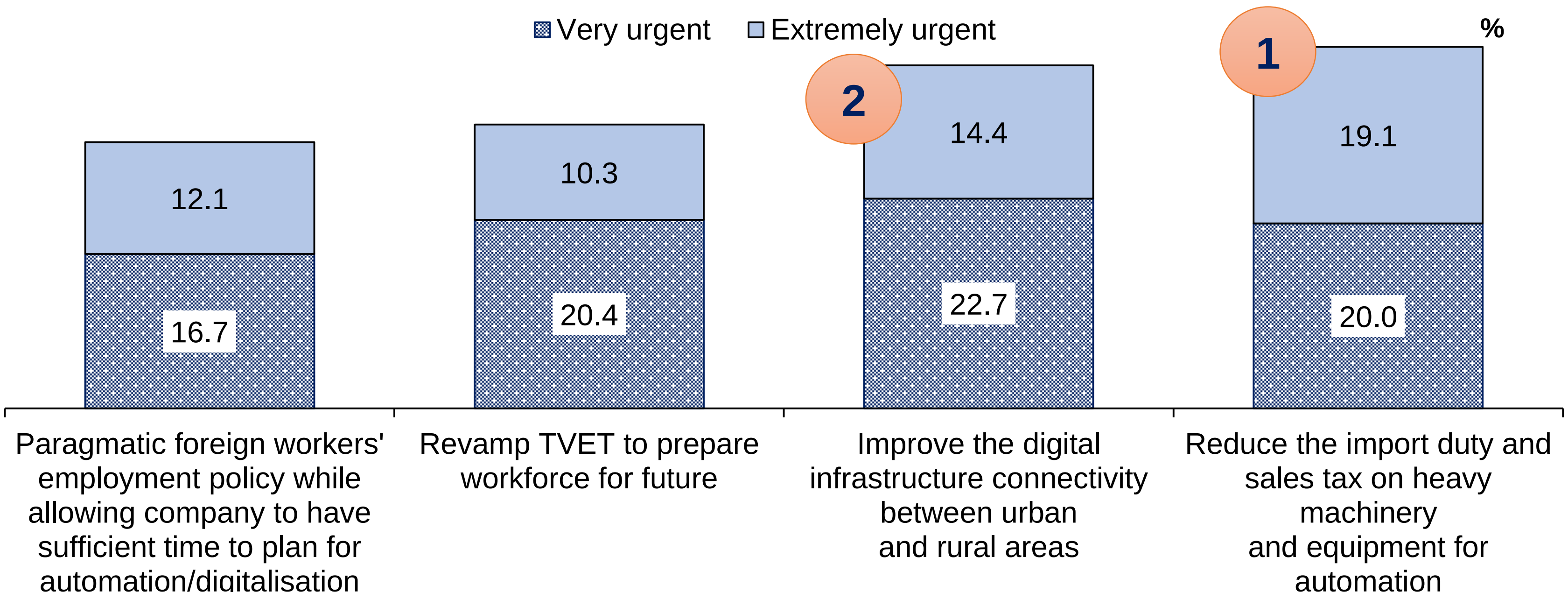
Issues faced by companies when applying government's loans or grants



To Consider Reduce Import Duty and Sales Tax and Improve Digital Infrastructure

1. **ACCCIM proposes a 50% reduction in each bracket/item of import duties on** machinery equipment related to automation or digitalisation.
2. **Upgrade the internet coverage in rural areas**. Businesses able to implement automation or digitalisation as well as to attract foreign investors investing in rural areas.

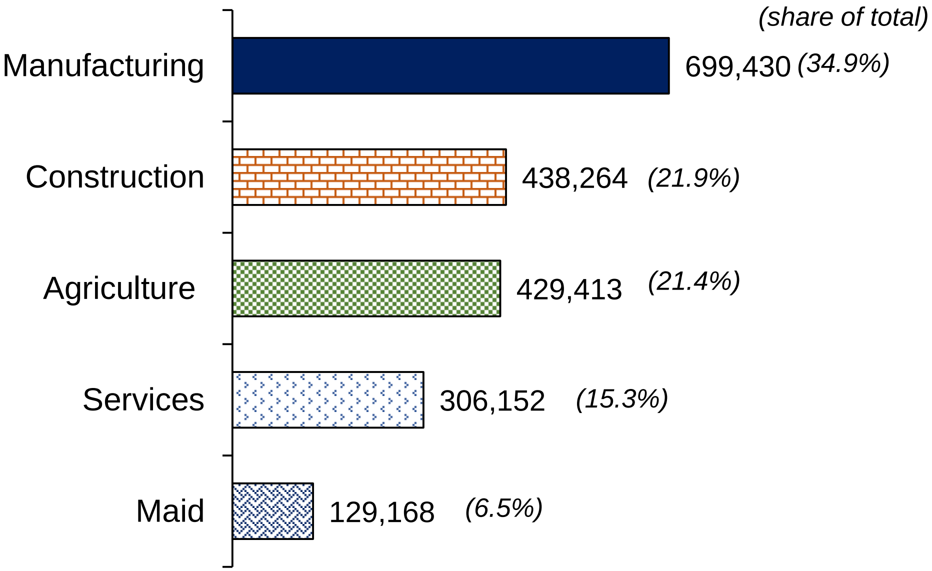
Rating on the statement on the urgency of government's support in helping business to implement automation/digitation over next 1-3 years



Foreign Workers (FWs)

- Businesses require foreign manpower to perform operational tasks, whether as a "transitional" tool or on a long-term basis to fill up the gap from "locals are reluctant to engage in 3D (Dirty, Dangerous and Difficult) jobs".
- Local and foreign workforce must complement each other to support Malaysia's economic and industrial development.
- ACCCIM M-BECS is to **gauge businesses' viewpoints on the management of FWs**.

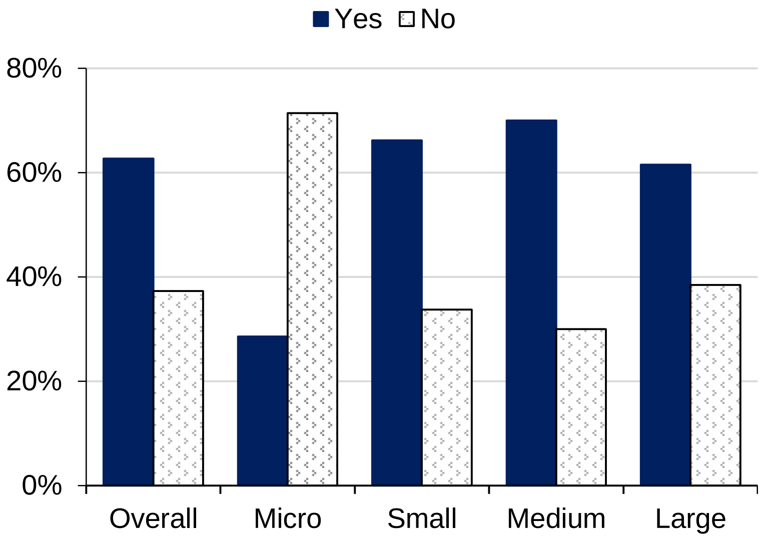
In 1H 2019, there are two million registered (documented) foreign workers in Malaysia, making up 12.8% of total labour force.



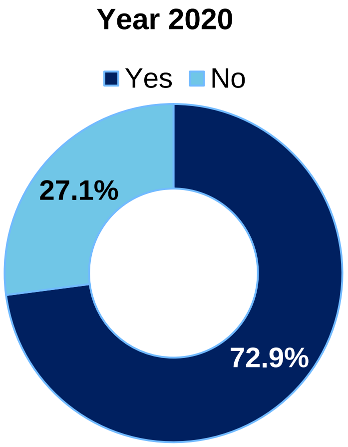
Manufacturing Sector

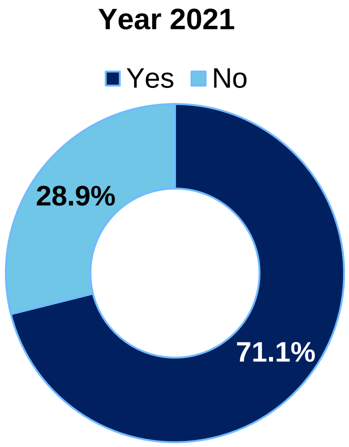
- Owing to the restrictive FWs policy, **62.7% of respondents in the manufacturing sector highlighted that their companies are facing shortage** of FWs to optimize their production, especially in small-sized (66.2% of respondents) and medium-sized (70%) enterprises as well as large enterprises (61.5%).
- On average, **72.9% and 71.1% of respondents in the manufacturing sector indicated that they would need FWs in 2020 and 2021** respectively.

Does manufacturers face the shortage of foreign workers?



Does manufacturers need foreign workers in 2020 and 2021?

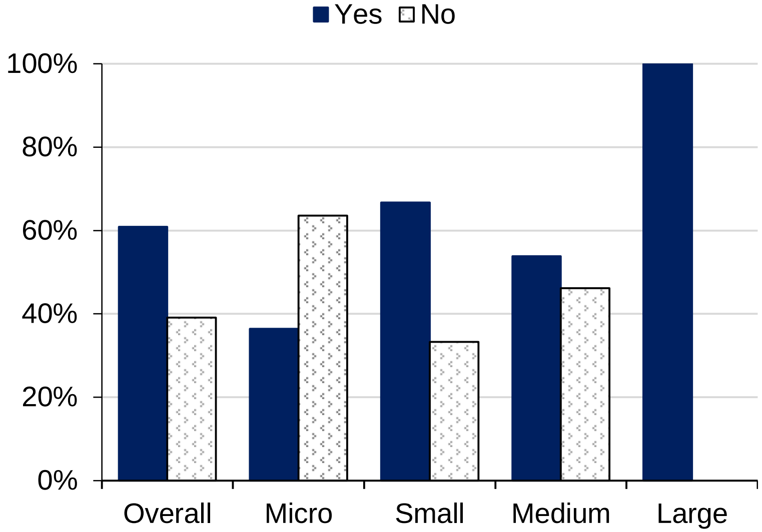




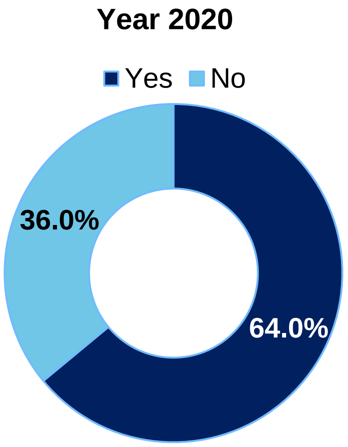
Construction Sector

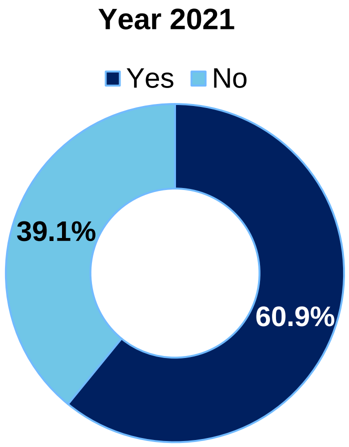
- **"Manpower shortage" and "foreign worker levy"** are equally ranked as Top 4 factor in the construction sector.
- **60.9% of respondents in the construction sector face shortage of FWs**, mainly from small enterprises (66.7% of respondents), medium-sized enterprises (53.8%) and large enterprises (100.0%).
- **More than half of respondents indicated the need of FWs for 2020 and 2021**, especially for small, medium and large enterprises.

Does construction companies face the shortage of foreign workers?



Does manufacturers need foreign workers in 2020 and 2021?

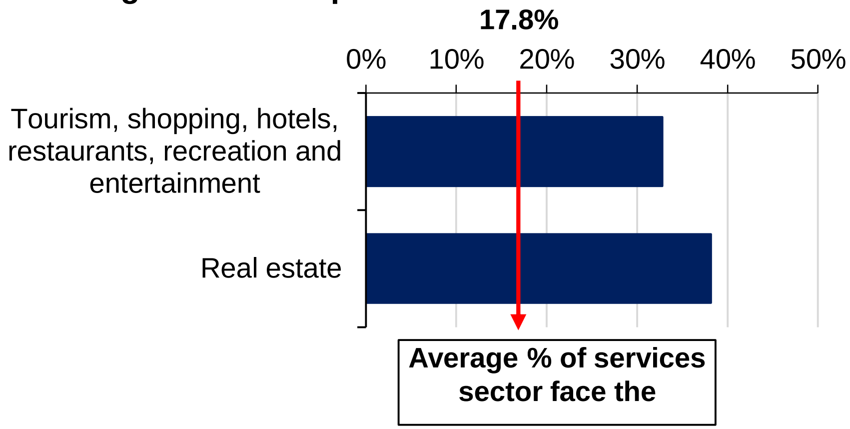




Services sector

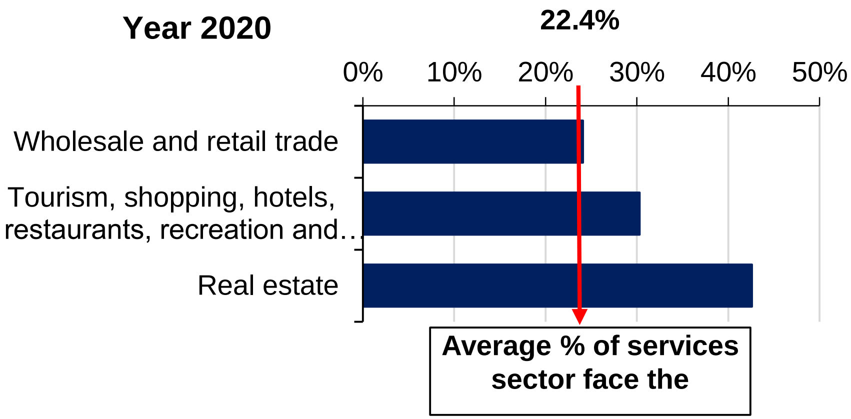
- In 2020 and 2021, tourism, shopping, hotels, restaurants, recreation and entertainment and real estate sectors indicated the needs for FWs to assist their business operation.
- For transportation, forwarding and warehousing sector, they need FWs in 2021, probably due to the expectations of an upturn.

Sub-services sectors face shortage of FWs above average of total respondents

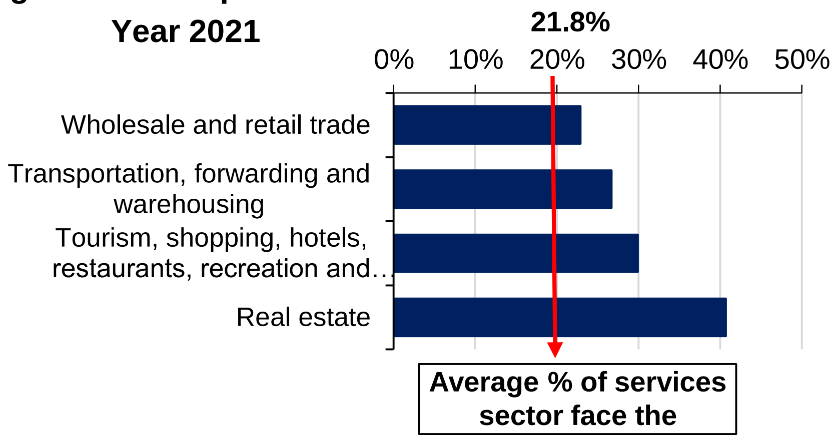


Sub-services sectors need FWs above average of total respondents in 2020 and 2021

Year 2020



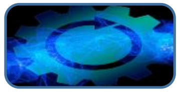
Year 2021



Recommendations

All gainfully employed illegal foreign workers (thus has an employer) be automatically eligible to be registered as documented foreign worker via an efficient, transparent process with certainty and clarity without the payment of a punitive penalty fee but a nominal fee.

All employers must be **eligible to register their undocumented foreign workers**. Once all these gainfully employed foreign workers are registered, these workers together with all other documented foreign workers will become the base number of foreign workers needed to man and operate the size of our economy.



The **system to engage foreign workers should be direct, efficient, transparent and with certainty**. This is to ensure that no employer will again be put into a position where he is forced to engage undocumented foreign workers or face shut-down and financial ruin of their business.

To phase out third-party agents in bringing in the migrant workers. The role has to be taken by the employer; and it is the responsibility of employer to handle the workers and sending them back when the contract expired.

Recommendations (Cont.)

A Single Ministry/One-stop Agency should be vested with the authority to address all issues concerning foreign workers. (i) Specific legislation and governing of recruitment and employment of foreign workers should be enacted and be placed under the purview of Ministry of Human Resources (MOHR); and (ii) Kementerian Dalam Negeri (KDN) and Jabatan Imigresan Malaysia (JIM) should only confined to the issuing of document papers for the employment of foreign workers after approval by MOHR.

Recalibration of foreign worker levy. Foreign worker levy is meant to act as pricing mechanism to level up the differential wages between locals and foreign workers. This objective is no longer true as the cost of engaging foreign workers cost more than locals. In fact, annual incidental recruitment costs of hiring a foreign worker by a small establishment is estimated RM10,189 is higher than recruiting a local worker (RM3,298), according to a labour cost survey carried out by Ilmia in 2016. It is the shortage of local workers that employers are forced to engage foreign workers. It is proposed that **the levy collected be "recalibrated" to fund skills training and apprenticeships as well as to facilitate the adoption of automation and mechanisation**.

Recommendations (Cont.)

In efforts to increase labour productivity and production efficiency, **FWs' levies should be ploughed back into a Designated Industrial Revolution/Adjustment Fund that provides financial support or technical assistance to firms to facilitate automation, mechanization and technological development**. Digitalisation and Industrial Revolution 4.0 require new future workforce that equipped with high technical skills to operate new processes.

The **availability of levy-funded training** fund would enable employers to retain high-skilled workers as well as to manage as well as provide the type of "on-job" or "off-the-job" training, which they are unable to provide regularly without appropriate financial support. With the facilitation of levy fund, the industry will be motivated to pro-actively nurture, train and develop the supply of knowledgeable and skilled workforce.

Conclusion

- **In 1H 2020**, the **pessimistic views about economic prospects have risen to 37.4%** (from 20.3% in previous survey) and for **business prospects** (35.6% vs. 19.0%).
- Despite a lesser percentage of respondents hold pessimistic views for the full year of 2020 prior to the outbreak of COVID-19, **an escalation of the COVID-19 outbreak and domestic political situation** post the closing of survey, **are expected to severely dampen consumer spending and business sentiment on the affected industries.**
- A **lesser percentage of respondents (55.1%) expect to increase capital expenditure in 1H 2020** while 40.6% will maintain their existing capital investment level.
- The industry players urge the Government **to reduce import duty and sales tax on heavy machinery and equipment used for automation** and **rapidly improve the digital infrastructure connectivity between urban and rural areas** in order to unlock the potential in automation/digitalisation over the next one to three years.
- **About 62.7% and 60.9% of respondents in the manufacturing and construction** sector respectively revealed that they are **facing shortage of FWs**. More than 60% of respondents in these two sectors indicated that they **need foreign workers in 2020 and 2021**.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谢谢
Thank you

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