

## **Planning the Economic Future of Penang beyond Covid-19**

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### **INTRODUCTION**

The year 2020 has all the makings of a challenging year. The Covid-19 outbreak has sent global industries and economies into a tailspin, posed significant threats to the healthcare system, severely disrupted the supply chain and dampened consumer spending. It has by far overshadowed the ongoing US-China trade and technology war.

Where Malaysia is concerned, the Movement Restriction Order (MCO) started on 18th March, and as expected, it has curtailed economic activities severely.

Consequently, federal and state governments have announced stimulus packages to provide direct financial assistance to households and businesses to tide them over in the short term. These aid packages are mainly to ease the cash flow crunch of businesses and to provide wage support to protect jobs. However, these are but short-term measures.

The longer-term challenge is to getting the country back to work, at the right pace and as safely as possible. The financial and social sustainability of individuals, corporations, and governments depend on it.

Looking at the economy as a whole, the demand disruptions will be here to stay and the ripple effects will run far, wide & deep. In such a dire situation, public sector spending and the manufacturing sector will have to be the economic drivers to sustain us through the difficult times ahead.

While the global export market will generally be dampened by the weaker demand, the economic implications will vary across countries. Those that have responded swiftly to Covid-19 situations and put in place comprehensive EHS (Environment, Health & Safety) protocols to motivate the manufacturing sector will most likely be the ones that can contain the damage to their economy.

These protocols are needed not only during the MCO but beyond, in order to protect the health and safety of employees, the general public, as well as the environment from hazards associated with the workplace.

## **PENANG IN A GOOD PLACE**

So, what's next for Penang? With half a century of industrialisation in its DNA, Penang has navigated numerous economic cycles before, and emerged stronger each time. While the Covid-19 situation is unprecedented in scale, Penang should be versatile enough to navigate these uncertainties and to take advantage of fresh opportunities.

Being a state that is responsible for 30% of the nation's export, and that contributes 77% of trade surplus; and furthermore, being a regional manufacturing hub for medical devices and E&E components and finished products, Penang cannot but play a major role in driving Malaysia's industrial outlook post-Covid-19. Through the following focused and distinct initiatives, the Penang State Government has been striving to minimize the damage from the current crisis:

### **1. Helping investors manage the timeline of their projects**

2019 was a fantastic year for Penang where foreign direct investments were concerned, and most of the strategic projects initiated back then are being planned and are waiting for the MCO to be lifted in order for physical implementation on the ground to proceed. The State Government aims to help in every possible manner these investments to catch up on their implementation timeline. Under the leadership of the Chief Minister, state institutions such as the Penang Development Corporation and InvestPenang are constantly in close contact with investors in keeping their plans and projects moving.

### **2. Keeping SMEs afloat**

The survival of SMEs is crucial for employment and for preserving the manufacturing supply chain. The federal and state governments have already introduced direct financial assistance to SMEs in the form of wage subsidies, deferment of loan repayments and provision of interest-free loans. This assistance would temporarily relieve SME's cash flow constraints. The conditional operation approval by the Ministry of International Trade and Industry (MITI) for qualified SMEs during the MCO period is expected to reduce their financial distress.

### **3. Preparing to help potential job seekers**

The current macro environment encompasses many uncertainties, and while the current job market remains stable, Penang needs to prepare for the worst. The State Government, via Penang Career Assistance and Talent Centre (CAT Centre), has the apparatus to offer job-matching facilitation for those facing retrenchment, be this due to the shifting in technology, or the pandemic. The new industries in Penang should continue to do well and are always hungry for talents. With the implementation of all the investments already in the pipeline, Penang is looking forward to creating at least 13,000 new job opportunities. The challenge is in matching the right skills with the new employment opportunities. In the new normal after Covid-19, lifelong employment will be rare or non-existent; instead, lifelong employability will be the goal.

#### **4. Strategising for industry development**

To strengthen Penang's industry base and protect employment opportunities, the Penang State Government has been diversifying the industries based in the state over the years. The Covid-19 pandemic is creating new ways for how people are to live and work. The changes will include a wide adoption e-commerce and broader acceptance of the work-from-home working model by employers. Realising these conditions, the State will be focusing more on building advanced digital infrastructure. The recent and timely setting up of Digital Penang to enhance Penang's digital infrastructure will further strengthen its reputation as the destination of choice for the digital economy.

##### **4.1. Securing Penang's leading position in the medical device industry**

Leveraging on the strength of the electrical & electronics (E&E) industry, Penang has been developing its non-glove medical device ecosystem over the past 10 years. It has gained increasing traction from the leading global medical device players, and the trend should continue. The medical device segment provides consistent and non-cyclical growth, and the current pandemic will likely expedite the industry's development.

##### **4.2. Diversifying Penang's E&E product portfolio**

In the meantime, the E&E product portfolios in Penang have diversified from being based on consumer electronics products to include more industrial application products, such as components / modules / systems for telecommunication infrastructures and data centre applications. The diversification process is in line with the megatrends in technology and will provide cushions for the highly cyclical E&E industry.

##### **4.3. Seizing opportunities arising from the paradigm shift in the global supply chain**

Since the commencement of the US-China trade war, corporations worldwide have been re-strategizing their manufacturing footprints, and recognising the danger of having a single location production site. The Covid-19 incident further strengthens the importance of diversification. Hence, a structural change in the global supply chain is inevitably in the making. The Penang State Government will continue to entice strategic companies that wish to diversify their presence in Southeast Asia.

##### **4.4. Strengthening further Penang's position as a GBS hub**

The State Government will continue to promote the Global Business Service (GBS) industry and to add more GBS Grade-A office spaces for the industry's expansion. Penang currently has more than 60 GBS companies providing more than 12,000 high paying positions, and activities covered by these GBS include finance, supply chain management, trading, analytics, R&D, logistics, and others. By having the capabilities in both manufacturing and GBS, Penang is able to offer competitive advantages for MNCs in many aspects, including lower overall costs and higher operational efficiency.

##### **4.5. Maintaining a continuous push up the value chain**

Penang's industries have diversified vertically over time and this effort is ongoing. More companies have opted to expand their higher value research and development and

knowledge-based activities there as part of their regional rationalisation initiatives. Malaysia Budget 2020 strategically provides tax incentives on the targeted high-value sectors and upstream activities; and the Penang State Government will continue working closely with investors and provide industrial feedbacks to the federal government in attracting strategic industries to Malaysia and Penang. Sustainability has also been the top priority for the Penang State Government.

Extraordinary times call for extraordinary solutions and self-adjustments. Amid the prevailing headwinds, Penang is well positioned to adapt and embrace the new living, working and learning models. Keeping Penang a conducive, desirable and sustainable destination for “work, live, play and invest” remains a goal for the State Government.