1. Global and Malaysia's economic performance

1.1 Global economic performance

World economic fallout

The global economy is facing the deepest recession in a century. The depth of the recession is estimated to be closely link to the severity of the COVID-19 pandemic in a country (Partington, 2020). As part of containment measures, lockdowns undertaken in most countries are to cause global business and social activities to slow to a near standstill. Restrictions on people mobility reduces labour supply, disrupts supply chains, and reduces business revenues. Layoffs have led to lower consumption spending. Closures of nonessential services are on the rise. Domestic disruptions have escalated and spilled over to trade and global value chain linkages. The health crisis is therefore posing a severe impact on economic activity.

Table 1.1 Key economic indicators for selected economies (%)

	Real GDP changes			Consumer prices changes			Unemployment rate		
	2019	2020*	2021*	2019	2020*	2021*	2019	2020*	2021*
World	**2.9**	**-3.0**	**5.8**	**3.6**	**3.0**	**3.3**	**-**	**-**	**-**
Advanced economies	**1.7**	**-6.1**	**4.5**	**1.4**	**0.5**	**1.5**	**4.8**	**8.3**	**7.2**
United States	2.3	-5.9	4.7	1.8	0.6	2.2	3.7	10.4	9.1
Euro area	1.2	-7.5	4.7	1.2	0.2	1.0	7.6	10.4	8.9
Germany	0.6	-7.0	5.2	1.3	0.3	1.2	3.2	3.9	3.5
France	1.3	-7.2	4.5	1.3	0.3	0.7	8.5	10.4	10.4
Italy	0.3	-9.1	4.8	0.6	0.2	0.7	10.0	12.7	10.5
Spain	2.0	-8.0	4.3	0.7	-0.3	0.7	14.1	20.8	17.5
Japan	0.7	-5.2	3.0	0.5	0.2	0.4	2.4	3.0	2.3
United Kingdom	1.4	-6.5	4.0	1.8	1.2	1.5	3.8	4.8	4.4
South Korea	2.0	-1.2	3.4	0.4	0.3	0.4	3.8	4.5	4.5
Emerging and developing economies	**3.7**	**-1.0**	**6.6**	**5.0**	**4.6**	**4.5**	**-**	**-**	**-**
China	6.1	1.2	9.2	2.9	3.0	2.6	3.6	4.3	3.8
India	4.2	1.9	7.4	4.5	3.3	3.6	-	-	-
ASEAN-5	**4.8**	**-0.6**	**7.8**	**2.1**	**1.8**	**2.7**	**-**	**-**	**-**
Indonesia	5.0	0.5	8.2	2.8	2.9	2.9	5.3	7.5	6.0
Malaysia	4.3	-1.7	9.0	0.7	0.1	2.8	3.3	4.9	3.4
Philippines	5.9	0.6	7.6	2.5	1.7	2.9	5.1	6.2	5.3
Thailand	2.4	-6.7	6.1	0.7	-1.1	0.6	1.1	1.1	1.1
Vietnam	7.0	2.7	7.0	2.8	3.2	3.9	2.2	-	-

*Note: * Projections*
Source: World Economic Outlook database April 2020, International Monetary Fund (IMF).

As a result of the pandemic, the world economy is projected to contract sharply at 3% in 2020. This is much worse than the 2008–09 global financial crisis and the 1997–98 Asian financial crisis. According to the International Monetary Fund (IMF) (2020), the global economy is projected to normalise in 2021, with an estimated growth of 5.8%. This rebound is even stronger than the growth rate recorded before the pandemic loomed in 2019. However, the magnitude of the global recession is uncertain, and is significantly reliant on global efforts in containing the spread of COVID-19.

Advanced economies are expected to be hit hardest by the pandemic. The real GDP is estimated to contract at 6.1% in 2020 with escalated job losses and tightened financial conditions. In April 2020, the IMF forecast that advanced European economies will be impacted the worst, with Italy contracting by 9.1%, Spain 8%, France 7.2%, and Germany 7% (Table 1.1). The United States is expected to contract mildly compared with the euro zone at 5.9% despite leading the world in COVID-19 cases and fatalities thus far. Among the advanced economies, South Korea is estimated to perform better than the United States and Japan, contracting at only 1.2%, supported by the intensity and efficacy of its containment measures.

The disruptions have affected demand for products and sales revenue of companies. As part of cost-cutting measures, companies have retrenched workers to keep their businesses afloat. The unemployment rate is expected to impacted severely, particularly in advanced economies. A double-digit unemployment rate is anticipated to emerge in the United States and all advanced countries in the euro zone except Germany. Spain's unemployment rate is projected to reach as high as 20.8%—the worst unemployment situation in the world—despite the fact that a gradual normalization in economy activity is expected in the second half of 2020.

All advanced economies and emerging and developing economies are set to have a lower growth rate in consumer prices. Inflation rates in advanced economies are not expected to exceed 1.5% in 2020 excluding Spain, which is estimated experience a deflation of 0.3%. The low inflation rate is attributed to the fall in oil prices. However, fears of deflationary pressures is heightened in the euro zone despite the stimulus measures of European Union (EU) central banks, including lending freely to borrowers. Consumer spending remains stalled and the economy is not picking up. Therefore, the continued downward spiral in consumer prices can impact the economy as investments dry up and unemployment soars, further dampening the wage rate.

While China was the first country impacted by the COVID-19 outbreak in the first quarter of 2020, its labour market conditions, along with economic growth, have been brought under control. Supported by its sizable domestic market, the Chinese economy is projected to grow at 1.2%, with its unemployment rate rising to 4.3% in 2020—close to full employment status—from 3.6% in 2019. Chinese urban unemployment is at a higher rate compared with rural areas (Cheng, 2020).

Although the Chinese economy has had a lower impact on its domestic employment market compared with other advanced countries, the unemployment situation continues to be a serious concern, especially with the bulk of graduates completing their degrees in the summer. Alibaba's logistics centre received more than 1 million job applications for 30,000 new managerial positions at pick-up stations (Cheng, 2020). A gradual recovery in Chinese investments, consumption, and industrial output was seen in May (Guo, 2020). However, the recovery is slower than expected.

Emerging and developing economies, on the other hand, will experience a moderated inflation rate in 2020. On average, consumer prices are expected to soften by 0.4% to 4.6% in 2020. Projections for the Chinese inflation rate see a scant increase of 0.1% to 3% in 2020 compared with 2019, supported by the rise in food prices—pork meat—and medical goods—disinfection products—which are highly demanded globally. In contrast, non-food prices sharply moderated while transportation and services showed a sharp decline in the first quarter of 2020.

India's economy is also expected to experience a subdued growth, with dramatic contractions in the industrial and service sectors. With a 1.9% estimated growth rate by the IMF, the continued spread of the pandemic will dampen consumer confidence and impede economic recovery, as reflected in a dramatic decline in industrial production, business sentiment, vehicle sales, and trade. The economic impact of COVID-19 will be broad and substantial if containment measures are not able to reduce the number of COVID-19 cases in the near term. In a recent update from IMF's World Economic Outlook database, the projected real GDP has been revised down to -4.5% in 2020, taking the rise of COVID-19 cases into account.

Likewise, inflation in India is also growing weakly. The overall rate is anticipated to weaken to 3.3% in 2020. However, the country's wholesale price index saw a deflation of 3.2% in May 2020 primarily the result of the decline in fuel and power prices amid more expensive food prices. The jobless rate in India has increased in June 2020, with the rural unemployment rate capped at 17.7% and the urban rate at 17% in the first week of June (The Indian Express, 2020). Unemployment in rural areas has eased owing to the presence of infrastructure projects and temporary jobs provision schemes.

Japan's economy is expected to decrease by -5.2% in 2020 compared with a 0.7% increase in 2019. Without a full national lockdown, the country's economy has since seen its supply chains and businesses severely disrupted. Coupled with the hike in the sales tax to 10% from 8% in October last year, consumers are being more careful with their spending. The economy slipped into a recession in the first quarter of 2020, registering a contraction of 3.4%. As a trade-reliant country, Japan's exports have also been severely affected by the pandemic, with its motor vehicles' sales dropping worldwide. In terms of unemployment, Japan will perform relatively well among the advanced economies, with an estimated 3% unemployment rate in 2020. Job cuts are seen in the services sector and in small and mid-sized firms.

South Korea's economy saw its worst performance since the 2008–09 global financial crisis, shrinking at 1.4% in the first quarter of 2020. The IMF projected that the country's real GDP would contract at 1.2% for the entire year. The slowdown in global spending has impacted South Korea's external trade, with exports down by two digits for three consecutive months from April to June 2020 following poor global demand for automotive and electronic products. The country's inflation rate is expected to slow slightly to 0.3% this year, with the surge in agricultural, livestock, and fisheries prices superseding the slump in automobile prices. The unemployment rate, on the other hand, is projected to rise to 4.5% in 2020, with small retailers, restaurants, and lodgings struggling the most.

Modest contractions in ASEAN countries

ASEAN economies will generally outperform advanced and emerging economies such as China and India. With the exception of Singapore, the IMF anticipates that ASEAN's five major countries will register a mild contraction of 0.6% in real GDP for 2020. All ASEAN economies are estimated to have a negative growth rate except Vietnam, Indonesia, Philippines, Lao PDR, and Brunei. These projections are to be revised by officials based on the current pandemic situation in each country. ASEAN economic ministers have encouraged businesses, particularly micro, small, and medium enterprises (MSMEs), to continue operations amid the pandemic (The Edge Markets, 2020). The adoption of digital technology would allow manufacturing firms to increase production. Moving forward, the IMF projects a strong growth in 2021 at 7.8%.

Thailand's economy is expected to be hit the hardest by the pandemic among the ASEAN countries, with its projected real GDP contracting sharply at 6.7%. This is largely the result of stalled travel activity and tourism-related sectors, particularly international tourist arrivals, brought about by the pandemic. Given that the tourism sector is the country's main source of income, the pandemic has significantly impacted the Thai economy. Furthermore, the demand for manufacturing goods has decreased leading to high inventories, while the construction sector has a large number of unsold stocks. Although the IMF estimates that Thailand's unemployment rate will remain at 1.1% in 2020, the country's National Economic and Social Development Council (NESDC) alluded that, while 2.5 million workers in the tourism sector could lose their jobs, 1.5 million and 4.4 million in the industrial sector and other services sector, respectively, could be jobless (New Straits Times, 2020).

Being the world's most competitive economy, Singapore's economy is expected to decrease during its worst-ever recession since its independence, surpassing the recession that occurred during the 1997–98 Asian financial crisis (when the economy shrank by 2.2% in 1998). According to IMF projections in April 2020, Singapore's real GDP will contract at 3.5% in 2020 from a slow growth of 0.7% in 2019. Labour shortages have severely affected economic sectors that depend on foreign workers, which is the main contributor to Singapore's COVID-19 cases. The affected sectors include construction and marine and offshore engineering. The economy will also go into deflation in 2020, with a projected rate of inflation at 0.2%. The country's consumer prices contracted for the fourth month in May owing to the decline in the cost of private transport and retail goods such as clothing and footwear and household durables. Likewise, food inflation is also felt in Singapore, particularly for the prices of non-cooked items. Singapore's unemployment rate is also forecast to increase marginally to 2.5% in 2020, up from 2.4% in 2019. The rate in the first quarter of 2020 has exceeded 3%, and the ratio of job vacancies to unemployed persons fell to the lowest in a decade with only seven jobs for every 10 unemployed people.

While most ASEAN countries reported a slowdown in COVID-19 cases, uncertainty over the Indonesian economy persists as the virus continues to spread. IMF projects that the real GDP will grow marginally at 0.5% in 2020, with the inflation rate at 2.9% and unemployment rate rising to 7.5%. The government is concerned that millions of Indonesians would fall into poverty as a result of the severe economic impact brought about by the pandemic. Like many countries, the Indonesian government has cut its interest rate to encourage consumer spending. Tourism tax cuts are also being implemented in the highly impacted tourism-related sector and local manufacturing firms. Indonesia's unemployment increased to more than 1.79 million as of May 2020 following the shutdown of non-essential services.

Vietnam's economy is set to grow at the fastest pace among ASEAN countries amid the impact of COVID-19; IMF anticipates a growth of 2.7% in Vietnam's real GDP in 2020. For the first quarter of 2020, its GDP fell to 3.8%, severely impacting the country's major trading and investment partners. Almost 35,000 companies went bankrupt, with the number of companies closing greater than the number of newly registered companies for the first time (Do, 2020).While risks from the COVID-19 pandemic remain, the Vietnamese economy will improve with the rise of the middle class and the large number of bilateral and multilateral trade agreements.

1.2 Malaysia's economic performance

Subdued economic growth with global health uncertainties

In 2019, the Malaysian economy, measured by GDP, dropped to its slowest growth since the global financial crisis in 2009. The GDP grew at 4.3% in 2019 compared with 5.8% and 4.8% in 2017 and 2018, respectively (Table 1.2). Private consumption remains the main economic driver, growing at 7.6% in 2019 while public investment plunged at 10.8%, followed by a marginal fall of 1.3% in exports amid the US-China trade war. Bank Negara Malaysia (BNM) projects Malaysia's GDP growth to hover between -2% and 0.5% in 2020 owing mainly to the COVID-19 pandemic.

Private consumption accounted for nearly 60% of Malaysia's total GDP in 2019, with a subdued growth of 7.6% compared with 2018's 8% growth. This can be attributed to continued income and employment growth through household spending. Consumption from the private sector is expected to decrease further in 2020 owing to weak labour market conditions, mobility restrictions, and poor consumer sentiments arising from the COVID-19 pandemic (Bank Negara Malaysia, 2020a). To ease these challenging economic conditions, economic stimulus packages including cash transfers to vulnerable households (such as Bantuan Sara Hidup [BSH][1] and Bantuan Prihatin Nasional [BPN][2]) and

[1] The government has allocated RM1 billion to households whose incomes are RM2,000 and below, RM2,001–3,000, and RM3,001–4,000 at RM1,000, RM750, and RM500, respectively.

[2] With an allocation of RM10 billion, a one-off cash assistance or Bantuan Prihatin Nasional (BPN) is channelled to B40 and M40 groups. The BPN given to the B40 community is based on BSH data. The payments disbursed in April and May 2020 include:

- A sum of RM1,600 given to households earning not more than RM4,000 per month.
- RM1,000 for households earning RM4,001–8,000 per month.
- RM800 for single individuals earning not more than RM2,000 per month.
- RM600 for single individuals earning RM2,001–4,000.

flexible Employees Provident Fund (EPF) savings withdrawals have been implemented to increase disposable income and advance cash flow for households. As projected by BNM, these measures are to add 2.8 percentage points to the 2020 GDP.

Private investments on the other hand softened considerably, expanding at only 1.5% in 2019—the slowest pace since 2009. This can be attributed to global trade uncertainties that have affected business sentiments over trade and investment directions. The prolonged review of large-scale infrastructure projects has also affected private sector investments in the construction sector. This also dampened investments from the public sector, contracting at 10.8% in 2019. In contrast, private investments were largely supported by the implementation of new and ongoing projects in both manufacturing and services sectors, particularly in resource-based and electrical and electronics (E&E) industries. The Movement Control Order (MCO) has resulted in some disruptions to ongoing construction projects. In the first quarter of 2020, investments from private and public sectors registered larger contractions at 2.3% (Q4 2019: +4.3%) and 11.3% (Q4 2019: -8%), respectively.

Table 1.2 Annual growth rate of GDP by demand components in Malaysia at 2010 constant prices

	2016	2017	2018[e]	2019[p]	Q1 2020[p]
Final consumption expenditure	4.9	6.7	7.1	6.6	6.5
Private	5.9	6.9	8.0	7.6	6.7
Public	1.1	5.7	3.2	2.0	5.0
Gross fixed capital formation	2.6	6.1	1.4	-2.1	-4.6
Private	4.5	9.0	4.3	1.5	-2.3
Public	-1.0	0.3	-5.0	-10.8	-11.3
Export of goods and services	1.3	8.7	1.9	-1.3	-7.1
Import of goods and services	1.4	10.2	1.5	-2.5	-2.5
GDP	**4.4**	**5.8**	**4.8**	**4.3**	**0.7**

Note: e - estimate; p - preliminary
Source: Bank Negara Malaysia and Economic Planning Unit, Malaysia.

As measured by the consumer price index, headline inflation[3] surged modestly at 0.7% in 2019, with prices of services, housing, and food and non-alcoholic beverages registering the biggest increase.

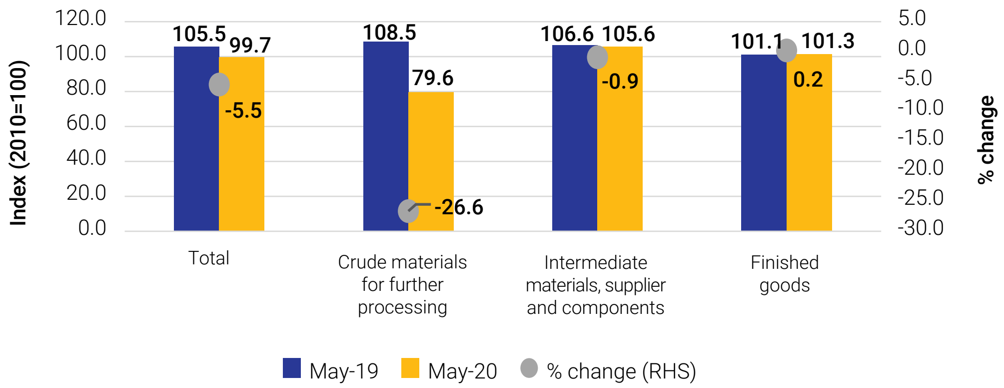
Meanwhile, prices of transportation faced the largest drop at 3.1%, followed by the prices of semi-durable goods (-1.9%) and non-durable goods (-0.7%). In the first quarter of 2020, the inflation rate moderated to 0.9% compared with 1.0% in the previous quarter. BNM has projected that a prolonged broad-base decline in prices, coupled with a collapse in demand, would cause deflation. However, Malaysia has a low risk of dipping towards a deflation trajectory as only 20% of the items in the consumer price index basket declined in prices (Yusof, 2020).

In contrast, the producer price for local production contracted at 0.9% in the first three months of 2020 compared with a growth of 1.4% in Q4 2019. This means that the cost of production is lower in Q1 2020. This decline was seen in mining and water supply, with the producer price for mining seeing the largest drop at 18.2% while water supply shrank marginally at 0.2%. The producer price continued to register a negative growth during the MCO. On a year-on-year (y-o-y) basis, the price had declined by 5.1% and 5.5% in April and May 2020, respectively, with all sectors seeing a drop except agriculture, forestry, and fishing. In May 2020, the sector increased by 5.5% while mining, manufacturing, electricity and gas supply, and water supply plunged by 52.7%, 0.8%, 0.2%, and 0.1%, respectively.

[3] Headline inflation rate is a measure of total inflation within an economy, which includes commodities such as food and energy prices (e.g. oil and gas).

In terms of stage of processing, only the prices of finished goods increased by a marginal 0.2% in May 2020 compared with the same month of the preceding year. Meanwhile, the cost of crude materials for further processing and intermediate materials, supplies, and components declined by 26.6% and 0.9% (Figure 1.1). Under crude materials, non-food materials such as crude fuel experienced the largest drop at 43.7% while the cost of processed fuel and lubricants dropped by 5.7%, leading to the mild decline in the intermediate materials category—which was affected by the drop in global oil prices. Prices are expected to perform weakly in the next three months because of the gradual resumption of production after the MCO.

Figure 1.1 Producer price index and y-o-y change for local production, Malaysia



Source: Department of Statistics, Malaysia.

All economic sectors impacted by COVID-19

From the supply side, the Malaysian economy is primarily driven by the services sector, followed by manufacturing and agriculture. The services sector, accounting for more than half of the entire GDP, increased by a moderate 6.1% in 2019, down from 6.8% in 2018 (Table 1.3). In the first three months of 2020, the MCO affected the major economic sectors considerably. While the services sector continued to be the main economic driver of the country, the sector had weakened sharply to 3.1% in Q1 2020—the slowest-ever growth since the 2009 global financial crisis. Manufacturing activity moderated to 1.5%, which was largely affected by the supply-chain disruptions brought about by the COVID-19 pandemic. In contrast, agriculture, mining, and quarrying and construction decreased significantly by 8.7%, 2%, and 7.9%, respectively.

Table 1.3 GDP performance by economic sectors, Malaysia (at 2015 constant prices)

Sector	y-o-y change (%)					Share (%)	
	2016	2017	2018^e	2019^p	Q1 2020^p	2019^p	Q1 2020^p
Agriculture	-3.7	5.7	0.1	2.0	-8.7	7.1	6.5
Mining and quarrying	2.2	0.4	-2.2	-2.0	-2.0	7.1	7.3
Manufacturing	4.4	6.0	5.0	3.8	1.5	22.3	22.3
Construction	7.4	6.7	4.2	0.1	-7.9	4.7	4.5
Services	5.7	6.3	6.8	6.1	3.1	57.7	58.4
GDP at purchasers' value	**4.4**	**5.8**	**4.8**	**4.3**	**0.7**	**100.0**	**100.0**

Note: e - estimate; p - preliminary
Source: Department of Statistics, Malaysia.

Given the lockdown in non-essential services in March 2020, the services sector was largely impacted by the tourism-related and non-food retail trade activities. This led to a sharp contraction in the accommodation (-4.2%), motor vehicles (-2.9%), and transport and storage (-2.7%) sub-sectors in Q1 2020. Transport and storage activities were affected by international and inter-state travel restrictions, putting airports into a complete halt during the MCO. The insurance and information and communication sub-sectors had the highest growth rates at 6.9% and 6.7%, respectively, underpinned by demand for special COVID-19 coverage and data communication services (Table 1.4).

Table 1.4 GDP growth rate for services sub-sectors, Malaysia (at 2015 constant prices)

Services sub-sector	y-o-y change (%)				
	2016	2017	2018	2019	Q1 2020
Electricity and gas	5.0	2.2	4.5	5.6	4.9
Water	6.7	6.1	6.6	7.6	5.7
Wholesale trade	8.3	6.6	7.4	5.6	3.4
Retail trade	7.1	9.5	10.2	8.4	2.1
Motor vehicles	-3.0	1.3	3.8	4.0	-2.9
Food and beverage	7.8	8.1	9.7	10.4	3.1
Accommodation	4.9	5.4	6.0	6.6	-4.2
Transport and storage	5.7	6.2	6.4	6.8	-2.7
Information and communication	8.0	8.6	8.3	6.6	6.7
Finance	1.4	5.1	3.9	4.5	4.2
Insurance	6.5	3.6	9.9	5.0	6.9
Real estate and business services	6.9	7.6	7.6	7.8	3.4
Government services	4.8	4.8	4.5	3.7	4.4
Other services	4.9	5.1	5.5	5.5	1.4
Total	**5.7**	**6.3**	**6.8**	**6.1**	**3.1**

Source: Department of Statistics, Malaysia.

As Malaysia's second-largest economic sector, manufacturing grew marginally in the first quarter of 2020, impacted by the MCO as part of measures to contain the COVID-19 virus. It moderated by half at 1.5% in Q1 2020 against 2% in Q4 2019. The first disruption emerged when China's lockdown disrupted the global supply chain, particularly in E&E and transport equipment. With the imposition of the MCO, the majority of manufacturing operations ceased. Only essential activities were allowed to operate during the MCO, thus affecting the local supply chain. Moving forward, a slow but positive recovery will be seen in this sector, particularly in areas with digital technology and automation.

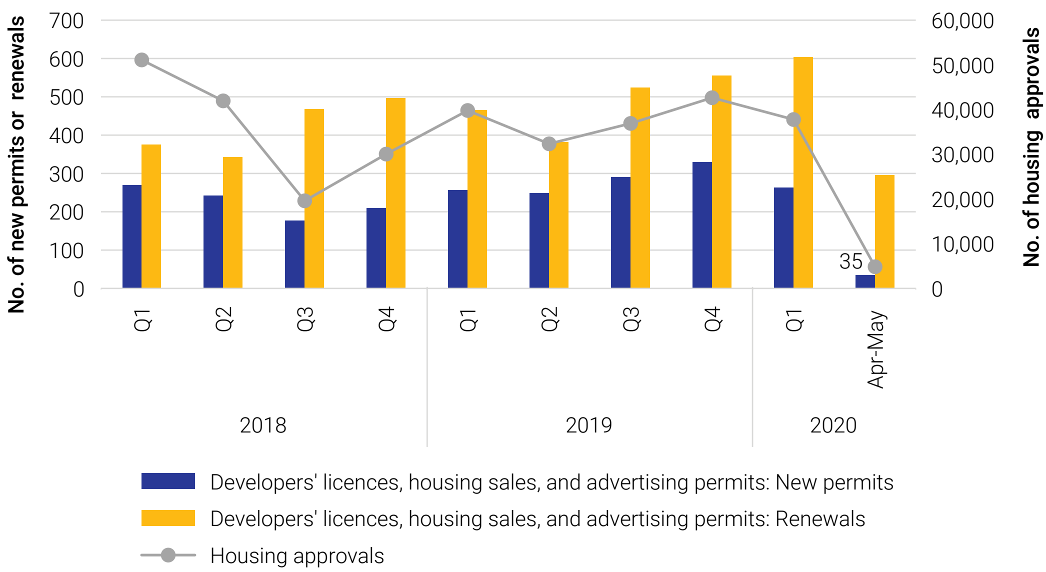
For the primary economic sectors, the agriculture sector contracted steeply at 8.7% in the first quarter of 2020 compared with -5.7% in Q4 2019, while mining remained in contraction (Q1 2020: -2%; Q4 2019: -3.4%) (Table 1.3). Dry weather conditions, coupled with the MCO, has led to a decrease in the production of agriculture items. In the first quarter of 2020, production of the major agricultural and mining commodities contracted in the first three months of 2020 except natural gas (Table 1.5). In agricultural commodities, saw logs and crude palm kernel oil were hit hardest with a sharp drop of 25.3% and 25%, respectively.

Table 1.5 Production of major agricultural and mining commodities

Commodities		2018	2019	Q1 2019	Q1 2020	y-o-y change	
						2018/19	Q1 2019/20
Rubber	('000 tons)	603.3	639.8	185.2	150.7	6.0%	-18.7%
Crude palm oil	('000 tons)	19,515.5	19,858.2	4,954.0	3,857.4	1.8%	-22.1%
Crude palm kernel oil	('000 tons)	2,300.0	2,322.2	608.9	454.6	1.0%	-25.3%
Saw logs	('000 cubic metres)	10,351.3	9,445.4	2,505.9	1,878.3	-8.8%	-25.0%
Cocoa	(tons)	826.4	1,017.1	301.6	206.1	23.1%	-31.7%
Tin-in-concentrates	(tons)	3,836.0	3,606.0	936.0	288.0	-6.0%	-69.2%
Crude oil and condensates	('000 barrels per day)	7,833.7	7,253.7	1,925.5	1,831.6	-7.4%	-4.9%
Natural gas (net)	(mmscfpd)	76,874.1	79,473.0	20,323.1	20,649.4	3.4%	1.6%

Source: Bank Negara Malaysia.

Figure 1.2 Selected construction indicators in Malaysia



Source: Bank Negara Malaysia.

Accounting for not more than 5% of the national GDP, the construction sector declined by 7.9% in Q1 2020 (Q4 2019: +1.0%). Construction activity was completely prohibited during the MCO. In the first three months of 2020, housing approvals and new permits issued to developers' license, housing sales, and advertisements were lower than those permitted in the last quarter of 2019 despite a surge in the number of permit renewals. This effect was largely felt in April and May 2020 when only 35 new permits were issued and 295 renewal permits were dispensed (Figure 1.2). According to the Bank Negara Malaysia Q1 2020 report, the lockdown has offset progress made in large transportation projects, as well as activities in the affordable housing schemes implemented before the MCO was issued.

Moderated labour market conditions

The labour market has softened as a result of efforts to contain the pandemic. In the first quarter of 2020, while the Malaysian labour force increased by a marginal 0.1% to 15.8 million people, the number of employed persons shrank by 0.1% to 15.24 million compared with the previous quarter. As a result of the MCO, the number of people who are not actively looking for jobs—or outside labour force—increased by 1.4% in Q1 2020, leading to a decline in the labour force participation rate. The unemployment rate increased to 3.5% in the first three months of 2020, particularly in March 2020. During the MCO period, industries that were most affected include accommodations; food and beverages; and arts, entertainment, and recreation.

In contrast, labour demand performed slightly better as the effect of the MCO was not completely reflected in the jobs market for the first three months of 2020. According to the Department of Statistics' Labour Market Review in the first quarter of 2020, total jobs, which consist of filled jobs and job vacancies, increased by 17,000 to 8.6 million in the private sector. While the rate of filled jobs increased to 98.1%, the rate of vacancies dropped to 1.9% from 2.3% in Q4 2019. Private firms remain cautious in the face of uncertainties caused by the COVID-19 pandemic. The semi-skilled category continues to record the largest job vacancies advertised (62.4%) compared with the high-skilled (24.3%) and low-skilled (13.3%) categories. Newly created jobs declined by 5,000, a majority of which were from the high-skilled category. More than half of the jobs available were from the services sector, and more than a quarter were from the manufacturing sector.

In Q1 2020, labour productivity, as measured by the ratio of value added to total employment, plunged by 0.8% to RM22,578 from RM24,263 in Q4 2019. Though the total hours worked decreased by 1.4% during the first phase of the MCO, value added generated by domestic production improved by 0.7% in Q1 2020 compared with 3.6% in the last quarter of 2019. As a measure of value added per hours worked, labour productivity rose by 2.1% for the same period, generating RM40 in value added per hour. In terms of economic sectors, the mining and quarrying, services, and manufacturing sectors recorded positive growth while the construction and agriculture sectors saw negative growth. Going forward, labour productivity will continue to moderate this year in response to production losses resulting from the MCO period.

Rebounded external trade environment

In the first five months of 2020, total trade fell by 8.7% to RM688.6 million from RM753.9 billion in January–May 2019. Amid global uncertainties and lockdowns in the country's trading partners, the trade balance remained robust with a surplus of RM43.7 billion in the first five months of 2020, down 23% compared with the same period last year (Table 1.6). The lower trade surplus was primarily attributed to the MCO; in April 2020 the country recorded its first trade deficit since the 1997 Asian financial crisis. Both exports and imports respectively dropped by 9.7% to RM366.2 billion and 7.5% to RM322.4 billion from January to May 2020 compared with the same period in 2019, resulting in a smaller total trade value. Malaysia's trade performance appears to have picked up at a faster-than-expected rate owing to strong external demand. Moving forward, Malaysia is expected to continue experiencing positive trade activity in 2020.

Table 1.6 Exports, imports, and balance of trade in Malaysia

RM million	2018	2019	% change	Jan–May 2019	Jan–May 2020	% change
Export	1,003,587	986,377	-1.7%	405,356	366,157	-9.7%
Import	879,804	849,067	-3.5%	348,516	322,410	-7.5%
Total trade	**1,883,391**	**1,835,444**	**-2.5%**	**753,872**	**688,567**	**-8.7%**
Balance of trade	**123,783**	**137,310**	**10.9%**	**56,840**	**43,747**	**-23.0%**

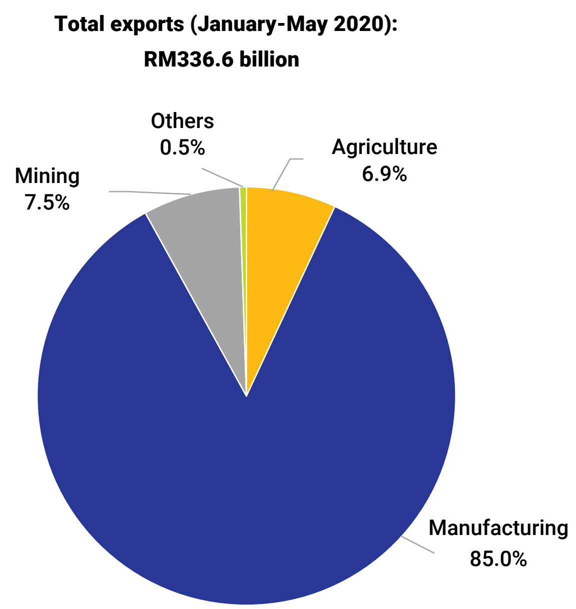
Source: Penang Institute estimates based on the Department of Statistics, Malaysia.

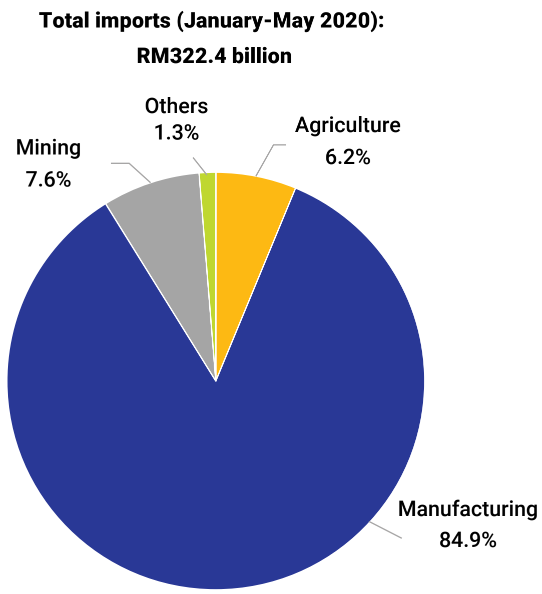
The majority of trade value was contributed by the manufacturing sector, accounting for as much as 85% of exports and imports from January to May 2020 (Figure 1.3). This was then followed by the mining and agriculture sectors. E&E products remained as the largest exports commodity across all economic sectors, making up more than one-third of Malaysia's exports. Due to the slowdown in the global external demand, exports of manufactured goods dropped by nearly 13% to RM133.8 billion compared with the same period last year. The drop was also reflected in the industrial production index; the manufacturing sector was impacted the most at 11.4% across all economic sectors. All other manufactured commodities a negative growth except iron and steel products (29.7%), transport equipment (23.9%), rubber products (12.6%), and paper and pulp products (7.7%).

E&E products also accounted for the largest share of total imports in Malaysia, but from a lower share compared with exports. E&E accounted for nearly 30% of the imports' value, followed by chemical and chemical products (9.3%) and petroleum products (8.4%). Among manufactured goods, machinery, equipment, and parts were hit the hardest, experiencing a significant decline of 21.1% in January–May 2020 compared with the first five months of 2019. This was then followed by textiles, apparel and footwear (-12.1%), petroleum products (-11.4%), and optical and scientific equipment (-9.9%). Only two manufactured goods registered positive growth: transport equipment (+15.4%) and processed foods (+4.6%).

Mining and agriculture sectors accounted for 7.5% and 6.9%, respectively, of Malaysia's exports during January–May 2020, with mining products registering a double-digit contraction of 21.4% y-o-y while agricultural products fell nearly 7% y-o-y compared with the first five months of the preceding year. Saw logs and sawn timber and mouldings were the most severely affected by the MCO across all agricultural products, followed by natural rubber (-13.4%) and palm oil (-2.9%). Exports of tin mining faced the largest loss among mining commodities, seeing a steep decline of 37.3% in January–May 2020 even though liquefied natural gas has the biggest share of mining exports.

Figure 1.3 Exports and imports by sector, January–May 2020



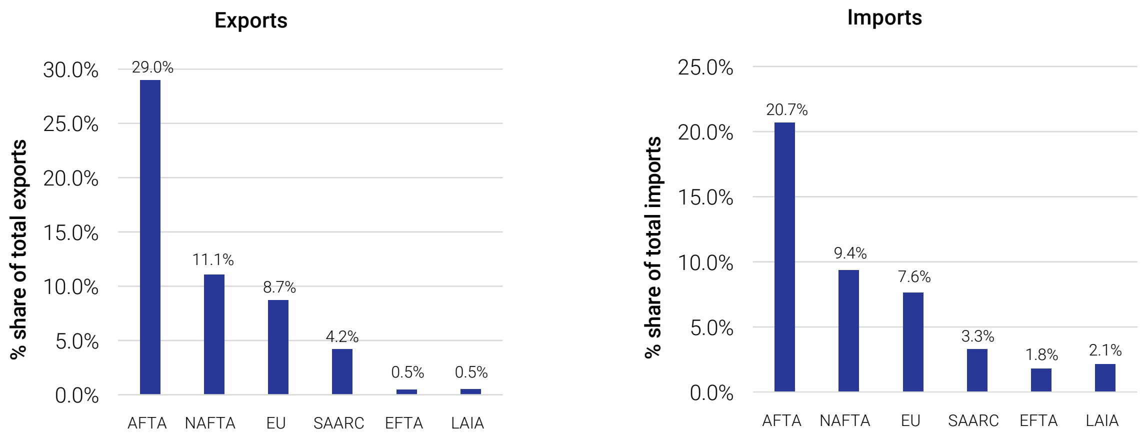


Source: Department of Statistics, Malaysia.

The ASEAN Free Trade Area (AFTA) remained as Malaysia's main export destination in the first five months of 2020, with Singapore remaining as Malaysia's key trade partner. AFTA represented 29% of Malaysia's exports and 20.7% of its imports (Figure 1.4). Within AFTA, Malaysia's exports were valued at RM53.8 billion, or 51% of Singapore's exports value, while its imports were valued at RM28.8 billion or 42.6% of Singapore's imports value.

Malaysia's second-largest trading market is the North American Free Trade Agreement (NAFTA), which accounted for 11.1% of total exports (RM40.6 billion) and 9.4% of imports (RM30.5 billion)—about 90% of which are traded in the US market. For the EU market, the Netherlands led Malaysia's export market (28.9% of exports to the European Union), followed closely by Germany (28.3% of imports from the European Union) for January–May 2020.

Figure 1.4 Direction of external trade by economic grouping, January–May 2020



Note: AFTA refers to ASEAN Free Trade Area; EU refers to European Union; NAFTA refers to North American Free Trade Agreement; SAARC refers to South Asian Association for Regional Cooperation; LAIA refers to Latin American Integration Association; and EFTA stands for European Free Trade Association, which includes Iceland, Norway, Switzerland, and Liechtenstein.
Source: Penang Institute estimates based on external trade data published by the Department of Statistics, Malaysia.

Since 2011, China has been Malaysia's largest trading partner. With Malaysia's imports valued at a total of RM175.6 million in 2019, China accounted for about 21%, while Singapore accounted for 10.5% and the United States accounted for 8.1%. Imports from China have grown by 11% per year since the global financial crisis in 2009.

China's lockdown had adversely affected the manufacturing supply chain in Malaysia as the country imports more intermediate goods for further processing to produce end-use goods or semi-end use goods for exports. More than half of Malaysia's imports were intermediate goods which manufacturers use as raw material to produce final or intermediate goods, while capital goods and consumption goods represented 11.8% and 8.7%, respectively, of imports in 2019. Approximately 85% of Malaysia's exports and imports value were attributed to the manufacturing sector in 2019. Of this, E&E products accounted for 44.7% of total exports and 33.7% of total imports.

Penang continued to be the main exporter through air

In Malaysia, seaports contributed the largest volume of exports, followed by airports and land transport. Over half of Malaysia's exports value were transported through seaports, while one-third and 13.1% were respectively transported through airports and land transports. Bayan Lepas airport in Penang continued to handle the largest exports in Malaysia, followed by Port Klang, Tanjung Kupang (Johor), Kuala Lumpur International Airport (KLIA), Bintulu, and Pasir Gudang (Johor). Bayan Lepas made up slightly more than a quarter of total exports while Port Klang comprised approximately 17% of the total export value for the first five months of 2020 (Table 1.7).

Although Tanjung Gelang (also known as Kuantan Port) handled the smallest value of exports among the seaports, the port recorded the largest increase in the first five months of 2020 at about 53%. Kuantan Port caters to the export and import of manufactured output from the Malaysia-China Kuantan Industrial Park (MCKIP). Box 1.1 details the status of the Malaysia-China twin parks cooperation and the development of Kuantan Port.

During the MCO, all transportation modes handled lower volume of exports compared with the first five months of the preceding year. Air transport was impacted the least compared with sea transport and land transport. Exports through air transport declined by 4.2% against 15.8% through land and 11.2% through sea.

Among three main land exit and entry points of Malaysia, Johor has the largest share of exports, accounting for about 84% of the total export value handled through land transport. In Johor, the Tanjung Kupang checkpoint exported more goods (almost 74% of the total exported value of goods) than the Johor Bahru checkpoint (about 10%) during the first five months of 2020. It is estimated that the majority of exported goods were transported to Singapore for further processing or for end users. In the northern region, Bukit Kayu Hitam, which is a gateway to Southern Thailand, handled about 11.3% of the total exported value of goods through land transport. From January to May 2020, exports in Tanjung Kupang fell by only 5.4% to RM35.2 billion, compared with declines of 25% in Johor Bahru and 45.7% in Bukit Kayu Hitam.

Table 1.7 Exports by mode of transport for selected channels in Malaysia

Exports (RM million)	Jan–May 2019	Jan–May 2020	% y-o-y change	% share
Sea	**223,317**	**198,370**	**-11.2%**	**54.2%**
Port Klang	71,839	62,735	-12.7%	17.1%
Bintulu	29,523	24,558	-16.8%	6.7%
Pasir Gudang, Johor	26,830	23,033	-14.2%	6.3%
North Butterworth Cargo Terminal	22,079	17,786	-19.4%	4.9%
Tanjung Pelepas Port	16,637	13,745	-17.4%	3.8%
Tanjung Gelang/Kuantan Port	4,269	6,521	52.8%	1.8%
Others	52,139	49,992	-4.1%	13.6%
Air	**125,311**	**120,085**	**-4.2%**	**32.8%**
Bayan Lepas	92,296	92,116	-0.2%	25.2%
Kuala Lumpur International Airport (KLIA), Sepang	30,127	24,822	-17.6%	6.8%
Others	2,889	3,147	8.9%	0.9%
Land	**56,782**	**47,809**	**-15.8%**	**13.1%**
Tanjung Kupang, Johor	37,161	35,167	-5.4%	9.6%
Johor Bahru (Tambak/Causeway)	6,642	4,983	-25.0%	1.4%
Bukit Kayu Hitam	9,971	5,414	-45.7%	1.5%
Others	3,008	2,245	-25.4%	0.6%
Total	**405,410**	**366,264**	**-9.7%**	**100%**

Source: Department of Statistics, Malaysia.

For imports, Port Klang handled the largest value of imported goods in Malaysia at RM82.2 billion for the first five months of 2020. This comprised about a quarter of the imported goods, and 17.5% were contributed by Bayan Lepas airport—the second-largest importing channel in Malaysia. Interestingly, all checkpoints experienced a negative growth rate in imports during the first five months of 2020 except Bayan Lepas airport, which actually saw an increase of 7.3% or RM3.8 billion worth of imported goods in January–May 2020 compared with the same period in 2019.

Box 1.1 Status of Malaysia-China twin parks cooperation

By Dr Lee Siu Ming

The Malaysia-China Kuantan Industrial Park (MCKIP), which is located in Kuantan, Pahang, was officially launched in 2013. It is Malaysia's first national industrial park and is the sister park to the China-Malaysia Qinzhou Industrial Park (CMQIP) under the model of "Two Countries, Twin Parks". MCKIP, with a total land size of 3,500 acres, is a joint venture between Malaysian and Chinese consortiums, where the Malaysian consortium consists of the Pahang state government, Sime Darby Property, and IJM Land. The Chinese consortium consists of China Guangxi Beibu Gulf International Port Group and Qinzhou Investment Co., Ltd.

Tham (2019) highlighted that, despite the highly publicised cancellation or suspension of China-related mega-projects, private sector–funded projects such as MCKIP are still proceeding as planned.

Based on a statement by the Joint Cooperation Committee (JCC) of MCKIP and CMQIP on 14 June 2019, MCKIP has 10 committed projects with a total investment of over RM18 billion (RMB 30 billion) and is expected to create 20,000 jobs in the area. The first investment project in MCKIP is a modern integrated steel mill, while the second project is a concrete spun pile manufacturing plant which is already operational. MCKIP's targeted industries are steel and non-ferrous metals, machinery and equipment, automotive components, clean technology and renewable energy, oil and gas and petrochemicals, electric and electronic components, and research and development. Noting that this is a twin park project, the Ministry of International Trade and Industries has also encouraged more Malaysian companies to invest in CMQIP.

Any discussion about MCKIP would not be complete without mentioning Kuantan Port. According to the Ministry of Transport's Annual Transport Statistics 2017, Kuantan Port is seventh in total cargo throughputs in Malaysia. The port's handling capacity is expected to double to 52 million metric tons when the new deep-water terminal (Phase 2 expansion) is completed. Kuantan Port obtained Free Zone port status in March 2019, and recently established a Free Trade Zone on 1 April 2019.

In a presentation entitled "The Economic Impact of MCKIP: Preliminary Findings, Gaps and Future Research" at the 2nd Seminar on the Twin Parks Cooperation between Malaysia and China and Belt and Road Forum 2019, Tham (2019) noted that Kuantan Port's trade structure is likely to change from resource-based products to more manufactured products with more manufacturing activities taking place in MCKIP.

The long-term development of the region and country, types of employment generated, transfer of technology, and local sourcing opportunities should remain as key criteria in any foreign direct investments. With two companies now operating at MCKIP, it is expected that more far-reaching economic spillover effects resulting from the development of MCKIP will only be noticeable after a lengthy period of time.