

Penang Economic Outlook 2021: A Risky New Normal **[Summarised version based on the Webinar]**

About the Webinar

All economies in the world were badly hit by the Covid-19 pandemic in 2020. Countries with prolonged lockdowns saw substantial negative effects on businesses, employment, education and income, leading to economic recessions. In 2021, the core challenge for Malaysia continues to be curbing the spread of the virus while sustaining economic growth.

Compared to other states in Malaysia, Penang's economy is uniquely driven by both the manufacturing and services sectors. While technology industries have experienced a rapid recovery, tourism-related businesses such as hotels, retail trade (including small trades), food and beverage, travel and tour, etc. remain a challenge to revive back to pre-pandemic level. Pay cut and underemployment are commonly practised by business operators. Micro, small and medium enterprises (MSMEs) with minimal digital technology usage in their business processes have suffered the biggest losses and uncertainties.

The questions to ponder over include the following: Will 2021 be a better year than 2020, or otherwise? Which industries will be affected by the continued spread of the coronavirus? What will the business landscape in 2021 be like if the virus continues to spread? What can we learn from the successes and failures in 2020 that can help to shape business strategies in 2021? How will the manufacturing industries perform this year? How will the tourism industry survive? Have there been new strategies undertaken by local MSMEs to digitalise their business processes? What are the challenges for Penang if cases continue to rise?

Objectives

This programme aims to: –

- discuss the impact of Covid-19 on Penang's economy;
- assess developments that will have impacts on Penang's business environment and investment climate; and
- generate public discourse among business leaders, entrepreneurs and investors on the economic outlook of Penang in particular as well as its future challenges and opportunities.

Programme flow

10.00am – Introduction and welcoming remarks by Moderator, Ms Yeong Pey Jung, Research Projects Advisor and Senior Analyst, Penang Institute

10.05am – Presentation by Penang Institute, Ms Ong Wooi Leng, Head of Socioeconomics and Statistics Programme

10.35am – Panel Discussion:

1. Mr Raj Kumar, Chairman, Malaysia Association of Hotels-Penang Chapter
2. Mr Yeoh Seng Hooi, National Secretary, Small and Medium Enterprise Association (SAMENTA)
3. Mr Matin Ng, Deputy CEO, UWC Berhad

11.05am – Q & A session

Will 2021 be a better year than 2020? (29:56 - 33:44)

By Ong Wooi Leng, Penang Institute

1. **K-shaped recovery** is expected in 2021: Penang's economy will experience uneven growth across economic sectors. Some will rebound, but others will stagnate or deteriorate.
 - **Recovering industries: Manufacturing**
 - Manufacturing growth supported by improved external demand and realised foreign investments despite labour shortage issues.
 - **Industries requiring support: Agriculture, Construction, Tourism (and related areas)**
 - The agricultural sector may stagnate owing to agricultural supply and demand disruptions because of SOPs under various stages of MCOs.
 - The construction sector will experience muted demand of houses and commercial properties owing to the pandemic. Uncertainty will cause buyers from M40 and B40 groups to postpone purchases of durable goods while prioritising perishable goods.
 - The tourism industry will take longer than expected to recover. This will continue to affect accommodation, retail trade, tour and travel, medical tourism, and other tourism-related services.

Is the new normal going to be risky?

1. **Vaccination programme vital for economic recovery.** However, the effectiveness of vaccine protection remains unclear.
2. **Urgent need for automation and digitalisation** in the following areas:
 - Agriculture and manufacturing
 - As a means of reducing reliance on foreign workers and increasing productivity.
 - Supply chain/agribusiness/e-commerce
 - Will enhance productivity, minimise the impact of the pandemic, reduce transportation risks, and allow access to a wider market.
3. **Proclamation of Emergency signals profound political risk that may deter investors,** further delaying recovery.

For more information on Penang's economic outlook, download the slides [here](#).

Presentation by Speakers

What is happening to Penang's tourism and hotel industry? (35:00 – 49:22)

By Mr Raj, Malaysia Association of Hotels – Penang Chapter

1. Hotels are in survival mode.
 - Operating on minimum room occupancy and delivering food and beverages.
 - MICE hotels especially affected.
 - Several hotels may last only 2 months, many are shutting down rooms temporarily.
2. There is a lot of uncertainty – a lot of wait and see.
3. Cash flow of the owner is the most critical point.
 - Most owners are forking out their own money to pay for salary – the highest cost for the industry.

Moving forward for 2021:

Hotel industry expects 2021 to be similar to 2020.

- Will take 1.5 – 2 years to recover
- Overseas travellers will not return this year.
- 3-4 months for domestic travellers to return.

Key concerns amongst hotel owners:

- Will the vaccine work?
- When can events be resumed?
- How to attract domestic travellers?

Current strategies:

- Focus on retaining staff
- Travellers' health and safety prioritised. Hotels are going above recommended SOPs to reassure tourists.

Support needed:

- Bubble tourism from neighbouring countries (Singapore, Vietnam, Thailand) to sustain the industry
- Higher wage support from Federal Government: 50% instead of RM 600
- Custom-made package from Federal Government instead of a generalised one.
- Tax revision from government for the next 12-18 months
- New action plan from Ministry of Tourism to reactivate local tourism.

What is the situation like for SMEs? (49:40 – 1:04:05)

By Mr Yeoh Seng Hooi, SAMENTA

Survey findings among SMEs:

- Cash reserve: 45% of survey respondents have less than 2 months of cash reserve while 23% have 3-4 months.
- Wage subsidy: 70% SMEs have benefited, 80% want extension for 3-6 months to tide them over.
- Sentiments for 2021: 21% think business performance will be bad, 54% is fair, 25% say that it will be positive.
- Retrenchment: 7% of employers anticipate retrenchments, 63% do not think so. The rest are uncertain.
- Expected turnaround: 61% expect turnaround in Q3-Q4. 28% think only in 2022 things will get better.
- Review of the budget 2021: 49% were uncertain. 37% felt that it was not beneficial. Only 14% felt it was beneficial.

If CMCO persists, additional measures expected from the government are:

- Expand the Special Relief Fund (SRF) (soft loan at 3.5%);
- Extend the number of months of wage subsidy and;
- Support SMEs through government procurement. The only significant sector who is a buyer and is “not affected” is the government. The government can allocate around 30% of procurement of goods and services to support SMEs whereby only SMEs will compete in that space. With that, SMEs will be able to get short term financing to improve cash flow.
- Major challenges: Sales and market access, cashflow, higher operating costs and finding talent.
- Extend MDEC’s Smart Automation Grant to propel SME digital transformation.

Opportunities:

- Digital economy,
- Low finance costs to stimulate investments,
- Regional market access/ supply chain through RCEP in Jan 2022.

Others: Transformation of business model may be required for SMEs. Going forward with digitisation, old business models may be irrelevant.

Outlook for the manufacturing industry for 2021 (1:04:06 – 1:11:03)

By Mr Matin Ng, UWC Berhad

Opportunities in E&E sector:

- 7 out of 11 high value investments in Malaysia are in Penang.
- Penang surpassed RM 10b mark for FDI in first 9 months of 2020 – expected job creation: 9,000.
- Penang represents 22% of national FDI.
- Increased demand for electronic devices, servers due to homeworking.
- Expected growth of 8% in 2021.
- On track to receive title of Silicon Valley in Malaysia.

Talent challenges in manufacturing: medical devices, life sciences, medical industries and semiconductor sectors.

- Education system of Malaysia is the root issue.
- Increasing gap between industrial practices and education.
- Industrialists need to increase upskilling measures.
- Employers are not preparing engineers for the workforce at the moment.
- Capitalise on budget allocation for upskilling talent in Budget 2021.

Question and Answer session (1:12:08 – End)

Q: Isn't the current situation an example of Schumpeter's 'creative destruction' that will inevitable result in some being better off and some less? If so, should we 'roll with the flow' or strenuously strive to maintain existing socio-economic structures? (Dr Wong Teik Aun, Inti College Penang)

Wooi Leng: Innovation is good for the economy, if we want to move the economy forward, we must not be setting aside innovation. We need to enhance technology and knowledge transfers through high quality investment in Penang. Several local entrepreneurs have successfully set up manufacturing facilities - Vitrox, Penta, UWC. Founders have worked in MNCs for a few years and innovated based on their experience. For those affected by creative destruction, it is important that no one is left behind. Furthermore, upskilling is necessary.

Q: The bright side for the travel & hospitality industry is that when we come out of the crisis, our rooms inventory will be refreshed with more properties changing hands and new investments into the sector. (Tony Yeoh, Digital Penang)

Raj: Unfortunately, we cannot forecast. We do not know what will be happening in 2021 but rebound will be slow and large hotels will take longer to recover. Also, hotels purely with accommodation will bounce back faster. Those who cannot last will sell property or conduct renovations (expected in 2021). This is currently happening in KL. 5-star hotels by the beach will be the last ones to bounce back. 3-4 star hotels that cater to domestic markets will rebound faster. Those relying on events will take time to recover as they are experiencing large revenue losses from the inability to hold events.

Q: Is the solar panel manufacturing industry worth investing in - part of making Malaysia via Penang, the hub to export solar panels as well as for construction/development of new projects? There is a gap here in my view. Is there any financial support for the available manufacturing industries? (Braema Mathi, Penang Institute)

Yeoh: Businesses are going green. Demand for solar panels is rising, there are prospects. However, the supply side is an issue because there are a lot of big international players. Solar panel pricing has been falling as well. If you are looking at investing, you must balance between the two – supply and demand. There have been cases in the past about antidumping and shifts in the geopolitical scenario that can impact the market too. In terms of the funding gap, it depends on how resourceful the entrepreneurs are. Interest rates now are relatively low, but they will complain that they cannot get funding. Banks are waiting to lend businesses with the right business model and right track record. Look at different funding areas and new instruments of financing like angel investors, P2P (invoice financing). If you are aware of the options, there are funding options available.

Matin: From a macro-perspective, green energy is the future. Whether it is worth to invest, the answer is yes. A few years back, Malaysia was the largest solar panel manufacturer in the world and that is our comparative advantage – we have the experience. However, going back to the fundamental issue, do we have engineering programs that create engineers to go into solar industry? The challenge is there. In terms of financial support, installing solar panels above your building will benefit through tax deduction from MIDA and there are a lot of companies leasing solar panels at discounted rate. As for seed funding for manufacturing, it requires a big capital investment and space. Personally, I do not think Penang has enough space. As for Malaysia as a whole, it is worth investing in.