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# THEMATIC

**In this report:**

**Malaysia needs to innovate in the face of Covid-19-ignited  
changing landscape**

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## Malaysia

### Innovation vital in the face of Covid-19-ignited changing landscape

The unprecedented Covid-19 pandemic may have shattered the fantasy of those who championed globalisation and promised a world of winners. This pandemic has resulted in political, economic, social and cultural shifts that changed the global landscape. This is certainly worrying.

Moving forward, as a result of the pandemic virus, there is a need to change and adapt to the new business ecosystem. The goal posts have definitely moved. In this regard, industries need to reorient and diversify their lines of production, expand the scope of their cooperation across borders to better adapt to the changing global supply and demand shock.

Government policy needs to focus on supporting local businesses to enable them to re-strategise, revamp and remodel based on the global shift in consumer markets, investment and trade. They need to explore and facilitate innovative ways to tap into the changing global landscape. Policies and strategies should be drawn to strengthen economic and business cooperation with partner countries via “innovative” cooperation.

- The unprecedented Covid-19 pandemic may have shattered the fantasy of those who championed globalisation and promised a world of winners, a more inter-connected society and international cooperation. This pandemic has shown how the global community is heavily interconnected and vulnerable with a change in the behaviour of the global community. Not a single country, no matter how powerful or prosperous, can overcome this cross-border pandemic alone.
- This pandemic has resulted in political, economic, social and cultural shifts that changed the global landscape. This is certainly worrying. And it appears to be accelerating the deglobalization process and already hurting global investment and trade. Expectations are that global foreign direct investment (FDI) flows may fall by 40 per cent in 2020—21. Cross-border mergers and acquisitions will continue to decline.
- How severe the impact on global investment and trade flow depends on the degree to which restrictive measures become binding and supply chains being relocated to home markets. The placing of restrictions and screening on investment and trade are not new but the scope of their expansion is.
- Prior to the pandemic, screening is justified on the fear of becoming dependent on a foreign company for the delivery of critical goods and services, a desire to ensure that domestic technology and expertise remain within national borders and the prevention of surveillance or sabotage of essential services. Today, the pandemic has added a new dimension to these insecurities that will have global ramifications on investment and trade flows.

### **Change and adapt to new business ecosystem**

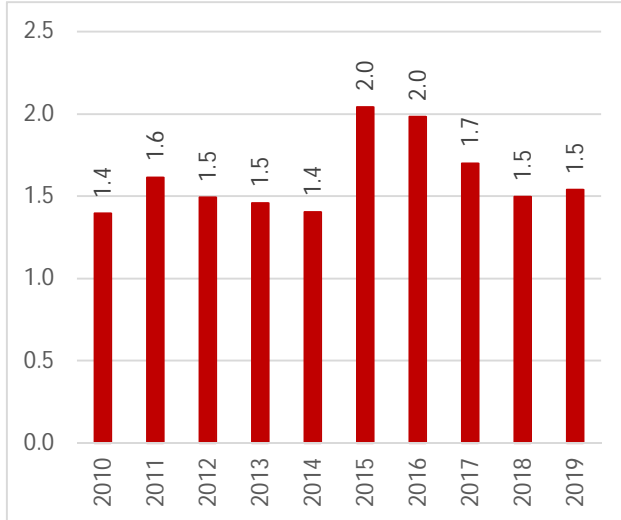
- Moving forward, as a result of the pandemic virus, there is a need to change and adapt to the new business ecosystem. The goal posts have definitely moved. Fundamentals in global supply value chains have changed in reaction to global supply disruptions. Industries are reorienting and diversifying their lines of production, expanding the scope of their cooperation across borders to better adapt to the changing global supply and demand shock.
- They are remodelling as they start taking into consideration of reviewing business strategies, operation, communication and financial considerations – towards building and strengthening resilience amidst a changing business ecosystem. And the reviews are undertaken as part of the change management process to implement structural changes by revisiting their business models, with the aim of improving and facilitating cash flow and install innovative and state-of-the-art technologies.
- As industries are reorienting and diversifying, they are also expanding the scope of their cooperation across borders to better adapt to the changing global supply and demand shock. The situation due to Covid-19 is becoming more challenging as more countries are now looking inward. Understandably, it is to sustain the growth of their own export market.

### **Policies need to focus on supporting local businesses**

- Given these impending issues, government policy needs to focus on supporting local businesses to enable them to re-strategise, revamp and remodel based on the global shift in consumer markets, investment and trade. And it is important to identify new global markets.
- There is a need to start working on investments and trade in new areas of future growth while strengthening their market presence to stay relevant. After decades of focusing on the electrical and electronics (E&E) sector, emphasis should be on growing new areas like health, medical device manufacturing, digital technology and halal food industries.
- The energy sector has proven its resilience and adaptability in dealing with the unprecedented challenges of the past few months. And Covid-19 is an enabler to innovation in the energy sector. Innovation in the energy sector is not limited to developments in technology, but also encompasses innovation in contracts, business models, decision making and the diversification of portfolios. Electric vehicles will play a central role in the energy mix of the future, as providers of frequency response and stability to the system.
- Firms and governments need to rethink to ensure resilience in global supply chains following the impact of Covid-19. For some, Covid-19 argues for supply chains to be renationalised, or at least shortened, to reduce risks from global exposure. Firms may need to rethink sourcing decisions, resulting in reordering of global production, with potentially far-reaching implications, especially for developing countries.

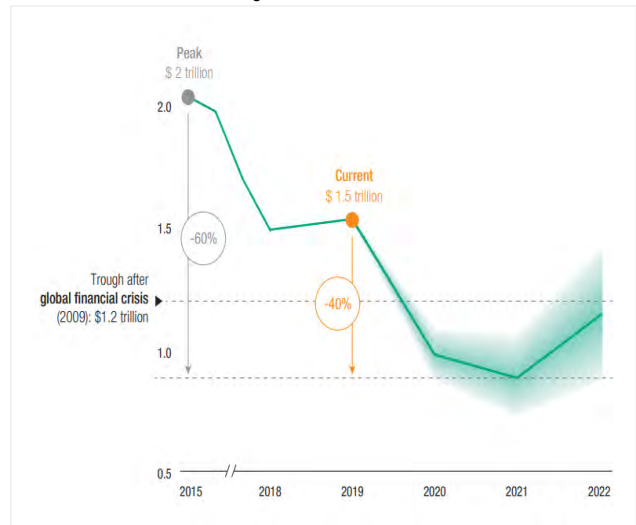
- The government will need to reconsider the list of strategic goods for which there is a requirement for domestic production, or impose new sourcing constraints on businesses. It must also revisit the procurement practices, consider the trade and investment policy environment that can best support resilience like digital infrastructure to improve productivity or improvements to trade facilitation practices to minimise scope for disruptions related to face-to-face processes. The government may also need to consider special arrangements for specific supply chains for strategic goods. However, this should not necessarily be equated with a reshoring of production.
- Creating successful environment, social and governance (ESG) policies and strategies is essential. ESG investing will be big in the post-Covid-19 era. It is a wake-up call for all businesses as it has been revealed that global markets and supply chains are fragile and easily disrupted. This will result in an increased focus on sustainability. ESG integration helps to both reduce risks and capture business opportunities linked to the transition to a more sustainable economy. A possible silver lining of this devastating crisis would be an accelerated transition to a more circular, resilient, inclusive and sustainable economy.
- Also, there is a need to emphasise on market presence and reputation. Goods and services offered by companies need to stand out. Having a strong market reputation would help businesses gain the edge over the competition and ensure growth as well as sustainability. Policies need to be designed to help businesses develop market presence and reputation to help to determine their growth as well as secure a niche space in the market. It is important to take note that businesses in future will not be what they used to be.
- In short, the changing global landscape will, in turn, navigate the economy by strengthening the domestic policies to provide opportunities to be captured while negotiating the challenges. More so, with this pandemic virus, it may have shattered the illusion of those who championed globalisation. There is a need to change and adapt to the new business ecosystem as the goal posts have definitely moved, especially with the disruption of global supply value chains.
- Government policy needs to focus on this changing global landscape by supporting local businesses to re-strategise, revamp and remodel based on the global shift in consumer markets, investment and trade.
- In this regard, industries need to reorient and diversify their lines of production, expand the scope of their cooperation across borders to better adapt to the changing global supply and demand shock. The government will need to explore and facilitate innovative ways to tap into the changing global landscape. Policies and strategies should be drawn to strengthen economic and business cooperation with partner countries. There is a need for “innovative” cooperation with our trading partners.

**Chart 1: World FDI flows (US\$ trillion)**



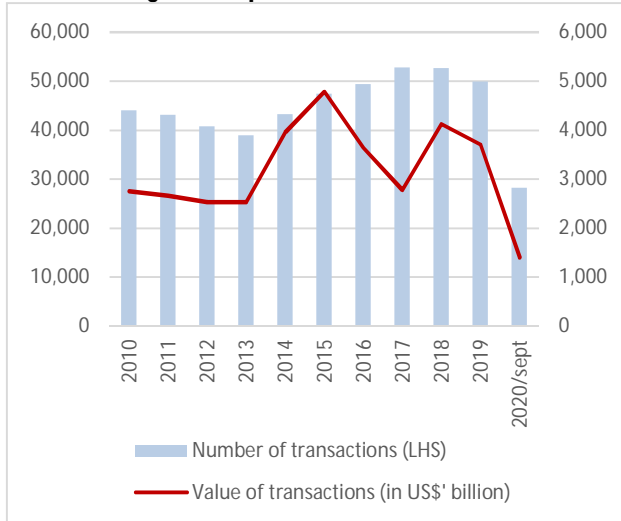
Source: UNCTAD/AmBank Research

**Chart 2: World FDI Projection (US\$ trillion)**



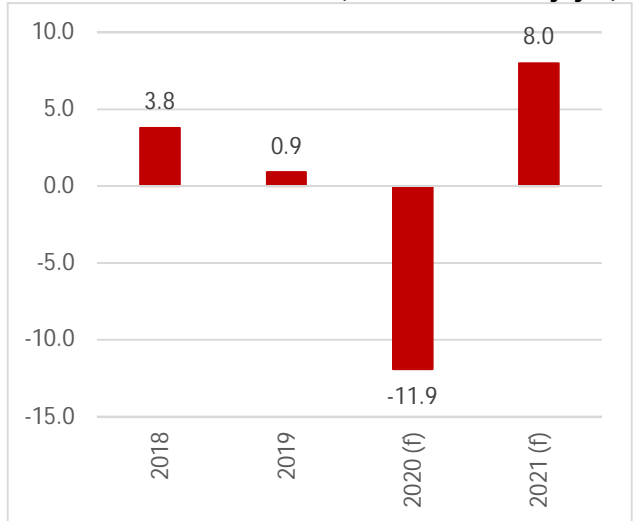
Source: UNCTAD/AmBank Research

**Chart 3: Merger & Acquisitions Worldwide**



Source: IMAA Institute/AmBank Research

**Chart 4: World Trade Volume (Goods & Services, y/y %)**



Source: CEIC/AmBank Research

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