



Geo-Economic Impact of COVID-19 on the Maritime Sector in Malaysia

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Introduction

The cascading effect of the novel coronavirus (Covid-19) that originated in Wuhan, China is producing widespread reverberations around the globe and impacting almost every facet of life as we know it today. To-date, the pandemic has taken more than 70,000 lives and there are little indications that it has begun to run its course. This article discusses the impact of Covid-19 on the geo-economics and maritime sector of Malaysia.

A study by McKinsey states that the pandemic is expected to peak in the US and Europe in May 2020 and, as such, its full-fledged impact has not yet been felt. The virus is described as non-seasonal and may last throughout the year. At the time of writing, the number of confirmed Covid-19 cases in Malaysia stood more than 4000. A study by JP Morgan forecasts that Covid-19 cases in the country could peak in mid-April and entering a curve of acceleration. However, in normal circumstances, it should decelerate depending on public health measures in place.

Geo-economics

The world is connected at this critical moment through the World Health Organisation (WHO) to address the pandemic on public healthcare matters. The pandemic has corresponding effect on the global economy which is expected to suffer major declines in consumption and production throughout the year. The global supply chain has been hard-hit with dire consequences for international trade and the shipping industry.

Geo-economics is the relationship between economics and politics so show how the combination of politics and economy evolves in the international environment. Ge-economy interacts mainly on trade and commerce and influence economies nationally, regionally and globally. China is the world's second-largest economy the fallout from COVID-19 also affects global growth. Since February 2020, the virus was reported to have slowed production and traffic and it had effect on the supply chain since China economy was highly integrated and global. A report by Financial Times in mid-March provided that many port operations will face with slowdown as China is not only the world's second-largest economy but also biggest goods exporter. In a chain effect, it could threaten already weak global trade. Even as Beijing relaxes its containment measures, demand is falling elsewhere as the virus spreads could be felt in ASEAN as many ports are seeing sharp falls in activity.

The cases of COVID-19 have passed the peak in China, the United States now has the highest number of known cases of coronavirus in the world with more than 350,000. The increase of cases around the world, the similar effects on economy as felt in America and China may be occurring in other economies around the world including that of ASEAN and Europe.

Malaysia

A study by the Malaysian Institute of Economic Research (MIER) states that Malaysia's real GDP may shrink about 6.9% relative to the 2020 baseline. It translates to negative (-2.9%) real

GDP growth for 2020, relative to 2019. The study also states that household incomes are projected to fall by 12% relative to the baseline, which amounts to RM95 billion. This will result in a sharp decline in consumer spending by 11%. According to Bank Negara governor, Nor Shamsiah Mohd Yunus said growth for the first quarter of 2020 would be hit by the Covid-19 virus outbreak. She stated that the overall impact of the virus on the Malaysian economy will depend on the duration and spread of the outbreak as well as policy responses by authorities.

On external factor, Malaysia is the third largest economy in Southeast Asia and China has been its largest trading partner for the past decade. China and Singapore together account for 30% of Malaysia's trade. China is the world's second-largest economy and the fallout from Covid-19 will thus affect global growth. Since February 2020, the virus was reported to have slowed production and shipping traffic as well as affected China's supply chain which is highly integrated into global markets. Although all ports outside Wuhan are operating, most reports suggested that there are more blank sailing and freight companies are increasing to hold empty containers. Post peak Covid-19 in China may have similar effects in other economies around the world including that of ASEAN. A report by Financial Times in mid-March noted that many port operations will be faced with slowdowns as China is not only the world's second-largest economy but also its biggest goods exporter.

In a chain effect, it could threaten already-weak global trade. Even as Beijing relaxes its containment measures, demand elsewhere is falling as the virus spreads and this is already being felt in ASEAN countries with many of their ports seeing sharp declines in activity.

The geo-economic effects of the pandemic include, among others, a possible decline in reliance of the Chinese supply chain. Large economies are examining their vulnerabilities and seeking to scale up their own supply chains and investing in their own competitiveness. The challenge is whether they are capable of relying on their own sources of supplies. Malaysia may have to examine its own position and address shortcomings in areas such as manufacturing technology, start-up capital, innovation, human resources and finance in the service and business sectors. Already the vulnerabilities in the logistics chain have been exposed as manifested in recent events where farmers and fishermen have faced challenges in transporting their produce and catches to markets due to the Movement Control Order that is expected to last till mid-April. The MCO may be extended subject to government assessment on Covid-19 cases in the next few weeks.

Maritime Sectors

The World Bank has estimated that sectors primarily impacted by Covid-19 in Malaysia are tourism, foreign direct investment (FDI), supply chains and commodities, which include palm oil and oil and gas (O&G). All these sectors are maritime related, and their impacts could cost the country's economy RM5.9 billion in 2020.

Oil and Gas

The maritime sector in Malaysia contributes about 40 per cent of the nation's GDP. The government-owned oil and gas company Petronas contributes about 14.5 per cent, the fisheries sector 9.4 per cent, maritime-related industries and tourism cover 15 per cent while the balance is from the services sector. Oil prices analysts have warned that oil prices may fall to \$10 a barrel due to decreasing demand. With coronavirus hitting manufacturing and travel, and considering China is the world's biggest oil importer, oil producing nations face critical times.

Malaysia ranks 26th as an oil producing country at 647,000 bbl/day. Covid-19 introduces another significant layer of uncertainty on the critical oil and gas sector. Petronas has suspended operations and evacuated its staff at the giant Iraqi oil fields at Garraf over the coronavirus pandemic. As many flights have been cancelled due to reduced capacity, the demand for fossil fuels has declined markedly. Due to the significant capacity cuts, Malaysia Airlines and all sister companies under the Malaysia Aviation Group's back office operations have also been reduced alongside flight and airport operations.

Marine Tourism

Malaysia's travel, tourism and related sectors such as hotel accommodation are projected to be among the sectors most affected by this highly infectious outbreak. Annual tourist arrivals of approximately 27 million have been hard-hit. Since Covid-19 is a human-to-human coronavirus transmission pandemic, Malaysia cancelled, religious, social, tours and all major economic event such as Asia-Pacific Economic Cooperation (APEC) in order to reduce the risk of infection spreading in the country. Many gatherings including sports events and international conferences through April have been called off. Malaysian government estimates indicate tourism sector losses in the first two months of 2020 at RM3.37 billion.

The Ministry of Tourism, Arts and Culture (MOTAC) cancelled the Visit Malaysia Campaign 2020 (VM2020) and guest stays at tourist accommodation premises throughout the movement control order (MCO) is expected to decline significantly. Marine-based tourism such as ferry services, recreational boating, snorkelling and diving as well as cruises have been impacted during this global pandemic. Statistic by Marine Department Malaysia revealed that 9 ferry services from Northern and Southern Region have been reduced or suspended.

Maritime Transport

It was reported in Worldometers of Coronavirus that on the Diamond-Princess cruise, about 712 people were infected, resulting in eleven deaths and 619 total recovered patients (as of 4th April 2020). The Princess cruise case was a lesson for other countries. Costa Fortuna cruise ship, carrying 64 Italians, was turned away from ports in Malaysia and Thailand. The case has similarities with that of the MS *Westerdam*, a cruise ship that was rejected by five countries due to Covid-19 concerns. In the island of Langkawi alone, area hotels have seen a 40% drop in tourist arrivals since the outbreak.

On the other hand, commodity vessels, such as dry bulk and tanker vessels received lower demand and lower freight rates. With lower demand, crude oil prices have collapsed, and this could also impact the offshore drilling industry. This was primarily on caution as people do not want to travel to China and South Korea.

Mobility and Supply

Mid-February 2020, as per Malaysia Government's directive, any cruise vessel that has departed from or transited through any ports in China including Macau and Hong Kong was not be permitted to berth at any terminal in Malaysian port. There was also suspension on unscheduled calls and the port authorities reserves the right to deny entry to any such vessels without assigning any reason. This has resulted some disruption on mobility and supply chains.

As prevention measures Malaysia along with many others effected countries are taking strict containment measure at ports and arrival points thus checking the movement of goods while trading activities were controlled.

The government of Malaysia imposed MCO from 18 March to 14 April 2020 and the possibility of an extended MCO have surfaced. However, the government order classified transport as essential service as to ensure the movement of goods and supply for domestic household and well to importers are not affected. As such major ports along the Straits of Malacca such as Port Klang, Penang Port, Johor Port and Port of Tanjung Pelepas operate 24/7 despite the outbreak of Covid-19. Services include cargo handling pilotage, tugboats, bunkering, fresh water supply, other marine related service, warehouses, bulking. In this regard, companies that are registered and hold Ancillary Services Licence are allowed into port area to carry out their activities. This measure is expected to resolve problem of storage of goods at post area and to clear congestion currently experienced at these ports so that imported essential goods are not impeded during the MCO.

Prevention and Containment

Malaysia is listed in the “severe outbreak” list of 24 countries which includes South Korea, Italy, Iran, USA, France and Spain. Ships from risk areas need to adhere to certain precautions such as minimizing crew changes as much as possible, in addition to quarantine measures. Besides the need to protect their workers’ safety, ship owners must also safeguard their operational sustainability from this major supply chain shock. Malaysian ports have announced that crews of the cargo vessels may be granted landing passes but must not leave the port area. The outbreak has yet to run its course, but it will take a long time to reduce the pressures placed on the world trading system, even after the spread subsides, and China and other effected economies starts to return to normal business activities.

Conclusion

The Covid-19 pandemic has had a devastating impact on daily life across the globe. From its roots in China, the pandemic has swiftly created a chain reaction around the world as the greater interdependence of the global community has taken its toll. The pandemic has corresponding effects on the global economy and the maritime sector is one of the worst affected globally and in Malaysia. For now, governments around the world have adopted containment strategies which will take time to show positive results. Many countries including Malaysia are depending on an economy stimulus and other inducement to keep economic risks low. However, governments and the private sectors must plan now on postpandemic measures to revive a disrupted global economy.