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‘Look for alternative material sources’

PETALING JAYA: Malaysian manufacturers with exposure to China need an urgent back-up plan to minimise the adverse effects of China’s zero-Covid policy.

As surging Omicron infections trigger lockdowns in China, with the recent one in the “Silicon Valley” of Shenzhen, concerns are rising about the potential impact on Malaysia, given the country’s significant trade reliance on China.

Economists are urging Malaysian companies, especially the electrical and electronics (E&E) players, to find alternative sources for raw materials and components to avoid over-dependence on China’s supply chain.

In 2021, exports from Malaysia to China hit a record-high of RM192.05bil, representing 15.5% of total exports.

China was also Malaysia’s largest import source, accounting for 23.2% or RM229.02bil of total imports.

The E&E segment contributed significantly to the exports to and imports from China.

Anthony Dass, member of the Economic Action Council secretariat, said China is unlikely to drop its Covid policy anytime soon and this means lockdowns in more cities may be announced.

Dass, who is also AmBank Group’s chief economist, believes the impact from the Shenzhen lockdown will be manageable in the short-term.

However, the impact would turn severe for Malaysian manufacturers with direct or indirect exposure to China, if the lockdown in Shenzhen is prolonged.

“The companies involved must find other countries for their alternative sourcing or start making their own components and raw materials that were previously sourced from China.

“Companies with raw material inventory would be able to weather the supply chain disruption better, so companies need to work on their stockpile,” he told StarBiz.

Echoing a similar stance, Bank Islam Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid said given that China’s economy is highly integrated with the global supply chain, any hiccups in the delivery process would be reverberated.

“In that sense, the right strategy for Malaysia is to pursue diversification in our international trade partners so that there wouldn’t be any concentration risk.

“But in the meantime, the global economy would need to contend with such disruption that could lead to delay in completing orders and to a large degree, the productivity level,” he added.

Meanwhile, Inter-Pacific Securities head of research Victor Wan told StarBiz that the lockdown in Shenzhen would cause some supply disruptions affecting global players, including in Malaysia.

Wan noted that some companies could still be affected by the Shenzhen lockdown, despite not doing business with China directly.

"Some components exported from another country could still be coming from China, following which some value-adding works will be done in Malaysia. So, in this case, the local manufacturer will face disruptions because of the lockdowns in China," he said.

Wan recalled that Malaysian companies had faced similar supply chain issues back in 2020, when local factories were allowed to operate but their counterparts in China had to shut down for a longer period.

"It is a question of how long the lockdowns will last. The longer they do, the worse the supply chain situation will be for local players," he said.

Shenzhen, which has a population of 17.5 million, is the biggest city in the manufacturing hub of the Guangdong province.

The lockdown imposed on the city has threatened manufacturers operating in the city, including key Apple supplier Foxconn, as factories were told to suspend production.

Despite its zero-Covid policy, China reported more than 5,000 new confirmed cases of Covid-19 yesterday, the highest daily count since the pandemic began more than two years ago.

Centre for Market Education CEO Dr Carmelo Ferlito said: "This will be another supply-side shock which, in the long run, will affect China more than its trade partners."

However, the bright side of China's policy is that the structure of production can be rebuilt elsewhere and there will be opportunities for other countries such as Malaysia, according to Ferlito.

"Many manufacturers around the world realised that China is not going to change its Covid-19 strategy soon. The main effect is that freight from China to the West is incredibly expensive and therefore many Western manufacturers are scaling down their supplies from China and China is too confident to be able to beat this demand with domestic demand," he added.

Looking ahead, AmBank's Dass expects Malaysia's exports growth to normalise to about 8% in 2022, as compared to a strong growth of 26% last year.

"However, this does not include the effects of the Shenzhen lockdown and the Russia-Ukraine war. The developments could lower potential exports growth by 0.5 to one percentage point, depending on their duration" he said.

The year began on a strong note for Malaysia's trade performance, with the total trade for January surging by 24.8% year-on-year (y-o-y) to RM203bil.

Exports soared by 23.5% to RM110.7bil and imports climbed 26.4% to RM92.3bil.

Chief Statistician Datuk Seri Dr Mohd Uzir Mahidin said exports of E&E products amounted to RM44.8bil or 40.4% of total exports in January 2022.

Among the top five major exporting states, Penang remained as the top exporter with a share of 31.3%, followed by Selangor (19%), Johor (18.3%), Sarawak (7.8%) and Kedah (4.1%).

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