

Industry Outlook and the New Norm for 2021

Malaysian Plastics Manufacturers Association (MPMA)

Datuk Lim Kok Boon – President

15 March 2021

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The Country in 2020

Performance for the Plastics Industry in 2020 and How the Industry was Impacted by COVID-19

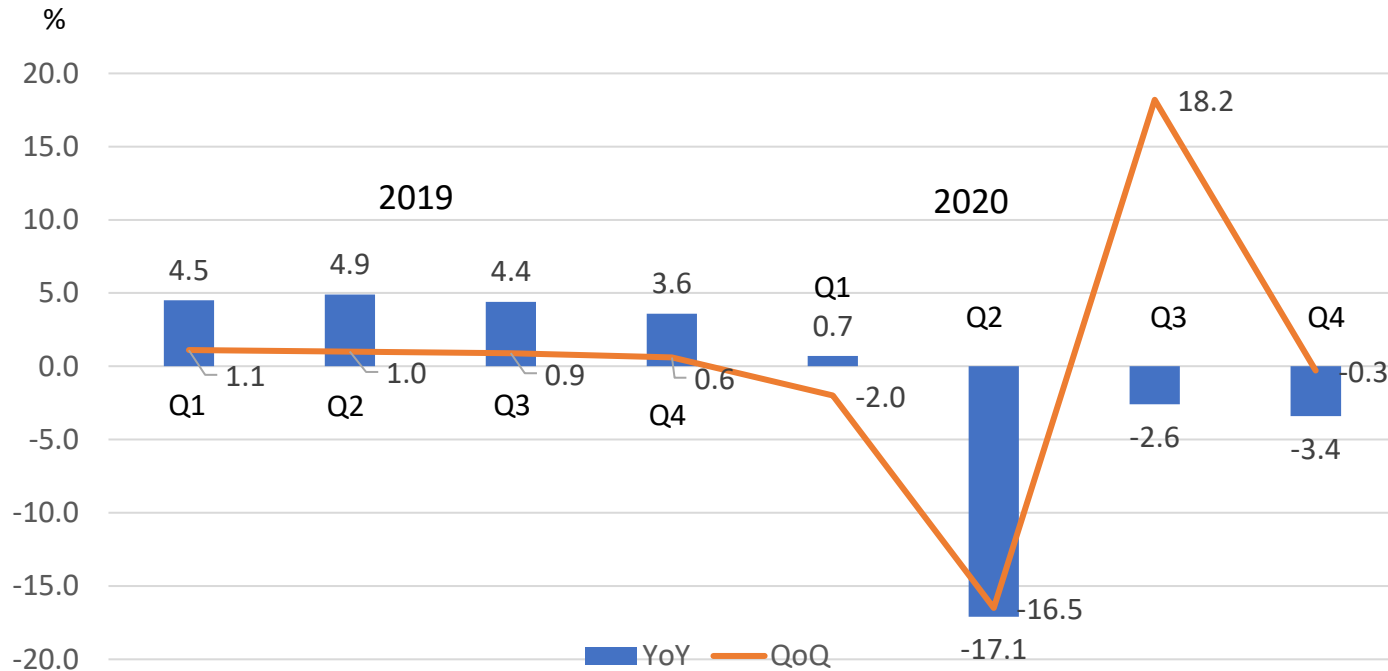
Challenges in 2021

Outlook 2021 & Growth Strategies (Immediate & Long Term)

The Country in 2020

Malaysia's Quarterly GDP

Period-on-period change

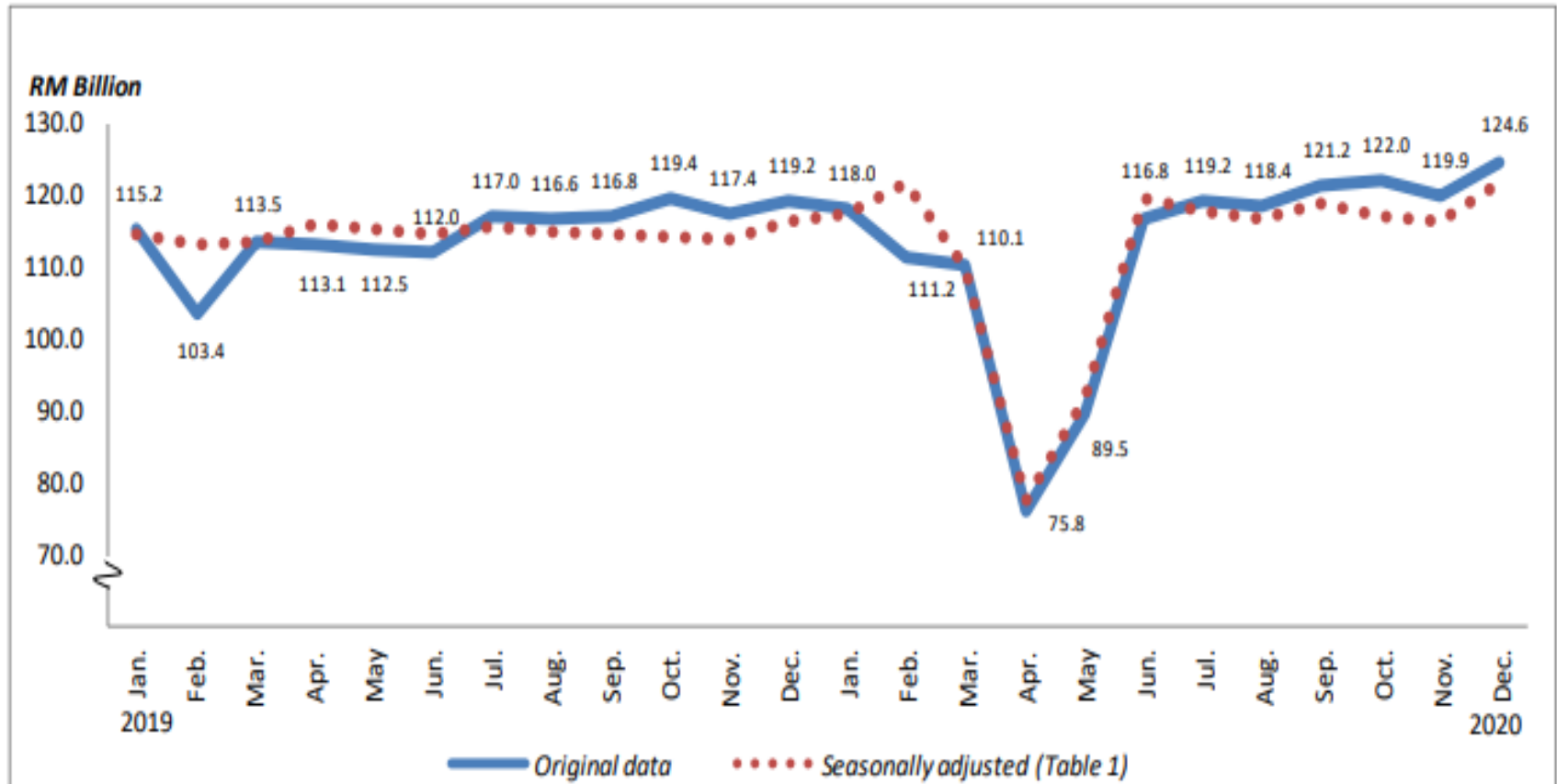


Source: Bank Negara Malaysia

Balancing between Measures to Control the Pandemic and Economic Growth

- After registering a **0.7% growth in Q1 2020**, Malaysia's economy experienced a **decline** for the **subsequent three quarters**, resulting in a pandemic-driven **decline of 5.6%** for the full year.
- Domestically, the targeted containment measures, i.e. **MCO, CMCO, RMCO** had **severely impacted** most of the economic activities.
- It was a difficult balancing act of “**lives versus livelihood**”.
- Policy responses were introduced to support the economy, **stimulus packages** implemented by stages.

Sales by the Manufacturing Sector Jan 2019 –Dec 2020

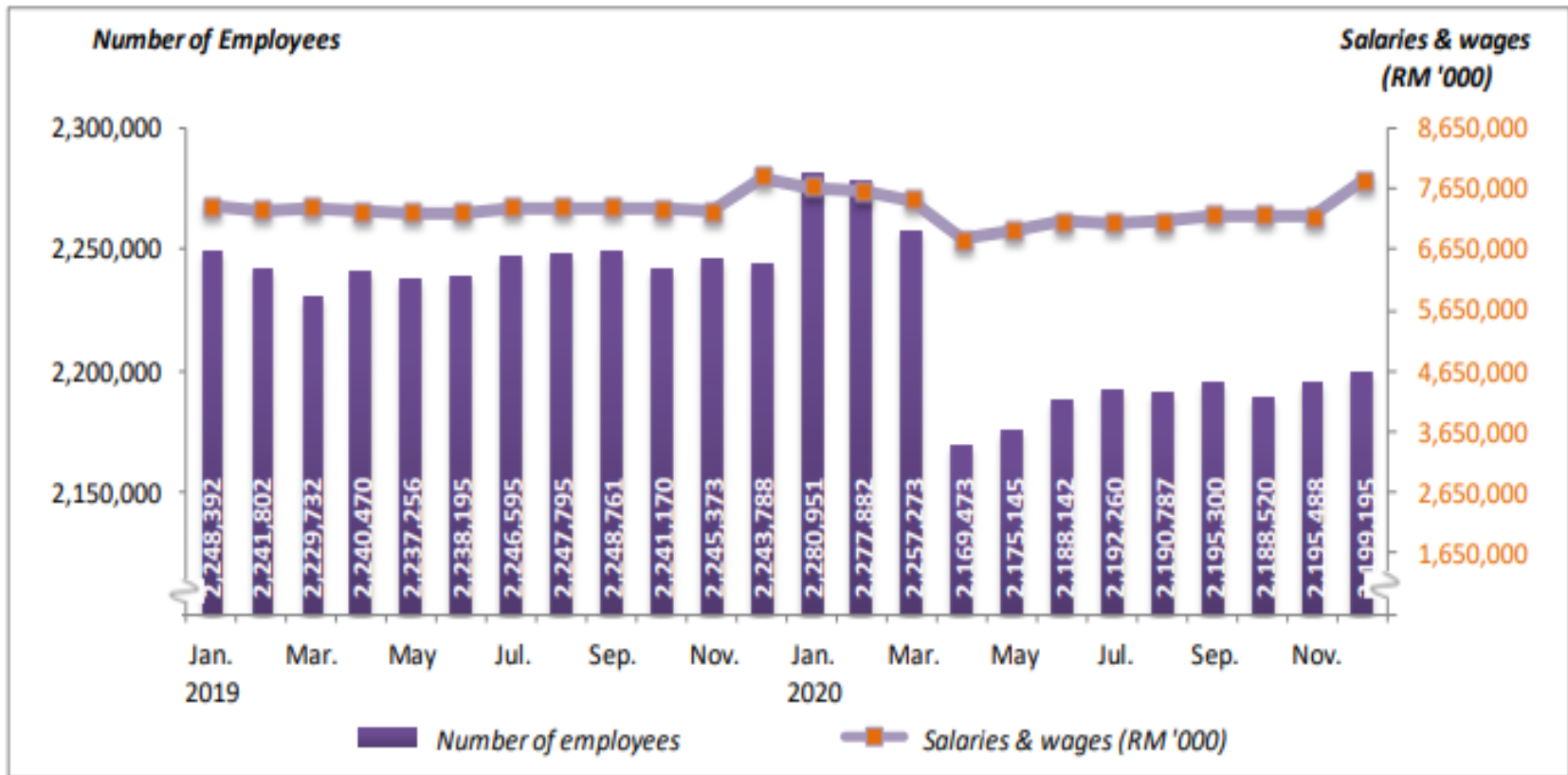


Source: Department of Statistics

Sales by the Manufacturing Sector in 2020

- The **manufacturing sector** in 2020 registered a **decrease of 2.1%** in sales value to RM1,346.6 billion as compared to RM1,375.5 billion in 2019. (NOTE: **GDP of the country declined -5.6%**)
- However, some sub-sectors managed to register positive growth:
 1. Electricals & Electronics Products
 2. Food & Beverages
 3. Tobacco Products (stress?)

Impact on Employment and Wages for the Manufacturing Sector Jan 2019 – Dec 2020



Source: Department of Statistics

Impact on Employment and Wages for the Manufacturing Sector

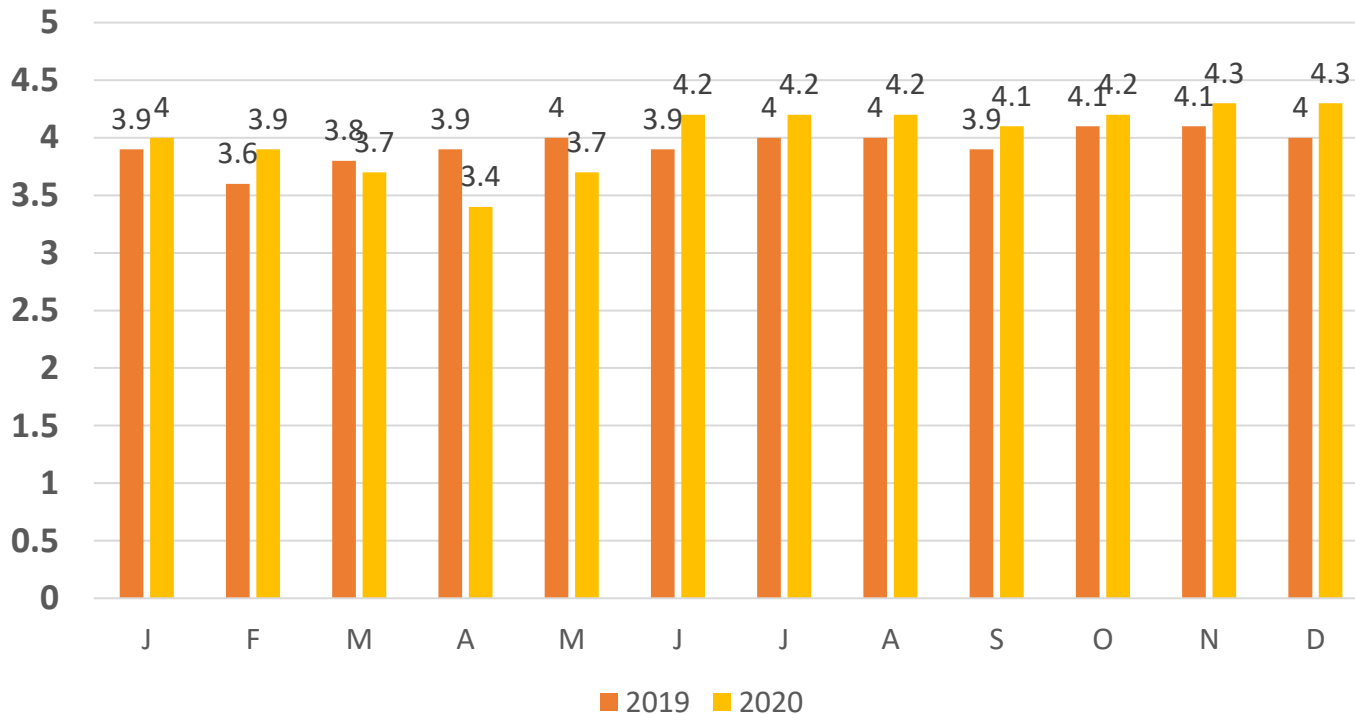
- The **number of employees** engaged during the year 2020 **declined by 2.0%** to register 2,199,195 persons, from 2,244,076 persons in 2019.
- **Salaries & wages** paid was **lower by 1.1%**, from RM88.2 billion to RM87.2 billion.
- The **differential** in the lower % drop in salaries & wages relative to the drop in the number of employees meant that companies were **carrying the cost of labour related expenses**, even though there was a drop in business activities.

Performance of the Plastics Industry in 2020.

How the Industry was Impacted by COVID-19

Sales of the Plastics Industry Jan 2019 to Dec 2020

RM
billion



Source: Department of Statistics

Sales of the Plastics Industry

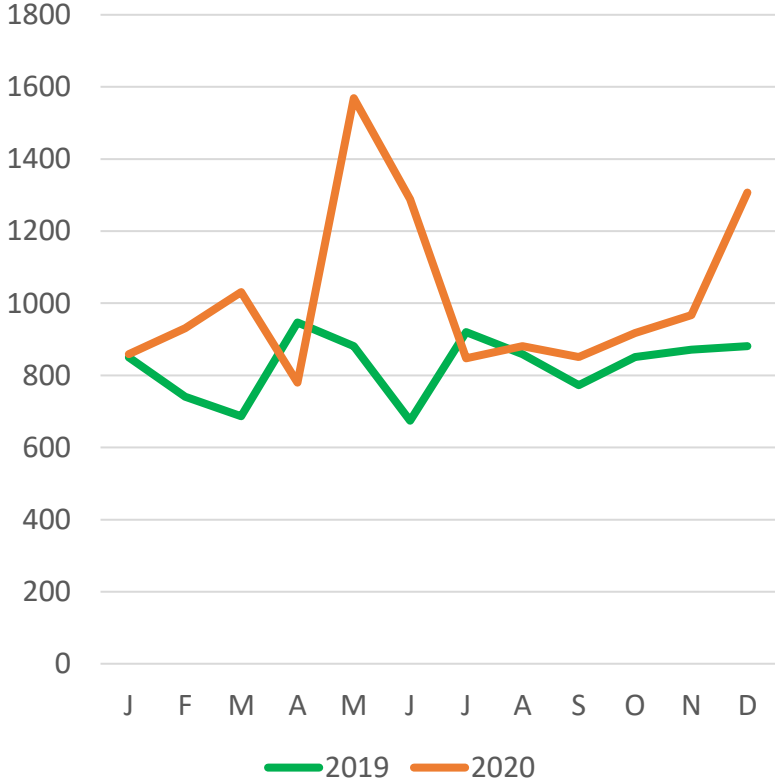
- Except for the months of March, April and May 2020, all other months in 2020 registered higher sales compared to the corresponding months in 2019.
- Overall, **sales turnover increased by 2.3%** from *RM47.35 billion for 2019 to *RM48.46 billion for 2020.
- Less impacted by COVID-19 as the plastics industry is a key supporting industry to essential sector including **E&E, medical supply and F&B sectors.**
- There was also strong demand from the **consumer electronics** sub-sector due mainly to **work from home** policy.

*Note: Revised method of compilation by DOS

Electrical and Electronics Sector: Monthly Production on TV sets

“000 units

Chart Title



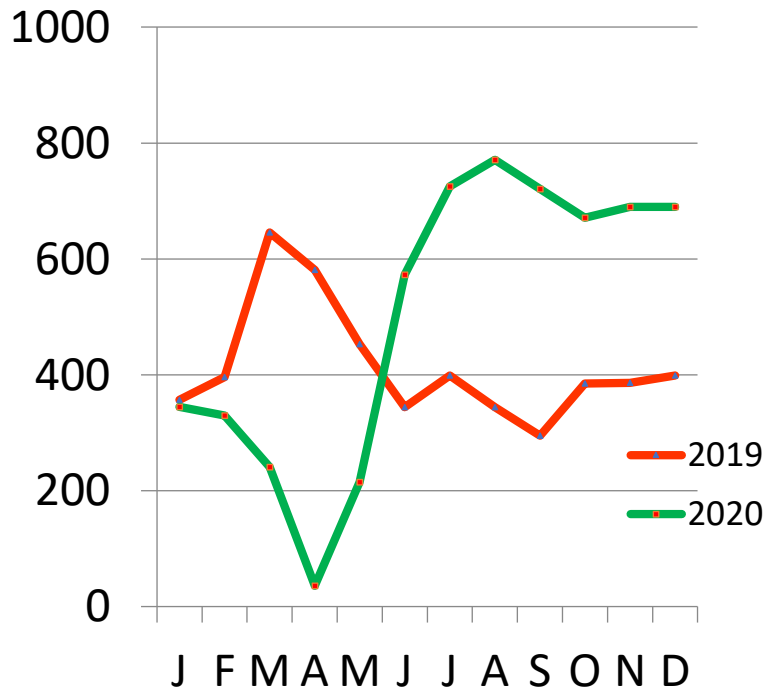
➤ Production of TV sets for 2020 increased by 24%, compared to 2019, from 9.9 million units to 12.3 million units.

Source: Department of Statistics



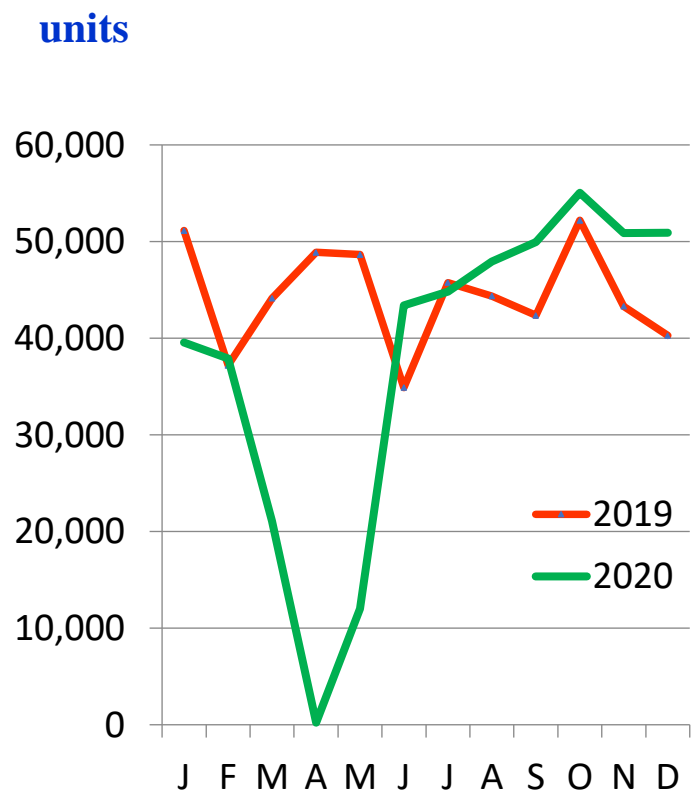
Electrical and Electronics Sector: Monthly Production on Air-conds

Units ('000)



- Production of air-
cond units for 2020
increased by 4%
compared to 2019,
from 4.9 million units
to 5.1 million units.

Automotive Sector: Monthly Statistics on Total Production of Passenger Cars



➤ Total production of passenger cars declined by 15% from 533,000 units for 2019 to 454,000 units for 2020.

➤ Sales of passenger cars declined by 13% from 550,000 units for 2019 to 481,000 units for 2020.

Automotive Sector – Adversely affected by the COVID-19 Pandemic

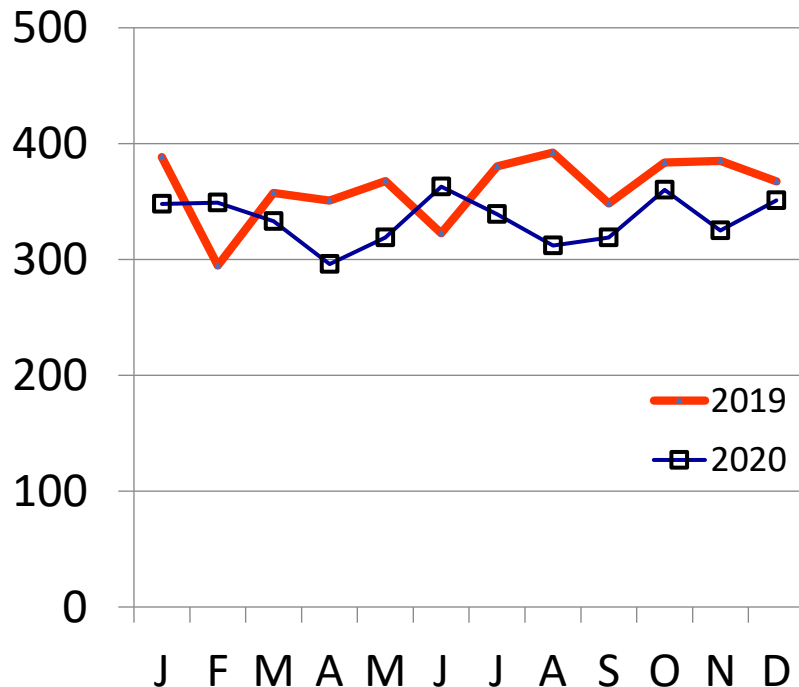
- Both the production and sales were adversely affected by the MCO and CMCO enforcement.
- Consumer sentiment remained weak due to uncertain economic situation.
- Concerns about pay cut or lay-off.
- Financial institutions were cautious on loan approvals.
- Sales tax exemption till year end stimulated some buying interest.

Automotive Sector – Recovery in 2021

- Recovery in the global as well as Malaysian economy.
- Continuation of the sales tax exemption incentive for passenger vehicles under PENJANA package till 30 June 2021.
- Lower hire purchase loan interest rates will assist to spur automotive sales.
- Introduction of new models with latest additional specifications, design styles and at very competitive prices can assist to sustain buying interest.
- Aggressive promotional campaigns by car companies to push sales and to maintain market share.

Packaging Sector: Monthly Export of Plastic Bags (HS: 3923)

RM million

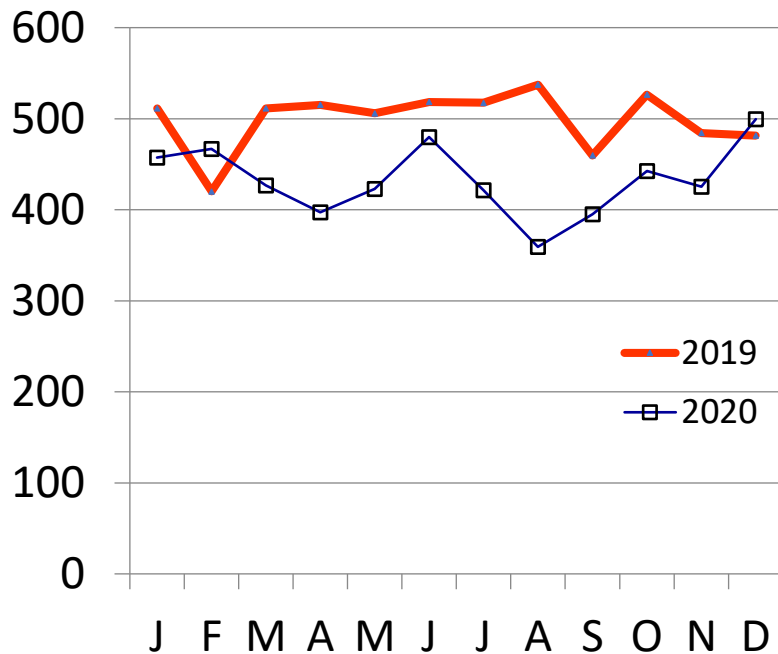


➤ Total export of plastic bags for **2020** declined by **7.8%** to **RM4.01** billion, from **RM4.34** billion for **2019**.

Source: Source: Department of Statistics

Packaging Sector: Monthly Export of Plastic Films and Sheets (HS 3919/20/21)

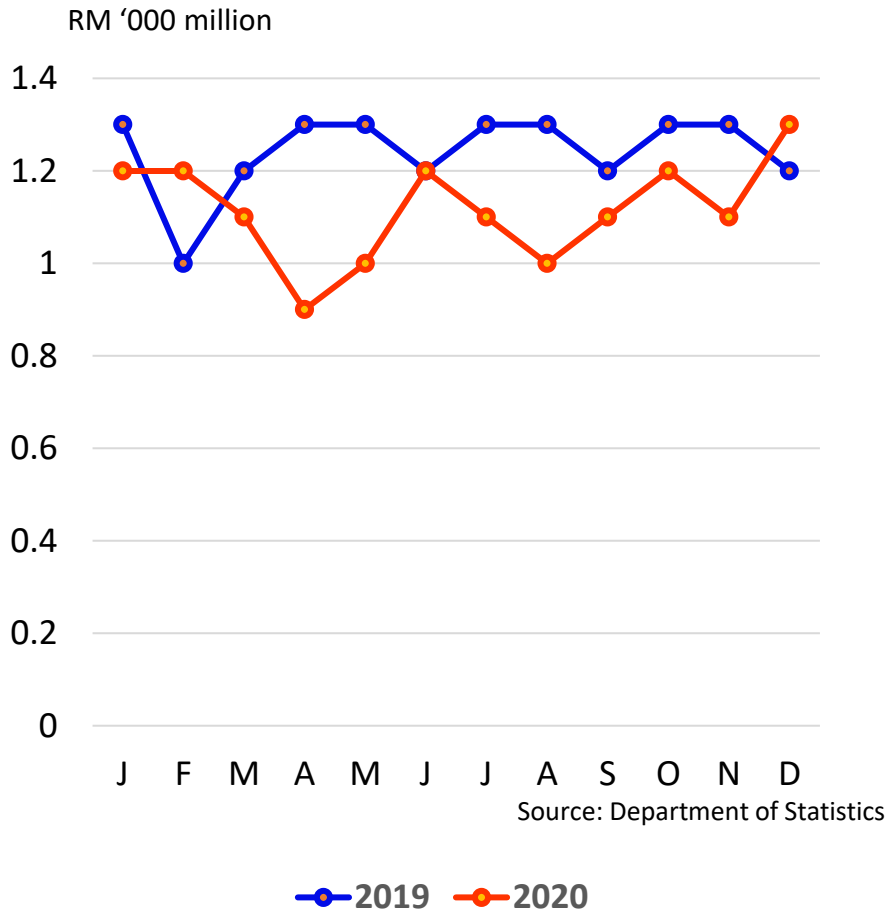
RM million



➤ Total export of plastic films and sheets declined by **13%** from **RM5.99 billion** for **2019** to **RM5.19 billion** for **2020**.

Total Exports of Plastic Products

- **Export declined by 11%** to RM13.3 billion for 2020, compared to RM15.0 billion for 2019.



- **Weaker demand from the EU, Japan, Korea and Australia** as these countries were impacted by the COVID-19 pandemic
- **Logistic issues**, COVID-19 lockdown and close-border policy at export destinations including Q4 shipment/container boxes shortage.
- Partly attributed to **lower selling prices** arising from **lower input costs** due to **lower raw resin costs**

Overall Performance / Issues

- Despite the impact of the MCO and CMCO, the plastics industry managed to register a mild growth.
- Sales turnover **increased by 2.3%** from *RM47.35 billion for 2019 to *RM48.46 billion for 2020.
- Phases 1 & 2 of MCO (18 Mar – 28 Apr) - **40%** of plastics companies were allowed to operate at 50% of the normal capacity to cater for the essential sectors, such as food, medical and personal protective equipment (PPEs).
- Phase 3 of MCO – (29 April - 12 May) - approvals were given to more companies, and the average operating capacity increased to **60%**.

*Revised method of compilation from DOS

Overall Performance / Issues

- CMCO in mid-May 2020- **all companies** were allowed to operate.
- RMCO in June 2020 - manufacturing activities **almost resumed** to the normal level.
- Work-from home policy (and study/cook at home) had driven the **demand for E&E products**.
- A sharp increase in food take-aways and packed food for home cooking led to an **increase in packaging**.
- The industry faced **manpower shortages** as foreign workers who had left after completing their contracts were not replaced by new workers. Locals were not keen to work in factories.
- Some companies faced **cash flow issues** that impacted their operations.

Projected Growth for 2021

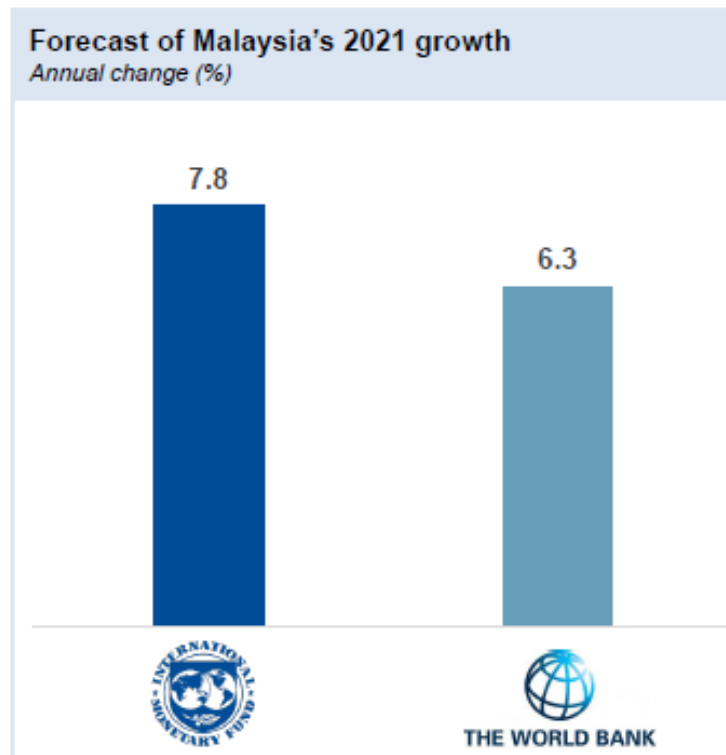
Going into 2021, Malaysia's GDP is projected to grow within the range of 6.5% to 7.5%

Path to recovery to continue going into 2021



Source: Department of Statistics Malaysia, Ministry of Finance

Multilateral institutions are also projecting strong recovery for Malaysia



Challenges in 2021

Challenges in 2021

- Even with the roll-out of vaccine, it may take some time for the pandemic to be fully contained and businesses to resume to normal.
- Border re-opening expected only end 2021 or early 2022.
- Fragile and uneven economic recovery in the 1H 2021.
- Economies in export destination countries will need to meaningfully recover.
- Shipping/logistic issues may be stumbling blocks , especially container boxes being relocated to the desired locations.

Challenges in 2021

Managing COVID Risk of Your Employees

- COVID-19 cases surged again in November 2020. MCO was re-implemented in mid January 2021.
- The manufacturing sector which employs approximately 35% of the total documented foreign workers in this country, has been identified as one of the **major sectors of the COVID-19 clusters**.
- Employers to take the necessary measures to ensure **the full compliance of the SOPs** to contain further spread of the COVID-19.
- **Strick compliance with SOPs** at workers' hostel, workplace, factory buses, etc.

Challenges in 2021

Managing Manpower Shortage

- **Shortage of workers**, particularly foreign workers.
- Foreign workers who have completed their contract have returned to their home country. Some went back for a break, but are unable to return due to travel restrictions.
- Companies which have expanded their scale of operation require additional workers.
- Manpower shortage will continue to be a challenge as **the Government has not approved the intake of new/replacement foreign workers.**
- **Locals are not willing to work in the manufacturing sector.**

Challenges in 2021

Difficulty to Recruit & Retain Local Workers

- Survey was conducted by MPMA on the recruitment of local workers in October 2020.
- Between **June to September** 2020, 23 companies attempted to recruit 2,958 worker but **the success rate was only 56%** (1,672).
- By end **September**, **only 49%** or **817** of the 1,672 workers recruited had **remained in employment**. (817 = **27%** of 2,958)

	Targeted	Success	Success Rate	*Cumulative	*Retained	Retain Rate
June	596	240	40%	240	175	73%
July	792	485	61%	725	463	64%
Aug	851	536	63%	1261	701	55%
Sep	719	411	57%	1672	817	49%
Total	2958	1672	56%	-	-	-

*For the period, i.e. from June to July, June to August, etc

Challenges in 2021

Compliance of Foreign Workers Policies

- MIDA/MITI: **mandatory** for all manufacturing to comply with the **20:80 ratio** for foreign/local workers by **31 December 2022**.
- This will be a **HUGE challenge** given that the **locals** are **unwilling to work** in a factory environment.

Challenges in 2021

Compliance of Foreign Workers Policies

- A446 - Workers' Minimum Standards of Housing and Amenities Act 1990 (**Act 446**), requires employers to put in place improved accommodations for foreign workers.

Issues :-

- Local councils have yet to issue standard operating procedures on the process.
- Lack of suitable accommodation available.
- High cost involved in renovating accommodation space according to specifications in the local councils' guidelines.
- Objections from local residents on housing workers at premises in residential areas in close proximity to industrial estates.

Challenges in 2021

Meeting Sustainability Requirements

Major brand owners are committing on Recycling, Circular Economy. Customers and Government requirements for sustainable packaging

Brand Owner	Commitment
Coca-Cola	100% by 2030
PepsiCo	100% by 2025
Unilever	100% by 2025
Nestle	25% - 100% by 2025
Dell	100% current
Panasonic	25% current
HP	25% current
Volvo	25% by 2025

Challenges in 2021

Meeting Sustainability Requirements

Sustainable/recyclable plastics packaging: Current efforts + examples

More companies announce sustainable packaging goals and create action plans



THE *Coca-Cola* COMPANY

Companies innovate to boost end markets for recycled plastics



Sustainable/recyclable plastics packaging

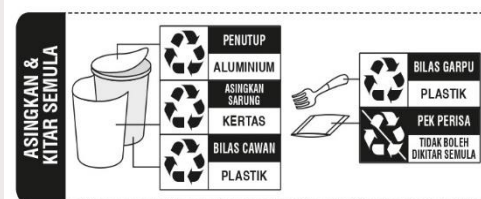
Brands replace substrates to meet recovery goals



Refillable shampoo packaging from P&G brands.

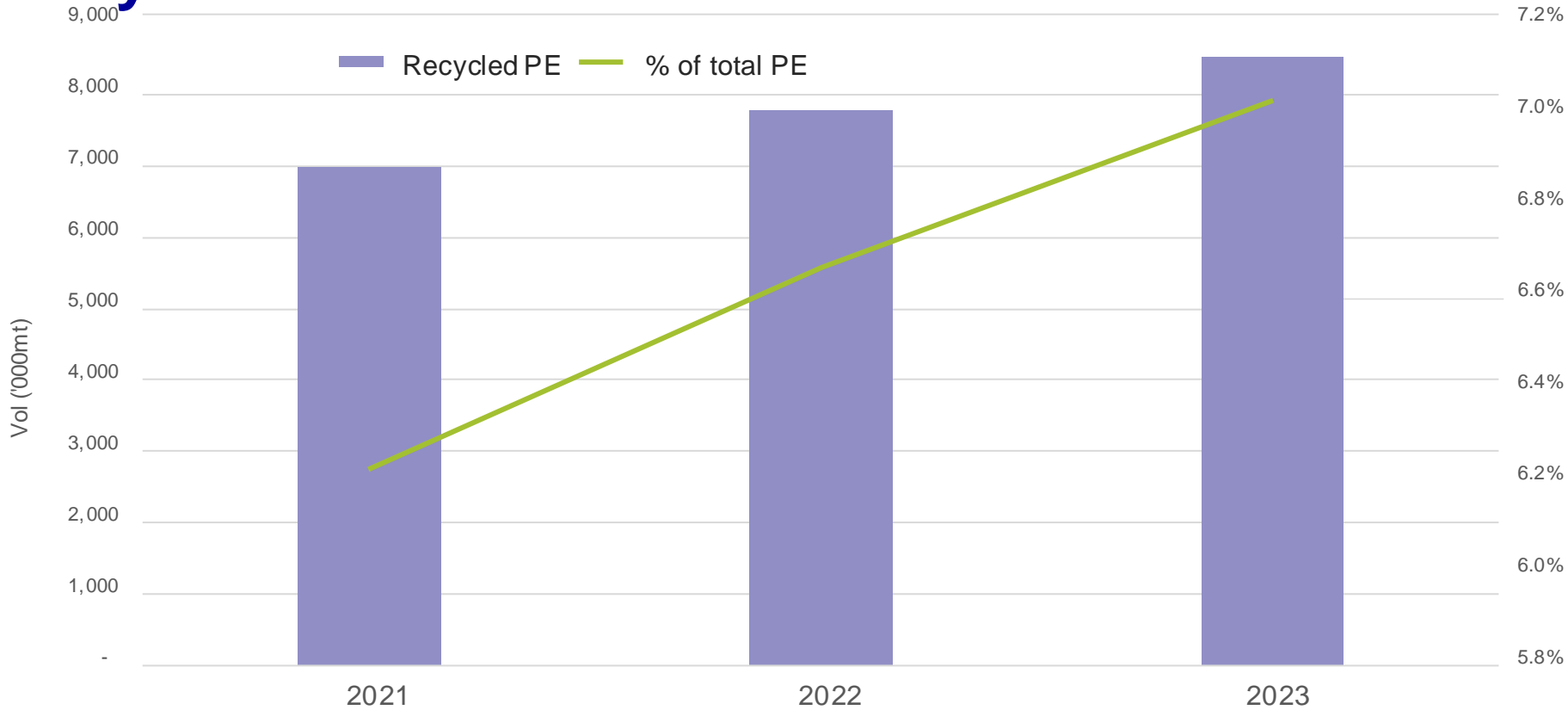


Empowering consumers to salvage packaging for recycling



Challenges in 2021

Meeting Sustainability Requirements: Increasing Recycled Contents



Recycled global PE market grows steadily at 0.3 – 0.5% a year

Source: S&P Global Analytics

Outlook 2021 & Growth Strategies (Immediate & Long Term)

Outlook 2021- Growth Strategies

Vaccination Roll
Out

Borders
Reopening

E-Commerce
Growth and
Recovery
Growth

These factors will increase the demand (pent-up demand) for majority of the market sectors

Outlook 2021 & Growth Strategies

Malaysia Population 32 million

Domestic Consumption limited by small population base

Growth : Exporting Beyond Malaysia

The world and RCEP : Industries Must Leverage on Trade-Deals/Export potentials

Training & Upskilling of Work Force + Innovation + Cost Efficiency

Outlook 2021 – International Growth Opportunities.

Export is KEY to success

- China was the only major economy that registered growth (2.3%) in 2020.
- China – growth will continue, projecting GDP growth of 6% (conservative?) for 2021
- US – has approved the US\$1.9 trillion stimulus package.
- Goldman Sachs projected US GDP growth of 6.9%. Morgan Stanley projected 7.3%.
- The US has not surpassed China's GDP growth since 1976.
- The US stimulus package will provide cash and unemployment benefits that will drive demand/consumption.
- Estimates by analysts: US households may have held back spending due to concerns over the uncertainty. These savings (\$2.3 trillion) will be “unleashed” when the situations improves after the vaccination program.
- The 2 largest economies in the world will drive trade and consumption if the vaccination programs are successfully carried out.

Outlook 2021 – Growth Strategies

Regional Comprehensive Economic Partnership (RCEP)

5 ASEAN FTA Partner Countries

- China
- Japan
- Korea
- Australia
- New Zealand

10 ASEAN Member Countries

- Brunei
- Cambodia
- Indonesia
- Laos
- Malaysia
- Myanmar
- Philippines
- Singapore
- Thailand
- Vietnam

Outlook 2021 – Growth Strategies

Regional Comprehensive Economic Partnership (RCEP)

Potential benefits of RCEP to Malaysian companies:

- Largest trade bloc. Offering **market access** to a third of world's population
- **Integrating supply chain** within the RCEP region.
- Promoting greater **transparency, information sharing, trade facilitation, economic cooperation, standardisation of international rules relating to E-commerce.**
- Mutually **recognising international standards,** technical regulations trade.
- Providing clarity in **protection of intellectual property rights.**

➡ **larger market**, new investment/joint venture opportunities,

➡ double edged sword - **new competition**

➡ **US is not a member of RCEP. However, RCEP countries has huge trading relationships with the US** ➡ **The US stimulus program will directly and indirectly benefit RCEP countries.**

Outlook 2021 – Growth Strategies

Talent is a key driver to move the industry up the value chain

- The export market is **HUGE**, but very **COMPETITIVE**.
- **Consistent quality** and **cost efficiency** is the key to success.
- 3Ms – **Man**, Machine , Materials.
- Talent development is **critical**.
- The talent available for an industry is a **key driver of its competitiveness**.
- This in turn helps producers to **move up the value-chain** and maintain a stronger **competitive edge** over regional and global competitors.
- All these would help **position Malaysia as a leading plastics manufacturer** in the region and the world.

Outlook 2021 – Growth Strategies: Training and Career Development, the Key Role of the Malaysian Plastics Industry Talent Accreditation Council (**MaPITAC**)

Formalise the industry's structured training by establishing an effective and efficient mechanism for the development, measurement, review and improvement of skills training.

Raise the bar of skills development for the industry

Provide **industry-recognised certification** for career path development



Outlook 2021 – Growth Strategies Malaysian Plastics Industry Talent Accreditation Council (MaPITAC)

An initiative of the Malaysian Plastics Manufacturers Association (MPMA).

Established on 16 May 2019.

To improve the overall quality and standards for skills training for the Malaysian plastics industry.

To approve and accreditate programmes and courses with the objective of improving the overall quality and standards for the plastics industry.

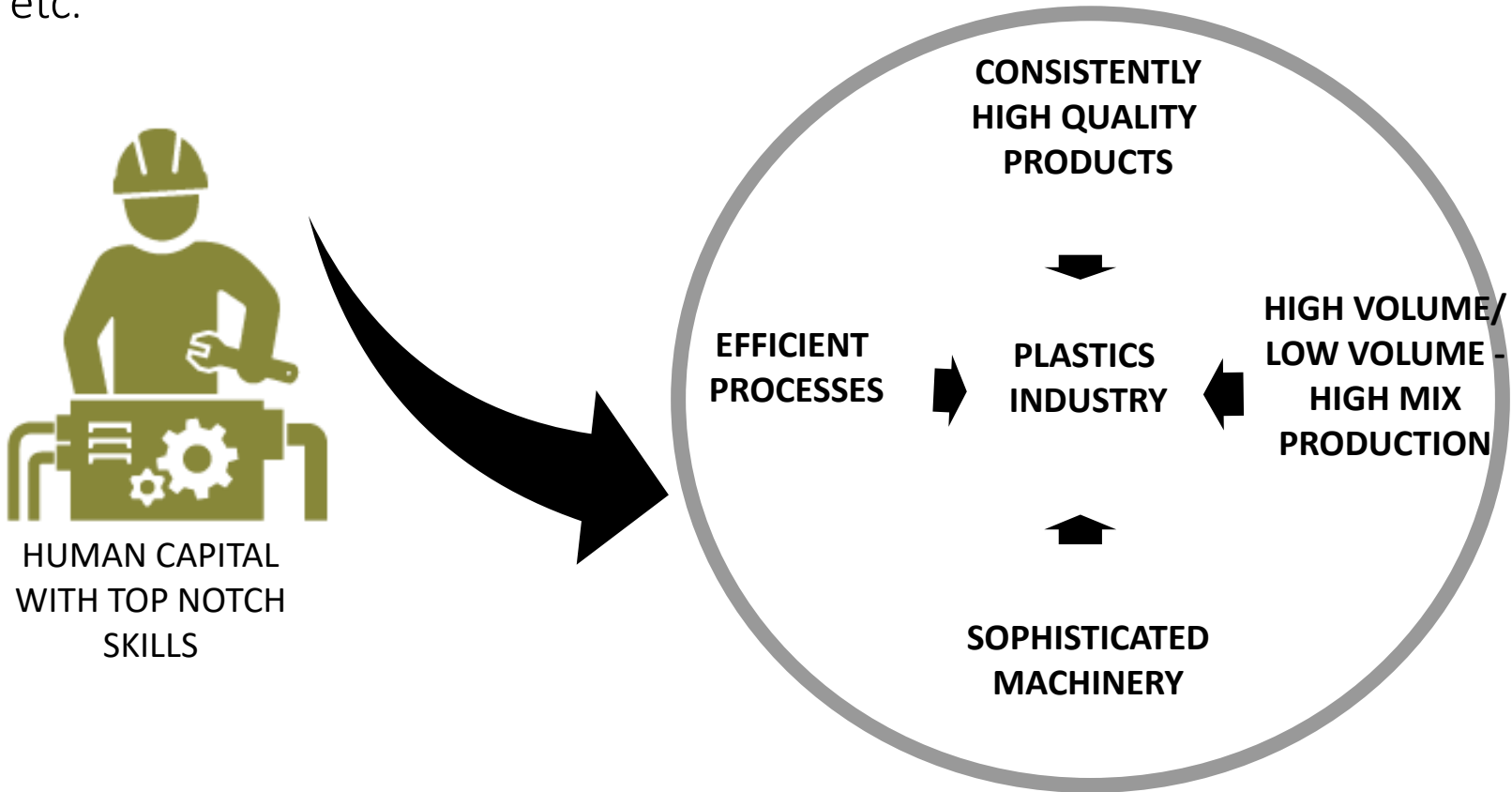
To register trainers and training providers to deliver approved and accredited programmes and courses.

To strengthen the relationship with stakeholders to improve the overall quality of TVET.

Outlook 2021 – Growth Strategies

Human Resources Training, Upskilling, Reskilling

The plastics industry requires **higher skills level workers** to utilise the best and latest technologies to **optimise consistent quality, efficiency, cost, time to market**, etc.



Outlook 2021 - Growth Strategies Automation, Innovation and Productivity Improvement

- 3Ms – Man, **Machines**, Materials
- **Technology upgrading and automation to:**
 - **consistent high quality**
 - **reduce dependence on labour**, especially foreign workers
- Rising **hygiene concerns**: requirement for automation to reduce human contact during the production process of food packaging.
- Government's assistance available:
 1. **Technology Acquisition Fund**. Quantum of Funding: up to RM2,000,000 or 50% (which ever is lower) of eligible project costs
 2. **Automation Capital Allowance** of 200% will be provided on the first RM4 million expenditure incurred by companies within the assessment year from 2015 to 2023.

(Special Reinvestment Allowance - up to YA 2022)

Outlook 2021 - Growth Strategies Responsive to Market Shift

- **Rapid growth of food delivery and e-commerce, rising hygiene and consumer-safety concerns, → new business opportunities for food packaging**

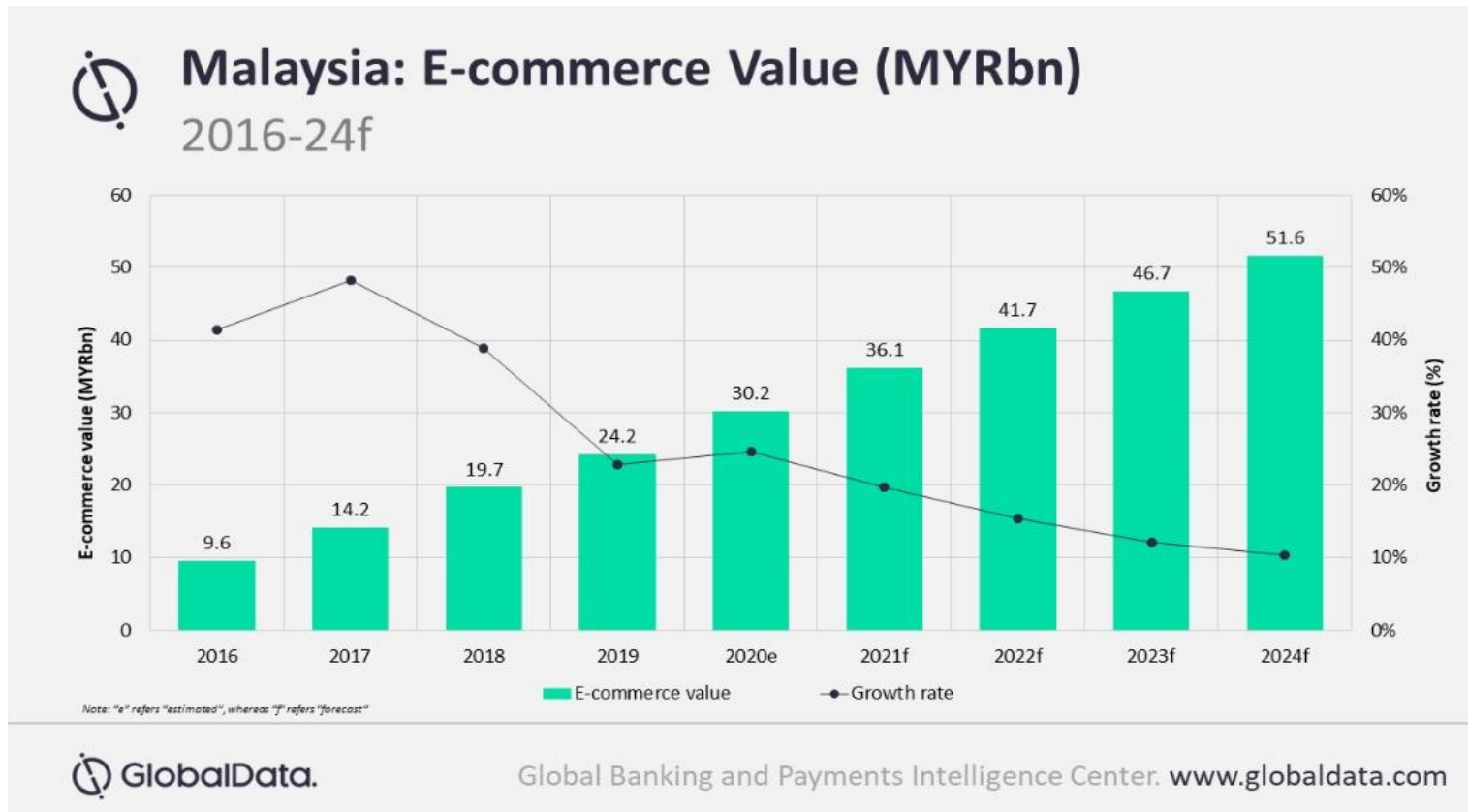
Malaysia Online Food Delivery

- Revenue in the Online Food Delivery segment in Malaysia is projected to reach US\$267m (**RM1.12 billion**) in **2021**.
- Revenue is expected to show an annual growth rate (CAGR 2021-2024) of **15.39%**, resulting in a projected market volume of US\$410m (**RM1.72 billion**) by **2024**.
- In global comparison, most revenue will be generated in China (US\$56,936m in 2021).

Source : <https://www.statista.com/outlook/dmo/eservices/online-food-delivery/malaysia>

Outlook 2021 – Growth Strategies Opportunities Arising from Change in Business Models

- Increased B2B, B2C
- Will translate into **higher packaging requirement**



Outlook 2021 - Growth Strategies

Keep Track on Megatrends

- E.g. Moving beyond **single use plastics; anti-plastic trend and extended producer responsibility (EPR)**
 - Design plastic products with **circularity** in mind
 - that can be recycled, keep the products in the cycle of reuse for as long as possible, so that they are not simply used and disposed.

Long Term Growth Strategy – Adoption of Green Manufacturing Process

- Way Forward – the Government would like to see a greener manufacturing sector. (Green renewable energy. Low carbon footprint/energy efficient machines, etc)
- Growing Consumer driven requirements, leading to brand owner pressures
- Industry must monitor and be aware of the trend towards future green policies and make the necessary actions/adjustments.

Thank you

Malaysian Plastics Manufacturers Association

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