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HIGH LEVEL DIALOGUE  
ON ASEAN ITALY  
ECONOMIC RELATIONS

# HIGH LEVEL DIALOGUE ON ASEAN ITALY ECONOMIC RELATIONS

1° Digital Round Table  
July 2, 2020

## PRESENTATION BY SOH THIAN LAI

Main Partner



Junior Partner



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# **INDUSTRIAL PERSPECTIVES AND BUSINESS PARTNERSHIP AMONG ASEAN COUNTRIES AND ITALY**

*High Level Dialogue on  
ASEAN Italy Economic Relations*

*By*

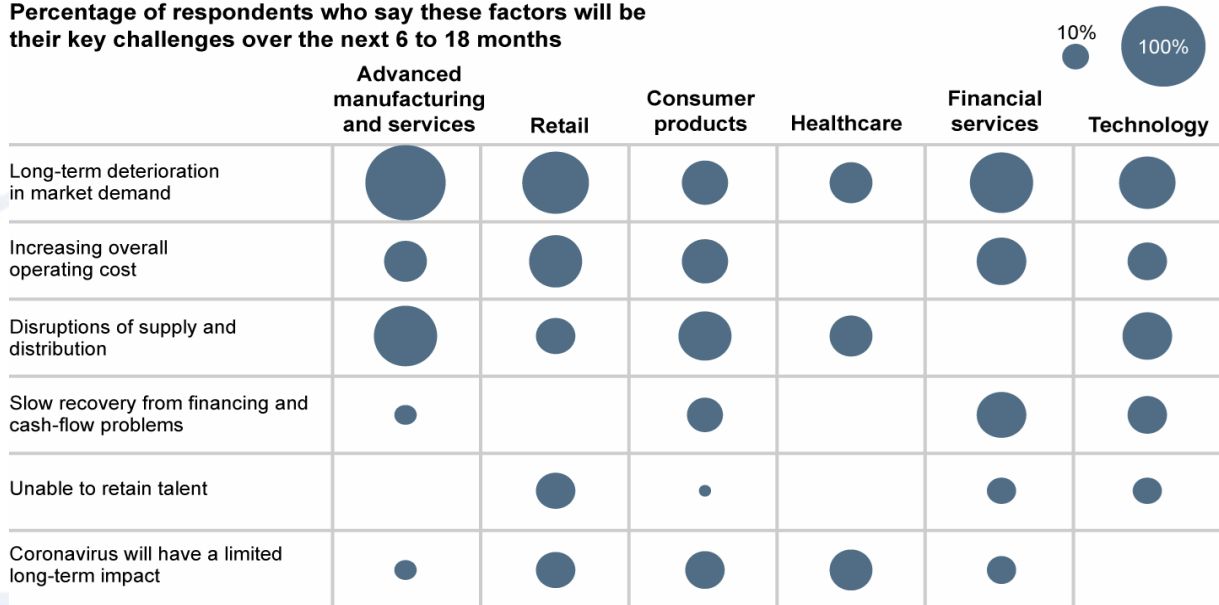
*Tan Sri Dato' Soh Thian Lai*

*President, Federation of Malaysian Manufacturers*



# DISRUPTION OF GLOBAL VALUE CHAINS

Percentage of respondents who say these factors will be their key challenges over the next 6 to 18 months



50% to 70% of companies in advanced manufacturing, consumer products and healthcare sectors agreed that disruptions in supply chain and product delivery due to COVID-19 will remain in the next 6 to 18 months.

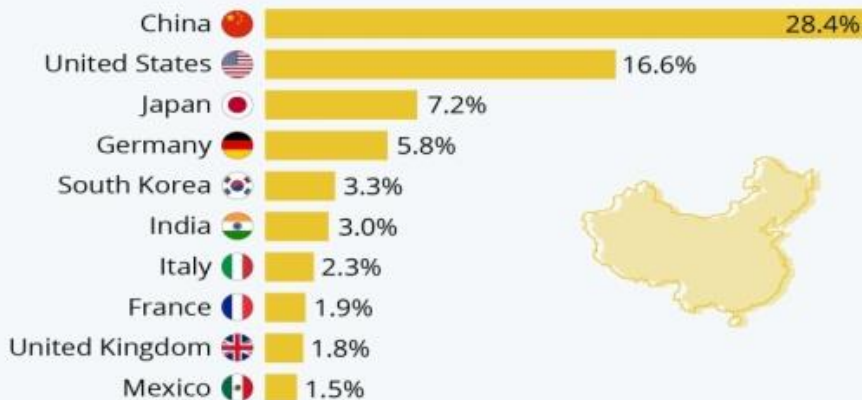
Note: Empty boxes indicate 0%  
 Source: Bain survey on Covid-19 and companies in China, February 2020 (n=89)



# DISRUPTION OF GLOBAL VALUE CHAINS

## China Is the World's Manufacturing Superpower

Top 10 countries by share of global manufacturing output in 2018\*



\* output measured on a value-added basis in current U.S. dollars  
Source: United Nations Statistics Division



1. Major industries including automotive, electronics, medical equipment and supplies, pharmaceuticals, consumer goods - significantly affected as China has been the world's production centre for the past two to three decades, providing components, raw or processed materials & major sub-systems globally.
2. Companies in China have been slow in resuming normal production. Among the contributing factors - shortage of parts from lower tier suppliers and slow recovery of transportation network capacity.



# DISRUPTION OF MANUFACTURING SUPPLY CHAIN IN MALAYSIA

Examples of Malaysian manufacturing supply chain disruption due to Movement Control Order (MCO) and lockdowns in other countries



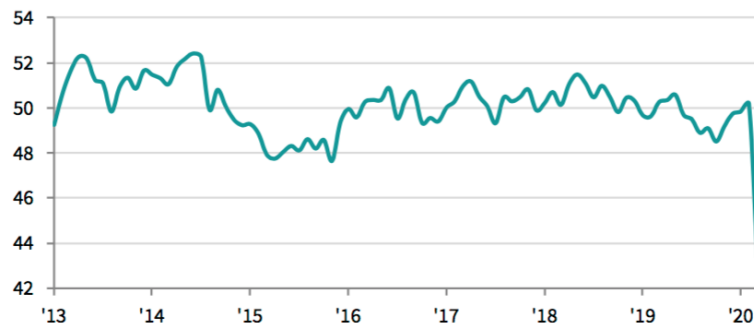
1. Electronic firms in Penang are cut off from supplies of parts and material from China, as well as alternative sources from Europe including Italy.
  - These firms import as much as 60% of components and materials from China, and the rest from Italy and Germany.
  - April-June is reported to be an acute period when stockpiles run down.
2. *Force majeure* declaration made by Southern Power Generation Sdn Bhd (SPG)
  - Prevented Engineering, Procurement and Construction (EPC) specialists from the EU states to support the construction and completion of a combined cycle gas-fired power plant project in Pasir Gudang.



# ASEAN AS A SINGLE MARKET & PRODUCTION BASE

1. Even before ASEAN countries underwent lockdowns to combat the spread of COVID-19, many already suffered from supply chain disruptions caused by China's earlier lockdown in January 2020.

ASEAN Manufacturing PMI  
sa, >50 = improvement since previous month



Source: IHS Markit.

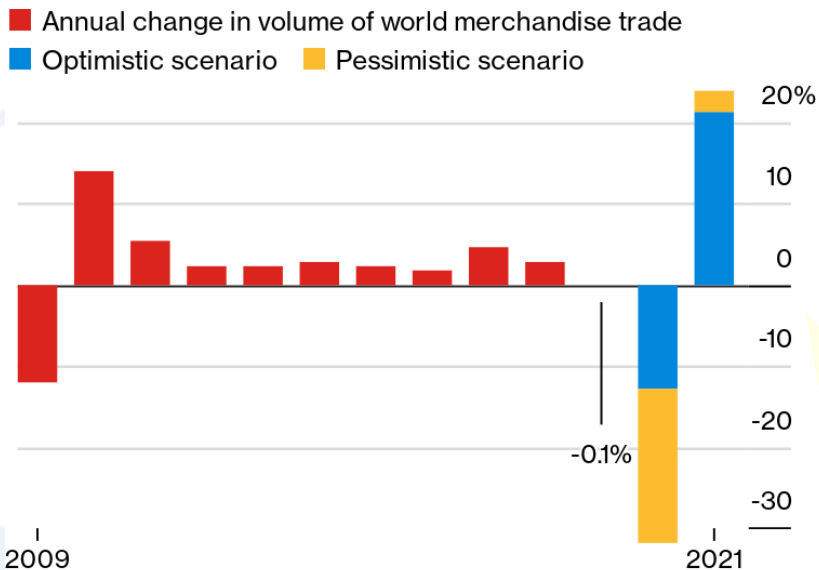
2. Disruption of raw materials, labour, and sub-assembly components had caused ASEAN manufacturers to see their worst month on record in March 2020, with the headline PMI falling from 50.2 in February to a record low of 43.4 in March.

Source: IHS Markit



# ASEAN AS A SINGLE MARKET & PRODUCTION BASE

The World Trade Organization says 2020 trade could fall as much as 32%



Source: World Trade Organization

Bloomberg

- According to April 2020 data from the World Trade Organization, projected world merchandise trade would drop by between 13% and 32% in 2020 due to COVID-19.
- We continue to expect worse performance of the ASEAN manufacturing sector, as the repercussions from the COVID-19 pandemic are further realised, and indeed likely to be felt for several months to come.





## ASEAN AS A SINGLE MARKET & PRODUCTION BASE

1. COVID-19 pandemic served as wake-up call on the need for greater integration within ASEAN – to look at near-shore options to shorten supply chains and increase proximity to customers.
2. ASEAN is a competitive economic grouping and **our diversity is actually our key strength** - should take advantage of this to distribute our production nodes according to cost, skill and competitiveness across ASEAN.
3. Not only a wide range of ASEAN businesses stand to benefit from an uninterrupted supply chain but our trade partners including Italy will also benefit from more stable and sustainable supply chain connectivity with ASEAN.
4. Intra-ASEAN trade is vital to ASEAN's post-COVID-19 recovery and the EU experience may offer a path forward for boosting the growth of intra-regional trade.





# WAY FORWARD DURING THE COVID -19 PANDEMIC

1. Free and open trading conditions have been vital for EU economies to remain afloat and ensure continued access to vital goods during the COVID-19 pandemic.

2. Learning from EU - Benefits from Intra-EU Trade:

	Year 2010	Year 2018
Intra-EU trade	63%	↑ 69%
Intra-ASEAN trade	25%	23% ↓

3. Time is **NOW** to engage intra-ASEAN trade to provide a hedge against future external trade shocks.

4. During the recent Special ASEAN Summit on COVID-19 held on April 14, 2020, Honorable Tan Sri Dato' Haji Muhyiddin Yassin, Prime Minister of Malaysia, called for the stabilisation of manufacturing and supply of essential goods and services, and proposed that ASEAN formulate an economic recovery plan post COVID-19.



# PROPOSAL TO ESTABLISH ASEAN MANUFACTURING NETWORK

- a. Objective – Serves as a networking platform for manufacturing associations in ASEAN to communicate and collaborate on strategies to restructure regional production networks.
- b. Structure –
  - The ASEAN Manufacturing Network will comprise Presidents / Chairman of manufacturing related organisations from each ASEAN member nation.
  - Proposed Members of the Network-Manufacturing Related Organisations in ASEAN

Vietnam Chamber of Commerce and Industry	Indonesian Chamber of Commerce and Industry
Singapore Manufacturing Federation	Lao National Chamber of Commerce and Industry
Darussalam Enterprise (TBA)	Myanmar Industries Association
Federation of Thai Industries	Cambodia Chamber of Commerce
Federation of Philippine Industries	Federation of Malaysian Manufacturers



# PROPOSAL TO ESTABLISH ASEAN MANUFACTURING NETWORK

## Status of Proposal:

- a. Received strong support from ASEAN-BAC which has requested FMM and Singapore Manufacturing Federation to take the lead to form ASEAN Manufacturing Network.
- b. Received commitment from Myanmar Industry Association and Vietnam Chamber of Commerce and Industry.
- c. FMM currently working with other ASEAN counterparts to establish Network.



## CONCLUSION

- a. Private sector will need to intensify our efforts to help our Governments to get both ASEAN and the EU economic engines up and running again.
- b. FMM is committed to realise ASEAN Manufacturing Network as a solution to ensure uninterrupted supply of manufactured goods within the region.
- c. Working collectively with the other manufacturing-related organisations, we hope to assist the business community deepen economic integration and widen access to global market opportunities.



**THANK YOU**

**[www.fmm.org.my](http://www.fmm.org.my)**

*FMM Advocates Transparency, Integrity and No Corruption*