



The rapid spread of the Covid-19 pandemic has caused economic activities to come to a halt while bringing the world into disarray. The healthcare systems in some countries are being stretched thin to cope with the exponential rise of daily infections. Billions of people are forced to drastically change their behavior by staying at home and limiting social activities as part of the efforts to contain this pandemic.

The closure of businesses has caused the economy to decline significantly and the threat of recession appears to be certain. Technically, it is too early to call the current economic downturn a recession, since recession is generally defined by a period of economic decline in two successive quarters i.e. six months. Recession is fairly common and considered as part of a healthy economic cycle that occurs every five years on average. However, there are speculations that the effects of recession this time around may far exceed that of a normal recession. There have been discussions of the possibility of an economic depression, comparable to the Great Depression.

Economic depression is far more uncommon and far more devastating than a recession, where the period of economic decline may last for years. In the past 100 years, there have been several national and global recessions, but only one economic depression. The latest economic depression in global history was the Great Depression that occurred from the late 1920s to early 1930s, in which the GDP of the US fell by 50% and unemployment went up to 25%.

While likening the current economic downturn to the Great Depression may seem far-fetched at the moment, the reoccurrence of another Great Depression may not be entirely impossible. There have been telltale signs of a continuous economic contraction. The world is not prepared for the sheer speed and magnitude at which Covid-19 has spread with devastating effect, and thus, the extent and the depth of the current economic downturn remain unknown.

As the economy continues to contract due to lower output and declining consumer spending, businesses begin to struggle with less cash flow and revenue. As a result, businesses have no other choice but to lay-off or even terminate their employees. Some businesses have decided to just call it a day and shut down altogether as sustaining businesses in uncertain economic conditions may end up costing them even more. The unemployment rate has soared significantly since the pandemic began hitting the world.

Just two weeks ago, US oil prices have plummeted to negative value for the first time in history due to the dramatic shrink in global demand for oil and the expiry of futures contract, along with oversupply that causes oil storage space to run low. This is hardly surprising, given that most industries have shut down both temporarily or permanently due to lockdowns across the world. Moreover, the demand for air travel has also collapsed, leaving the tourism and aviation industry practically dormant. The negative value also indicates that the market anticipates that demand will remain low for the following months. In addition, the global nature of the pandemic means that no country is spared. Poorer countries with large debts and slow growth may find themselves requiring a longer time to recover from the devastating impacts of Covid-19.

IS MALAYSIA SPARED?

Covid-19 has forced Malaysia into a “lockdown” or to be precise, a movement control order (MCO), which has lasted for more than two months until 9 June 2020. Most non-essential businesses are not allowed to operate resulting in a large section of the workforce being laid off or furloughed. The decline in Brent oil prices to below US\$20 per barrel is also a huge blow for Malaysia, especially considering that Budget 2020 was based on oil prices being US\$62 per barrel. In addition, Malaysia is currently facing political uncertainty due to a recent government change, which ultimately slowed down Malaysia’s response in dealing with this pandemic.

Malaysia has decided to re-open almost all of its economic activities on 4 May 2020 under a Conditional Movement Control Order (CMCO). Many parties have voiced concerns over the lack of a soft-landing approach by the federal government in re-opening the economy, with some state governments outrightly refusing to comply with the CMCO. Although this decision may appear to be hastily made, it is understandable considering the fact that Malaysia continues to suffer RM2.4 billion of losses every day while the MCO is in place. Malaysia’s economy can no longer take the hit and the limited funding meant to help the economy is beginning to run out.

Malaysia has reported relatively low number of new Covid-19 cases for the past two weeks. Nonetheless, we must bear in mind that these low figures may not truly reflect the infection rate since Malaysia still does not have the facilities to carry out mass testing just yet. Many Malaysians are still fearful of going out while the risk of Covid-19 is still out there, while some businesses are choosing to continue operating at 50% capacity as part of social distancing measures. It is unlikely that the economy will return to its previous rate anytime soon despite the reopening of businesses.

However, it is not all doom and gloom. Although there appears to be no escape from recession, most countries including Malaysia have taken steps to prevent this economic downturn from turning into another Great Depression. The government and central bank have introduced expansionary policies and pumped more money into the economy, which are starkly different from the contractionary policies that caused the Great Depression. In fact even before the Covid-19 pandemic was known to the world, economists have projected that there will be an economic recession in 2020. The spread of this pandemic had ultimately caused the economy to drop at an unexpected speed, but it could be argued that Malaysia has taken relatively swift actions. The introduction of various stimulus and assistance to the people, such as the enhancement of unemployment benefits, direct cash transfers through Bantuan Prihatin Nasional and additional funds for SMEs will help to cushion the economic shock. However, considering Malaysia has had one of the longest period of lockdowns amongst other countries, the accompanying fiscal injections by the government is trivial in comparison. A more comprehensive and generous stimulus package will be required to speed up the recovery of the economy post-MCO.

Temporary measures or amendments to the law has also been introduced to provide some relief against the current economic downturn. One of the most significant amendments is the Companies (Exemption) (No. 2) Order 2020 which provided protection for companies from being wound-up for a period of 6 months after receiving a statutory demand, compared to the previous period of 21 days. The Companies Commission of Malaysia (CCM) also announced that companies can apply to postpone their Annual General Meeting for 90 days. Not wanting to be left behind, the judiciary had started conducting court hearings online, with the Court of Appeal streaming its hearings live for the first time on 23 April. This move has been welcomed by the legal fraternity and public alike as this will ensure better access to justice despite the MCO being in place.

THE NEW NORMAL

While there will be a lot of uncertainties moving forward, one certain thing is the world as we know it will be changed. Many industries have discovered that the technology has made it possible for them to operate remotely without being physically present in their office premises. Government or judicial businesses are still being conducted effectively without physically being in the same place with the relevant officers. The MCO had also accelerated the local economy's transition into e-commerce, with more businesses relying on online sales as an alternative to physical store sales. Social distancing measures is likely to continue to be implemented even after the MCO is lifted, and businesses will continue to learn how to operate while minimizing human interaction.

The collapse of the global economy is unlike anything that has ever occurred in our lifetime. Nobody knows how long this pandemic will last or when a vaccine could be discovered, making any future economic projections nothing more than educated guesswork. How we manage and react to the pandemic will determine what happens in the future. Even if we are successful in defeating this pandemic, it is likely that government policies will begin to change, businesses will have to rethink their strategies, work in its traditional sense will be revamped and people around the world will be forced to adapt to the new normal.

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