

## KERATAN AKHBAR

---

TARIKH : 6 NOVEMBER 2021  
AKHBAR : THE EDGE MARKET  
MUKA SURAT :



### **My Say: A new economic paradigm for Malaysia's multiple challenges**

The economic formula of the government of Prime Minister Datuk Seri Ismail Sabri Yaakob and the 12th Malaysia Plan (12MP) that it tabled in October is a re-affirmation of the New Economic Policy (NEP) and continuation of the existing approach to macroeconomic management and intervention in the economy.

The great significance of the recently uncovered Pandora Papers is that it is another sign that the NEP has skewed wealth creation towards an elite group within society. Since the formulation of the NEP, economic regulation and equity rules have been focused on redistributing wealth, rather than creating it. This was well hidden during the high GDP growth years of the 1980s and early 1990s but has become more apparent during the slower growth rates of the last decade.

The 12MP offers no improvement in the GINI index as a target. While mean monthly income has actually increased from 2016 to 2019, the overall GINI coefficient has actually increased from 0.399 to 0.407 over the same period, pointing to a widening of income inequality (12MP; p 189). This is at a time where Malaysia's GINI ranking in Asia puts it at the top for inequality.

One important issue that needs to be addressed is that the B20, or bottom 20% of income earners, form only 5.9% of the national income share, while the T10, or top 10% of income earners, take up 30.7% of the national income share. The 12MP will do nothing to reverse this situation. It may even worsen it.

Meanwhile, the incidence of relative poverty has increased from 15.6% in 2016 to 17% in 2019, and is continuing to increase rapidly during the pandemic. Economic statistics are lagging behind and may be distorting our understanding of what is happening on the ground. Economic recovery and relief is set to be delayed, with little contained within 12MP to assist in this area. Elevated unemployment and inflation are not taken into account.

Thus, we expect the economy to go into 2022 and further much worse off.

Many prominent Malaysians have called for a new economic paradigm and scrapping of the NEP. The NEP encased within 12MP is not going to save Malaysia from the recession that is now engulfing the economy.

Here is our submission on what the new economic paradigm needs to have in 12MP:

### Recommendation 1: Focus on wealth creation and targeted social safety net

There is a need to refocus from wealth and equity redistribution to wealth creation. This requires moving away from creating millionaires to creating a prosperous Keluarga Malaysia as expressed by the prime minister. This means protecting the buoyancy of households through a safety net; creating employment and economic opportunity for all; and uplifting the quality of life of the B20 rather than promoting economic rent-seeking opportunities for the connected elite through government intervention and regulation.

### Recommendation 2: Making macro policy more agile

With poverty and unemployment increasing, macro policy should focus on effective microeconomic initiatives to have aggregate effect and impact. This requires developing and implementing effective programmes in the correct locations. The priority concerns that should be addressed are building income among the bottom 40% (B40) of people; assisting small and medium enterprises (SMEs) that employed 48.9% of the workforce or seven million people before the pandemic began in 2019; providing safety net assistance; and effective implementation of targeted regional and urban development where the poor reside.

### Recommendation 3: Building income particularly among the B40

One of the key strategies in building income across the B20 and lower M40 is increasing wages, both to reduce poverty and decrease income inequality. This is perhaps one of the most challenging aspects of policy development.

The bottom end of the labour market has an estimated two million migrant workers who exert a downward pressure on wages. In addition, working conditions are extremely poor and even dangerous, indicating a catastrophic failure of the Department of Labour to develop and enforce safety standards.

The next problem is sociocultural. Jobs traditionally undertaken by migrant workers are seen by today's younger generation as totally undesirable. Local employers complain about the spasmodic attendance and poor productivity of local employees. Attention must be focused upon SMEs and the informal sector, which employ a majority of Malaysia's workforce.

#### Recommendation 4: Assisting more SMEs

The 12MP document paid scant attention to identifying the most critical issues facing Malaysia's 1.15 million SMEs. Academic research into the problems SMEs face today indicate liquidity issues and the inability to grow; lack of access to appropriate technology; the inability to develop relevant skill sets; and lack of ability to collect market information and gain customers. Past government programmes to assist SMEs have only reached a small number of those in need.

One of the problems is the limited reach of government initiatives, while another problem is the lack of effectiveness. Too many SMEs have found the conditions to obtain assistance too difficult, and banks have imposed strict loan conditions such as collateral, support documentation and past performance records to qualify for loans. The national liquidity squeeze due to delayed payment in both the public and private sectors requires a practical solution. Rather than create another agency to assist contractors to get paid quicker from the government, a national factoring scheme could be put into place to expedite quicker payments and increase the velocity of money around the economy. SME proprietors do not have time to attend full-time vocational courses as they are working full time. There should be a radical shift in education towards part-time to teach basic SME finance, management, marketing and technology skills. It is also well worth studying how the Thai government assisted the development of SMEs through the One Tambon One Product (OTOP) scheme, when it was in operation, in arranging trade fairs as well as travel expos to new markets and customers, and developing online business models.

Industry 4.0 and digitisation are well and good once the nation's SMEs develop a critical level of health, are skilled up and ready to expand. Unfortunately, for most of Malaysia's SMEs, they are not ready now.

## Recommendation 5: Safety net assistance

For those not employed, the solution is putting income into the hands of those who need income assistance and protection. This requires a total overhaul of Malaysian social and economic safety net programmes, which have become so important since the beginning of the Covid-19 crisis. Some form of universal income testing, which could be based on a fund or insurance scheme, is needed to assist those who fall into unemployment, sickness, incapacity or otherwise fail to earn an adequate income.

According to economist Geoffrey Williams, a scheme to cover the above contingencies of 1.24 million households currently below the relative poverty line income of RM2,937 per month, would cost RM10.2 billion, or 3.2% of the government's annual budget.

A safety net scheme could be partnered by a universal income-tested pension scheme built upon the Employees Provident Fund (EPF) system. Currently, 6.9% — 2.23 million people — are aged 65 or above, and this percentage is growing as fertility and death rates are declining.

According to EPF statistics, 46% or 2.7 million workers have less than RM10,000 saved, while only a small number of people at retirement age have enough funds to stay out of poverty. This situation worsened during the Covid-19 pandemic. Overhauling the pension system is a must if a crisis in aged poverty is to be averted in the near future.

## Recommendation 6: Targeted regional and urban development

Today in Malaysia, there are still many communities without sealed road access, clean water, telecommunications, and even electricity. Besides visible poverty, there are many pockets of hidden poverty in Sabah, Sarawak, Kelantan, Terengganu, Perlis, Kedah and urban areas, where local authorities and responsible agencies do their best to hide these problems.

There are too many failed development projects that have become white elephants and assist nobody, except to provide opportunities for corruption in the development and building process. Community organisations like Pacos Trust in Sabah that assist remote local communities are shunned as competition by government agencies, when they should be partners.

By far, the biggest problem in regional development and poverty eradication is that communities are told what they need, rather than asked what they need. This has caused massive wastages over the decades. This development paradigm needs radical change.

#### Recommendation 7: Institutional reforms

Malaysia's civil service is bloated, inefficient, and an environment that feeds corruption. There is much wastage of financial resources and over-staffing across many ministries and agencies. While the civil service has been automating jobs through IT, employee numbers have been rapidly growing rather than declining through increased productivity.

The civil service costs 47.4% of the total operational spending within the annual budget. In 2019, this amounted to RM122 billion. This budget could realistically be cut down by 25% or RM30 billion or even more without loss in operational efficiency. Staff numbers have grown to a bloated 1.71 million employees, even though systems and procedures have been computerised over the last decade. The 12MP plans an even greater expansion of the civil service, mostly for the purpose of monitoring markets within the economy, which is unnecessary.

The government needs to bite the bullet on both the civil service size and related emoluments issue. Previously, the Pakatan Harapan announced that 100,000 civil service posts could be removed permanently without affecting the overall quality of the civil service, saving RM2.1 billion annually. Former PSD director-general Datuk Seri Borhan Dolah estimated that the government can save up to RM5 billion a year if the new intake of civil servants was no longer made under the pensionable scheme but was instead replaced with flexible and variable contract agreements. Nothing, however, has been done on both proposals.

In addition, there are many federal and state-owned government-linked companies (GLCs) that are debt ridden, loss making and which compete with private enterprise providers. These loss-making and debt-ridden GLCs should be identified and closed to save further wastage.

The above savings could be redistributed back into safety net assistance schemes to alleviate poverty, as 12MP is claimed to have a rakyat-first approach. Creating a universal income-tested safety net is the redistribution game changer Malaysia needs right now.

## Conclusion

Finally, but not lastly, Minister in the Prime Minister's Department Datuk Seri Mustapa Mohamed said the RM400 billion tagged to be spent through 12MP is the highest in Malaysia's history. It is not the size that counts but the effectiveness and impact of what is spent that is important. Funding the growth of the public sector, setting up new agencies and departments and incurring more debt will be counterproductive.

It is urgent to look at policy innovation, which 12MP unfortunately lacks. There are examples that can be drawn from and utilised within the Malaysian and regional context for the betterment of policymaking. One approach to assist financing a Malaysian safety net could be by channelling Petronas profits to the EPF to fund a scheme similar to the highly successful Government Pension Fund of Norway.

Covid-19 is forcing change throughout the region and the world. There is going to be an economic scramble and battle to recover. If Malaysia does not gear up with a realistic, competitive and sustainable economic recovery plan, it will very quickly fall behind the rest of the region. The 12MP in its present form has missed this opportunity.