Transition in Disaster: Policy Choices for Malaysian Economic Survival in the COVID-19 Era

The 18th of March 2020 marked a turning point in the direction of Malaysia's economic history. Never before had a single event triggered such a detrimental chain of events that would result in widespread uncertainty across the country. With the implementation of the Movement Control Order, everything but essential services ground to a halt and almost overnight, the entire macroeconomy and the economic welfare of the rakyat was suddenly endangered.

According to JobStreet, approximately 35% of Malaysians have experienced a salary reduction larger than 30% as a result of the MCO (Choong, 2020). Furthermore, the Malaysian Institute of Economic Research (MIER) forecasts the unemployment rate to hit a previously unimaginable 9.2% by the end of 2020 (Ng, 2020). COVID-19 presents us with an opportunity to create a more environmentally sound and productive society by providing the necessary impetus for change. The government's response will require a three phase approach to sustain the economy. An emergency short term response is recommended in the form of an expansionary fiscal policy initiative to safeguard economic survivability. To address the potential prolonged nature of this crisis, a set of monetary policy initiatives is needed to change the structure of the economy and make it more resilient. Finally, consideration must be given to labour reallocation policies to help the rakyat prepare and adapt to this new normal. This essay pays particular attention to the needs of vulnerable individuals and small to medium enterprises (SMEs) as these segments contribute around 40% of Malaysia's GDP (Koshy, 2020).

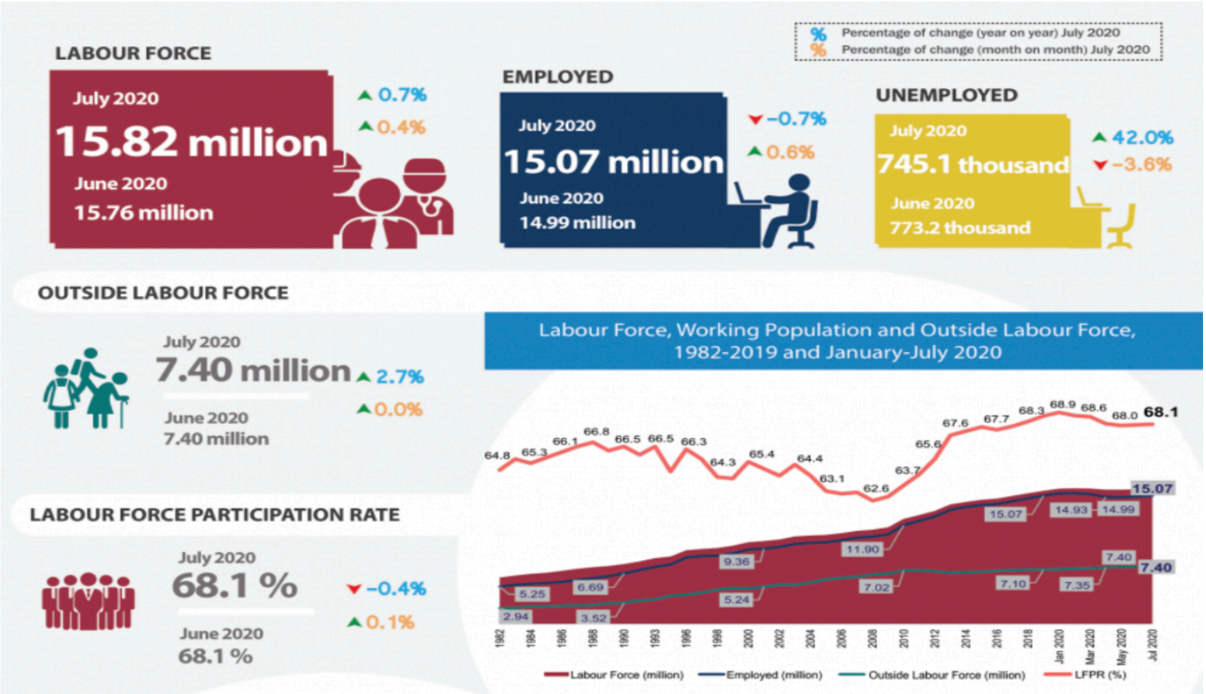

Figure 1

Source: Labour Force Survey, Department of Statistics Malaysia, Key Statistics of Labour Force in Malaysia, July 2020

First and foremost, a fundamental step in the battle against COVID-19 is to safeguard the population's wellbeing using an expansionary fiscal policy. Fiscal policy focuses on providing short-term relief, and should be the immediate response of the outbreak because failure to do this will result in a cascading effect, as aggregate demand spirals downward, leaving millions unemployed, and businesses closing. This can take various forms such as cash transfers to vulnerable individuals and SMEs, and changes in tax policies, like a decrease in income and business tax rates. For example, many countries have implemented fiscal packages in hopes to soften the impact of this economic standstill and maintain production capacity. Cash transfers, specifically to SMEs, ensures a minimal cash flow which is important for business survival. Additionally, cash transfers also allow the government to inject liquidity into the market, which has larger trickle down effects. For example, alleviating cash flow difficulties will avoid escalating problems such as laying off workers, inability to pay suppliers, and even bankruptcy. Since the global supply chain has already been damaged, it is important to keep as many businesses afloat as possible in order to prevent large-scale unemployment (Koshy, 2020). These different types of fiscal policies should address the economic needs of all communities nationally, regardless of size or status.

Since SME's play a vital role in the maintenance of the macroeconomy, cash transfers should be primarily provided in the form of wage subsidies for income support and maintenance of the wellbeing of the workforce. Over the medium term, the government could also consider it an unemployment wage subsidy scheme to provide long term support for the workers of this sector. Cash transfers provide a more immediate and direct effect compared to changes in tax policies.

Over the longer term, the government could also consider implementing tax policy reforms. This can take the form of extending deadlines for tax filing, decreasing tax rates and even allowing tax exemptions altogether. Tax reforms, while not as immediate as cash transfers, will also protect the workforce as more disposable income will be generated in the long term. These policy initiatives have the advantage of being extensible. In the current dynamic situation where more lockdowns may be declared and with the possibility of other viruses in the future, tax reforms could prove to be an important tool in managing the economy as they allow for fine tuning, targeting, and focus on critical needs while still being effective over the longer term.

Governance procedures may need to be enhanced to ensure that monetary allocations are correctly and legally dispersed. From the budgeted RM260 billion that has been allocated for COVID-19 relief, it is necessary to correctly divide and regulate the different streams of spending (Koshy, 2020). When targeting where these fiscal benefits go, the government should consider prioritizing the essential public services as well as those sectors that have been hardest hit by the pandemic. To ensure prioritization of the public sector, a substantial amount of funding should be directed towards the healthcare sector as needless to say, the country would not be able to combat the pandemic without it. Another sector that should be prioritized by the government is the tourism industry, as seen in Figure 2, as workers laid-off as a result of closed borders will need more financial aid for a longer period of time. Therefore, the fiscal budget must be allocated adequately and proportionally to targeted sectors to avoid unnecessary spending in other sectors of the economy that might not need urgent help.

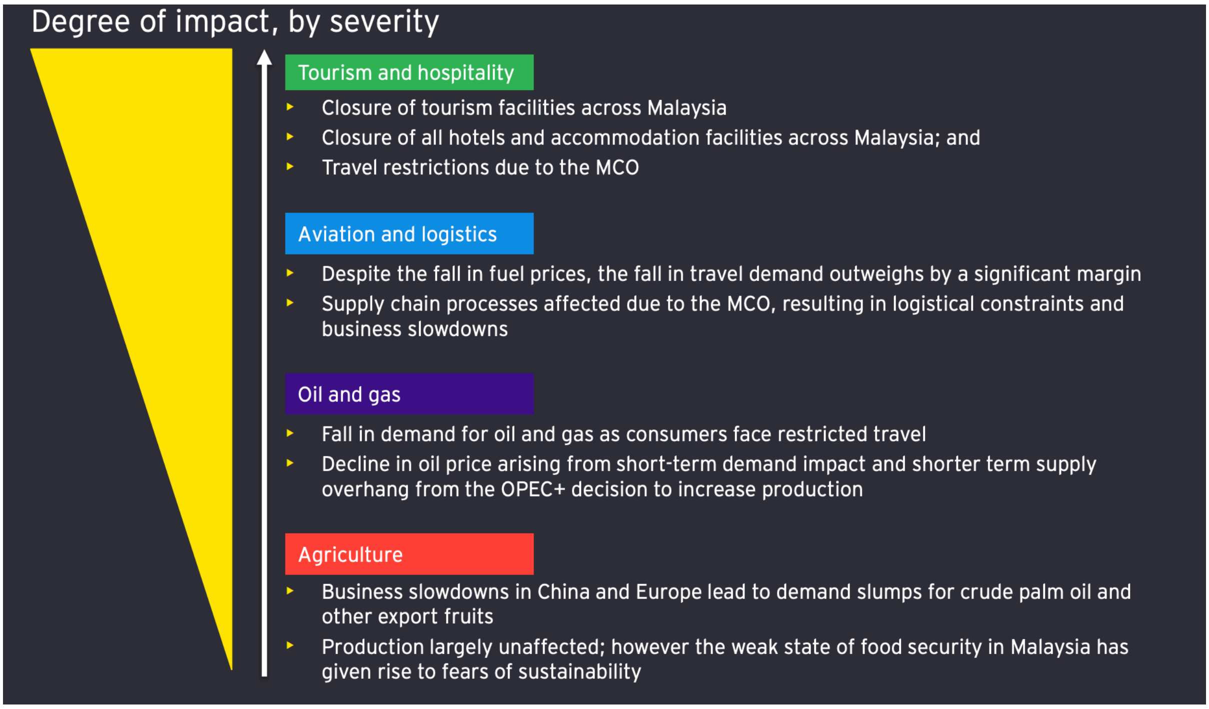

Figure 2

Source: MIDF as at 10th March 2020, CAPA as at 17th March 2020, McKinsey Global Report as at 25th March 2020

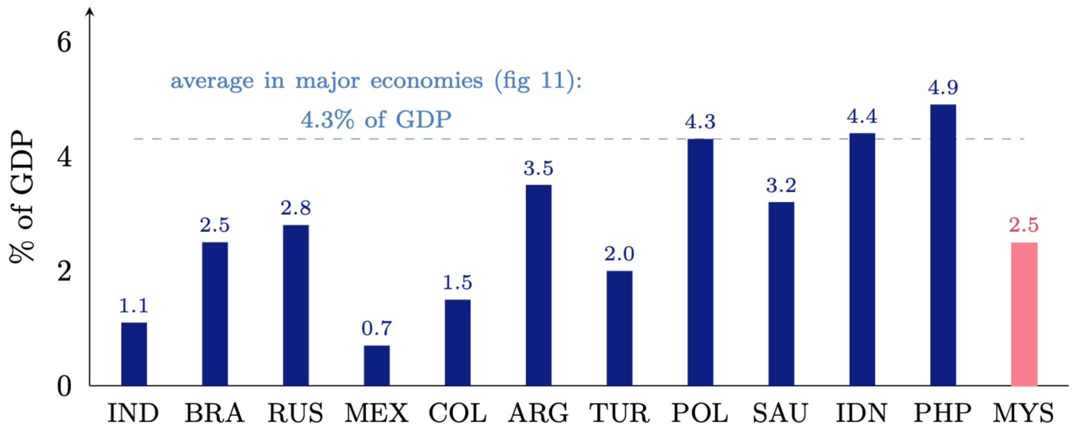

Figure 3: Crisis-Related Fiscal Stimuli in Emerging Economies (as of 6 May 2020)

Source: National authorities, IMF and Bank Negara Malaysia estimates

Beyond fiscal policy, monetary policy needs to address the longer term effect of the pandemic by enabling business continuity and helping to foster growth. Under this policy, the government could suspend mortgage payments and loans, extend loan maturities and decrease interest rates. However, the current interest rate stands at 1.75%, implying that there isn’t much more room to decrease further ("Interest Rates | Bank Negara Malaysia | Central Bank Of Malaysia"). These initiatives are designed to relieve pressure on companies by allowing them to redeploy their capital towards productive uses. A form of graduated increase or decrease will prevent these policies from having a destabilising effect, such as seen by the abrupt introduction and removal of GST in 2018. In this way, both the government and businesses can plan ahead (Tax and fiscal policy in response to the Coronavirus crisis: Strengthening confidence and resilience, 2020).

In a period of low interest rates, the government will naturally find that it does not have much leeway to reduce rates further in order to encourage borrowing and spending. A moratorium on rate hikes will make it easier for borrowers to manage their debt. Borrowers should be given an extended period to make up their outstanding balance and initiatives providing flexibility for repayment such as revised repayment schedules and restructured loan and credit facilities will be a welcomed one. Because international supply and trade chains have been severely disrupted, the effect on interest rates on the value of the Ringgi t may not be as pronounced as before the disruption. Nonetheless, a close eye needs to be paid on the foreign currency reserves to ensure that a similar situation to 1998 does not occur.

A possible but draconian policy would be to mandate the profitability of banks for a prescribed period through nationalisation. Though this could be destabilising in and of itself, as well as legally dubious, there could be benefits arising in the efficiency and effectiveness of the financial sector. Examples of these effects can be seen in the case of Mexico in 1982 which helped the restructuring of the industrial base of the country (Marois, 2008).

The requirement for social distancing means the fundamental nature of work has to be reassessed. Crowded factories and workplaces will no longer be able to operate, and thus new schemes of work to ensure social distancing should be implemented. Labour reallocation schemes should include provision of temporary work programmes and new job locations. Organisations such as the Employment Insurance System should undertake these labour reallocation strategies by providing training, career counselling and other resources. With low-interest loans and wage assistance, businesses will gain tremendous cost alleviation (Measures to Assist Individuals, SMEs and Corporates Affected by COVID-19, 2020).

Because start-up costs are lower, there is a unique opportunity to reorganise and restructure the economy that should be seized. Noticeably, businesses are moving online as a means of providing contactless systems, conducting relatively large gatherings and mobile payments. Furthermore, the crippling of supply chains can be translated into an opportunity to minimise material usage. There is no better time to increase recycling efforts and waste management industries than now, as this will create job opportunities and contribute to economic growth (Ng, 2020).

This policy should include redistributing surplus labour to sectors where labour is short, such as healthcare and other essential services. If necessary, this can take the form of temporary employment, so attachment to the respective personal employer is maintained. Public investments can be used to create new jobs as well, and this is an opportunity to redesign and innovate. One area of investment that calls for desperate action is renewable energy. With lower start-up costs in our progressive society, it would be beneficial to retrain workers to work in renewable energy, a field with long term potential. We should take this opportunity to imagine new environmentally friendly policies such as additional labour focus into recycling and waste minimization, as well as repurposing of excess physical space made possible by social distancing. For instance, the use of urban farms in otherwise wasted physical buildings. This labour reallocation policy should be designed to work in tandem with workforce protection programmes like the EIS, ERP and the WSP.

This policy will also speed up the process in which people return to work, install adaptable and necessary skills in the workforce for the future and optimise reallocation into areas that directly contribute to economic growth and environmental and food security. Investment in human capital will train workers to adapt to the new normal, where physical distancing rules and restrictions are prevalent. This policy is emphasizing job creation in an innovative direction. This form of proactive support should strive to secure business continuity, ensure social protection resulting in reduced exacerbation of unemployment, as well as the additional benefit of reducing negative externalities such as pollution. Although this policy is giving prominence to job creation, it will nurture business productivity, job transitions for displaced workers as well as income preservation objectives.

Implementing these labour allocation policies during the recovery, will provide a basis for the economy to scale up and support the structural changes that have been set in motion. Endowing labour reallocation and widening the ability of employment services aids segments of the population such as women and youth. These demographics represent a large proportion of low-skilled labour, and are therefore disproportionately vulnerable to the economic effects of the pandemic. The COVID-19 pandemic has provided an opportunity to relook at the nature of our workforce not in a negative sense, but as an opportunity to create a more sustainable, healthy and happy population through reallocation to more dynamic, cleaner and updated fields of activity (International Labour Organization, 2020).

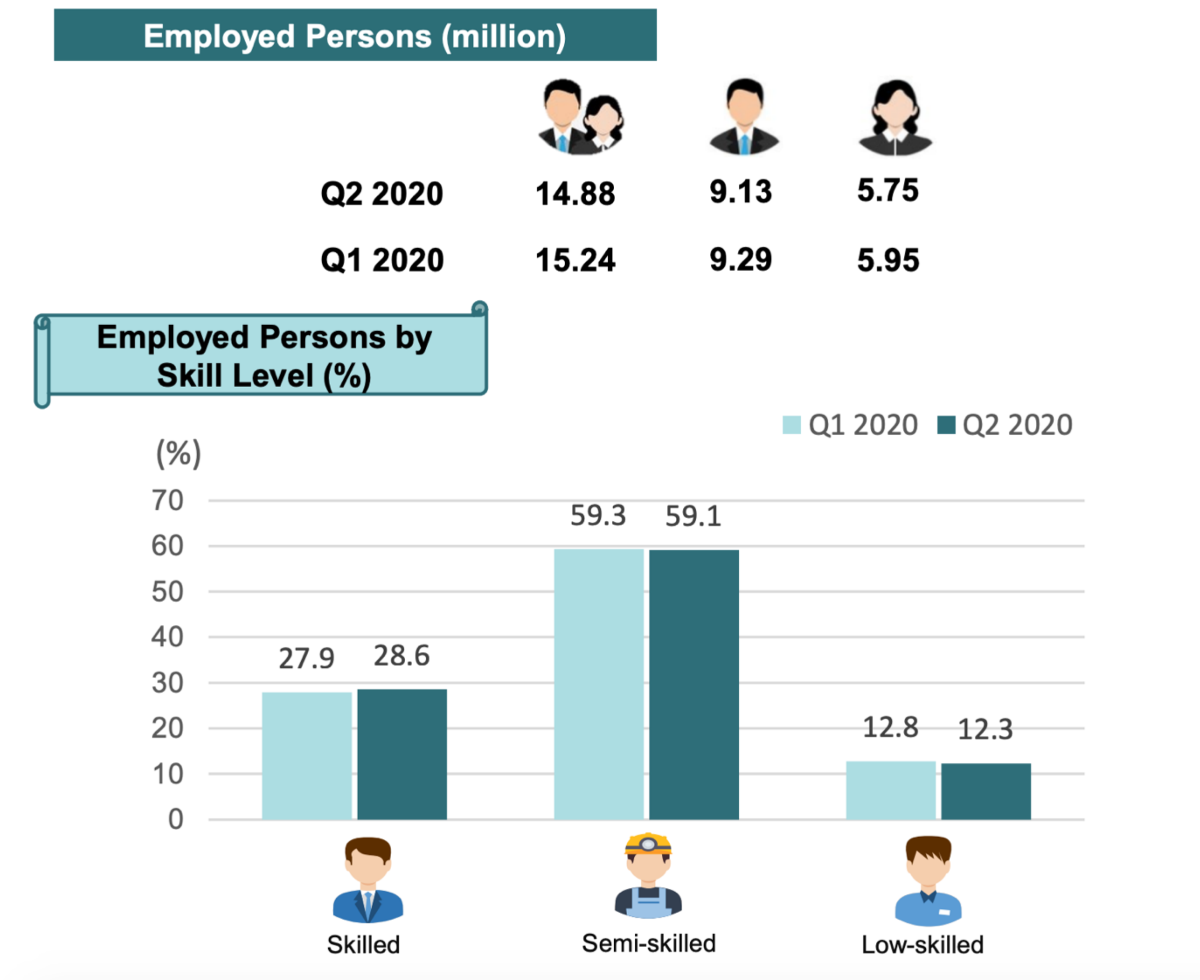

Figure 5

Source: Pocket Stats Q2 2020, Department of Statistics Malaysia, Social Indicators, Labour Force

The COVID-19 crisis, while requiring urgent and deep changes, also provides us an opportunity to create a better future not only for our economy, but for our population and physical environment. In the midst of these great challenges, policy makers are confronted with the unique opportunity to create a better world that we cannot miss. Fiscal measures will enable us to weather the initial storm and crisis of the pandemic. The correct monetary policy initiatives will enable us to construct a long term framework for the recovery period and beyond. Labour reallocation policies and support will help us to prepare our population for the future. Vulnerable individuals and organisations cannot and will not be left behind in the policy structure that is being recommended. There are abundant opportunities that could allow us to redesign our society, and we shouldn't shy away from radical approaches. The changes that are required will need both policymakers and society at large to come to a common understanding of the cost of success and of failure. In the future of the "new normal" it is important for policy makers to be able to create and use flexible, new and appropriate methods that perhaps have never been tried before.

(1987 words)

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