

“The Covid-19 pandemic has seriously impacted the Malaysian economy. If you were the finance minister of Malaysia, discuss 3 policies that you would implement, why, and how they would help Malaysia weather the crisis.”

Author Note

This research was conducted from June 2020 to September 2020.

Introduction

Economists predict Covid-19 will cause the worst global economic recession due to the demand, supply, and financial shock all happening at the same time. Malaysia’s gross domestic product (GDP) has fallen by 17.1% as a result of the indirect impacts of the Covid-19: the movement control order (MCO), more commonly known as a lockdown. Thus, President Trump argued there would be more lives hurt as a result of the recession exacerbated by the lockdown. As businesses can not operate during the MCO, many jobs will be lost. Although that may be true, I do not think this has to be the case for Malaysia. With the right policies implemented at the start of the MCO, Malaysia can reduce the drastic economic impact of the MCO.

With the right kind of government intervention that promotes economic growth, Malaysia may have a V-shaped recovery rather than an L-shaped recovery. A V-shaped recovery is a quick and sustained recovery after a sharp economic decline. Hence, once the lockdown is over, the economy can bounce back quickly to its normal state. On the contrary, an L-shaped recovery is a slow rate of recovery, with persistent unemployment and stagnant economic growth.

Hence, as the finance minister of Malaysia, the three policies I would implement will tackle the issues of business closures, unemployment, and poverty. I have chosen to implement a series of fiscal policies, backed by regulations to achieve its intended effects. The policies implemented include grants, wage subsidies, and conditional cash transfers. While these may be short term solutions and may result in high government debt, they are critical and necessary for the recovery of the Malaysian economy.

Financial Relief

Providing grants to small and medium enterprises (SMEs) can provide financial relief to prevent an economic shock. A government grant is a financial award given by a federal, state or local government authority for a beneficial project (4). SMEs do not have to repay the grants, therefore helping to keep business afloat during this time of economic uncertainty. Furthermore, grants will encourage young entrepreneurs to start their businesses in this pandemic. Once the MCO ends, Malaysia's economy will be able to bounce back from the recession as there are jobs for people to go back. Consumers will be able to purchase goods and services from businesses, increasing consumer expenditure.

A recent survey reported that 67.8% of businesses did not have any sales during the MCO (Figure 1), with 92.8% of these businesses being SMEs (Figure 2). Hence, 68.9% of these businesses had to use their savings to pay for the fixed costs (Figure 3), causing 53.4% of these businesses to survive for a maximum estimation of 2 months (Figure 4). Moreover, when the

global economy was on hold due to the pandemic, jobs were lost, further disrupting the supply chain.

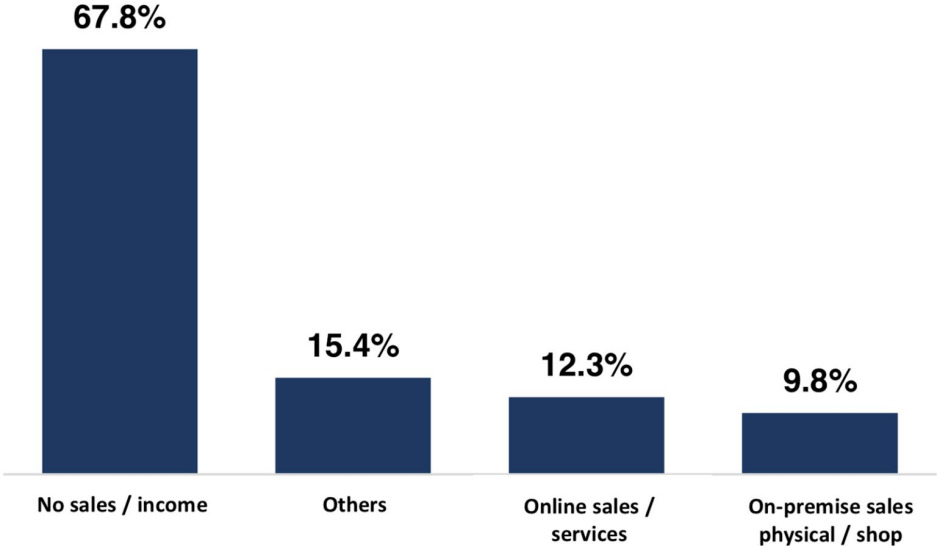


Figure 1: Source of Income for Companies / Business Firms During the MCO Period

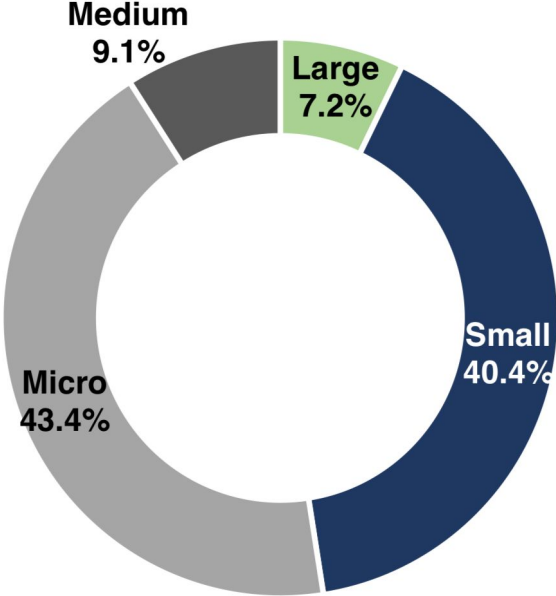


Figure 2: Companies / Business Firms by Company Categories

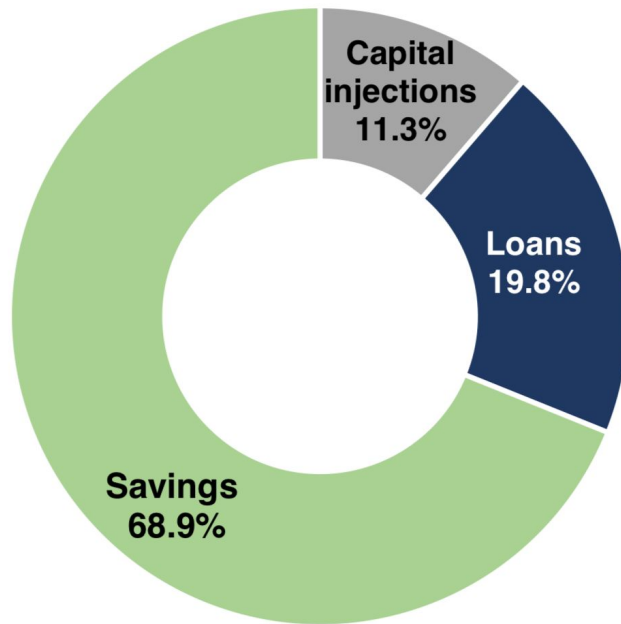


Figure 3: Source of Companies / Business Firms in Accommodating Operating Costs or Working Capital During the MCO Period

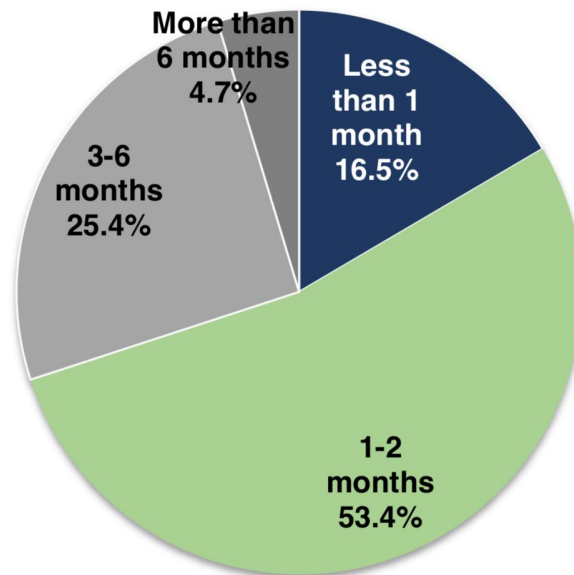


Figure 4: Companies / Business Firms Survival Period if Providing Full Paid / Half Paid Leave to Employees

When businesses stopped operating during the MCO, this has contributed to the unemployment rate rising in Malaysia, peaking at 5.3% in May 2020 (Figure 5). Giving out grants to SMEs will cover the fixed costs without having to give a wage cut. SMEs are unlikely to have the savings needed to accommodate their operating costs for more than two months. The large number of SMEs in Malaysia and its vulnerability in this current recession highlights the need of the government to intervene.

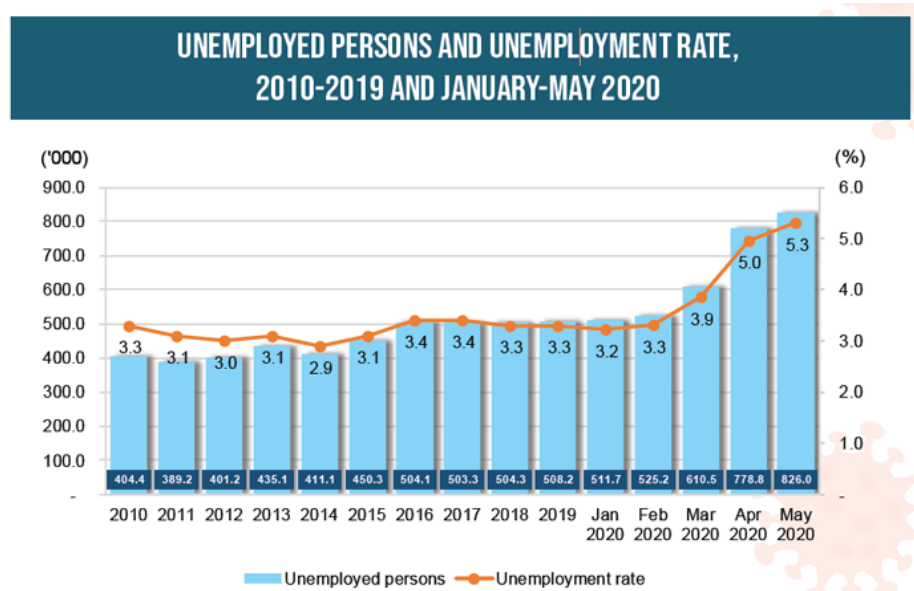


Figure 5

The pandemic and lockdown have created consumer demands for new goods and services. SMEs innovate these goods and services to satisfy consumer demand. Not only do SMEs promote economic growth in an economy contributing 6.2% GDP in 2018 (Figure 6), SMEs also provide job opportunities, contributing to 66% of employment in Malaysia (Figure 7). The continuous increase in contribution to the labour force highlights SMEs' importance in the country's economy for job creation. The creation of new jobs is essential as the MCO has

resulted in many non-remote jobs lost. Hence, the innovation of SME in producing new goods and services will replace those jobs that are currently lost.

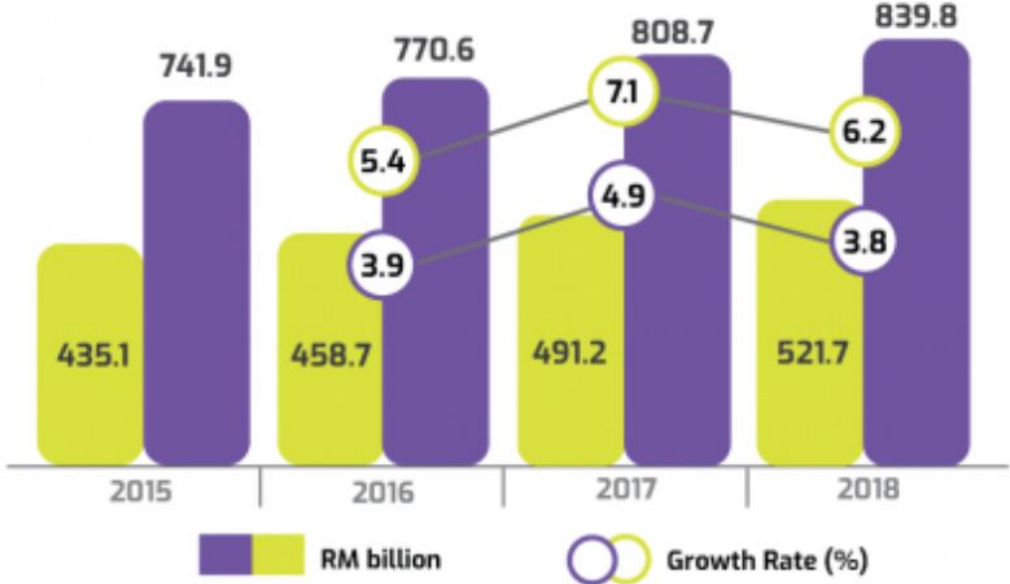


Figure 6: Malaysia SMEs GDP

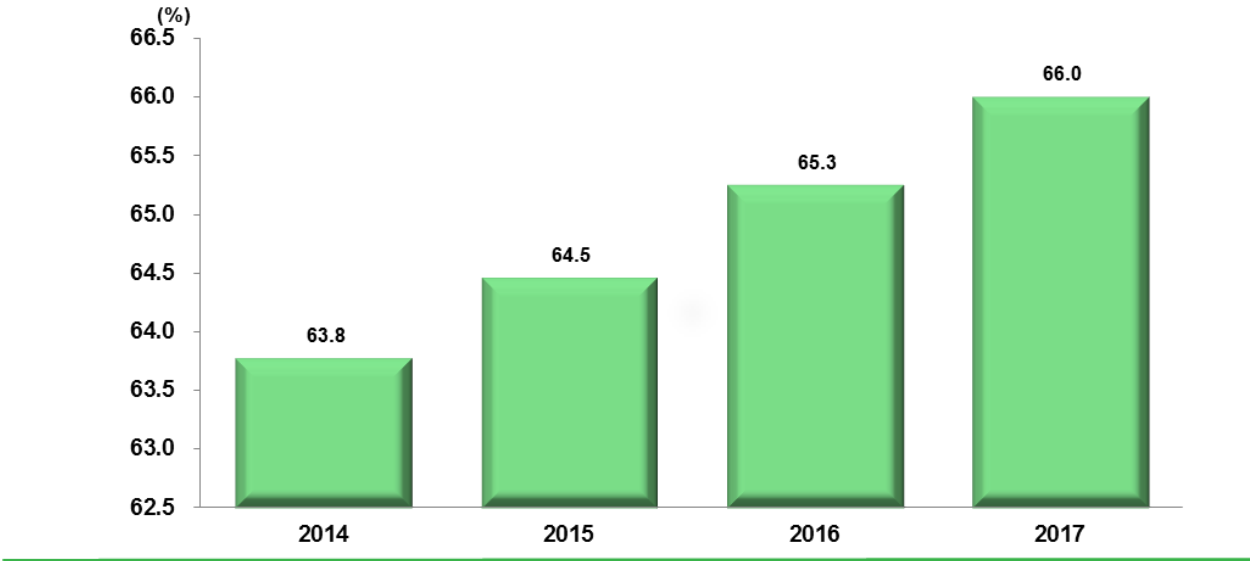


Figure 7: Contribution of SMEs Employment for 2014-2017

Consequently, grants may lead to dependency among firms. A rise in the number of new businesses that are not sustainable due to its low profitability and competitiveness may occur. Entrepreneurs are more likely to take risks by starting their businesses. Higher risk-taking by entrepreneurs are encouraged during this time to jumpstart the sluggish economy. Otherwise, Malaysia will not be able to escape its recession as a result of the pandemic.

To conclude, government grants are an effective way to prevent small businesses from closing as a result of zero revenue during the MCO period. Small businesses in Malaysia require immediate relief to offset their operating costs without cutting jobs and wages. SMEs are the key innovators and main engine for the recovery and growth of Malaysia's economy.

Wage Subsidies

Wage subsidies are financial aid given to employers to prevent low skilled workers from suffering a wage cut. With these jobs already generating a low income, a reduction in wages will put them at further risk of poverty. Furthermore, it is the low skilled workers who are unable to work remotely and thus at the highest risk of being unemployed. The government will regulate the wage subsidy to ensure that firms do not reduce the salary or let go of low-income earners.

Malaysia's unemployment rate has risen during the MCO. A recent survey conducted showed that people in agriculture, service, and industry are the most at risk for unemployment (Figure 8). It is worth pointing out that 89.2% of SMEs are in the service industry (Figure 9).

Hence, it is no surprise that SMEs would have to let go of their workers due to their lack of capital. Furthermore, for those who are still in employment, 94.8% have faced an income reduction (Figure 8).

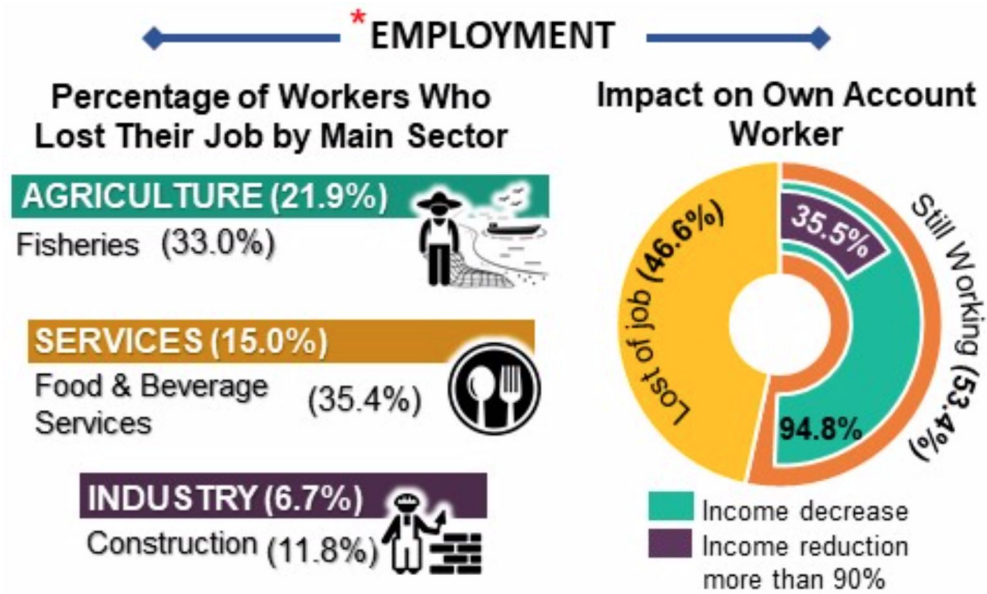


Figure 8

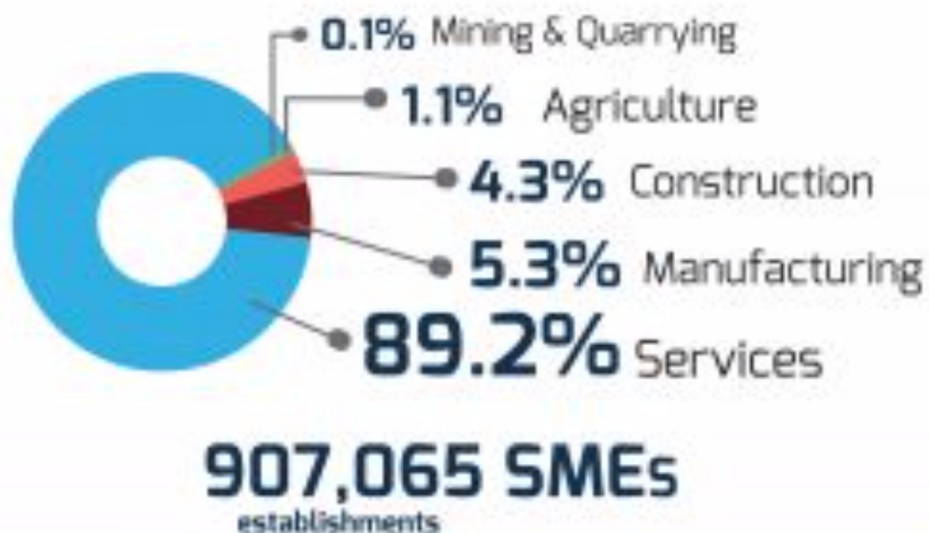


Figure 9

By providing wages subsidies, individuals will be less likely to alter their consumer expenditure. The goal of a wage subsidy is to ensure Malaysia can have a V-shaped recovery. There can be a rapid adjustment in consumer demand after the MCO. Currently, the total expenditure has halved as a result of the MCO (Figure 10). With the wage subsidy imposed, consumers would not need to alter their spending patterns once the MCO ends. Increasing the aggregate demand for goods and services in the economy will increase the demand for labour too. Therefore, the wage subsidy is like a double-edged sword, promoting economic growth.

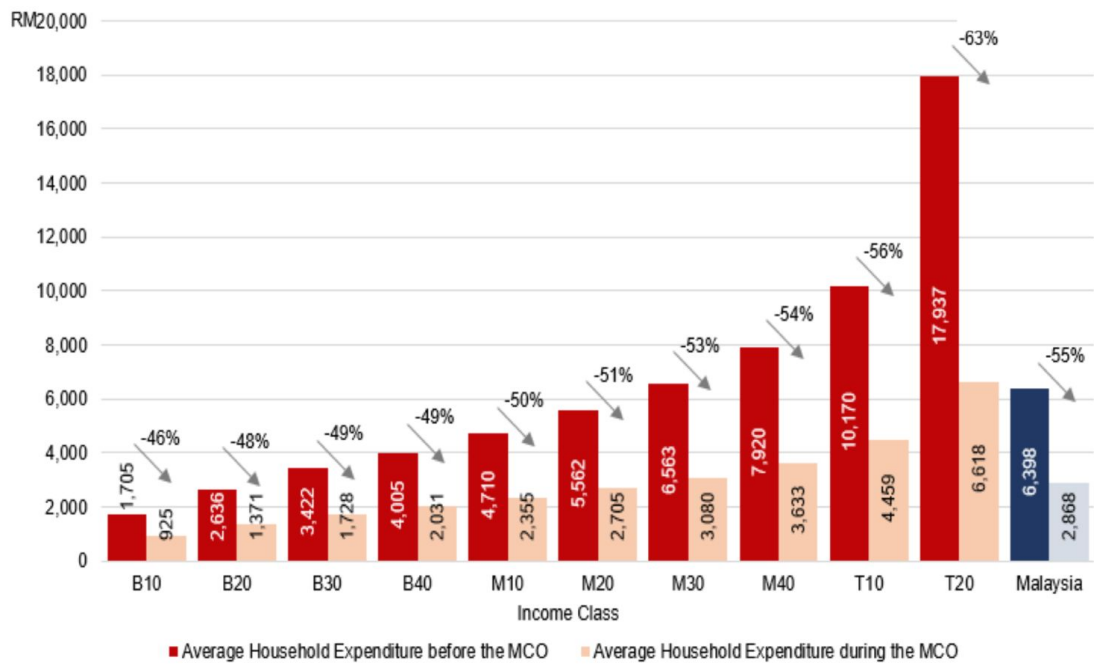


Figure 10: Average Expenditure (Include Financial Expenses) Before and During the MCO by Income Class

It is worth noting that employers in the informal sectors would not receive any grants nor wage subsidies. Furthermore, many workers in the informal sectors are low-income workers and hence will be severely affected. However, it is worth noting that informal sectors only have a

maximum of 10 employees. Thus, the social benefit is less than firms in the formal sectors because firms in the informal sector provide fewer job opportunities. Moreover, its workers are usually in short term employment. Besides, 38.7% of the informal sector workers work at home while another 35% do not have a fixed location (Figure 11). Hence, the high percentage of these working locations suggests that they are less at risk of being unable to work. These places of work enable them to work during the MCO. Thus, it may seem fair that they are not under social security because of its little positive externalities and that it does not pay taxes to the government.

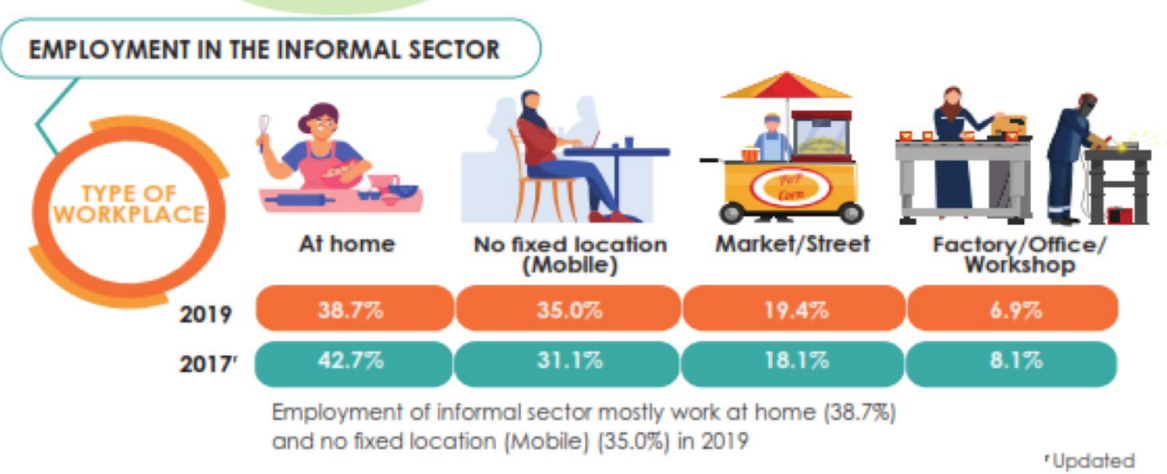


Figure 11

It may seem unfair to pay these workers even though they are not working during the MCO. However, these workers do not have the savings to support them in this sudden economic crisis. Furthermore, many of these job losses are a result of the MCO imposed by the

government. Hence, it is the government's responsibility to compensate for their inability to work.

Conditional Cash Transfers

Conditional cash transfer (CCT) programmes give money to households on the condition that they comply with predefined requirements. The CCT should be means-tested so that the most in need of financial assistance would be able to receive it.

CCT is both a short and long term solution. It not only immediately alleviates the financial burden of the poor, but the condition set can promote economic growth through investing in healthcare and education. The conditions I would include are getting tested for Covid-19 to prevent the spread of the virus. If there is a vaccine for Covid-19 in the future, I would also make it mandatory for all recipients of CCT to get vaccinated. A decrease in the number of Covid-19 cases will improve the stability of the economy so that it can attract foreign direct investment when the economy reopens. In the long run, Malaysia's economy will find it easier to go back to the global market.

CCT can provide immediate relief to the financially burdened and redistribute income tackling the issue of income inequality. There is a decrease in supply in goods and services produced because of the disruption in the global chain. Therefore, there is an urgent need to distribute goods and services more equitably to meet the basic needs of all Malaysian citizens. The disruption in China's supply chain will have a ripple through effect in the Malaysian

economy. 22% of Malaysia's imports are from China (Figure 12). As China contributes the most to Malaysia's imports, Malaysians will face a shortage of goods supplied. We cannot rely on the free market economy to allocate the basic needs of society because the most vulnerable and in need social group will inevitably be at a disadvantage.

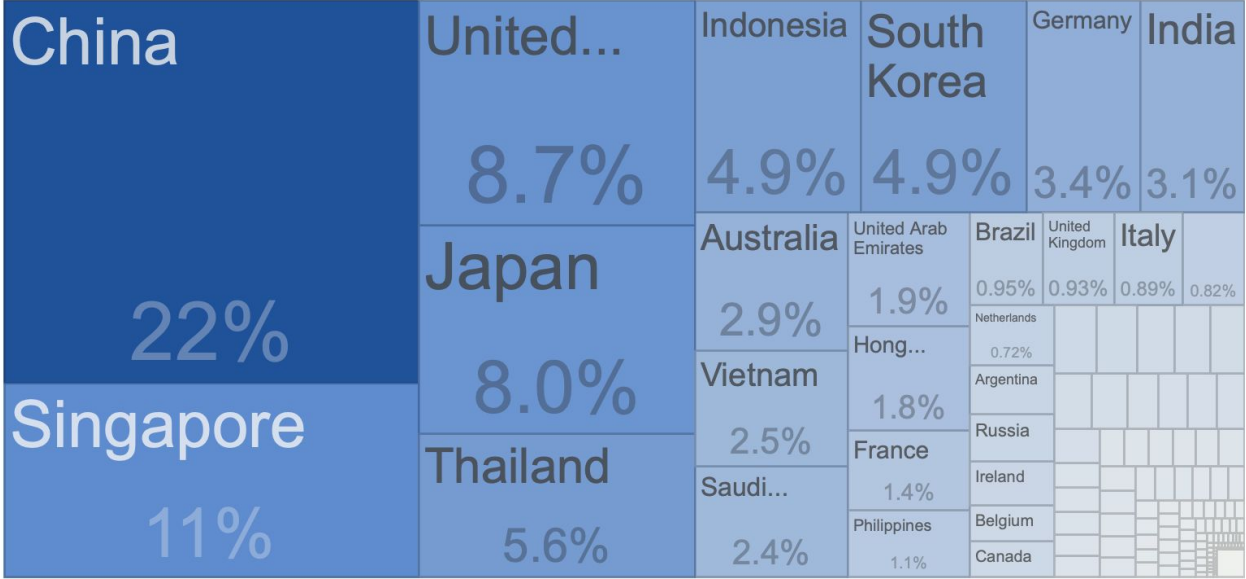


Figure 12: Malaysia Imports by Country

Figure 13 demonstrated that cash transfers are more effective in reducing income inequality than taxes. Cash transfers invest in human capital and thus can break the poverty cycle. Economist Hardford argued cash transfers preserve the efficiency of the free market economy because it gives people a choice to make decisions based on their needs.

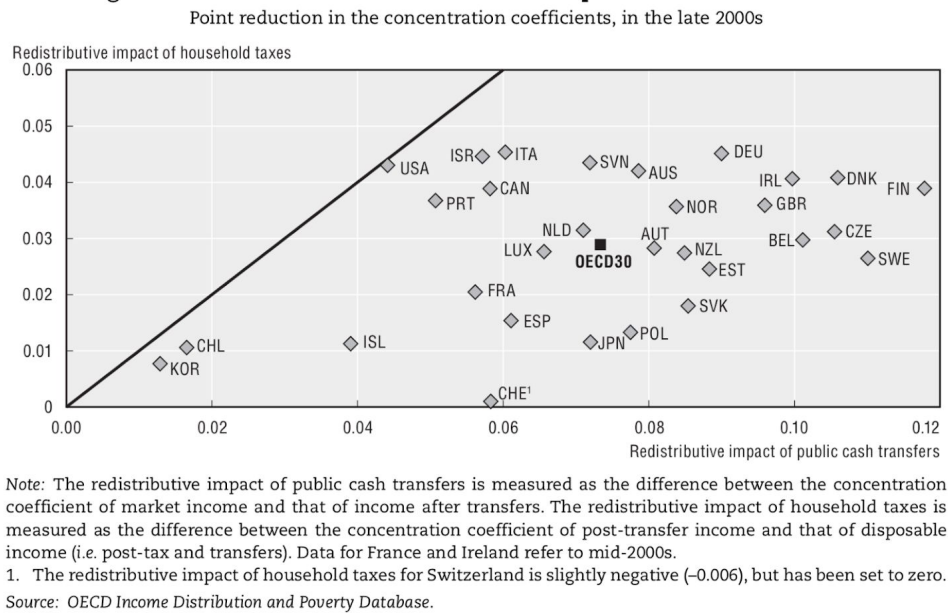


Figure 13: Cash transfers reduce income dispersion more than taxes

CCT schemes may cause welfare dependency. People will be dependent on the government for their income and may choose to work less in fear of losing their benefits. However, empirical evidence by the National Bureau of Economic Research found that Indonesia's cash-transfer scheme caused an improvement in health and education. The increase in labor-market participation and productivity will benefit the economy in the long term. The World Bank Research Observer showed that those who benefited from Conditional Cash Transfer Programs were working with no evidence indicating that this had reduced work participation.

As the finance minister, I shall distribute the money according to need and not politically motivated. The government must be transparent on the funds' distribution and evaluate the results regularly. The government should carry out a risk assessment across the entire cash transfer chain. When distributing cash transfers, objective criteria of need, and vulnerability of citizens should be used to make decisions. The government must be accountable by instilling democratic policies to avoid corruption. The government should be in position for a sufficient amount of time when voted in to prevent quick fixes.

Conclusion

Essentially, the above three policies will soften the economic impact of the MCO. However, it may not be sufficient to pull Malaysia out of its current recession. The effectiveness of the above policies requires monitoring to manage the unemployment and inflation rate at an acceptable level.

It is important to note that the above policies would increase government debt. However, It will prevent a solvency crisis among the businesses that will have a long term economic impact due to its lasting effect on employment. On the contrary, the increase in liquidity in the economy could result in inflation. In conclusion, Economist Gale has pointed out that government debt is good if it increases GDP. Providing cash flows to individuals and SMEs will lead to a growth in GDP due to an increase in economic activity.

(1954 Words)

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