KSI
STRATEGIC INSTITUTE FOR ASIA PACIFIC

Spurring Malaysia's Productivity and Growth After the COVID-19 Pandemic

Key Points and Recommendations from the Malaysian Economic Summit 2021

POLICY BRIEF

July 2021

Summary of Key Points & Recommendations

- The lack of productivity and growth has not entirely been caused by the pandemic but also the long-term effect which arises from the incapability to promote growth, high-end jobs, and quality of growth.
- Malaysia's tax structure needs to be reviewed.
- Move away from dividing what is essential and non-essential but look to implementing effective SOPs to allow crucial continuation of the economy.
- Employ a more substantial wage subsidy programme (WSP) to cover at least 30 percent of wage, or even as much as 70 percent.
- Have new strategies to sustain businesses beyond the pandemic, from micro enterprises to large businesses, and help them to return to profitable margins. There cannot be a broad-brush approach as each enterprise has issues of their own and require customised solutions
- 1.4 million MSMEs are yet to be registered with SMM and therefore are unable to access stimulus packages by the government. SSM should carry out a campaign to register these businesses to avoid such problems occurring in the future.
- A more realistic financing solution is needed to ensure business survival during the lockdown duration.
- Move to ratify RCEP and CPTPP as it will make Malaysia an attractive destination for reinvestment.
- Identify talents and skills for a post-pandemic economy. This may require a review of the whole education system.
- Foreign workers need to be rehoused to more spacious living conditions to stem spread of the virus. Testing and vaccination among migrant workers should be intensified.
- The lack of political stability had led to uncertainty in policies, subsequently undermining investor's confidence. Hesitation in policymaking and may led to abuse and corruption.
- Accelerate integrating digitalisation in firms to ensure Malaysia's role in the global value chain. Effectiveness of digital adoption campaigns need to be reviewed due to low rates of technological readiness.
- Malaysia lags behind in terms of design and development despite having technology as it still reliant on backward linkages. Backward linkages should be treated as essentials to create employment and enhance domestic manufacturing capacity
- The government has launched several initiatives, namely, to accelerate rates of vaccination via Retail Industry Vaccination Programme (RiVAC), the Malaysia Digital Economy Blueprint (MyDIGITAL) to boost the uptake of digital adoption, and formulated the National Investment Aspirations (NIA)

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YB Senator Datuk Lim Ban Hong, Deputy Minister of International Trade and Industry on behalf of YB Dato' Seri Mohamed Azmin Ali, Senior Minister and Minister of International Trade & Industry (MITI)

YB Dato' Sri Alexander Nanta Linggi, Minister of Domestic Trade and Consumer Affairs, Malaysia

Tan Sri Abdul Wahid Omar, Chairman, ECKL Advisory Council / Chairman, Bursa Malaysia Berhad

Datuk Seri Mohamed Iqbal Rawther, Chairman, The Economic Club of Kuala Lumpur (ECKL)

Prof Tan Sri Dato' Seri Dr Noor Azlan Ghazali, Professor of Economics, UKM-Graduate School of Business, Universiti Kebangsaan Malaysia (UKM) / Member of the Economic Action Council (EAC) and Executive Director of the Secretariat of EAC

Tan Sri Yong Poh Kon, Chairman of Royal Selangor International Sdn. Bhd / Member of the ECKL Advisory Council

Dr. Jomo Kwame Sundaramm, Senior Adviser, Khazanah Research Institute (KRI)

Prof. Dr. Evelyn S. Devadason, Professor, Faculty of Economics & Administration, University of Malaya

Andrew Khoo, Chairman & Chief Executive Officer, The MUI Group

Prof. Dato' Dr. Rashila Ramli, Head of Monitoring & Evaluation, All Party Parliamentary Group Malaysia (APPGM) / Principal Fellow Institute of Malaysian and International Studies (IKMAS), UKM

Datuk Muhamad Umar Swift, Chief Executive Officer, Bursa Malaysia Berhad

Datuk K. Yogeesvaran, Former Deputy Director-General (Macro), Economic Planning Unit, Prime Minister's Department

Dato' Henry Goh, Co-Founder & Group Chief Operating Officer, MACROKIOSK

Prof Dato' Rajah Rasiah, Distinguished Professor of Economics, Asia-Europe Institute, University of Malaya

Tan Sri Dato' Seri Dr. Sulaiman Mahbob, Board of Trustee, Yayasan MEA

Muhammad Azmi Zulkifli, Chief Executive Officer, InvestKL

Dzuleira Abu Bakar, Chief Executive Officer, Technology Park Malaysia (TPM)

Pn. Shareen Dato' Abdul Ghani, Co-Founder & CEO, Sorga Innovation Sdn Bhd

Datuk Hj Shamsuddin bin Bardan, Executive Director, Malaysian Employers Federation (MEF)

Wayne Lim Group Chief, Executive Officer / Group Chief Editor, Malaysia SME® Media Group (MSME)

LL Koong, Chairman, SMEs Committee, ACCCIM / Managing Partner, Reanda LLKG International

Dato' Azlin Ahmad Shaharbi, Chairman, National Federation of Women Entrepreneur

Associate Prof Dr Sohail Ahmed, Senior Lecturer, Faculty of Business Management (FBM), University Technology MARA (UiTM)

Co-Partners of the Malaysian Economic Summit 2021:

Co-organisers:

Report prepared by

KSI Strategic Institute for Asia Pacific

A-07-09, Plaza Mont' Kiara
2 Jalan Kiara, Mont Kiara
50480 Kuala Lumpur
Malaysia

Phone: +603 6419 9698
Email: info@kasi.asia

www.kasi.asia
www.facebook.com/ksinsti
www.linkedin.com/company/ksinstitute
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www.instagram.com/ksistrategicinstitute

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Report compiled by

Voon Zhen Yi, Research Director, KSI
Eashaan Puri, Youth Lead, KSI
Reshna Raem Ganesa, Youth Lead, KSI
Chew Gui Fang, Youth Lead, KSI
Khor Wan Wei, Youth Lead, KSI
Ng Yong Zheng, Youth Lead, KSI
Joey Chee, Youth Lead, KSI

Key Points and Recommendations

Review Lockdown Policies

With increased vaccination rates, broad-based lockdowns can be rescinded. Instead, targeted Enhanced Movement Control Orders (EMCOs) can be applied in infected areas.

There needs to be a move away from viewing what is essential and non-essential but look to implementing effective SOPs to allow crucial continuation of the economy.
The shutting down of businesses and sectors can lead to major repercussions down the supply chain. There are also discrepancies on what is considered essential and non-essential.

There must not be a binary view between life and livelihoods as they are one and the same. Policies cannot be determined from one point of view as doing so, people will always go for life.
Turning an economy and its enterprises "on and off" is disastrous in an open-ended situation as many businesses struggle to adjust their operations.

Review Business Relief Programmes

The pain of lockdown should be shared and cannot be borne exclusively by employers and businesses. There needs to be a more aggressive wage subsidy programme (WSP). Other countries provide 30-70 percent of wage subsidies.

Malaysia cannot depend on Keynesian policies as the government cannot become the "employers" as a last resort.

At the same time, greater assistance is required in order to keep MSMEs afloat until the reopening up of the economy. Relief measures need to be undertaken with precision with customised solutions for each MSME.

Ratify Free Trade Agreements

Malaysian must swiftly ratify Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as it will make Malaysia an attractive destination for reinvestment. Malaysia's participation in the RCEP can potentially tap into 30 percent of the world's population as well as 30 percent of global GDP worth USD$26.2 trillion

The primary objective of the CPTPP not about boosting trade but rather the strengthening of intellectual property (IP) rights and striving investor's state dispute settlement. At the same time, other experts argue that negotiations have addressed concerns raised regarding ISDS and pharmaceuticals. Therefore, it remains uncertain if the CPTPP will make the situation better or worse off for the country. This needs to be determined.

Review Tax Structure

The current tax structure should be reviewed to afford the recovery plan in line with the revenue framework.

Without broad-based taxation such as the government service tax (GST), government resources are limited with a fiscal deficit of 6.2 percent of GDP in 2020 which is expected to widen further to 6.8 percent in 2021 compared to the earlier official forecast of 6.0 percent

Human Capital Development and Management

It is important to recognise that Malaysia's economic downturn in terms of productivity and growth is not entirely caused by the pandemic but also the long-term effect which arises from the incapability to promote growth, high-end jobs, and quality of growth.

Failure of utilising talent hampers growth and productivity. The pandemic has amplified the seriousness of talent pool issues, such as the ability to digitalise, embed technology and automation, and continued reliance on foreign workers. Talents and skills for a post-pandemic economy need to be identified. This requires a review of the education system from pre-school to universities.

Malaysia relies on labour-intensive industry which is still essentially low-skilled. The way forward is through automation and digitalisation to usher a new set of industries that requires upskilling of technology and labour force.

Solutions need to be introduced to arrest rising youth unemployment through job-seekers programmes by employers. However, these jobs are mostly short-term contracts that do not provide job security. At the same time, available opportunities need to be taken and be seen as stepping stones for career development.

The workplace and nature of work is being transformed with flexible work and different platforms have allowed people to foster innovation. However, working online also comes with pressure, which is why monitoring wellbeing is crucial, ensuring workers have the right skills and resilience.

There needs to be a focus on talent capital, where Malaysia needs to position itself to have the best access to attain transformational change. However, there is not yet a concerted effort to find these talents to spur economic growth. For example, in the agricultural sector, the best talents have not been identified. There needs to be a more concerted effort to find the right talent pillars that stir the right identified economic drivers.

Restructure the Economy

Restructuring the economy will catalyse growth by first ensuring the fiscal stability of the public sector so that the private sector can drive the growth process.

Malaysia needs to build resilient domestic trade and can no longer be a country wholly reliant on agricultural exports and affordable manufacturing as this would put the country at the mercy of the ebbs and flows of the global economy

The change of economic drivers is dependent on the moves between talent and demand. In turn, talent development and management are defined by the economic drivers in the country. If the country has a certain demand for some skill set, the structure will naturally be ready to meet that gap.

An improvement in the financial stability and performance of MSMEs will require banks to act in tandem to expansionary fiscal policies, offering lowering interest rates on loans with a longer time frame

Malaysia has to be bold to implement necessary fiscal policies and not be held hostage by credit rating agencies.

Limitations Aiding the Informal Sector

An estimated 1.4 million MSMEs are yet to be registered with SMM and therefore are unable to access stimulus packages by the government.

SSM can carry out a campaign to register these businesses to avoid such problems occurring in the future

Effective Financing

There needs to be a more genuine way to provide businesses with financing to ensure their survival during the lockdown duration. However, given the current economic environment and the comparatively risky nature of MSMEs, it is almost impossible for micro-enterprises to obtain commercial loans.

It is vital that the benefits of soft loans and grants are accessible. By reducing the documentation process when applying for these loans, unregistered MSMEs and micro enterprises, in particular, will be able to receive the cash flow that they need.

Foreign Labour

Greater effort needs to be taken to rehouse migrant workers who live in cramp living conditions to stem the spread of the virus and for more testing.

Undocumented workers are integral to business and should also be vaccinated.

Despite concerns towards unskilled foreign labour and hopes to reduce Malaysia's reliance on them, it will be no simple task to encourage local workers to take over jobs held by foreign workers.

Political Stability

The lack of political stability leads to uncertainty in policies, subsequently undermining investor's confidence. Resolving the root cause within the institution and government should be the primary agenda for social reforms. Capacity building in the civil service should be grounded in transparency and efficiency. The lack of political clarity has also led to hesitation in policymaking.

Need for Quality Data

Indicators to measure productivity on a macro scale are too broad, preventing researchers from analysing problems accurately.

To achieve a sustainable economy, the recovery process requires a targeted solution which encompasses a degree of certainty and produces high data quality.

Digitalisation

The process of integrating digitalisation in firms need to be accelerated to ensure Malaysia's role in the global value chain. Effectiveness of digital adoption campaigns in question due to low rates of technological readiness.

Investments should shift towards collaboration with universities and SMEs focusing on R&D that would allow developments in the value chain and facilitating involvement in IR4.0. This has to be supported by technological infrastructure and the existing ecosystem available in Malaysia.

Gaps need to be identified to transform Malaysia into a technology producer instead of relying on other countries.

An entire economic ecosystem is needed to influence technology and innovation. This requires multiple stakeholders and the right human capital.

The technology sector should look into innovative incentives to appeal to new investors. Corporations affected by the trade war can turn to Malaysia as a hub to penetrate the SEA market.

Gaps need to be identified to transform Malaysia into a technology producer instead of relying on other countries.

However, some businesses, such as those in tourism, will not be able to adapt even with digitisation and will be unable to plan ahead.

Sustainability

Post-pandemic inter-industry collaboration must not only focus on fiscal incentives, but also on non-fiscal incentives such as ESG (environment, social, and governance) and the ease of doing business. A sustainable, resilient, and innovative economic recovery plan should involve multi-stakeholders from policymakers and industry players to current and incoming job seekers. There are opportunities to be innovative with policy-making and programmes within this context, considering businesses have taken an unconventional turn.

Recovery should be based on the ESG model and many countries have incorporated it in their policies especially during the pandemic. This is an opportunity for the government and society to make a difference by using this model, particularly in restructuring the country's tax structure.

The interpretation of inclusive economic development should be indicator-focused and participatory. Decisions that do not involve people in the supply chain risk a detached understanding of reality, worsening the vicious cycle of poverty and increasing the risk of intergenerational poverty.

Shared prosperity and inclusive recovery require secure social safety nets that protect the B40 community, which is the most susceptible to the effects of the pandemic. Currently, 40 percent of the labour force is not covered in any form of social security. The threshold of living standards should be raised to serve the nuanced needs of different poverty groups.

Strengthening the Supply Chain

Disruptions to supply chains due to the closure of non-essential services and the delay of raw material imports have put production on hold.

Sectors, such as the electronics sector, are still reliant on backward linkages as forward linkages are produced to be used in other markets. Shifting towards forward linkages may not necessarily imply that Malaysia will be resilient to supply chain disruptions. This demonstrates that Malaysia lags behind in terms of design and development despite having technology in several electronic segments.

Backward linkages should be treated as essentials to create employment and enhance domestic manufacturing capacity. Otherwise, the differentiation and the necessary division of labours will be destroyed.

Other matters

Accelerate Vaccination Programme. Vaccination rates need to be accelerated to put Malaysia in a position to reopen its economy

Be Wary of Fluctuating Prices of Raw Materials. Supply-chain disruptions and bottlenecks around the world have driven material prices higher in recent months.

Revitalise Tourism. To spur tourism which contributes a significant portion to GDP, there needs to be more travel bubbles. Malaysian should consider following the Phuket model, which opened up to 26 countries certified green.
Address barriers to business. Companies continue to face multiple challenges that impede progress due to bureaucratic processes, regulations, cost of technology, the lack of investment.

PROCEEDINGS REPORT

KSI Strategic Institute for Asia Pacific

Malaysian Economic Summit 2021

Spurring Malaysia's Productivity and Growth After the COVID-19 Pandemic

13th July 2021, Virtual Conference via Zoom

WELCOME ADDRESS

Tan Sri Abdul Wahid Omar, Chairman, ECKL Advisory Council / Chairman, Bursa Malaysia Berhad

With increased vaccination rates, broad-based lockdowns can be done away with and instead only more targeted EMCOs can be applied in infected areas. After contracting by 3.3 percent in 2020, the global GDP is expected to rebound to 5.8 percent in 2021 based on OECD's global projection for global economic growth. However, the global income (as measured by GDP at current prices) will still be roughly USD1 trillion below its pre-crisis trend by the end of 2022 as emerging countries struggle to keep up. Supply-chain disruptions and bottlenecks around the world have driven material prices higher in recent months. OECD estimates that inflation will increase to an average of 2.7 percent in 2021 before cooling to 2.4 percent in 2022 as government support programmes are relaxed.

Malaysia's GDP marginally contracted by 0.5 percent in the first quarter of 2021, continuing its recovery from a contraction of 3.4 percent in the preceding quarter. The improvement in economic performance in Q1-2021 was due to (i) expansion in the manufacturing sector and the rebound of agriculture sector, (ii) strong growth in exports, (iii) the reopening of more economic activities during the Movement Control Order (MCO) 2.0 which is less stringent than the MCO imposed last year, and (iv) the various stimulus economic packages by the government. However, MCO 3.0 and subsequent Full MCO (FMCO) have stifled economic recovery. After reviewing the current situation, the World Bank has lowered its GDP growth outlook for Malaysia for the second time to 4.5 percent in 2021, down from the 6 percent growth forecast in March 2021.

Without the broad-based tax such as government service tax (GST), government resources are limited with a fiscal deficit of 6.2 percent of GDP in 2020 and expected to widen further to 6.8 percent in 2021 compared to the earlier official forecast of 6.0 percent. Malaysia's current account balance of payments for the first quarter of 2021 remains healthy at MYR12.3 billion or 3.3 percent of GDP, with BNM international reserves of USD111 billion sufficient to finance 8.2 months of retained imports and the banking system remains well capitalised with core equity tier one ratio of 14.8 percent, which is sufficient to buffer against unexpected risks

OPENING KEYNOTE ADDRESS

YB Senator Datuk Lim Ban Hong, Deputy Minister of International Trade and Industry on behalf of YB Dato' Seri Mohamed Azmin Ali, Senior Minister and Minister of International Trade & Industry (MITI)

Despite daunting challenges, the Malaysian economy is reinvigorated and is on the path to recovery with projections to chart better growth in 2021. Due to an uptake in global demand, increased public and private sector expenditure and the continuation of supporting policies, the prospect for an economic upswing is bright. This will be reflected in the recovery of labour market conditions and higher production in manufacturing, particularly in E&E and the oil and gas facilities.

The enhancement of productivity and economic growth will be further underpinned by an improvement in the global technology upcycle and policy support from various fiscal and monetary measures including the additional economic stimulus packages. This positive outlook is reinforced by the most recent forecast by the World Bank, which projected the Malaysian economy to grow by 4.5 percent in 2021, albeit revised down from Bank Negara projections.

Malaysia's economic fundamentals remain resilient underpinned by its broad-based economic structure which lent strength to its competitiveness. In 2020, Malaysia was ranked 12th in the World Bank's Ease of Doing Business Ranking and 27th in the IMD World Competitiveness Ranking. It is ranked 4th among 17 economies as a manufacturing hub. This is significant because Malaysia's services and manufacturing sectors account for 58 percent and 23 percent of the economy respectively, while the commodity sector accounting for 14 percent. With Malaysia's participation in the Regional Comprehensive Economic Partnership (RCEP), it can potentially tap into 30 percent of the world's population as well as 30 percent of global GDP worth USD26.2 trillion. It can also look forward to the reduction in tariffs and bureaucratic red tape as well as the unification of rules of origins which will facilitate international trade in greater coherence.

Malaysia's trade performance continued its momentum by maintaining its upward trend in May 2021 with trade expanding by 48.7 percent to RM170.88 billion compared to May 2020. Exports surged by 47.3 percent to RM92.31 billion, the ninth consecutive month of year-on-year) expansion since September 2020. Imports registered an increase of 50.3 percent to RM78.57 billion and trade surplus expanded by 32.3 percent to RM13.74 billion. Trade, exports, and imports recorded the highest monthly value for the month of May and registered double-digit growth for four consecutive months.

Malaysia has formulated five National Investment Aspirations (NIA) to serve as a framework for reinvigorating the national investment landscape as well as enhancing long-term national competitiveness. There are plans to increase economic complexity by ensuring that Malaysia's economy is increasingly built on skills-based industries, with significant production capabilities needed to create high-value products and services. Higher-value job opportunities will be created to ensure Malaysians are equipped with sufficient skills required for the growing future economy.

Domestic linkages will be extended through integration with the regional economy and empowering more local businesses to participate in the global value chain. Investments interested to expand across the ASEAN region are sought. New and existing clusters will be developed to play a fundamental role in driving economic spill-over which is key to delivering holistic ecosystem benefit. Inclusivity will be improved by championing equitable growth for the nation, ensuring equal opportunities and adequate safeguards for the people. This aspiration seeks to unlock Malaysia's full potential, fundamentally lowering barriers to access, and improve economic integration.

Progress from the NIA is already being observed with RM80.6 billion worth of approved investments in the manufacturing, services, and primary sectors for the Q1 of 2021. This translates into a surge of 95.6 percent in approved investments compared to the same period last year.

SESSION 1: WILL PRODUCTIVITY AND GROWTH RETURN AFTER THE COVID-19 PANDEMIC? HOW TO STRENGTHEN THE COMPETITIVENESS OF THE MALAYSIAN ECONOMY IN THE NEW NORMAL?

Moderator:

Datuk Seri Mohamed Iqbal Rawther, Chairman, The Economic Club of Kuala Lumpur (ECKL)

Malaysia needs to consider actions in the post-pandemic environment and examine the ramifications. Malaysia must consider of it will undertake its own unique approach or one that is similar to other countries. There is also the question of whether or not Malaysia's economy will remain competitive under current plans.

Panellists:

Prof Tan Sri Dato' Seri Dr Noor Azlan Ghazali, Professor of Economics, UKM-Graduate School of Business, Universiti Kebangsaan Malaysia (UKM) / Member of the Economic Action Council (EAC) and Executive Director of the Secretariat of EAC

It is important to recognise that Malaysia's economic downturn in terms of productivity and growth is not entirely caused by the pandemic but also the long-term effect which arises from the incapability to promote growth, high-end jobs, and quality of growth. Thus, the benefit of growth must disperse to various categories of income and level of regional development. Based on the productivity reports released by Malaysia Productivity Corporation, the objective of achieving quality growth is fading. The quality of growth needs to be considered from the point of complexity and sophistication of the economic structure and assurance of people benefiting from growth.

Indicators to measure productivity on a macro scale are too broad, preventing researchers from analysing problems accurately. Failure of utilising talent hampers growth and productivity. Such talents can be produced and retained. The pandemic has amplified the seriousness of talent pool issues, such as the ability to digitalise, embed technology and automation, and continued reliance on foreign workers. Talents and skills for a post-pandemic economy need to be identified. Thus, the education system from pre-school level to universities level needs to be reviewed.

Tan Sri Yong Poh Kon, Chairman of Royal Selangor International Sdn. Bhd / Member of the ECKL Advisory Council

There must not be a binary view between life and livelihoods as they are one and the same. Policies cannot be determined from one point of view as doing so, people will always go for life (in relation to how essential services are determined). Shutting down of factories can also lead to major repercussions down the supply chain. There is a discrepancy on what is considered essential and non-essential, ie. plastic/tin was not considered essential, but one cannot have food, an essential item, without packaging. Hence, there needs to be a move away from viewing what is essential and non-essential but look to implementing effective SOPs to allow crucial continuation of the economy.

The pain of lockdown should be shared and cannot be borne exclusively by employers and businesses. There needs to be a more aggressive wage subsidy programme (WSP). Other countries provide 30-70 percent of wage subsidies. To spur tourism which contributes a significant portion to GDP, there needs to be more travel bubbles. Malaysian should consider following the Phuket model, which opened up to 26 countries certified green.

Malaysian must quickly ratify RCEP and CPTPP. 46 business chambers met with the ASEAN bank and have urged for agreements to be signed as negotiations have addressed concerns raised regarding ISDS and pharmaceuticals. Once Malaysia ratifies the agreement, it will make Malaysia an attractive destination for reinvestment from other participating countries.

Greater effort needs to be taken to rehouse migrant workers who live in cramp living conditions to stem the spread of the virus and for more testing.

Dr. Jomo Kwame Sundaramm Senior Adviser, Khazanah Research Institute (KRI)

Malaysia cannot depend on Keynesian policies as the government cannot become the “employers” as a last resort. Society needs to be involved in restoring the economy through acts of volunteerism and welfare aid provision. In contrast, turning an economy and its enterprises “on and off” is disastrous in an open-ended situation as many businesses struggle to adjust their operations. The lack of political clarity has led to hesitation in policymaking. Giving more money to this administration could be a license for disaster, as it may led to increased corruption and abuse.

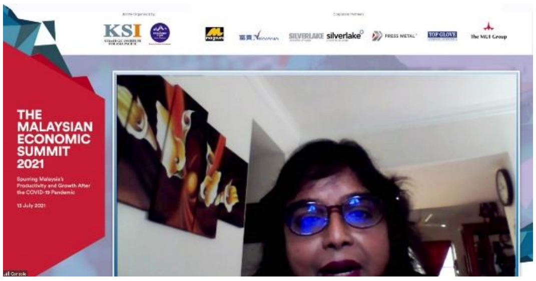
Counter cyclical policies have been the main factor for economic recovery in the West. Therefore, Malaysia has to be bold to implement necessary fiscal policies and not be held hostage by credit rating agencies. The view that liberalisation as a means for economic recovery came to an end with the Global Financial Crisis in 2008 when most major nations responded with more restrictive trade measures.

While many have called for the ratification of free trade agreements like the CPTPP, it should be recognised that the primary objective of the agreement was not about boosting trade but rather the strengthening of intellectual property (IP) rights and striving investor’s state dispute settlement. Thus, as attractive it can be, Malaysia must determine if FTAs like this would truly help to improve Malaysia’s situation or make it worse.

Prof. Dr. Evelyn S. Devadason, Professor, Faculty of Economics & Administration, University of Malaya

The key to maintaining Malaysia's trade competitiveness is to focus on integrating digitalisation in firms, enhancing sustainable trade, and designing a framework for social coordination in the workplace. This will ensure Malaysia's role in the global value chain.

Based on the annual growth rate of Malaysia's "backward participation", the forward linkages have exceeded marginally backward linkages. Progress made in the electronics industry has been focused on specific segments. Overall, the sector is still reliant on backward linkages. In the case of forward linkages where parts and components are produced to be used in other markets, a shift towards forward linkages may not imply that Malaysia will be resilient to supply chain disruptions. This demonstrates that Malaysia lags behind in terms of design and development despite having technology in several electronic segments.



On the sectoral level, productivity and innovation should be diffused across board. Despite the various initiatives, there is still low digital adoption and low technological readiness, indicating that the impact was insignificant. In fact, only 32 percent of MNCs are using high technology in manufacturing.

Malaysia received considerably low points of 52.7 in the Sustainability Trade Index 2020 due to its inadequacies in environmental and social support. To accommodate sustainability, competitive advantage is redefined as investing in a sustainable advantage as many countries are binding market access to sustainable development objectives. Thus, despite the robustness of sustainability policy stated in trade agreements like RCEP, it has little impact because standards have already been established along the supply chain.

Andrew Khoo, Chairman & Chief Executive Officer, The MUI Group

Emerging sectors like technology should look into innovative incentives to appeal to new investors. Potential investors could be corporations that are affected by the trade war that can turn to Malaysia as a hub to penetrate the SEA market.

SESSION 2: ECONOMIC RECOVERY: TOWARD A GREEN, RESILIENT AND INCLUSIVE FUTURE

Moderator:

Prof. Dato' Dr. Rashila Ramli, Head of Monitoring & Evaluation, All Party Parliamentary Group Malaysia (APPGM) / Principal Fellow Institute of Malaysian and International Studies (IKMAS), UKM

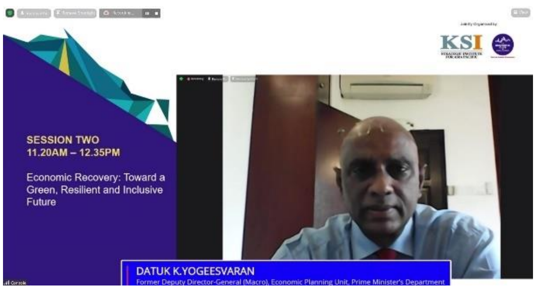
A sustainable, resilient, and innovative economic recovery plan should involve multi-stakeholders from policymakers and industry players to current and incoming job seekers. There are opportunities to be innovative with policy-making and programmes within this context, considering businesses have taken an unconventional turn.

Panellists:

Datuk Muhamad Umar Swift, Chief Executive Officer, Bursa Malaysia Berhad

Malaysia needs a clear line of sight to recovery and this is an opportunity to adopt robust sustainable measures and prioritise the environment. It needs to focus on rebuilding accurately by keeping businesses open and returning to profitability by encouraging companies to grow. To achieve a sustainable economy, the recovery process requires a targeted solution, encompasses a degree of certainty and produces high data quality. Malaysia is a trading nation and the world is placing emphasis on the environment. There need to be ways to make SMEs agile to respond to this effectively. Unity is essential to achieve a successful sustainable recovery. Undocumented workers are integral to business and should be vaccinated.

Datuk K. Yogeesvaran, Former Deputy Director-General (Macro), Economic Planning Unit, Prime Minister's Department



Restructuring the economy will catalyse growth by first ensuring the fiscal stability of the public sector so that the private sector can drive the growth process. The current tax structure should be reviewed to afford the recovery plan in line with the revenue framework. Shared prosperity and inclusive recovery require secure social safety nets that protect the B40 community, which is the most susceptible to the effects of the pandemic. Currently, 40 percent of the labour force is not covered in any form of social security. The threshold of living standards should be raised to serve the nuanced needs of different poverty groups. The lack of political stability leads to uncertainty in policies, subsequently undermining investor's confidence. Resolving the root cause within the institution and government should be the primary agenda for social reforms. Capacity building in the civil service should be grounded in transparency and efficiency.

Dato' Henry Goh, Co-Founder & Group Chief Operating Officer, MACROKIOSK

Inequality during this period has widened tremendously and should be an area of concern during the recovery phase. Recovery should be based on the ESG Model and many countries have incorporated it in their policies especially during the pandemic. This is an opportunity for the government and society to make a difference by using this model, particularly in restructuring the country's tax structure. Recovery should demonstrate support to all companies, not just the ones that are suffering, but also invest in companies that are incorporating technology and innovation to propel IR4.0. Employees are moving to modern companies and traditional ones need to adopt innovation and new technology to fully embrace digitalisation. Technology is a vital driving force and will assist the country's efforts in recovery

Prof Dato' Rajah Rasiah, Distinguished Professor of Economics, Asia-Europe Institute, University of Malaya

The interpretation of inclusive economic development should be indicator-focused and participatory. Decisions that do not involve people in the supply chain risk a detached understanding of reality, worsening the vicious cycle of poverty and increasing the risk of intergenerational poverty. Backward linkages should be treated as essentials to create employment and enhance domestic manufacturing capacity. Otherwise, the differentiation and the necessary division of labours will be destroyed.

SPECIAL ADDRESS

YB Dato' Sri Alexander Nanta Linggi, Minister of Domestic Trade and Consumer Affairs, Malaysia

Strengthening the Domestic Economy, Building Resilience

The government is pushing for an expedited rate of vaccinations in the construction, transportation, and manufacturing sectors. On 1st July, the Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) during an engagement session with the Federation of Malaysian Business Associations (FMBA) found that 20 percent of their workforce lost their jobs before the EMCO and 20 percent of shops were closed.

KPDNHEP's Retail Industry Vaccination Programme (RiVAC) has been approved by the COVID-19 Immunisation Task Force (CITF) and its first industrial vaccination centre operating at Cititel Mid Valley City, Kuala Lumpur starting on 26 July. RiVAC targets the frontliners of the economy such as cashiers, sales personnel, restaurant crew, petrol station workers, supermarket staff, departmental store employees, barbers and beauticians, shopping complex management staff and distribution chain workers. To date, there are 1,823 companies from all over Malaysia that have registered with the ministry for the RiVAC. KPDNHEP targets at least 500,000 frontline workers in the retail economic sector nationwide to join RiVAC as soon as possible

Malaysia needs to build resilient domestic trade and can no longer be a country wholly reliant on agricultural exports and affordable manufacturing as this would put the country at the mercy of the ebbs and flows of the global economy. The government has launched the Malaysia Digital Economy Blueprint (MyDIGITAL) to boost the uptake of digital adoption. Under the MyDIGITAL, KPDNHEP launched the Retail Digitalisation Initiative (REDI) in April 2021 to encourage e-wallet adoption in the retail sector with a focus on assisting smaller traders, particularly in wet markets, agro-markets, night markets, and community markets.

SESSION 3: CHANGING DRIVERS OF ECONOMIC GROWTH - THE CASE FOR MALAYSIA

Moderator:

Tan Sri Dato' Seri Dr. Sulaiman Mahbob Board of Trustee, Yayasan MEA

There are various potential new engines of growth primarily from digitalisation followed by better talent management. Malaysia faces long-term economic effects in labour force productivity when compared with Singapore and South Korea. It has relied on a labour-intensive industry which is still essentially low-skilled. The way forward is through automation and digitalisation to usher a new set of industries that requires upskilling of technology and labour force.

Panellist:

Muhammad Azmi Zulkifli, Chief Executive Officer, InvestKL

COVID-19 has caused a shift to high-tech and high-value investments. This demands deeper talents for regional activities that also involve a continued urgency towards investment in the digital space. Investments should shift towards collaboration with universities and SMEs focusing on R&D that would allow developments in the value chain and facilitating involvement in IR4.0. This is possible considering Malaysia's mature work culture and positive momentum of companies setting up from the US, Europe, and Asia that are backed by technological infrastructure and the existing ecosystem available in Malaysia. Post-pandemic inter-industry collaboration may not necessarily focus on fiscal incentives, but also on non-fiscal incentives such as Environmental and Social Governance (ESG) and the ease of doing business. Digitalisation would close a gap for all these activities.

Dzuleira Abu Bakar, Chief Executive Officer, Technology Park Malaysia (TPM)

The new norm is enabled by technology and digitalisation which sets the tone for economic recovery. Reopening the economy is the obvious way forward but Malaysia must attempt to comprehend the levers of the economy (i.e. significance of the role of talent) to drive economic growth. Need to identify gaps to transform Malaysia into a technology producer instead of relying on other countries. Technology is an essential tool to provide access to infrastructure and it functions as a bridge that takes a product to market. Trade enablement is about connectivity as seen during the pandemic. Essential to incentivise industries like agriculture and manufacturing with technology. Multiple challenges seen and unseen for companies to progress (i.e. regulations, laws, and cost of tech, lack of investment etc.) An entire economic ecosystem needs to be influenced by technology and innovation with the involvement of multiple stakeholders and the right human capital.

Shareen Dato' Abdul Ghani, Co-Founder & CEO, Sorga Innovation Sdn Bhd

The change of economic drivers is dependent on the moves between talent and demand. In turn, talent development and management is defined by the economic drivers in the country. If the country has a certain demand for some skill set, the structure will naturally be ready to meet that gap. The workplace and nature of work is being transformed with flexible work and different platforms have allowed people to foster innovation. However, working online also comes with pressure, which is why monitoring wellbeing is crucial, ensuring workers have the right skills and resilience. There needs to be a focus on talent capital, where Malaysia needs to position itself to have the best access to attain transformational change. However, there is not yet a concerted effort to find these talents to spur economic growth. For example, in the agricultural sector, the best talents have not been identified. There needs to be a more concerted effort to find the right talent pillars that stir the right identified economic drivers.

Datuk Hj Shamsuddin bin Bardan, Executive Director, Malaysian Employers Federation (MEF)

Despite concerns towards unskilled foreign labour and hopes to reduce Malaysia's reliance on them, it will be no simple task to encourage local workers to take over jobs held by foreign workers. Unemployment currently stands at 4.4 percent. Solutions need to be introduced to arrest rising youth unemployment through job-seekers programmes by employers. However, these jobs are mostly short-term contracts that do not provide job security. At the same time, it is best to grab available opportunities as these are stepping stones for career development.

SESSION 4: MSMES - CUSTOMISING RESTRUCTURING SOLUTIONS FOR SMALLER FIRMS

<u>Moderator:</u>

Wayne Lim Group Chief Executive Officer / Group Chief Editor, Malaysia SME® Media Group (MSME)

MSMEs form close to 99 percent of businesses in Malaysia and have felt the brunt of the pandemic as the country moves in and out of lockdowns as well as SOP restrictions. An estimated 1.4 million MSMEs are yet to be registered with SMM and therefore are unable to access stimulus packages by the government. With disruptions to the economy such as the halt in the East Coast tourism belt, MSMEs are suffering from the domino effect that results from the insidious reach of Covid-19.

<u>Panellist:</u>

LL Koong, Chairman, SMEs Committee, ACCCIM / Managing Partner, Reanda LLKG International

The ACCCIM Malaysia's Business and Economic Conditions survey found that the top concern of 74.4 percent of respondents was their cost, credit, and cash flow. Despite the 2020 government stimulus packages which included a moratorium, WSP, soft loans, and grants, greater assistance is required in order to keep MSMEs afloat. The 2021 RM225 billion stimulus package should be paired with a short-to-medium term budget as well as policies that encourage transformational changes within MSMEs. This includes adapting to the "new normal" by adopting new technology, a re-evaluation of products and services to identify which generates the greatest cash flow, and productivity analysis on their production processes.

It is also vital that the benefits of soft loans and grants are accessible. By reducing the documentation process when applying for these loans, unregistered MSMEs and micro enterprises, in particular, will be able to receive the cash flow that they need, efficiently. Additionally, greater clarity to SOP updates and the introduction of a consultative council of business owners and experts will serve to increase business confidence and certainty.

Dato' Azlin Ahmad Shaharbi, Chairman, National Federation of Women Entrepreneur

580,000 MSMEs or 49 percent of MSMEs will be closed down if the lockdown is extended, with most of those affected will be micro-enterprises. One size does not fit all as MSME all have their own problems, despite being faced with the same pandemic. Solutions needs to be customised for each MSME. 30 percent of micros have to close down during the first MCO due to the lack of opportunity to do business. Those able to survive would be affected by continued lockdowns as savings deplete. Some micro-enterprises have pivoted to other business opportunities. However, some businesses will be not able to pivot, such as those in tourism, even with digitisation as such businesses are not able to plan ahead.

It is important to help micro-enterprises that are still surviving but are running out of resources. They need assistance to be kept afloat for the next few months until the reopening up of the economy. Many micro-enterprises are underbanked. It is important for the government to assist them with financing solutions and access to sustain them through the pandemic. The informal sector has not been able to take advantage of government assistance. SSM can carry out a campaign to register these businesses to avoid such problems occurring in the future. This also ensures good governance moving forward. There is a disconnect between bank loan approvals and the situation faced by MSMEs, presenting a financing challenge. There needs to be a more genuine way to provide MSMEs with financing to ensure their survival during the lockdown duration.

Associate Prof. Dr. Sohail Ahmed, Senior Lecturer, Faculty of Business Management (FBM) – University Technology MARA (UiTM)

The pandemic poses operational and financial problems to MSMEs. Disruptions to supply chains due to the closure of non-essential services and the delay of raw material imports from China have put production on hold for MSMEs. These enterprises are also experiencing poor gearing ratios of 46 percent by Bank Negara with cash flow imbalances resulting from the time taken for a successful moratorium application. Given the current economic environment and the comparatively risky nature of MSMEs, it is almost impossible for micro-enterprises to obtain commercial loans.

As such, MSMEs will need to repackage their products and lower their prices to accommodate changes in demand and salaries. The partnership of MSMEs with FinTech companies will also aid in increasing the sale of products. An improvement in the financial stability and performance of MSMEs will require banks to act in tandem to expansionary fiscal policies, offering lowering interest rates on loans with a longer time frame. This is vital as the government needs to prioritise medicare funds alongside creating the necessary conditions for MSMEs to survive. Thus, cooperation between all three stakeholders is required for progress.

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