

## **Malaysia Economic Summit 2022**

*“Accelerating Structural Transformation, Driving Economic Growth”*

Tuesday, 14 June 2022 @ Berjaya Times Square, Kuala Lumpur

DRAFT OPENING KEYNOTE ADDRESS by: -

***“Accelerating Structural Transformation to Drive Economic Growth - The  
Case for Malaysia”***

By

**YB Dato' Indera Mohd Shahar bin Abdullah**

Deputy Minister of Finance I

Tan Sri Abdul Wahid Omar

Chairman, ECKL Advisory Council/ Chairman, Bursa Malaysia

YBhg Tan Sri Michael Yeoh

President, KSI Strategic Institute for Asia Pacific

Excellencies

Distinguished Guests Ladies and Gentlemen,

Salam Sejahtera /Good morning /Selamat Pagi

1.

It is a great pleasure to deliver a keynote speech themed “Accelerating Structural Transformation to Drive Economic Growth - The Case for Malaysia” that is hosted by KSI and ECKL.

## 2.

This keynote speech is timely as Malaysia is gearing up to deliver her commitments for the 2030 Global Agenda on Sustainable Development which aims to leave no one behind and the Malaysia Shared Prosperity Vision 2030 which pursues to make Malaysia a nation that achieves sustainable growth with fair and equitable distribution across income groups, ethnicities, regions, and supply chains.

3.

These commitments are aimed at strengthening political stability, enhancing the nation's prosperity, and ensuring that the nation is united in embracing ethnic and cultural diversity.

These commitments too, seek to eradicate poverty and hunger, fight inequality and discrimination, tackle climate change, promote harmonious and inclusive societies in achieving sustainable development.

4.

Ladies and Gentlemen,

These commitments cannot be achieved without a strong devotion to structural economic transformation. Structural reforms are needed to improve the living standard particularly through the creation of high- quality and high-paying jobs for Malaysians. What is equally important is that the growth must be inclusive especially among youths and vulnerable groups that include low-income households, disabled persons, and communities in remote areas.

## 5.

Malaysia being a diversified nation and economy that has strong trade integration with the global economy and has a robust domestic growth stands at 31<sup>st</sup> largest economy in the world. Prior to the COVID-19 which hit the country in about two and a half years ago, Malaysia had experienced a sustained growth at an average of 5% annually. It is great to learn that our economy has doubled since the year 2000 with RM581 billion to RM1.4 trillion in 2021.

## 6.

Unfortunately, with the strike of COVID-19 in the first half of the year 2020, many countries had to impose lockdown measures which impacted the economy growth and resulted in another global recession, which has been as severe as the Great Depression in 1930s. Malaysia is not spared from this, the Movement Control Order that was imposed has taken a toll on our nation's economy activities. Eventually, due to this, Malaysia recorded a 5.5% contraction in 2020. (1998: - 7.4%).

7.

The COVID-19 pandemic has affected all walks of life and their livelihood. Reacting to the effects of this pandemic on to the nation, Malaysia has adopted comprehensive and complementary policy responses through a series of stimulus and aid packages worth RM530 billion (~34% of Malaysia's GDP), including sizeable fiscal supports like cash transfers, tax incentives and wage subsidies.

## 7.a)

These measures were complemented by the reduction in the Overnight Policy Rate (OPR) by a cumulative 125 basis points to a historical low of 1.75% as well as a tidy sum of financial measures, including loan moratorium for households and SMEs and various financing facilities for SMEs. As a result, these measures have saved 2.7 million jobs, and have benefitted more than 20 million people and 2.4 million businesses.

## 7.b)

The positive impact of the measures has also been translated into a more encouraging labour market condition. The unemployment rate has decreased significantly from the peak of 5.3% recorded in May 2020 to 4.1% in March 2022, and further decreased to record a full employment level at 3.9% in April 2022. In 2021, Malaysia's growth rebounded to 3.1%, amid relaxation of containment measures and robust external demand across manufactured goods and commodities.

8.

In the verge of managing the effects of COVID-19, which is now declared as an endemic, the Malaysian economy is expected to improve further this year, with a growth rate of between 5.3% and 6.3%. This is driven by increased domestic demands and continuous export growth without movement restriction order, reopened of international borders, and improved labour market conditions.

## 8.a)

However, the outlook will continue to be mainly affected by external risks that include a weaker-than-expected global growth, further escalation of geopolitical conflicts, worsened supply chain disruptions and adverse developments. There are also other risks to the growth that could arise from better-than-expected employment and income conditions, and faster-than-expected improvement in tourism-related sectors with the reopening of international borders.

9.

Even though our country's economy is recovering, we need to accelerate the structural transformation that includes human capital development through the strategic initiatives identified in the 12<sup>th</sup> Malaysia Plan and the Malaysian Digital Economic Blueprint. The endemic has provided us with opportunities to develop safer, better, greener, and more sustainable measures. These measures are crucial for our country to meet the net zero Greenhouse Gas (GHG) emission target as early as the year 2050.

10.

Ladies and Gentlemen,

Despite numerous challenges, our country can cope with these challenges well. There are several reasons for this. First, our economy rests on strong fundamentals. We have a diversified economic structure and a sound financial system. Second, we too have an effective public healthcare system and proactive macroeconomic policies that have assisted our country in meeting the challenges.

11.

With the reasons being mentioned and since we have embarked on the endemic stage of COVID-19, the government should be more prepared in terms of the mechanisms to plan, implement, manage, and monitor all plans, developments, and policies in getting ready for the future.

12.

First, the government is aware that structural reforms are needed in addressing the issues of income and costs among households in meeting future shocks like COVID-19. Due to COVID-19, households in Malaysia are met with vulnerable financial positions; some have lost their jobs, some have no income at all, some have doubled their expenses on education as young children and adults must learn virtually.

## 12.a)

The government is aware that the country needs to have a reform by having a stronger social protection system that is more cost-effective and less fragmented to improve the well-being of Malaysians during the endemic phase and in the future.

13.

Second, the government is also aware that the country needs to have a system of policies and programs that are aimed to guarantee the protection of the needy. This system should be agile to dynamic circumstances and should be fiscally sustainable. Such government policies and programs will ensure that the needy will be well-supported and protected.

14.

Third, the government is aware that we need to boost our productivity growth. We have done relatively well compared to our neighboring countries but in term of productivity rate, we are behind.

## 14.a)

Besides, there are also significant differences in productivity level among firms in Malaysia. A pre-pandemic estimation from the World Bank has suggested that smaller firms generally fall behind significantly behind their larger counterparts. In addition, firms in the top 25% of the productivity distribution are nearly 12 times more productive than those in the bottom 25%.

15.

Fourth, it is rather sad to know that the amount spent research and development (R&D) activities in Malaysia has decreased after experiencing steady increase until the year 2016. Gross public expenditure on R&D has dropped from 1.4% of GDP in 2016 to 1% of GDP in 2018.

## 15.a)

We realise that this did not meet our expected goal of 2% of GDP and the average of 2.6% of Organisation for (OECD). We also acknowledge that Malaysian firms are also less likely to spend on R&D compared to their regional peers.

16.

Ladies and gentlemen,

No one is an island; the government needs the support from all quarters in implementing the plans and programs, in enhancing the nation's productivity. We have a dream to be a nation that is innovative, creative, resilient, and progressive in meeting the challenges that come from within and outside the country. I believe that strategic actions are needed, accelerate the needed structural transformation, and ensure the progress and well-being of the people sustainably.

Ladies and Gentlemen,

There are several strategic actions that we can take to accelerate the structural transformation. First, we must promote sectors that have comparative advantages and nurture key sectors like agriculture in which majority of the population is engaged in. Higher agricultural productivity would deliver triple dividends which are sustained food security, more productive human resource and more efficient use of land and water.

17.a)

Agricultural transformation remains a catalytic driver of economic diversification, industrialisation and human progress through its impact on household incomes, employment and well-being of the communities.

18.

Second, we must implement integrated strategies and broad partnerships to strengthen institutions, address regulatory barriers and ensure adequate protection for investors and workers. This would reduce macroeconomic and political instability, promote a competitive environment for the local industries, increase domestic and external investment and establish access to long term financing.

19.

Third, priorities must be given to social and economy infrastructure that includes social security in developing a more inclusive and sustainable future. The cash assistance and the fuel subsidy programmes will be enhanced through more effective distribution mechanisms, moving away from blanket subsidies to more focused subsidies. This would ensure that the targeted groups of the needy would not be deprived of their rights.

## 19.a)

By doing this, the government can provide the optimum social security for the vulnerable groups. When the needs of these groups are fulfilled by the government, then resilience to economy, social, politics and environment challenges will be strengthened among them.

20.

Fourth, we must continue to equip our workforce, particularly the younger generation with appropriate and up-to-date skills and knowledge through quality TVET, entrepreneurial development and upskilling education programmes. The rural youth and young talents who are out of school will be supported with integrated business incubation and innovative entrepreneurs' programmes. This is to ensure that no one is left behind in optimising their economic potential and reaping benefits from the economic growth.

## 20.a)

The delivery systems of education and training will also be reviewed and improved regularly in line with the current digitalisation and 4<sup>th</sup> Industrial Revolution (IR) to produce future-ready talents who are agile, multi-skilled and competitive to meet the changing landscape of the employment world.

21.

To fill the labour supply-demand gap in the market, strategies to expedite automation and high-value added in production activities must be reinforced in supporting the creation of more high-paying jobs. The hiring of migrant workers particularly the low-skilled must be based on the actual needs of the economic sectors. This is to reduce the country's reliance on foreign workers.

## 21.a)

Hence, industries are encouraged to exercise patriotism in employment in which priority and opportunities must be given to our local talents to fill up the job vacancies. Employers are also urged to offer decent wages to workers to attract more local talents in taking up the less popular jobs or better known as 3D jobs.

22.

Finally, we must increase inclusivity by including and empowering the most vulnerable like people with different abilities, and young rural and ghetto communities. The hiring of the vulnerable groups and certain gender is relatively low in some jobs. Hence, we are losing in term of productivity because of the absence of these people in the workforce.

## 22.a)

The government then, should further reinforce policies to reduce the economic and social gaps within the nation, accelerate equality and enrich women empowerment through investing in women's enterprises and engaging the public and private sectors in breaking the glass ceiling.

23.

In ensuring a more balanced regional development, the government will continue to attract high quality investment in all economic corridors. Rural areas will be developed as a growth catalyst. Therefore, emphasis will be given to improve the business ecosystem and upgrade infrastructure in the less developed regions or states.

Ladies and Gentlemen,

Focusing on the recovery agenda, the government will continue to strengthen and implement fiscal reforms to achieve fiscal sustainability through several tax measures. In the last budget, the tax reform initiatives that were proposed focused on base broadening measures like review on broad-based incentives reliefs and deductions. Among the tax revenue strategies to increase fiscal space include initiative on green tax, digital economy, subsidy rationalization and review on the sustainable consumption tax.

## 24.a)

In addition, Malaysia is actively participating in various international tax collaboration platforms to ensure our tax system responds well to the international practices while considering the needs of the country.

25.

Looking ahead, now is the time to have structural reforms to drive Malaysia to the next level of her development journey. We must take any crisis as an opportunity to narrow the key gaps in the policy framework that are holding the country back from achieving her full potential. Furthermore, these gaps are more costly during a crisis while we move toward to reach a high-income status in the coming years.

## 25.a)

We need to cautiously design and implement policies that boost the female labour participation, improve the quality of human capital, enhance competitiveness among workforce, create quality jobs, and modernise institutions. With financial inclusion being explicitly recognised in 8 out of the 17 Sustainable Development Goals, the advancement of financial inclusion is important to promote more inclusive economic growth and ensure the well-being of Malaysians.

## 25.b)

This will entail catalyzing digital financial services to meet the needs of the underserved, adopting and sustaining the growth of e-payments in enriching the delivery of Government services to the public and facilitating a stronger social protection framework that fits our country's aspiration to be a high-income nation.

26.

During the preparation and finalisation of Budget 2023, the Ministry of Finance is committed to take on extensive public and stakeholders' engagement to obtain input and suggestions. The public and stakeholders assist the Ministry to formulate appropriate policies for the betterment of the people and the country. As the saying goes, "together we stand, divided we fall", I truly believe that working closely and supporting one another will make our country strong and prosperous for all.

On that note ladies and gentlemen, thank you for lending me your ears and to the participants of this summit, have a productive summit and I wish you success.

Thank you and assalamualaikum.

