CHAPTER 1

Economic Management and Prospects

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Leveraging Economic Recovery

The scarring effects of the COVID-19 pandemic have highlighted to the world that economic recovery has to be more adaptive towards becoming more resilient against any unforeseen crises in the future. As such, nations across the globe are beginning to roll out various measures to steer their economies back to pre-pandemic growth momentum. Following the dwindling impact of the COVID-19 pandemic, most nations have reopened their borders, signalling a more encouraging prospect of an accelerated economic recovery. Nonetheless, the world continues to face various challenges including the ongoing effects of the Russia-Ukraine conflict, high commodity prices and other regional and global issues, posing downside risks to economic growth.

The International Monetary Fund (IMF) revised its projection downwards for the global economy to 3.2% in 2022 after recording a strong growth of 6.1% in 2021 on the back of prolonged Eastern Europe conflicts, sanctions on Russia, strict zero-COVID-19 measures in China, tighter monetary policy in the United States and possible emergence of new COVID-19 strains. Subsequently, the growth of world trade which accelerated by 10.1% in 2021, is expected to be lower at 4.1% in 2022. The IMF also projected global crude oil prices to remain high at an average of USD107 per barrel in 2022 following Russia-Ukraine conflicts. Fuelled by high commodity and food prices, the inflation is projected at 6.6% in advanced economies and 9.5% in the emerging market and developing economies (EMDEs).

On the domestic front, the pace of economic recovery has gained momentum, with a rebound in growth of 3.1% in 2021 compared to a contraction of 5.5% in 2020. The growing trend of the economy has continued into 2022 with a growth of 5% and 8.9% in the first and second quarters, respectively. Currently, the economic recovery process is well underway and as the nation transitions into endemicity, efforts are now focused on quick execution of post-COVID-19 measures and strategies including expediting business recovery, providing conducive business environment, facilitating trade and investment, improving labour market conditions, safeguarding households' livelihood and inculcating sustainability principles throughout the whole spectrum of the economy.

To further accelerate growth, Malaysia reopened its borders on 1 April 2022 with the aim of reviving the tourism industry which is one of the major contributors to the economy. The Ministry of Tourism, Arts and Culture (MOTAC) reported that for the month of May and June 2022, over 1.6 million tourist arrivals were registered compared to about 490,000 in the first four months of the year. The month of June recorded a remarkable comeback of the industry with tourist arrivals totalling to over 971,000, an increase of more than 150 folds compared to the same month last year which saw arrivals of only around 6,500.

Enhancing Environmental, Social and Governance

The sustainability and climate change agenda have gained traction around the world, particularly after the COVID-19 pandemic. In the efforts of post-disaster reconstruction and recovery, governments and businesses are identifying new opportunities and developing holistic approaches for businesses in creating a more resilient economy in an effective and efficient manner. The use of environmental, social and governance (ESG) principles in making informed investment decisions is increasing over the years, driving consumer preferences and public attitudes, thus influencing businesses to adopt sustainable practices. By advocating the agenda as an integral part of the company's policies and practices, corporates will reduce the impact of their business decisions on the environment and at the same time benefit local communities, while improving their sustainability disclosure and transparency through the ESG principles.

The sustainability agenda is also influenced by unilateral actions taken by nations and economies in addressing carbon emissions, such as the Carbon Border Adjustment Mechanism regulation introduced by the European Union which limits and regulates the imports of carbon-intensive products related to certain industries. Responding to these unilateral actions, Malaysia will expedite and strengthen the domestic sustainability agenda and ESG ecosystem to ensure local products and services continue to be competitive. In the long run, Malaysia is committed to achieve the Sustainable Development Goals (SDGs) and the Paris Agreement, as well as the aspiration to achieve net zero greenhouse gas (GHG) emissions by as early as 2050.

In achieving these aspirations, several initiatives have been put in place including the establishment of the Voluntary Carbon Market (VCM) by Bursa Malaysia as a trading platform for carbon offsets. Meanwhile, realising the importance of having a proper national-level coordination on green growth in the country, the Malaysian Climate Action Council (MyCAC) brings together the economic and environmental ministries as well as state governments to ensure policy alignment regarding climate change issues and the green development agenda.

INFORMATION BOX 1.1

TOWARDS MALAYSIA'S NET-ZERO GHG EMISSIONS 2050

RIO EARTH SUMMIT — 1992
- United Nations Framework Convention on Climate Change (UNFCCC) was established at the Rio Earth Summit in 1992.

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE — 1994-2022
- In 1994, Malaysia ratified the UNFCCC and became a party.
- Malaysia ratified the Kyoto Protocol in 2002.

NATIONAL POLICY ON CLIMATE CHANGE — 2009
- It serves as the framework to mobilise and guide government agencies, industry, community as well as other stakeholders in addressing the challenges of climate change in a concerted and holistic manner.

THE NATIONAL RENEWABLE ENERGY POLICY AND ACTION PLAN
- Enhancing the utilisation of indigenous renewable energy (RE) resources to contribute towards national electricity supply security and sustainable socioeconomic development.

PARIS AGREEMENT — 2016
- The UNFCCC adopted the Paris Agreement in 2015.
- Malaysia ratified the Paris Agreement in 2016.

NATIONAL REDD PLUS STRATEGY — 2017
- Guide the country in reducing emissions from deforestation and forest degradation, while maintaining 50% forest cover.
- Assist the nation in achieving:
  - i. The Nationally Determined Contributions (NDC) pledge made under the UNFCCC's Paris Agreement;
  - ii. The National Policy on Biological Diversity (2016-2025); and
  - iii. National and state-level forest policies.

MALAYSIA'S COMMITMENT TO BECOME A NET-ZERO GHG EMISSIONS AS EARLY AS 2050 — 2021
- In September 2021, the Honourable Prime Minister pledged for Malaysia to become net-zero GHG emissions by as early as 2050.
- The Government will take into account sustainability as well as environmental, social, and governance (ESG) principles in the decision-making process.

2022 AND BEYOND

NATIONAL ENERGY POLICY 2021-2040 — 2022
- The RE contribution in the installed capacity is projected to increase to 18,431MW by 2040.

LONG-TERM LOW EMISSION DEVELOPMENT STRATEGIES (LT-LEDS) — 2022
- Outline strategies and actions for mitigation of greenhouse gas (GHG) emissions for the country's key economic sectors, which will be the basis for determining the country's net-zero direction and the targetted year e.g. carbon pricing including carbon tax and domestic carbon trading schemes.

VOLUNTARY CARBON MARKET (VCM) — 2022
- Development of Malaysia's Voluntary Carbon Market (VCM) is being coordinated by Bursa Malaysia.
- Targetted to be launched by the end of the year.

KEY MILESTONES AS OF 2022
- The establishment of the Malaysian Climate Action Council (MyCAC) and Joint Committee on Climate Change (JC3).
- An issuance of up to RM10 billion for Sustainability Sukuk as announced in the 2022 Budget.
- Malaysia's annual development and operational budgets are now aligned to the SDGs.
- The establishment of MySDG Foundation.
- The development of Integrated National Financing Framework (INFF).
- The implementation of Climate Change Principle-based Taxonomy (CCPT) and Value Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF)
- Operationalisation of Low Carbon Transition Facility (LCTF)

TO DO LIST:
- To encourage reforestation efforts and increasing Malaysia's natural carbon absorption.
- To encourage renewable energy uptake and energy efficiency across all sectors.
- To strengthen the carbon accounting ecosystem among all stakeholders.
- To identify suitable carbon pricing mechanisms.
- To encourage the electric vehicles (EV) industry and strengthen the supporting ecosystem.

NDC TO THE UNFCCC — 2030
- Malaysia to reduce its economy-wide carbon intensity (against GDP) of 45% in 2030 compared to 2005 levels

MALAYSIA'S NET-ZERO GHG EMISSIONS COMMITMENT — 2050
- To review the progress on achieving the net-zero GHG emissions aspiration and identify the best way forward.

Outlook

Global Economy

The increasingly challenging global economic environment has prompted the IMF to revise its global economic growth forecast to a lower rate of 3.2% for 2022. The outlook was mainly due to a slowdown of economic activities in China and prolonged geopolitical conflicts. This scenario is expected to result in continuous supply chain disruptions, sharp increase in commodity prices as well as challenging financial conditions. Since March 2022, the price of Brent crude oil has been averaging above USD100 per barrel for the year, which has led to global inflation. Hence, the inflationary pressure has urged most central banks to tighten monetary policies, leading to weaker private consumption and household purchasing power. These challenges may linger on and are anticipated to continue affecting growth in 2023.

Domestic Economy

Malaysia's economy expanded by 6.9% in the first half of 2022 underpinned by favourable momentum in the domestic economy and steady expansion in the external sector, as well as continued improvement of the labour market conditions. The strong performance is expected to sustain, backed by an increase in private consumption and business activities as the economy transitions to endemicity phase of COVID-19 with the surging tourist arrivals. Furthermore, the growth momentum was attributed to the Government's consistent policy support, particularly with the implementation of initiatives under the Budget 2022 since the start of the year, as well as the spillover effects from the Budget 2021 measures coupled with various assistance and stimulus packages.

In tandem with continued implementation of development programmes and projects, the economy is expected to expand further in the second half of the year. The growth prospects have been supported by the resumption of economic and social activities and improvement in international travel activities following the relaxation of COVID-19 restrictions regionally. With better prospects as indicated by the Leading Index, the economy is anticipated to gain its growth momentum in the second half of the year attributed to strong domestic demand as the country transitions into endemicity. For the full year of 2022, the economic growth is expected to register a higher growth within the range of 6.5% – 7%. The domestic economy remains resilient and is forecast to expand between 4% – 5% in 2023 driven by the domestic demand. Nevertheless, the pace of economic recovery is also dependent on other factors, including successful containment of the pandemic, support for cost of living and efforts in mitigating the downside risks such as geopolitical uncertainties, global inflation as well as tightening financial conditions.

Monetary and Financial Developments

The level of monetary accommodation was reduced following strong domestic growth prospects in an environment of moderate inflationary pressures. Consequently, the Overnight Policy Rate (OPR) was increased three times, in May, July and September 2022 respectively, to a total of 75 basis points (bps) to 2.5% from its historical low of 1.75% held since 7 July 2020. The hike in the OPR was conducted in line with strong domestic economic performance. However, given that pre-pandemic OPR levels were much higher at 3% to 3.25%, the stance of monetary policy in 2022 remains accommodative and supportive of sustainable economic growth in environment of price stability. Furthermore, the Monetary Policy Committee of Bank Negara Malaysia (BNM) had emphasised that the pace of interest rate normalisation would be implemented in a measured and gradual manner to ensure that the market could adjust accordingly.

Moving forward, the domestic financial system remains resilient supported by strong governance and prudent risk management practices despite the strengthening of the USD against major currencies and challenging global growth prospects. Moreover, Malaysia's Capital Market Masterplan 2021 – 2025 and Financial Sector Blueprint 2022 – 2026, which outline the visions and strategies for the development of the nation's financial sector will further enhance the overall financial market performance in line with the evolving economic and financial landscape.

Updates on the Budget 2022

In line with the theme "*Keluarga Malaysia, Makmur Sejahtera*", the Budget 2022 focused on strengthening recovery, building resilience, and driving reforms. Several measures were introduced to ensure the wellbeing of the *rakyat*, the resilience of businesses as well as the prosperity and sustainability of the economy. Accordingly, total estimated expenditure in 2022 is RM385.3 billion with RM284.7 billion for operating expenditure (OE), RM71.8 billion for development expenditure (DE) and RM28.8 billion under the COVID-19 Fund. The allocation was 15.5% higher than the total expenditure in 2021.

The *Rakyat's* Wellbeing

The Government is persistent in implementing people-centric programmes to safeguard the wellbeing of the *rakyat*. In this regard, as of September 2022, RM5.9 billion from the RM8.4 billion cash assistance allocated via the *Bantuan Keluarga Malaysia* (BKM) programme has been disbursed, benefitting 8.7 million recipients. Meanwhile, the Government continues to prioritise public health to build national resilience as Malaysia is transitioning to the endemic phase of COVID-19. Most importantly, the National COVID-19 Immunisation Programme was offered to all adults as well as extending the vaccine for children aged 6 to 17 years old. As at end-September 2022, more than 84% of adult population has been vaccinated with at least two doses.

In addition, in the Budget 2022, the *JaminKerja Keluarga Malaysia* initiative was initiated with an allocation of RM4.8 billion to provide 600,000 job opportunities by the end of 2022. This initiative consists of three programmes namely *JaminKerja*, Malaysia Short-Term Employment Programme (MySTEP) as well as reskilling and upskilling programmes which benefitted over 310,500 people as at end-August 2022.

Resilient Businesses

The resumption of economic activities is expected to enhance the recovery of businesses. The Government continues to promote a conducive business environment in ensuring economic recovery and catalysing growth towards achieving prosperity, inclusivity and sustainability in the future. In minimising the impact of the crisis, the Government has announced various initiatives under the Budget 2022 to ensure business continuity, among others, the *Semarak Niaga Keluarga Malaysia* Programme that provides direct loans, financing guarantees and equity-based schemes with a total allocation of RM40.1 billion. As of August 2022, more than 69,000 businesses of all sizes benefitted from the programme. Other programmes introduced to further sustain the resilience of businesses include Smart Automation Matching Grant, Innovation Hub: Industrial Revolution 4.0, *Tabung Cerdik*, Wage Subsidy Programme and National Rubber Industry Transformation Programme.

In efforts to enhance the competitiveness of businesses, the Government also committed to improve the ease of doing business. The main initiatives include the extension of tax deduction of up to RM300,000 to renovate and refurbish business premises for COVID-19 standard operating procedure (SOP) compliance; and simplifying the requirements for registration to increase opportunities for participation in government procurement.

The Government also continues to promote 4IR through the development of new emerging technology clusters such as drones, robotics and autonomous vehicles. The Malaysian Research Accelerator for Technology & Innovation (MRANTI) will spearhead Malaysian Drone Technology Plan as announced in September 2022. These initiatives are expected to benefit and provide exposure to E&E industry leaders, potential entrepreneurs, small and medium enterprises (SMEs) and the start-up community. The Council of National Digital Economy and the Fourth Industrial Revolution will govern and monitor the progress of the implementation.

The Government will strengthen the ecosystem of government-linked investment companies (GLICs) and government-linked companies (GLCs) to be more resilient towards the growth of new high-value industries. These involve, among others, the strengthening of government-owned investment institutions through Principles of Good Governance (PGG) which will be the sole reference for the governance baseline and sustainability practices for all GLICs. The PGG is based on three main principles, namely leadership and board effectiveness; ensuring an optimal, qualified and credible board composition; and supporting effective handling of investments.

The tourism industry has been severely affected by the COVID-19 pandemic and still recovering towards pre-pandemic level despite the full lifting of restrictions. Through the Budget 2022, MOTAC has received a higher allocation of RM1.6 billion to boost the recovery of the industry. From this allocation, RM600 million is provided for the PENJANA Tourism Financing and Rehabilitation Scheme under Bank Pembangunan Malaysia Berhad to support micro, small and medium enterprises (MSMEs) by preserving their capacity and assisting them to undertake the necessary investment to remain viable post-COVID-19. As at 6 July 2022, RM88.1 million has been approved to 421 applicants. In addition, a total of RM85 million is allocated as special assistance to more than 20,000 tourism operators while RM10 million is for the children of Sabah and Sarawak for programmes and activities related to culture and heritage.

Meanwhile, more than 26,000 employers and 330,000 workers in tourism industry benefitted from the RM600 million Wage Subsidy Programme. The sector also received several tax incentives extension, including income tax exemptions for organisers of artistic and cultural activities as well as international sports and recreational competitions until the assessment year 2025.

A Prosperous and Sustainable Economy

The Government is committed to strengthen the nation's development based on prosperity, sustainability and inclusivity. In the effort to support the sustainability agenda, the Government is currently looking into the feasibility of implementing the carbon pricing policy that sets the economic cost of carbon emissions to be traded in the market. Malaysia's VCM by Bursa Malaysia, coupled with the Low Carbon Transition Facility by BNM, will help businesses towards reducing their overall carbon emissions. The strengthening of the renewable energy sector and the electric vehicle ecosystem is envisioned to bring new business and job opportunities.

In preserving and conserving the nation's natural heritage, various programmes targeting the environment and biodiversity have been implemented to ensure continuous availability of natural resources for future generations. This includes the engagement and involvement of indigenous and local communities in conservation and enforcement efforts for wildlife rehabilitation sanctuaries, tree planting and reforestation campaigns and programmes, as well as enhancing the role of non-governmental organisations (NGOs) and civil society organisations (CSOs) in their respective localities. In reducing non-revenue water (NRW), the Government has implemented projects in Perlis, Kedah, Pahang, Kelantan, Sarawak, Sabah and Labuan, with an allocation of RM300 million in 2022. A matching grant programme has also been rolled out to water operators that achieve the targets set out by the National Water Services Commission (SPAN) to reduce NRW rates.

The Government has also introduced various initiatives to provide economic benefits to the local communities and bridge the economic gap between regions in Malaysia. In terms of the implementation of national infrastructure development projects in Peninsular Malaysia, the construction of Central Spine Road and upgrading of the sewage treatment plant and construction of sewer network in Seberang Perai Utara, Penang are ongoing. Meanwhile, in Sabah and Sarawak apart from the Pan Borneo Highway, other ongoing projects include rural water supply project in Lubok Antu; construction of the Main Entrance Substation and 132V electric transmission line project in Paitan; home construction assistance programme in Sarawak; and construction of state rural link road as well as development of small rubber planting area for smallholders.

In addition, the Government continues to take steps to build and upgrade infrastructure in regional areas through economic corridor authorities including transports, roads and industrial parks to attract investment and increase economic activities. This will increase new job creation and entrepreneurial opportunities in the areas. Among the new projects launched by the regional corridors' development agencies are Kedah Rubber City, Kampung Laut Redevelopment Project in Kelantan, Perlis Inland Port and Iskandar Rapid Transit in Johor. Other projects which are being carried out include upgrading of Samalaju Industrial Park road in Sarawak and Sepanggar Bay Port expansion in Sabah.

As at end-June 2022, around 7.2 million premises have gained access to gigabit broadband, while 95.8% of all populated areas have access to 4G network under the *Jalinan Digital Negara* (JENDELA) programme. Meanwhile, the broadband speed has increased to 47.04 Mbps exceeding the 35 Mbps target as part of phase 1 which ends this year. In addition, 839 sites have been deployed with satellite broadband while 5G services is provided at selected areas in Cyberjaya, Putrajaya and Kuala Lumpur. The services will be further expanded to other major cities in nine other states.

Among the current initiatives under MyDIGITAL Corporation includes providing knowledge on science, technology, engineering and mathematics (STEM) to students, teachers, and the wider public in areas aligned to the objectives of the Malaysian Digital Economy Blueprint and the National 4IR Policy. The Corporation also continues the effort to expand the use of e-payment within the community and provides business digitalisation training to MSMEs. Several initiatives that have been planned include reducing the processing time by 50% for the approval of aerial work certificates for agricultural drones. Additionally, smart solutions such as Smart Highway and Smart Mobility will be developed for the transportation and logistics sector to enhance road safety, reduce congestion and provide a seamless mobility experience for road users.

Economic Management

Malaysia's economy will remain in a positive growth trajectory in 2023 mainly driven by domestic demand following the transition to the endemic phase and the reopening of international borders. The Government continues to support the economy through implementing policies and measures to ensure a conducive business environment that facilitates economic activities and meet the needs of the *rakyat*. In enhancing economic resilience and sustainable growth, the Government will prioritise the structural reform agenda to sustain the post-COVID-19 economic recovery momentum, amid the challenges arising from geopolitical uncertainties and climate change.

Issues and Challenges

Rakyat

Social Protection

Currently, it is not mandatory for the self-employed including informal and gig workers to contribute into the social security scheme as provided under the existing Self-Employment Social Security Act 2017 [Act 789]. As of July 2022, only 14% of 2.8 million self-employed workers contributed into the scheme as per the Act. This indicates a low awareness among the workers in protecting themselves against unforeseen circumstances that could lead to the loss of income. Meanwhile, the fragmented databases among various ministries resulted into inclusion and exclusion errors that could lead to either duplication or overlook of assistance provision.

FEATURE ARTICLE 1.1

The Golden Years: Facing the Challenges of An Ageing Nation

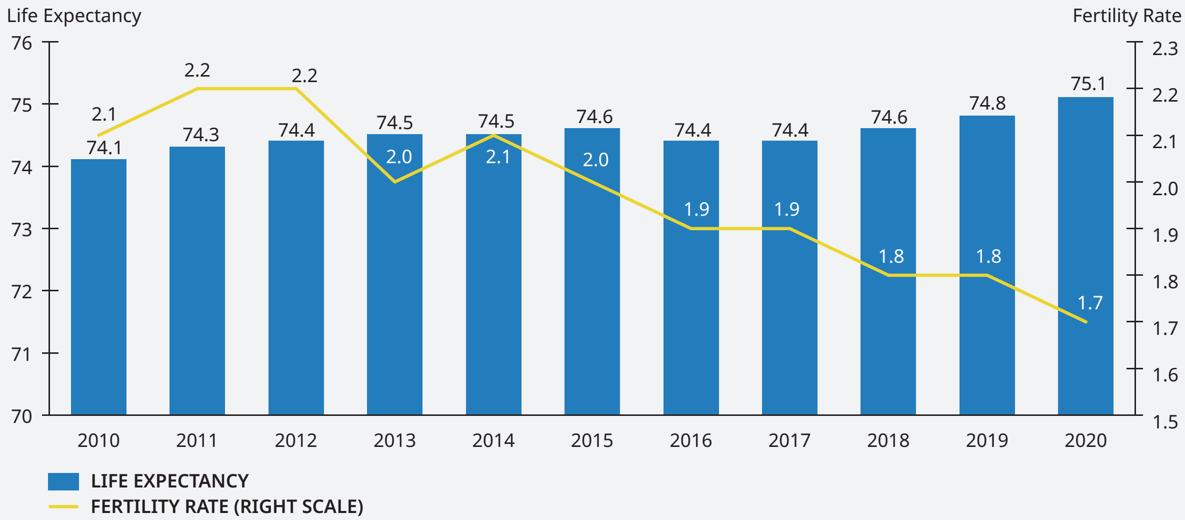
Introduction

Population ageing is a worldwide phenomenon, commonly faced by developed nations with high standards of living. However, in the recent decade, this phenomenon is becoming more prevalent in many developing countries. The United Nations (UN)[1] defines an ageing population as a community composed of people aged 65 and over. A country becomes an ageing nation when the ageing population reaches 7% of its total population. Japan is one of the countries that has long become a super-aged nation[2] with 28.7% of its total population being above the age of 65. Other examples of super-aged nations include Italy with 23%, followed by Finland (21.9%), Portugal (21.8%), Germany (21.4%) and Serbia (20.2%)[3].

As an ageing nation, a country will normally experience an increase in life expectancy as a result of better healthcare services and living standards as well as a decline in the fertility rate. The patterns of declining fertility rate and expand in life expectancy have started to become more obvious in Malaysia. In 2020, Malaysia's fertility rate declined to 1.7% as compared to 2.1% in 2010 as shown in Figure 1.1.1. While the population aged 65 years and over is higher at 6.8% of 32.4 million total population compared to 5% of 27.5 million during the same period.

[1] United Nations Department of Economic and Social Affairs, World Population Ageing 2019.
[2] Ageing nation - ageing population more than 7% of total population; aged nation - more than 14%; super-aged nation - more than 20%.
[3] United Nations Population Division, World Population Prospects 2019.

FIGURE 1.1.1. *Life Expectancy and Fertility Rate in Malaysia, 2010 – 2020*



Source: Department of Statistics, Malaysia

Based on Housing and Population Census 2020, Malaysia was not categorised as an ageing nation then, however the Department of Statistics Malaysia (DOSM) projected 7.3% of total population[4] will reach age 65 and over by 2022. The ageing population in Malaysia is growing at a faster rate than initially expected in 2030. It is also anticipated that by 2050, Malaysia's population aged above 65 will be more than 15%, qualifying Malaysia as an aged nation.

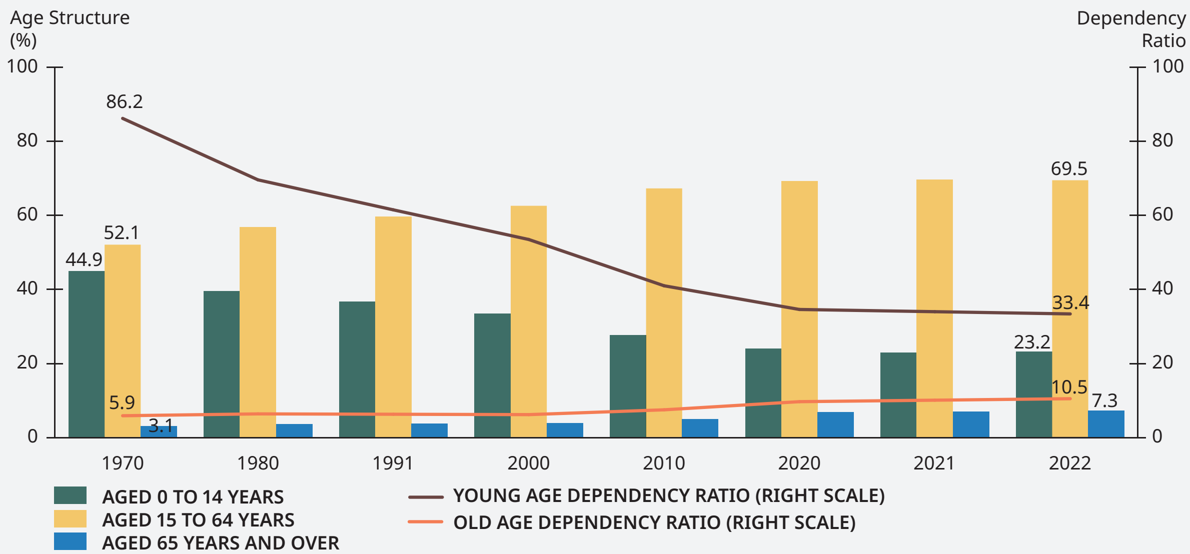
Population ageing is a demographic trend that will significantly influence various public policies. As the proportion of the old age population becomes larger, the public expenditure will be higher to cover the expected increase in spending on healthcare, pension and long-term care. In addition, larger old-age population will cause labour shortages and create potential risk of old-age income security. In coping with the challenges arising from population ageing, the Government, businesses and society at large should be prepared to adapt to the changing needs and structural demographics in the economy. This is to ensure that no one is left behind while improving the wellbeing of all Malaysians particularly senior citizens, in line with the Shared Prosperity Vision 2030 and the Sustainable Development Goals (SDG).[5] Hence, this article will analyse the challenges facing by the Government as Malaysia becomes an ageing nation.

Malaysia's Population: Demographic and Age Structure

Malaysia has experienced a rapid demographic change for the past 50 years as shown in Figure 1.1.2. The young-age (0 to 14 years) shows a declining trend while the working-age (15 to 64 years) and old-age (65 years and over) indicate the opposite. Generally, the increase in the working-age population positively implies potential employment supply in the country. However, a contrasting trend between the young- and old-age population suggests that the size of the working-age population will shrink in the long run. Moreover, further aggravated by the falling birth rates, the country could face difficulties in providing adequate workforce for the labour market thus impacting the economy.

[4] Current Population Estimates Malaysia, 2022, Department of Statistics, Malaysia.
[5] SDG Goal 3: Good Health and Wellbeing.

FIGURE 1.1.2. *Age Structure (%) and Dependency Ratio, 1970 – 2022*

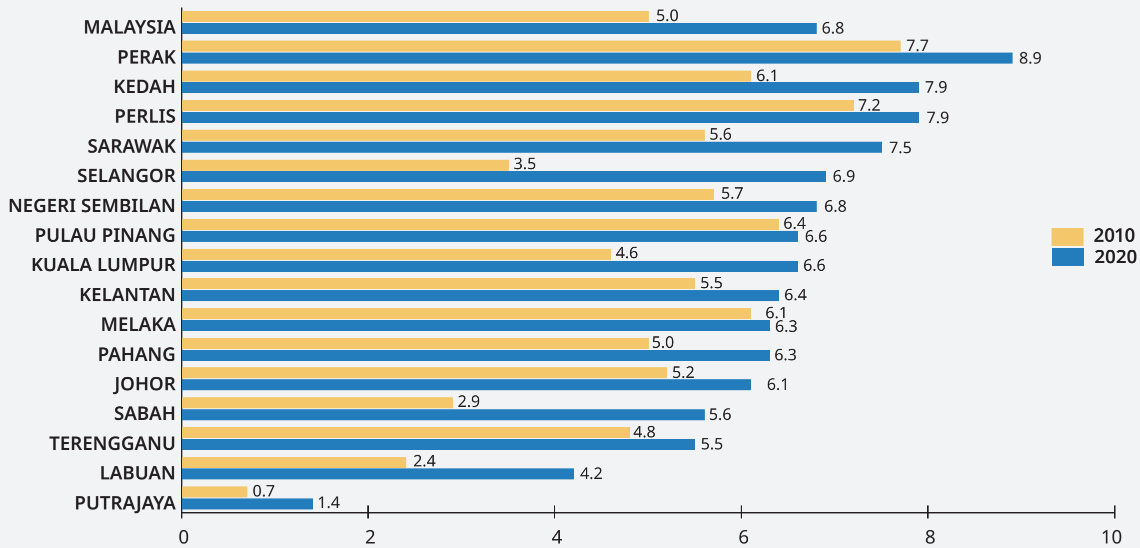


Source: Department of Statistics, Malaysia

The increasing dependency of the young- and old age population on the working age group is also a concern for Malaysia. The age dependency ratio is often used to measure the financial pressure of the actively working population of a community. For the purpose of the analysis pertaining to an ageing nation, the old age dependency ratio (OADR) measures the number of old age per 100 persons of the working age. A ratio of 10.5 in 2022, higher than 7.5 in 2010, signifies that a greater dependency on the working age group. The reducing workforce composition will increase the burden of the working age in supporting the needs of the young and elderly groups. Therefore, a higher OADR is expected to lead to slower productivity and economic growth *(*ASM Science Journal, 2020) in the long run as a result of an expansion in the size of the non-productive segment of the population.

Although population ageing is normally measured at the national level, the measurement by state has provided some useful insights. In 2020, Perak, Kedah, Perlis and Sarawak were considered as ageing states, with the percentage of people aged 65 and over was more than 7%. If the current trend continues to persist, the number of ageing states will gradually increase in the coming years since eight other states, namely Selangor, Negeri Sembilan, Kuala Lumpur, Pulau Pinang, Kelantan, Melaka, Pahang and Johor, have recorded more than 6% of elderly people as shown in Figure 1.1.3.

FIGURE 1.1.3. *Population Aged 65 and Over by States, 2010 and 2020*



Source: Department of Statistics, Malaysia

Ageing Population in terms of Economic and Social Aspects

The changing age structure in the population of a country would present major economic and social challenges to the Government (United Nations, 2019). The rising OADR would impact negatively on future economic growth, savings, consumption, taxation and pensions (Ingham, Chirijevskis, & Carmichael, 2009). As older people age further, the Government is required to undertake certain social adjustments such as assistance for senior citizens[6] which may involve additional financial allocation.

Longer life expectancy is attributed to the effective role of the Government in providing various facilities and basic needs for the people. With a longer life expectancy, healthy older citizens continue to contribute to the society through paid or unpaid job such as care work. However, ageing population are at a higher risk of falling into poverty and resorting to various social protection programmes provided by the Government. Therefore, ensuring access to social safety net such as provident fund, healthcare, long-term care and other social support is crucial in an ageing society to protect the lives and the livelihood of the older people.

Ageing and the Implications on Government Expenditure

The Government has the responsibility to ensure the economy generates revenue sustainably; allocate resources efficiently; and distribute income effectively. As the working-age group is dwindling and the old-age group is expanding, the Government is expected to allocate more resources mainly towards pensions, health- and shelter-related programmes Thus, it is undeniable, that ageing population will have implications on the Government's spending, especially to support various social programmes and other related facilities.

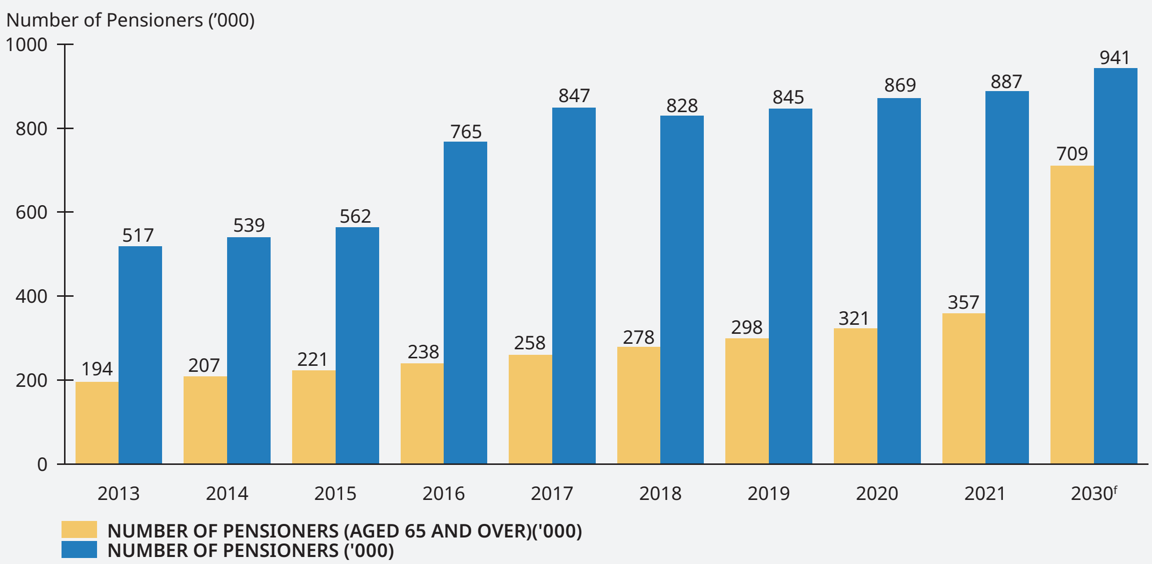
[6] Senior citizens refer to the older persons with aged 60 years and over.

Pension Expenditure

Developed countries such as Norway and Japan have good funding arrangements in place, particularly through existing pension and provident funds to cope with the high projected OADR. Emulating the good practices in these developed countries, Malaysia also provides funding for pensioners. In 2021, the Government final consumption expenditure on social protection provided to senior citizens increased to RM2.4 billion from RM2.3 billion and RM1.4 billion recorded in 2020 and 2015, respectively. Corresponding to the expected increase in OADR, the public pension expenditure is also expected to rise further.

In 2021, the Federal Government spent RM28 billion for pension expenditure involving about 887,000 public pensioners, of which RM7.9 billion or 28.3% represents payments for those aged 65 and over as shown in Figure 1.1.4. Moreover, with life expectancy in Malaysia reaching 75 years old (DOSM, 2021), the Government has to maintain the policies that support this age group for the next 10 years, thus requiring higher fiscal commitment in the future. Assuming the pension expenditure for recipients aged 65 and over continues to grow at an annual average rate of 12.1%[7], the amount of pension payment is projected at RM22.3 billion in 2030, almost triple the current pension commitment. The higher obligation is commensurate with the size of the aged population and the extension in life expectancy.

FIGURE 1.1.4. *Number of Public Pensioners, 2013 – 2030*



Source: Public Service Department and Ministry of Finance, Malaysia

[7] The pension expenditure of RM7.9 billion based on the analysis using CAGR for the period from 2013 to 2021.

Healthcare Expenditure

Expectedly, healthcare is more essential to senior citizens as it is common for the people in this age group to face health problems or afflicted by diseases. The most common non-communicable diseases associated with the senior citizens are dementia, diabetes, high blood pressure and high cholesterol.[8] Statistics show that the prevalence of these diseases is increasing, in tandem with the growing older population as shown in Table 1.1.1. Based on the Alzheimer's Disease Foundation, Malaysia, the size of the population with end-stage dementia and dependent on a 24-hour care was estimated around 204,000 to 264,000 in 2020. This number is projected to treble to 637,500 to 825,000 by 2050. Consequently, the increasing need of healthcare by this age group has put pressure on the public health expenditure.

TABLE 1.1.1. *Prevalence to Non-communicable Diseases (NCD), 2019*

SOCIO-DEMOGRAPHIC CHARACTERISTICS	PREVALENCE OF OVERALL RAISED BLOOD GLUCOSE AMONG ADULTS AGED 18 YEARS AND ABOVE			PREVALENCE OF OVERALL RAISED BLOOD PRESSURE AMONG ADULTS AGED 18 YEARS AND ABOVE			PREVALENCE OF OVERALL RAISED BLOOD CHOLESTEROL AMONG ADULTS AGED 18 YEARS AND ABOVE		
	COUNT	ESTIMATED POPULATION	PREVALENCE (%)	COUNT	ESTIMATED POPULATION	PREVALENCE (%)	COUNT	ESTIMATED POPULATION	PREVALENCE (%)
Age Group									
18 - 19	24	38,232	*4.3*	18	60,095	*6.8**	43	121,415	*13.6*
20 - 24	50	155,085	*5.4*	71	162,822	*5.7*	179	485,017	*16.9*
25 - 29	71	203,573	*6.8*	98	304,754	*10.2*	227	658,806	*22.0*
30 - 34	132	300,307	*11.3*	163	426,074	*16.0*	308	742,225	*27.9*
35 - 39	161	288,418	*12.2*	230	523,693	*22.1*	373	796,221	*33.6*
40 - 44	186	316,161	*17.3*	265	525,172	*28.7*	391	804,458	*43.9*
45 - 49	248	410,130	*24.7*	383	677,854	*40.8*	489	829,036	*49.9*
50 - 54	330	467,184	*30.4*	473	717,053	*46.7*	592	921,120	*60.0*
55 - 59	35	418,253	*31.3*	560	741,478	*55.5*	633	842,962	*63.0*
60 - 64	359	468,937	*42.4*	567	725,754	*65.6*	544	694,474	*62.8*
65 - 69	289	349,022	*43.4*	455	558,702	*69.5*	433	495,042	*61.6*
70 - 74	204	223,736	*40.6*	360	422,048	*76.7*	301	348,726	*63.4*
75 & above	210	252,927	*38.4*	413	537,366	*81.7*	296	357,669	*54.4*

* Prevalence with high RSE, interpret with caution

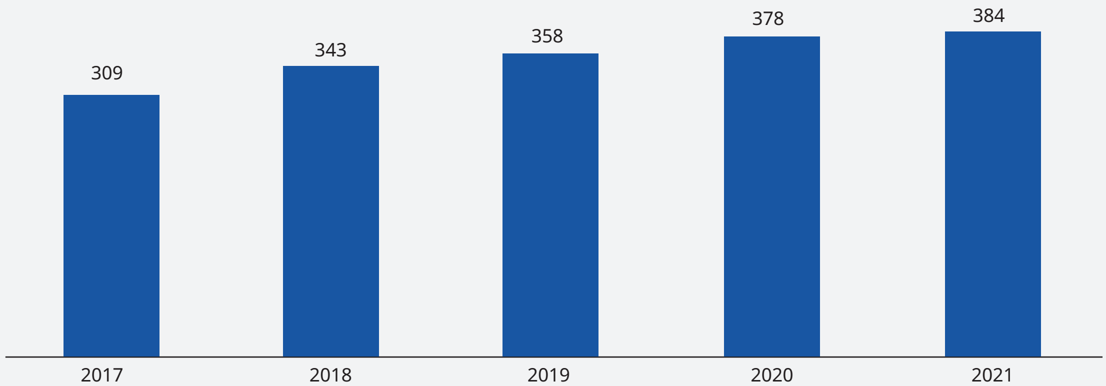
Source: National Health and Morbidity Survey Report 2019, Ministry of Health, Malaysia

Senior Citizens Assistance Expenditure

The Government is committed to provide support to senior citizens through the provision of facilities and financial assistance. The Government has provided comfortable care centres based on the increasing needs to provide care services for the senior citizen. The number of registered care centres has increased since the last five years that translates into higher spending on facilities, staffing and maintenance. From the statistics shown in Figure 1.1.5, the number of registered care centres had increased from 309 in 2017 to 384 in 2021.

[8] Non-communicable-diseases, health and care (https://www.helpage.org).

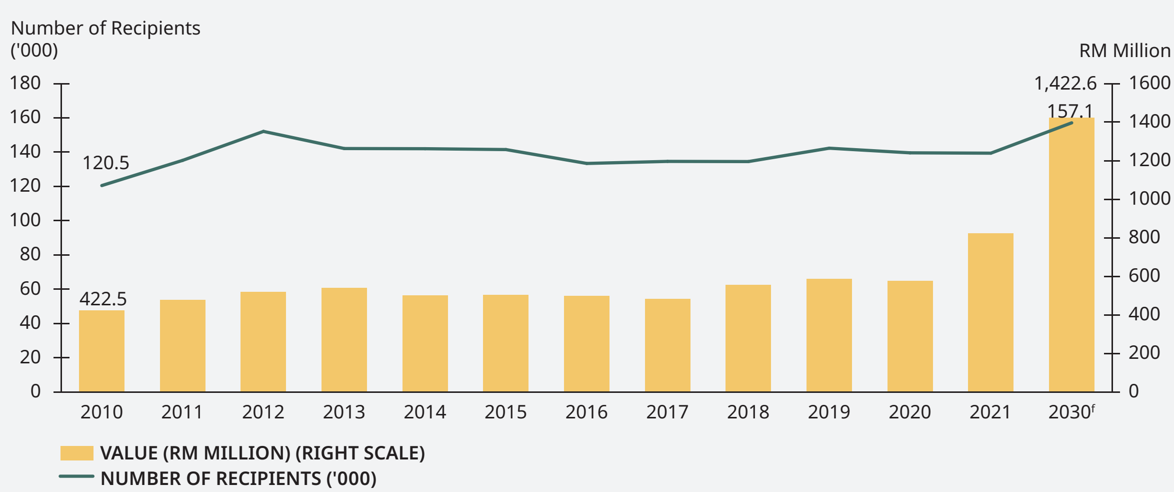
FIGURE 1.1.5. *Number of Registered Care Centre for Senior Citizen, 2017 – 2021*



Source: Department of Social Welfare, Malaysia

In addition, Government also provides financial assistance of RM500 per month to eligible senior citizens under the *Bantuan Warga Emas* (BWE) programme. This programme is one of the initiatives under the Ministry of Women, Family and Community Development which targets senior citizens aged 60 years and over with a monthly household income of less than RM1,169. In 2021, a total of RM823.8 million was disbursed to 139,400 recipients. Based on the increasing number of potential recipients at an average growth rate of 6.3% annually, the expenses are estimated to be RM1.4 billion in total by 2030 as shown in Figure 1.1.6.

FIGURE 1.1.6. *Bantuan Warga Emas, 2010 – 2030*



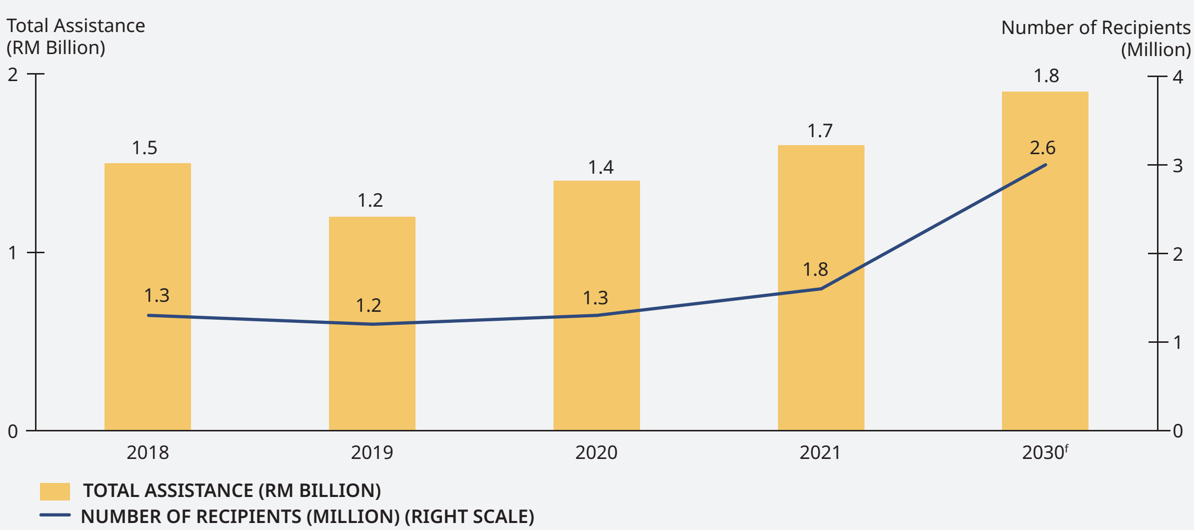
Source: Department of Social Welfare and Ministry of Finance, Malaysia

The Government also provides some financial support for health and medical treatment, which includes in-kind support. Through *Tabung Bantuan Perubatan* programme, eligible Malaysian citizens, including the disadvantaged senior citizens, are able to get financial assistance either partly or in full to cover the cost of outpatient treatment, medical and rehabilitation equipment as well as medicines.

The Government also provided cash assistance through *Bantuan Keluarga Malaysia* (BKM) as announced in Budget 2022. This assistance involved an allocation of RM7.8 billion benefitting around 8.6 million recipients in 2022 of which, 1.8 million recipients are 65 years and over with assistance amounting to RM1.7 billion. The growing ageing population will require additional allocation for cash assistance under this programme which is estimated about RM1.8 billion in 2030 as shown in Figure 1.1.7.

In addition, the Government provides incentives such as tax relief for self-funded vaccination and full medical check-ups including mental health. Senior citizens are also eligible for discount when receiving treatment at private healthcare centres.

FIGURE 1.1.7. *Bantuan Keluarga Malaysia for Recipients Aged 65 and Over, 2018 – 2030*



Source: Ministry of Finance, Malaysia

Savings for the Golden Age

It is pertinent for senior citizens to have sufficient savings and financial security upon retirement. However, the Employees Provident Fund (EPF) has voiced concern on inadequate savings for retirement that could pose risk to its members falling into old-age poverty and addresses social protection coverage among senior citizens. As shown in Table 1.1.2, active contributors who contribute to the EPF would have an average savings at the age of 54 amounting to RM246,635 in 2021. A simple calculation, given the amount of savings with life expectancy of 75 years old, shows that the assumed monthly withdrawal for retirees who contribute to EPF will receive less than RM1,000. These withdrawal levels are markedly lower than the minimum wage bracket and put them at the B40 group. Therefore, as ageing society progresses and more households fall under this category, the Government has to increase the spending in order to cater for the needs of the people in this group.

TABLE 1.1.2. *Savings for EPF Contributors at the age of 54, 2019 – 2021*

YEAR	ACTIVE CONTRIBUTORS	
	NUMBER OF ACTIVE CONTRIBUTORS AGED 54	TOTAL AVERAGE SAVINGS (RM)
2019	94,871	227,861
2020	97,458	241,942
2021	98,194	246,635

Source: Employees Provident Fund

Moving Forward

Cognisant of Malaysia becoming an ageing nation, the Government will continue to enhance the ecosystem for senior citizens. Society and family also need to play a role in ensuring the welfare of senior citizens is not neglected. Under the Twelfth Malaysia Plan, the Government will build more care centres for elderly as well as enhancing cities to become more senior citizen-friendly in the future. Sistem Pendaftaran Warga Emas Nasional will be improved and its coverage will be expanded.

In addition, the Government will encourage the senior citizens to maintain an active and a healthy lifestyle. This would allow the senior citizens to keep productive and earn their own income while contributing to the economy and society through their skills, knowledge, experiences and expertise. However, the awareness to maintain the healthy and active lifestyle should start from the young age. Similarly, a proper awareness programme for financial literacy should also start from the young age to educate the importance of sound financial management, particularly on investment, saving and spending.

Conclusion

Addressing the impending ageing population in Malaysia will implicate the Government expenditure in assuming the responsibility to provide for senior citizens in terms of pension, healthcare and other assistance. The Government will support through relevant measures in order to safeguard the wellbeing, empower and improve the quality of life of senior citizens.

Subsidies

The Government has provided various type of subsidies and social assistances with substantial allocation to ease the financial burden of multiple segments of society. However, subsidies for certain items such as petroleum, cooking oil and flour, provided on a blanket basis have also benefitted the high-income group. Furthermore, this unsustainable approach has encouraged leakages and abuse of subsidised goods. Continuous inefficient allocation of subsidies will adversely affect the long-term fiscal sustainability.

Wages

For almost a decade, the economy managed to record an encouraging mean wage growth of 6% – 7% between 2010 and 2019[1]. Despite this growth, the mean wage[2] level remained low at RM3,224 in 2019 as compared to RM1,936 in 2010, or an average increment of around RM140 yearly. The situation had worsened during the pandemic with more incidents of wage cuts, retrenchments and closing of business operations, which have led to lesser income prospects. Even though the revised minimum wage of RM1,500 per month was implemented beginning 1 May 2022, the average salaries and wages in Malaysia are considered low. Given that two-third of the household income is sourced from the labour market, the low-wage market structure may not help some segments of households to cope with the increasing cost of living, particularly the B40.

FEATURE ARTICLE 1.2

The Need for Escaping the Wage Curse

In collaboration with EIS-UPMCS Centre for Future Labour Market Studies (EU-ERA)

The common assumptions that increasing wages could lead to market distortion and reversely affect economic performance seem to be an "unspell curse" to the Malaysian economy. These assumptions are strongly held by the majority of employers as a result of the lack of evidence-based facts and scientific evaluation. This article provides exposure of the attainable benefits to employers, employees and the economy as a whole when wage rates are raised higher than the current level. This article also addresses the multidimensional wages by not only focusing on the average wages but also on minimum and living wages. At the end of this analysis, recommendations are provided on the approaches that can be used to increase wages without impacting economic competitiveness.

[1] Wage growth for 2020 and 2021 may not portray the normal distribution as these years were affected by the pandemic COVID-19.
[2] Refers to Malaysian citizen only.

Low-Wage Economy Limits Economic Opportunities

Labour compensation or wage share has always been debated as a measure of how the "benefits of growth" are fairly distributed between labour and capital. The decent level and growth of wages represent the concept of economic justice or fairness for households as almost two-thirds of their income is sourced from the labour market. This implies that wage is uncertain, especially if someone loses a job, unlike property rights which have greater security in ensuring rents and other form of capital incomes perpetually.

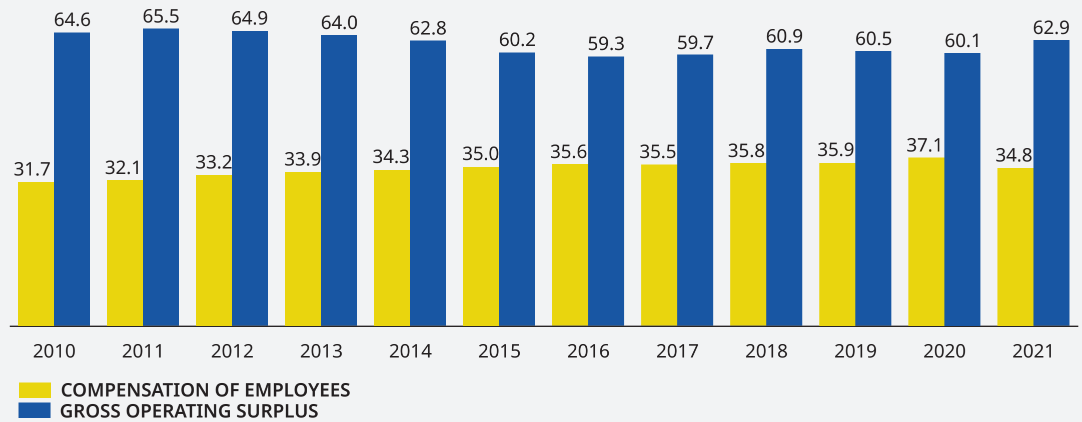
From the national accounts perspective, total income of the nation is shared by labour, capital-owner and government. Income received by labour is essentially measured by compensation of employees (CE) or also known as labour compensation. Whereas, income for the capital is commonly represented by the operating surplus. In Malaysia's context, the share of CE to GDP is considerably low despite it increased from 31.7% in 2010 to 35.9% in 2019, as shown in Panel A of Figure 1.2.1[1]. The share is much lower compared to that in other countries such as Germany (53.4%), the United Kingdom (48.7%), Republic of Korea (47.5%), Australia (47.2%) and Singapore (39.9%) in 2019.

The distribution of GDP growth on CE and gross operating surplus (GOS) is different. Both CE and GOS are positively correlated with GDP but the latter has a much stronger relationship, which implies that the distribution of growth benefits the capital owner more than the workers (Panel B of Figure 1.2.1). For example, a 1% increase in GDP growth contributes 1.05% to the growth of GOS compared to 0.63% to the growth of CE. These confirm that the benefits of economic growth are more in favour of the owners of capital.

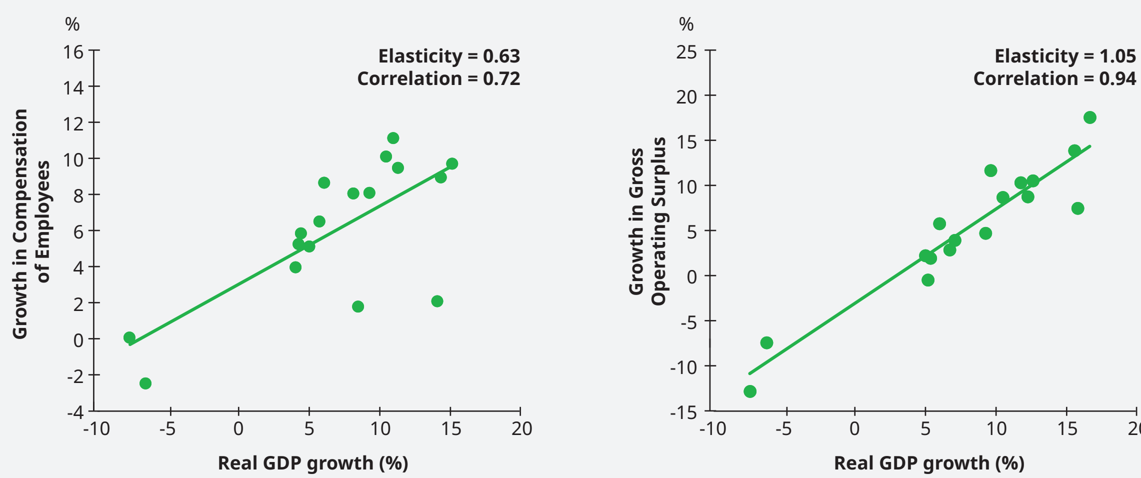
[1] CE shares of GDP for 2020 and 2021 may not portray the normal distribution as these years were affected by the pandemic COVID-19.

FIGURE 1.2.1. *Trend and Correlation of Compensation of Employees and Gross Operating Surplus to Gross Domestic Product, Malaysia*

Panel A: Share of compensation of employees and gross operating surplus to GDP*



Panel B: Relationship between growth in compensation of employees and gross operationg surplus relative to GDP**

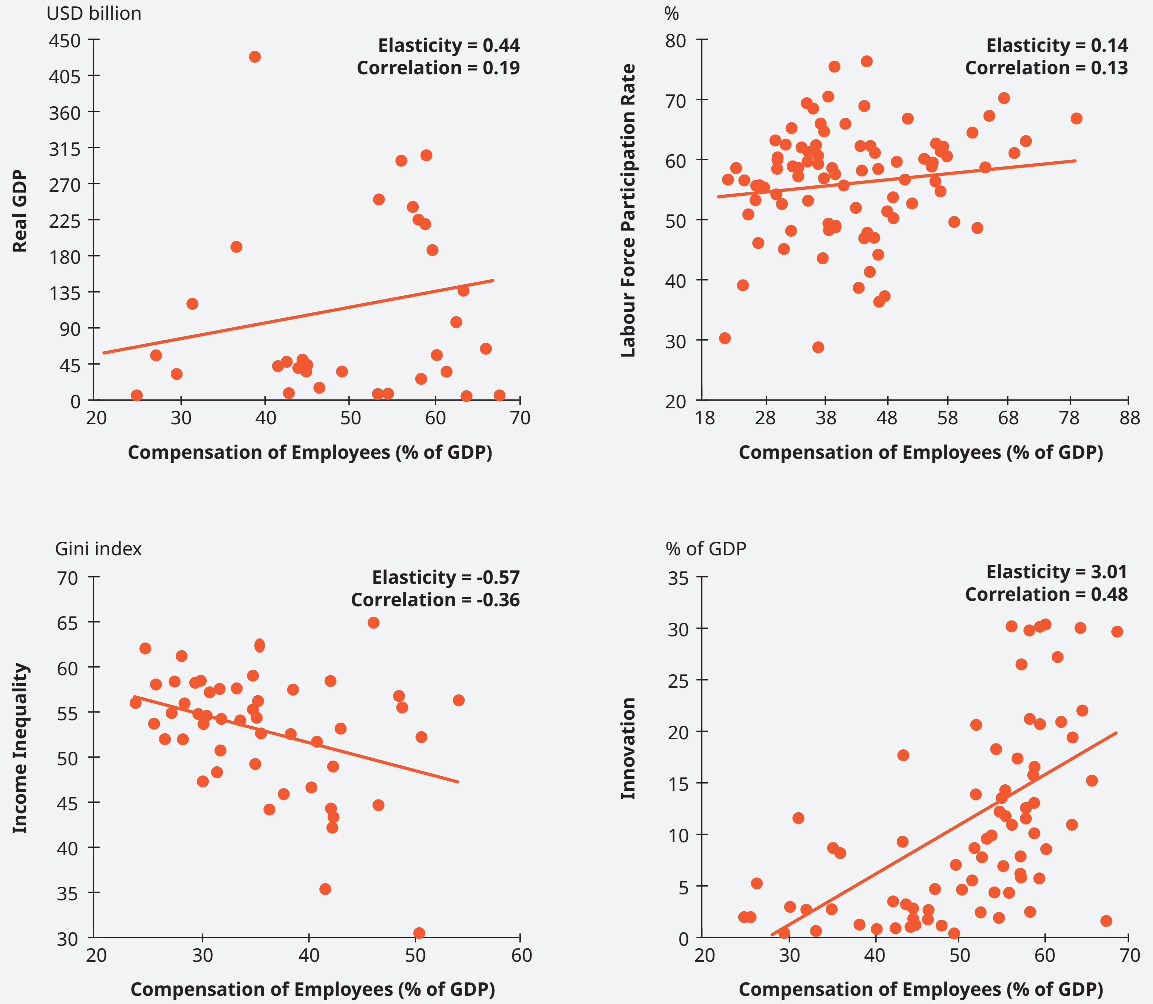


Note:
(*) The total may not add up to 100% because it excludes taxes less subsidies on production and imports
(**) All models throughout this study have been estimated using OLS with robust standard error due to Newey and West (1987) that correct for both autocorrelation and heteroscedasticity

Source: Department of Statistics and EIS-UPMCS Centre for Future Labour Market Studies, Malaysia

Higher labour compensation is found to be the answer for some of the structural issues in Malaysia. Among the structural issues are low labour force participation rate (LFPR), inequality in income distribution as well as slow rate of technological innovation and adoption. A cross-country evidence, as shown in Figure 1.2.2 clearly indicates that a high rate of labour compensation could increase LFPR, reduce income inequality, boost technological innovation and support economic growth. If the level and growth of labour compensation are considerably low, this situation will likely hinder the opportunity for Malaysia to maximise its true economic potential.

FIGURE 1.2.2. *Relationship between Compensation of Employees and Selected Macroeconomic Indicators Cross-Sectional Countries, 2019*



Note: Income inequality represented by the Gini index, innovation defined as research and development expenditure (% of GDP) and real GDP expressed in USD billion

Source: Development Indicator, Penn World Table and EIS-UPMCS Centre for Future Labour Market Studies, Malaysia

Higher labour cost borne by industries, causing them to hire less or lay-off some of the workers, and the tendency to push up prices are the common reasons used to limit the wage increment. However, the reasons may not be true as far as empirical evidences are concerned. A brief explanation on the benefits of minimum wages in increasing employment demand and productivity is provided in Box 1. When productivity improves in parallel with the increase in minimum wages, there is no reason why industries need to inflate prices of products.

BOX 1: *Defying Job Loss Conundrum in the Wage Floor Increase*

An increase in minimum wage would reflect a higher cost for the employers, causing them to hire less or lay-off some of the workers to keep businesses afloat. This concern is aligned to the traditional economic theory of supply and demand, where higher prices (wages) lead to less demand for workers, implying the increase in the minimum wage induces higher unemployment.

The whole idea was challenged by an empirical study by Card and Krueger (1994). A group of Princeton University economics professors conducted a survey among employers and employees on minimum wage rate at fast-food restaurants in two states: New Jersey and Pennsylvania. The New Jersey legislature was set to raise minimum wage by 18.8% from USD4.25 to USD5.05 while the minimum wage in Pennsylvania was unchanged.

Based on the study, it was found that after the minimum wage was increased, no indication of employment reduction was reported but rather a 13% increase in New Jersey. Thus, there was a positive employment effect when the minimum wage rate rose. Other studies also show that the increase in minimum wage could be an anti-poverty and equality improvement strategy, which is in favour to reduce gender pay disparity as well as enhance labour productivity.

Sources and Adjusters for Low-Wage

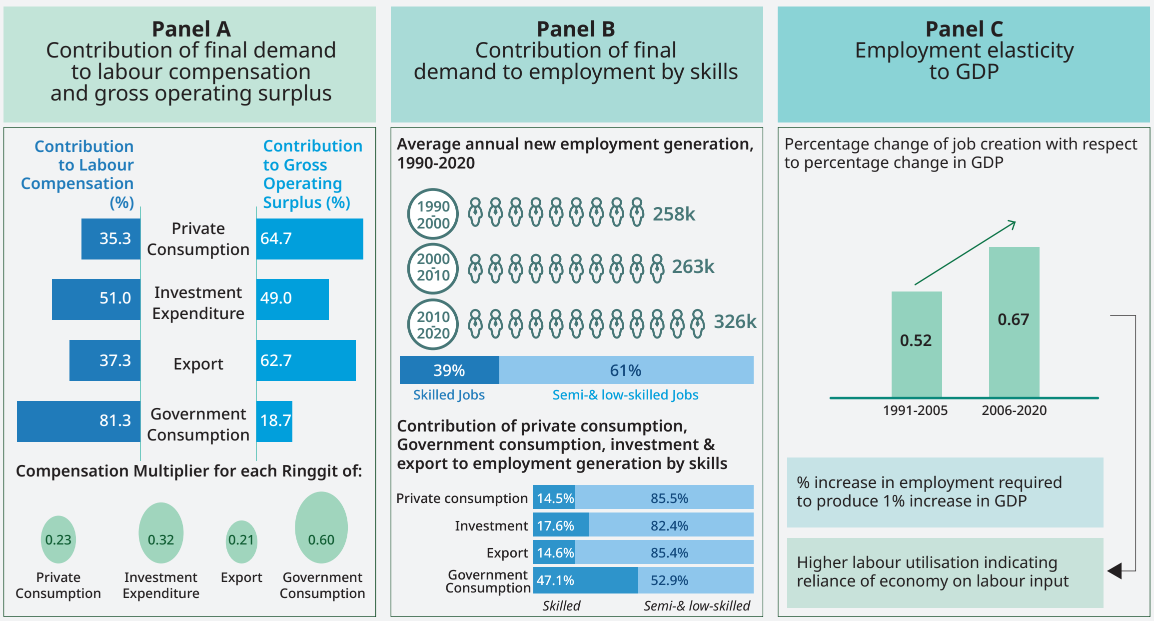
Almost two-thirds of household income is generated from the labour market. Labour is the supply-side variable that is determined by the level and composition of demand-side variables such as exports and investment expenditures. For example, it is common in any country to experience an increase in demand for low-skilled workers when it concentrates on the production of low-value added products for exports. Therefore, it is essential for policy makers to blend both the demand and supply sides of the economy in the labour market planning to improve the condition towards a high-value economy.

The demand-side of the economy affects the labour compensation to some extent, which is explained in Figure 1.2.3 with Panel A outlining the sources of labour compensation by decomposing the contribution of GDP by expenditure components. Private consumption and exports contribute about one-third to the generation of labour compensation, whereas the remaining portion attributed to gross operating surplus. Investment expenditure shows the equal distribution between labour compensation and gross operating surplus while the government consumption is the most equitable component, contributing 81.3% to labour compensation. As a matter of fact, the compensation multiplier indicates that every ringgit of government consumption generates RM0.60 of labour compensation, the highest compared to other final demands.

It is important to note that the distribution of final demands on labour compensation is shaped by the structure of employment which is provided in Panel B whereby total employment is decomposed according to GDP by expenditure components. Approximately, less than one-fourth of total employment generated by private consumption, investment and exports, are for skilled workers. Government consumption is the only final demand component that shows the highest skilled generated, contributing 47% of the total employment. But the size of government consumption is relatively smaller with the contribution of 10% to total final demands. Overall, the relatively lower wages are the results of a large concentration on the low- and semi-skilled jobs.

For decades, the increase in the capacity of employment generation was driven by the increase of labour utilisation in the production of output. For instance, this can be verified based on the magnitude of employment elasticity-to-GDP, which increased from 0.52 in the period of 1991 – 2005 to 0.67 during 2006 – 2020, as shown in Panel C. The higher (lower) the magnitude of the elasticity requires a larger (smaller) number of employments in the production stage. The increase in labour utilisation was influenced by the expansion of semi- and low-skilled employments. In the last 30 years, the economy generated more jobs for semi- and low-skilled workers with the average of 61% compared to only 39% for the skilled workers.

FIGURE 1.2.3. *Sources of Labour Compensation and Employment Generation*

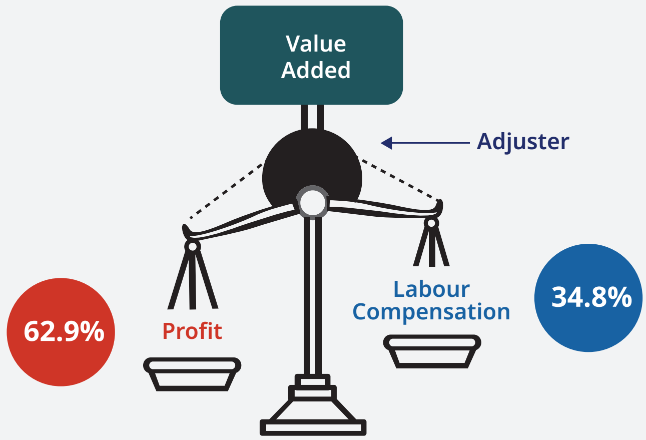


Note: Estimated using input-output structural decomposition analysis
Source: Department of Statistics and EIS-UPMCS Centre for Future Labour Market Studies, Malaysia

The empirical assessment shows that the incidence of low-wage paying jobs is a result of a labour-intensive economy. Although the structure of the country's economy is essentially labour-intensive, this does not restrict a more generous sharing of wealth between employers and employees. As shown in Figure 1.2.4, the role of adjuster is pertinent in balancing the share of GDP between capital and labour. In this context, the pragmatic approach is to announce specific initiatives that bring benefits to employees without impacting the industry's competitiveness. For instance, the introduction of e-Shared Prosperity Organisation (eSPO)[2] Acknowledgement Certificate by Malaysia Productivity Corporation (MPC) is a profound initiative in practising the mutual wealth creation and sharing between employers and employees.

[2] e-Shared Prosperity Organisation (eSPO) is an online system that issues electronic acknowledgment certificates to organisations that have successfully implemented the Productivity-Linked Wage System (PLWS). To date, there are 22,331 eSPO certificates issued to MSMEs and large firms.

FIGURE 1.2.4. *The Role of Policy Adjuster in Balancing the Unequal Distribution*



Note: Numbers refer to 2021 data
Source: Department of Statistics, Malaysia

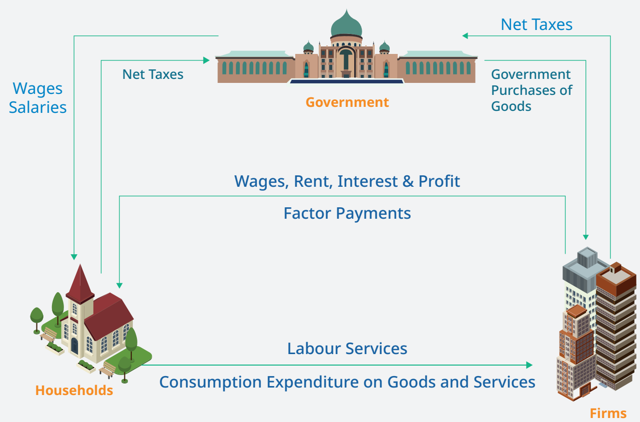
Higher Wages Would Help, Not to Hurt the Economy

The need to increase wages post-COVID-19 pandemic has become a common issue in most countries, including Malaysia. From the workers' perspective, an increase in wage is necessary to compensate for the higher prices of goods and services. Generally, employers claimed that wage increases could inflate prices, leading to market distortions that could pose a threat to the economy. However, cross-country studies show that increment in wage will generate more income to businesses (Lupu et al., 2022). This section will enlighten the impacts of higher wages to Malaysia's economy.

Economic Impacts of Higher Wages

An economy functions as a system of interaction between expenditure and income flows, as depicted in Figure 1.2.5. Households provide labour input to the economic sector and receive wages in return. The more wages earned, the higher consumption of goods and services, hence generating additional profits for the business sector. For example, a simulation of 3% to 5% increment to the current wages of the semi- and low-skilled workers results to higher GDP growth and labour productivity. Meanwhile, another analysis using Gini index shows that higher wages reduces income inequality as reaffirms by Sotomayor (2021).

FIGURE 1.2.5. *Economic Impacts of Higher Wages*



Note: Increase in wage rates induces additional consumption which in turn generates additional output and profit

A projection of macroeconomic indicators for the periods 2021 - 2025 as a result of simulation 3% - 5% of additional increases in total wage:

3%	4%	5%	
+5.6%	+6.0%	+6.5%	GDP (current price)
+4.2%	+4.8%	+5.4%	Labour Productivity
-2.2%	-2.4%	-2.5%	Income Inequality (Gini index)

Description of Model:
The simulation results are derived based on a computable general equilibrium (CGE) model developed by EU-ERA. The CGE Model is able to produce projection of economic, social and environmental indicators up to 2030
Source: EIS-UPMCS Centre for Future Labour Market Studies, Malaysia

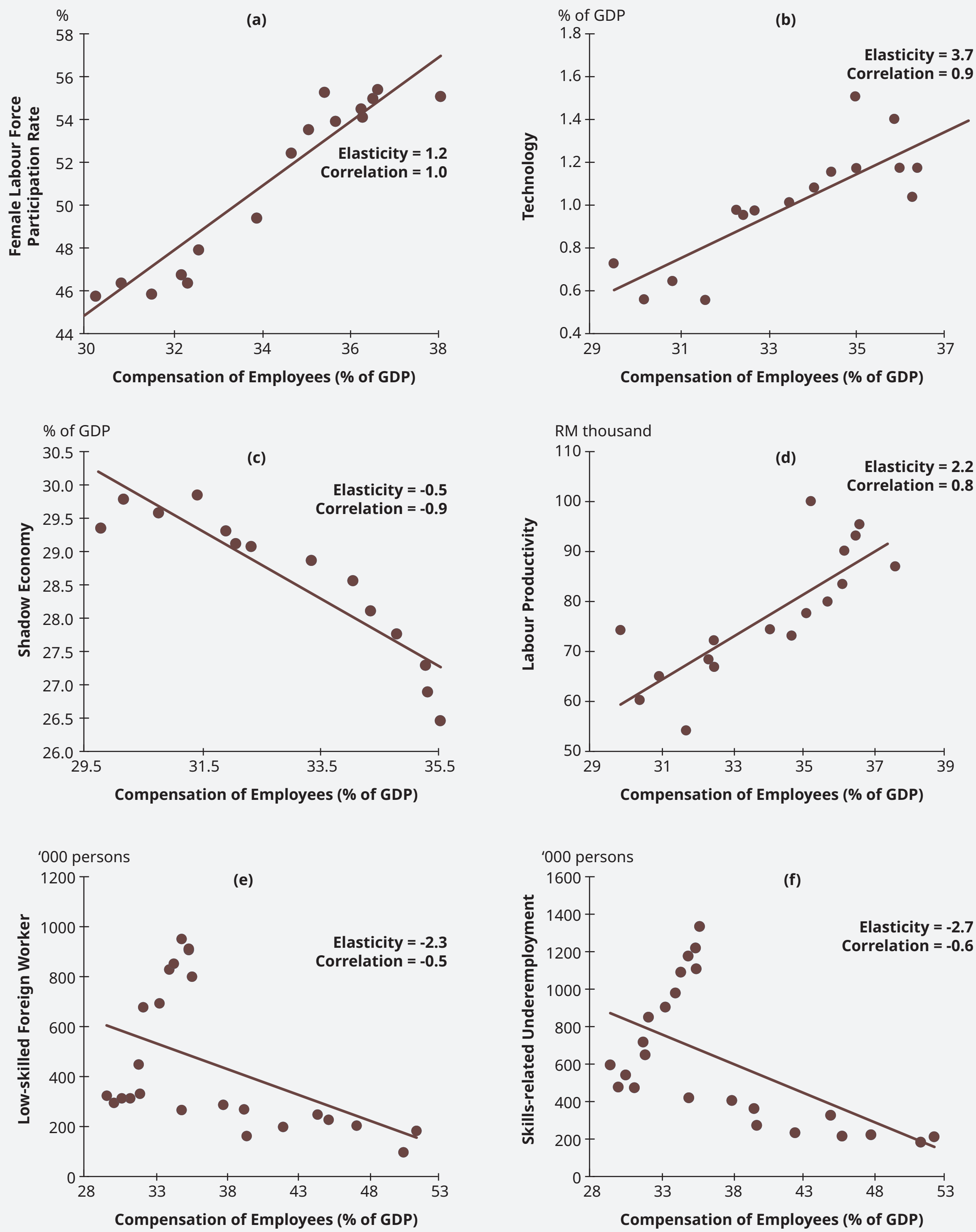
Higher Wages Attract More Women Participation in the Labour Force

Labour is an important input in the production process. An increase in labour input will increase production, vice versa. In the event that labour shortages do occur, higher wages tend to attract more women outside of the labour force into the labour market. An empirical assessment as shown in Figure 1.2.6(a) suggests that a 1% increase in labour compensation tends to increase female LFPR by 1.2%. This finding suggests that the policy approach to increase wages plays an important role in achieving the women LFPR target of the Twelfth Malaysia Plan, 2021 – 2025 from 55.3% in 2020 to 57% in 2025.

Higher Wages Promote Technological Adoption

Adopting technology in the production process is a way to increase output by optimising the use of production inputs such as labour and energy (Maneejuk and Yamaka, 2020). Increasing wages for labour-intensive industries will increase the adaptation of the use of technology. The empirical assessment as shown in Figure 1.2.6(b) indicates that a 1% increase in labour compensation tends to increase technological adoption by 3.7%. Technological adoption is found to complement the demand for skilled workers that help to increase wages. Thus, firms must be willing to share their wealth by increasing wages that commensurate with higher skills.

FIGURE 1.2.6. *Impact of Higher Wages on Selected Macroeconomics Indicator, Malaysia*



Note: Technology index denotes research and development expenditure to GDP. Shadow economy measures were estimated using computable general equilibrium approach (Elgin et al., 2021)

Source: World Development Indicator, Department of Statistics and EIS-UPMCS Centre for Future Labour Market Studies, Malaysia

Higher Wages Improve Economic Efficiency by Reducing the Size of Shadow Economy

Shadow economy includes all market-based legal production of goods and services that are deliberately concealed from public authorities to avoid payment of taxes and social security contributions as well as to avoid complying with labour market standards and administrative obligations (Schneider, 2011). The size of the shadow economy in Malaysia for the period of 2010 – 2019 is estimated at approximately 21.2% of GDP (Economic Outlook, 2021). Shadow economy creates economic inefficiencies as it could potentially reduce government tax revenue, cause a fragmented labour market and lower economic growth.

Shadow economy and the shadow labour market are closely connected. Any labour activities taking place as part of the shadow economy are considered involving in the shadow labour market or informal labour market. People may be excluded from the formal labour market due to lack of opportunities or choose to exit the formal sector voluntarily because of both monetary and non-monetary benefits of informality.

If wages in the formal sector can be increased, this will encourage people to shift out of the shadow economy into the formal sector (Hohberg and Lay, 2015). The empirical assessment depicted in Figure 1.2.6(c) shows that the size of the shadow economy is likely to reduce by 0.5% for every 1% increase in labour compensation. In this regard, wage is considered as an indirect policy intervention to increase the formalisation of the economy in addition to direct interventions in the forms of regulations and enforcements.

Higher Wages Promote Labour Productivity Growth

Productivity growth is the primary determinant of an economy's long-term growth and higher wages. If an employer is willing to share the wealth by raising wages, employees will consistently exert extra efforts in response to higher wages, in line with the so-called “efficiency wage” theory (Riley and Bondibene, 2017; Georgiadis, 2013). Workers, therefore, may be more motivated to work with higher pay that subsequently contribute to higher productivity. The analysis in Figure 1.2.6(d) confirms this expectation, showing that productivity tends to expand by 2.2% for every percentage increase in wage.

Higher Wages Reduce the Dependency on Low-Skilled Foreign Labour

According to the Ministry of Home Affairs, in 2021, low-skilled foreign workers in Malaysia made up about 8% of the total employment or 1.2 million persons. Over 90% of the non-Malaysian citizens occupied the low-skilled and semi-skilled employment. The economic costs of extensively relying on low-skilled foreign workers in Malaysia are well documented in the literature, which highlighted the high reliance of low-skilled foreign workers would suppress the domestic wage growth and adversely affect productivity growth (Bank Negara Malaysia, 2018b). The empirical analysis, as explained in Figure 1.2.6(e) indicates that the size of low-skilled foreign workers can be reduced by 2.3% for every percentage increase in labour compensation. The results suggest that wage adjustment is the most effective market-based price mechanism to be used as a policy tool to reduce the dependency on low-skilled foreign workers.

Higher Wages Reduce the Size of Skills-Related Underemployment

Skills-related underemployment is a condition where workers hold skills or qualifications higher than that required to perform their jobs. Indirectly, the skills-related underemployment can be portrayed as the indicator of skills underutilisation which measures those workers with tertiary education and working in the semi- and low-skilled occupations. In 2021, the skills-related underemployment increased by 6.3% to record 1.9 million workers compared to 1.8 million in 2020 (DOSM, 2022b).

The incidences of skills-related underemployment are still significant in Malaysia and have been persistent, depicting a structural issue similar to unemployment (Zakariya, 2014). If underemployment continues to remain, the true potential of workers will not be maximised. Furthermore, those who have higher skills but working in lower-skilled jobs normally earn lower labour compensation or wages.

Based on the empirical assessment, shown in Figure 1.2.6(f), the size of skills-related underemployment can be reduced by 2.7% for every percentage increase in labour compensation. This finding suggests that policy intervention to increase wages could lead to higher adoption of automation and technological upgrading, which in turn stimulate the demand for high-skilled occupations. As more demand for high-skilled occupations is generated within the economy, it should be able to reduce the skills-related underemployment (Lee and Wie, 2015).

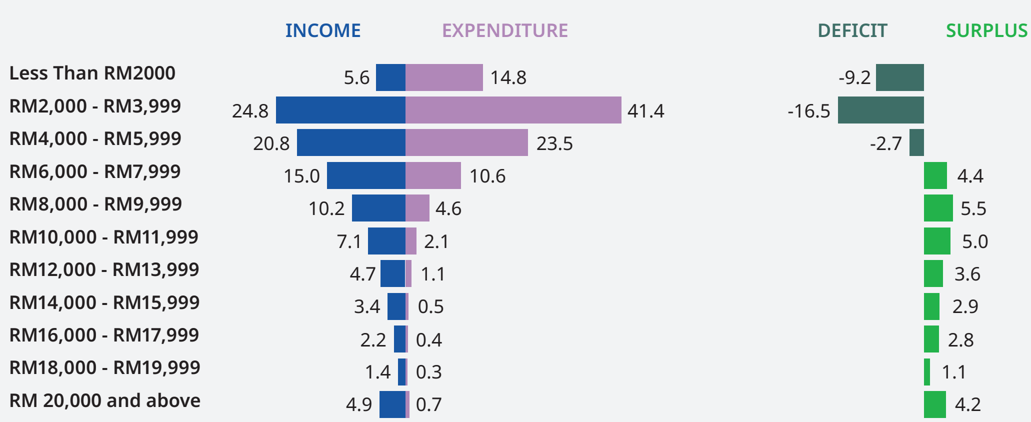
Ideal Wages to Support Living Standard

Ideal wage levels that provide for a sufficiently high standard of living are important to ensure the economy is constantly being supported by consumption spending (Jung et al., 2020). Higher (lower) consumption spending implies higher (lower) standard of living and thus promotes (constraint) long-term economic growth.

Is the Current Wage Enough to Balance the Rising Living Cost?

Having a sufficient level of disposable income is important for households to have financial stability. The gap between income and expenditure manifests resource adequacy to cover household expenses and financial security. Figure 1.2.7 shows that 51.2% of households receive less than RM6,000 per month, and 79.7% of them are experiencing financial imbalances as the expenditure is larger than the income share. The income-expenditure gap is more detrimental for the RM2,000 – RM3,999 household income bracket. In general, this indicates that more than half of households in the country require more income to absorb the surging living cost.

FIGURE 1.2.7. *Income and Expenditure Gaps by Income Classes (%), 2019*



Source: Department of Statistics, Malaysia

The gap of income and expenditure for 2016 and 2019 were relatively similar at about 28% but annual increment of 4.3% of the average gross household income failed to support the consumption expenditure within the period for the household groups with income less than RM6,000 per month. Furthermore, although the minimum wage was increased by RM100 to RM1,100 in 2019, the small increment in the minimum wage may not give a significant impact on the overall net income. Hence, it is important to consider moving to the bigger definition of a wage floor marked by a living wage standard as argued by Adams (2017) and Schulton and Müller (2019).

Are We Ready to Implement the Living Wage?

The living wage differs from the minimum wage in a few aspects. While the latter is statutory and covers the minimum level of remuneration for basic needs fulfilment, the former is usually higher after being adjusted to the changes in the living costs and does not necessarily conform to public regulations. The concepts of “living wage” have been introduced and implemented in a few countries, aiming to provide a decent living for the people beyond their subsistence remuneration (Schulton and Müller, 2019). However, the implementation is not standardised and normally be decided by the authority of the administrative spatial units concerned. Table 1.2.1 illustrates the difference in the rates of living wage and how they are operationalised. The United Kingdom provides city- and state-level living wage rates that are distinctive to the respective region. Similarly, in Canada, the Ontario province has established the living wage starting from CAD16.20 per hour, the British Columbia starting from CAD16.33 per hour, and likewise with the other provinces and territories using their respective rates. On the other hand, a few states in the United States passed a legal ordinance and mandated the specified living wage rate to employers.

TABLE 1.2.1. *Living Wage in Selected Benchmarking Countries*

COUNTRY	MINIMUM WAGE*	LIVING WAGE	DIFFERENCE	OPERATIONAL MECHANISM
New Zealand	NZD21.20	NZD23.65	12%	Employer accreditation.
Canada – British Colombia	Federal regulated industries: CAD15.55 Provincial rates: CAD15.65	CAD16.33 – CAD21.15	5%	Employer accreditation. The living wage is set at different rates for cities and communities across the country.
Canada – Ontario	Federal regulated industries: CAD15.55 Provincial rates: CAD15.00	CAD16.20 – CAD22.08	5%	Employer accreditation. The living wage is set at different rates for cities and communities across the country.
UK – London	GBP6.83 – GBP9.50	Real living wage: GBP11.05	62%	Employer accreditation. National living wage in the UK is the obligatory payment for people above 23 years old, computed based on the median wage.
UK – other than London	GBP6.83 – GBP9.50	Real living wage: GBP9.90	45%	Employer accreditation.
US – Los Angeles	Federal minimum wage: USD7.25	USD16.04	121%	By legal ordinance to public sector and private sector who has services contract with local government.

Note: (*) Exclude minimum wage for those below 18 years old and apprentice
Source: Living Wage Foundation, Retail Council of Canada, Ontario Living Wage Network, The Living Wage, Bureau of Contract Administration Los Angeles and U.S. Department of Labor

Generally, there are two approaches of how the living wage rate are implemented for employees in the benchmarking countries. These countries undertake a volunteer-based strategy to encourage employers to raise wages to the minimum acceptable standard of living. For instance, New Zealand, the United Kingdom and Canada have issued an official accredited certification to employers who are committed to fulfilling the living wage standard. On the other hand, the United States and several local governments in the Republic of Korea have enacted a legal ordinance to oblige employers who have services contracts with the government to follow the living wage standard.

From the macroeconomic view, GDP per capita, labour productivity, capital-output ratio and income inequality are among the important variables for a country to consider implementing the living wage as depicted in Figure 1.2.8. The selected countries that have adopted living wage, achieved GDP per capita three times larger than Malaysia with higher labour productivity and more efficient output production through automation. Moreover, the gap between income-classes in these countries are smaller.

FIGURE 1.2.8. *Macroeconomic Indicators for Malaysia and Selected Countries, 2019*

	NEW ZEALAND	CANADA	UNITED KINGDOM	MALAYSIA
GDP PER CAPITA	USD 40,599	USD 45,109	USD 47,750	**USD 11,414**
LABOUR PRODUCTIVITY	USD 82,033	USD 94,398	USD 91,700	**USD 58,970**
GINI INDEX	0.32	0.30	0.37	**0.41**
CAPITAL OUTPUT RATIO	10.67%	11.85%	10.59%	**5.16%**

Source: World Development Indicators, International Labour Organization, Organisation for Economic Co-operation and Development and Department of Statistics, Malaysia

Conclusion

Necessary interventions may be required in a situation that the labour market is less efficient but requires wage increment. An accreditation can be given to companies that pledge to pay higher than the current wage rate to their employees voluntarily. The available platform such as eSPO can be used and expanded on a larger scale. On the other hand, possible implementation of living wage may also be undertaken through ordinance and regulation as practised by developed countries.

The empirical findings provide some insights to the possible scenario when wages are adjusted higher than the current rate. The empirical analyses clearly show the role of higher wages in addressing pertinent structural issues such as women participation in the labour market, technological adoption, shadow economy and skills-related underemployment. The analysis also highlights that the existing wage rate is not inclusive as there are some segments of the household groups that cannot cope with the current cost of living. Another perspective demonstrates that the existence of the minimum and living wage reflects the inefficiency of the labour market's response on both demand and supply sides. Thus, more dedicated studies on the possible impact from the multidimensional aspects of wages are needed, as Malaysia aspires to become a high-income economy.

Businesses

Productivity and Competitiveness

Overall, MSMEs represent 98.5% from total businesses in Malaysia with 89.2% operates in the services sector. In view of the severe effects of the pandemic on the services sector, various assistances were provided, among others, *Geran Prihatin Nasional*, wage subsidies and moratorium on loan repayment. However, despite the availability of the Government's assistance, MSMEs experienced a marginal growth of 1% in 2021 due to lack of good management practices, innovation, digital and technology adoption, access to financing as well as shortage of workers. Meanwhile, labour productivity grew 1.8% in 2021 which remains lower than the targetted annual growth of 3.6% as in the Twelfth Malaysia Plan, 2021 – 2025 (12MP). The lack of investment in R&D and limited transfer of technology from multinational companies (MNCs) pose a great challenge to achieve the labour productivity growth as targetted.

FEATURE ARTICLE 1.3

Prioritising Government Efficiency in Boosting Malaysia's Global Competitiveness

Introduction

As aspired in the Twelfth Malaysia Plan, 2021 - 2025 (12MP), Malaysia aims to become a high-income country by 2025 and envisages being a prosperous, inclusive and sustainable nation. Therefore, emphasis will be placed on restoring economic growth, addressing socioeconomic challenges, ensuring balanced regional development, and enhancing the nation's competitiveness to be economically more resilient and sustainable.

From the mid 1980's until 2010, Malaysia recorded strong economic growth annually. This good performance prompted the World Bank in 1993 to recognise Malaysia as one of the high-performing Asian economies (HPAEs)[1]. However, while undergoing various stages of development, Malaysia remains a middle-income country with slower productivity growth, lagging behind the Asian developing economies such as Hong Kong, the Republic of Korea, Singapore and Taiwan that achieved high-income nation status during the period. Malaysia's gross national income (GNI) per capita in 2021 was USD10,930, below the threshold level of USD12,695 for a high-income economy (World Bank, 2021). Meanwhile, the COVID-19 pandemic has exposed structural vulnerabilities, highlighting the need for Malaysia to reform and rebuild to position the economy on a stronger and more sustainable footing.

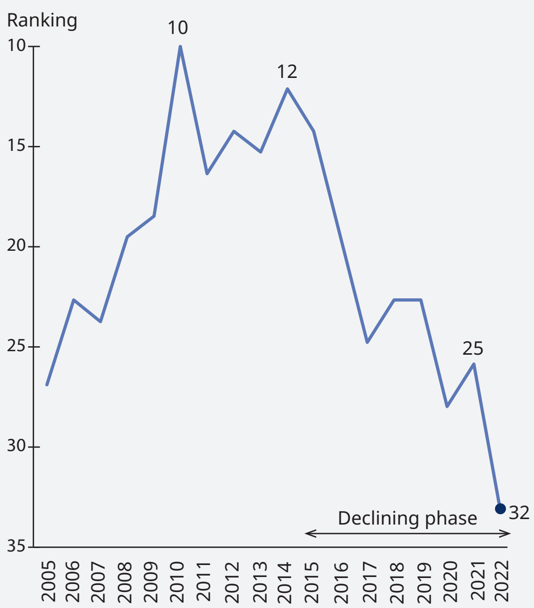
This article is a collaborative effort between the Ministry of Finance and Malaysia Productivity Corporation (MPC) to analyse factors that drive Malaysia's competitiveness and the Government's efforts to address challenges that hamper productivity growth and competitiveness. Moreover, this will highlight the importance of Government efficiency and regulatory reforms in driving Malaysia towards greater global competitiveness.

[1] HPAEs encompasses Hong Kong, Republic of Korea, Singapore and Taiwan (the Four Tigers); Indonesia, Malaysia and Thailand (three of the newly industrialized economies – NIEs); and Japan.

Malaysia's Position in the World Competitiveness Index

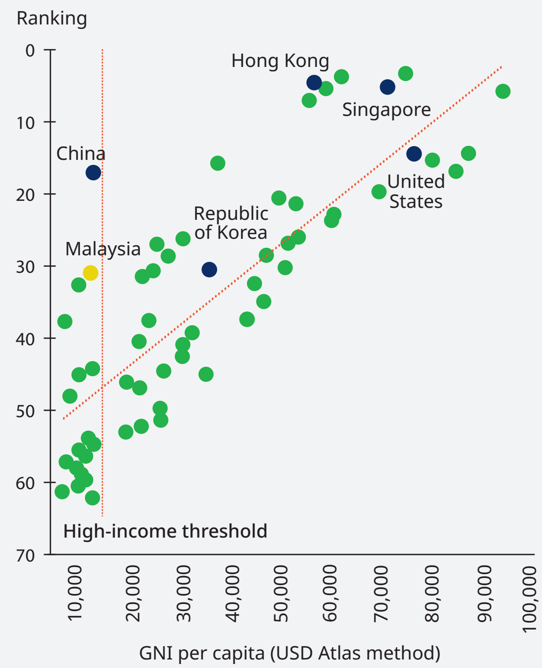
Malaysia ranked 12th in the 2014 World Competitiveness Yearbook (WCY) of the Institute for Management Development (IMD). However, the position continuously decelerated and dropped by seven positions from the 25th spot in 2021 to the 32nd in 2022, as shown in Figure 1.3.1. Hence, Malaysia is at risk of losing out on competitiveness in comparison to high-income economies such as Hong Kong and the Republic of Korea, as shown in Figure 1.3.2.

FIGURE 1.3.1. *Malaysia's Position in the World Competitiveness*



Source: The Institute for Management Development (2005-2022)

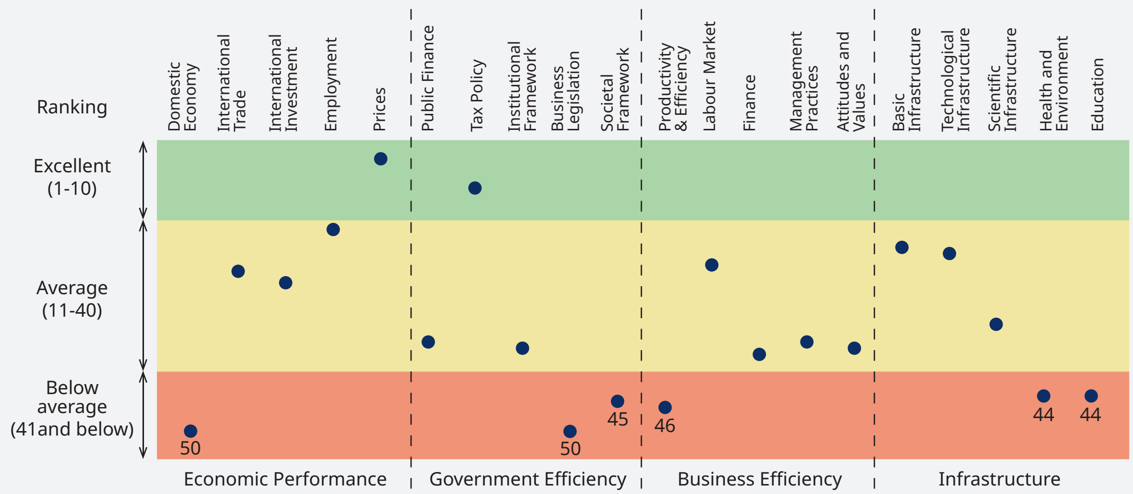
FIGURE 1.3.2. *Correlation between Competitiveness and GNI per Capita*



Source: The Institute for Management Development (2022), World Bank and selected National Statistical Office

Based on the four categories highlighted in the 2022 IMD Report, the government efficiency category dropped from 30th to the 38th position dragged down by the business legislation subcategory. At the same time, the business efficiency category fell from 24th to 38th due to low scores in the productivity and efficiency subcategory. Meanwhile, the infrastructure category fell from 32nd to 37th position due to matters related to health and environment; and education subcategories. Nevertheless, in the economic performance category, Malaysia performed strongly to improve from the 15th to the 12th position, indicating a favourable economic recovery and signalling a positive growth trajectory, as shown in Figure 1.3.3.

FIGURE 1.3.3. *Malaysia's Competitiveness Performance*



Source: The Institute for Management Development (2022)

In Malaysia's journey to become a high-income nation, issues surrounding the reallocation of economic resources, limited technology creation and structural issues in the labour market such as skills gap and low female labour force participation rate need to be addressed accordingly (Mottain, M., 2021). In addition, World Bank states that accelerating productivity growth is Malaysia's central economic policy challenge and a key factor in building a more competitive economy[2]. The report also revealed that, among others, Malaysia has a lower share of employment in the skilled category.

Further, in the input to the IMD WCY Report 2022, MPC has identified four challenges faced by Malaysia, which include:

- expanding regulatory reform initiatives to micro levels through public-private collaboration;
- enhancing technological adoption to increase productivity at the firm level;
- accelerating talent development initiatives to keep up with new and emerging job challenges and nurture a future-ready workforce; and
- strengthening productivity and competitiveness through mindset change and creativity.

Despite the challenges, Malaysia is committed to improve its performance and targets rankings under the 12MP including to reach the top 30 in the Corruption Perceptions Index and top nine in the Government Efficiency category of the IMD WCY (EPU, 2021). In addition, Malaysia continues to pursue a target of 80% end-to-end Government online services by the year 2025.

Malaysia's Productivity

Productivity is a cornerstone of a nation's economic growth that measures efficiency by comparing the outputs with the inputs used for goods and services. Productivity is closely linked to competitiveness whereby higher productivity, among others, will benefit a country in terms of expansion of capital investment thus attracting foreign investment. Productivity will also lead to the

[2] Aiming High-Navigating the Next Stage of Malaysia's Development (World Bank, 2021).

development of personal skills which could translate to higher wages and salaries thus improving standard of livings (MPC, 2019). Realising the importance of sustaining higher productivity, under the Eleventh Malaysia Plan, Malaysia targetted labour productivity to be raised from RM77,100 per worker in 2015 to RM92,300 by 2020 (EPU, 2015). To this note, Malaysia exceeded the target earlier in 2019, recording RM94,138 per worker. However, due to the COVID-19 pandemic, Malaysia's productivity growth contracted by 5.3% at RM89,106 per worker in 2020. In 2021, Malaysia's labour productivity performance started to regain the momentum, rebounding by 1.8% with a level of RM90,697 per worker.

Malaysia Productivity Blueprint (MPB) was introduced in 2017 as a strategy to raise labour productivity (EPU, 2017). The MPB outlines five strategic thrusts to ensure holistic and systematic change across all economic sectors, as shown in Figure 1.3.4. Furthermore, improving productivity continues to be emphasised in the 12MP and the Shared Prosperity Vision 2030. The 12MP has identified boosting productivity growth as one of the key priority areas and as the way forward to strengthen the macroeconomic fundamentals as well as restore the country's growth momentum. In this regard, labour productivity growth is expected to register at 3.6% per annum during the 12MP period.

FIGURE 1.3.4: *Malaysia Productivity Blueprint – Five Strategic Thrusts*

THRUSTS	NATIONAL INITIATIVE
1 Building Workface of the Future	Enforce structural changes to the workforce by formulating a comprehensive labour market policy, including reducing reliance on low-wage and low-skilled workers
	Conduct national strategic workforce planning in anticipation of changing needs across the sectors
2 Driving Digitalisation and Innovation	Strengthen readiness, knowledge and adoption of technology by enterprise across sectors
	Strengthen digitalisation among SMEs through e-commerce and adoption of innovative technology
3 Making Industry Accountable for Productivity	Gradually reduce the reliance on non-critical subsidies, and ensure liberalisation efforts are linked to productivity outcomes
	Realign key grants, incentives, soft loans and other funding mechanisms to productivity metrics and outcomes
4 Forging a Robust Ecosystem	Accelerate efforts to enhance whole-of-government approach towards addressing regulatory constraints
	Establish an accountability mechanism for the implementation of regulatory reviews by the government
5 Securing a Strong Implementation Mechanism	Institutionalise a strong coordination and governance model to secure implementation certainty across government, sector, and enterprise levels
	Launch nationwide productivity movement to inculcate a stronger culture of productivity across all segments of society

Source: Economic Planning Unit, Prime Minister's Department (2017)

The Drivers of Malaysia's Competitiveness

Based on the MPB and strategies in the 12MP, a solid productivity foundation was outlined to accelerate economic growth momentum and boost global competitiveness. This feat will be accomplished through venturing into knowledge-intensive and high value-added economic activities that lead to generating high-paying jobs. More importantly, the Government has recognised the significance of effective talent development, rapid digital technology adoption as well as quality regulations as the key to accelerating higher productivity.

Effective Talent Development

Talents are crucial assets to productivity growth. Based on the IMD World Talent Ranking 2021, economies with high productivity growth achieved commendable positions in the global talent ranking, denoting the significance of human resources to productivity performance. Realising the importance of talent in driving sustainable growth, there is a need for the country to implement a holistic and comprehensive talent ecosystem[3]. This initiative is important to ensure a sufficient pool of home-grown talents to drive productivity and innovative-led business growth.

Towards this end, MPC has been working on talent development with the relevant stakeholders to build a productive workforce of the future. This effort will address the shortage of workers and provide opportunities for low performers in the national education system through dedicated programmes, the latest being Academy in Factory (AiF).

Digital Technology Adoption

The pandemic COVID-19 has alerted the need to rapidly shift to digital technology, which is essential under the new norms. Digital adoption provides a suitable avenue for all sectors to engage and collaborate virtually in order to increase productivity. The Government is committed to accelerating technology adoption through the establishment of the National Council of Digital Economy and Fourth Industrial Revolution (MED4IR). The Council provides clear and coherent policies on digitalisation and technology to scale up capabilities in technological advancements and spur the growth of the digital economy.

In supporting the plan, the “Go B.I.G[4] with Digital” initiative which focuses on catalysing productivity growth through technology adoption was introduced by MPC in 2020. The initiative advocates the need for a mindset transformation among leaders to unleash the industry’s potential. In promoting and boosting the adoption of digital technology, the initiative emphasises three key strategies, namely Nudging Chief Executive Officer (CEO)[5], Advisory Programme[6], and Experiential Learning[7]. Essentially, digital transformation driven at the top level will lead to huge leaps in productivity and performance.

Quality Regulations

The Worldwide Governance Indicators (WGI)[8] by the World Bank (2021) capture regulatory quality as a perception of a government’s ability to formulate and implement sound policies and regulations that enable and promote private sector development. Meanwhile, Organisation for Economic Co-operation and Development (2009) defines regulatory quality as countries’ ability to manage both the stock of existing regulations and the flow of new regulations to sustain growth and maximise welfare. Most OECD countries have introduced burden-reduction programmes by adopting Regulatory Impact Assessment (RIA) in an effort to counteract the growing layers of red

[3] A loose interconnected relationship between talent and the environment in which it operates such as education system that mould them, the training and incentive at work place, and the norms and culture they live in. It encompasses the whole infrastructure, process and environment of talent development which enable the system to produce and educate, creative and well-rounded human capital (Baharin, I., & Abdullah, A., 2011).
[4] B.I.G refers to Breakthrough results, Integrity and Good values.
[5] Programme of mindset change among business leaders in transforming their business operation towards productivity enhancement through digitalisation.
[6] Program that the companies are matched and arranged for a one-to-one session between the industry leader and advisor or mentor from the industry. It’s aims to assist businesses in rebuilding capacity and capabilities to bounce back after the pandemic.
[7] Hands-on programme where the participants learn internet of things (IoT) and Artificial Intelligence (AI), and they are required to develop Proof of Concepts.
[8] WGI consists of 6 broad dimensions of governance namely Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption

tape. Regulatory quality is one of the essential external factors that can enhance the ease of doing business and create a supportive business ecosystem. In facilitating businesses, quality regulations would form a competitive and supportive business ecosystem, leading firms, industry, and the economy in totality to be more productive and competitive.

Malaysia's performance in regulatory quality registered a consistent improvement between 2011 and 2020, implying the effectiveness of the Government's regulatory reform initiatives. In 2020, Malaysia scored 74 percentile rank in Regulatory Quality Indicator, indicating the need to further improve the ease of doing business. Good regulatory governance is essential for the profitability of the private sector (Malaysian Institute of Economic Research, 2022). Meanwhile, burdensome regulations lead to excessive red tape that results in a slowdown in productivity (International Business Review, 2022). In moving towards a high-income nation status, the country's regulations must be agile and responsive in responding to the current needs and requirements; transparent in formulation and delivery; as well as inclusive and comprehensive (Naharul, M. A., 2022).

Initiatives in Driving Malaysia Towards Global Competitiveness

In strengthening Malaysia's productivity, several initiatives have been implemented and successfully charted the encouraging results. Among the initiatives are as follows:

- The "Silent Implies Consent" approach by several technical agencies has expedited the issuance of the Certificate of Completion and Compliance for construction projects. The method has managed to clear the regulatory backlog and enable businesses to restart operations faster during the movement control orders.

- The adoption of agile regulation approach in the Express Construction Permit initiative (E10) which reduces red tapes in approval processes will expedite construction projects and issuance of licence for businesses to operate within a shorter timeframe. It leads to compliance cost savings, generates faster revenue, creates new job opportunities and supports the domestic economy.

- The National Policy on Good Regulatory Practice (NPGRP) was introduced in 2021 to improve the quality of new as well as existing regulations to be more efficient, effective and transparent, replacing the National Policy on the Development and Implementation of Regulations (NPDIR) (MPC, 2021). NPGRP acts as an instrument to formalise the development processes of quality regulations and emphasises on the use of RIA for informed rule-making decisions (Izham, M. I. M., 2020). It provides guidance on the implementation of GRP for government institutions in developing policies and regulations. The most significant improvement in the NPGRP involves expansion of scope to focus on all regulations affecting economy, social and environment as compared to NPDIR which only applied to all regulations relating to business, investment and trade. Other improvements include clarification of roles and responsibilities of the oversight body (National Development Planning Commission-NDPC), the implementing agency (MPC), and regulators; update of old and issuance of new guiding documents; and flexibility and ease in the process through the Initial Assessment and Final Assessment phases (Izham, M. I. M., 2021). Through NPGRP, public sector governance would be strengthened and at the same time helps to improve the country's productivity by stakeholders' involvement in rule-making process.

- The Malaysian Licensing Guidelines (MyGP) Portal, a one-stop platform was established in 2021 to facilitate the setting up of businesses. The platform helps to ensure transparency and efficiency in business application approvals by compiling and centralising all guidelines and information related to business licensing and permits application.

- The Malaysia Mudah programme (MyMudah) was introduced in 2020 as a strategy to mitigate the regulatory challenges due to the COVID-19 pandemic as well as a platform to facilitate fast-forward solutions to cushion the impact. To further strengthen and scale up the programme through the whole-of-government approach, Economic Action Council initiated the establishment of MyMUDAH Unit at business associations, ministries, government agencies, state governments, and local authorities. This initiative will help to reduce regulatory compliance costs by 25% per annum (MPC, 2020), and ensure good quality, comprehensiveness, agility, and responsiveness of regulations to boost Malaysia's productivity.

Conclusion

Malaysia has a strong potential for robust productivity growth which is in line with the 12MP aspiration to be a high-income nation. The Government has implemented several initiatives to strengthen Malaysia's productivity which include accelerating shift to digital technology, undertaking effective talent development, strengthening public-private collaboration, adopting good regulatory practices and enhancing innovation that could pave the way to advance the economy. The strengthening of Malaysia's productivity will provide a solid foundation to accelerate economic growth momentum and boost Malaysia's global competitiveness.

New Growth Areas

In accelerating the transformation into a high-income nation amid the economic challenges, Malaysia needs to develop new growth areas as its comparative advantage. In view of this, it is important to identify the growth areas that will increase Malaysia's competitiveness and provide a conducive investment ecosystem through the formulation of facilitative policies to accelerate the development of the new growth areas. To support the ecosystem, the National Investment Aspirations (NIA) is expected to attract quality investments through the provision of incentives, modernised industries, and the creation of high-paying jobs.

Economy

Inclusivity and Sustainability

In achieving inclusive and sustainable economy, the Government needs a robust policy tools to monitor the progress of inclusivity and sustainability. The Multi-Dimensional Poverty Index (MPI) which was developed in 2016, is used to measure the non-monetary aspects of poverty such as access to education, healthcare, digital connectivity and other standard of living dimensions. Being a robust policy tool, the MPI could help the effort to achieve inclusive development and can be mainstreamed to ensure shared prosperity among the *rakyat*, including addressing Bumiputera participation in the economy. The multi-dimensional aspects of MPI can also support the tracking of Malaysia's progress in implementing the sustainability agenda.

Food Security

Malaysia will remain vulnerable to food insecurity if the heavy reliance on imports persists, particularly cereals, vegetables and fruits. Among the food items that recorded less than 100% Self-Sufficiency Ratio (SSR) are sweet potato (75.6%), coconut (66.6%), rice (63%), round cabbage (37.5%) and chilli (30.9%). The situation is made worst by the global food inflationary pressures whereby the value of agricultural imports increased about four times in 2021 compared to 2000, translating into a larger deficit of RM24.9 billion. In addition, lack of focus on food crop cultivation and the reduction in land for agriculture use contribute towards food security and self-sufficiency issues. In 2016, the size of agricultural land for food crops was 918.2 thousand hectares but declined to only 868.7 thousand hectares in 2020 (DOSM, 2021)[3].

Government

Governance and Service Delivery

The IMD World Competitiveness Yearbook (IMD, 2022) reports that Malaysia's ranking in 2022 is at 38th spot compared to 30th in 2021. Meanwhile, Transparency International's Corruption Perception Index which measure the perceived level of public sector corruption placed Malaysia at the 62nd position in 2021, a drop of five places from 57th position in 2020. As the international ranking is a reflective of the governance and institutional quality of a country, Malaysia will continue to increase the level of its governance in order to improve the country's performance and reputation. Improving efficiency, transparency and service delivery remain the focus of the Government. It is important for the Government to provide quality services to accelerate post-pandemic recovery and support efforts to achieve a high-income nation while facing tough scrutiny over its fiscal management in order to sustain economic stability.

Disaster Risk Management

Malaysia generally experiences various natural disasters. However, the recent floods and landslides which occurred in late 2021 and early 2022 in some parts of the country have revealed the importance to enhance Malaysia's preparedness against any disasters. In addressing the recent flood catastrophe, the Government disbursed around RM2 billion for immediate support and relief efforts to help the affected *rakyat*.

[3] MOF's calculation based on the data of planted area for selected crops (2016 – 2020) by DOSM.

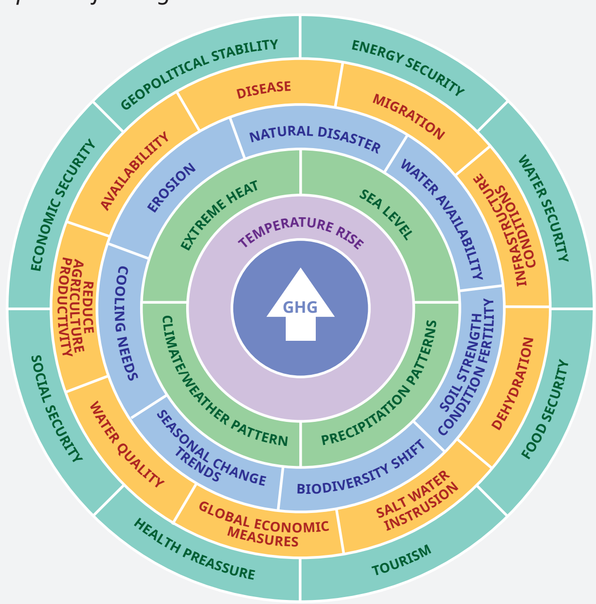
FEATURE ARTICLE 1.4

Climate Risks and Impacts on the Economy

Introduction

The world is currently facing a looming climate crisis that will have overarching impacts on the global economy and countries' development pathways. Growing concerns about global warming and climate change which impact energy, water and food security; slow down economic growth; as well as increasing occurrences of natural disasters, have become central to the global agenda in the past decades. As human activities such as industrialisation and urbanisation have intensified, the amount of greenhouse gases (GHG) released into the atmosphere have also risen, resulting in the increase of global temperatures and the changing of climatic systems in an unprecedented way as shown in Figure 1.4.1. According to Intergovernmental Panel on Climate Change (IPCC) (2021), it is reported that these will continue to worsen in the coming future, putting many countries at risk.

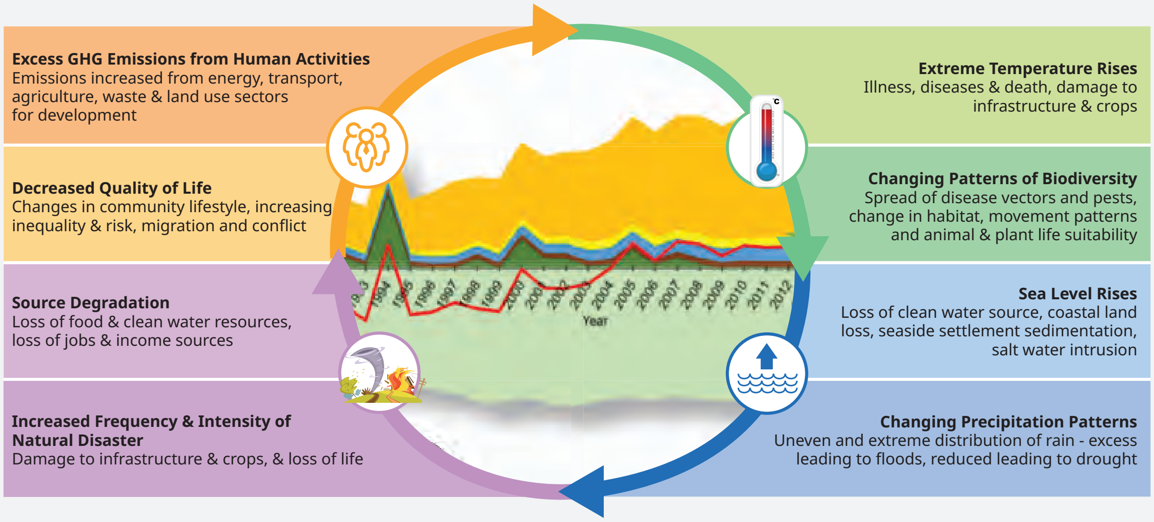
FIGURE 1.4.1. *Cascading Impacts of Rising Greehouse Gas Emissions*



Source: Ministry of Finance, Malaysia

Malaysia is not spared from the impacts of global warming and climate change. The Third National Communication dan Second Biennial Update Report to the UNFCCC highlights that an increase in the mean surface temperature of the country will lead to a rise in sea levels as well as a shift in rainfall patterns in terms of occurrences and volumes. The overall impacts of climate change are expected to be far-reaching and will affect various sectors that are crucial to Malaysia's economy. In the absence of effective interventions, there will be higher risks to energy and water supply, food security, tourism, and the *rakyat*'s wellbeing as shown in Figure 1.4.2. The global move towards addressing the climate crisis including unilateral actions by certain countries will also impact the nation's economy and fiscal position, if not properly addressed.

FIGURE 1.4.2. *General Climate Risks and Impacts in Malaysia*



Source: Ministry of Finance and Ministry of Environment and Water, Malaysia

Climate Risks And Impacts In Malaysia

Food And Water Security

Malaysia's water supply comes mainly from the rain that it receives annually, channeled into the rivers and lakes from the mountain and forest areas. However, the increase in temperature and prolonged drought will cause ground water, lakes and other water bodies to dry up. On top of that, heavy precipitation and floods will also result in the deterioration of the water quality. These changes will affect soil fertility, crop conditions and harvest productivity. The increase in temperature will put stress on livestock and reduce food produce yield. The temperature increase coupled with rising sea levels will also heavily affect coastal agricultural activities and the fishery industry, through increased erosion, saltwater intrusion, storms and unpredictable monsoon seasons. A rise in the ocean's temperature will have a negative impact on coral reefs, with massive bleaching occurrences as well as reducing local fish and seafood supply drastically. All these factors will adversely impact the nation's overall clean water availability and food production capabilities.

As a net food importer country, Malaysia is considered as having some level of overdependency on food and agricultural imports. As seen during the COVID-19 pandemic and the Russia-Ukraine conflict, other countries could potentially reduce their exports which would result in supply shocks and increased prices. A decrease in domestic agricultural productivity as well as import disruptions will jeopardise the country's food security and export earnings, putting the whole economy and nation at risk.

Natural Disaster

Temperature and rainfall fluctuations will weaken the structures of soils, rocks and the state of the earth's surface, contributing to an increase in the frequency and magnitude of geological disasters like land- and mud-slides. Flooding and drought event frequencies will also increase at a varying degree, between regions and periods, resulting in economic and social repercussions to the surrounding communities, incurring great losses to the nation. In 2007, the floods in Kota Tinggi, Johor caused about RM2.4 billion of economic, infrastructure and agricultural losses. The

2014 floods that hit the nation cost the Government RM1.5 billion, while the floods in December 2021 cost the Government around RM2 billion for immediate disbursements, with an additional RM15 billion committed to flood mitigation efforts until 2030. In addition, coastal protection and improvement efforts to counter the rising sea levels will also be costly and challenging. Managing floods, rising sea levels and other related disasters will increase the government's fiscal burden.

Tourism

The nation's coastal area and natural landscape are highly visited tourist destinations. However, coastal wetland ecosystems such as salt marshes, mangroves, seagrass beds and coral reefs will be heavily altered if the sea level rises, climate fluctuates as well as temperature increases. These changes will have an impact on local livelihoods as well as the tourism industry. With rising sea levels, tourism infrastructures will face higher risks of inundation. Increased frequency of flooding, landslides, water rationings and coral bleaching would also affect the country's attractiveness. As the recent pandemic highlighted, reduced tourism activities will impact tourism-related industries, and put the livelihood of communities at risk.

Social Security

The increase in heat and frequencies of weather extremes will also see an increase in water-related sicknesses and diseases. The warmer climate will exacerbate the spread of tropical diseases such as malaria and dengue. Drier conditions and heat waves will increase wildfire incidences thus triggering haze events, leading to increased cases of respiratory illnesses. These health impacts will add pressure to the national health system and affect the overall productivity of the nation.

Climate change will cause more populations to be displaced and forced to migrate. Conflicts over the depleting resources, famine from drought and floods, as well as increased extreme weather events, could intensify geopolitical tension and climate refugee (IPCC, 2022a). Locally, the impacts of a changing climate, coupled with the advancements in technology and education as well as the growing population, could potentially lead to more migration of the population into the cities, putting pressure on the overall resources.

Energy

Malaysia is heavily dependent on available and affordable energy for its consumption and development purposes, from electricity generation to power industries, technologies and homes, as well as to the petrol and diesel fuelling vehicles and machinery. In ensuring that energy is easily accessible by the *rakyat*, the Government spends a large amount annually on energy subsidies in the downstream segment, including petrol and diesel. Yet, blanket subsidies are unsustainable and put pressure on the fiscal space of the country. Being pollutive and finite as well as subject to volatile market fundamentals and geopolitical situations, fossil fuels are risky options for sustainable development moving forward.

Economy

In the global move towards decarbonisation, GHG emissions will have an influence on the marketability of businesses, and have even become a new form of tradable commodity, generally known as carbon. Nowadays, consumer demand for lower-carbon products and services is gaining traction. The climate economy has been tougher than before as the increasing prices for energy and basic resources have generally pushed up the operating and production costs, impacting profit margins. As most businesses and economies around the world are adapting to green, climate-friendly, low-carbon and sustainable products and services, more ESG[1]-compliant companies have improved their ways of doing business and shifted away from the past norms.

[1] ESG refers to a system to measure the sustainability of a company or investment in three specific categories, namely Environmental, Social and Governance.

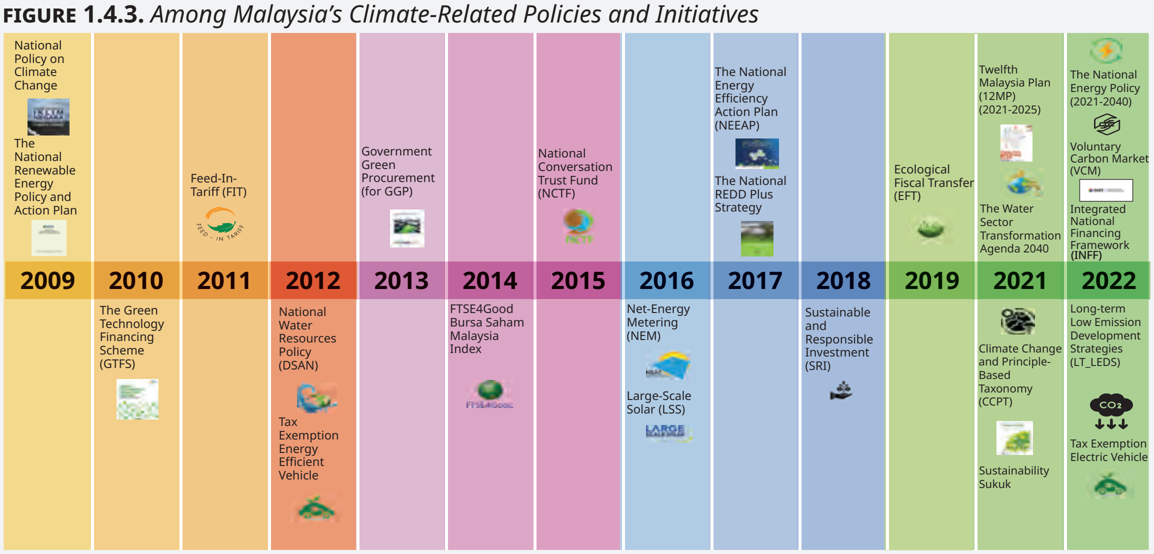
On the international front, carbon pricing policies are being adopted by both developed and developing nations to advance the climate change agenda. The European Union (EU) has gone to the extent of instituting the Carbon Border Adjustment Mechanism (CBAM) regulation that targets to impose some ad-valorem amount on the imports of carbon-intensive products related to certain industries. Tighter regulations and requirements on products implemented by certain economies such as the EU, will have an impact across the supply chain locally and internationally. As the EU scrutinises GHG emissions across the supply chain, exports that fail to meet the requirements will need to adhere to additional taxation or face the possibility of being prohibited from entering the EU market. The implementation of the CBAM will weigh on trade competitiveness among the EU's trading partners, including Malaysia. Subsequently, more countries are in the midst of adopting similar mechanisms to safeguard their industries and economy, in their efforts to reduce GHG emissions.

As it stands, the use of market mechanisms is expected to gain traction whereby each country will be scrutinised by its key climate parameters and the possible impacts on communities, livelihoods and the economy. In addition, international organisations such as the World Bank Group (WBG) and the Asian Development Bank (ADB) conduct and publish country profiles on climate risk that highlight every country's economic standing and its attractiveness to investors and businesses.

Current Efforts And Way Forward

The Government is aware that without proper planning and preparedness, global warming and climate change will put pressure on the country's economic and social standing in the long run. Therefore, the National Policy on Climate Change and other relevant policies and measures were formulated to guide the country in navigating the challenges ahead as shown in Figure 1.4.3. Latest, the Twelfth Malaysia Plan (12MP) 2021 – 2025 guided by the pillars of sustainability (economy, social and environment) aims to achieve net-zero GHG emissions by as early as 2050.

FIGURE 1.4.3. *Among Malaysia's Climate-Related Policies and Initiatives*



Source: Ministry of Finance, Malaysia

In this regard, Malaysia will develop the Long-Term Low Emission Development Strategies (LT-LEDS), which will outline strategies and actions for GHG mitigation, particularly for the main economic sectors. The LT-LEDS will form the foundation as well as determine the way forward and targets in achieving the net-zero emissions aspiration.

Energy

Renewable energy sources such as wind and solar, emit little to no GHG and are readily available and in most cases cheaper than coal, oil or gas (IPCC, 2022b). The National Renewable Energy Policy and Action Plan was launched in 2009 to spearhead renewable energy uptake in Malaysia. This is further strengthened by the National Energy Policy 2021-2040 launched in 2022, which aims to continue meeting the nation's growing energy demands, while ensuring a cleaner and more resilient economy to achieve a net zero pathway. Based on the energy mix in Malaysia, hydropower is currently the highest contributor to the total renewable energy use. However, large hydropower could be affected as river sources deplete as well as siltation and sedimentation increase. Therefore, changing climate and weather patterns must be taken into consideration when planning for the use of hydropower, to ensure the effectiveness and success of projects like the Bakun hydroelectric power plant as well as other hydropower plants.

On the other hand, solar power has the potential to contribute more to the energy mix. Being one of the main suppliers of solar-photovoltaic panels in the world, Malaysia's local uptake still needs to be further encouraged. With the introduction of the Net-Energy Metering (NEM) system, excess energy produced from solar panels fixed on private or commercial buildings can be sold back to the grid based on the Feed-In-Tariff (FIT) and Large-Scale Solar (LSS) systems, creating a new economic market ecosystem.

Furthermore, the sustainable waste management industry could offer a dynamic and profitable revenue stream to the economy, as well as a potential alternative energy source through biomass and biogas utilisation. Malaysia currently exports some of its waste products to other countries for this purpose, for example, used cooking oils exported to Singapore to be further processed into aircraft fuel; and palm oil mill effluents (POME) to Japan for biomass energy production. The advancements in the waste management industry, including recycling, upcycling and biofuel generation, as well as the push toward a circular economy[2] and waste-to-wealth economy[3], will open new revenue streams for local businesses and create new job opportunities. Moving forward, the Government through relevant agencies with the support of public and private research institutions, is looking into other sources of potential alternative energy such as wind, thermal and wave.

Reducing energy consumption through energy efficiency measures[4] is one of the most cost-effective options utilised by the Government in addressing the economic impacts of the rising fuel prices. The National Energy Efficiency Action Plan (NEEAP) outlines strategies to encourage efficient use of electricity and promote energy-efficient products among industries and consumers. Meanwhile, the Government Green Procurement (GGP) initiative has encouraged the utilisation of energy-efficient products as well as other green products and services in government buildings since 2013. In 2021, the GGP was valued at approximately RM616.8 million, involving 27 ministries.

Mobility

As part of the energy used for industries and the public, mobility is another key category that needs to be addressed, especially through cleaner transportation technology. With the rising fuel prices, energy-efficient vehicles (EEV) and alternative-energy vehicles (AEV) present a solution for more sustainable mobility. The Government provided special tax exemption for the purchase of EEVs in 2012 which include hybrid vehicles (HV) and electric vehicles (EV). As more car manufacturers started producing HV options, the market experienced a booming period in the past decade. Additionally, the Government has provided a special tax exemption on fully battery-

[2] 2019 United Nations Environment Assembly defines circular economy as a model in which products and materials are designed in such a way that they can be reused, remanufactured, recycled or recovered and thus maintained in the economy for as long as possible.
[3] Waste-To-Wealth, towards a Sustainable Zero-Waste in a Circular Economy: An Overview (2019) defines Moving waste from a platform of exhausted utility to valuable and desirable level.
[4] Some of the key initiatives are Promotion of 5-Star Rated Appliances, Minimum Energy Performance Standards (MEPS), Energy Efficient Building Design and Promotion of Cogeneration

powered EVs to further encourage the uptake among consumers. Moving forward, the Government will look into enhancing the EV ecosystem, and the potential of the AEV industry including hydrogen-powered vehicles.

Water

Malaysia's National Water Resources Policy (DSAN) was launched in 2012 to ensure more sustainable and integrated management of water resources, including sustainable utilisation of groundwater sources; as well as the preservation and management of water catchment areas and river basins. The Water Sector Transformation Agenda 2040 was further highlighted in the 12MP to steer the development of the sector in ensuring water security and sustainability as well as to emphasise the importance of the water sector for the country's economic development. Specialised education and awareness programmes for the public will be further enhanced to encourage proper practices towards water usage. Moving forward, the water sector will be developed as a dynamic growth engine while ensuring water security in the country. This will be achieved by empowering people as drivers of water sector transformation, strengthening governance, enhancing data-driven decision-making, as well as developing sustainable and cost-effective infrastructure.

Food

The Government will increase its efforts in advancing a more resilient agriculture ecosystem to address the issue of food security. Proper irrigation systems and infrastructure will be put in place to supply farms and plantations with adequate water at all times, including during the dry season. Selected and modified crop varieties that can withstand drought and low water supply are also being introduced to ensure productive yield. Subsequently, effective climate resilient technology and sustainable agricultural practices will continue to be adopted to enhance crop yield and productivity, thus reducing the dependency on food imports. In addition to the programmes planned on land, efforts in conserving coastal ecosystems as breeding and feeding grounds for marine life will be enhanced to ensure the sustainability of the blue economy[5]. Overall, proper infrastructure development, stakeholder engagement and capacity building for industries are crucial in ensuring the sustainability and resilience of the agriculture sector.

Tourism and Environment

Effective implementation of sustainable forest management through preservation and conservation programmes for biodiversity, carbon sinks and natural assets both on land and underwater, is crucial to promote the livelihood of local communities and the tourism industry. Ecotourism and nature-based tourism will also be encouraged to reduce impacts on the country's natural heritage. In this regard, efforts to support biodiversity and ecosystem conservation and management will be further strengthened through the REDD Plus[6] mechanism, National Conservation Trust Fund (NCTF) and Ecological Fiscal Transfers (EFT), among others.

Society and Development

Malaysia will continue to increase its preparedness and adaptation capabilities to mitigate the impact of climate change to safeguard the *rakyat* and ensure continuous economic growth. The Government will continue to ensure sufficient food and water supplies to meet the growing demand, apart from well-managed and evenly-distributed resources for the wellbeing and sustainable growth of the economy. Measures to mitigate and prevent climate change-related disasters will be strengthened, as well as enhance the conservation of natural ecosystems. Furthermore, effective town planning incorporating proper climate change adaptation and mitigation aspects will be implemented to ensure climate-friendly and -resilient cities and towns with low carbon technologies, greener landscapes and better connectivity.

[5] World Bank defines blue economy as sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem.
[6] REDD Plus – Reducing Emissions from Deforestation and Forest Degradation

Economy

In line with the global trend for decarbonisation, the Government will put in place appropriate measures to strengthen Malaysia's economic development. Malaysia is looking into the feasibility of introducing carbon pricing mechanisms to further encourage industries in ensuring their products continue to be competitive in the international market. The Government will assess the most suitable mechanism to entice industries to participate in domestic carbon trading. The implementation of the Voluntary Carbon Market (VCM) by the end of 2022 by Bursa Malaysia will utilise the Verra standards to certify carbon credits traded on the platform. The credits provided are of high-quality to drive large-scale investment toward high-impact activities. The country's efforts to transition towards a net-zero pathway will see the creation of new economic sectors. The emergence of climate-friendly or low-carbon technologies, businesses and industries will further strengthen the economy through the diversification of markets, job creation and revenue generation.

These efforts will be backed by strong initiatives from the financial sector as well. The number of approved Sustainable and Responsible Investment (SRI) funds has grown from two when it was first launched in 2018, to 56 funds as of June 2022. The FTSE4Good Bursa Malaysia Index initiated in 2014 recognises public listed companies (PLCs) with good practices, and the number of constituents has more than tripled since its inception. The Principles for Good Governance (PGG) for Government-Linked Investment Companies (GLICs) will push governance and the overall ESG agenda within the GLICs, while the Climate Change and Principle-Based Taxonomy (CCPT) will support businesses in their transition to low-carbon practices.

In Islamic Finance, Malaysia has pioneered the green Sukuk and the social impact Sukuk through the Securities Commission's SRI Sukuk framework, and continues to lead the Sukuk market, accounting for roughly 45% of global Sukuk outstanding. The issuance of the sovereign USD-denominated Sustainability Sukuk in April 2021 was a success, resulting in the issuance of a new domestic Ringgit-denominated RM4.5 billion in 2022. The proceeds of these sukuks will be used for sustainability programmes and projects, as listed in the Government of Malaysia SDG Sukuk Framework The Green Technology Financing Scheme (GTFS), introduced in 2010 to encourage local companies and entrepreneurs to participate in green technology-based projects, received an allocation of RM2 billion under the Budget 2022. This allocation will support the issuance of SRI Sukuk and green bonds and is open for application until 31 December 2022.

Moving forward, the Government will incrementally put in place the institutional and regulatory frameworks to provide a proper ecosystem that fosters climate actions by all stakeholders in the country. The establishment of an Integrated National Financing Framework (INFF), and the development of a Sustainable Finance Roadmap, will assist in understanding the current financing landscape and identifying existing and future financing gaps towards ensuring ample and adequate finance in achieving net-zero aspiration.

Conclusion

Global warming and climate change will have overarching effects on Malaysia's development path, economic growth and *rakyat's* wellbeing. Many of the problems faced due to the changing climate have no simple solution as they cut across fields of governance, science, technology, economics, and communication. The solutions require a major paradigm shift in the behaviour of individuals as well as business and government operations. The Government will continue to address the climate risks in a whole-of-nation approach by engaging and collaborating with agencies, institutions, businesses, and communities. The economic and financial implications of addressing the impacts of global warming and climate change will be thoroughly examined, covering short-, medium- and long term risks and opportunities. This will enable the formulation of proper and effective policies and response measures in ensuring a sustainable economy and resilient nation.

Public Health

The healthcare system in Malaysia showed a significant achievement in the provision of quality healthcare services, especially during the pandemic period. However, there is a need to overcome several issues particularly shortages of technical and health personnel including specialists, long waiting time for treatment, lack of advanced facilities, and fragmented health databases of public healthcare institutions. Improvement in terms of the accessibility to healthcare services in the remote areas is also required, especially in Sabah and Sarawak.

Strategic Initiatives – Budget 2023

In weathering the challenging global environment while the country is in the recovery phase, the Government will continue to provide the relevant support for the *rakyat* and businesses. In this regard, the Budget 2023 emphasises on strengthening the momentum of recovery, building economic resilience and catalysing comprehensive reforms.

Strengthening the Momentum of Recovery

A holistic approach will be adopted to strengthen the momentum of recovery in improving the wellbeing of the *rakyat* post-COVID-19 pandemic. In view of the rising cost of living and impact of crises, the Government will continue to mitigate the risks faced by the lower income groups in the event of an economic crisis and natural calamities. Hence, the social protection system will be strengthened to broaden coverage for the *rakyat* against various vulnerabilities. Towards inclusive and sustainable growth, the Government will undertake development and provide public services in order to reduce disparities between regions and communities.

The Budget 2023 will present strategies and programmes that focus on creating a better, safer and more inclusive society. In this respect, the Government aspires to ensure the *rakyat* have access to employment and business opportunities to raise their income. Priority will continue to be given towards investments that generate quality employment and business opportunities, in addition to contributing towards a more resilient, competitive and future proof industry in line with the 4IR and digitalisation agenda.

Measures will be introduced to encourage more *rakyat* to join the labour market especially women and the younger generation through employment and entrepreneurship programmes. Strategies to expedite automation and high-value added production activities in industries will also be enhanced to stimulate higher demand for skilled workers. In addition, the Government will promote the adoption of technology by farmers and agropreneurs to increase agricultural productivity. At the same time, the community especially the youths will be encouraged to participate in urban farming and modern agriculture.

Given the importance of improving the quality of life, the Government aspires to meet the housing needs of the *rakyat* by facilitating financing facilities including for the informal sector. The Budget 2023 also aims to improve access to quality healthcare nationwide including a focus on prevention and health screenings. The Government will also strengthen investments in security and education in addition to extending the access of basic infrastructure nationwide.

Towards achieving inclusivity across the country, focus will be given on the measures to upgrade and expand education and healthcare facilities as well as transportation and communication connectivity. The effort will minimise the development gap between urban and rural areas, subsequently meeting the needs of the *rakyat* holistically. To further elevate the quality of healthcare, the Government will strengthen its services by increasing the number of healthcare professionals and provide a conducive environment at the public healthcare facilities.

The Government remains committed in promoting people-centric programmes that enable the *rakyat* to benefit from the growth and prosperity of the nation. The Budget 2023 will focus on infrastructure development, with a particular focus on improving connectivity, in terms of transportation and internet. Meanwhile, the Bumiputera agenda will continue to focus on empowering the Malays and also Orang Asli as well as natives of Sabah and Sarawak to be actively involved in the economic activities, in line with the *Tindakan Pembangunan Bumiputera* 2030 roadmap. In empowering the minorities and specific vulnerable groups as well as the Orang Asli to participate more actively in the community, the Budget will continue to build on partnerships between NGOs and government agencies. Special emphasis will also be given to children with special needs, senior citizens and people with disabilities to acquire specific care as well as opportunities in education.

Building Economic Resilience

Businesses of all sizes, were directly impacted by the COVID-19 pandemic, forcing many of them to temporarily or permanently cease their operations. With the economy fully reopened, the Government is committed to focus on strategies to restore business and economic resilience which include ensuring access to financing, driving strategic investments and reviving targetted sectors. This effort is necessary in providing a conducive environment for businesses thus increasing the nation's competitiveness. Realising the significant contribution of MSMEs to the economy and employment, efforts will be undertaken to expand the access to financing for businesses as well as prioritising and encouraging domestic direct investment.

In driving Malaysia to become a high-income and inclusive economy, the Government is committed to accelerate the creation of high growth local start-up companies and innovative firms that will increase the demand for skilled and multiskilled employees. Concerted efforts will be made to enhance the knowledge, digital capabilities as well as managerial practices of the talent pool. Additionally, specific measures to foster linkages between the MSMEs and the innovator community, including the MNCs and academia, will be prioritised to encourage and incentivise the adoption of innovative processes. Initiatives to encourage MSMEs to embrace ESG practices and undertake more green investment will also be promoted. In this regard, the Government will focus on strengthening programme coordination across ministries to ensure swift implementation of various initiatives.

Six main new growth areas have been identified to accelerate Malaysia's transformation into a high-income nation. These new growth areas, encapsulated in the Industry4WRD, the 12MP and NIA include advanced E&E, aerospace, the biomass industry, chemicals and chemical products, pharmaceuticals as well as the digital economy. Through these growth areas, the Government will focus on promoting products, utilising processes, creating high income jobs and intensifying R&D&C&I enabled by the digital economy in Malaysia.

Efforts to further modernise the agriculture sector are also ongoing. In this respect, the agro-food industry will be supported by enhancing the productivity through the implementation of best practices, modern technology and smart farming. Furthermore, the Government will continue to improve food-related supply chain in promoting price stability. The Budget 2023 will also encourage more local food production and reduce the reliance on food importation to meet the Self-Sufficiency Level (SSL) requirement.

Malaysia will leverage on its strengths especially the globally accepted halal logo as the marketing tool to promote Malaysia's products. Various initiatives could be taken to increase Malaysia's global competitiveness on halal industry. This includes enhancing marketing and promotion; encouraging R&D activities; aligning Malaysian products to global standards; attract more talents into the industry; and streamline the functions of the Governmental agencies. For the future, Malaysia's halal industry should diversify into new products and services.

Given that the tourism receipts is one of the major sources of foreign exchange earnings for Malaysia, it is crucial to support a comprehensive recovery for the tourism industry. The Government will ensure the growth momentum of the industry is further supported through the increasing focus on higher value tourism, strengthening of cultural products and relevant tourism facilities. The implementation of the initiatives outlined under the Tourism Recovery Framework 2.0 will be accelerated.

Catalysing Comprehensive Reforms

In ensuring sustainable socioeconomic development, it is pertinent to promote the vibrancy of the economy with green growth in order to strengthen the nation's resilience against the impact of climate change as well as the global move towards decarbonisation. In the Budget 2023, more emphasis will be given in enhancing green investments for the development of low-carbon, resilient and healthy urban environments, while minimising environmental degradation.

Greater focus will be given in providing protection and enhancement on the wellbeing of society, as well as ensuring a proper management of natural resources and persistent preservation of the environment to ensure security of basic resources. This will be achieved by a whole-of-nation approach which ensures the nation continues to develop and achieve commendable economic growth, while leaving no one behind. The relevant frameworks and ecosystems will be strengthened while continuous engagement and promotion among the stakeholders will be further enhanced to increase the readiness of the nation in achieving green growth and sustainable development.

In managing the risk of future disasters, the Budget 2023 highlights strategies, programmes and activities to raise awareness, strengthen the early response measures and improve coordination and engagement with all stakeholders as well as strengthen enforcement on environmental protection. In addition, measures will be put in place to develop proper integrated early warning and response systems as well as the implementation of flood mitigation projects in high flood-prone areas.

In ensuring an efficient government machinery, priority will be given on the effort to transform the public service delivery particularly through the utilisation and enhancement of digital technology. In addition, initiatives to enhance collaboration, coordination and data sharing across the different levels of government will be undertaken through streamlining administrative regulations, procedures and systems. Furthermore, emphasis will be given on implementing programmes and projects efficiently and effectively with value for money without compromising the quality of public service delivery. The Government will adopt the whole-of-nation approach in forging closer collaboration with businesses and society to be more competitive while growing the economy sustainably.

Conclusion

Malaysia's economy expanded by 6.9% in the first half of 2022. With a favourable growth momentum in the domestic economy and steady expansion in the external sector as well as continued improvement of the labour market conditions, the economy is anticipated to expand between 6.5% – 7% in 2022. In 2023, the economy is expected to grow moderately between 4% – 5% backed by strong fundamentals and diversified economic structure, coupled with ongoing policy support to cushion the impact of rising cost of living and mitigate the downside risks stemming from prolonged geopolitical uncertainties and tightening global financial conditions. The Budget 2023 will advance measures to further strengthen the momentum of recovery, build economic resilience and catalyse comprehensive reforms. All measures in the Budget 2023 are aligned with 12MP and supportive Malaysia to become a progressive, inclusive and prosperous nation.

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