Traversing the Tightrope

The Socio-Economic Impact of COVID-19 & Reform of Social Protection Policies in Malaysia

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Abbreviations

AD	Aggregate demand
BNM	*Bank Negara Malaysia*
BPN	*Bantuan Prihatin National*
BSH	*Bantuan Sara Hidup*
CMCO	Conditional Movement Control Order
COVID-19	Coronavirus disease 2019
DOSM	Department of Statistics Malaysia
EPF	Employees Provident Fund
FMM	Federation of Malaysian Manufacturers
GDP	Gross Domestic Product
HRDF	Human Resources Development Fund
IMF	International Monetary Fund
ISIS	Institute of Strategic and International Studies
KRI	Khazanah Research Institute
LHDN	*Lembaga Hasil Dalam Negeri*
MARA	*Majlis Amanah Rakyat*
MCO	Movement Control Order
MIER	Malaysian Institute of Economic Research
MOTAC	Ministry of Tourism, Arts and Culture
MPC	Monetary Policy Committee
MTT	Modern Monetary Theory
OPR	Overnight Policy Rate
PENJANA	*Pelan Jana Semula Ekonomi Negara*
PSF	PENJANA SME Financing
PTF	PENJANA Tourism Financing
RMCO	Recovery Movement Control Order
SMEs	Small and Medium Enterprises
SOSCO	Social Security Organisation
SRF	Special Relief Fund
SRR	Statutory Reserve Requirement
UBI	Universal Basic Income
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States
WAO	Women's Aid Organisation
WCC	Women's Center for Change
WHO	World Health Organization

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Executive Summary

- The COVID-19 pandemic hit Malaysia amidst a period of political turmoil and uncertainty as political parties scrambled to form a new coalition government. Nonetheless, Malaysia fared relatively well, with swift policy responses that managed to flatten the curve of infections from overwhelming the healthcare system.
- However, in balancing the dilemma of protecting lives and livelihoods, the movement control order restriction disrupted economic activities which resulted in plummeting headline economic figures and a bleak economic outlook. The crisis laid bare the insufficiency and inefficiencies present within economic and social safety nets in Malaysia, especially towards vulnerable groups such as the poor, self-employed, women, youth and migrants.
- The government has responded with various monetary and fiscal stimulus measures to tackle the economic downturn but faced criticism that these responses are inadequate and does not address fundamental socio-economic deficiencies.
- Arguably, there is still sufficient room to manoeuvre and implement effective medium and longer-term policy responses to address socio-economic structural issues. The COVID-19 crisis provides an opportunity for Malaysia to revisit and reform its economic and social protection policies to become more equitable and robust in the future. This not only requires policies, but also the political will, to put them into practice.

1. The social and economic impact of COVID-19 in Malaysia

1.1 Introduction

The coronavirus disease 2019 (COVID-19) pandemic has undoubtedly brought about significant social and economic consequences that are unprecedented in our current lifetime. In economic terms, the crisis might be worse than the Asian financial crisis in 1997, the global financial crisis in 2008 and even the great depression of the 1930s (IMF, 2020a). However, unlike these previous crises, the COVID-19 pandemic crisis started from a public health crisis first, which led to an economic crisis. This has posed an enormous challenge which requires immediate policy responses focused mainly on “flattening the curves” in both healthcare and the economy with regard to bankruptcies and unemployment. The general objectives are to prevent the healthcare system from being overwhelmed and to minimise economically the downturn of contractions.

The COVID-19 pandemic was confirmed by the World Health Organization (WHO) on 12 January 2020. COVID-19 is a novel pneumonia disease which was discovered first in Wuhan, China, and is caused by a novel coronavirus (SARS-CoV-2). The virus was reported to the WHO by China on 31 December 2019 (WHO, 2020). Thailand reported the first confirmed case of COVID-19 outside China on 13 January 2020. As the virus began to spread globally, countries began to impose lockdowns and restrictions on cross-border travel. As of 7 July 2020, there are a total of 11.8 million COVID-19 cases around the world, with 542,000 deaths (Worldometer, 2020). However, out of the 11.8 million, 3 million cases are from the United States (US). The US is the country with the most confirmed cases at the time that the data is retrieved.

1.2 COVID-19 situation in Malaysia

1.2.1 Historical trend of infections

The first case of confirmed COVID-19 infection in Malaysia happened on 25 January 2020. This was less than two days after Singapore reported its first confirmed case of COVID-19 (Abdullah, 2020b). On 11 March 2020, Brunei informed Malaysia that the positive case in Brunei was attributed to a religious gathering in the Seri Petaling Mosque, Selangor, Malaysia (Abdullah, 2020a). This gathering had attracted more than ten thousand participants and contributed to a spread across the region.

With a significant spike in COVID-19 cases on 16 March 2020 (140 cases), and more than 50 per cent of cases related to the religious gathering cluster, the Malaysian government decided to implement the Movement Control Order (MCO) starting from 18 March 2020 (Malaysia, Prime Minister Office, 2020a). For a month, starting from 16 March, there were more than one hundred cases daily. It is important to note that the effects of the MCO can only be confirmed after two weeks as the incubation period of the coronavirus could be up to fourteen days. Towards the end of April, through May and June, there were less than one hundred cases daily, except for a few occasions where small outbreaks formed.

1.2.2 Movement Control Order (MCO)

Following the sharp increases of 190 cases on 15 March 2020 and 125 cases on 16 March 2020 compared to 41 cases on 14 March 2020, the Malaysian government decided to implement a nationwide Restriction of Movement Order beginning 18 March 2020 until 31 March 2020 (Malaysia, Prime Minister Office, 2020a). This was announced on 16 March 2020 via a Special Message from Prime Minister Muhyiddin Yassin. This move was taken to control the spread of the coronavirus.

However, the initial duration of the MCO was deemed to be insufficient to curb the spread of the pandemic. In total, the MCO was extended four times. It was still in force during the festive period of *Hari Raya Aidilfitri, Kaamatan Feast* and *Hari Gawai*, albeit in the form of Conditional Movement Control Order (CMCO). Interstate travel was prohibited, and many people did not make their annual trip to return to their hometowns.

The Recovery MCO (RMCO) was announced on 7 June 2020 and is slated to last from 10 June to 31 August 2020 (Malaysia, Prime Minister Office, 2020b). Interstate travel is also allowed under RMCO, along with the gradual reopening of various businesses and trades.

1.2.3 Stimulus plans (PRIHATIN, PRIHATIN SME+, PENJANA)

In order to lessen the impact of the pandemic on the economy and people's livelihoods, the Malaysian government introduced four main initiatives, three of which are stimulus packages and one economic recovery plan. In total, these four initiatives amount to 315 billion Malaysian ringgit.

To soften the impact of COVID-19, the outgoing Pakatan Harapan government under Prime Minister Tun Mahathir Mohamad announced a twenty billion Malaysian ringgit economic stimulus package (TheStar, 2020a). This stimulus package is based on three strategies, namely countering COVID-19's impact, boosting people-based growth and encouraging quality investments.

On 27 March 2020, the new Prime Minister Tan Sri Muhyiddin Yassin announced the PRIHATIN Rakyat Economic Stimulus Package, approximately two weeks after the MCO was instated on 18 March 2020 (Malaysia, Ministry of Finance, 2020a). The PRIHATIN package alone is worth 250 billion Malaysian ringgit and has three objectives, namely protecting the people, supporting businesses and strengthening the economy.

The third stimulus package, PRIHATIN SME+, was announced a week later on 6 April 2020 as an additional stimulus package for Small and Medium Enterprises (SMEs). This package is valued at ten billion Malaysian ringgit and is aimed to lighten the financial burden of SMEs and assure workers that two-thirds of the workforce will remain employed (Malaysia, Prime Minister Office, 2020c).

Following the PRIHATIN SME+ additional stimulus package, on 5 June 2020, the government announced the Short-Term Economic Recovery Plan (*Pelan Jana Semula Ekonomi Negara,* PENJANA). This plan aims to support the economy via three key focus areas, namely to empower the people, propel businesses and stimulate the economy. PENJANA contains initiatives worth 35 billion Malaysian ringgit (Malaysia, Ministry of Finance, 2020b). Further details on these stimulus packages are provided in section 2.1.

1.2.4 Post-COVID-19 future

In his July 2020 speech, Tengku Zafrul (Malaysia, Ministry of Finance, 2020c), Malaysia's finance minister, outlined the six-stage strategy used by Malaysia to survive and thrive in these unprecedented times. These stages are: Resolve, Resilience, Restart, Recovery, Revitalise and Reform. The first stage, Resolve, involved introducing a strict lockdown under the MCO on 18 March. The second stage, Resilience, was related to the introduction of two stimulus packages, namely PRIHATIN and PRIHATIN SME+. The Restart stage served to improve consumer and investor confidence, which saw the increase in the number of businesses reopening and more workers returning to work.

As of July 2020, Malaysia is now in the fourth stage, the Recovery stage, which involves the PENJANA Short-term Economic Recovery Plan. Stage 5 and 6 (Revitalise and Reform, respectively) comprise proposed measures under Budget 2021. The details of this Budget will be announced in November 2020.

2. Literature review

2.1 Details of the three stimulus packages introduced

2.1.1 PRIHATIN Rakyat stimulus package:

The PRIHATIN Rakyat stimulus package was announced on 27 March 2020, amounting to 250 billion Malaysian ringgit worth of initiatives. There are three main objectives of the stimulus package: protecting the citizens, supporting businesses and strengthening the economy. The items under each objective are summarised in Table 1, Table 2 and Table 3.

Table 1: Key programs under the first objective: Protecting the citizens

Programs	Details
KWSP Account 2 withdrawal (RM40 billion)	Limited to a withdrawal of RM500/month for twelve months
Bantual Prihatin Nasional (RM10 billion)	1. One-off cash assistance (Bantuan Prihatin Nasional) with an allocation of RM10 billion. 2. Beneficiaries of up to nine million households and individuals
Wage Subsidy Programme (RM6 billion)	Government will provide a salary of RM600 per month to assist employers in retaining their workers
Assistance to civil servants and pensioners (RM1.2 billion)	RM500 one-off cash assistance
Free internet and coverage expansion (RM1 billion)	Allocation of RM1 billion for improvements in mobile signal coverage and free internet to users
Food security fund (RM1 billion)	Food security fund to ensure sufficient food supply

Source: *Malaysia, Ministry of Finance (2020a).*

Table 2: Key programs under the second objective: Supporting businesses

Programs	Details
Guarantee facility scheme for corporates (RM50 billion)	Government will provide a RM50 billion guarantee scheme up to 80% of the loan amount for financing working capital requirements
Increase the cash flow of business owners (RM10.4 billion)	1. Postponement of income tax instalment payments to all SMEs for three months 2. Banking institutions to offer a 6-month moratorium, converting of credit card balance to term loans and restructuring of corporate loans
Fund to assist small and medium-sized enterprises (RM4.5 billion)	Government and Central Bank of Malaysia will provide additional funds of RM4.5 billion

Source: *Malaysia, Ministry of Finance (2020a).*

Table 3: Key programs under the third objective: Strengthening the economy

Programs	Details
Small infrastructure projects (RM2 billion)	Small infrastructure projects to benefit contractors from G1 to G4 class

Source: *Malaysia, Ministry of Finance (2020a).*

2.1.2 PRIHATIN SME+ additional stimulus package

The PRIHATIN SME+ additional stimulus package was announced to complement the PRIHATIN Rakyat stimulus package and is valued at RM10 billion.

Table 4: Key programs in the PRIHATIN SME+ additional stimulus package

Programs	Details
Wage subsidy programme expansion (RM13.8 billion)	All companies with local employees earning monthly salary each of RM4,000 and below to receive wage subsidies.
Special PRIHATIN Grant (RM2.1 billion)	For eligible micro-enterprises registered with the Inland Revenue Board (*Lembaga Hasil Dalam Negeri*, LHDN)
Facilitating SMEs to derive full benefits from the assistances announced	1. Abolishment of 2% interest rate under the Micro Credit Scheme amounting to RM500 million 2. Waiver or discounts for rentals to SMEs in the retail sector operating on premises owned by Government-Linked Companies 3. Reduction of levy on foreign workers by 25% to all companies with work permits that will expire within the period of 1 April to 31 December 2020

Source: *Malaysia, Prime Minister Office (2020c).*

2.1.3 PENJANA Short-term Economic Recovery Plan

The PENJANA short-term economic recovery plan has initiatives worth RM35 billion. There are three key focus areas, which are empower the people, propel businesses and stimulate the economy.

Table 5: Key programs under the Empower the People focus area

Programs	Details
Wage subsidy programme	• RM5.3 billion • Beneficiaries: 2.7 million workers
Internet connectivity for education and productivity	• RM3 billion • Beneficiaries: All
Reskilling and upskilling programmes	• RM2 billion • Beneficiaries: 200,000 youth and unemployed workers
Hiring and training assistance for businesses	• RM1.5 billion • Beneficiaries: 300,000 job seekers
Flexible work arrangement incentives	• RM800 million • Beneficiaries: Employees working from home

Source: *Malaysia, Ministry of Finance (2020b).*

Table 6: Key programs under the Propel Businesses focus area

Programs	Details
Technical and digital adoption for SMEs and MTCs	• RM700 million • Beneficiaries: SMEs and MTCs
PENJANA SME Financing (PSF)	• RM2 billion • Beneficiaries: Businesses in the critically affected sectors
PENJANA Tourism Financing (PTF)	• RM1 billion • Beneficiaries: Tourism sector
SME Go-Scheme for Liquidity Support	• RM 1.6 billion • Beneficiaries: SME Contractors
Tax Relief for COVID-19 Related Expenses	• RM600 million • Beneficiaries: All businesses
Financial Stress Support for Businesses	• RM2.4 billion • Beneficiaries: All businesses

Source: *Malaysia, Ministry of Finance (2020b).*

Table 7: Key programs under the Stimulate the Economy focus area

Programs	Details
Tourism sector support	• RM1.8 billion • Beneficiaries: Tourism sector
PENJANA Nasional Fund	• RM1.2 billion • Beneficiaries: Start-ups and local private sector venture capital funds
Incentives for Property Sector	• RM1 billion • Beneficiaries: Homeowners, prospective homebuyers
Tax incentives for purchase of passenger cars	• RM897 million • Beneficiaries: Automotive sector, consumer
ePENJANA Credits in e-wallet	• RM750 million • Beneficiaries: 15 million Malaysians

Source: *Malaysia, Ministry of Finance (2020b).*

2.2 Monetary policies that have already been applied

Acknowledging the scale of the challenges faced by the Malaysian economy in facing the COVID-19 pandemic, *Bank Negara Malaysia* (BNM) has gone some ways to implementing an accommodative monetary policy. These have been multi-pronged, and BNM has utilised a wide range of tools in its toolkit, including reducing the policy rate, liquidity support and financial policy. It is also interesting to note the changes in tone and direction of successive BNM statements, as these offer a clue as to the uncertainty faced by policymakers in assessing and responding to the pandemic.

2.2.1 Changes in the policy rate

BNM's Monetary Policy Committee (MPC), which meets to set the Overnight Policy Rate (OPR) every two months, has undertaken three rate cuts since the outbreak of COVID-19 in December 2019 by a cumulative one hundred basis points. During the first cut of twenty five basis points in January 2020, BNM only noted "geopolitical tensions and policy uncertainties in a number of countries" as downside risks (Malaysia, Central Bank of Malaysia, 2020a), suggesting that it viewed the epidemic as a localised risk which mainly affected China.

However, in the decision to reduce the OPR by another twenty five basis points in March, risks from COVID-19 were highlighted front and centre. Globally, COVID-19 had already disrupted production and travel activity and led to greater risk aversion, while a prolonged impact from COVID-19 was highlighted as a key downside risk to domestic growth. Nevertheless, it is interesting to note that BNM's outlook for growth in 2020 was still positive, noting in its statement that "private and public sector activities will be supportive of growth" (Malaysia, Central Bank of Malaysia, 2020b).

In May, the biggest reduction in the OPR to date (fifty basis points) was implemented in light of COVID-19 becoming a global pandemic and to soften economic disruptions caused by the MCO. This led to the lowest OPR in a decade, whereby the 2 per cent level was last seen during the

2008–2009 financial crisis. BNM's statement after the May MPC was as frank admission as possible that downside risks had materialised, noting that global growth is "projected to be negative for the year" while the outlook for domestic growth was "subject to a high degree of uncertainty" (Malaysia, Central Bank of Malaysia, 2020c).

A careful reader would notice that successive BNM statements have markedly different projections on the economic outlook, from caution to acknowledgement of risk to a realisation of adverse outcomes. This is not only unique to the central bank but has been a feature of analysts and even international financial institutions such as the International Monetary Fund (IMF), which have had to revise their forecasts repeatedly as the pandemic became more severe in magnitude.

2.2.2 Liquidity support

In addition to cuts in the policy rate, BNM has taken steps to support financial intermediation by providing additional liquidity to financial institutions. Approximately 42 billion Malaysian ringgit was injected into the domestic financial markets, via various tools including the outright purchase of government securities held by banks, reverse repos and a reduction in Statutory Reserve Requirement (SRR).

A large part of this liquidity injection, thirty billion Malaysian ringgit of the combined 42 billion Malaysian ringgit, was contributed by measures to reduce commercial bank reserves held by the central bank. While the SRR was itself reduced from 3 to 2 per cent, BNM took an additional step in recognising government securities as part of the SRR, further releasing liquidity to the financial system. It is worth noting that BNM also relaxed requirements on banking liquidity, and from end-March onwards, banks could operate with a liquidity coverage ratio of below 100 per cent. Nevertheless, all these measures could be seen as pre-emptive, and the worst outcomes were avoided, with liquidity coverage being stable throughout the months of April and May 2020 (Malaysia, Central Bank of Malaysia, 2020d).

2.2.3 Financial policy

BNM has had a longstanding dual mandate of managing monetary policy and financial stability[Countries in which these functions are separate include the US, where the Federal Reserve oversees monetary policy and the Office of the Comptroller of the Currency supervises financial institutions, and the United Kingdom (UK), where the Bank of England is responsible for monetary policy and the Prudential Regulation Authority for financial stability.], and in managing the impact of COVID-19 has resorted to direct intervention in financial institutions. The most striking example of this is a six-month moratorium on loans other than credit card balances, which went into effect on 1 April 2020. This affected over a hundred billion Malaysian ringgit in loans owed by households and businesses. In addition, BNM had relaxed its prudential requirements, with banks allowed to draw down on capital conservation buffers and operate lower funding ratios.

The central bank has also, in an unconventional move for central banks, engaged in direct assistance for struggling Malaysian businesses. Although private commercial banks administer funds such as the Special Relief Fund (SRF), Agrofood Facility and SME Automation and Digitalisation Facility, the capital is sourced from the central bank's own reserves. Demand for these facilities, which come with a significantly lower financing rate, has been tremendous, with the SRF being fully utilised (Idris, 2020).

3. The social and economic impact of COVID-19

Most government policy responses implemented to contain the spread of the virus around the world has brought the economy to a halt. This has caused a synchronised global recession which has stalled trade and shrunk growth and provided a grim economic outlook. As a result, a "new normal" of societal and economic landscape is touted post-COVID-19. Beyond the impact represented by economic figures, there is also immeasurable impact on the society and its wellbeing. The policy responses will play a significant role in determining the severity of effects towards the economy, society and the environment. Examining the economic and social impact brought about by COVID-19 in Malaysia is an important step to take before deliberating on the appropriate policies and actions.

3.1 Economic Impact

The economic impact caused by the pandemic has led to simultaneous supply and demand shocks globally. In the immediate term, this has been caused by job and income losses, bleak future expectations, as well as disruptions of supply chains and subdued demand as a result of movement restrictions. The shock towards the real economy has also spread to the financial sector where there is liquidity crisis risks as well as asset price falls which have affected future economic projections. Recent figures indicate global growth projected at -4.9 per cent in 2020, while it is predicted that recovery will be more gradual than previously forecasted (IMF, 2020b).

3.1.1 Headline figures in Malaysia

Like other countries, the MCO in Malaysia effectively paralysed economic activities which resulted in a bleak economic outlook. For 2020, Malaysia's Gross Domestic Product (GDP) growth is estimated to be between -3.8 to 0.5 per cent based on forecasts by various institutions such as The World Bank (-3.1 per cent), IMF (-3.8 per cent) and BNM (-2.0 to 0.5 per cent) (Malaysia, Ministry of Finance, 2020c). While household expenditures are expected to decline to 1.2 per cent and business investment spending is projected to fall to -4.9 per cent (World Bank, 2020).

The decline in oil prices resulted in negative inflation rates of -0.2 per cent in March and -2.9 per cent in April 2020. Crude oil prices are estimated to average at 32 US dollars per barrel, much lower than the 62 US dollars figure that the government assumed in its 2020 budget. The fiscal deficit is also estimated to rise to 7 per cent of GDP if no proactive measures to reduce non-core spending and add non-tax revenues are made. Compounded by the political instability currently present, Malaysia's short-term economic outlook is seen to be unusually uncertain (World Bank, 2020).

In terms of the trade balance, exports recorded its most significant decline since the global financial crisis in 2008 as it shrank for the third consecutive quarter by -7.1 per cent from weak external demand and growing uncertainty. Malaysia's trade with its top trading partner, China, declined by 2.1 per cent in the same period. This also had a significant effect to the economy as trade with China represented 16 per cent of Malaysia's total trade size (Malaysia, Department of Statistics, 2020a).

In the labour market, out of the 15.8 million labour force, unemployment was estimated to be 3.9 per cent in March and rose to a historical high of 5 per cent in April. In addition, the Department of Statistics Malaysia (DOSM) (2020a) reported that 2.7 million own-account workers were at risk of loss of employment. This was close to the figure by the Malaysian Institute of Economic Research (MIER), which forecasted 2.4 million job losses mainly from non-salaried jobs, of which 67 per cent are unskilled workers. After the stimulus packages were announced, the figure was revised to 1.46 million as the stimulus packages were estimated to save at least one million jobs (Malaysian Institute of Economic Research, 2020a).

The shock to business conditions could also be glimpsed from the perspective of household expenditures. A survey by DOSM found that average monthly household expenditures fell from 6,317 Malaysian ringgit to 2,813 Malaysian ringgit, a 55 per cent decrease (Tan, 2020). The impact was largest on discretionary spending, such as clothing and footwear (-95 per cent), transportation (-89 per cent), and hotels and restaurants (-86 per cent).

To mitigate the economic impact, the government has announced various stimulus packages aimed at measures to protect lives, save jobs, and provide resilience to the people and the economy. This includes an estimated 45 billion Malaysian ringgit fiscal injection into the PRIHATIN and PENJANA stimulus packages, which is expected to increase the budget deficit of between 5.8 to 6 per cent in 2020 (Malaysia, Ministry of Finance, 2020c).

As for 2021, based on forecasts from a few international agencies, Malaysia's GDP growth ranges from 6.3 to 7.5 per cent. This will depend on Malaysia's success of managing the COVID-19 outbreak and guiding Malaysia's economy towards recovery and growth (Malaysia, Ministry of Finance, 2020c).

3.1.2 Impact and challenges to businesses

The COVID-19 crisis has brought about unprecedented impact on businesses and the economy. All around the world, including in Malaysia, businesses have been hit with supply chain disruptions which resulted to unemployment and eventually weak economic and financial results in Q1 2020. This may become more severe in Q2, as many countries are still struggling to strike a balance between lives and livelihood.

A survey conducted by Ernst & Young (2020) revealed that almost 50 per cent of large companies revealed that they faced a demand shortfall from customers. Most companies also face difficulties in their online communication with customers and suppliers, thus highlighting the need for better connectivity infrastructure and rapid digital transformation. Other challenges faced by businesses are in terms of adapting to work from home, insufficient data or infrastructure, delay in supply chain fulfilment, downtime in operations and task completion, as well as deferment of upskilling and training of workers.

While the crisis affected all businesses, SMEs were the most vulnerable. This was mainly due to their limited resources, low cash reserves and restricted access to credit to sustain their businesses. A survey done by SME Malaysia revealed that most SMEs expect no cash flows for at least three months due to the MCO. Based on the survey, if SMEs do not receive financial support, nearly one-third risk closing-down within a month of enforced lockdown. At the same time, 37.8 per cent SMEs can only sustain up to two months of lockdown. Despite the one hundred billion loan for SMEs under the PRIHATIN stimulus package, only 26.3 per cent SMEs felt that the stimulus would help sustain their business. This was mainly due to the fact the many SMEs were already on high gearing and existing loans (Shankar, 2020b).

When looking at industry-specific segments, the tourism industry was significantly hit following the MCO implementation. Hotels, accommodation, restaurant, hospitality and aviation sectors declined as the number of tourists dwindled amidst border restrictions. A number of hotel chains and tourism-related companies closed down or were on the brink of bankruptcy. The Ministry of Tourism, Arts and Culture (MOTAC) cancelled the Visit Malaysia Campaign 2020 and froze all over-the-counter and online services for new applications and license renewal of travel operating businesses (Malaysia, Ministry of Tourism, Arts and Culture, 2020).

As an indication of the grim situation in the industry, AirAsia, South East Asia's leading low-cost airline carrier, posted a record quarterly net loss of 803.85 million Malaysian ringgit (~190 million US dollars) for the first quarter of 2020. Analysts warned that the airline may have an annual net loss exceeding three billion Malaysian ringgit (~702 million US dollars) if conditions remain unfavourable (Shankar, 2020a). AirAsia had previously announced that it would have to retrench 30 per cent of its workforce, of which 65 per cent are cabin crew and pilots, and also slash the remaining staff salary by up to 75 per cent in an attempt to save the airline (Kumar, 2020). This situation can also be seen across the services and manufacturing industries where companies must undertake massive layoffs and cost-cutting measures to survive beyond the MCO.

Nonetheless, the crisis opened up opportunities for other industries. There were significant increases in demand for medical and healthcare services and supplies, online communication platforms, e-commerce, delivery services for food, groceries and supplies, and other internet-based services. According to Statista, a leading market research firm, Malaysia's top growth champions in 2020 are in the areas of e-commerce, health, technology, food and beverages, and industrial goods sectors (Malaysia, Department of Statistics, 2020b). Following the COVID-19 crisis, companies in these sectors are expected to perform better and might come out stronger once the crisis has normalised.

Despite the disruption in supply chains and a decline in consumer spending amidst job and income uncertainty, the e-commerce industry has seen encouraging signs. Reports have shown that consumers are more willing to purchase items online as work from home and movement restriction policies are implemented (Leong, 2020).

3.2 Social impact

The COVID-19 crisis has socially impacted many, but the poor and vulnerable the most. The crisis has exposed the inadequacies of the current social system, some of which have been widely known and highlighted before the pandemic but have not been adequately addressed. The poor and vulnerable face the conundrum of choosing between health and livelihood. Staying put may save their lives, but also means that they do not have any income to sustain their livelihood.

3.2.1 Insufficient safety nets

The COVID-19 crisis has exposed the lack of sufficient safety nets for a large proportion of Malaysians. These vulnerable communities generally do not have adequate savings, many have lost a significant portion of their income and most do not have insurance to cover for healthcare shocks.

The report by Khazanah Research Institute (KRI) (2018) revealed that households that earn less than 2,000 Malaysian ringgit spend almost 95 per cent of their income on consumption, and the average cash left by the end of the month is only 76 Malaysian ringgit. This is also arguably the same situation across the board, as revealed in a financial literacy survey by Ringgit Plus (2018), which reported that almost 60 per cent of Malaysians do not have enough savings to last for more than three months, while 34 per cent answered that they spend equal or more than their monthly salary.

The precarious financial condition of most Malaysians are corroborated by findings from a survey conducted during the MCO by the Department of Statistics which found that 71.4 per cent of self-employed respondents do not have enough savings to sustain themselves for even one month (Goh, 2020). Furthermore, approximately 20 per cent of the labour force are self-employed, and most are not registered with social protection authorities. Some earn daily rated wages; thus, the lockdown has rendered them incapable of going to work to earn a daily living. Moreover, the percentage Malaysians covered by life insurance has stagnated for years at 55 per cent as most are underserved in the B40 group, making them most vulnerable to economic and health shocks (Annuar, 2019).

3.2.2 Infrastructure and connectivity divide

In rural areas, there is an additional impact on households in the form of a digital divide. As families are forced to stay at home, the dire communication infrastructure in rural communities provides an additional challenge for people staying in these areas. With the closure of schools and universities, some education institutions are offering online classes. However, not all students are privileged to join these classes, as many do not have the means to do so. In some cases, students do not have laptops or mobile phones necessary to connect with their teachers and classes. While in other instances in which they do have these devices, they face another hurdle of not having access to reliable internet connectivity.

The case of Veveonah, a university student residing in the rural area of Pitas in the state of Sabah aptly highlights the situation. Veveonah posted a video showcasing her experience of spending twenty four hours on top of a tree to get better internet connections to take her exams (Zi, 2020). This video was widely publicised and received attention from the government. The video eventually led to a significant upgrade to the internet connection in her area but highlighted the lack of internet infrastructure and connectivity in large swathes of the country. Although the case has brought about positive progress to narrow the digital divide, it highlights the disparity that rural communities face. Veveonah's case is one of many other instances in which the digital divide still hinders rural communities. This is especially true during the COVID-19 crisis.

3.2.3 Self-employed and youth unemployment

As previously highlighted, up to 2.7 million labourers are at risk of losing their employment (Malaysia, Department of Statistics, 2020a). As a result, there will likely be an increase in the unmatched supply of labour in the market. This will create competition, especially for the youth who are entering the market within the next few years. As employers will likely favour workers with job experience to reduce the cost of training, this will likely be at the expense of young graduates.

The survey by DOSM has also reported that 47 per cent of self-employed persons have lost their jobs, significantly higher than private-sector employees (2 per cent). At the same time, 91 per cent of the self-employed have reported income loss as compared to 41 per cent of private-sector employees. A significant number of these self-employed are young workers who have chosen to venture into their own business, thus compounding the plight and vulnerability of youth employment in the labour market.

Lee (2020) posits that the current situation is a product of existing policies that aimed at equipping young workers to be entrepreneurial and less dependent on wage employment. Nonetheless, it has also exposed them to a higher degree of economic vagaries. Government policies must adequately address the structural changes in the labour market from COVID-19.

3.2.4 Migrants

Many migrants are stranded in Malaysia due to the border closure and testing requirements. Most who are informal workers and daily labourers are left without jobs or income as lockdowns were put in place. Migrants are also handicapped by the digital divide as they have limited options to seek work online or venture into the gig economy. Some may also be affected by the communication divide as essential messages are communicated in Malay or English, thus limiting their access to crucial public health information to protect themselves and others around them.

Recent figures report that there are 2.3 million registered migrants in Malaysia while an estimated 3 million are illegal or undocumented migrants. A concerning fact was highlighted by the Federation of Malaysian Manufacturers (FMM) whereby only a fraction (33,613) of the registered migrants have undergone COVID-19 screening, of which 40 per cent are from the construction sector (Tang, 2020). FMM opined that the current situation is a result of "flip-flops" in government announcement and directives. It was unclear on who should bear the cost of testing, where the testing was to be conducted and the type of testing that should be undertaken. Testing legal migrant workers was not an issue as they are registered under the Social Security Organisation (SOCSO), but rather the main issue was testing undocumented migrants as employers fear of getting into trouble when getting them testing.

The report by the United Nations Development Programme (UNDP) (2020) highlighted that undocumented migrants present a health risk in their residing countries as their fear of being locked up and deported may deter them from going forward to get tested and seek treatment. In Malaysia, although it was initially promised that undocumented migrants would not be penalised for getting tested, the government backtracked and initiated a widescale crackdown on illegal migrants. The migrants were placed in crowded detention centres which eventually led to the spread of detention centre clusters of COVID-19. The recent documentary report by Al-Jazeera 101 East highlighted these issues and investigated the plight of thousands of undocumented migrant workers arrested during raids in areas under tight lockdowns (AlJazeera, 2020b). Unfortunately, rather than addressing them, the government opened up investigations towards the journalists on the grounds of potential sedition, defamation and violation of the country's Communications and Multimedia Act (Aljazeera, 2020a). The stifling and of independent media and actions towards migrants may further prevent migrants from coming forward for testing. Instead, many would rather go into hiding in fear of their safety and deportation. In this situation, the accurate picture of the migrant community during this crisis is still not fully established, heightening the risk towards the society. Neighbouring Singapore's third wave coming from migrant dormitory crisis serves as a warning for Malaysia to take the right steps in managing this issue (Crabtree, 2020).

3.2.5 Gender-differentiated impact

Women have been disproportionately impacted negatively by the COVID-19 crisis. The report by the United Nations (UN) (2020) revealed that COVID-19 had reduced women's economic opportunities, especially part-time and informal workers that are generally paid low and do not have enough savings. Additionally, unpaid care work, mostly shouldered by women, has increased as children stay at home due to school closures and the rise of care needs for older persons. The COVID-19 crisis has therefore also led to a re-traditionalisation of the division of work at home.

In Malaysia, this issue has been highlighted by the report by KRI (2018) even before the crisis. Mainly, the report highlights that women in Malaysia assume a disproportionate share of housework, thus hindering their participation in the labour force. It also revealed that 58 per cent or 2.6 million women stayed out of the labour force due to housework.

To add on to the negative impact, is the rise of MCO-linked domestic violence cases. As families are confined within their own houses and the increase of people losing their jobs, the number of domestic violence cases has also seen a rise. The Women and Family Development Ministry's domestic violence hotline saw a 57 per cent increase from women in distress within a week of the MCO with 1893 calls made (Arumugam, 2020). During the same period, the Women's Aid Organisation (WAO) and Women's Center for Change (WCC) also saw a spike to their hotline. This was said to be due to several factors, including marital problems, financial constraints and stress. However, the MCO became an added constraint and deterred several survivors from leaving for a safer place (Arumugam, 2020).

3.2.6 Increase in domestic violence cases

While most people are more than happy to confine themselves to the safety of their homes during the MCO to stop the chain of COVID-19 infection, there are a particular group of people that are most vulnerable. For victims of domestic violence, their homes are anything but a safe place. Since the only movement allowed was for necessary items and many businesses were either closed or operating remotely, this meant that the victims were often cooped up together with the abusers all the time. Based on data from the Women and Family Development Ministry, its hotline received 57 per cent increase in calls from women in distress since the MCO began on 18 March 2020 (Arumugam, 2020).

Although there is a 15 per cent drop in domestic violence cases reported to the police during the forty four days prior to MCO compared to the forty four days after MCO, this could be due to the victim's lack of mobility due to lack of public transport or access to telephones (TheStar, 2020b).

An example of domestic violence was the case of a forty-year-old woman who was beaten repeatedly by her jobless husband. Despite police intervention and the husband's promise to settle the differences amicably, the husband then hanged himself, but not before he stabbed his wife and father-in-law (TheStar, 2020b).

On a smaller context of the Selangor state, the Selangor state assembly was told that the rate of domestic violence in March and April increased during the MCO period (Bernama, 2020).

4. Challenges of initiatives that have already been implemented

4.1 Lockdown versus opening-up

A central dilemma confronting policymakers in dealing with the challenge of COVID-19 has been to find the right balance between public health and economic survival: whether to prolong lockdowns to prevent widespread health risks or to open up and prevent further economic hardship. Malaysian authorities have faced this exact conundrum.

While the government could assist in alleviating temporary hardships, the best course of action to aid economic recovery is to control the pandemic's spread and allow businesses to operate, especially ones with operations that could not be performed virtually. Nevertheless, this balancing act is inherently delicate, where an incorrect judgment could be proven premature and lead to new waves of infections, or be too slow to counteract the damage done to the economy.

Malaysia's lockdown regime and its accompanying economic impact could be divided into three distinct phases.

Table 8: Malaysia's lockdown stages

Phase	Period	Features
Movement Control Order (MCO)	18th March – 3rd May	• Prohibition of movement and mass assembly nationwide, including interstate travel • Suspension of religious activities and gatherings • Prohibition on international departures and arrivals • Closure of non-essential industries and institutes
Conditional MCO	4th May – 9th June	• Relaxation of intrastate movement; interstate travel still prohibited • Economic sectors not involving crowds allowed to open with strict conditions
Recovery MCO	10th June – 31st August	• Interstate movement allowed • Most economic sectors allowed to operate, with social distancing measures and contact tracing

A brief timeline of the different phases is presented in Table 8. After a surge in cases in early March, the government imposed a strict nationwide lockdown which forced non-essential businesses to close and imposed heavy restrictions on travel. This first phase, which extended to early May, caused the biggest impact to the economy, especially to workers in the services industries (Malaysia, Department of Statistics, 2020b)[The Department of Statistics reported that the largest declines in employment for April 2020 were in industries reliant on social activities: accommodation, food & beverages, and arts, entertainment & recreation]. Official numbers also bore this out: the unemployment rate jumped to 5 per cent in April, the highest level since 1990

(Jaafar, 2020). Factory utilisation capacity declined to below 50 per cent while wholesale and retail sales fell by 38.6 per cent compared to the preceding year (Malaysia, Department of Statistics, 2020b).

With a declining trend in cases throughout April, the government then loosened restrictions under a 'Conditional MCO', where most economic sectors were allowed to operate albeit with strict conditions. Official statistics on this second phase are still unpublished, although anecdotal evidence suggests that most affected sectors were recovering. The final iteration is the 'Recovery MCO', during which most economic sectors returned to normal operations and interstate travel no longer restricted.

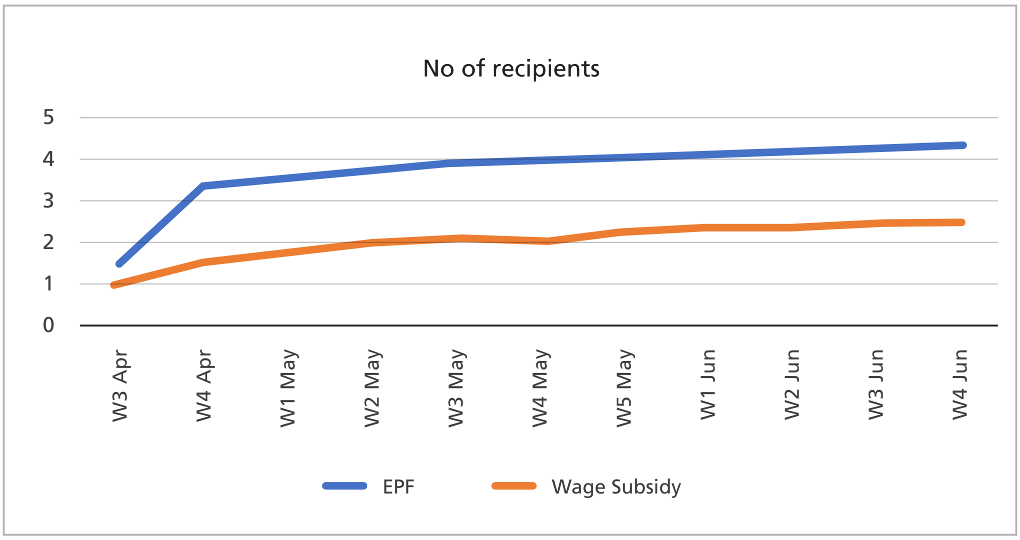
Thus far, the Malaysian authorities are perceived to have tackled the dilemma in a tolerable manner. After a high and persistent trend in daily new cases in March, the response of the public health system has been sufficiently effective to result in a declining trend of new infections, even after the government relaxed economic restrictions and public movement. Throughout the CMCO and RMCO, daily new cases have been below the average, with a few isolated spikes due to immigration centres.

4.2 Understanding the extent of disruption and implementing the proper response

Tailoring the magnitude, timing and modality of government policies has been a challenge, particularly due to three factors: the lag in official statistics, the prevalence of underemployment and the size of the self-employed, semi-informal sector.

At the height of the crisis, one of the most crucial pieces of information is unemployment data. However, in Malaysia, this data is collected by the official statistical agency by use of a survey, of which the results are only published two months after the incident. Thus, unemployment figures for May will only be known in July, in contrast to economies like the US where May unemployment data is known by early-June. This makes it difficult to know in a timely manner the number of affected workers and industries requiring urgent help.

Figure 1: Number of recipients for employment-related assistance



Source: *Ministry of Finance (2020)*

However, even if official statistics were timely, an additional challenge arises due to the prevalence of underemployment during the crisis in contrast to pure unemployment. The official figures point to total unemployment of 778,800 workers, an increase of 48.8 per cent or 255,400 people over the previous year. This is almost certainly an underestimate, for other employment-related assistance indicators convey a more adverse situation.

Withdrawals from the compulsory employment savings scheme (Employees Provident Fund, EPF) and wage subsidies give a clue to the disruption faced by employees who are still in employment but may or may not receive wages in full. In the final week of April alone, an additional two million people chose to withdraw their savings from the EPF scheme, bringing the total number of recipients to almost 3.5 million. To be certain, not all of these withdrawals were due to job loss or unpaid leave from work, but the number is indicative of worsening job prospects above and beyond unemployment in the official counts.

Challenges also exist in providing timely assistance due to the size of the self-employed, semi-informal sector. The majority of establishments in Malaysia are micro-enterprises with less than five employees (see Table 9), and although they are formally registered with the Companies Commission or municipal authorities nevertheless have little formal ties to the state. EPF contributions, employment insurance contributions and even taxes are mostly voluntary and these micro-enterprises thus had little recourse to rainy day funds other than their own savings, unlike workers in bigger establishments who had access to EPF savings and unemployment insurance benefits.

Table 9: Breakdown of small and medium enterprises by type, 2016

Type of establishment	No of employees	Number of establishment	% of establishments
Micro	< 5	693,670	76
Small	5-30	192,783	21
Medium	30-75	20,612	2

Source: *Department of Statistics Malaysia (2016).*

The downside to this arrangement was apparent during the crisis. Although the government was cognizant of helping the many self-employed, amongst them street vendors like the popular 'Makcik Kiah'[In a much-publicised analogy, the Prime Minister illustrated in vivid terms the amount of government assistance available to a single households using the example of a fictional 'Makcik Kiah' (Aunty Kiah)[3], a roadside hawker selling fried bananas.], it had little idea of who these workers were and how to distribute assistance to them.

Although the government announced on the 6 April that it had allocated 2.1 billion Malaysian ringgit for direct grants of 3,000 Malaysian ringgit per micro-enterprise, the database had to be created from scratch via applications on a dedicated government portal, and it was not until 1 May that this portal was up and running for receiving applications. These applications then had to be further processed and grants were only disbursed in June, a full two months after the initial announcement. This delay was costly to the livelihoods of the self-employed; the statistical agency reported almost half of the self-employed losing their jobs from the start of the MCO to the first weeks of April.

5. Effect if Malaysia fails to mitigate the spread of COVID-19

Malaysia could so far claim success for its efforts to contain the COVID-19 epidemic and reopen the economy without a noticeable increase in new cases. Nonetheless we must ask: what would the consequences be if COVID-19 reappears in a second wave? This is not merely a hypothetical question; several locations have already faced fresh outbreaks after successfully containing earlier infections, while the occurrence of infection among migrant workers remains unclear. This has forced authorities to reimpose restrictions, for instance, the city of Melbourne required its residents to stay at home except for essential activities and banned travel outside the metropolitan area in light of a rise in new cases.

A second lockdown will undoubtedly impact employment and earning prospects of a significant share of the population, especially if it involves forced business closures and domestic travel restrictions.

In the event of a new lockdown, employment will again be at risk, especially for those in self-employment and/or working in non-essential industries. With people barred from normal movement, businesses will be forced to close down and layoff workers unless immediate assistance is forthcoming from the government. However, this scenario might be mitigated if the government is prompt in detecting and isolating new cases, and imposes localised restrictions. For instance, an outbreak in Kuala Lumpur might lead to a limited cordon around the capital only without the need for shutting down other parts of the country.

To counteract the loss of earnings, a fresh round of stimulus would be needed, resulting in a higher budget deficit for the year. Malaysia has substantial fiscal space; although the public debt is limited by a self-imposed ceiling of 55 per cent of GDP, the IMF's Debt Sustainability Analysis placed Malaysia amongst the upper-tier and consequently assessed its actual ceiling to be at 70 per cent of GDP.

The higher debt ceiling implies that the government is able, if needed, to provide additional fiscal support of more than 200 billion Malaysian ringgit above and beyond the current self-imposed limit. This is four times larger than the combined value of COVID-19-related fiscal stimulus thus far (53 billion Malaysian ringgit). However, it must be noted that raising the ceiling requires parliamentary assent, and due to political uncertainty, it remains to be seen whether the government would be willing to hold a vote on this matter.

To prevent a re-imposition of lockdown measures, the government would do well to avoid complacency and ensure that guidelines under the "New Normal" are adhered to properly.

6. What can be done?

Malaysia has been relatively successful in flattening the COVID-19 infection curve. The government's early MCO response and relatively high compliancy from its citizens have seen Malaysia emerge from the lockdown with remarkably little loss of life. As with other countries, the government is now facing the gargantuan task of addressing supply- and demand-side shocks to the economy. It also provides an opportunity to address structural social issues that have been highlighted during this crisis.

Expert suggestions on responses to COVID-19 generally revolve around four areas. Firstly, averting a collapse of the healthcare system by flattening the pandemic curve. Secondly, supporting vulnerable citizens' lives and livelihoods. Thirdly, safeguarding the solvency of businesses and the economy. Finally, jumpstarting the economy towards recovery

6.1 Remove the ceiling

There have been various responses to the economic measures announced by the government, including the inadequacy of existing stimulus packages to support the needs of the people. Calls for additional stimulus have been made to focus on targets such as to safeguard public health, address unemployment, and protect the poor and vulnerable (Institute for Democracy and Economic Affairs, 2020; Malaysian Institute of Economic Research, 2020b).

However, any additional fiscal spending is constrained by a self-imposed statutory limit, which can only be amended through parliament (World Bank, 2020). Thus, the first step is for the government to remove this statutory limit to undertake the additional fiscal measures necessary.

6.2 Development oriented stimulus

Additional stimulus packages can be structured based on development or impact-oriented conditions or key performance indicators (KPIs). These KPIs are developed based on socially impactful aspects, such as a requirement on companies to preserve employment levels and wages, or how policies have assisted and accelerated business and government transformation towards technology adaptation and digitalisation. These are opposed to typical economic objectives that target economic figures, such as GDP, inflation and trade.

Anwar Ibrahim, a Member of Parliament and former Deputy Prime Minister, echoed this view as he urged that recovery from COVID-19 should not be measured in terms of GDP only. Instead, measures such as income inequality and the youth unemployment rate should be considered as the main objectives (Ramayah, 2020). Furthermore, as governments start to have a grapple of current conditions, stimulus decisions should be based on evidence, scientific data and expert advice.

6.3 Needs-Based Economic Policy

The crisis has highlighted the critical role of social security in enhancing a country's resilience. It offers an opportunity for Malaysia to re-examine its social and economic policies to focus on strengthening mechanisms to address shocks and reduce inequality. A new framework based on needs can be developed, as opposed to longstanding race-based policies. This paradigm shift calls for a more holistic approach to help the people in need by realigning Malaysia's existing New Economic Policy (Babulal & Yunus, 2019).

Measures taken to develop the needs-based policy must also lay the foundation for long term enhancements in essential public services and social safety nets. This includes enhanced social coverage for the vulnerable, robust labour laws, and progressive redistributive measures to address widening inequality and the digital divide.

6.4 Policies to avoid mass layoffs and high unemployment

6.4.1 Relook labour structure

The report by DOSM (2020a) highlighted the need to address the labour market imbalance following the COVID-19 crisis. A dynamic labour market policy must be developed to redeploy labour surplus in affected industries, such as accommodation and retail, towards sectors that have seen a surge in demand, such as health, agriculture and food-based industries. However, this requires investment in training and various measures to incentivise labour absorption. The skills gaps can potentially be narrowed through programmes that provide training, upskilling, reskilling and cross-skilling. This can be done through various agencies such as SOCSO, Majlis Amanah Rakyat (MARA) and Human Resources Development Fund (HRDF) which provides the platform to develop such programmes.

Furthermore, very generally, measures are required to transform the current economic structure that is highly dependent on commodity and low and semi-skilled workers who are underpaid. These measures are needed to redistribute the share of compensation of employees to the economy, which is relatively small as compared to other economies (Malaysia, Department of Statistics, 2020a). It is also needed to increase the incentive for productivity increases and investments to upgrade into higher added value sectors.

A dedicated fund can be established to focus on these training, entrepreneurship development and digital skills. The training facilities can also be utilised for new labour supply coming from young graduates entering the labour market in the next few years.

Decent, conducive and sustainable work environment must also be attained through improvements in labour laws and frameworks. These factors combined are essential for a foundation for businesses before focusing on efforts to adopt technological and digital innovations—respectively automation—to compete with more advanced nations.

6.4.2 Jobs Guarantee Scheme

Many countries, including Malaysia, have taken steps to minimise unemployment through wage subsidy schemes, the various incentives for companies to retain workers and tax breaks. However, the existing short-term programmes may not be sufficient to address long term unemployment, especially in industries affected by the structural shock of COVID-19. Long term unemployment can negatively impact society not only in terms of the economy but also lead to societal ills of depression, mental health and crimes.

A jobs guarantee scheme can be introduced in the long run to address this issue. This scheme compels the government to implement policies that provide a living wage job to anyone who wants to work but have not found employment. This programme has been implemented in many countries and shown proof of concept.
A job guarantee scheme works by the government paying employers to hire people who are voluntarily looking for a job but are at risk of long-term unemployment (Layard, 2020). This can also be expanded to prioritise young workers who have just entered the labour market. Employers can bid for the funds by proposing the jobs that they intend to create for these workers. It can be a permanent feature of the economy but should be flexible enough to be utilised entirely in times of recession and less so in prosperous times (MacLennan, 2020). For the government, this can be a better alternative to spending on unemployment schemes or costs borne out of social illnesses, healthcare and crime.

6.4.3 Labour protection

As previously highlighted by DOSM (2020a) survey, self-employed, non-salaried workers and gig workers are severely affected by the COVID-19 crisis. Most are not protected by insurance under SOCSO and not registered under the EPF. This exposes them to prolonged adversity. Short-term cash transfer schemes will likely be insufficient, while some may even be excluded from receiving any assistance as they are not registered in the databases.

To mitigate a future crisis similar to COVID-19, a compulsory insurance scheme for informal workers in B40 category can be developed (Sazali, 2020). This can be done by enhancing the existing Bantuan Sara Hidup (BSH) or Cost of Living Assistance programme and streamlining it with other aid-related packages from other ministries into one central database (Sazali, 2020). Instead of opting-in, members can opt-out if they are already contributing to other protection schemes. This allows for a centralised system that can capture informal workers that have been excluded previously or have not received adequate support from the existing programmes.

6.4.4 Institutionalising employment support

Keeping businesses afloat has been a major concern of the Malaysian authorities. Policy responses introduced by many economies thus far have attempted to address this issue both directly, using methods such as grants, loans and wage subsidies; and indirectly, via tax deductions, loan deferments, statutory payment waivers and loan guarantees.

Table 10: Measures to support businesses

Form	Instrument	Features
Direct assistance	Loans	• Targeted towards small and medium enterprises
	Grants	• Targeted towards micro enterprises (less than five employees) • One-off payment of RM3,000
	Wage subsidy	• Stratified wage subsidy based on size of business • Subsidy provided for 3 months
Indirect assistance	Tax credits	• Tax deductions on - Covid-19 related expenses - Work-from-home arrangements - Rental deductions for tenants
	Moratorium on loans	• Six-month moratorium on outstanding loans for small and medium enterprises • Restructuring of loans for large corporations
	Loan guarantees	• Loan guarantees for companies to support working capital • Targeted towards larger enterprises (minimum size of RM20 million loan)
	Rental discounts & waivers	• Six-month rental waiver for government premises • Tax deduction on rental discounts

6.4.5 Short-time work allowance

Another similar scheme to the wage subsidy is the short-time work allowance scheme. This scheme was implemented in Germany during the global financial crisis more than a decade ago, successfully keeping the employment stable (IMF, 2020c). Also known as Kurzabeit, it is a short-time work allowance scheme in a form of social insurance programme where employers decrease their workers' working hours instead of laying them off. Under Kurzabeit, the government may provide an income replacement rate of 60 per cent for the hours not worked, for up to six consecutive months.

This short-time work allowance scheme works by protecting workers' income, thus supporting aggregate demand. With their income protected, workers have less incentive to save more, and workers are able to be in steady employment. As for companies, the short-time work allowance scheme also allows for companies to retain their employees during economic downturns. The retention reduces the need for rehiring and retraining cost once the economy picks up again in the future.

6.5 Improving automatic stabilisers

Malaysia's social protection system currently consists of three major components: the first is retirement savings funded by contributions to and administered by the EPF, and secondly unemployment insurance funded by voluntary contributions to SOSCO. The third, funded by taxes, is at the discretion of the government. While public health and educational facilities are made available to all citizens at little to no cost, other aspects of this third pillar, such as living allowances for lower-income groups, are implemented at the government's behest and timing.

6.5.1 Improving sub-optimal aspects of social protection

A facet of Malaysia's social protection system that was bared open during the crisis is its fragmented and discretionary nature, as well as excluding significant parts of the population. As we have seen earlier, multiple agencies were put to work to provide assistance to both households and businesses. For households, there were no less than four of these, and similarly for businesses, a multitude of different bodies were involved (see Table 11).

Table 11: Agencies involved in providing assistance

Objective	Agency	Scheme administered
Households	Ministry of Finance	Bantuan PRIHATIN (one-off cash transfer) for low-income groups
	Inland Revenue Board	Bantuan PRIHATIN for middle-income groups
	EPF	i-Lestari (withdrawal of statutory contribution)
	SOCSO	Allowance for workers on unpaid leave
Businesses	SOCSO	Wage subsidy
	Bank Negara Malaysia	Loans
	Inland Revenue Board	Grants for micro-enterprises

This arrangement came under stress during the lockdown when individuals and enterprises were put under sudden restrictions and most businesses forced to close. Some agencies like the EPF already had an effective and coordinated system and could implement their schemes almost immediately. Others, especially ones administering the PRIHATIN stimulus cash transfer and grants for micro-enterprises, had to scramble to register and process applications and identify valid recipients. The delay caused substantial hardship to certain affected groups. Social protection has also been, to a certain extent, discretionary and promoted as government beneficence, in contrast to protection systems where allowances are automatic and readily disbursed to qualified individuals. For example, the PRIHATIN stimulus cash transfer was an extension of an existing BSH scheme and utilised the same recipient database. However, even the BSH was not automatically disbursed to lower-income households and had to be calibrated and budgeted afresh every year.

Suboptimal coverage becomes a grievous problem when it comes to jobseekers or unemployment insurance. During the crisis, affected workers could draw on their compulsory savings in the EPF or, if they had made voluntary contributions, the SOCSO. However, only 48.9 per cent of the labour force are EPF contributors, 11.9 per cent are civil servants and armed forces and covered by public pensions, while 39.2 per cent do not have any contributory retirement savings at all (Azahar, 2020). This leaves a large share of workers without safety nets in case of economic disruption. Redressing this hole in the net should be the main priority, and the COVID-19 pandemic makes it even more urgent.

Malaysia already has a rudimentary social protection system in place. However, it needs further enhancement to be effective, inclusive and to deliver assistance in a timely manner. Towards this end, a three-pronged approach is proposed: having a comprehensive framework for social protection, streamlining assistance provision and delivery, and linking contributions to clear benefits.

Firstly, social protection in Malaysia requires the formulation of a national social protection policy as an umbrella framework. This framework should set up principles and priorities for each stage of citizens' lifecycles, from birth to old age. Administratively, a coordinating body could be established to prevent duplication of benefits and overlapping databases, although benefits could be administered by different bodies if centralisation brings the risk of heavy workloads and delayed delivery. This would also help to streamline provision of assistance. Next, special attention should be paid to enhance contribution levels by linking them to defined benefits. Not only does 39.2 per cent of the workforce not have any contributory retirement savings, Malaysia also has very low tax compliance. In a report published by the Ministry of Finance, only 7.8 per cent of companies registered with the Inland Revenue Board were actually subject to taxation (Ministry of Finance, 2019). One way of doing this is to consider an auto-enrolment mechanism for the self-employed with a fixed minimum amount contribution, similar to that implemented in the UK and New Zealand. If direct benefits, such as living and unemployment allowances, were pre-defined and linked to contributions, it could incentivise the population to voluntarily contribute, subsequently providing a valuable source of up-to-date information, funding for social programs and ensuring that assistance is provided without delay.

6.6 Enhance social protection system

The social impact from this crisis has demonstrated the importance of having an enhanced, robust and comprehensive social protection system that can provide protection, especially for the poor and vulnerable.

6.6.1 Protect and empower women and care work

The crisis has shown a gender-differentiated impact that requires a gender-differentiated response. As suggested by the UN (2020), the first step should be that women are equally represented in all COVID-19 response planning and decision making.

Secondly, there must be a concentrated transformative drive of equality by addressing the care economy. This can be done in ways such as pay and support for caregivers, enhance childcare support for working parents, provide childcare allowances as leeway for women to enter work, and expand paid family leave, sick leave and social insurance benefits. According to KRI (2018), policies that help raise women's employment level would help boost Malaysia's GDP and serve as a potential remedy for an ageing population in the long run.

Thirdly, policies must specifically target women and girls in all efforts to address the socio-economic impact of COVID-19. For example, the protection of women affected by domestic violence must be enhanced and become more accessible, especially in a future crisis.

6.6.2 Migrant workers

Malaysia's containment efforts must protect the vulnerable in the country, including migrant workers, to ensure COVID-19 transmissions are under control. COVID-19 clusters among migrants serve as a warning and calls for proactive intervention measures. Otherwise, Malaysia may risk another wave of infections, as seen in Singapore and other countries (Crabtree, 2020). This may strain the healthcare system and economy as migrant workers are essential to Malaysia's prosperity and progress.

Further policies and actions must facilitate testing, treatment and protection of migrant workers. At the same time, harsh measures that prevent migrant workers, especially illegal ones, from coming forward for testing must be reviewed for the general good. Regional cooperation and coordination between Malaysia and its neighbours are also essential for local safety and restarting the economy after prolonged lockdown.

The crisis may also provide an opportunity for Malaysia to revamp its foreign workers policies away from over-dependence on migrants. As highlighted in a report by the Malaysia's Central Bank, bold reforms are needed to fix the economic distortion caused by low skilled migrants (Wei et al., 2018). The report proposes a comprehensive five-point action plan which includes fair treatment of foreign workers and improvements in their living and working conditions.

6.7 Cash transfers, Universal Basic Income, and Islamic social finance

As the country copes with recovering from a dramatic fall of the economy, UNDP (2020) proposes a temporary Universal Basic Income (UBI). UBI is a universal and unconditional cash grant to all citizens. It can arguably boost aggregate demand and help the poor and vulnerable in terms of their basic livelihood and necessary consumption. As industries and businesses retrench workers, UBI payment can reach the most vulnerable in a society where traditional social programmes may not. This is attributed to its universality, which does not require targeting, which reduces administrative and distributive costs. However, its overall costs can be higher because of the broad coverage. Nonetheless, the impact may also be higher to boost consumer spending, increase aggregate demand (AD) and kickstart the economy.

The likes of Canada, India, Japan, the UK, Hong Kong, the US and Singapore have implemented various forms of one-off UBI and regular UBI-like direct cash transfers (UNDP, 2020). Malaysia also has implemented several cash transfers programmes through Bantuan Prihatin National (BPN) in its stimulus packages. However, these grants are more targeted and may have excluded several sections of society. Furthermore, its implementation has seen some problems with distribution and lag as the government coordinates with various agencies (Cheng, 2020b).

The World Bank has urged further rounds of cash transfers and a more targeted approach towards the B40 as the economic ramification from COVID-19 may last longer for lower-income households (Schmillen, 2020). This is also supported by a report by the Institute of Strategic and International Studies (ISIS) Malaysia which called for more generous cash transfers to support distressed households in these extraordinary times (Cheng, 2020b). An effective communication campaign and improvements to the delivery process must also be undertaken to cover the digitally illiterate and less fortunate.

Additionally, Malaysia can take advantage of its existing Islamic social finance mechanisms to bridge the financing gaps (Aziz & Zhang, 2019). These include tools such as waqf (Islamic endowment) and zakat (obligatory contribution due payable by all Muslims who have reached a certain threshold), which have established institutions that can play a role in providing targeted cash transfer. The data from these Islamic social finance institutions should be shared to provide greater efficiency and impact in its distribution process.

6.8 Government cooperation and data sharing

The cooperation between federal and state government is essential to recover from this crisis and mitigate future ones. Currently, there seems to be a federal-state cooperation ambiguity, especially in policy implementation of areas beyond health (Welsh, 2020). Early on during the crisis, chief ministers of state government controlled by the federal opposition were excluded from meetings on federal responses to COVID-19 (New Straits Times, 2020).

Additionally, there have been several cases of squabbles regarding the jurisdiction of states and the federal government. In many instances, state governments have chosen a slightly different path to policy implementation announced by the federal government. This includes issues on the relaxation of MCO, guidelines in public places and places of worship, and local government services (Welsh, 2020).

Most strikingly are the compulsory apps provided by the federal and state government that citizens are required to download and register in order to travel and move around during the MCO. These apps capture the data necessary for contact tracing used to mitigate the spread of the virus. However, there seem to be separate databases and no data sharing between the state and federal-mandated apps (Malaysiakini, 2020).

State government efforts and local enforcement are arguably complementary to the federal government efforts in combating COVID-19. The perspective from state governments' lenses allows for a better understanding of local knowledge and sensitivity, inclusive approaches, and specific targets for the allocation of resources. This can be harnessed further by less politicking, clear and transparent communication, enhanced governance and trust, cooperative mindset, and data-sharing between the governments. Therefore, improvements in government relations and cooperation is imperative towards efforts to combat the COVID-19 crisis.

6.9 Reduce the digital divide

In the new normal post-COVID-19, access to fast and stable internet should be treated as a public good. Like other public goods, such as water, electricity and sanitation, a stable internet connection is essential and possibly life-saving in times of crisis. As the crisis has caused many jobs and services to shift online, stable and fast internet facilities will be essential to make opportunities more equitable, especially for the poor and vulnerable.

The story of the Sabah university student who had to climb a tree to get internet for her exam has shown that the digital divide has been detrimental to the quality of education and access she receives (Nazari, 2020). In places where decent internet facilities are not available, it has created a disadvantage for school-going children to receive education and develop skills during the lockdown.

Not only are the internet facilities essential to bridge the digital divide, but it is also an important factor to reduce inequality. Thus, the government must implement policies to expand connectivity and internet facilities, especially in rural and vulnerable areas. This can be accelerated through cooperation with the private sector and Non-Government Organisations.

6.10 Show me the money. Modern Monetary Theory?

As countries around the world are grappling with increasing debt and spending, plummeting resources, and an ageing population, the question is, where can we get the money necessary to fund these responses? Scholars have likened the current situation to warlike periods which may require unprecedented responses (Astro Awani, 2020; Banerjee & Duflo, 2020; Sundaram in The Oxford & Cambridge Society Malaysia, 2020).

One suggestion is for governments to issue Perpetual Bonds similar to those issued during wartime. These perpetual bonds denote that the principal amount would never have to be repaid. Instead, only perpetual annual interest payments are made (Amaro, 2020).

Alternatively, the government can consider issuing Malaysian ringgit-denominated bonds which the central bank buys at a minimal rate. This is based on Modern Monetary Theory (MMT) which has attracted considerable attention during this crisis as governments increase spending and public debt. MMT proponents argue that based on this theory, governments can spend indefinitely in its own currency as long as inflation is manageable within set targets (Whittaker, 2020). Although there are some critics to the theory, we have seen MMT-like government responses in Europe, Japan and the US (Dooley, 2019; Ehnts, 2020; Phillips, 2020).

6.11 Trade unions

Trade unions are essential platforms for workers to conduct collective bargaining with employers. Trade unions act as a voice to ensure workers' rights and welfare can be improved, and workers' interests protected. However, Malaysian trade unions choose a more diplomatic approach when dealing with workers' rights violations as opposed to organising pickets, strikes or campaigns.

The onset of COVID-19 pandemic in Malaysia has brought to light the need for more robust labour protection in Malaysia. For instance, many companies laid off their employees due to the debilitating effects of the pandemic on the companies' revenue (New Straits Times, 2020). As a result, many people lost their jobs. Other than protection in terms of job security, Malaysian trade unions have also highlighted the need to ensure workers health and safety in their jobs (Building and Wood Workers' International, 2020), especially with the threat of COVID-19 pandemic putting workers' lives at risk.

Among the ways to widen and strengthen the role of trade unions is via co-determination. Co-determination is a practice where worker representation is placed on corporate boards. Both workers and companies will better understand each other's situation, making negotiations less confrontational. Another way would be to use trade unions to provide government-supported unemployment insurance, for example, workforce training and enforcement of workplace laws. By empowering trade unions to provide training, unions are also able to attract more members to join and remain in their ranks.

4. Conclusion

The COVID-19 global pandemic is truly different from any other global crises that humanity has faced in the past. In just a span of a few months, the coronavirus has spread from China to the entire world and caused a multidimensional crisis.

Malaysia has been relatively successful in flattening the curve of infection and spread of the virus, avoiding any unsustainable pressure to its healthcare system. Nonetheless, the policies taken to flatten this curve have led to various economic and social impact on the society.

Like other countries, the current economic outlook for Malaysia does not seem promising. The policy responses will determine how well Malaysia manages to steer through this global economic downturn. On the other side of the coin, there is the unquantifiable social impact partly attributed to the COVID-19 policy responses and economic slowdown—this also requires thoughtful policy responses that can shape how Malaysia comes out from this COVID-19 storm. It also provides an opportunity for Malaysia to relook the long-standing structural issues in its economy and society.

This paper has highlighted the situation in Malaysia, by analysing the social and economic impact of COVID-19; the policy responses and its implementation challenges; a situational analysis of what may happen if Malaysia fails to mitigate the spread of COVID-19; and provided several suggestions of what more can be done in the short-and-long run.

This includes suggestions to provide additional development-oriented stimulus; relook Malaysia's economic policy to a needs-based economic model; policies to avoid mass layoffs and high unemployment; improve automatic stabilisers; enhance social protection system for the vulnerable; proposals of cash transfers, universal basic income and utilisation of Islamic social finance; improving data sharing and government cooperation; improving access to internet; and finally suggestions on sourcing the financial means necessary to fund these proposals.

These suggestions can be a source of reference to policy-makers, Non-Government Organisations, the private sector and individuals.

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Endnotes

1. Countries in which these functions are separate include the US, where the Federal Reserve oversees monetary policy and the Office of the Comptroller of the Currency supervises financial institutions, and the United Kingdom, where the Bank of England is responsible for monetary policy and the Prudential Regulation Authority for financial stability.

2. The Department of Statistics reported that the largest declines in employment for April 2020 were in industries reliant on social activities: accommodation, food & beverages and arts, entertainment & recreation

3. In a much-publicised analogy, the Prime Minister illustrated in vivid terms the amount of government assistance available to a single households using the example of a fictional 'Makcik Kiah' (Aunty Kiah), a roadside hawker selling fried bananas.

4. The Malaysian government imposed conditional movement control order (CMCO) in most peninsular states and enhanced MCO (EMCO) in targeted jurisdictions in November and December 2020. This was due to new spikes of COVID-19 clusters attributed to Sabah state election, and the dire conditions of migrant workers, lockups, and prisons.

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The foundation is named after Friedrich Ebert, the first democratically elected president of Germany.

The Singapore-based Friedrich-Ebert-Stiftung (FES) Office for Regional Cooperation in Asia coordinates activities in the region that connect global and country programmes. Through regional activities, it creates synergies between the work by FES on national and global level, responding to the challenges of globalization, labour mobility and regional integration.

FES established its Indonesia Representative Office in 1968 and has since 2012 been in cooperation with the Coordinating Ministry of Human Development and Culture of the Republic of Indonesia. In order to pursue social justice in politics, the economy and in the society as one of FES leading principles worldwide, FES Indonesia has been conducting various activities in recent years to support the Social Security Reform, Welfare State, and Social Economic Development in Indonesia as well as promoting Indonesia as a reference to other countries in the region and at the international level for democratization, socio-economic and peaceful development.