

MANAGING THE SOCIO-ECONOMIC UNCERTAINTIES OF COVID-19: THE ROLE OF GOVERNMENT FOR THE 'NEW NORMAL/ECONOMY'

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ABSTRACT

Governments have intrinsic duties to its citizens; namely- safeguarding the citizens' survival and physical security, and the citizens' rights to socio-economic well-being. The Covid-19 pandemic threatens all the above. The pandemic takes lives from families and the Movement Control Order (MCO)/ social distancing robs many firms and households from their everyday incomes and social interactions. Far reaching government intervention has become a necessity to save the economy, which is unlikely to emerge unchanged. The Government has started with Stage 1; a stage we depict as 'Protect and Shield', essentially a phase to protect both households and firms from insolvencies, whilst at the same time limiting the carnage of Covid-19. This paper will further discuss and examine the role of government in regenerate and reform industries in Malaysia.

Keyword: *Movement Control Order (MCO), Government, Regenerate, Reform, Real Estate, Technology, Covid-19*

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Governments have intrinsic duties to its citizens; namely- safeguarding the citizens' survival and physical security, and the citizens' rights to socio-economic well-being. The Covid-19 pandemic threatens all the above. The pandemic takes lives from families and the Movement Control Order (MCO)/ social distancing robs many firms and households from their everyday incomes and social interactions. Far reaching government intervention has become a necessity to save the economy, which is unlikely to emerge unchanged.

The Government has started with **Stage 1; a stage we depict as 'Protect and Shield'**, essentially a phase to protect both households and firms from insolvencies, whilst at the same time limiting the carnage of Covid-19. Money must not be a hindrance to health services' ability to do everything possible to control the pandemic and treat the ill. To worry about public finances in such a moment is both perverse and counterproductive: spending too little is a greater threat to prosperity than spending too much.

However, more could be done in this stage when the Movement Control Order (MCO)'s strict regulations are loosened. As Malaysians are 'released' from the MCO, there must be a systematic approach for the cultivation of the general public's new behaviour for the 'new normal'.

We also propose **Stage 2: Regenerate and Reform**, where the government plays a significant role in financing and re-directing the economy with clear and transparent reforms to create a soft landing for the post-pandemic ***'new economy'- an economy that promotes modernization of practices, innovation within the domestic supply chain, safe procedures with less destruction to the natural environment with an agile, healthy and resilient workforce.***

We proposed three major structural reforms:

1. Innovate all sectors into higher technology/ mechanization in order to ensure higher labour productivity at the back of decreasing total number of workers. For example, an ageing population of farmers with low productivity should be replaced with fewer but younger agropreneurs with higher agricultural productivity. Improved technology in the security services could reduce the number of workers and to retain a few higher quality workers to oversee the technology. Higher productivity in manufacturing and construction would reduce and supplant the over reliance on cheap foreign labour for its competitive advantage. Innovation and productivity measures will need to be eco-friendly and sustainable, with less wastages and damages to the natural environment.
2. Retrain and reskill workers from the impacted industries to other sectors that will emerge under the new demand and supply conditions. Examples can be public health, care services, green technology and large-scale R&D.

3. Attract the best minds into providing thought leadership in public health and education/ training sectors. These are the two main pillars for creating an agile, healthy and resilient workforce. Strengthen the economy by investing in the ecosystem (public and private entities) of these two sectors. Apart from the clear economic benefits to local citizens, it is also a 'pull-factor' for the international business community, where our public health system is viewed as highly accessible to all strata of society and competent in managing outbreaks and pandemics.

The above Item 1, Stage 2 reforms have been mentioned for many decades, but Malaysia has been lackadaisical in systematically injecting innovation into firms to ultimately strengthen the domestic supply chains. Innovation-left to its own devices will not flourish in firms, as was and is currently the case for Malaysia. Many economies have had the benefit of the government acting as an entrepreneurial state¹ in spearheading innovation within large-scale government funded research and development. These innovations spilled over to the domestic supply chains, which enables individual firms to capitalize on the general improved technology and privatize the gains. The logical progression will be firms that are better prepared for the new global value chains post-pandemic since its current practices are already at the required international standards.

Post-pandemic 'new economy' affords the opportunity for government to strike a strategic partnership with firms in many sectors. The government have started the 'protect and shield' funds during the MCO period. Further injection of funds will have to take place anyway since post-MCO warrants a 'new normal' for business practices; amongst others, social distancing will need a safer, healthier working environment for fewer workers with higher productivity. This will be the much-needed 'push factor' for all sectors to modernize.

As mentioned in Item 2, Stage 2, new industries will grow under the new supply and demand conditions. Our prognosis rests on industries that promotes green technology, public health, care services and general large-scale research and development (R&D). We also forecast that the protection of wild-life and natural resources (rivers and forests) as well as maintaining a safe and healthier physical environment in buildings will be the next growth poles for the creation of high value-added jobs.

Stage 2 reforms can be funded by the government through:

- a) Government spending in individual firms for Item 1, these injections can be converted to equity in firms (non-voting preference shares) -impeding the slide into a centrally planned economy; and
- b) Government spending in human capital for Item 2 and 3.

The paper sets out a strategic roadmap for the ease of transition from post-MCO to the 'new normal' for households and firms, based on improved living standards for the general public as well as the improved innovation in firms and the creation of new jobs for the new fields. For the latter, it is a 'win-win' situation for

¹ Mazzucato (2013); Cohen (2006)

both firms and government. This injection will provide the opportunity for Malaysia to embrace technological changes based on productivity gains in firms. This wide-scale approach creates strong domestic supply chains. For the former, higher returns based on productivity gains for firms enable higher pay² to workers under improved skills and working conditions. Higher pays will in evidently lead to strong domestic demand and the improved living standards for households.

Stage 1 – Protect and Shield: Easing Out from the MCO with the Right Behavioural Changes.

An all-of-government approach with the Ministry of Housing and Local Government (KPKT); cooperation with KPKT and local councils will ensure our buildings (commercial and residential) are equipped with better health and fire safety standards. The overcrowding of housing residents in cramp places is flouting both health and fire-safety building regulations; and highlights the failure of building maintenance policies³.

- A poor housing environment paired with overcrowding conditions are commonly associated with higher rates of diseases⁴. Risk factors in the urban environment (i.e. poor sanitation, waste management, inadequate ventilation) contributes to vector proliferation and spread of diseases. A typical PPR in Kuala Lumpur consisted of at least 316 units per block with 17 floors. If the average household size is 4.6, then assuming if all units are occupied, approximately 1,455 people would be crammed all together in one building. Indeed, a study modelling the influenza transmission in Delhi found that areas with 'slum neighbourhood characteristics' (e.g. population density and estimated contact rates) significantly associated with larger epidemics earlier peaks⁵. We suspect this is also the case for Selangor Mansion, Malayan Mansion and Menara One Condominiums that housed foreign workers in overcrowding conditions. Overcrowding are also death traps for its residents in terms of fire safety. We proposed direct intervention by local councils to impose hefty fines for those landlords who flout public health and fire safety regulations in the country.
- Sanitation remains an issue for these high-density PPRs, low-cost apartments and other shelters provided to foreign workers. Given the current outbreak, it is imperative that sanitation efforts in the PPRs are intensified to reduce the risk of disease spread⁶.
- As countries becomes more developed, more of its buildings are from the existing stock, in the ratio of 90 percent existing stock and 10 percent newly built buildings⁷. The failure for building owners to invest in systematic maintenance of their buildings will only create negative equity buildings and more public health and safety issues in the future. It is important for both the public and private sectors to start taking building maintenance seriously, and for KPKT to earmark this as the new growth sector for technical building professionals.

² This needs to be institutionalized in firms for the culture of innovation to thrive; where higher productivity is reflected in the larger share of labour's share of wages. Firms' retained profits are set aside for long-term developmental considerations rather than extracting companies' largesse for mainly private individual gains (Mokyr (2018); Mazzucato (2013), Jomo (2020)

³ Puteri Marjan & Theebalakshmi (2020)

⁴ Neiderud, C. J. (2015)

⁵ Chen et. al (2016)

⁶ The Federal Territories Minister, Tan Sri Annuar Musa urged the management committees of PPRs should 'take proactive measures such as maintaining the cleanliness of their respective flats or apartments'. (Adib Povera, 2020)

⁷ Bon (2018)

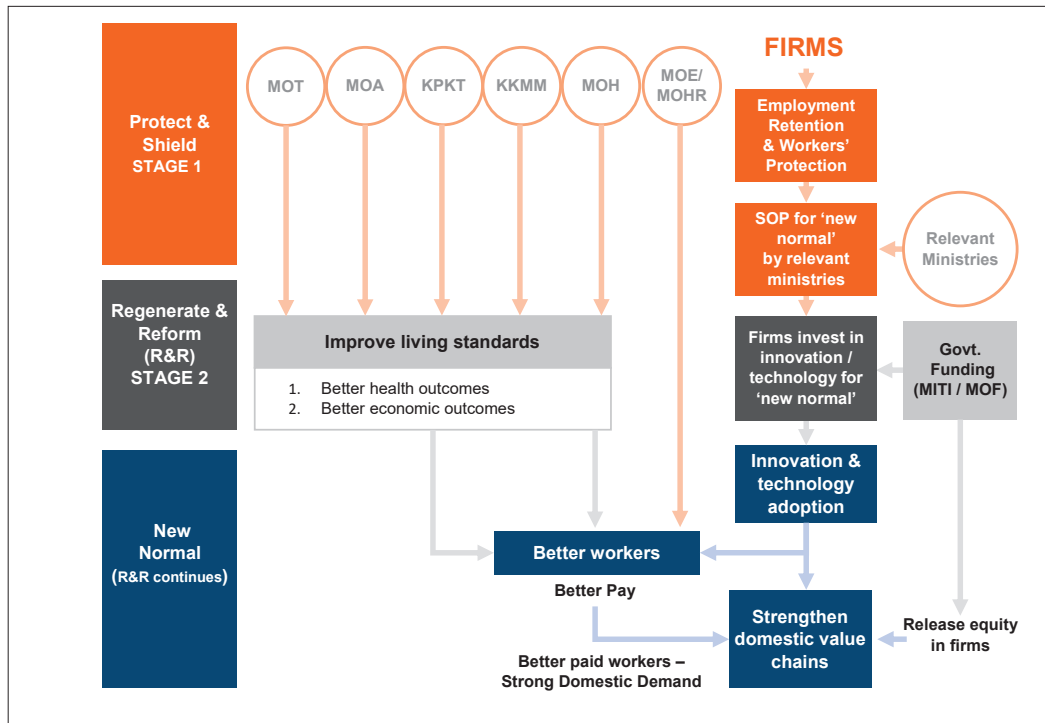


Figure 1: Initiatives to the New Economy

Stage 2 - Regenerate and Reform the Economy: Building the Pillars for a Sustainable Enhancement of the Economy

Post-MCO initiatives can be viewed as opportunities to realign structural reforms that are much needed.

Figure 2: Share of total employment by economic sectors show that 63% are in the services sector.

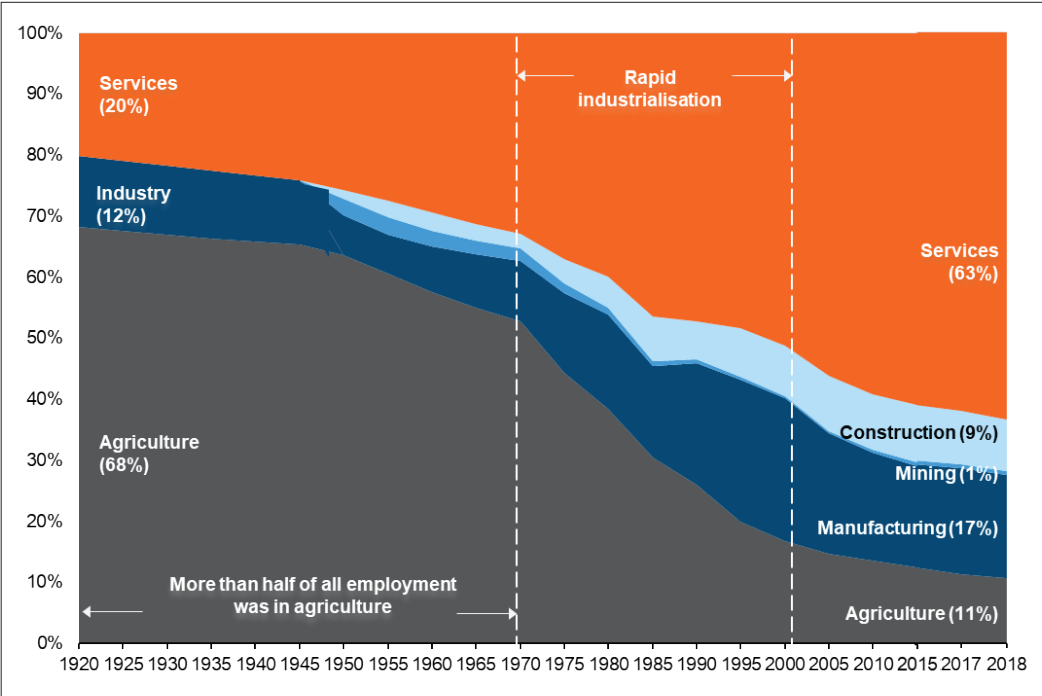


Figure 2: Share of Employment by Economic Sectors, 1920 – 2018
Source: KRI (2017), DOS (2018), DOS (2019)

However, upon closer scrutiny, only 14-15% of the private sector services are in the ‘modern services’ as shown in Figure 3: Modern services as a percentage of GDP. Indeed, these are the sectors that are least impacted by the MCO as well, as per Figure 4: Percentage of workers with increased hours, worked from home, or no impact due to Covid-19, by industry.

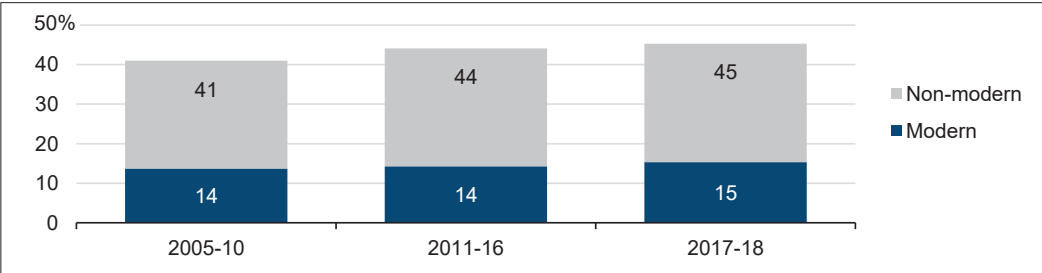


Figure 3: Modern Services as Percentage of GDP, Selected Years

Source: KRI (2017) and CEIC (n.d.). Modern Services Include Info & Communication; Finance; Insurance; Real Estate; Professional, Scientific & Technical Services.

This clearly indicates high value-added skills are more resilient but unfortunately our firms are not creating enough high skilled jobs. This can be seen by the Figures 4, where it clearly depicts the low-skilled, low productivity type of employments we have which are filled in by cheap foreign labour.

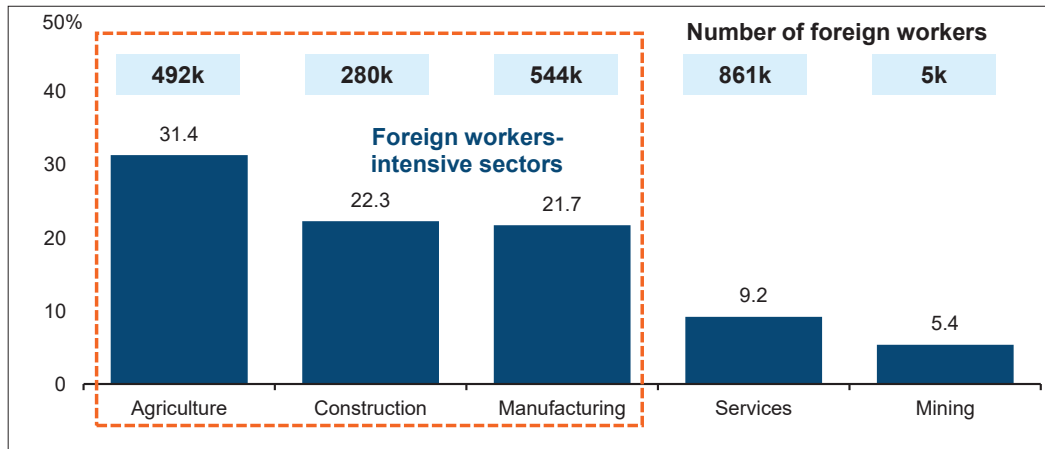


Figure 4: Share (From Total Employment) and Total Non-citizen Employment, by Sector, 2018
Source: DOS (2019)

The manufacturing, commercial agriculture and construction sectors are not increasing productivity based on increased mechanization nor innovation. This renders the opening of these factories and construction sites difficult due to practices that relies heavily on many workers along the ‘conveyor belt’. Some firms are only willing to innovate due to multi-national-companies (MNC) or global-value-chains (GVC)’s demands to upgrade their products and workers environment as per demands of international standards. These were not executed based on the firms’ R&D impetus as well as the domestic demand/ domestic supply chains.

We need to change the mindsets of firm owners to migrate out from the ‘low-skilled, low pay’ business model⁸. The post-MCO period affords the government the opportunity to intervene based on public health initiatives. For example, high-skilled workers on construction sites will reduce workers from ten to three persons. This will reduce our reliance on high numbers of cheap foreign workers. Similarly, a highly mechanized and productive agropreneur can be more productive than a few traditional farmers combined. Social distancing works well with improved technology and higher mechanization. Innovation-left to its own devices will not flourish in firms, as was and is currently the case for Malaysia. Many economies have had the benefit of the government acting as an entrepreneurial state⁹ in spearheading innovation within large-scale government funded research and development. These innovations spilled over to the domestic supply chains, which enables individual firms to capitalize on the general improved technology and privatize the gains. The logical progression will be firms that are better prepared for the new global value chains post-pandemic since its current practices are already at the required international standards.

As shown in Figure 1: Initiatives to the New Economy under the heading for firms, the government has started ‘protect and shield’ funds during the MCO period. Further injection of funds will have to take place anyway since post-MCO warrants a ‘new normal’ for business practices; amongst others, social distancing will need a safer, healthier working environment for fewer workers with higher productivity. This will be the much-needed ‘push factor’ for all sectors to modernise.

⁸ Khazanah Research Institute (2014)

⁹ Mazzucato (2013); Cohen (2006)

The post-pandemic 'new economy' affords the opportunity for government to strike a strategic partnership with firms in many sectors. Stage 2 reforms can be funded by government through government grants for mechanization and innovation in individual firms. These injections can be converted into equity in firms (non-voting preference shares) -impeding the slide into a centrally planned economy. The option to 'release' the firms is presented in Diagram 1: Initiatives to the New Economy 1, when a strong domestic value chain is observed within the ecosystem. Innovation and high productivity will attract high-skilled workers, and in return, higher compensation to workers. It also ensures international benchmarks will be in place for workers' social protection. This is where the role of MOE and MOHR are intensified (as per Diagram 1). MOE - more for the creation of large-scale research and development in fundamental research for continuous innovation and mechanization of industries; whilst both Ministries' focus would be for the creation of an agile (inferring retraining and reskilling initiatives) and knowledgeable workforce. New industries will grow under the new supply and demand conditions. Our prognosis rests on industries that promotes green technology, public health, care services and general large-scale research and development (R&D). We also forecast that the protection of wild-life and natural resources (rivers and forests) as well as maintaining a safe and healthier physical environment in buildings will be the next growth poles for the creation of high value-added jobs.

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