



社会经济研究中心
**SOCIO-ECONOMIC
RESEARCH CENTRE**

GOING FOR SUSTAINABLE GROWTH – REFORM PRIORITIES

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Key Messages



INITIAL CONDITIONS SUPPORTIVE OF REFORMS



REFORMS MUST BE SEQUENCED: BIG BANG OR GRADUALIST APPROACH?



BRACING FOR SHORT-AND MEDIUM-TERM COSTS OF ADJUSTMENT

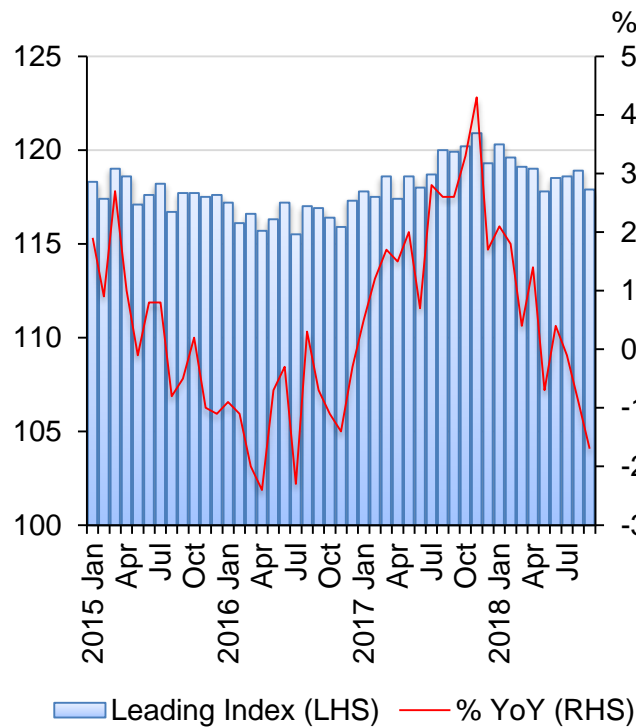


Section 1

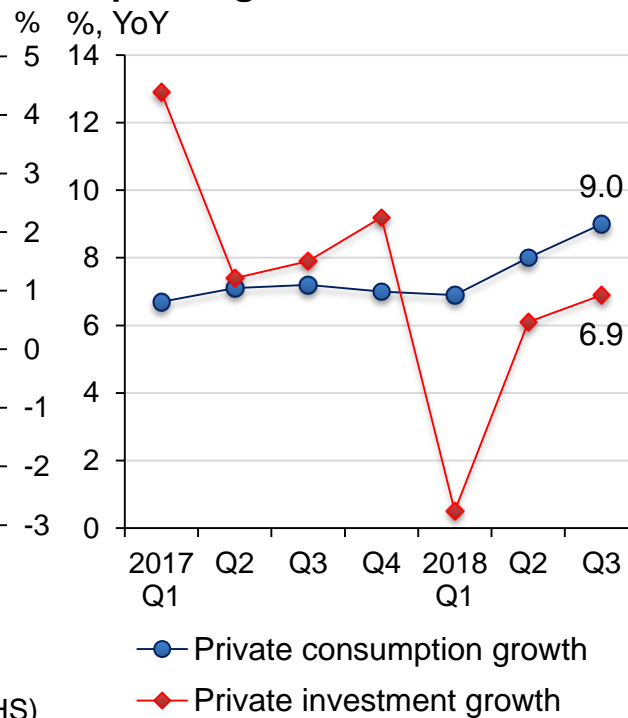
The Malaysian Economy – *Where are we now?*

GDP growth is **LOSING MOMENTUM** but still manageable

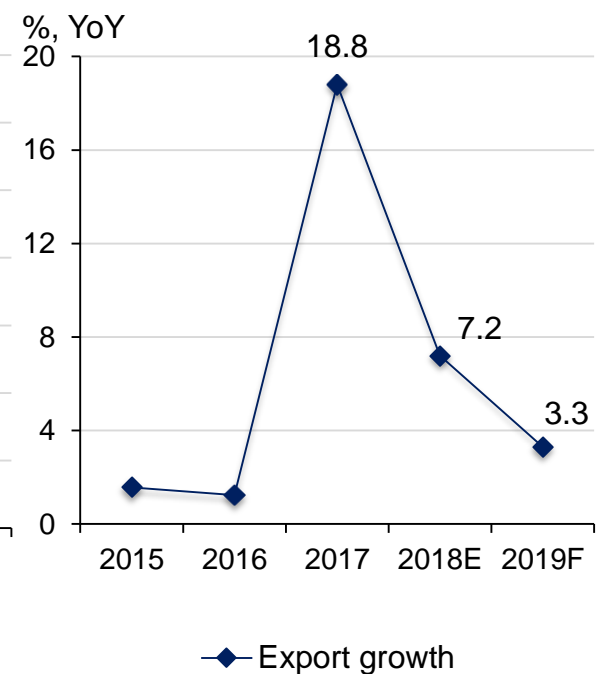
Leading index presages slower economic growth ahead



GDP growth underpinned by largely private spending



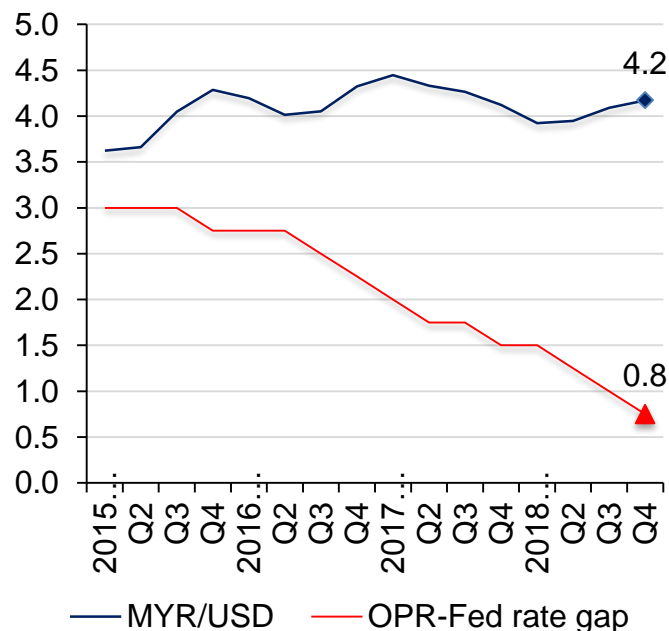
Exports facing headwinds from the trade tensions



Source: DOSM; BNM; SERC

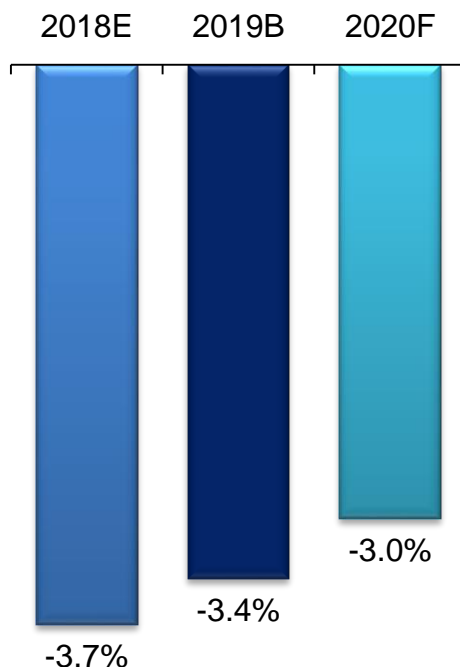
MONETARY SPACE has some room but FISCAL LEVER is limited

Will the weak ringgit restrain monetary easing?

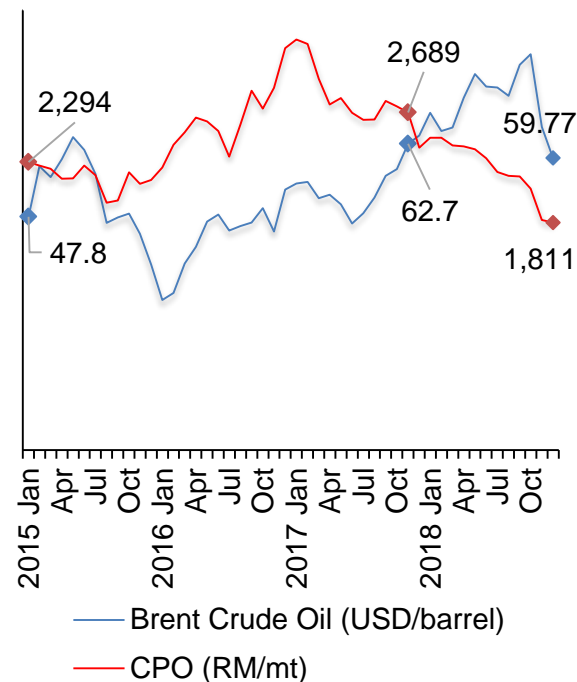


Note: Exchange rate is on average basis. End-date of 2018Q4 exchange rate was 28/12/2018, the gap "as at end-quarter"

Reset fiscal deficit path (2018E-2020F)



Facing headwinds from falling crude oil and palm oil prices



Note: Average price of Brent crude oil as of 17 December 2018; average price of CPO as of 26 December 2018

Source: MOF

Section 2

**What can the government do
to power economic growth?**

Structural reforms as cure



The REQUISITES for Malaysia to roar again as an Asian tiger?

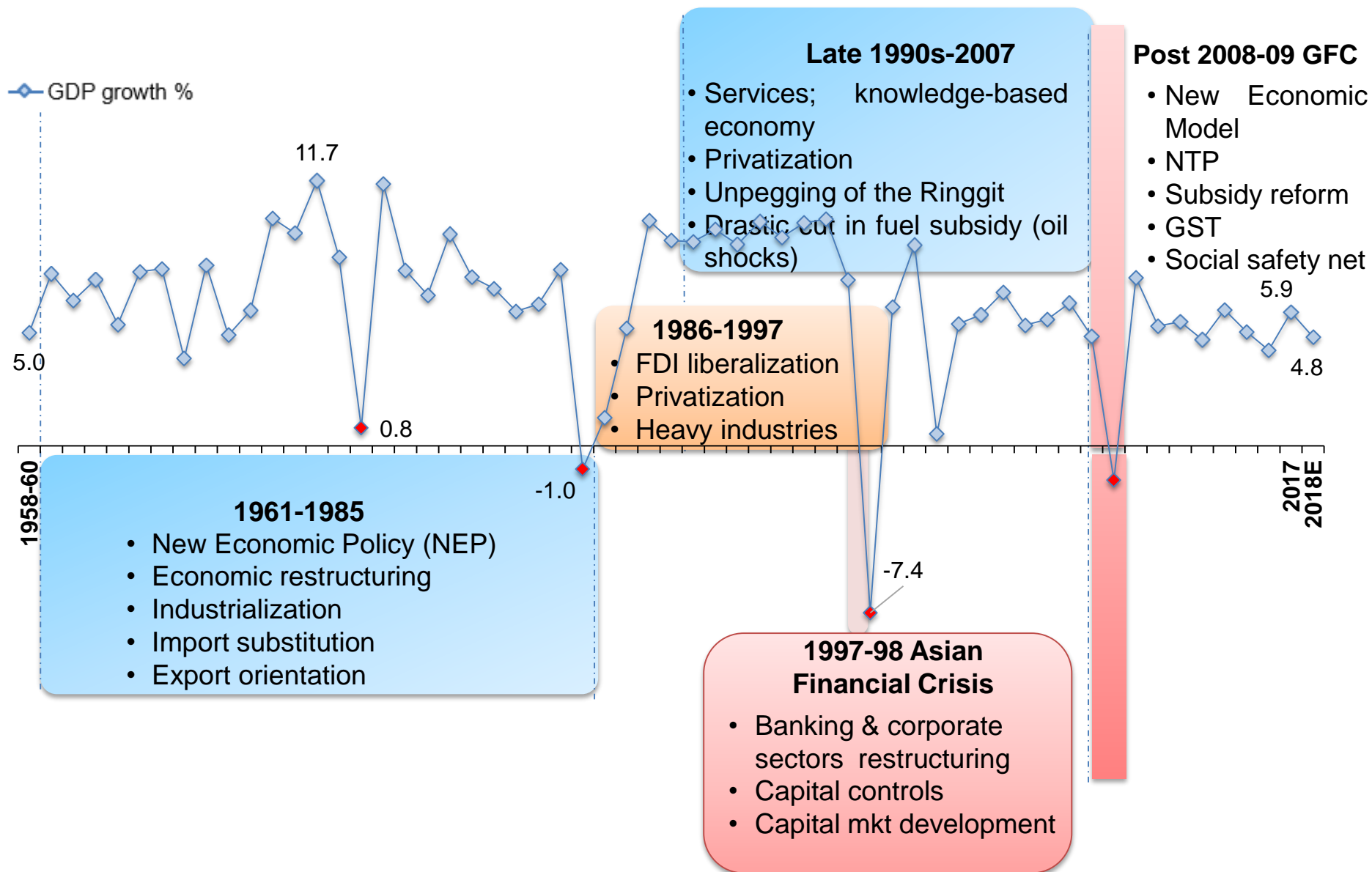


Prime Minister Dr Mahathir Mohamad: *Malaysia can regain 'Asian Tiger' status*

Minister of Finance Mr. Lim Guan Eng: *The Pakatan Harapan (PH) administration has pledged to return Malaysia to its former glory in the next three years of its term*

Reforms	Challenges and Issues
<ul style="list-style-type: none">➤ Maintain a reform state of mindset➤ Political, economic and regulatory reforms➤ Continued reforms of business laws and regulations➤ Improve the tax regime to enhance competitiveness and integration with the world economy	<ul style="list-style-type: none">➤ Lagging productivity growth behind the newly industrializing economies➤ Low wage compensation for workers (35.2% of GDP in 2017)➤ Over-dependency on foreign workers (11% of total labour force in 2017), shortage of skilled workers (skilled workers made up 28% of total workforce in 2017)➤ Slow adoption of information, communication and technology (ICT)

Malaysia's journey of key economic RESTRUCTURING



Source: BNM; World Bank; SERC estimation

Key ISSUES and CHALLENGES facing Malaysia

- 1 SLOWING PRODUCTIVITY GROWTH & IMPEDIMENTS:** Technology adoption, industrial structure, talent and skills gap, over-dependence on low-skilled foreign workers (Semi- and low-skilled workers: 72.5% of total employment in 2017; foreign workers: 15.5%).
- 2 BURDENSOME REGULATORY and COMPLIANCE COSTS:** Inconsistent interpretation and application of regulations, the complex and lengthy licensing application processes have resulted in high costs and delays.
- 3 QUALITY INVESTMENT:** Lower investment of ICT equipment (from 26% in 2010 to 22.2% in 2017). Many industries are still in the low-end to mid-range of the value chain as well as lower innovative capacity.
- 4 VALUE ADDED SECTORAL OUTPUT:** (a) **services sector** - dominated by traditional services subsectors while technology-driven modern services subsectors have stagnated; (b) **manufacturing sector** – premature deindustrialization; high value added; and (c) **agriculture sector** – less on agro-based industries; leverage on technology.
- 5 LIMITED FISCAL SPACE:** Federal revenue has not kept pace with the economic growth and meet high committed expenditure. Tax buoyancy dropped from 2.2 in 2011 to 0.5 in 2017.
- 6 HIGH RATES OF YOUTH & GRADUATES UNEMPLOYMENT** (unemployment rate of 10.8%) due to labour market mismatches, limited job creation and inadequate supply of industry-ready graduates.

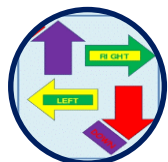
A multifaceted approach to **ADVANCING** future economic growth trajectory

- 1 DISCARD THE “BUSINESS AS USUAL” MINDSET.** A new mindset and attitude as well as behavioral changes
- 2 INVESTMENT POLICIES AND FRAMEWORK CONDITIONS** must be right and conducive. **EQUAL OPPORTUNITIES FOR ALL** and based on the smart Public-Private partnership
- 3** Process of **CREATIVE DESTRUCTION** to optimize resources and sharing of growth and economic dividends
- 4 DOMESTIC DIRECT INVESTMENT (DDI) initiatives** must be strongly promoted and facilitated along with foreign direct investment (FDI)
- 5 DOMESTIC SMEs** must be competitive (cost, quality and delivery) and connected to global supply chains
- 6 The GOVERNMENT’S BUSINESS IS NOT IN BUSINESS. GLCS MUST BE OPENED TO A LEVEL PLAYING FIELD** to compete with the private sector
- 7 COMPENSATION OF EMPLOYEES (CE)** have to be improved if it is matched by the rise in productivity gains and commensurate with the skills set. Malaysia’s **CE to GDP ratio** increased from 33.9% in 2013 to **35.2% in 2017** was lower than Australia (47.3%), South Korea (44.4%) and Singapore (42.4%). The **target is to raise it to 38% by 2020.**

STRUCTURAL REFORMS to uplift growth potential



STRUCTURAL REFORMS are necessary to restore **ECONOMIC DYNAMISM**, ensure **SUSTAINABLE** and sustain **COMPETITIVE** growth in the long term



BIG-BANG versus **GRADUALISM** comes with adjustment costs

Fiscal Reform

Labour Market and Wage Reform

Market and Investment Liberalisation

GLCs Reform

Social Safety Net

**STRONG POLITICAL WILL
AVOIDING DISRUPTIVE BIG-BANG CHANGES**

Fiscal and Debt Reconstruction

- **Sustainable** revenue base (tax less on employment and business income; more on consumption)
- Plugging **tax leakages**; shadow economy (2017: 22.9% of GDP (RM298 billion); tax gap is about 20% vs 10-15% in developed economies)
- **Tax reform** (Fair, Effective and Simpler)
- **Expenditure rationalization** (targeted subsidy; pension reform)
- Active **debt** and **responsible budget management** (Zero-based budgeting; accrual accounting)



Labour Market and Wage Reform

- Boosting productivity through **reskilling and training**
- **Performance-driven** wage system; labour flexibility
- **Technical and Vocational Education Training (TVET)**
- Spurring **innovation**; ecosystem for **creation**
- **Phase reduction of reliance** on foreign workers
- **Living wage** and linked with productivity



Market and Investment Liberalisation

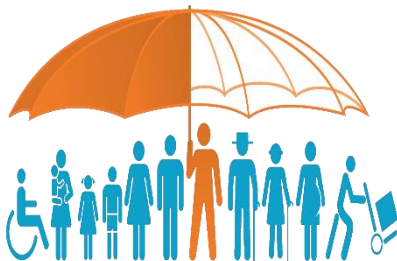
- **Equal and inclusive** opportunities for **ALL**
- ‘**Schumpeterian creative destruction**’
- Targeted programs for **SMEs**
- Review **current incentives** (time bound)

GLCs Reform

- **Leaner**, responsive and less intrusive
- Functions to be **systematically** reviewed
- **Transparency**, better **governance** & **accountability**
- Subjected to **Parliamentary oversight**
- **Optimization of resources** and mandates for real competition



Social Safety Net



- Targeted **most vulnerable and needy households**
- **Conditionally social assistance system** – income enhancement, employability and empowerment; **Exit program** to wean off from subsidy mentality
- **Pension and healthcare** reform (ageing population)



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谢谢
THANK YOU

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