

Support macroeconomic steps with micro measures

THE country's economic recovery is on track as seen by positive trends in many aggregates, such as proposed investments, exports and domestic production.

However, the economy has not recovered to its pre-pandemic position, that is to 2019 levels. The macroeconomy contracted by 5.6 per cent in 2020 and recovered only 3.1 per cent in 2021.

With the reopening of borders on April 1, the economy is expected to strengthen, especially the services sub-sectors, such as tourism, transportation, hotels and restaurants.

The present crisis has its roots in the global outbreak of Covid-19, which caused many countries to lock down and disruptions to the global supply chain.

Malaysia is significantly integrated into this supply chain, as it has been an export-oriented economy for decades.

Thus, managing the recovery has been a balance of "lives and livelihoods".

Our initial efforts to achieve massive vaccination, involving an initial double dose and followed by a booster, enabled the country to transition to endemicity on April 1.

Initiatives to support trade, investments and production are critical so as to maintain income levels and employment as well as standards of living.

To achieve this, macroeconomic policies, in the form of fiscal and monetary instruments, have been explored and used in the past two years.

We equally need to bring the concerns for facilitating the recovery to the state and district levels.

The menteri besar or chief minister can lead the recovery council at state level, and district officers lead the district-level effort.

At the moment, the **Department of Statistics** has collated data at state and district levels, making the monitoring of the recovery less difficult.

Some institutional approaches may be necessary to complement the macroeconomic measures. For one, the Malaysian Investment Development Authority (Mida) has to attract more quality investments to raise the importance of private investments in the recovery.

Mida must be allowed to attract these investments with incentives differentiated according to the nature of industries being promoted, such as their capital intensity, high skills, and significant research and development content.

We need such industries to raise output and to promote new clusters related to these sectors rather than depend on labour-intensive ones with small value-added margin.

Additionally, the macro policies we resort to are standard approaches to most situations of a similar nature, which are necessary but not sufficient to bring about changes at the firm level.

We may have to resort to more microeconomic approaches in order to promote change.

The initiatives related to innovation, creativity, mechanisation and automation, and digitalisation are designed, initiated and instituted at the firm or plant level.

In terms of institutional changes to complement the macro incentives, we need to examine the role of the Malaysian Productivity Corporation (MPC), the agency to promote changes at the firm, plant or factory level. MPC is not new, having been in existence since the early 1970s.

Other organisations can play the same role in effecting change and innovation at the micro level. The Malaysian Agricultural Research and Development Institute (MARDI), which is tasked with designing changes in the agricultural sector, can be asked to be more active in examining productivity at the farm level, making modern farming attractive and profitable.

The recent call for food security is one area of public concern caused by problems in the supply chain.

These are just two examples of firm-level or farm-level concentration of effort that can acquire new policy dimensions to support the macro efforts in the form of monetary and fiscal assistance.

In conclusion, recovery-related efforts have largely been macroeconomic instruments in the form of fiscal and monetary measures to support production, income and employment levels.

This needs to be supported strongly with state- and district-level measures as well as initiatives to achieve better productivity at the firm, plant or the farm level, in order to sustain the recovery along the value chain.

MIDA, MPC and MARDI are examples of agencies that can be tasked with supporting the recovery at the micro level.

<https://www.nst.com.my/opinion/columnists/2022/04/786593/support-macroeconomic-steps-micro-measures>