

Economist: Malaysia needs many reforms

PETALING JAYA: The removal of blanket fuel subsidy and the trimming of cash handouts are a must, if the government is serious about bringing Malaysia's fiscal position under control, says economist Manokaran Mottain.

He also called for the review of all subsidies in the country, pointing out that some subsidies benefit the "undeserved".

"We can channel the money saved to help those in the bottom 40% (B40) income group," he said in an interview with StarBiz.

Manokaran recently ended his nine-year stint as the chief economist of Alliance Bank.

Instead of a blanket fuel subsidy, Manokaran suggested a tiered subsidy model for those in need.

"For example, for the first 100 litres, an individual can qualify for a RM50 subsidy. For the next 100 to 200 litres, maybe they can qualify for a RM70 subsidy," he said.

Earlier in June, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz (pic below) said the government is expected to cover subsidies of up to RM8bil in 2021, which is RM4.22bil more than what was allocated.

Manokaran said the government should step up in boosting the economic growth, which has been slowing down over the past 20 years.

"As the growth picks up, with more job opportunities being created, I don't think the rakyat will need cash handouts (in the same quantum)," he added.

At the current momentum as Covid-19 becomes endemic, Malaysia's future average economic growth over a period of five years could be about 4%, according to Manokaran.

In comparison, the government targets an average of 4.5% to 5.5% for the 12th Malaysia Plan period of 2021 to 2025.

"We need new infrastructure projects to boost the economy further," he said, adding that the projects can be financed via public-private partnership or private-finance initiative models.

He acknowledged the government's limited fiscal spending ability amid a rising debt position.

"The government needs to look at reforming the fiscal deficit. If it continues to go on an expansionary budget, it can never bring down the fiscal deficit to under 3% by 2025," he said.

Looking ahead, Manokaran said the future of Malaysia's economy highly depends on political stability and the ability to attract foreign investments.

He urged politicians from both sides of the political divide to work together, get proper policies in place and focus on the people's development.

"The anti-hopping law for elected representatives must come in – if you jump ship, you will lose your position. This is to create political stability.

"At one time, we had a very good political system and foreign investors liked Malaysia, compared to places like Thailand and Indonesia.

Manokaran Mottain: "I also think we should have different minimum wage levels for the various categories of employees. For example, a university graduate should have a different minimum wage than what we have now. Currently, we have a minimum wage of RM1,200, and some employers take in fresh graduates at RM1,500. Of course, it is higher but not adequate.

"But now, we have lost out. A good comparison would be Malaysia and Vietnam. Vietnam has grown fast and now, they are above us," he said.

Manokaran added that the country needs to embrace greater "smart manufacturing" and "smart farming" to uplift the economic performance.

He said all sectors must modernise their operations to rise up the value chain.

He suggested the authorities reject the licence applications or renewals of businesses that refuse to automate and modernise their production processes.

"Of course, there should be some incentives to help businesses. We need a carrot-and-stick approach. High-technology industries can be given more tax incentives," he added.

Manokaran warned that Malaysia's dream to become a high-income nation would not be successfully achieved if it continues to be reliant on foreign workers.

"Foreign labour is suppressing wages domestically. We need to control the size of foreign labour in the country," he said.

He pointed out that foreign workers in Malaysia also comprise skilled employees such as engineers, who take up jobs that could have been filled by locals.

The government would need to look at controlling the inflow of such foreign workers to ensure quality job opportunities are available for Malaysians.

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"Currently, we have a minimum wage of RM1,200, and some employers take in fresh graduates at RM1,500. Of course, it is higher but not adequate," he said.

At the same time, Manokaran acknowledged the concerns among employers on the quality of Malaysian graduates.

With many of the graduates deemed unqualified to meet market demand, the employers have long complained about paying them a higher starting salary.

A structural reform to deal with this issue is to revamp the tertiary education curriculum, Manokaran said.

The economist also said that all local universities, be it public or private institutions, must have a compulsory one-year industrial training programme.

Incentives could also be given by the government in the form of wage subsidies to private sector employers to hire industrial trainees, according to Manokaran.

“After the one-year industrial training, the employers should be made to understand that they should employ the trainees permanently. If they don’t want to employ, then they must have a good reason for rejecting the trainees.

“This approach can help address the underemployment issue in Malaysia. I know a lot of people who studied for the nursing course are working as cashiers in supermarkets.

“How can you expect them to pay back their PTPTN loans with that salary?” he said.

Based on the data by the **Statistics Department**, about 1.87 million working Malaysians are suffering from skill-related underemployment as of the third quarter of 2021.

This represents 37.7% of the total employed persons.

Skill-related underemployment occurs when those with tertiary education work in semi-skilled and low-skilled occupations.

Moving forward, Manokaran said the government must look at widening its revenue base, including by reintroducing the goods and services tax at a lower rate than before, but with fewer exemptions.

In addition, the country’s social protection system must be strengthened to minimise the problems arising from ageing population, he said.

“The Malaysian Indians will be the most affected as the majority of them are in the low-income group. At least 28,000 households are within the B10 income group category.

<https://www.thestar.com.my/business/business-news/2021/11/22/economist-malaysia-needs-many-reforms>