

## **Malaysia needs a big reset button**

AS the nation is fighting a tough battle against the raging Covid-19 pandemic, three particular news items have caught the attention of investors as it has brought to life the issues that have been bugging the country for a long time.

The first was the news report that downgraded Malaysia to tier-3 in this year's US State Department's Trafficking in Person report.

Second, was the strongly worded comments from several trade groups from various chambers of commerce that have called upon the government to better handle the current Covid-19 protocols as communication on standard operating procedures (SOPs) remained unclear and not targeted. The group also highlighted that they are rethinking their investment decisions in Malaysia.

Third, the Statistics Department's Wages and Salaries 2020 report, which showed a steep decline in both the mean and median wages by 9% and 15.6% to RM2,933 per month and RM2,062 per month, respectively.

These issues – related to our human rights track record, our low wages and foreign investments – are now manifesting to the mainstream to the extent it is exposing the weakness and structural issues that we are facing. In essence, our dire situation boils down to two things – politics and enforcement.

### **Political uncertainty**

Prior to the 14th General Elections (GE14) in 2018, Malaysia was seen as an oasis of political stability within the Asean region and was one of the main driving forces in attracting foreign direct investments (FDIs). Foreign portfolio investors in the equity market too had little doubt that it would be shaken to the extent Malaysia enjoyed a premium market valuation ranging between 15% and 20% against its peers in Asia ex-Japan.

Post-GE14, as the opposition swept into power, there was a glimmer of hope that Malaysia – despite the change in government – which was again carried out without any major hiccups, would emerge even stronger as the political platform that brought Pakatan Harapan (PH) to power was seen as stable and with the required numbers to govern.

Although the PH government managed to carry out some sweeping changes, the defection of several Members of Parliament was enough to cause the collapse of the PH government, and a

new government led by a new coalition, Perikatan Nasional, came to power in late February 2020, just before the pandemic hit Malaysia and the rest of the world.

While we had initial success in managing the pandemic, the political expediency that led to the Sabah state elections was a trigger point for the re-emergence of cases, which led to one blunder after another in managing the situation.

Malaysia's lack of direction when it comes to what needs to be done is manifested when the state of emergency was declared early this year, with the intention of managing the health crisis much better. However, sad to say, due to the lack of political will in enforcing rules, regulations and laws, it is the ordinary Malaysians that suffered under the various flip-flopping SOPs.

Businesses were affected, daily wage earners and self-employed individuals were not spared either. Even employees in the private sector, whose employers had to shut down due to the non-essential nature of the business operations, were subjected to lower take-home pay as employers had to take drastic action to reduce overheads. Many retail businesses have been impacted as they could not make ends meet and were forced to shut down.

Malaysia, despite the imposition of emergency and later on with stricter movement control measures, was probably the only country that saw both numbers of cases and deaths rise at an alarming rate. Obviously, with the rising number of cases, the healthcare system too was challenged to the limit in its ability to handle the pandemic.

While we are up against a health crisis, the nation's political temperature has not eased. In fact, it has even been raised by few notches with all sorts of individual and political party agendas playing out just for those in power to remain in the government. While most agree that this is not the time to play politics but that is exactly being done behind closed doors and hence raising the level of political uncertainty.

With the opening of Parliament next week, it is hoped that political parties take the opportunity to close ranks and come together for all Malaysians, irrespective of race and religion, to ensure we can tackle the pandemic in a systematic and structured manner. It is time to tell the world that Malaysia takes matters seriously in the form of policies and procedures to ensure we are in this fight together and not just for the elite.

The direction as to what and where Malaysian politics is heading is a subject of another debate altogether as the key is really about the practice of ethical and matured politics, starting with the introduction of anti-hopping laws and banning political parties based purely on race and religion. Politics is about ideology and not one's skin colour or religious values.

Our healthcare system is tested to the limit

Prior to the pandemic, Malaysia boasts one of the best healthcare systems in the region as we marketed medical tourism activities very well while Malaysians, in general, do not need to worry about healthcare as the public healthcare system was adequate and most importantly, very affordable.

Covid-19 changes all that. We now know for sure that we have inadequate supplies, be it in the form of number of beds or even ICU capacity. In a report by the World Health Organisation (WHO) dated July 11, 2021, Malaysia is reported to have 1,322 ICU-bed capacity for Covid-19 patients but this includes an estimated 350 beds at private hospitals.

Due to the cost factor, not many of the private ICU bed capacity has been utilised and hence the public hospitals are faced with the challenging task of handling the huge number of cases, especially those in category four or five. Hence, the ICU capacity at public hospitals itself is at the maximum capacity level and that has challenged Malaysia's ability to handle the avalanche of cases.

From being able to handle the pandemic in early stage rather well, Malaysia's healthcare system collapsed on flip-flopping SOPs, confusing directives and double standards deployed when it comes to celebrities and politicians who flout the rules. Lack of enforcement too saw many rule-breakers out there, resulting in cases spreading like wildfire. This is seen from the many clusters that are a result of social gatherings.

Malaysia also failed to carry out enough testing on its population as the WHO's guideline calls for a country to test enough numbers to the extent it can achieve a 5% positivity rate. Malaysia's positivity rate has spiked up even past the 10% mark this week when on July 21, 2021, 11,985 cases were detected from 95,772 persons that were tested, translating to a positivity rate of 12.51%.

Figure 1 shows the weekly positivity rate in Malaysia since early May 2021 when the rate started to spike up. From just about 5.1% in early May, the positivity rate crept up higher and higher and over the last five days, the average passed the 10% mark at 10.29%.

The failure to test enough has resulted in undetected cases continuing to spread and hence we have reached the stage where we are not only unable to handle the number of cases but increasingly seeing bodies brought in dead (BID). Testing is everything in managing a pandemic. If we don't test enough, the spread of cases will continue and we must make an effort to ramp-up our testing to the level that the positivity rate is less than 5%.

In addition, the Health Ministry has now provided some further breakdown on total daily cases, with just 1%-1.5% of them being serious as they are in category four or five. However, the issue is not really that we have a small number in this category. The issue is really how many of those that are in categories one, two and three migrate to the more critical stage of category four and five. Without data and evidence, we will continue to fail in tackling Covid-19 and continue to be misguided by an irrelevant narrative.

The key to success in tackling the pandemic is none other than vaccination. The government, after the initial hiccup, has stepped up considerably over the past month or so in terms of the rate of vaccination but more needs to be done to reach out to the unregistered adult population and teenagers between the ages of 12 and 17.

While to reach 100% inoculation rate for all adults by October this year is a tall order, it would nevertheless be an achievement even if we reach 80% by then. We can then join the likes of the United Kingdom and even the United States with much more confidence in opening up the economy fully.

Politics and healthcare crisis leads to economic turmoil

The combination of a weak political platform and a mounting health crisis leads to another crisis – an economic crisis. We have heard stories and evidence of this as businesses are shut, incomes are affected and suicide rates have increased. White flags are hoisted up as the general population feels the financial pressure from the reduction in income due to the closure of businesses and reduced aggregate demand.

The wages and salaries report 2020 released by the Statistics Department showed that overall absolute wages earned among Malaysians dropped 7.1% – from RM355.74bil in 2019 to RM330.52bil in 2020. The loss of RM25.23bil in wages for 9.4 million paid employees shows that the impact of the pandemic is huge. The data for 2021 will be another story altogether as the impact will likely be as severe if not worse.

We need to take immediate steps to ensure Malaysians are not falling into not only the relative poverty line but even the absolute poverty line, as that would mean the government had failed to lift our living standards while the cost of living is inevitably on the rise.

It is hoped that once we have the pandemic under control and the economy is fully opened up, the government can formulate new incentives to address the current low median wages and address the issue related to workers' compensation, starting with the current minimum wage structure of RM1,200 for urbanites and even wages that we pay our graduates, which has remained relatively flat for the past two decades.

The government needs to do more

The various stimulus packages announced by the government are not helping the affected population enough. For example, total packages worth about RM530bil since the pandemic started only consist of RM83bil in actual direct fiscal injection. Out of this amount, RM55bil was already spent in 2020 and the balance RM28bil is for this year, which translates to just about 1.9% of the expected nominal GDP of RM1.5 trillion.

From this figure, one could even conclude that the impact of members withdrawing their retirement savings under the Employees Provident Fund, which has already reached RM78bil even before the i-Sinar scheme (estimated at RM30bil), will be more than the government's own direct fiscal injection.

In essence, Malaysians have been tasked to compromise their retirement savings as the government's own direct fiscal injection fell short of expectations.

There have been comments made by the Finance Minister that Malaysia is looking to raise the statutory debt limit from 60% to 65%. This additional 5% will allow the government to raise some RM75bil in total new debt and can be used to help businesses and affected individuals during this difficult period and up to end-October.

The issue of life and livelihoods has been discussed at length and with most of Malaysia remains under phase 1 under the National Recovery Plan, the government ought to roll out more handouts to affected businesses and individuals.

On the healthcare sector, while Malaysia spends a considerable sum on it, the development expenditure component is rather small. Looking at the last two year's budget allocation, the healthcare sector received some RM30.6bil and RM31.9bil in 2020 and 2021, respectively. The headline numbers are rather misleading as only about 7.7% and 6.5% for the two years were allocated for asset purchases while supplies and services make up 37% and 38% of the total amount.

Emolument is the biggest chunk of the total budget allocation, accounting for nearly 54% of the total sum for the two years. Clearly, we are not spending enough on our healthcare, especially in relation to actual infrastructure spending, and the pandemic has proven that as our resources have been stretched to the limit.

Malaysia needs to address labour issues too

Let's face it, Malaysia is an open economy and we cannot deny that Malaysian produce is exported everywhere. From gloves to palm oil, from timber to furniture, from semiconductors to air-conditioners. We are a big exporting nation and we have huge FDIs in Malaysia too.

However, in the era of environmental, social and governance (ESG), Malaysian corporates need to ensure that it complies fully with demands related to ESG.

The move by the United States to downgrade Malaysia to tier-3 in its report shows the seriousness of the issue and we need to get our act together to ensure we treat our employees well, both local and foreigners, and within internationally accepted standards.

We have laws and regulations with respect to these issues but when they are not enforced, we will have a situation where it will cost us dearly later on. Even in December last year, the Human Resources Minister was quoted as saying that about 91.1% or 1.4 million foreign workers are not provided with accommodation that complies with the provisions in the Workers' Minimum Standards of Housing and Amenities Act 1990 or Act 446.

In all fairness, this year, the ministry has gone to the ground to inspect many premises and some have been fined but the efforts made need to be enhanced and for some, there needs to be continuous monitoring to ensure full compliance with the law.

We have seen some Malaysian corporates facing difficulties in exporting their products as claims of forced labour or other labour-related issues have now become a thorn. If we do not address these serious shortcomings of handling our foreign workers, we will be faced with mounting pressure from the developed world and made-in-Malaysia products will be sanctioned for violation of human rights.

In conclusion, Malaysia needs to get its act together and we need to have a big reset button – from proper enforcement of the law to the way we compensate and treat our workers to who we choose as our leaders. While we are on the right path as far as the vaccination rollout is concerned, we need to be mindful that we have not won the war just yet. No one is safe until everyone is safe.

*Pankaj C. Kumar is a long-time investment analyst. The views expressed here are his own.*

<https://www.thestar.com.my/business/business-news/2021/07/24/malaysia-needs-a-big-reset-button>