my Say: Flattening the recession curve requires more than stimulus packages

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When a crisis strikes, the market fails miserably, and the government takes on the key role in restoring the market. Industries seek government assistance or even bailouts as a result. Like any other economy, to counter the impact of Covid-19, Malaysia has announced a stimulus package equivalent to 17% of its gross domestic product.

While there seems to be a huge debate on the stimulus package, less focus is placed on how one would deal with the aftermath of the pandemic. Particularly, how to revive the economy and flatten a recession curve that Malaysia is bound to face.

Stimulus package measures will definitely reduce a possible economic downturn if leakages are minimised and the assistance reaches its intended target. The highly disproportionate impact of Covid-19 on different agents adds to the challenge of how one responds to it. However, this calls for long-term thinking rather than just a stimulus package.
The government should fight this recession at all costs in order to revive an economy that is already ailing, and this calls for a host of targeted policies beyond standard expansionary fiscal and monetary ones. These should complement the expansionary policies. Some of these ideas are worth rethinking to mitigate the aftershock of the pandemic.

First, recovery requires a strong investment climate as well as productive employment, and it is time for corporate executives, government, employees and taxpayers to work together to revive the aggregate supply and demand. Corporations and policymakers should emphasise the mobilisation of people for productive employment. If the pandemic is expected to last longer, it is time to consider allowing productive employment in certain sectors, taking into account important precautionary measures and allowing work to resume in a controlled environment.

Given that the pandemic can take longer to subside than expected, it is important to ensure that layoffs and small-business closures are minimised by moving away from the usual corporate disease of downsizing and distributing the profits, benefiting only the shareholders. This strategy can only further accelerate the recession, potentially leading to even depression or the twin problem of recession and deflation at one go.

Any further financial and supplementary support by the government should be conditional on the company’s commitment to keep the workforce on the payroll or reinvestments. In other words, the government should refuse support for firms that undermine investments in productive capabilities. Furthermore, various instruments can be reorganised creatively. For instance, Human Resources Development Fund funding can ultimately go beyond just aiding training to supporting productive employment, particularly subsidising creative workers for small and medium enterprises (SMEs).

The role of government-linked companies and other institutional settings becomes even more important for recovery in moving the productive capacity and investments in areas of new ventures. At a micro level, recovery
should focus on a company’s product diversification strategies whereby Malaysia remains locked largely on old production methods and product structures without moving to new markets and new products.

Research shows that many industries had shifted their focus even before the pandemic struck to become pure traders rather than real producers. And this pandemic can further accelerate the shift, leaving less to gain in value addition and employment. The ailing real sector needs a booster and to accomplish that, it needs wiser policymakers.

Reviving an investment requires policy complementarities and coordination from industry policies to that of education, labour and science and technology. As history has shown in Malaysia, close coordination is rare and this is likely to dampen the efforts of reviving the economy after Covid-19 is contained.

The possible reform can only help if the government makes more evidence-based policy decisions rather than just listening to experts propagating idealist solutions or, even worse, ad hoc solutions without understanding the challenges fully. The crucial point is that the appointments of secretaries-general, groups of experts, advisory teams and other personnel in policy decisions should be solely based on domain areas of expertise, knowledge and experience.

Second, the heart of recovery is to focus on long-term targets and not short-term gains — that is, sustaining competitiveness, in which Malaysia is currently slipping. Export performance has been declining with trade surpluses decreasing. Premature deindustrialisation had begun as early as 2000, with lower value-added contribution of the manufacturing sector to GDP. Moreover, productivity has suffered despite various attempts to revive it.

Nevertheless, the pandemic has taught all — particularly the SMEs — a lesson that digital transformation and creative destruction are vital for survival. Firms, especially during a crisis, engage in “search” and “self-discovery” processes, trying to reinvent themselves to survive. With the imposition of
the Movement Control Order, they have had the chance to taste the benefit of engaging in creative destruction in various forms, notably “new business models”.

It is time the government thought about repositioning its institutions to support these types of creative destruction. Indeed, the most efficient solution is to publicly fund the creative destruction process via open source platforms so that it will be almost free to copy or distribute at a very low price.

There are pockets of inventions that reside in research organisations and universities. And given that it is publicly funded, advocating free distribution is of no harm. After all, what is the use of public institutions if they are not able to diffuse knowledge and inventions for the greater interest of the nation, driving the total economy rather than just public-sector commercialisation?

The government may have to relook how institutions can play a key role — for example, the Malaysian Agricultural Research and Development Institute, Rubber Research Institute, Malaysian Palm Oil Board, MIMOS and others, including public and private universities — in supporting the creative destruction processes. Undoing technological redistribution and steering technological progress are even more important than placing temporary expansionary policies for long-term business stability. This requires the public institutions to move away from being publication-centric to being industry enablers. Institutional reform still has a long way to go.

Third, the government has to rethink how to position its digital infrastructure as well as its proposal on Industry 4.0 in more practical ways. These technologies allow companies to achieve external economies of scale, reducing partly the cost of businesses and allowing greater market expansion.

During the Covid-19 outbreak, certain sectors have realised that working from home and flexible working arrangements are possible and more productive. The gig economy has changed the way people consume, interact
and work. Simple technologies such as online sales and marketing, online or mobile payment systems and proper delivery and logistics systems transform businesses. These should be the emphasis in reviving the economy where SMEs are largely lacking. Indeed, the over-globalised world can only be tapped faster by technology. For speedy recovery, the opportunity that technology provides should be used to its full potential.

This crisis has taught us that stable and equitable growth is possible. The shared prosperity vision should promise inclusive development that will drive the economy further. It is time the government and other economic agents put in serious efforts on operationalising this vision in greater detail to build a more sustainable economy in the future. Targeting long-term goals is more important than scoring pockets of short-term gains with easy-to-achieve targets of low-hanging fruit.

It is time to fix various policies and plans — for example, an industrial master plan, financial sector master plan or even sectorial plans that require a revisit due to the changing global environment and deteriorating competitiveness. The long-missing reform should be of immediate concern should the government think of flattening the recession curve. And Covid-19 is a wake-up call for us to think harder about the future direction of Malaysia.

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