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ECONOMIC MANAGEMENT AND PROSPECTS

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1 ECONOMIC MANAGEMENT AND PROSPECTS

Overview

Awakening to a new beginning, on 9 May 2018, Malaysia embarked on a journey to rebuild the nation and fulfil the aspiration of the people in line with the principles of fairness, good governance, integrity and the rule of law. In this respect, various efforts have been undertaken to institute reforms to improve the nation's economic and social structure. Meanwhile, Malaysia's economy expanded by 4.9% in the first six months of 2018. The continued growth is a testament to Malaysia's economic resilience despite domestic and external challenges.

Among the critical challenges faced by the Government is to ensure an inclusive economic growth whereby people from all walks of life will benefit from the nation's wealth. Although Malaysia recorded impressive growth over the last decade and had a relatively low cost of living in the ASEAN region (EIU, 2017), households continue to face escalating costs of living, while the business community is saddled with rising costs of doing business. The increase is a consequence following the implementation of Goods and Services Tax (GST) and slow refunds of input tax credit. In this regard, the new Government has pledged to address these pertinent issues to improve the wellbeing of the people as well as facilitate businesses to unlock the true potential of the economy.

In response to the grouses of the people, the Government implemented several measures within its first 100 days of administration. Among the measures include the stabilisation of pump fuel prices as well as the revision of the GST beginning 1 June 2018, and the reintroduction of Sales Tax and Service Tax (SST) on 1 September 2018. The people including the business community is expected to benefit more than RM5 billion from the savings on fuel prices and RM17 billion from the change in tax regime in 2018.

In efforts to enhance households income, the Government standardised minimum wages across the nation at RM1,050, effective 1 January 2019. This is expected to benefit employees in the B40¹ segment. Towards ensuring the wellbeing of housewives, widows, single mothers and unmarried women, the Government on 8 August 2018 announced the i-Suri pension scheme which will be implemented in three phases. Phase one targets 359,075 Malaysians, comprising 221,980 housewives, 98,536 widows, 28,116 single mothers and 10,443 unmarried women under the e-Kasih database. In phase two, targeted for implementation in January 2019, the Government will raise its contribution from RM40 to RM50 with RM10 for protection under Social Security Organisation (SOCSO). In the third stage, slated for implementation in 2020, husbands are required to channel 2% of their Employees Provident Fund (EPF) contribution to the EPF accounts of unemployed spouses.

Towards ensuring value for money in all government procurements, several mega projects were reviewed including High Speed Rail (HSR), East Coast Rail Link (ECRL), Mass Rapid Transit 3 (MRT3) and Light Rail Transit Line 3 (LRT3). Following the review, the total cost of LRT3 was reduced by 47% from RM31.7 billion to RM16.6 billion, while the other three projects were postponed. At the same time, the Institutional Reform Committee was established on 15 May 2018 to examine the present state of key institutions and the adequacy of checks and balances. On 18 June 2018, the National Centre for Governance, Integrity and Anti-Corruption (GIACC) was set up to coordinate and monitor all activities related to governance, integrity and combating graft. GIACC is also responsible for planning, formulating strategies and evaluating policies in ensuring all government affairs are conducted based on good governance, integrity and zero-tolerance towards corruption. Together, these initiatives augur well for the nation in its aspiration in rebuilding a New Malaysia.

¹ Refers to households income below RM4,360.

Outlook

Global Economy

The global economy is expected to expand 3.7% in 2018 and 2019, lower than the earlier forecast of 3.9% (IMF, 2018). The downward revision reflects elevating policy uncertainties with several risks stemming to growth from escalating trade tension and outflows of capital from emerging economies. At the same time, global growth has become less synchronised with mixed developments in advanced economies while projection for emerging economies, in particular, developing Asia remains favourable.

Within the advanced economies, the US is expected to record strong growth buoyed by pro-cyclical fiscal stimulus and accommodative monetary policy. Nevertheless, the euro area, the UK and Japan are forecast to expand at a moderate pace. Major economies in the euro area such as France and Germany, are anticipated to expand moderately given the softer external demand and deteriorating growth in productivity. In the UK, growth is weighed down by anticipation of more barriers to trade following Brexit, while Japan faces declining labour force with unfavourable demographics.

Growth in emerging economies, in particular, developing Asia is expected to remain steady supported by strong domestic demand led by India whereas China is projected to expand marginally slower given the regulatory tightening in the financial and property sectors. Meanwhile, fuel-exporting countries are expected to benefit from higher global oil prices. Nevertheless, growth in other emerging economies (Latin America and the Caribbean) is forecast to be subdued reflecting dampening trade and investment activities as well as disruptions in the financial markets.

Given heightening trade tensions, investment and industrial activities are expected to slow down. This, in turn, will reduce the demand for capital and intermediate goods which contributes significantly to global trade. Consequently, global trade is projected to expand by 4.2% in 2018 and 4% in 2019 as compared to 5.2% in 2017 (IMF, 2018). In the near term, the outlook for global growth is tilted downwards given the tightening

financial conditions, escalating trade threats and risks of a shift towards protectionism as well as geopolitical tensions.

Domestic Economy

The outlook for the Malaysian economy remains resilient in the near term despite considerable external and domestic headwinds. Real GDP is projected to expand 4.8% and 4.9% in 2018 and 2019, respectively, supported mainly by domestic demand. Private sector expenditure, in particular, household spending will remain as the anchor of growth following a continuous increase in employment and wage amid benign inflation. Meanwhile, private investment will be supported by new and ongoing projects in the services and manufacturing sectors. On the contrary, public expenditure is expected to grow marginally in 2018 and contract in 2019 following the lower capital outlays by public corporations.

From the supply side, the services sector is expected to remain as the largest contributor, namely wholesale and retail trade, finance and insurance as well as information and communication subsectors, benefitting from steady consumer spending. The manufacturing sector is projected to register a firm growth primarily driven by continuous demand for E&E. Agriculture and mining sectors are expected to rebound in 2019 after recording a marginal contraction in 2018 following an increase in the production of crude palm oil (CPO) and liquefied natural gas (LNG). Meanwhile, the construction sector is expected to moderate following the near completion of infrastructure projects as well as property overhang, particularly in the non-residential segment.

Malaysia's external position is projected to remain resilient in line with steady global economic and trade performances. However, exports are expected to moderate mainly due to slower global trade and investment activities. At the same time, the current account surplus is expected to narrow following widening deficits in the services and income accounts.

Monetary and Financial Developments

Monetary policy continues to be supportive of economic growth while ensuring price stability. The Overnight Policy Rate (OPR) was increased to

3.25% in January and kept unchanged during the subsequent nine months of 2018 while ringgit appreciated 3.9% as compared to the same period in 2017. The banking system remained resilient during the period with common equity tier 1 capital and total capital ratios well above the Basel III minimum requirements. Loan quality remained strong with stable net impaired loans ratio at 0.98% as at end-July 2018. At the same time, the banking system loan lost coverage ratio stood at 128%, while liquidity remains sufficient with surplus ringgit placed with Bank Negara Malaysia (BNM) at RM177.8 billion. Despite downside risks associated with global uncertainties, particularly the pace of monetary policy normalisation in the US, the domestic financial sector is expected to remain sound supported by financial institutions operating with strong capital and liquidity buffers.

As at end-August 2018, market capitalisation in the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) increased 1% to RM1,865.8 billion. Meanwhile, market velocity and volatility were at 34.3% and 8.3%, respectively. Foreign holdings based on market capitalisation in the local bourse stood at 23.6% as at end-August 2018.

The Islamic banking industry continued to record strong growth with total assets expanding 11.5% to RM687 billion as at end-July 2018 mainly driven by financing to the household sector. Similarly, total deposits of the Islamic banking system grew by 12.6% to RM507.1 billion. With regard to sukuk, Malaysia continues to be the main driver accounting for 50.9% of total global sukuk issuances and 51.2% of total global sukuk outstanding. Malaysia also pioneered the world's first issuance of Green Sustainable and Responsible Investment (SRI) sukuk in July 2017. As at end-July 2018, five green SRI sukuk with a total size of RM2.4 billion were issued.

In 2019, monetary policy will remain accommodative and considerations for adjustments will depend on risks surrounding the outlook for domestic growth and inflation. At the same time, the domestic financial system remains stable and intact supported by deep and liquid financial market, sound financial institutions and sustained confidence in the system. Meanwhile, the domestic equity market is projected to continue recording gains

despite external headwinds. Islamic banking is expected to remain favourable given strong demand from both households and businesses for Shariah-compliant financial products and services. Towards this end, Malaysia is expected to maintain its position as a global leader in Islamic finance.

Economic Management

The commitment to address various systemic and structural issues has restored public confidence in the Government to manage the economy effectively and efficiently. The reform exercise has also enhanced confidence among investors on the pledge of the Government to provide a more conducive and business-friendly environment for businesses to prosper and ensure healthy growth of the economy. In addition to reducing the Federal Government debt to a more sustainable level and ensuring a competent, accountable and transparent administration, the emphasis is also on ensuring the wellbeing of the people as well as to return the nation to its past glory. These efforts will greatly assist the nation in achieving its ultimate aim towards national development objectives that give blessings and justice to all.

Towards achieving these objectives, there are several challenges to overcome. Through extensive engagements and rigorous evaluation processes, the Government has identified several issues that are of immediate concerns to the people, professionals, private and public. Against this backdrop, the challenge is for Malaysia to develop new policies and realign existing strategies and measures with the new realities of the domestic and global economy.

Challenges and Opportunities

Trust in the Government

OECD (2017) reports that trust promotes growth and economic development by encouraging the efficiency of physical capital accumulation, accelerating the diffusion of technology and improving the well-functioning of legal, political and social institutions. Trust in the government is reflected under the first pillar of the World Economic Forum Global Competitiveness Index (GCI). This pillar refers to the institutional environment where individuals, firms and

governments interact to generate wealth. In the 2018 report, Malaysia ranks at 24th position out of 140 countries in the institution's pillar, better than regional peers including Thailand (60) and the Philippines (101). Malaysia also performs well in several indicators such as conflict of interest regulation (4), burden of government regulation (5), and quality of land administration (6). However, there are several areas that need further improvement which include freedom of press (118), budget transparency (77), incidence of corruption (55) and judicial independence (33). The challenge now is to ensure that efforts to improve public institutions, policies and factors that affect Malaysia's competitiveness are undertaken to restore the confidence of the people in the Government.

Entrepreneurship

Entrepreneurship plays an important role in contributing to economic prosperity and creating employment opportunities. Malaysia ranks 58 out of 137 countries in the Global Entrepreneurship Index (GEI) 2018. Malaysia performs well in several areas including process innovation, human capital, opportunities for start-ups, risk acceptance as well as networking. However, there are several areas for improvement including start-up skills, technology absorption, product innovation, business growth and risk capital. Initiatives have been undertaken by the Government in making Malaysia an entrepreneurial state through improvement in regulations and processes as well as better engagement and participation among all stakeholders. At the same time, Malaysia is ranked at 24th position out of 160 countries in the 2018 World Bank Doing Business Report. Areas for improvement include starting a business (111), paying taxes (73), trading across borders (61), resolving insolvency (46) and enforcing contracts (44). In order to meet the expectations of businesses, especially small and medium enterprises (SMEs), the Government is committed to creating a conducive environment by simplifying and introducing user-friendly regulations. These efforts are expected to enhance the efficiency and competitiveness of enterprises, and eventually spur economic growth.

The Wellbeing of the People

The Government aims to improve the wellbeing of the people by promoting physical vitality, mental alacrity, social satisfaction and personal fulfilment. However, several issues pertaining to the wellbeing of the people are at the forefront of the new administration. These include, among others, the rising cost of living in urban areas; malnutrition especially among urban poor children; lack of connectivity in public transportation; quality of education and health care; lack of affordable housing; inequitable economic growth; gender inequality; and ineffective waste management.

Inadequate supply amid rising demand following increasing income is the major factor that contributes to rising prices of goods and services, particularly basic necessities. Furthermore, profiteering, as well as other factors such as escalation of oil prices and depreciation of the ringgit, added pressure on prices. This, in turn, results in the rising cost of living, especially among the urban populace.

In terms of morbidity, the prevalence of overweight, obesity and malnutrition among children are common concerns in several ASEAN countries including Malaysia. A study on Malaysian urban children by UNICEF (2018) reports that the number of underweight and stunting among children aged below five living in low-cost flats in the capital is double the city's average, while the number of overweight children is six times higher (23%). Among the contributing factors include low access to affordable and nutritious food, poverty and low nutritional literacy among parents.

An efficient and comprehensive network of public transport improves productivity through faster movement of people, goods and services. It also creates positive externalities as it improves air quality and avoids stressful driving conditions. Various initiatives have been implemented to enhance public transport in the Klang Valley and major cities to address the urban sprawl. However, according to the Malaysian Economic Monitor (World Bank, 2015), only 17% of commuters in Kuala Lumpur use public transport

as compared to 62% in Singapore and 89% in Hong Kong. In addition, with greater emphasis on inclusive growth, there is a need to expand and improve the public transport system beyond Klang Valley and urban areas.

Education is fundamental to development as it raises skills, creativity and productivity as well as promotes entrepreneurship and technological advances. In addition, the quality of education is crucial in ensuring economic and social progress and improving income distribution. The Government has invested significantly in the sector and implemented various measures to strengthen the education system at all levels. However, the outcome of Malaysia's education system has yet to reach its full potential.

Currently, student achievements in public schools in international assessments have not been encouraging. In the Trends in International Mathematics and Science Study (TIMSS) 2015 Report, Malaysia's score in Mathematics and Science was lower than the 1999 report. At the same time, other countries in the region, including Singapore, Hong Kong and Republic of Korea continue to dominate international rankings in both subjects.

In terms of higher education, Malaysia's leading universities are ranked among the top in the world. The 2019 QS Ranking Report lists two Malaysian research universities as among the top 1% globally while the remaining three are among the best 300 in the world. However, several issues including graduate employability and inadequate infrastructure remain a concern. Furthermore, there is a persistent mismatch between courses offered by institutions of higher learning (IHLs) and skills set required by employers. Thus, there is a need for the Government to undertake necessary measures to address the gaps.

Affordable and quality healthcare ensures a productive workforce in the economy and safeguards the wellbeing of the people. Although the bulk of public healthcare services is subsidised by the Government, several issues remain, including long-waiting time, congestion

in hospitals and rising prices of medicines, especially for non-communicable diseases (NCDs). The Government has implemented various initiatives on NCDs such as encouraging the private sector to set up dialysis centre, enhancing healthy lifestyle programmes and wider use of generic drugs. This is in line with the National Strategic Plan for Non-Communicable Disease 2016-2025 (MOH, 2016). However, NCDs remain one of the major causes of death among Malaysians.

The expenditure on medicines has almost doubled within five years from RM2.2 billion in 2013 to RM4.2 billion in 2018. Medicine expenditure will increase in the future with an ageing population, the prevalence of chronic diseases, new patented medicines and higher demand for healthcare. Therefore, the sustainability of financing the public healthcare system is a concern given the current challenging fiscal position coupled with an anticipated ageing population in the near future.

Since affordability is a function of income and prices, many low-income households, especially from the urban areas are unable to own houses due to the mismatch between income growth and house prices. Between 2009 and 2016, average house prices rose 9.3% exceeding the growth in average household income of 8.1%. With a median multiple of 5 (BNM, 2018), house prices in Malaysia are considered as seriously unaffordable. In addition, a study by BNM (2017) indicates that the median multiple in major cities such as Georgetown (10.4), Kuala Lumpur (6.1), Petaling² (6.0) and Johor Bahru (5.1) in 2014 are severely unaffordable. There are several challenges in ensuring sufficient affordable houses for the people, including overwhelming demand, scarcity of land and escalating construction material prices. Furthermore, developers tend to develop more high-end houses which generate higher returns.

Equitable economic growth unlocks the full potential of the domestic economy by dismantling barriers and expanding opportunities for the low-income group and marginalised communities. Effective and efficient policies will generate quality jobs as well as increase business

² Refers to Shah Alam, Subang Jaya and Petaling Jaya.

Feature Article 1.1

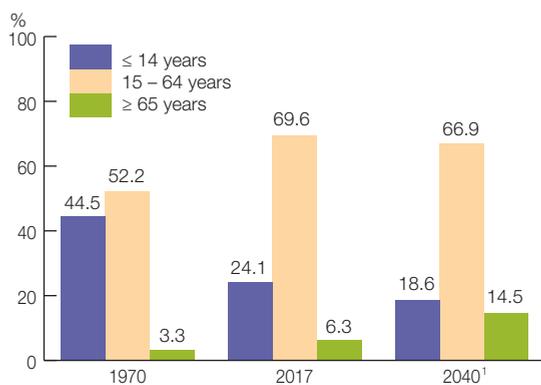
Impact of Population Ageing on the Malaysian Economy

Background

Population ageing is the process by which older individuals encompass a proportionally larger share of the total population (United Nations, 2002). According to the World Health Organization, when a society in which the proportion of people aged 65 years and above is 7% or higher, it is known as an “ageing society” while 14% or higher is called an “aged society” and 21% or higher is called a “super-aged society”. In Malaysia, as of 2017, the number of people aged 65 and above is approximately two million or 6.3% of the total population. Nevertheless, by 2020 it is projected to increase to 2.4 million, constituting about 7% of the total population, hence becoming an ageing nation.

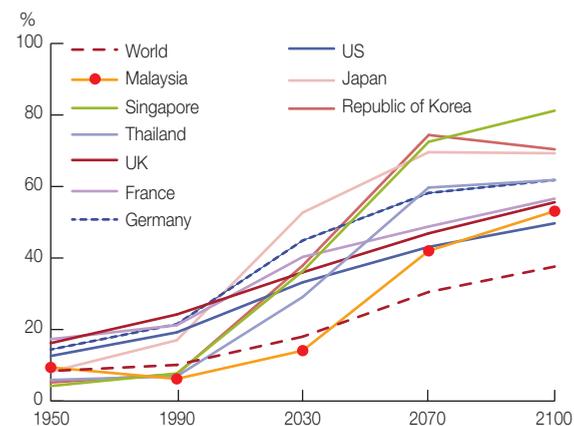
At the same time, the old-age dependency ratio is expected to increase significantly in the coming decades. In 1970, only 3.3% of the Malaysian population was aged 65 years and above, and almost half of the population (44.5%) was 14 years and below. However, in 2017, the share of Malaysian population aged 14 years and below decreased to 24.1% of the total population, while those aged 65 years and above increased to 6.3%. Thus, the gap between the young and older population will be narrowing with the share of the population aged below 14 years decreasing to 18.6% of the total population, while the population aged 65 years and above reaching 14.5% by 2040.

Figure 1.1.1. Share of Population by Age Group



¹ Forecast.
Source: Department of Statistics, Malaysia.

Figure 1.1.2. Old-Age Dependency Ratio (Selected Countries)



Source: World Population Prospects (The 2017 Revision), United Nations.

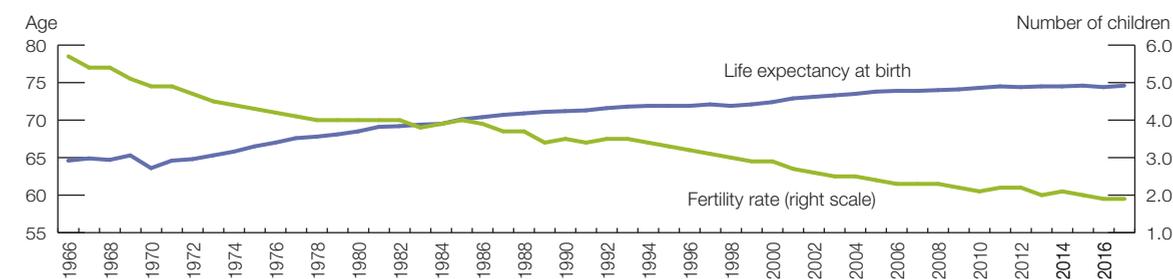
Once Malaysia reaches the status of an ageing society, the speed of ageing will accelerate. It will take only about 20 years for the country to double its elderly population to become an aged society by 2040. On the contrary, France took 115 years to become an aged society from an ageing society, while Japan took 24 years and the Republic of Korea 18 years to reach that stage.

Population ageing is due to an increase in life expectancy and a reduction in fertility (United Nations, 2015). Advances in healthcare and technology increased life expectancy while higher cost of living contributed to lower fertility rate. As a result, in the future older people will make up a larger percentage of the population. In Malaysia, life expectancy increased to 74.6 years in 2017 as compared to 64.6 years in 1966, while the fertility rate decreased to 1.9 children per woman from 5.7 during the same period.

Table 1.1.1. Speed of Ageing (Selected Countries)

	Ageing society (Year)	Aged society (Year)	Number of years for transition
Proportion of population ≥ 65	≥ 7%	≥ 14%	7% to 14%
France	1864	1979	115
Sweden	1887	1972	85
US	1944	2013	69
UK	1930	1975	45
Germany	1932	1972	40
Japan	1970	1994	24
Malaysia	2020	2040	20
Republic of Korea	2000	2018	18

Source: National authorities, World Bank, OECD and Department of Statistics, Malaysia.

Figure 1.1.3. Life Expectancy and Fertility Rate in Malaysia

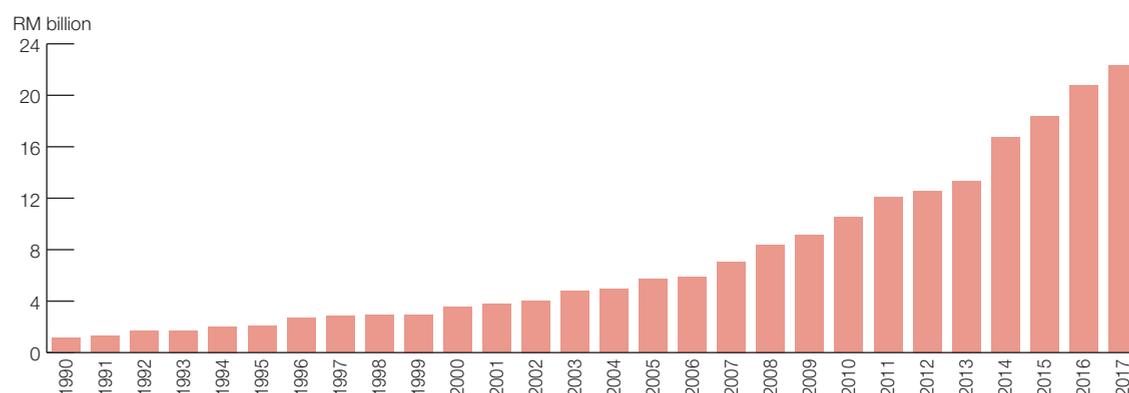
Source: Department of Statistics, Malaysia.

Impact on the Economy

The phenomenon of population ageing will affect economic growth. From a theoretical standpoint, population ageing acts as a depressant on economic growth, due to a reduction in productivity. Population ageing will tend to lower labour force participation and savings rates, therefore raising concerns about slower economic growth (Bloom et al., 2010). However, some empirical studies have shown opposite results. Even though Malaysia will face issues of ageing society by 2020, economic growth is expected to remain stable in the long run as a reduction on fertility rate implies that women will be participating more in the labour market and thus contribute to higher labour productivity and economic growth (Ismail et al., 2016).

Another impact of population ageing is increasing public expenditure. The longer life expectancy of the population, particularly the pensioners and their dependents tend to increase pension payments, given the higher number of pensioners (Chee L.K., 1997). Therefore, the current pension scheme may not be sustainable in the long run as it will pose a larger financial burden to the Government's fiscal position.

Ministry of Finance estimates indicate that a decrease in population by 0.8% will result in lower employment, which leads to a negative deviation in real GDP by an average of 0.004 percentage points between 2018 and 2024. Following a lower GDP, household disposable income is expected to fall which in turn reduces private consumption. In the longer run, if industries remain its labour intensity, the economy may not be able to shift to capital-driven growth. Therefore, it is vital for industries to adopt automation and mechanisation to remain competitive amid lower labour input.

Figure 1.1.4. Total Cost of Federal Pension

Source: Ministry of Finance, Malaysia.

The Way Forward

There are several measures to mitigate the negative impact of population ageing on the economy which include:

- **Increase the female labour force participation rate to offset reduction in labour force**

Malaysia currently has among the lowest female labour force participation rate in ASEAN+3 countries¹ (World Bank, 2018). Hence, increasing female labour force participation rate will partially reduce the downward pressure on labour following population ageing. A study by Moody's across Asia Pacific emerging markets, suggests that closing the gap between female and male labour force participation by 50% could offset up to 1.7 percentage points of a slowdown in the labour force. In the case of Malaysia, in 2017, the female and male labour force participation rates stood at 54.5% and 80.1%, respectively. If the gap is reduced by 50%, then it would increase the labour force by an additional of 1.3 million to 16.3 million. Therefore, intensifying the implementation of various policies ranging from flexible working arrangements, provision of quality childcare facilities, skills training and entrepreneurship programmes for women will accelerate women participation in the labour force.

- **Gradual retirement and re-employment opportunities for post-retirement-aged workers**

Encouraging older workers to remain longer in the labour market is often cited as the most viable solution related to population ageing. A rethinking of retirement norms beyond the legal retirement age of 60 is necessary, and the gradual retirement and re-employment opportunities are some possible options. Gradual retirement involves a scheme whereby older workers could choose to work fewer hours yet remain longer in the labour market, including after retirement. For re-employment opportunities, some countries such as Japan, Singapore and the UK incentivise employers who hire older workers by giving special employment credits and wage subsidies. The gradual retirement and re-employment opportunities will be beneficial to workers, employers and the nation through continuous Employees Provident Fund (EPF) contribution and tax revenue collection. Furthermore, with their knowledge and experience, older workers could contribute to organisations and younger colleagues apart from promoting their wellbeing.

¹ ASEAN, China, Japan and Republic of Korea.

- **Improve productivity**

Productivity is a game changer for economic growth. Efforts to improve productivity are already a policy thrust in the Eleventh Malaysia Plan. These efforts should be further strengthened by technological innovation and increasing adoption of robotics, in turn partially offsetting demographic pressures on growth.

- **Reform of the pension scheme**

The Government should seek ways of reforming their pension systems in anticipation of fiscal burdens in the future (Holzmann, 1988). Currently, the civil service pension scheme is adopting the unfunded arrangement (pay-as-you-go) where it is disbursed directly from the Federal Government's budget. Therefore, to ensure a sustainable fiscal position in the long run, the civil service pension scheme could be improved and modernised by introducing the defined-contribution scheme for new recruitments in the civil service.

- **Elderly-friendly environment**

Health and wellbeing are determined not only by genes and personal characteristics but also by physical and social living environments. Therefore, environment plays an important role in determining how people age and respond to diseases, loss of functions as well as other forms of loss and adversity at different stages of life. In this regard, facilities such as elderly-friendly housing scheme, day care centres, public spaces and transportation need to be increased. This will enable them to stay independent and actively participate in the community. Towards this end, the private sector has an important role to play in creating a conducive environment for the elderly.

- **Encourage lifelong learning**

The quality of education should be improved to match the available skills set with the requirements of the modern labour market. Skills upgrading should be promoted across every life cycle to keep people productive. The human resources department of organisations should adopt appropriate solutions and mechanisms to provide the necessary training and support as well as promote lifelong learning.

Conclusion

Population ageing poses challenges for the nation. Benchmarking against other countries' best practices will help the Government in drafting and formulating comprehensive policies for population ageing. Also, a thorough study on policies for the elderly with comprehensive data will help the Government in dealing with challenges associated with ageing population. These policies should also focus on leveraging opportunities to benefit both the current and future generations. In this regard, the Government will continuously engage with relevant stakeholders including the private sector, non-governmental organisations and communities to promote wellbeing and enhance older generation's contribution to the nation's development.

opportunities and ownership of wealth, resulting in a stronger and more competitive economy. Although the nation recorded strong economic expansion in the last few years, growth was mainly driven by a few states, namely, Selangor, Kuala Lumpur, Johor and Penang which grew above the national average of 5.1%³ between 2010 and 2016. By and large, investment flows and job creations were mainly focused in these states. This results in the migration of people from other states to these preferred locations.

There is a growing concern about gender inequalities in the country. According to the World Economic Forum Global Gender Gap Report 2017, Malaysia is ranked at 104th position out of 144 nations, lagging behind countries such as the Philippines (10), Singapore (65), Thailand (75) and Myanmar (83). The report highlights that lack of opportunities for women participation in the economy and political empowerment were the key factors weighing down Malaysia's ranking.

With regard to Sustainable Development Goals (SDGs), SDG Index and Dashboards Report 2018 ranks Malaysia at 55th position out of 156 countries. In addition, Malaysia Sustainable Development Goals National Review 2017 reports that Malaysia had made significant progress in eight dimensions, namely ending poverty; eliminating hunger; ensuring healthy lives; and gender equality. Other dimensions are building resilient infrastructure; conserving and sustaining the use of natural resources; protecting, restoring and promoting sustainable use of territorial ecosystem; and strengthening the global partnership. Nevertheless, there are nine dimensions where Malaysia needs to improve further, namely quality education; access to clean water and sanitation; affordable and clean energy; and decent work and economic growth. The other dimensions that require greater focus are inequalities; sustainable cities and communities; responsible consumption and production; climate action; and peace, justice and strong institutions.

³ Compound Annual Growth Rate.

In addition, Malaysia has one of the highest solid waste in the world. In 2012, average Malaysians disposed of 1.5 kg of waste daily, which is higher than the worldwide daily average of 1.2 kg (World Bank, 2012). Meanwhile, according to a study by Science Magazine (2015), with about one million tonnes of plastic waste, Malaysia is ranked at eighth position in terms of plastic waste mismanagement worldwide. This is mainly due to the low level of public knowledge and awareness on the importance of reducing, reusing and recycling.

Overall, a holistic approach will be adopted to address the issues affecting the people. The Government aspires to enhance the wellbeing of citizens by creating better opportunities for all segments of Malaysia's multi-cultural society. Thus, various assistance programmes will be reviewed, and more targeted capacity building initiatives will be undertaken to increase the standard of living of the people.

Strategic Initiatives – 2019 Budget

The inaugural budget of the new administration paves the way towards fulfilling the aspiration for a New Malaysia. Despite domestic and external challenges, the Government will leverage the strong fundamentals of the economy to prosper and return the country to its glory days within the first three years of the administration. In consonance with the Mid-Term Review of the Eleventh Malaysia Plan, the immediate focus is on restoring trust in the Government, creating an entrepreneurial state and prospering the people.

Restoring Trust in the Government

The Government has a clean slate to write a new chapter in the management of the country. Efforts will be intensified to overcome the trust deficit in the Government among people, professionals, private and public. The immediate focus will be on addressing all policies and

structural issues that have hindered the nation from progressing further. The principles of competency, accountability and transparency (CAT) will be adopted across all levels of the Government. The Budget will introduce several measures to strengthen governance, enhance revenue base, improve fiscal management and government procurement as well as realign the roles of government-linked companies (GLCs). Furthermore, ministries and agencies will be streamlined to avoid duplication of roles and functions.

Promoting an Entrepreneurial State

In line with the Government's new approach to stimulating entrepreneurship and encourage private sector participation in economic activities and overall development, the Malaysia Incorporated Policy will be reintroduced. The policy will create an atmosphere of trust and accessibility between people, professionals, private and public to operate within the concept of a Malaysian company. Towards this end, many impactful initiatives and facilitation measures will be introduced to improve and streamline administrative rules, regulations, procedures and systems as well as public service delivery to support private sector activities. The policy is expected to jump-start a new version of the public private partnership (PPP) in promoting

investment and entrepreneurship in the country. In this aspect, the land swap approach under PPP will be revised whereby it will be decoupled from land development. Both the sale of the land and land development will be done on an open tender basis. At the same time, the Government will reduce its involvement in business and allow the private sector to drive economic growth.

The Government is committed to ensuring effective implementation of the open tender process, public investment and renegotiation of mega infrastructure projects. This realignment would assist in achieving long-term growth and fiscal sustainability. Efforts will also be intensified by widening Malaysia's export markets. For this, Malaysia's economy will be premised along the highest level of technology and efficiency. Firms, especially SMEs, need to stop from being too complacent and chasing over short-term profits as well as holding off investments. The Government will further encourage long-term FDI in green investments that would create jobs and a sustainable ecosystem. Economic growth in the future will be driven by the high-tech sectors such as artificial intelligence (AI), Internet of Things (IoT), cloud computing and Big Data analytics (BDA), underlining the potential of the digital economy in ensuring Malaysia's transition to a developed and inclusive nation.

Feature Article 1.2

Increasing Productivity of Small and Medium Enterprises via Digital Technology

Introduction

Digitalisation increases productivity in the economy through the efficient use of resources, easier access to information and wider market reach. Higher productivity brings greater returns to capital which in turn encourages sustainable economic growth (Cardona et al., 2013). In this regard, by leveraging digital technologies, businesses, particularly SMEs which account for 98.5% of total establishments in Malaysia could enhance operations, output and competitiveness.

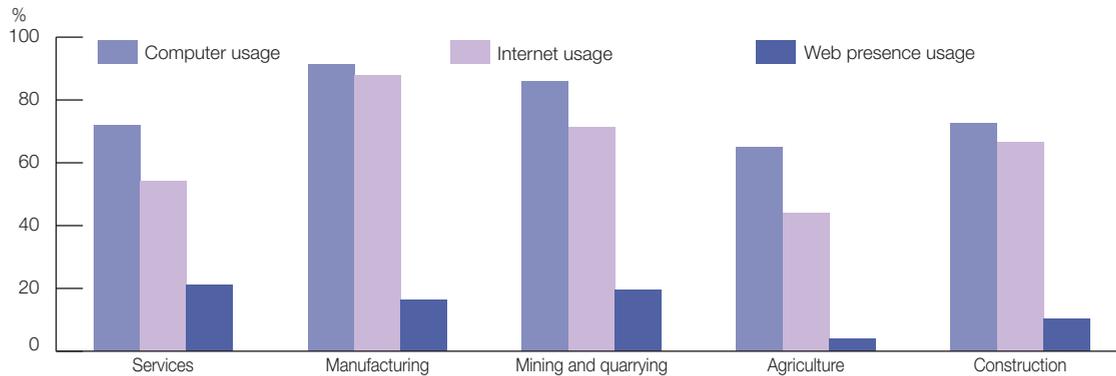
The Usage of ICT among SMEs

Increasing productivity via digital technology is crucial for SMEs to expand further. However, most of these firms are still lacking in web presence¹, despite being connected to the internet. Lack of web presence has resulted in SMEs to have limited reach to potential customers and less effective in marketing their goods and services. Apart from low bandwidth and insufficient secure servers, lack of web presence by businesses has resulted in Malaysia to underperform in the Business Digital Adoption Index (World Bank, 2018), which is below² most ASEAN countries.

¹ Web presence is the representation of people, places and things on the web (Kindberg et al., 2002)

² Except for Cambodia, Indonesia, Lao PDR and Myanmar

Figure 1.2.1. Usage of the Computer, Internet and Web Presence by Sector for SMEs

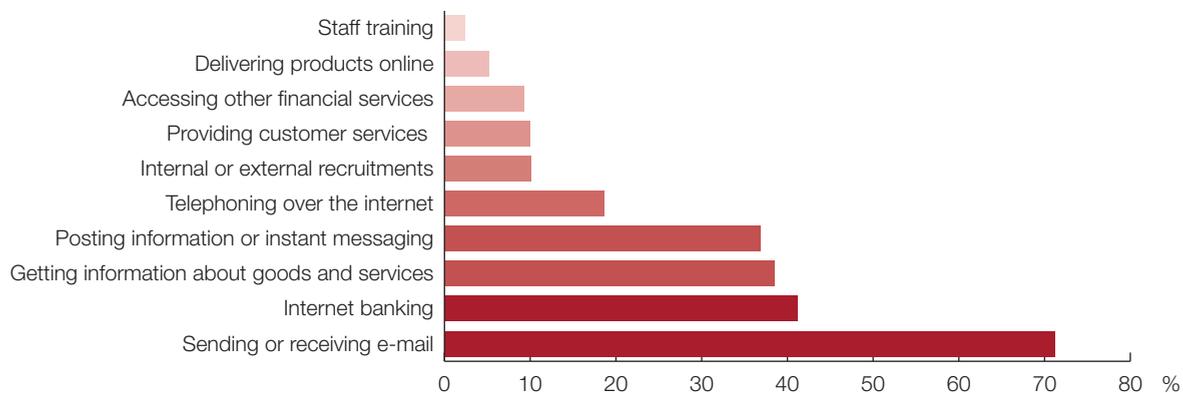


Source: Usage of ICT by Businesses and e-Commerce in 2015, the Economic Census 2016, Department of Statistics, Malaysia.

Most of the SMEs use the internet for browsing and communications, including receiving and sending emails, internet banking, searching and posting information as well as instant messaging. However, SMEs are still lacking in some areas that could be improved further. These areas include online customer service, product delivery as well as staff recruitments and training.

Most subsectors in the services sector are not optimising the usage of internet except real estate and business; finance and insurance; and ICT subsectors. Given that 88.9% of total SMEs are in the services sector, there is a need to accelerate digitalisation to enhance productivity. Furthermore, RM1 billion additional investments in ICT will increase output by RM1.9 billion as compared to wholesale and retail (RM1.6 billion) and real estate and business services (RM1.6 billion) subsectors. At the same time, the services sector is expected to benefit the most from the investment through multiplier effect, followed by the manufacturing and construction sectors.³

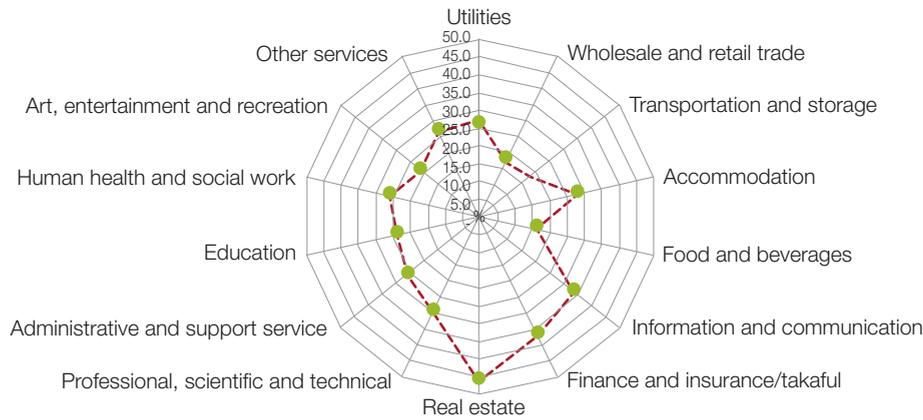
Figure 1.2.2. Productive Usage of Internet by SMEs



Source: Usage of ICT by Businesses and e-Commerce in 2015, Economic Census 2016, Department of Statistics, Malaysia.

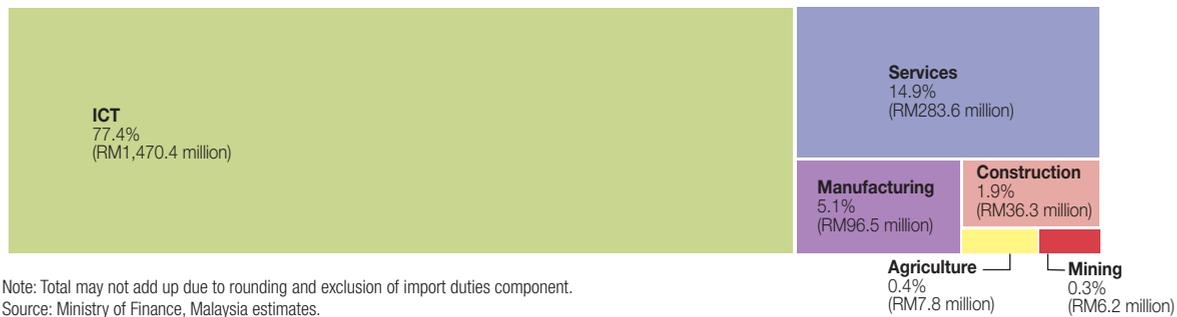
³Ministry of Finance estimates using Input-Output Analysis.

Figure 1.2.3. Productive Internet Usage for SMEs in the Services Sector



Source: Usage of ICT by Businesses and e-Commerce in 2015, Economic Census 2016, Department of Statistics, Malaysia.

Figure 1.2.4. Value and Share of Output by Sector for RM1 billion Investments in ICT



Note: Total may not add up due to rounding and exclusion of import duties component.
Source: Ministry of Finance, Malaysia estimates.

It is evident that investment in ICT significantly increases output. Therefore, SMEs need to transform their businesses to compete and stay relevant in the current rapidly changing environment. In this regard, the Digital Transformation Acceleration Programme (DTAP)⁴ was launched in early 2018 to provide a structured approach to digital transformation while leveraging experts to guide businesses to adopt emerging digital technologies. The objectives of the programme are to increase productivity, reduce dependency on foreign labour and explore new business models in the digital economy.

Services such as wholesale and retail could expand further with the e-commerce platform and reach a wider market by providing information at a lower cost as compared to traditional business models. Towards this end, Digital Free Trade Zone (DFTZ) was established as part of the national objective to boost the country's e-commerce growth to 20.8% in 2020. While about 3,800 SMEs have onboarded the DFTZ platform until September 2018, the number remains low as compared to the total number of establishments in the country. Accordingly, the formation of the e-World Trade Platform hub in Malaysia, which is first outside China, provides extensive training programmes to assist the SMEs in taking advantage of digital innovations and opportunities in global trade.

⁴ A partnership between Malaysia Digital Economy Corporation (MDEC) and Malaysia Investment Development Authority (MIDA).

Furthermore, SMEs could apply the sharing economy model which relies on digital platforms and advanced technologies such as artificial intelligence, big data and Internet of Things. This model enables instant access to resources and allows seamless communication among businesses. In this regard, SMEs need to take concerted efforts to benefit from the opportunities emerging from sharing economy.

Challenges and Way Forward

There are several factors that constraint SMEs to fully unleash the potential of digital technology which include lack of knowledge, skills and talent as well as insufficient ICT infrastructure. Lack of skilled workers occurs due to a mismatch between demand and supply of graduates. Therefore, institutions of higher learning (IHLs) need to keep pace with the rapid development in digital technologies by regularly updating their courses to meet the industries' requirements. Towards this end, collaborations between the IHLs and industries could assist fresh graduates to gain the necessary skills to enter the labour market. At the same time, graduates, as well as the current workforce, need to upgrade their skills, knowledge and competencies, particularly in digital skills to compete and remain relevant in the dynamic business environment. Opportunities for improvement has become a lot easier with the emergence of various Massive Open Online Courses in the web, offering various topics with zero or minimal fee.

SMEs also face challenges in accessing talent, particularly in rural and suburban areas. Also, there are micro-enterprises that have reservations in hiring ICT talents due to affordability issues, thus further hampering productive usage of ICT among SMEs. Furthermore, higher salary for ICT jobs offered in other countries in the region may also contribute to the migration of talents in digital skills. For instance, the salary for a junior IT executive in Singapore is twofold the salary in Malaysia, while for senior IT executive is 62% higher.⁵ Lucrative salary coupled with the better standard of living motivates local talents to migrate in search for better opportunities, resulting in brain drain.

A survey in 2015 indicates that two major barriers to digital adoption by businesses are slow internet connections and lack of affordable broadband plans (FMM, 2015). Moreover, there are regional disparities in digital connectivity between highly urbanised states and the rest of the country. Even though connected to the internet, slow and unreliable connectivity does not allow SMEs to use the internet efficiently. The Government through the implementation of the new Mandatory Standard on Access Pricing is committed to reduce the price of the internet while ensuring higher speed and better quality of services amid greater competitiveness.

Conclusion

The digital economy provides opportunities for SMEs to increase productivity and streamline operations. However, SMEs are not utilising the internet optimally to unlock the opportunities available due to lack of digital skills, access to talents, high costs, low speed and unreliable connectivity. In this regard, initiatives such as the DTAP and DFTZ were introduced to assist SMEs in leveraging digital technologies in their operations. Furthermore, the Government will continue to improve the digital ecosystem including streamline related regulations and upgrade infrastructure to accelerate digitalisation among SMEs.

⁵ Based on data from Jobstreet Malaysia and Singapore, calculated using World Bank's purchasing power parity in 2017.

Prospering the People

The 2019 Budget adopts a two-pronged approach in improving the wellbeing of Malaysians by easing their burden as well as enhancing income opportunities. With regard to the rising cost of living, the budget will emphasise on efforts to raise the disposable income of the people,

especially B40 and M40⁴ households. In 2018, the Government allocated RM6.8 billion for cost of living aid which has benefitted 7.2 million households. The programme will be continued in 2019 with a more targeted approach. Other efforts to increase income include cross-skilling, reskilling, upskilling and expert-skilling the existing workforce.

Feature Article 1.3

Reviewing the Minimum Wage in Malaysia: An Empirical Analysis

Introduction

Minimum wage is the minimum amount of remuneration that an employer is required to pay for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract (ILO, 2016). The first minimum wage law was enacted in New Zealand in 1894, followed by the Australian state of Victoria (1896) and the UK (1909). Currently, minimum wage exists in more than 90% of the International Labour Organisation (ILO) member states.¹ The minimum wage aims to protect workers against overly low pay as well as address poverty and inequality by promoting the right to equal remuneration for work of equal value.

Minimum Wage in Malaysia

On 1 January 2013, the Minimum Wages Order 2012 was implemented with a minimum wage of RM900 a month (RM4.33 per hour) in Peninsular Malaysia and RM800 a month (RM3.85 per hour) in Sabah, Sarawak and Labuan. These minimum wages ensure employees can meet their basic needs as well as enhance the ecosystem for industries to move up the value chain by investing in technology and improving productivity. In line with the requirements of the National Wages Consultative Council Act 2011 (Act 732), the rate was reviewed on 1 July 2016 with minimum wage being increased to RM1,000 a month (RM4.81 per hour) in Peninsular Malaysia and RM920 a month (RM4.42 per hour) in Sabah, Sarawak and Labuan. Moving forward, the Government is committed to ensuring that the minimum wage policy is implemented effectively to benefit employees by standardising and reviewing the minimum wages across the country.

Impact on the Malaysian Economy

This article analyses the potential impact of reviewing the minimum wage on the Malaysian economy. An empirical analysis based on an Applied General Equilibrium (MyAGE)² model was done to estimate the effects of increasing the minimum wage rate across the nation from RM1,050 in 2019 to RM1,500 via two scenarios: gradual (S1) and one-off (S2). S1 assumes an annual increment of RM150 starting in 2020 until 2022, while S2 incorporates a one-off increment to RM1,500 in 2020.

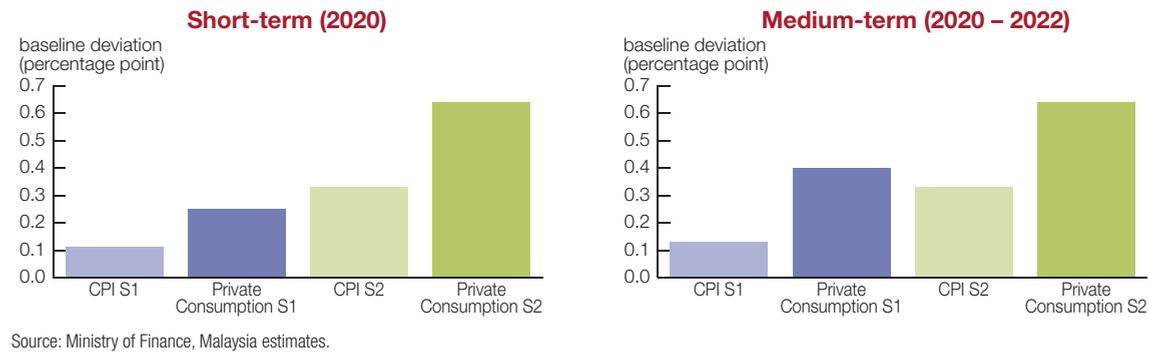
Household disposable income is the main determinant of private consumption, accounting for an average of 67% of private consumption growth (BNM, 2014). Initiatives that increase household disposable income such as cash transfers will likely contribute to the growth in private consumption as low-income workers have a higher propensity to consume (MOF, 2016). Therefore, changes in the minimum wage policy will have a positive impact on private consumption, increasing between 0.3 and 0.4 percentage points in S1, while 0.6 percentage points in S2. The results also reveal that there is a marginal increase in Consumer Price Index (CPI) due to demand-pull inflation.

¹ 187 members.

² A dynamic computable general equilibrium (CGE) model of the Malaysian economy.

⁴ Refers to households income between RM4,360 and RM9,619.

Figure 1.3.1. Impact on Private Consumption and Consumer Price Index

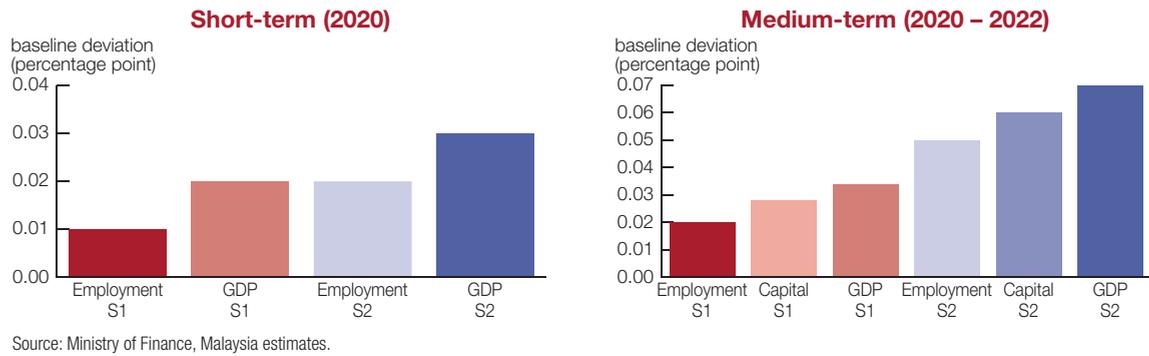


Changes in the minimum wage could also cause a potential impact on businesses' production costs and competitiveness. Businesses, in particular, SMEs relying on low-wage workers, are at the risk of losing their business due to the inability to comply with the minimum pay requirement (Rusly et al., 2017). Nevertheless, firms will be encouraged to substitute labour for capital through automation and mechanisation when the relative cost of labour increases. This will improve productivity and reduce dependency on low-skilled workers, enabling the firms to afford higher minimum wages without passing the increase in the cost of labour to consumers.

National Employment Returns 2016 survey reveals that 76.3% of establishments had not recorded increases in their labour costs following the implementation of minimum wages (ILMIA, 2017). The findings reaffirm the expectation that firms will be able to adapt to the minimum wage policy without experiencing any significant disruptions to businesses. Furthermore, a study by Croucher et al. (2012) indicates that implementation of national minimum wage encourages the substitution of labour for capital, thus enhances productivity.

The results from MyAGE model indicate that in the short-term, employment in S1 and S2 are expected to increase above the baseline with the latter rising higher than the former.³ This reflects the ability of firms to adjust to the changes in wages while continuing production to meet higher household demand. Also, the higher minimum wage is expected to promote a shift in the workforce from low- to semi-skilled and skilled workers. With an overall share of labour input in the economy at about 53%, the shift from low- to semi-skilled and skilled workers will increase productivity which will lead to higher GDP. The trend is expected to continue for the next three years whereby an increase in capital stock in the medium-term will shift firms towards capital-driven operations and hence, contribute further to GDP growth.

Figure 1.3.2. Impact on Economic Growth



³ With assumption capital stock is fixed in the short-term.

As private consumption increases, industries are compelled to produce more goods and services for the household segment, particularly food and beverages, as well as transport equipment. In the medium-term, higher demand will lead industries to move towards more capital-intensive production and create spillover effects on the economy. An expansion in GDP would increase market confidence, thus promoting investment-related industries as well as intermediation industries through intersectoral linkages.

Conclusion

The revisions in minimum wages are expected to enhance the wellbeing of workers. In this regard, a gradual increment in minimum wages is anticipated to have a lower impact on CPI while promoting economic growth as compared to a one-off increase. The success of the implementation of minimum wages policy is contingent upon the ability of firms to adopt best business practices to enhance productivity through greater automation and mechanisation. Simultaneously, industries are expected to shift from low-skilled workers to semi-skilled and skilled workers as well as reduce the dependency on low-skilled foreign workers, thus enhancing the nation's competitiveness.

In response to health-related issues, especially malnutrition among urban children, comprehensive programmes will be implemented to eradicate poverty, promote healthy eating and active living, while funds will be channelled for various preventive healthcare programmes. At the same time, the procurement of medicines will be carried out through an open tender to ensure value for money. Furthermore, as the pace and extent of development spread across Malaysia, efforts will be intensified to provide a comprehensive network of public transport system beyond Klang Valley and urban areas.

With regard to improving the quality of education, facilities at schools will be upgraded and maintained to ensure that public schools are the school of choice. In the 2018 Budget, the Government allocated RM1.3 billion for rebuilding dilapidated schools nationwide through the use of industrial building system (IBS) and RM550

million for school upgrading and maintenance. In 2019, both programmes will be continued to ensure the quality of infrastructure at public schools.

In terms of higher education, the focus is on improving graduate employability through programmes to enhance skills, instil good attributes and attitude as well as promote creative thinking, problem-solving and effective communications. In this regard, collaborative programmes between the Ministry of Education and industry including the Maybank Go Ahead Challenge, Job Creator Framework, IHLs Entrepreneurship Ecosystem Strengthening Programme and Entrepreneurship Competency Development Programme will be continued in 2019. In addition, greater exposure to the IR 4.0 will enable undergraduates to adapt to today's working environment as well as prepare them for the jobs of the future.

Feature Article 1.4

Profile of Unemployment in Malaysia

Introduction

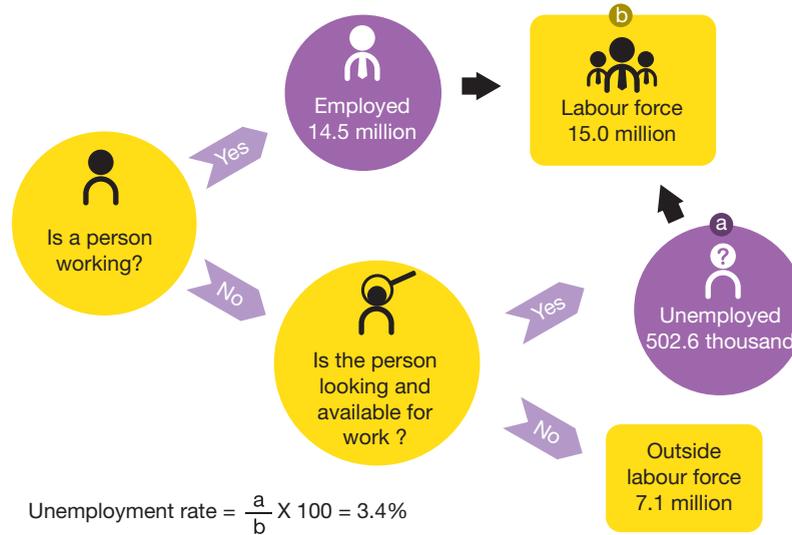
Over the last two decades, the unemployment rate in Malaysia has been hovering below 4%, indicating that the economy is operating under full employment¹ (DOSM, 2016). The unemployment rate is calculated by dividing the number of unemployed persons² over the total labour force³ (DOSM, 2017). This article profiles the demography of unemployment by ethnicity, gender, age cohort and educational attainment in 2017.

¹ OECD defines full employment as unemployment rate below 4%.

² Unemployed persons refer to those who did not work during the reference week and are classified into actively unemployed and inactively unemployed.

³ Labour force refers to employed and unemployed persons in the working age population (15-64 years).

Figure 1.4.1. Computation of Unemployment in Malaysia, 2017



Source: Adapted from Principles of Economics, 2016.

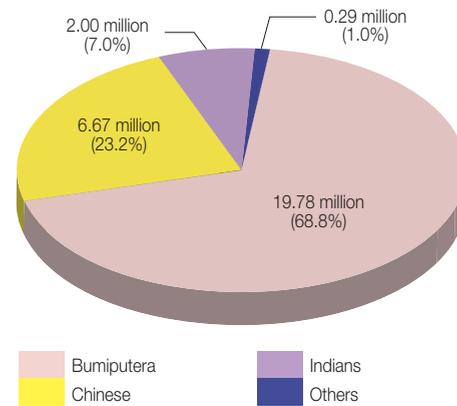
Facts and Figures

Malaysian Citizens

Unemployment Rate by Ethnic Group

Malaysia is a multi-racial nation with 28.7 million citizens consisting of various ethnic groups, namely Bumiputera⁴ (68.8%), Chinese (23.2%), Indians (7%) and Others⁵ (1%) (DOSM, 2017). In 2017, the overall unemployment rate for Malaysian citizens was 3.7% though there was some variation across ethnic groups. Bumiputera who account for the largest number of unemployed persons recorded an unemployment rate of 4%, followed by Chinese (2.4%), Indians (4.7%) and Others (6.6%).

Figure 1.4.2. Malaysian Citizens by Ethnic Group



Source: Department of Statistics, Malaysia.

Table 1.4.1. Unemployment by Ethnicity, 2017

Ethnic group	Number of labour force ('000)	Number of unemployed ('000)	Percentage of unemployed ¹ (%)	Unemployment rate (%)
Total	12,678.3	463.7	100.0	3.7
Bumiputera	8,483.3	336.4	72.5	4.0
Chinese	3,206.1	77.1	16.6	2.4
Indians	929.7	43.3	9.3	4.7
Others	104.2	6.8	1.5	6.6

¹ Computation by Ministry of Finance, Malaysia.
Source: Department of Statistics, Malaysia.

⁴ Bumiputera refers to ethnic group of Malays, Peninsular Orang Asli, Bumiputera Sabah and Bumiputera Sarawak.

⁵ Others refer to ethnic group other than Bumiputera, Chinese and Indian.

Unemployment Rate by Gender and Ethnicity

In 2017, the unemployment rate for citizens was higher for females (3.8%) than males (3.6%). These findings are in line with the study that indicates females are more likely to exit and re-enter the labour force in the event of family-related needs (ILO, 2016). Furthermore, females have a higher unemployment rate since employers, in general, prefer to hire males instead of females. This is premised on the higher commitment by males to long working hours (Qi, 2016). In 2017, the mean working hours for females was fewer (43.9 hours per week) as compared to males (46.5 hours per week). Similarly, gender stereotypes are likely to distort decision makers' perceptions of job candidates (Mohd Jidi et al., 2014).

From an ethnic perspective, the unemployment rate for Bumiputera females was 4.2%, slightly higher than Bumiputera males (3.8%). Similarly, Indian females recorded a higher unemployment rate (4.9%) compared with males (4.5%). In contrast with Bumiputera and Indians, a higher unemployment rate was recorded for Chinese males (2.5%) compared with females (2.3%). The same holds for Other ethnic group where males registered a higher unemployment rate (7.8%) compared with females (4.7%).

Table 1.4.2. Unemployment by Gender and Ethnicity, 2017

Ethnic group	Male		Female		Total	
	Total (^{'000})	Unemployment rate (%)	Total (^{'000})	Unemployment rate (%)	Total (^{'000})	Unemployment rate (%)
All	271.9	3.6	191.8	3.8	463.7	3.7
Bumiputera	194.1	3.8	142.3	4.2	336.4	4.0
Chinese	47.8	2.5	29.3	2.3	77.1	2.4
Indians	25.0	4.5	18.3	4.9	43.3	4.7
Others	4.9	7.8	1.9	4.7	6.8	6.6

Source: Department of Statistics, Malaysia.

Unemployment by Age Group and Ethnicity

From citizen's age group perspective, the 15–19 years cohort recorded the highest unemployment rate at 18.7%, followed by 20–24 years (11.9%). As “youth” refers to persons aged 15 to 24 years (ILO, 2016), total youth unemployment among Malaysians was 13.2% in which the highest rate was recorded by Others at 17.7%, followed by Indians (15.5%), Bumiputera (14.1%) and Chinese (8.3%). Globally, youth unemployment continues to be a concern (ILO, 2016).

The high unemployment rate among youth is partly due to lack of job experience and insufficient skills or education to compete in the labour market. This implies that experience is an important indicator of employability (ILMIA, 2016). Furthermore, 68% of employers ranked communication as the most important skill in job applications. This is followed by work experience, interpersonal skills, passion and commitment. Other preferred skills include teamwork, relevant qualifications, good academic results, desire to learn, ability to work under pressure and proactiveness (Shukri et al., 2013).

Furthermore, Malaysia's high youth unemployment rate in 2017 was due to skills mismatch (MIDF, 2018). Many vacancies in the labour market were in low- and semi-skilled job categories, which is less preferred and not suitable for fresh graduates. Out of the 1.4 million total job vacancies in 2017, 86.9% comprises low-skilled jobs that require only primary education, followed by 8.4% in semi-skilled jobs. Skilled jobs with tertiary education⁶ requirement were only at 4.7% or 64,402 vacancies from the total job vacancies.

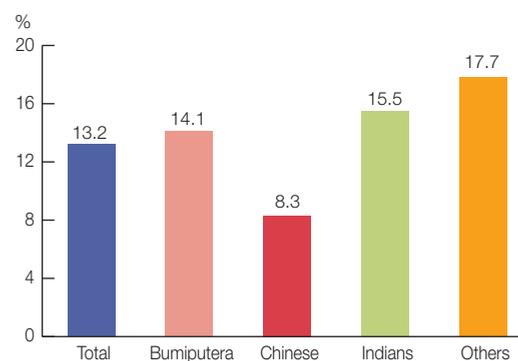
⁶ Refers to educational attainment above Form 5.

Table 1.4.3. Unemployment Rate by Age Group and Ethnicity, 2017

Age	Total %	Bumiputera %	Chinese %	Indians %	Others %
15-19	18.7	19.1	13.4	24.9	25.9
20-24	11.9	12.9	7.5	13.6	15.4
25-29	4.5	4.6	3.0	7.7	7.5
30-34	1.9	1.7	2.2	2.5	5.1
35-39	1.4	1.3	1.5	2.1	0.5
40-44	1.0	1.0	0.9	1.6	0.6
45-49	1.4	1.2	1.8	1.4	0.8
50-54	0.7	0.5	1.1	1.4	0.7
55-59	0.4	0.4	0.2	0.8	0.4
60-64	0.3	0.2	0.4	0.6	0.0

Source: Department of Statistics, Malaysia.

Figure 1.4.3. Youth Unemployment Rate Among Malaysians, 2017



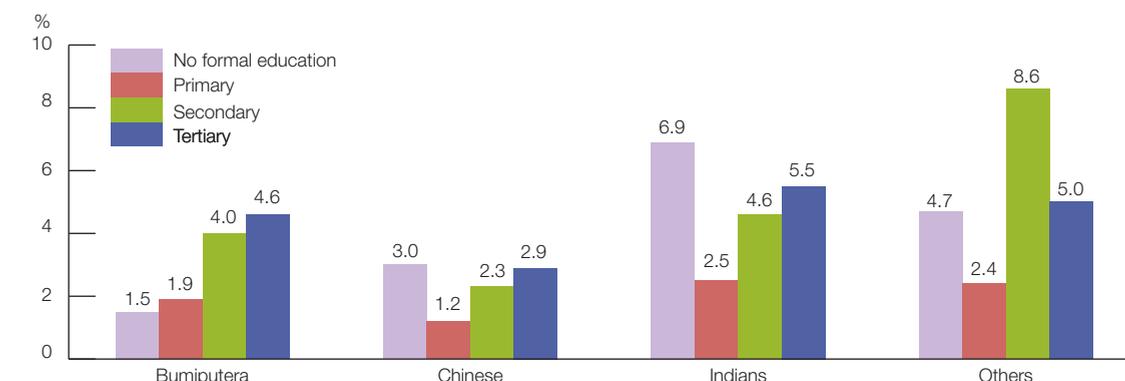
Source: Department of Statistics, Malaysia.

Unemployment Rate by Educational Attainment and Ethnicity

In terms of educational attainment, Bumiputera with tertiary education recorded the highest unemployment rate (4.6%), while those with no formal education were the lowest (1.5%). However, Chinese (3.0%) and Indians (6.9%) with no formal education recorded the highest unemployment rate, while those with primary education registered the lowest rate of 1.2% and 2.5%, respectively. With regard to Other ethnic group, the unemployment rate was the highest among those with secondary education (8.6%), while persons with primary education recorded the lowest rate at 2.4%.

The high unemployment rate among those with tertiary education including graduates, in particular, Bumiputera (4.6% or 129,000 persons) and Indians (5.5% or 14,500 persons) is mainly due to skills gap. Furthermore, a survey conducted by the World Bank and Talent Corporation in 2014 found that 90% of companies believe that university graduates should have more industrial training by the time they graduate. However, the study also indicates that less than 10% of companies had experience in developing curricula or programmes with universities (BNM, 2017).

Figure 1.4.4. Unemployment Rate by Educational Attainment and Ethnicity, 2017



Source: Department of Statistics, Malaysia.

The Government has implemented several measures to encourage companies to assist graduates to enhance their hard and soft skills via on-the-job training. As of 31 August 2018, 125,986 graduates have been directly and indirectly assisted through various programmes. Currently, 539 companies (514 private companies and 25 government-linked companies) including Maybank Group, CIMB, Axiata, Celcom, Huawei and Intel are working closely with the Ministry of Education to improve graduate employability.

Non-Malaysians

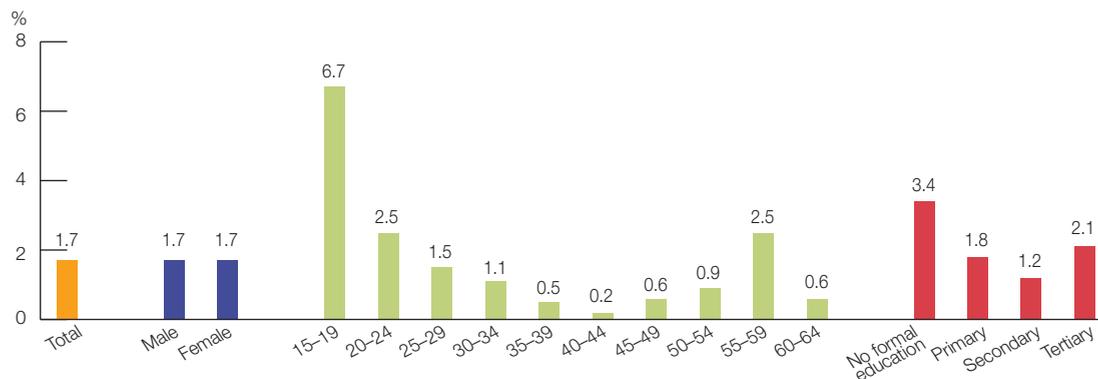
In 2017, there were 3.3 million non-citizens living in Malaysia, making up 10.3% of the 32 million total population. The total unemployment rate for this group was 1.7%, the same for both genders. In terms of the age cohort, non-Malaysians aged 15–19 recorded the highest unemployment rate (6.7%). Looking at the educational attainment, those with no formal education had the highest rate (3.4%), while the lowest unemployment rate was recorded among non-citizens with secondary education (1.2%).

Table 1.4.4. Non-citizens Unemployment, 2017

Number in the labour force ('000)	Number of unemployed ('000)	Unemployment rate (%)
2,274.3	38.9	1.7

Source: Department of Statistics Malaysia.

Figure 1.4.5. Non Malaysians Unemployment Rate by Gender, Age Group and Educational Attainment, 2017



Source: Department of Statistics, Malaysia.

Conclusion

Unemployment is one of the crucial indicators in assessing the performance of an economy. Several key findings on the profile of unemployment in Malaysia indicates that unemployment rate differs across gender, ethnicity, age cohort and education level. Meanwhile, high youth unemployment occurred across all ethnic groups. Among the factors that contribute to youth unemployment includes insufficient skills or education, lack of job experience and skills mismatch. The Government will intervene and enhance partnership with all relevant stakeholders to address these gaps. Some of the interventions include identifying skills needed by the industries, mainstreaming technical and vocational education and training (TVET), reducing dependency on foreign workers and cultivating entrepreneurship culture in Malaysia.

As for affordable housing, the Government will continue to expand the People Housing Programme, People Housing Rent-to-Own Programme and the Integrated People Housing Programme. The initiative will provide opportunities for citizens, especially the B40 households to own or rent a house. At the same time, the 2019 Budget will encourage financial institutions to allocate more loans to facilitate house-ownership as well as introduce new programmes to meet the rising demand for affordable housing.

Apart from easing the burden of the people, balanced economic development is important in ensuring inclusive growth. Towards this end, efforts will be intensified to promote capital formation across all states in the country. This, in turn, will generate greater job opportunities, thus negating the necessity for migration to major cities. At the same time, funds will be allocated to upgrade facilities and infrastructure to unfold business and investment potentials in locations which are currently deemed unattractive. Towards achieving gender equality, policies and programmes will be further strengthened. With regard to sustainable development, efforts will be intensified to achieve efficient management of shared natural resources as well as disposal of toxic and solid wastes. In this regard, the utilisation of the latest technology in waste disposal will be encouraged to minimise the negative impact on the environment.

The Government will promote the use of renewable energy by encouraging businesses and consumers to accelerate the adoption of green technology. In addition, Malaysia will pursue a balanced development path, with policies that enhance inclusion, integrity and sustainability, as well as delivering economic growth for the continued prosperity of all Malaysians. This is to ensure economic growth translates into real benefits for the people.

Conclusion

The Malaysian economy continued to expand in the first half of the year despite several challenges in the domestic economy and uncertainties in the external front. With GDP expanding 4.9% during the first half of 2018, the Malaysian economy is expected to expand 4.8% in 2018 and 4.9% in 2019 supported by firm domestic demand and favourable external sector. Despite the anticipated expansion, uncertainties in the external sector as well as domestic challenges could pose a downside risk to the growth outlook. The Government through the 2019 Budget will implement measures to eliminate the trust deficit in the Government, promote an entrepreneurial state and prosper the people. The measures in the Budget will place the nation in a stronger footing towards achieving the objectives of greater liberty, justice, harmony, peace and prosperity in a New Malaysia.

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