

2 April 2021

## PEMERKASA breakdown and review

In March 2021, the Malaysian government announced a new stimulus package called the Strategic Programme to Empower the People and Economy (PEMERKASA). Totalling about **RM20 billion**, PEMERKASA is the latest in a series of packages unveiled to address the socio-economic consequences of the COVID-19 pandemic. Broadly, **PEMERKASA represents an extension or expansion of fiscal, strategic and operational measures introduced in earlier packages**, including PENJANA, Kita Prihatin, Budget 2021 and PERMAI.

### Summary of thematic areas and key initiatives

PEMERKASA covers **20 initiatives** across **four thematic areas** as summarised and reviewed below:

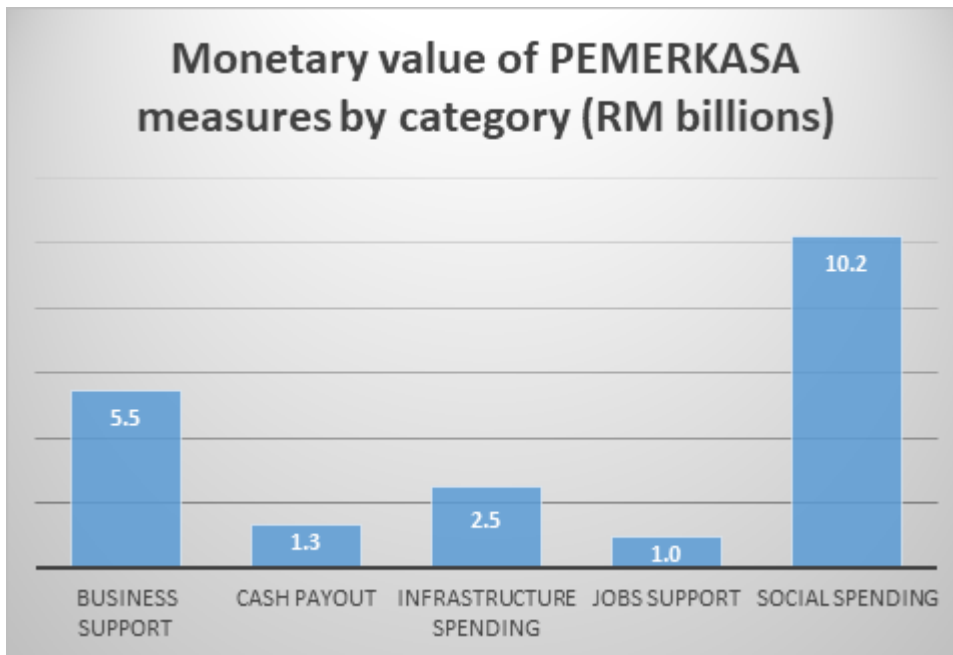
Thematic area	Key objectives and initiatives	Review
1. <i>Controlling the spread of COVID-19</i> (RM2 bn)	<p>To upscale the national immunisation programme and reduce the economic effects of pandemic-related restrictions by:</p> <ul style="list-style-type: none"> <li>Increasing <b>vaccine allocation</b> by RM2 bn to reach herd immunity by December 2021</li> <li><b>No longer</b> implementing a <b>nationwide MCO</b>, targeting future restrictions at a local level</li> <li>Further <b>tax deductions</b> on rental expenses and COVID-19 screening for manufacturing companies</li> </ul>	<p>The end of nationwide restrictions is a welcome move that will help reduce uncertainty among businesses that have had to deal with periodic shutdowns in the last year.</p> <p>However, incentives in terms of reducing workplace clusters remain quite <b>reactive rather than proactive</b>, focusing mainly on easing companies' tax burden and isolating infected workers instead of COVID-proofing the workplace and dormitories.</p> <p>This will require effective coordination between the workplace and the state/federal government.</p>
2. <i>Spearheading economic recovery</i> (RM5.2 bn)	<p>To provide financial relief for SMEs, particularly in affected sectors, and expand employment incentives to include temporary/gig workers by:</p>	<p>Most of the measures are not new, representing short-term extensions of programmes in PENJANA and Kita Prihatin.</p> <p>The tax exemptions in tourism are expected to have a negligible impact,</p>

	<ul style="list-style-type: none"> <li>● Extending the <b>wage subsidy programme</b> in key affected sectors</li> <li>● Additional funding for <b>micro-credit facilities</b></li> <li>● Introducing an <b>upskilling information centre</b> and 300 free training courses</li> <li>● Extending relevant <b>tax exemptions</b> for the tourism sector</li> </ul>	<p>given the considerable loss of revenue facing this struggling sector since last year. Further, there is <b>not enough emphasis on long-term policies to guide growth beyond 2021.</b></p> <p>The upskilling information centre is a step forward in terms of promoting human capital development, but this initiative seems to exist in a vacuum without an overarching, cohesive agenda. Furthermore, training programmes like this need to be accompanied by clear monitoring and evaluation mechanisms to <b>ensure accountability after implementation.</b></p>
<p>3. <i>Strengthening competitiveness</i> (RM 8.5 bn)</p>	<p>To upscale automation and digitalisation, particularly among SMEs, and reduce the urban-rural digital divide by:</p> <ul style="list-style-type: none"> <li>● Introducing/expanding <b>loan and grant schemes</b> for the development of <b>automation, digitisation</b> and the use of <b>green technology</b></li> <li>● Operationalising <b>commercial 5G</b> services in stages from the end of 2021</li> <li>● Upgrading existing <b>transmitter stations</b> and providing <b>fibre optic</b> access</li> </ul>	<p>The recognition of the need to strengthen national competitiveness is crucial in adapting to changing economic circumstances, particularly in our transition to high-income status.</p> <p>While the provision of incentives for SMEs to invest in automation to improve productivity and reduce dependence on low-skilled labour is a component of this adaptability, we <b>cannot talk about competitiveness without highlighting human capital development.</b></p> <p>The government’s proposed measures in this thematic area are almost entirely focused on cosmetic/physical changes whilst <b>ignoring the workforce, especially unemployed graduates.</b></p>
<p>4. <i>Ensuring inclusivity</i> (RM 4.8 billion)</p>	<p>To help struggling individuals and empower entrepreneurs in target groups (women, youth and OKU) by:</p> <ul style="list-style-type: none"> <li>● More aid for B40, including a one-off <b>RM500 cash transfer</b> for households who lost their income and an extra RM500 for BPR recipients earning &lt;RM1000</li> </ul>	<p>The provision of specific entrepreneurship programmes for special groups is beneficial in terms of reducing inequality of opportunity and promoting empowerment. <b>Short-term support is essential</b> in mitigating the socio-economic effects of the pandemic.</p> <p>However, the government’s intention to promote entrepreneurship through training remains short-sighted because it does not tackle other equally essential needs for human capital development (e.g.</p>

	<ul style="list-style-type: none"> <li>Introducing <b>preparation training</b> and <b>online business coaching</b> for 2,000 youth entrepreneurs</li> </ul>	<p>improving productivity, skills development, etc.).</p> <p>Ultimately, <b>efforts associated with job creation need to address two categories of unemployed people:</b> (i) individuals who have become unemployed as a result of the pandemic and (ii) graduates who are entering the job market in the middle of the pandemic.</p>
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## Breakdown of measures by category

The figure below shows the breakdown of the measures outlined in PEMERKASA by category of spending.



Source: Author's calculations based on the Prime Minister's speech (PMO, 2021a and b)

As a share of the total monetary value of the package, about **50%** of PEMERKASA involves **social spending**, which includes government expenditure on healthcare, the provision of public and quasi-public goods as well as the maintenance of fuel subsidies. This is followed by **business support**, which receives **27%** of the RM20 billion allocated, primarily in terms of tax incentives, loans and grants as well as other financing schemes for SMEs. At **12%**, **infrastructure spending** is confined to a doubling of the government spending to RM5 billion on small-scale projects, particularly in response to flooding and other urgent needs. **Cash payouts and jobs support** make up the remaining **11%**, mostly expanding and extending existing initiatives, such as the Wage Subsidy Programme.

## Overall review of PEMERKASA

PEMERKASA devotes a considerable share of funding to initiatives concerning social spending and business support, many of which are extensions or expansions of existing programmes. There is **little emphasis on infrastructure investment**, which is key in terms of boosting aggregating demand in a contractionary scenario.

The expansionary measures proposed are **not ambitious enough and tend to be reactive rather than proactive**, making the potential gains from the multiplier effect more elusive. For instance, in terms of general infrastructure, the government is only targeting a RM2.5 billion increase in spending on small-scale projects – and these are primarily short-term projects, like repair and maintenance work in response to flooding, rather than exploiting mostly greenfield opportunities in green technology or urban development.

Additionally, PEMERKASA **does not substantially promote job creation**. There are some provisions on training in areas such as youth entrepreneurship, but these exist in fragmented contexts. For example, there are no measures in place to assist unemployed graduates as in Graduates@Work under the now defunct Malaysia@Work programme.

Overall, PEMERKASA focuses too much on short-term measures and cash transfers. Indeed, there is **little consideration for adaptive policies to promote sustainable growth and human capital development** beyond the end of the pandemic. This needs to be supplemented by a **rethinking of our industrial policy framework** in order to build back better in the future.

## References

Prime Minister's Office of Malaysia (PMO), 2021a. *Teks Ucapan Program Strategik Memperkasa Rakyat dan Ekonomi (PEMERKASA)* [online] Available at: <<https://www.pmo.gov.my/2021/03/teks-ucapan-program-strategik-memperkasa-rakyat-dan-ekonomi-pemerksa/>> [Accessed 24 March 2021]

PMO, 2021b. *PEMERKASA Infographic*. [online] Available at: <<https://www.pmo.gov.my/2021/03/pemerksa-infographic/>> [Accessed 24 March 2021]

## REFSA NOTES

REFSA Notes is a collection of thoughts, reflections, and ideas from our research team. They aim to provide the groundwork for further discussions, commentary, research agendas, and policy recommendations.



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