

12TH MALAYSIA PLAN - REFSA'S WISHLIST

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INTRODUCTION

Without exaggeration, the next month will be era-defining for the Malaysian economy. Next week sees the presentation of the 12th Malaysia Plan (12MP) in Parliament while Budget 2022 will be introduced on October 29th. Their respective authors have the unenviable task of repairing the economic damage wreaked by the COVID-19 pandemic, but also have a huge opportunity to **map an economic future for Malaysia based on healthy economic growth which is inclusive and sustainable.**

The stakes could not be higher. The response to the pandemic has inflicted [significant, lasting economic damage](#) directly, in the form of business closures, job losses and reduced incomes. This was evident in the [GDP growth numbers](#) for 2020 and 2021. But it has also mercilessly exposed longstanding structural shortcomings in our economic fabric. These shortcomings dampen growth, reduce our economy's resilience, and, if left unaddressed, will hamper a return to a dynamic economy in the aftermath of the crisis and will leave a long lasting negative impact on the country for many years to come.

Hence, the 12MP must introduce a strategic roadmap for a five-year recovery plan which includes structural reforms in government as well as the private sector. The roadmap needs to address issues of low growth and low productivity, low wages, and a patchy social safety net, just to name a few.

Each year's budget, in turn, should introduce tangible implementation measures that fit within the plan's strategic blueprint, and ensure that past measures have in fact been implemented.

It is encouraging that the [Ministry of Finance's 2022 Pre-Budget Statement](#), the first of its kind in Malaysian history, explicitly acknowledges **the need to align the short term budget priorities with the long term needs that will be highlighted in the 12MP.** This kind of policy alignment needs to be extended to all Ministries and their agencies as well as GLICs and GLCs which should share similar priorities of sustainable and inclusive economic growth.

MALAYSIA PLANS — DO THEY MATTER?

Before we put forth REFSA's wishlist for the 12MP, it is useful to ask a more fundamental question, which is "**Do the Malaysia Plans (MPs) actually matter?**" If so, how do they matter?

The early MPs were important in terms of planning for development expenditure (DE) projects, such as roads and other public infrastructure works as well as giving focus to government policy to grow certain sectors of the economy. The planning for various DE allocations comes under the jurisdiction of the Economic Planning Unit (EPU) in the Prime Minister's Department, and the EPU is also in charge of the drafting and monitoring the progress of the various MPs.

Since the 10MP, the planning for DE under the EPU has been given more flexibility via the 2-year rolling plan approach, which means that not all of the DE priorities need to be set in stone at the start of each MP. In addition, more and more public infrastructure works are now funded via [Special Purpose Vehicles](#) (SPVs), such as [DanaInfra](#), rather than through conventional DE, especially for the larger expenditure items, including the MRT, LRT and ECRL projects.

While the importance of the DE allocation has waned over time, the policy priorities

and direction highlighted in the MPs have been given more attention, especially by the policy makers in the civil service.

For example, the statistics which are tracked by EPU under the MPs are often used as reference points for the relevant Ministries. As an example, when the concept of the [Multidimensional Poverty Index](#) (MPI) was first introduced in the 11MP, more attention was paid to the statistics that were being measured in the MPI, such as access to public amenities in semi-urban and rural areas.

To illustrate another example, when "[Pursuing Green Growth for Sustainability and Resilience](#)" was introduced as one of the six strategic thrusts in the 11MP, concepts of sustainability and sustainable growth became buzzwords to be used by various Ministries in the Federal Government and would also filter down to the state and local government levels.

Of course, the speed and manner in which individual Ministries respond to the priority areas highlighted by the respective MPs and translate them into policy action over time is a subject of much debate. Usually, the implementation of policy priorities by individual Ministries is painfully slow and also uneven. Some Ministries with large budgets and staffing, such as the Ministries of

Education and Health, are akin to large ships which take a long time to change direction while other Ministries with smaller staffing and budgets and with greater reliance on the private sector for implementation, such as the Ministry of International Trade and Industry (MITI), can respond relatively faster to these policy priorities.

Even if implementation is slow, **once these policy priorities are put down in an official government document, especially one which is as important as a Malaysia Plan, these strategic thrusts or policy priorities tend to live on in the institutional memory of each Ministry and would be used as reference points for future policy making.**

Thus, it is important for us to pay attention to the policy priorities outlined in the respective MPs and for relevant stakeholders, including think tanks such as REFSA, to present their wishlist for possible incorporation into the upcoming 12MP.

1. HOW TO BUILD MALAYSIA BACK BETTER POST-COVID-19

We strongly recommend that a **comprehensive strategic thrust or chapter to address the challenges of and opportunities for economic recovery post-COVID-19** be one of the key items in the 12MP.

COVID-19 cannot be seen as a passing phase for a few reasons. First, its economic and social impacts will remain with us for many years to come. This includes the almost [two years of "lost" education](#) among the primary and secondary school going children; the psychological and emotional damage suffered by families, including marriages that have ended in separation or divorce because of COVID-19 related stress; the closure of many SMEs; and the impact to the credit rating of many business owners, just to name a few.

Secondly, COVID-19 will [remain an endemic threat](#) to the healthcare system in the next few years and will not disappear anytime soon.

Thirdly, any decision making process with regards to economic recovery whether they are decisions by government, businesses or individuals, will have to be made with the consideration of minimising the threat of COVID-19 at the back of our minds. Herein lie opportunities to build Malaysia back better in ways which would make us more economically resilient and vibrant, especially if we can show that we are more prepared to take on the challenges of COVID-19

compared to some of our competitors.

It should be clear to all that **these challenges cut across all Ministries and sectors**. Existing schools, for example, would have to find ways to maximise existing space to ensure sufficient physical distancing for students and teachers. Construction companies will have to pay more attention to air circulation and ventilation when designing and building new structures. Human resource companies will have to figure out new ways to stagger and rotate their staff using a mixture of work from home (WFH) and staggered teams at the office. Outdoor event organisers will have to think of innovative ways to organize mass participation events in ways which are safe including self-testing before events and using digitalisation to report the results of these tests.

New and smart policies need to be designed by the relevant stakeholders - the government, health experts and industry representatives - so that any additional regulations do not put too much financial burden on businesses but instead allow innovation and creative solutions to be proposed and put in place for each industry and also for individual companies within each industry.

EPU's responsibility, in the context of the 12MP, is to come up with strategic frameworks through which these policies can be designed, refined and updated over time.

2. THE ISSUE OF FOREIGN LABOUR MUST BE ADDRESSED

In the past MPs, the issues and challenges surrounding the employment of foreign labour was not given priority and was only addressed tangentially through discussions on how to improve labour productivity and increase wages, especially those in the B40 category. But the **COVID-19 pandemic has exposed the underlying weaknesses of the past and current foreign labour policy** in many ways.

First, the **inability to provide minimum standards of housing** for foreign workers was exposed through the [rapid transmission of COVID-19 in the accommodation quarters of foreign workers](#), including those of public listed manufacturing and construction companies. Few companies have applied for certification for the accommodation quarters for their workers,¹ especially foreign workers, under the "[Minimum Standards of Housing and Amenities \(Amendment\) Act 2019](#)" or Act 446, which was passed when Pakatan Harapan was in power and gazetted in 2020.

Secondly, many **foreign workers left Malaysia** to return home around the time of the MCO 1.0 lockdown, which took place in March 2020. Many of these workers either do not want to return to Malaysia or have had trouble getting the necessary approval to return to Malaysia. This has resulted in even more acute worker shortages in the manufacturing, construction and plantation sectors. For example, [the output of palm oil has been negatively impacted by this worker shortage](#) leading to a fall in the GDP output

of the agriculture sector in 2020 even as the price of crude palm oil has increased.

Thirdly, the approach taken by the Ministry of Home Affairs, specifically the Immigration Department, to allow for the "[transfer](#)" of [foreign workers](#) from companies which have reduced their output or even shut down because of the prevailing economic conditions in the country, has been badly administered because of the **limited locations and manpower allocated to the processing of such transfers**. The paperwork needed and the long processing taken effectively meant that very few companies were encouraged to apply to hire these "transfer" foreigner workers from other companies.

The 12MP must address the underlying issue of our overreliance on foreign workers in almost every sector of the economy.

We do not advocate for a total ban on the number of foreign workers in Malaysia nor do we advocate for the foreign worker policy to be discontinued moving forward. What we are asking for is a **clear roadmap** on:



how to properly evaluate the number of foreign workers needed by each sector of the economy,



how to properly price the foreign worker levy, including introducing a multi-tiered levy system for foreign workers, which was proposed under the PH government but not implemented until today,



a proper framework on how to provide accommodation to foreign workers that is compliant with Act 446, including working with state and local governments to approve temporary housing arrangements for foreign workers and the building of Centralised Labour Quarters (CLQs) by the private sector,



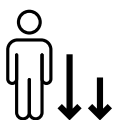
the smoother and more transparent processing of applications for foreign workers by companies,



the recruitment of foreign workers based on internationally agreed upon standards, such as payment of any requirement fees to be incurred by the employer, not the foreign worker,



increased incentives, such as Smart Automation Grants and Digitalisation Grants, to reduce dependence on unskilled foreign workers,



targets in terms of reducing the number of foreign workers in the country over time,



proper documentation of foreign workers in the country including those whose work permits have expired and those who came into the country without proper permits.

At the same time, we also need **policies that provide generous incentives along with training and advice for automation**, starting with the sectors most dependent on foreign labour.

The goal is eventually to equalise the cost of foreign and Malaysian workers, and increase productivity significantly so that individual wages can rise, in particular for low-paid positions—all without increasing the unit cost of the product or service being produced.

Increased wages at the bottom of the income distribution tend to push all incomes higher, hence increasing economic security for all workers. Moreover, an increase in minimum wages can encourage employers to invest more in their workers' skills, so this should also be considered.

Another contributor to economic insecurity is relatively [low labour force participation, particularly for women](#), who still tend to leave the labour market to focus on their household. Worse, the pandemic has caused significant setbacks to women's labour force participation. Urgently **enacting policies to enable more women to enter or return to the workforce** through better support systems, and increase labour force participation in general, are necessary. This also ties into the related need to build a more comprehensive social safety net, in this instance better and cheaper provision of childcare and elderly care.

3. TRIGGER HIGHER AND CLEANER GROWTH THROUGH A MISSION-ORIENTED INDUSTRIAL POLICY

Merely ensuring the provisions of the five-year plan are implemented is of course not enough. **A dramatic shift in the makeup of our economy is needed.** As it is today, it rests on a model which is on its last legs.

Effectively, it still relies too much on primary industries (palm oil, fossil fuels), property development, relatively low-cost and low added-value manufacturing integrated in global supply chains, and relatively low added-value services such as tourism and hospitality. Each of these sectors was already facing daunting challenges before the pandemic, but in many cases their predicament has now become acute. These activities can no longer be relied upon to generate sustainable growth, and there is no clear plan for identifying new sources.

The traditional industry sectors highlighted above do not provide much growth at a global level and provide little headroom for productivity increases and higher wages.

Further, since the 2000s, Malaysia has been experiencing [premature deindustrialisation](#) — namely the shifting of factors of production from manufacturing into services before having achieved adequate value addition in the former. With strategic, capital-intensive industrialisation being a crucial component for skills development as well as the acquisition of new technologies and capabilities necessary to propel a country to high-income status, Malaysia cannot afford to neglect its industrial policy at this juncture.

In order to pull Malaysia out of the “middle-income trap”, it is necessary to **kickstart new sectors, with higher scope for growth and for productivity improvement.** Other countries have shown this evolution, such as Singapore, which moved up the manufacturing value chain before branching out into high-value services.

Rather than approaching this problem in piecemeal fashion, for example with the government making some investments in particular economic sectors as it has done in the past, **we advocate for a [broader industrial policy that builds on the concept of missions](#).** The appeal of a mission-oriented strategy is that it focuses on specific challenges facing the country or the region, instead of betting on a given sector, which may or may not result in success.

In a mission, the government convenes all stakeholders in a particular problem to formulate a specific challenge, for example related to the UN’s Sustainable Development Goals, and invites solutions from all, private and public sector actors. The government does not dictate what needs to be done, but supports individual efforts in various ways, most importantly by **providing “patient finance” — finance that doesn’t expect a short-term return and understands the outcome of a mission is uncertain.** Eventually, the most economically viable solution will emerge as the best response to the challenge, and can then lead to the development of new sectors and unlock

economic growth, through the presence of spillover effects.

The canonical example of a successful mission-oriented strategy is the [boom in technology over the last forty years](#), which is based in large part on work initially done for the Department of Defense in the US, for example GPS and the internet, and for NASA in its attempt to put a man on the moon.

Effectively, **missions aim for the development of novel—and therefore risky—solutions, and the creation of ecosystems around them.** In this context, Malaysia already has distinct competitive advantages that it can build upon, for example in green energy (solar), semiconductors, agriculture, the care economy, and even in high value-added services, such as professional services and technology. The knowledge embedded in these existing ecosystems should be leveraged through collaboration with universities and government research agencies, and resulting initiatives should be provided with sufficient funding to nurture them into lasting industrial competitive advantage.

Our call to venture into these spaces does not mean we need to build our own home-grown manufacturers in the whole range of solar panels components. But our home-grown manufacturers can focus on certain specialised components in the solar PV value chain. Our domestic players can also venture into manufacturing or data related services in the renewable energy sector. For example, Solar Plus, a Malaysian solar PV installer, has repositioned itself as a

solar services and big data analytics service provider recently and has rebranded itself as [PlusXenergy](#).

The overarching goal should be to attract global corporations, not just by competing on financial incentives, but also to offer a compelling choice thanks to the depth of skill and expertise that we developed in a given area, much like Shenzhen today is the default destination to manufacture electronic devices.

More importantly, mission-oriented strategies could **give rise to homegrown, world-class industries through agglomeration effects**, ensuring that most of the added value in the sector is captured in our economy, rather than leaking out to corporations based in developed countries.

Strategic industrial policy does not exist in isolation: it must be aligned with a cohesive and active trade policy framework. In this regard, the 12MP provides a suitable time frame for the ratification and, more importantly, the operationalisation of two multilateral trade agreements that Malaysia has signed, namely the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

In addition to providing a clear timeline for ratification, the 12MP should ensure that **Malaysia upgrades its trade facilitation mechanisms (including [uCustoms](#)) and export-oriented industrial capabilities accordingly to maximise the gains from participation in RCEP and CPTPP.**

There is no lack of challenges to address either. The pandemic has shown how fragile our economy is to disruption. The spectre of climate change looms, promising disruption orders of magnitude greater. Smart, local solutions are thus imperative. Beyond that, there is ample work to be done in **bridging the digital divide**, also painfully exposed during the pandemic; reducing the number of deadly accidents on our roads; and **diversifying our agricultural sector** away from palm oil monoculture, to name but a few.

Another challenge worth mentioning is that of **national security**. Geopolitical competition has been heating up in the region, and shifting alliances, such as the recent [AUKUS tie-up](#), introduce significant uncertainty into our strategic position. Protecting our national security requires a whole-of-government approach, and as such, defence procurement should also be part of the 12MP, even though its lifecycle, measured over twenty or thirty years, does not fit well within the confines of the plan. Moreover, **investing in national security yields numerous economic benefits, particularly through the acquisition of technology and skills, both short-term and long-term.**

4. REDUCE INEQUALITY THROUGH HIGHER WAGES AND A COMPREHENSIVE SOCIAL SAFETY NET

Beyond childcare and elderly care mentioned earlier, **a comprehensive review of the social safety net** in Malaysia should be part of the plan as well. While wage disparity is an important factor in inequality and economic insecurity at large, it is not the only factor. Certain segments of the population are not active, and in many cases are hovering around the poverty line. Specific policies are required to ensure they are not left behind.

First, while Malaysia has social welfare provisions such as nearly free, high-quality healthcare and income support programmes for the poorest like [Bantuan Prihatin Rakyat](#), these do not address all the issues people may be faced with. **The cash support programmes should be reviewed and streamlined**, to ensure the money reaches the right people and that the handouts are adapted to the recipients' conditions, for example for those living in an urban area.

Second, economic transformations of the magnitude that is required to modernise our economy will cause labour market disruption in the short term, meaning unemployment. **Existing unemployment schemes cover only part of the eligible population today.** Working to increase their coverage will ensure that more workers maintain their income levels for a longer period of time if they suffer unemployment. Moreover, doing so might also reduce the forced transition into more tenuous and lower-paying forms of employment, such as the gig economy.

Taken together, these proposals aim to integrate and expand the already existing programmes, including [support packages announced since the start of the pandemic](#), into a comprehensive social safety net, ensuring that no one is left behind.

Lastly, addressing the issue of a social safety net and shared prosperity also requires **looking at government revenues and a fair tax burden** in particular. Reforms in this area are also recommended.

5. INSTITUTIONAL REFORMS AND DECENTRALISATION TO CREATE A NIMBLE AND RESPONSIVE ECONOMY

The fourth pillar of our proposal revolves around the role of the state at different levels. The 12MP should seize the opportunity to **redefine the role of the state as an essential participant in the economy, not least by setting bold missions and orchestrating private and public sector participants to deliver them.**

However, the federal government may not always be the best level to set missions. In fact, the pandemic has highlighted that an all-powerful federal government risks running behind the facts with asymmetric policy responses. For instance, measures intended to stop the spread of COVID-19 were usually calibrated to the situation in Selangor and Kuala Lumpur, burdening less affected states with stringent lockdowns, and vice-versa. For our economy to become more resilient, the **federal government should devolve significant authority to the state and local level**, starting with healthcare, but also for economic policy.

For instance, federal money is usually distributed to the states in the form of a “per capita grant,”² but this arrangement does not take into account the reality that most Malaysians flock to urban areas for economic reasons. It would, for instance, ignore the many Malaysians who congregate in Southern Johor to work in Singapore, and hence deprive the area of adequate facilities such as school classrooms and hospital beds. The same reasoning applies to Kuala

Lumpur, the Penang-Kulim corridor, and others. Provided they have the authority, local government representatives would also be best placed to decide on how to spend the additional money, since they are closest to the ground.

6. RESHAPE AND REORGANISE THE HEALTHCARE SYSTEM

Malaysia needs to use the 12MP as an opportunity to **increase investment and spending in the public healthcare system**. According to the [World Bank's database](#), the country's health expenditure stands at a paltry 3.8% of GDP as of 2018, which is a far cry from the average expenditure of 6.8% among upper-middle income countries. If anything, the COVID-19 pandemic has revealed [the importance of a well-funded and well-maintained healthcare system](#) that can effectively handle existing and emerging crises.

To achieve this, we must **strengthen collaboration between existing private healthcare sector players and the government**. During the fourth wave of infections in mid-2021, for example, when the public healthcare system was under tremendous pressure due to insufficient capacity, [non-serious surgeries and procedures were shifted to private hospitals](#) to help public hospitals cope with rising cases. Using this experience as a basis, there should be room to create more formal avenues for collaboration between public and private healthcare providers to share the burden and promote knowledge exchange.

Another area that has gained importance, particularly following the [rising suicide rate](#) on the back of Malaysia's debilitating lockdowns, is **mental health care and treatment**. The 12MP should outline ways to increase the provision of resources

for mental health professionals and the treatment of mental illnesses.

Finally, with the growth of the digital economy, the healthcare system stands to benefit from the **use of incentives through big data and smart partnerships with stakeholders**. For example, there is scope for collaboration with insurance companies to improve the provision of health coverage so as to lead to better health outcomes and reduce the need for treatment in line with the idea that prevention is better than cure. Another promising technological innovation is telemedicine, which could widen access to healthcare for residents of rural or more remote regions.

7. DIGITALISATION AND INDUSTRY 4.0 MUST BE EMBRACED BY ALL MINISTRIES

As digitalisation picks up pace worldwide, accelerated by the pandemic, **the digital economy must be embraced by all Ministries** rather than just being under the purview of isolated Ministries such as MITI and MOSTI. It is time to treat the digital economy, covering digitalisation initiatives and Industry 4.0 (IR4.0) among others, as a platform for inter-ministerial initiatives and not simply a buzzword. Therefore, a clear roadmap must be presented in the 12MP where all Ministries are involved in digitalisation and I4.0-related initiatives.

There are **countless opportunities and prospects** for all Ministries to embrace IR4.0-related technological innovations, including big data analytics (BDA), the internet of things (IoT) and artificial intelligence (AI). Here is a list of some of these opportunities:



The Ministry of Agriculture and Food Industries can call for the use of IoT devices to measure soil fertility as well as the acidity or alkalinity of the soil in the agricultural sector,



The Ministry of Environment and the Ministry of Energy and Natural Resources can call for the use of drone technology to map and monitor rivers to combat pollution, forests to combat illegal logging and factories to combat illegal emissions,



The Ministry of Transport can call for the use of BDA and real-time traffic cameras to improve the deployment of tow trucks to traffic accident sites as a means of reducing traffic jams.

In this regard, special DE allocation for IR4.0-related initiatives should be given to all Ministries in order to promote IR4.0 plans, programmes, strategies and adoption.

We can go even further and use 12MP as a catalyst to **implement a holistic policy framework for the digital economy**, which should address key issues related to the rise of Big Tech above and beyond the proposals included in the [Malaysia Digital Economy Blueprint](#) announced earlier this year. Some challenges that need to be addressed as the digital economy is mainstreamed include:



The **monopoly or monopsony positions of big tech firms in some markets**, such as Grab, leading to higher prices for consumers and limiting self-employed workers' ability to negotiate wages,



The **roadmap to a legal statute for gig workers** that affords them similar social protection as full-time employees,



A **comprehensive regulatory framework for data privacy**, such as the [EU General Data Protection Regulation](#), which balances space for innovation and competition with protection for individuals, taking into account cross-border data exchanges as well,



A comprehensive regulatory and policy framework for **data governance and openness** to improve data sharing between ministries and civil society in line with freedom of information.

8. IDENTIFY NEW AREAS OF ECONOMIC GROWTH

The **12MP** and, by extension, the government **should be more forward thinking** in discussing what it sees as the key megatrends or themes for Malaysia and the region moving forward, such as geopolitics, digitalisation and an aging population, and how the country intends to prepare for these developments.

This is where the mission-oriented approach introduced above comes into play, as the broad societal challenges identified should inform decision making and increase preparedness at all levels of government.

In doing so, we should show what we have learnt from our management of the pandemic that we can transfer to an **all-of-society approach** to promote the growth of new sub-sectors in the country that are associated with those megatrends.

To give a simple example, the demographic transition that Malaysia will face in the coming years due to an aging society will require the development of a comprehensive care economy and associated ancillary services, which could in turn feed into the healthcare system and subsequently strengthen the competitiveness of the medical tourism industry through knock-on effects to say the least.

Behavioural change is an important part of this concept, which requires the state to take the lead in driving innovation in line with the [entrepreneurial state](#).

In Malaysia, for everything that we want to do, we can come up with 20 reasons why it cannot happen. Meanwhile, our southern neighbour Singapore executes what we are still dreaming of, to which we respond that the development is 'still 6 or 7 years away'. Put simply, we need to ensure that the **civil service sees itself as a facilitator rather than a gatekeeper** of economic growth processes.

I CONCLUSION

While not all of our wishlist items will make their way into the 12MP, it is important to **keep discussions on these issues ongoing** among policy makers, industry players and other stakeholders.

With more substantive discussions and publications of policy positions and papers, backed up with concrete examples of what works and what does not, especially within the domestic socio-economic-political landscape, we can slowly but surely move forward the policy agenda and increase the likelihood that good policies become part of government policy and are implemented in a transparent and effective manner.

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ENDNOTES

1. Even where companies have successfully obtained certification, compliance remains low. As of April 2021, inspections revealed that over 73% of employers did not comply with Act 446. (Reported by The Star on 18 April 2021: <https://www.thestar.com.my/news/nation/2021/04/18/over-70-of-employers-fail-to-comply-with-minimum-housing-standards-says-deputy-hr-minister>)
2. According to the Federal Constitution, one of the main grants disbursed to states from the federal government is a capitation grant, which is determined based on population size and GDP per capita. See Constitution of Malaysia 1957: <http://www.commonlii.org/my/legis/const/1957/25.html>

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Research for Social Advancement (REFSA) is a progressive, non-profit think tank that promotes social advancement in Malaysia. Since its inception, REFSA has been at the forefront of policy discussions and debates in the important political and socio-economic issues of the nation. Today, our aspiration hasn't changed - we want to power the movement for a just, inclusive and multi-ethnic society.

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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