Outlook and Policy In 2021

Getting the Great Reset Right: Structural Labour Market Issues in the Post-COVID-19 World

Road to a Resilient and Agile Workforce

Over the past decade, the quest for productivity growth has spurred rapid technological progress and adoption, as well as the onset of the Fourth Industrial Revolution. This article seeks to discuss how the COVID-19 pandemic accelerated these shifts, and highlights structural impediments within Malaysia’s labour market landscape. Going forward, while labour market conditions are expected to improve, these structural issues - combined with the uneven economic rebound - might hinder an entrenched recovery. This sentiment is echoed around the globe. In a recent update, the International Labour Organization (ILO) warned of an uncertain and incomplete recovery, given significant disruption to the labour market and impact on vulnerable segments of workers. Nevertheless, the pandemic provides an opportunity for Malaysia’s economy and labour market to “build back better” from the crisis, in what has been described as “The Great Reset” in policy circles. This article concludes with a discussion of policy priorities to enhance the resilience and agility of the workforce, and strategies for building a more robust labour market ecosystem.

Part I: Prevailing Structural Issues

Over the years, Malaysia’s labour market has been subject to various structural impediments. Even before the pandemic, these issues posed a challenge to national aspirations of becoming a high-income economy.

First, the prevalence of the low-cost production model and high dependence on low-skilled foreign workers discourages productivity enhancements, depresses wages, and encourages the creation of low-skilled jobs. This is evidenced by the fact that industries which employ a higher share of low-skilled foreign workers tend to have lower productivity levels, relying on longer working hours to produce output. Furthermore, unchecked reliance on low-skilled foreign workers potentially introduces distortions to wage-setting mechanisms, leading to a suppression of local market wages. Notably, industries which are more reliant on low-skilled foreign workers also tend to have lower median salaries and wages (Chart 1). Of greater concern, over the long run, continued reliance on labour-intensive, low-cost business models run the risk of de-coupling wage gains from improvements in overall productivity and deterring the creation of high-skilled and high-paying jobs.

Despite the savings, a low-cost, labour-intensive production model is an untenable long-term strategy, particularly with Malaysia’s peers actively in the process of innovating and upgrading themselves (Chart 2). In the World Intellectual Property Organization’s (WIPO) Global Innovation Index 2020, Malaysia ranked eighth among 17 South East Asian, East Asian, and Oceanian economies. Relative weaknesses identified include high cost of redundancy, low business sophistication, and poor creative, knowledge and technology outputs. Comparatively, the top three economies in the region were Singapore, South Korea, and Hong Kong.

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2 The phrase "The Great Reset" was first popularised as the title of Richard Florida’s 2010 book, written in the aftermath of the 2008-09 Global Financial Crisis. In essence, it is the idea of leveraging on crises to reinvent and reboot. Crises set the stage for an overhaul of the economy, supported by technological advances which enable new ways of getting things done. This term has also been used by the International Monetary Fund (IMF) and World Economic Forum (WEF) in the context of discussing policy priorities for growth and the labour market in the post-pandemic recovery.
3 Please refer to previous discussion in “Low-Skilled Foreign Workers’ Distortions to the Economy” in the Bank Negara Malaysia 2017 Annual Report.
4 In this article, labour productivity refers to the ratio of gross domestic product to the total number of hours worked.
5 Whether immigration and foreign labour suppress employment and wage opportunities for local workers is a much-debated issue. At the forefront, in the context of the US, are George Borjas and David Card. Card (1990) found that the large influx of Cuban migrants during the “Mariel boat lift” had no negative effect on the wage trend for low-skilled workers in the US. In 2015, Borjas, using the same set of data, found that the drop in low-skilled wages in 1979-1985 was as much as 30 percent. Ultimately, findings on both sides are contentious as data relating to immigration studies is imperfect and sensitive to different configurations and comparisons. In the Malaysian labour market, the World Bank (2015) found the increase in migrant workers to be a net positive for GDP and wages overall, but reduces wages of low-skilled workers, or “least educated Malaysians”, and existing migrant workers in the country.
6 The link between wage and productivity in the Malaysian labour market is further detailed and examined in “Are Workers Paid Fairly? An Assessment of Productivity and Equity” in the Bank Negara Annual Report 2018.
7 In accordance with the World Bank’s “Doing Business” publication series, redundancy costs measure the cost of advance notice requirements and severance payments due when terminating a redundant worker, expressed in weeks of salary.
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High-skilled occupations include major occupation groups like managers, professionals and technicians and associate professionals. Mid-skilled occupations include clerical support workers; service and sales workers; skilled agricultural, forestry, livestock and fishery workers; craft and related trades workers; and plant and machine operators and assemblers. Low-skilled occupations include elementary occupations.

Furthermore, in the Bloomberg Innovation Index 2021, Malaysia ranked 29th out of 60 economies, dropping two spots from the previous year. Malaysia performed below average in criteria such as productivity, pervasiveness of tertiary education, and researcher concentration. In comparison, South Korea and Singapore ranked first and second, respectively.

The second structural issue is the low creation of high-skilled jobs, which has lagged behind the supply of graduates (Chart 3). Malaysia’s share of high-skilled job creation declined to an average of 27% in the period 2010-2019, from approximately 51% in the previous decade. This corresponds to 86,200 employment gains per annum between 2010-2019, while the number of graduates in Malaysia has increased by an average of 151,000 persons per annum over the same period. These figures complement findings from a Khazanah Research Institute study, which showed that 95% of young workers in unskilled jobs and 50% in low-skilled non-manual jobs were over-qualified for the occupations they were in. The most recent Graduate Tracer Study by the Ministry of Higher Education (MOHE) suggests a similar story, revealing that approximately one-third of graduates end up in mid-skilled and low-skilled occupations. Ultimately, this suggests that the economy has not been creating sufficient high-skilled jobs to absorb the number of graduates entering the labour force, leading to skill-related underemployment.

Third, there appear to be significant mismatches between skills required by industry and those that workers possess. According to an Organisation for Economic Co-operation and Development (OECD) study on skills imbalances in Malaysia, employers reported shortages in communication skills (e.g. oral expression and writing), social skills (e.g. social perceptiveness and social orientation), and physical abilities (e.g. static strength and stamina). These findings are broadly consistent with hiring difficulties reported by Malaysian employers.

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9 Graduates refer to individuals aged 15 years and over with the highest certificate obtained from universities, colleges, polytechnic, recognised bodies or equivalent, where duration of study is at least two years. Graduates are classified into two categories, namely diploma graduates and degree graduates.

13 Authors’ estimates based on statistics from the Labour Force Survey Report, 2019, Department of Statistics, Malaysia.

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employers in the past, with an additional shortage of high-level cognitive skills (e.g. critical thinking, problem solving). Additionally, separate insights from the Critical Occupations List (COL) highlighted mismatches for occupational skills. Notably, occupations such as Information and Communication Technologies (ICT) managers, software developers, and electronic engineers have consistently appeared in every COL since it was first published in 2015, indicating continued demand and difficulty to fill these positions. Evidently, there is room for improvement in terms of ensuring the quality of the labour supply is on par with recruiters’ wish lists. This is exacerbated by the reportedly passive collaboration between industry and education and training institutions in human capital development and recruitment initiatives.

Consequently, these three structural issues have resulted in weak labour market outcomes, especially for youth and graduates. Historically, the youth unemployment rate has consistently been two to three times higher relative to overall unemployment. In 2019, the youth graduate unemployment rate remained elevated at 17.5%, with the overall youth unemployment rate at 10.5%. Meanwhile, the unemployment rate for graduates has been consistently higher than that of non-graduates in the past decade (Chart 4). With regards to income, there are potential signs of diminishing returns to education, as entry-level salaries and wages for graduates have remained concerningly low. In fact, starting salaries for graduates have been stagnant when taking into account corresponding movements in consumer prices. In 2018, a graduate would have received an average estimated starting salary of only RM1,983 in real terms, a slight decline from RM1,993 in 2010.

Chart 3: Labour Force Gains by Highest Certificate Obtained vs. Employment Gains by Occupations (‘000 persons)

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<td></td>
<td>840</td>
<td>1,768</td>
<td>789</td>
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<tr>
<td>2001-2009</td>
<td>776</td>
<td>1,510</td>
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<td>2010-2019</td>
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Source: Bank Negara Malaysia estimates using data from Labour Force Survey and Graduate Statistics Reports published by the Department of Statistics, Malaysia

Part II: Impact of COVID-19 on the Labour Market

The movement and labour restrictions implemented to contain the pandemic resulted in a sharp and unprecedented deterioration in economic activities and labour market conditions. High-frequency data from the Employment Insurance System (EIS), showed that jobless claims increased in March and peaked in June 2020, amid a drop in the job placement rate (Chart 5). Official Labour Force Survey (LFS) figures confirmed

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16 World Bank (2014). “Boosting Trade Competitiveness,” Malaysia Economic Monitor. Based on the report, firms consistently pointed out a deficit in desirable soft skills among fresh graduates, particularly communication skills (81% of surveyed firms), creative or critical thinking (54%), analytical skills (51%), problem solving (49%), and ability to work independently (47%).

17 The COL is collated and updated by a committee led by TalentCorp on an annual basis. It is a set of occupations in demand that identifies skills imbalances across 18 economic sectors in Malaysia.

18 Bank Negara Malaysia (2016). “Youth Unemployment in Malaysia: Developments and Policy Considerations,” Annual Report. The analysis quoted insights from a 2014 TalentCorp survey which reported that 34% of companies have never collaborated with universities and 53% of firms surveyed have never engaged with career centres while recruiting for new candidates.

19 This is not a phenomenon unique to Malaysia. Singapore, Vietnam, Korea and US also recorded youth unemployment rates that are two to three times higher than the overall unemployment rate.

20 Authors’ estimates based on findings from the MEF Salary Surveys for Executives and Non-Executives.

21 Placement rate refers to the number of new job placements per 100 jobless claims. New job placements are proxied by Early Re-employment Allowance (ERA) claims, whereas jobless claims are measured using Job Search Allowance (JSA) claims. Both allowances are provided as benefits under the EIS by the Social Security Organisation (SOCSO).
that employment declined significantly from 15.1 million persons in 2019 to 14.9 million persons in the second quarter of 2020, as workers were laid off and did not have their contracts renewed while small businesses were impacted. In the same quarter, the unemployment rate increased to 5.1% (791,800 persons), the highest recorded since the commodity price crisis in the mid-1980s. This translated to an increase of 283,600 unemployed persons (2015-2019 increase: +57,900 persons), despite the decline in labour force participation during the quarter, which partially offset the rise in unemployment levels. Total hours worked per worker also recorded a reduction of 27.3%, leading to a significant increase in (time-related) underemployment. Consequently, underemployed workers as a share of the total labour force increased from 1.2% (191,100 persons) in 2019 to 2.6% (413,500 persons) in the second quarter of 2020 (2017-2019 average: 1.4%). Both the higher unemployment and underemployment rates resulted in a substantial rise in the underutilised labour force to 7.7%. Altogether, these developments led to workers losing part or all of their income, as reflected in the first contraction of quarterly services and manufacturing wage growth over the past eight years (Chart 6).

A partial recovery commenced as the restrictions on movements and labour were eased and economic activity resumed during the Conditional and Recovery Movement Control Order (CMCO & RMCO, respectively) periods in May to August 2020. This was mainly driven by the recovery in private sector employment, as standard employment registered a net gain of around 256,300 persons by the third quarter of 2020, and underemployment recovered as workers returned to full-time work during the quarter. EIS data showed a decline in jobless claims amid a rise in the job placement rate between June to October 2020, as layoffs were halted and workers were re-employed following a brief uptick in domestic travel. The re-impositions of CMCO 2.0 in mid-October 2020 and Movement Control Order (MCO) 2.0 in early January 2021, however, led to a further weakening of labour market conditions in the fourth quarter of 2020 and in the first quarter of 2021. This coincided with a modest rise in jobless claims amid a deterioration in job placement rates over November 2020 to January 2021.

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According to DOSM, time-related underemployment is defined as relating to those who are employed less than 30 hours per week (due to the nature of their work or because of insufficient work) and are able and willing to accept additional hours of work.

Quarterly data on time-related and skill-related underemployment can be obtained from the Labour Market Review and Quarterly Labour Force Survey Report published by DOSM.

Underutilisation is a broader concept of untapped capacity in the labour market. In this article, the underutilisation rate is measured as the sum of the number of persons unemployed and underemployed, expressed as a percentage of the labour force.
While overall employment conditions improved slightly from the trough in the second quarter of 2020, wage conditions remained weak, and the pandemic continued to have a negative impact on vulnerable segments of the labour market:

i) **Non-standard employment continues to suffer from slower demand conditions and further restrictions**

Although standard employment has begun to recover from the crisis, for non-standard workers (such as the self-employed, gig workers, and owners and employees of small and family-owned businesses), employment has yet to see a rebound (Chart 7). In the second quarter of 2020, non-standard employment recorded a steep decline of around 252,000 persons and continued to experience a net decline in employment for the remainder of the year. The continued job losses stemmed from the concentration of these workers in high-touch sectors that remained affected by the pandemic, containment measures, as well as the "New Normal" standard operating procedures (SOPs) to ensure physical distancing in social spaces and business premises. The more severe impact on non-standard workers is also partially due to the fact that workers in non-standard employment arrangements are more likely to belong to micro and small businesses, which are more vulnerable to economic shocks relative to larger enterprises. Moreover, weak domestic demand conditions contributed to more limited employment and income opportunities for this segment of the workforce. They are also made more vulnerable due to their limited access to social protection and exclusion from coverage of social insurance programmes.

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In this article, non-standard employment is proxied by three categories of employment: own account workers, unpaid family workers, and employers. This is guided by ILO’s examples of “diverse employment arrangements which deviate from standard employment”, including temporary employment, multiparty employment relationships, dependent self-employment, and features prominently in the gig economy. On the other hand, standard employment refers to salaried employment that is continuous, with a direct relationship between employer and employee.
ii) Younger workers face very challenging labour market conditions immediately upon entry into the workforce
The youth unemployment rate, which has already been elevated for some time, increased from 10.9% in 2019 to 12.5% during the MCO in the second quarter of 2020, and remained elevated for the rest of the year (Chart 8). The lack of recovery in the youth segment alludes to relative disadvantages that younger workers face in the labour market. Firstly, youths tend to have a lack of work history, experience and career networks, and thus tend to have a harder time finding suitable employment, relying more on job-matching mechanisms like job search portals, career centres, and employment services. Second, younger workers may not have job-ready skills and require higher investments in initial training, making them less attractive to employers. While these factors are already a challenge in normal times, fewer job opportunities, lower vacancies and higher financial pressures on businesses during a crisis make finding and holding down jobs significantly more difficult for younger workers. In addition, youths tend to hold employment in the mid-skilled occupations (72% of youth were employed in mid-skilled occupations in 2019; adults: 58%), while the pandemic has led to a net loss of around 176,900 mid-skilled jobs. Moreover, new graduates who were trained in high-touch and tourism-related services sectors may also find it more challenging to gain employment in industries less affected by the pandemic, especially in an environment where there are more experienced jobseekers in the labour market. Prolonged unemployment among the youth segment gives rise to a host of issues, including structural skills mismatches and skills atrophy, ultimately weighing on their long-term income prospects. Empirical evidence from previous studies in other countries shows that for fresh graduates, entering the labour market during a downturn can reduce earnings for up to 10 years post-graduation. This reinforces the notion that closer policy focus is warranted to limit long-term scarring effects, particularly on the youth.

iii) Working women are disproportionately impacted by the pandemic
The downturn triggered by the pandemic has led to larger employment losses for women compared to men. This is in contrast to previous crises in Malaysia’s history. Notably, in 2020, women’s employment registered a negative growth rate of 0.1%, while men’s employment registered a positive growth of 0.3% (Chart 9). While men’s employment levels recovered by the fourth quarter of 2020, women’s employment levels have yet to recover. Furthermore, the women’s labour force participation rate, which has historically been significantly lower than that for men (2010-2019 average for women: 52.5%; Men: 80.3%),

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27 Employment levels for women recorded 5,888.6 thousand persons in the fourth quarter of 2020, versus 5,871.0 thousand in 2019. For men, employment levels were 9,273.1 thousand persons in the fourth quarter of 2020, and 9,202.4 thousand in 2019.
decreased significantly during the onset of the crisis and stagnated after restrictions were lifted (Chart 10). This unwinds the steady increases observed over the past few years, and if unaddressed, may set back the progress of encouraging higher labour force participation among women. These patterns arise in the current crisis due to two factors: (i) Higher representation of women in consumer-facing, contact-intensive services subsectors; and (ii) The provision of familial and childcare needs brought on by closure of schools and care facilities being largely borne by women. Left unattended, Malaysia risks losing out on benefits from narrowing gender gaps in the labour market, including a significant boost to GDP, higher productivity, and higher incomes overall.

While economic activity is expected to recover once the pandemic is contained, the recovery is likely to be uneven across sectors. COVID-vulnerable sectors, particularly high-touch, high-contact, and tourism- and travel-related services subsectors, are expected to recover at a slower pace, having been hit hard by repeated disruptions throughout 2020. The uneven recovery across sectors would, in turn, likely increase long-term unemployment in the near-to-medium term. This presents a risk to the labour force, as longer and repeated unemployment spells can worsen the degree of scarring on skills and incomes in the near-to-medium term. This presents a risk to the labour force, as longer and repeated unemployment spells can worsen the degree of scarring on skills and incomes. In labour economics, this is often referred to as “hysteresis”, or the “jobless recovery” phenomenon.

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29 In 2019, 3,023.1 thousand persons cited housework and family responsibility as their reason for remaining out of the labour force and not seeking work; 97.4% of these were women. Source: DOSM (2019). Labour Force Survey Report.
31 Arulampalam, W. (2001) using data from the British Household Panel Survey, found that an unemployed individual, when returning to work, will face a -5.7% wage penalty during the first year of employment. This increases to -13.5% during the next three years. Subsequent spells of unemployment also carry a “wage scar”, albeit not as large. Huckfeldt, C. (2016) documented that large and persistent earning losses from retrenchment were concentrated among workers who switched occupations after job displacement, which occur more frequently during recessions. In a survey of OECD countries, Quintini and Venn (2013) also report workers’ earnings tended to fall significantly in the years following job losses, although the effect differs significantly across countries, gender, age groups and educational attainment.
Jobless Recovery: What Is It and What Does It Look Like?

Definition

A jobless recovery is a situation where economic recovery occurs without a corresponding improvement in employment. Formally, it can be defined to occur when employment growth significantly lags behind output after a recession, also resulting in elevated unemployment long after the economic recovery.

A well-known case of a jobless recovery is in the US labour market following the 2008-2009 Global Financial Crisis (GFC), where the rebound in US output following the crisis was accompanied by a tepid recovery in employment. While quarterly output recovered to pre-crisis levels within two years from the trough, it took five years for employment and seven to eight years for the unemployment rate to return to pre-crisis levels (Chart 11). Discussion on jobless recoveries often revolve around the following three factors: i) Efficiency improvements; ii) Job polarisation, and; iii) Imperfect labour mobility.

Chart 11: US GDP, Employment and Unemployment Trends During the GFC (4Q 2007 = 100)

### Efficiency improvements: Changes in production modes and processes

Major recessions have instigated changes in the way companies organise themselves, produce goods, and provide services. In literature, this is dubbed as the “cleansing effect” of recessions, which stems from the Schumpeterian concept of “creative destruction”. During a recession, outdated processes and

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**Source:** Bank Negara Malaysia estimates using data from CEIC

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**Note:**


33. The term “job polarisation” was first coined by Goos and Manning (2007). It is the phenomenon in which the share of employment in occupations in the middle of the skill distribution declines, while increasing on the lower and upper ends.

34. This term was coined by Caballero and Hammour (1994) in their paper “The Cleansing Effect of Recessions”, which investigates the response of industries to cyclical variations in demand within a framework of a creative destruction model.

35. “Creative destruction” refers to the process of incessant innovation in which new production units replace outdated ones. Joseph Schumpeter popularised the concept, and originally described creative destruction as innovations in the manufacturing process that increase productivity.
production units with inferior technology are more easily scrapped in favour of newer, more efficient ones. This intertemporal reallocation towards productivity-enhancing activities could result in significant productivity gains over the medium to long term. To the extent that these efficiency enhancements stem from the substitution of workers with machinery or technology, significant shifts in production methods and processes may lead to slower employment growth following a crisis.\(^{36}\)

**Job polarisation: Shrinking opportunities for mid-skilled occupations**

Job polarisation refers to increasing concentration of employment in the highest- and lowest-skilled occupations, as job opportunities in mid-skill occupations disappear following structural shifts in the economy. Routine tasks tend to be concentrated in mid-skilled occupations\(^ {37}\), which are thought to be particularly susceptible to automation and technological replacement\(^ {38}\). While this phenomenon has been observed steadily over the past few decades, recessions may also result in an acceleration of permanent job destructions in the mid-skilled occupations. Job polarisation has been cited as another potential contributing factor to a jobless recovery, given that mid-skilled jobs make up the largest portion of the labour force in most economies.

**Imperfect labour mobility: Re-allocation of labour towards growth sectors**

Recessions are typically associated with a reallocation of resources in the economy (i.e. capital and labour), from low-productivity to high-productivity activities and sectors. While the reallocation of resources can be a positive feature of the economy over the long term, in the short run, the reallocation of labour across sectors could be disruptive and costly to resolve, both in terms of time and resources. This is especially the case when the skills that workers have accumulated from previous occupations in a contracting sector do not match skills and occupations in demand in expanding sectors. Resolving these frictions during a crisis may take significantly more time (to find occupations that fit current skill sets, due to more limited employment opportunities), or resources (to cater to large-scale re-skilling or up-skilling programmes, amid other urgent priorities), resulting in slower employment growth following a crisis.\(^ {39}\)

**Malaysia's Experience**

While the current health crisis has resurfaced concerns over the prospect of a jobless recovery, historically, Malaysia has never experienced such a phenomenon. During the Asian Financial Crisis (AFC), for example, the unemployment rate increased to 3.2% in 1998 (1997: 2.4%), but employment levels did not suffer a significant decline (1997: 8.57 million persons; 1998: 8.60mn; 1999: 8.84mn). During the GFC in 2008-2009, the Malaysian labour market exhibited similar developments; employment never dipped significantly below pre-crisis while the unemployment rate recovered relatively quickly, as labour market conditions rebounded strongly following robust growth post-GFC (Chart 12).

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\(^{36}\) Automation affects employment through two channels, the "productivity effect" and the "reinstatement effect". The former involves displacement of labour due to productivity-enhancing technologies; the latter involves the creation of new tasks in which labour has a comparative advantage. Source: Acemoglu, D and P Restrepo (2019). "Automation and New Tasks: How Technology Displaces and Reinstates Labour," Journal of Economic Perspectives, Vol. 33, No. 2, pp. 3-30.

\(^{37}\) While routine tasks exist throughout the skills distribution, these are characteristics of many mid-skilled jobs, such as bookkeeping, clerical work, and repetitive production and monitoring. Because the core tasks of these jobs follow precise, well-understood procedures, they can be codified in computer software and performed by machines. Source: OECD (2020). "Worker Security and the COVID-19 Crisis," Employment Outlook; Keister, R and P Lewandowski (2016). "A Routine Transition? Causes and Consequences of the Changing Content of Jobs in Central and Eastern Europe," IBS Policy Paper 05/2016.


This underscores the importance of policy intervention in reducing the severity of economic shocks to the labour market. For Malaysia, the impact of the pandemic was mitigated by a slew of measures to soften the economic burden of lockdowns on households, businesses and workers. Key policies under PRIHATIN, PENJANA, Budget 2021, PERMAI, and PEMBERKASA packages include the Wage Subsidy Programmes (WSP 1.0, 2.0 and 3.0), increased access to the Micro Credit Scheme and micro-SME special grants, as well as enhanced hiring incentives under the PENJANA Kerjaya initiative. Continued policy support remains important to prevent economic and labour market scarring while the economy recovers from the pandemic.

Part III: Policy Priorities and Imperatives

In November 2020, the Government formed the National Employment Council (NEC), which aims to coordinate and harmonise policies related to the labour market, with job creation as a key focus area. This is a welcome effort to strengthen prospects for an entrenched recovery, while ensuring effective implementation of key Government measures in the labour market. Among others, key initiatives outlined by the NEC include a long-term, strategic plan for the creation of employment opportunities, covering issues related to skills and labour shortages in key sectors, and equitable opportunities for vulnerable groups.

Notwithstanding the swiftness of the Government’s response to the current crisis, Malaysia must not lose sight of the necessity to implement important long-term structural reforms. A holistic labour market policy framework could be considered, to guide policymakers in building a robust labour market ecosystem (Diagram 1).

Broadly, this framework encompasses policies to catalyse economic transformation, enhancing skills, training and education systems, strengthening Active Labour Market Policies (ALMPs), and promoting inclusive labour market outcomes. These policies should be supported by key enablers such as active private sector participation, comprehensive labour market data, and appropriate legal frameworks and administrative capabilities. Drawing from this policy paradigm, the following three policy strategies could be considered.

First, there is an urgent need to introduce policies and economic reforms that would ultimately lead to the higher creation of and demand for high-skilled and knowledge-based workers. At the top of the list, a holistic review of the current investment policy framework and incentives ecosystem is critical to reinvigorate investments. In this respect, adopting a clear vision and strategic direction is key. In the Bank’s 2019 Economic and Monetary Review, the article on "Securing Future Growth through Quality Investments” outlined the “National Investment Aspirations” (NIAs) - five key criteria for quality investments which are aligned with

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**Chart 12: Malaysia’s GDP, Employment and Unemployment Trends during the GFC (4Q 2007 = 100)**

![Chart 12: Malaysia’s GDP, Employment and Unemployment Trends during the GFC](chart.png)


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Overarching national development goals. These entail investments that: i) Increase economic complexity; ii) Create high-value jobs; iii) Extend domestic industrial linkages; iv) Develop new and existing clusters, and; v) Improve inclusivity. Moreover, a forward-looking, comprehensive and coherent plan to reduce reliance on foreign workers would nudge industries to gradually adjust and shift away from the low-cost production model. These reforms would ultimately enable the economy to transition into high-value production and more sophisticated and complex economic activities, and generate high-skilled jobs that command higher wages. Furthermore, the increased demand for high-skilled workers would ease the current excess of graduates in the labour market.

Second, efforts to enhance skills and facilitate the reallocation of workers to more resilient, productive, and high-growth areas must be intensified, with more focus towards the “future of work”. These involve a broad range of policies to enhance the education and training ecosystems, as well as initiatives to improve the matching mechanisms in the labour market. This must include a systematic and sustained strategy to facilitate the continuous and constructive participation of industry, academia, and civil society in the design, formulation and implementation of labour, skills, and education policies. In advanced economies such as Germany, Australia, and South Korea, as well as neighbouring economies like Singapore, policymakers, industry members, academics, and community leaders collaborate within Councils to identify skill needs, design frameworks to bring skills and qualifications up to standards, update academic and training curricula, and generally promote the enhancement of knowledge and skill levels of the workforce. This is critical for the workforce to meet evolving industrial needs and ongoing economic challenges. The permanent establishment of such a platform for collaboration in Malaysia would greatly aid current efforts to enhance the national education system, reform the national training ecosystem, and ensure strategic development plans are aligned with the evolving needs.

* Jobs that meet conditions of security, dignity and equality

Note: Adapted from ILO’s framework of labour market policies in response to the COVID-19 pandemic

Source: Bank Negara Malaysia

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For further details on quality investments in activities that meet the NIAs, diversifying into more complex products, and employing a mission-based investment approach, please refer to the box article titled “Innovation Malaysia: Towards Higher Quality Growth in a Post Pandemic Future”.

According to the OECD, the “future of work” revolves around digitalisation and globalisation, which spark radical shifts in how we live and work.

Among OECD countries, about 75% of social partners and 30% of ministries cited lack of consultation with all relevant stakeholders as a significant barrier to conducting skill needs assessments. Source: OECD (2016). "Getting Skills Right: Assessing and Anticipating Changing Skills Needs".
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Encourage demand for high-skilled workers
Improve training and matching mechanisms
Enhance labour market resilience
Reinvigorate investments through NIAs
Transition into high-value production
Reduce reliance on foreign workers

Active Labour Market Policies (ALMPs) in Malaysia

Definition

Active Labour Market Policies (ALMPs) are government policies that intervene in the labour market to help jobseekers (unemployed, self-employed, and employed) find re-skilling and up-skilling opportunities, apprenticeship, vocational and skills training, and ultimately work. The four main features of ALMPs are: (1) Assistance in job search process; (2) Recommendation of training and apprenticeship schemes; (3) Wage subsidies, public employment services, and public works programmes; and (4) Provision of support to micro-entrepreneurs and the self-employed.

As pointed out recently by the World Bank, even though Malaysia has made significant progress in its skills development system since the 2000s, there exists duplication and fragmentation in Malaysia’s ALMPs. Specifically, implementation and deployment are spread over multiple agencies, leading to inefficiency and high administration costs. As a result, this manifests in relatively lower levels of programme spending and fewer beneficiaries. This fragmentation in the ALMP system also results in a lack of overarching strategy and importantly, weak linkages between training and employment support with the needs of industry.

Table 1: Selected Key Policy Strategies and Priorities

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<tr>
<th>Encourage demand for high-skilled workers</th>
<th>Improve training and matching mechanisms</th>
<th>Enhance labour market resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinvigorate investments through NIAs</td>
<td>Enhance education and training ecosystems</td>
<td>Close gaps in social security and insurance programmes</td>
</tr>
<tr>
<td>Transition into high-value production</td>
<td>Secure cohesive participation of industry, academia, and civil society</td>
<td>Extend coverage of re-skilling and up-skilling programmes</td>
</tr>
<tr>
<td>Reduce reliance on foreign workers</td>
<td>Enhancement of ALMPs</td>
<td>Consolidate social protection programmes to widen accessibility</td>
</tr>
</tbody>
</table>


Third, initiatives to enhance labour market resilience should be intensified, beginning with closing gaps in, and enhancing access to, social security and insurance. The COVID-19 pandemic has highlighted the gaps in coverage of social protection in many countries. Of note, large segments of women, self-employed, and younger workers have low access to employment insurance, or social savings. There are also gaps in the coverage of training, re-skilling and up-skilling programmes. For instance, in Malaysia, training schemes for the self-employed and gig economy workers are not well-established or widely accessible. In a recent economic survey, OECD reported that older adults, workers in micro-enterprises, workers in the informal sector and women have limited access to training opportunities. Thus, while workers in standard employment were provided with temporary income relief during the depths of the pandemic, many other workers were unable to access these funds and training schemes. In addition, specialised funds for vulnerable segments were limited, and information on...
These include social safety net policies (e.g. *Bantuan Prihatin Rakyat*, MyGovernment), social insurance policies (e.g. *perlindungan tenang*, SOCSO), and ALMPs (e.g. platforms to facilitate job search and gig workers, like MYFutureJobs and MDEC’s GLOW Programme; the training schemes under Human Resources Development Fund (HRDF)/PENJANA).

For further reading, please refer to the box article entitled “A Vision for Social Protection in Malaysia” in this report.

### Conclusion

This article discussed key structural issues inhibiting the Malaysian labour market. First, there is an over-reliance on the low-cost production model. Second, the supply of fresh graduates far outpaces the creation of high-skilled jobs. Third, there are significant skills mismatches between graduates and industry needs. In the presence of these long-standing structural issues, the impact of COVID-19 is likely to exacerbate these problems. In addition, changes brought about by the pandemic are likely to accelerate the impact of technological advancement, with potential implications on the jobs recovery coming out of the crisis, as well as the types of jobs created in the future.

The health and economic crisis brought on by the COVID-19 pandemic can be viewed as a turning point - an opportunity to reset and build stronger fundamentals for the economy following the crisis. Over the long term, economic policies should be geared towards creation of high-skilled, high-paying jobs, with complementary focus on advancing skills enhancement, enhancing search and matching mechanisms in the labour market, and promoting more inclusive outcomes for vulnerable segments of the labour market. Current efforts by the Government to enhance the labour market statistics landscape are also welcome, as comprehensive, granular, and timely data on developments in the labour market is key in enabling quality analysis and the formulation of impactful policies.
References


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