MENYELAMAT DEMI MEMULIH

STRENGTHEN RESILIENCE FOR RECOVERY

Economic recovery is highly uneven with the burden of adjustment disproportionally falls on service sector, self-employed workers, aged 25-34. Cumulative jobs destructed far exceeds jobs created in service sector, although manufacturing sector has already entered recovery phase with positive net jobs created. Existing schemes like PenjanaKerjaya and Program Subsidi Upah won’t be effective, as mobility remains restricted and non-eligibility denies assistance. i-citra and loan moratorium programmes, while easing liquidity constraint, weakens the poor’s capacity to recover. What they need is temporary but recurring income support.

Problem 1: Highly uneven paces of recovery that leave service sector behind

We now have a better picture on the impact of the pandemic and mandatory order on mobility restriction since the onset of the COVID-19 crisis. And the impact is highly uneven. As **Figure 1** vividly shows, capacity to recover is divided along two lines: tradable vs non-tradable, and contact-intensive vs. non-intensive.

Tradable sector like manufacturing has been leveraging the global trade rebound since the third quarter 2020 consecutively underpinned by China and the U.S economic reopening. Non-contact-intensive sectors like professional and financial services, and ICT that are agile to the adaption of work-from-home practice also witness early and strong recovery.

On the flipside, non-tradable and contact-intensive industries apparently are still suffering contraction, let alone recovery, for more than 9 months. And all these industries happen to be in the service sector. FMCO and the National Recovery Plan, which already lasts longer than MCO 1.0, are going to amplify the pain.

More critically, those badly affected sectors contribute significantly to the labour employment. The upper left figure of **Figure 2** shows that 28% of the employment took place in all the contracting service industries, and 47% if wholesale and retail trade industries are included.

Problem 2: Self-employed, contract, gig, middle-age workers are most fragile to the adverse economic impact

In service sector, firms are more likely to be micro, and workers are more likely to be self-employed who experience underemployment. Among the self-employed workers, as illustrated in the lower left figure of **Figure 2**, gig workers in the service sector occupy the largest fraction, which amounts to 97%.

Depicted in the same **Figure 2** is the fragility of middle-age workers (25-34 and 35-44 years old) in the face of the economic impact of the pandemic and MCO. Nearly 73% of underemployment come from middle-age workers, who are more likely to bear greater family burden.

Problem 3: Jobs are destructed much faster than being created in service sector, leading to excessive job misallocation that distorts earnings and job prospect

Figure 3 illustrates the cumulative job destructed and created, respectively, for manufacturing and service sectors, as well as for national aggregate. By taking 2020 first quarter as base year, it is striking to see how cumulative jobs destruction in the service sector has been, and still is, outpacing the cumulative jobs creation for more than a year. The performance is worse than the national aggregate, while cumulative jobs created in the manufacturing sector has already been greater than jobs destructed in 2021 first quarter.

In fact, as depicted in the lower figure of **Figure 3**, manufacturing sector has achieved positive net jobs creation since 2020 third quarter. Service sector has suffered a net job loss of 217,000 with 12 months spanning 2020 second quarter and 2021 first quarter.

Prolonged net job loss causes excessive labour resources misallocation within service sector that increases the probability of turning temporary job loss into structural unemployment, hurting the salaries and job prospect.

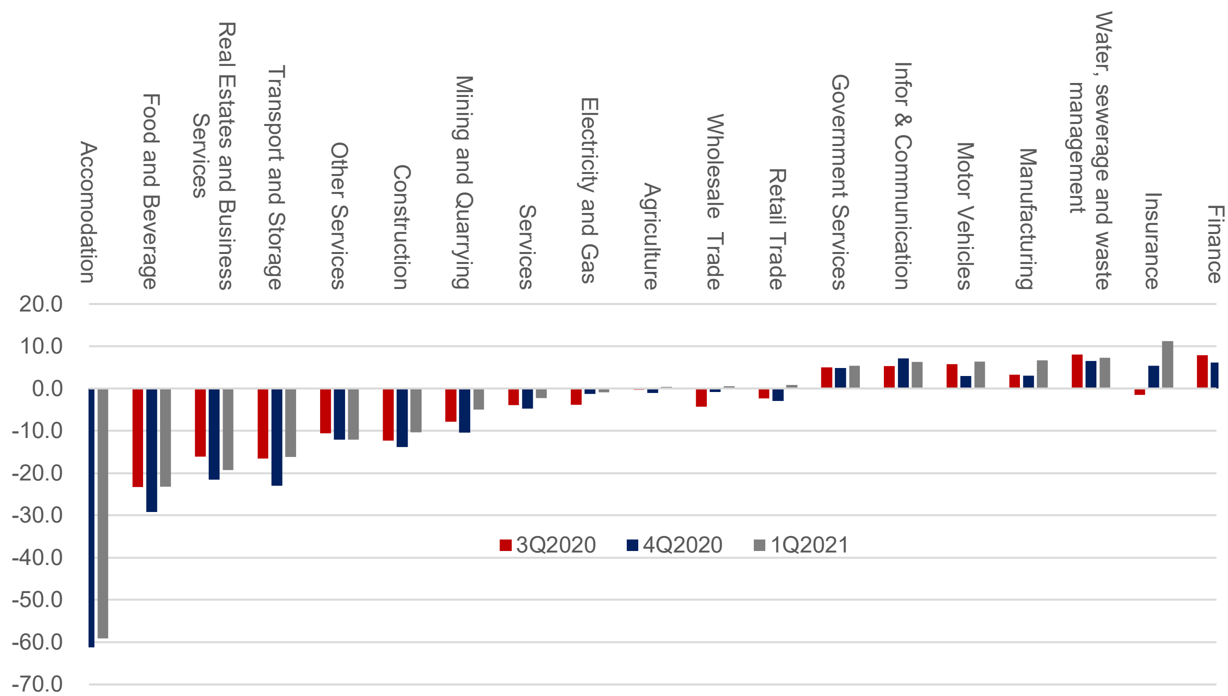
Problem 4: Households are going through dis-savings and re-leveraging, eroding households' capability for a strong rebound

Households' savings as a share of GDP have been declining for more than a decade from 34% in 2011 to 24% in 2020, bottoming out from 22.75% in April 2020. If this is not alarming enough, the historically high households' debt as a share of GDP that stands at 93.3% is a time bomb too important to be ignored.

Low saving rates limit the business investment capacity, and a combination of dis-savings and re-leveraging erodes households' capacity to tap on the economic reopening for recovery, making the economy more fragile to unforeseen external disturbances.

Figure 1. Recovery is highly uneven for the past three quarters

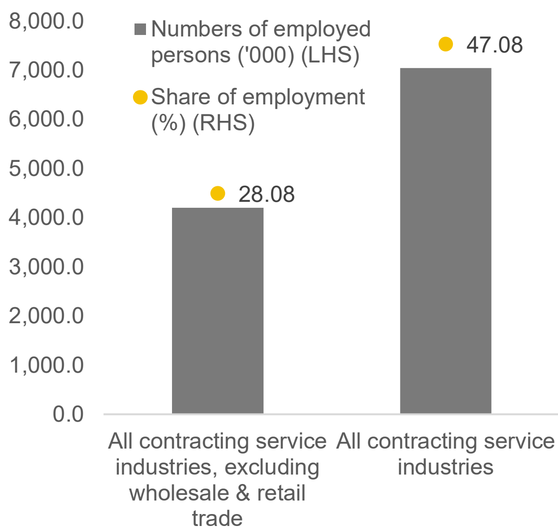
The uneven recovery is expected to be intensified under FMCO/NRP Phase 1

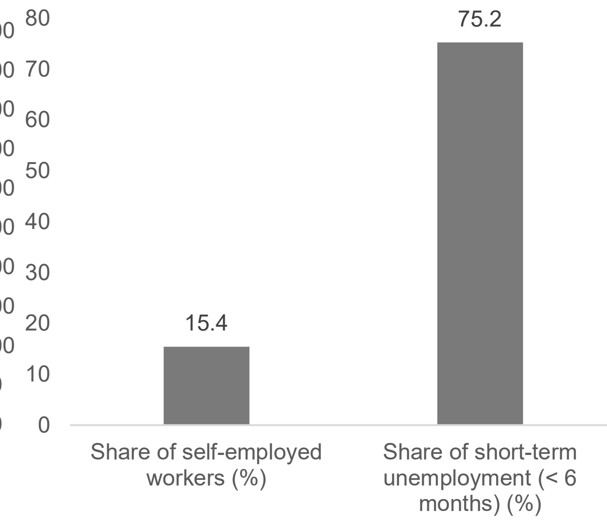


Source: BNM

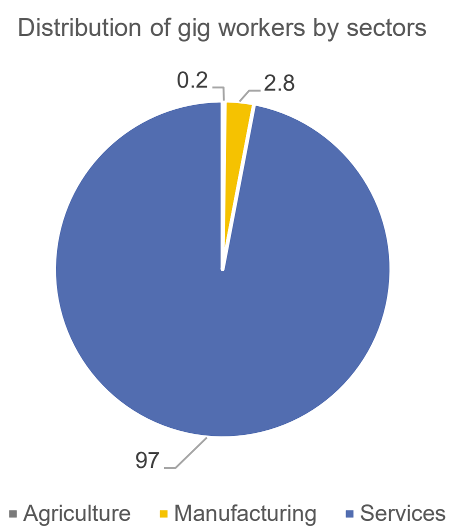
Figure 2. The adverse labour market effects are also likely to be uneven (as at 2021 first quarter)

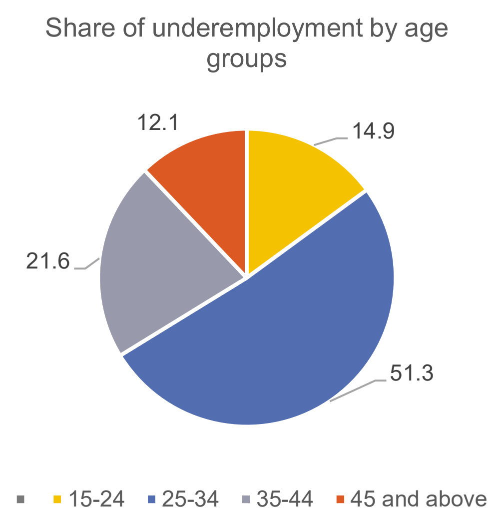
The impact is short term but falls disproportionally on service-sector and self-employed workers, which include gig workers, and 25-34 age group





Program Upah Subsidi won't benefit the fragile self-employed and gig workers. Being "asset-less", loan moratorium is also unlikely to be helpful for them. Underemployment also means the middle-age workers are not eligible for EIS, although income has been severely compromised

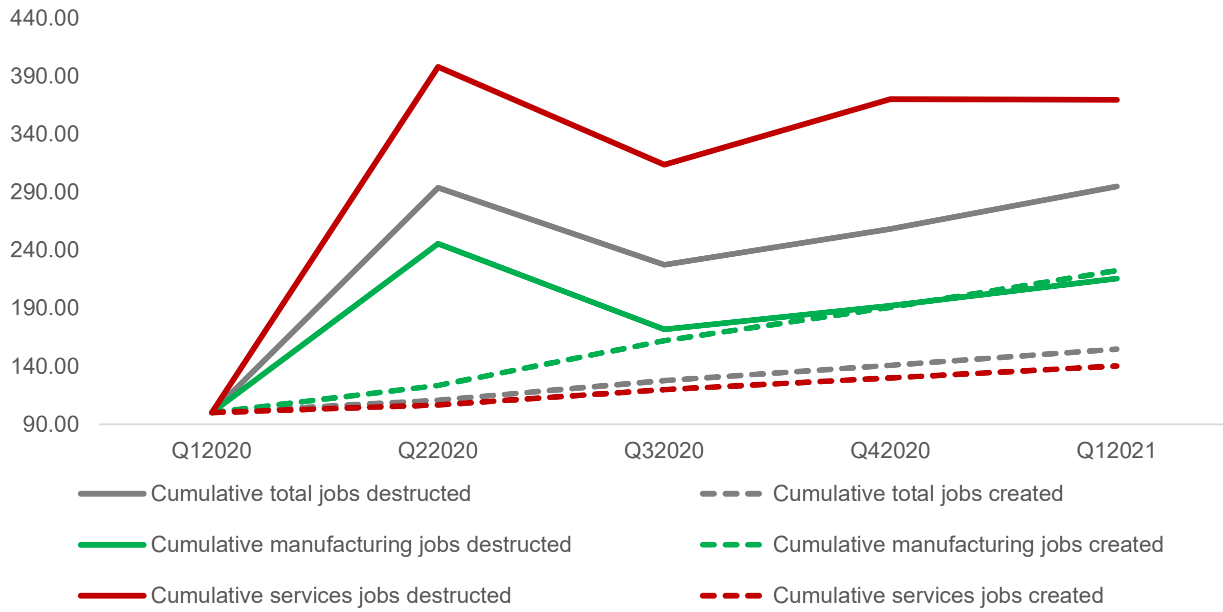




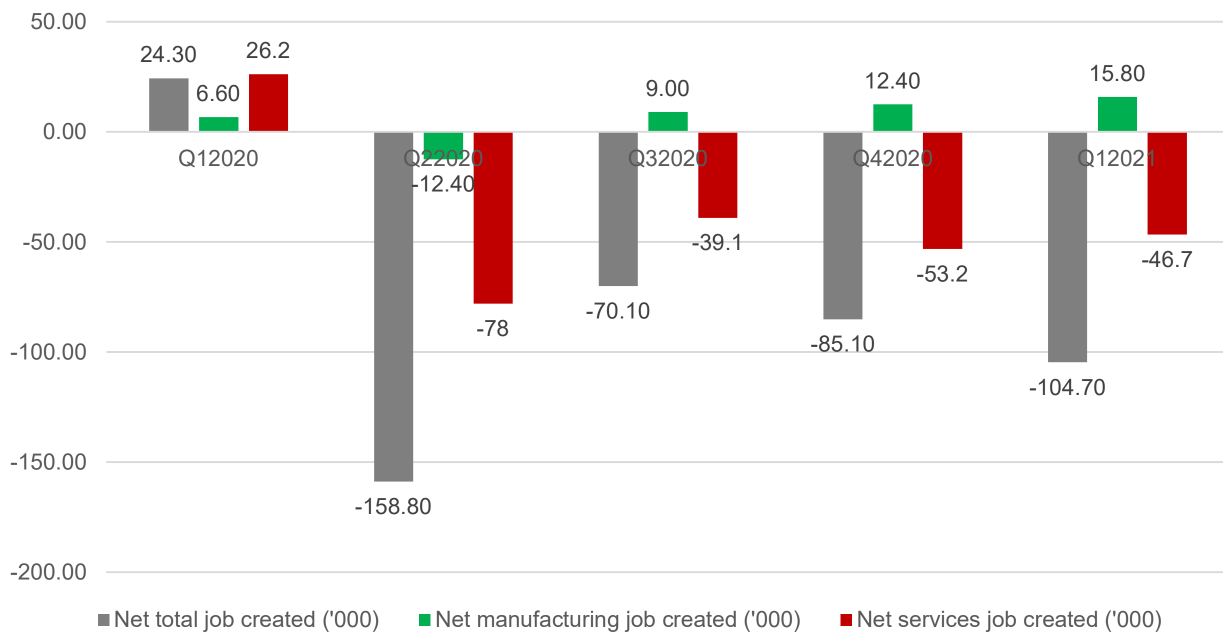
Source: DOSM, Labour Market Review; Harun, N., Mohd. Ali, N., and Mohd. Ali Kahn, N.L. (2020).

Figure 3. Jobs destruction exceeds jobs creation in service sector

PenjanaKerjaya won't be effective as long as the mobility is still being restricted, which is more likely to last till year end, giving no incentive for businesses in service sector to increase hiring

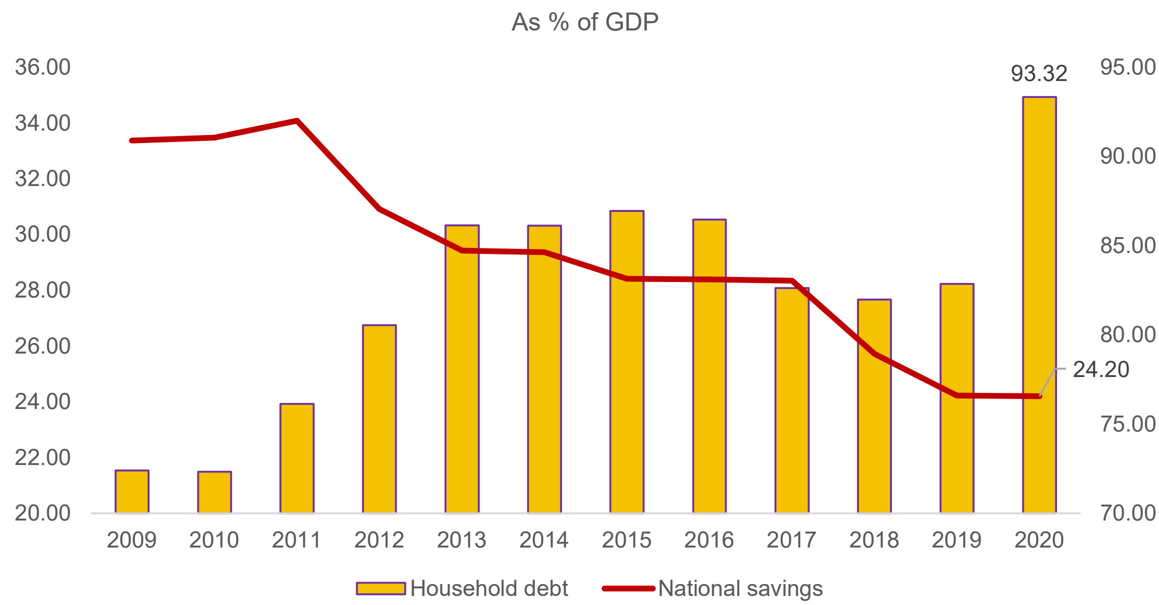


Service sector is still in "Resilience" than "Recovery" stage



Source: DOSM, Labour Market Review; author's own calculation

Figure 4. Dis-savings and surging debt weaken the capacity of the fragile majority to recover



Source: ADB Key Indicators, CEIC

What these problems mean for PEMULIH?

Because of the labour market characteristics of service sector, i.e., self-employed, contract-based, gig, micro firms,

1. Program Upah Subsidi benefits manufacturing sector that has already been recovering more than service sector that is still in bad shape. The fact that service sector still suffers cumulative jobs destruction implies the less-than-proportional impact of previous wage subsidy programme on service sector.
2. Unemployed individuals are more likely to be excluded from the coverage of Employment Insurance Scheme.
3. Being micro implies that the individuals are more likely to be “asset-less”. Without assets, they are not likely to have bank loans. Loan moratorium, in this respect, is inconsequential.
4. PenjanaKerjaya may not work for service sector, seeing the evidence that cumulative jobs created is low but cumulative jobs destructed remain high, although jobs creation scheme is made available since last year.

Proposal: Temporary but recurring income support via EIS for unemployed individuals excluded from social safety net

Fortunately, the unemployment so far, as depicted in Figure 2, remains short term. About 75% of the unemployment spell is less than 6 months. Furthermore, as at 29th June 2021, 17.34% of Malaysian population has already received at least one dose of COVID-19 vaccine. If vaccine supply is on schedule, and domestic rollout can be maintained at 250,000 jabs per day. By the end of September, 80% of the population shall be able to receive at least one dose. By then, the economy can be reopened at faster speed and broader scope, allowing the domestic economy to regain dynamics in the last quarter of 2021.

To keep the affected households afloat and resilient amid transiting toward reopening and recovery, the most effective way is to provide temporary but recurring income support for the affected individuals. And the EIS as automatic income adjustment mechanism is the best available device for this purpose.

The facility shall be immediately made available for micro firms owners, gig workers, self-employed workers, and contract-based workers who have suffered income loss and are jobless. By including the previously non-eligible workers into the coverage, it not only protects the wellbeing of those in need, it also broadens the source of EIS contribution in the future following normalisation. In other words, government expense on temporary income support is to some degree self-funded.

Take a numerical example. Suppose out of the total unemployed individuals by 2021 first quarter, which amounts to 771.8 thousand, 30%, or 231.54 thousand (which approximates the total net job loss in service sector of 217 thousand), are workers not previously eligible for EIS. Let the first month of unemployment subsidy be the basic income at RM1200, which reduces by 20% each month for the next four months. A five-month unemployment subsidy shall be optimal given the temporary nature of unemployment as depicted in **Figure 2** and the vaccination scenario as aforementioned. Total unemployment subsidy per individual is RM4034, and RM934 million in total for five months.

Wong Chin Yoong is Associate Professor in Economics at Universiti Tunku Abdul Rahman (UTAR), and Economic Advisor to Institute of Strategic Analysis and Policy Research (INSAP)