

# Malaysian COVID-19 Economic Stimulus Packages: Too Little, Too Late?\*

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## **Abstract**

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# 1 Background on Malaysia’s Experience with COVID-19

Like many other tropical countries, Malaysia had a significant amount of experience dealing with infectious diseases prior to the start of the COVID-19 pandemic – this included dealing with viruses and illnesses such as dengue, Nipah, tuberculosis, and leptospirosis – and is even sometimes referred to as a “epicenter for emerging and re-emerging infectious diseases” (Kit, 2002). To deal with this, over the years, Malaysia designed its public health and public hospital infrastructure to be able to cope and serve the masses. For example, though varying heavily between neighborhoods of different densities, with a significant gap in the provision of services between urban and rural areas, citizens are typically able to obtain primary care through government-operated health clinics spread across the country (Hazrin et al., 2013). This being said, Malaysia’s health expenditure was only 3.8% of its gross domestic product (GDP) in 2019, significantly below the world average of 9.83% but similar to its regional neighbors, such as Singapore (4%) and Thailand (3.8%).<sup>1</sup> Thus, the country entered the pandemic with existing knowledge on how to deal with past infectious diseases but with an overburdened (though functional) public healthcare system - a combination of traits that could have swung the fate of the nation in either direction in the face of the SARS-CoV-2 virus.

Malaysia recorded its first COVID-19 case on January 25th, 2020 through a Chinese traveller arriving in Johor, at the southernmost tip of the Peninsular, from Singapore.<sup>2</sup> The outbreak due to this first case was quickly and swiftly contained a couple weeks after the discovery of the initial case. However, a large cluster of travelers from abroad who attended an Islamic religious “tabligh” event at the mid-to-end of February 2020 caused a larger, harder to trace cluster, which started on February 26th (Hashim et al., 2021). A strict nationwide lockdown – a movement control order (MCO) – was imposed starting March 18th, 2020 to help reduce to the spread of the disease. This was inline with similar policies enacted in the region and the world. In Malaysia’s case, the MCO meant that all schools, workplaces, and non-essential economic sectors were completely closed. Public transportation and social life were halted and all gatherings outside of the household were banned, with residents being mandated to stay home to help prevent transmission. Figure 1 presents the trend of

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<sup>1</sup>Data obtained from the World Bank: <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS>

<sup>2</sup><https://www.reuters.com/article/china-health597malaysia/malaysia-confirms-first-cases-of-coronavirus-infection-idUSL4N29U03A>

detected COVID-19 in Malaysia. Note that this first wave in February-March 2020 is barely notable next to the subsequent, more lethal waves, such as the Delta wave in late September 2021, which contributed to most of Malaysia’s deaths throughout the pandemic.

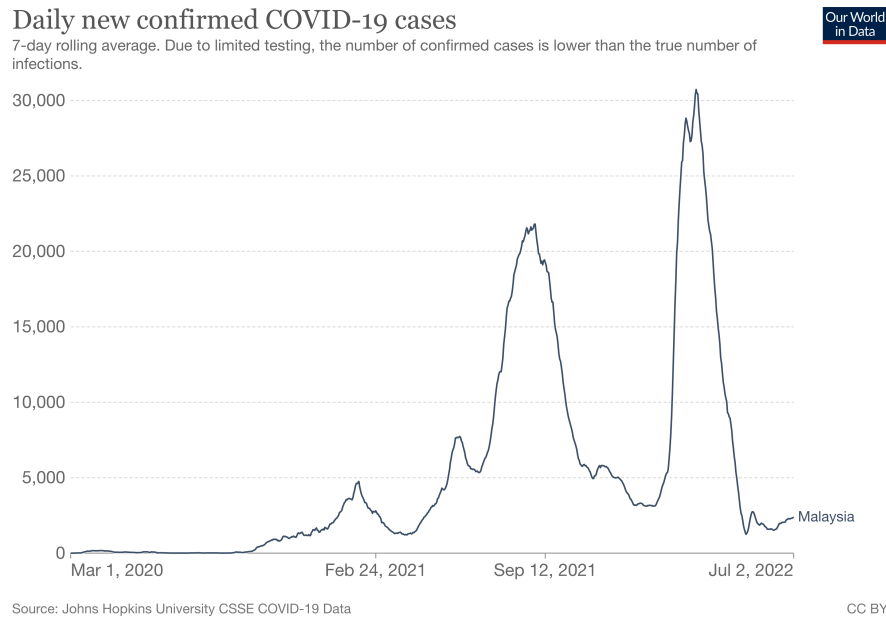


Figure 1. The trend of detected COVID-19 in Malaysia – note that the first wave that prompted the series of MCOs over the period of almost 2 years is barely notable next to the subsequent, more lethal waves.

The first MCO set the tone for a period of instability for all economic sectors in Malaysia as it was the first of many heavy restrictions imposed by the government to combat the virus. Figure 2 presents “Stringency Index” comparisons over time with regards to between three Southeast Asian countries: Malaysia, Thailand, and Singapore. This index, created by researchers at the University of Oxford, aggregates 23 indicators such as school closures and travel restrictions in order to compare the “strictness of lockdown-style policies” across countries.<sup>3</sup> Though stringency of restrictions

Lockdowns and restrictions on business and economy activities remained one of the biggest “tools” in the Malaysian arsenal against the virus throughout 2022-2021 - even as the country ramped up its vaccination rates, which stands at a respectable 86% for fully vaccinated and roughly 50% for (first) boosted. This ended up being a

<sup>3</sup>To see more information on the Stringency Index, please visit: <https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>

large mistake, and it is now larger proven that such measures were directly harming economic activity, growth, and consequently, resilience. For example, a large-scale study done in Chile, a similar country to Malaysia, showed that lockdowns were associated with a 10 – 15% drop in local economic activities – a rate twice that of municipalities that were not under lockdown – and that a “3 to 4 month lockdown had a similar effect on economic activity than a year of the 2009 great recession.” (Asahi et al., 2021) The effects of lockdowns also transcend financial and economic issues, contributing to climbing mental rate illness rates globally, and affecting vulnerable and minority groups significantly more than the privileged (Le and Nguyen, 2021). Similar to Thailand and Singapore, Malaysia varied in its stringency surrounding COVID-19 restrictions throughout the course of the pandemic – loosening when things got better and tightening to prevent outbreaks – but comparatively, Malaysia still was operating on a high stringency model for most of 2020 and 2021. This meant, amongst many other issues, that 1) business continuity and planning continued being an issue for the private sector and 2) loss in economic activity meant loss or reduction in livelihoods for a significant portion of the population.

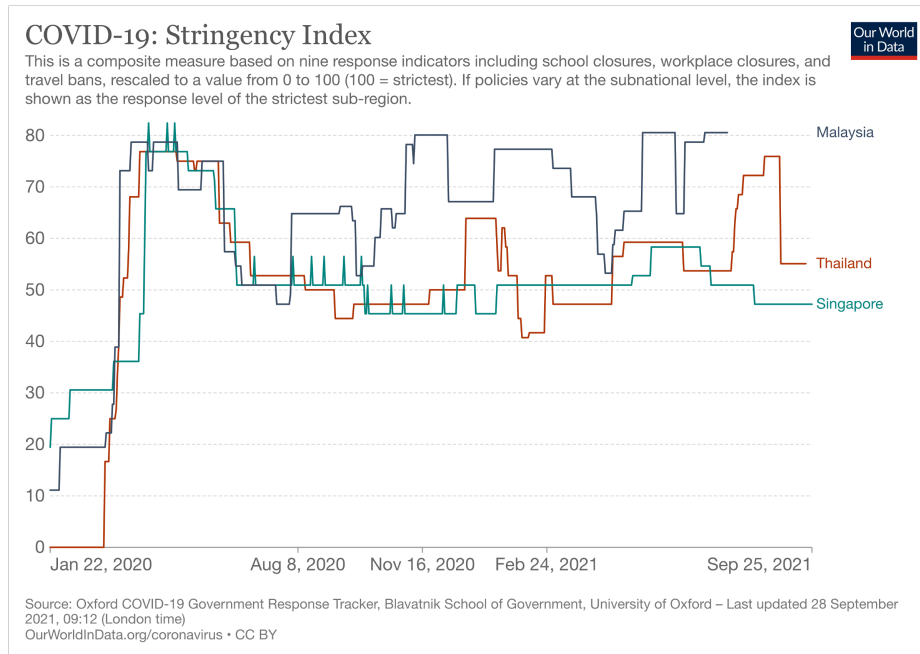


Figure 2. A comparison of “lockdown stringencies” between Malaysia, Thailand, and Singapore.

One of the main highlights for Malaysia throughout the pandemic was also political turmoil. The Pakatan Harapan (PH) government, which came to power after

the historic 2018 general elections, seeing the end of the since-independence reign of Barisan Nasional (BN), fell on the 24th of February, 2020, a few weeks before the first MCO was announced, coinciding roughly with the time of the Sri Petaling Tabligh. PH was replaced by Perikatan Nasional (PN), a coalition consisting of BN and BN-aligned political parties, which lasted until the 21st of August, 2021, at which point PN was replaced by a new government which consisted mainly of the previous political players from PN, but with some leadership changes and shuffles in the cabinet. Additionally, the next general elections are being forecasted to be held some time in late 2021.<sup>4</sup>

The construct of political instability has been well-studied in the literature. (Jong-A-Pin, 2009) documented that political instability has four dimensions – politically motivated violence, mass civil protest, instability *within* the political regime, and instability *of* the political regime. Malaysia undoubtedly suffers from the last 2 dimensions – both instability *within* the political regime and instability *of* the political regime itself – as infighting *within* parties forming the ruling coalition has been very common, and increasingly so since the start of the pandemic. The infighting, in turn, has caused multiple changes in the federal government. To give a sense of the frequency of this change – Malaysia did not change governments since its independence in 1957, but went through 3 governments in the span of 2 or so years. (Jong-A-Pin, 2009) also showed that the instability *of* the political regime has a “robust and significant negative effect on economic growth”, which also happen in the case of Malaysia, as seen below.

Most importantly, the constant changes in government and lack of political stability were hazardous for two reasons. The first reason was the fact that important legislation and debates did not take place for most of 2020 and 2021 in Malaysia due to “COVID-19 related reasons”, and due to the National Emergency which was declared by the King of Malaysia in January 12th, 2021, which took effect until August 1st, 2021. For example, in July 2021, a special parliamentary sitting was suspended after the detection of infections of members of parliament (MPs) and staff.<sup>5</sup> The National Emergency also allowed for sweeping ordinances to be enacted nationwide, which included “The Emergency (Essential Powers) No. 2 Ordinance 2021”, enacted in March 2021, which was supposed to suppress rumors and fake news surrounding

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<sup>4</sup>Please see here: <https://www.freemalaysiatoday.com/category/nation/2022/07/02/pas-to-use-pn-logo-for-general-election-says-muhyiddin/>

<sup>5</sup>More details can be found here: <https://www.reuters.com/world/asia-pacific/malaysia-suspends-parliament-session-citing-risk-covid-infection-2021-07-31/>

the COVID-19 pandemic. However, critics and activists pointed out that this ordinance could also be used to suppress the freedom of speech amongst individuals who opposed the government.<sup>6</sup> Important issues such as raising the debt ceiling early in the pandemic, i.e. around middle 2020, could not be done – and was instead done more than a year later, in October 2021. This meant that the government’s ability to react to the difficulties of the pandemic through fiscal policy was constrained during the time when the country needed it the most.

Secondly, the lack of political stability meant that the government had trouble enacting policies that could help with reducing the spread of the virus *without* having to resort to sweeping, nationwide lockdowns. For example, political instability at the state level in Sabah in late 2020 caused there to be a need for state elections earlier than scheduled. Due to the importance of maintaining political power in Sabah, a large number of politicians from Peninsular Malaysia traveled to Sabah, which was undergoing a large-scale COVID-19 outbreak that stemmed from its immigration detention centers, and were not advised to quarantine or test before coming back to the Peninsular. (Lim et al., 2021) showed that 70% of the COVID-19 case counts within the state of Sabah were directly attributable to the elections, and that 64.4% of the COVID-19 cases in the rest of Malaysia, including Klang Valley, were attributable to the election’s spillover effects. Due to the high amount of community transmissions in the country following the state elections, the Prime Minister at the time, Muhyiddin Yassin, was forced to announce yet another MCO in early January 2021, as there were concerns that the public healthcare system could not accommodate the large number of patients that needed to be seen.

## 2 An Overview of the Federal Stimulus Packages

All of the Malaysian COVID-19 stimulus packages were announced during the time of the PN government. Malaysia had 8 stimulus packages valued at a total of RM 530 billion (approximately USD\$127 billion). This being said, only about 16% of these packages were *direct fiscal injections* into the economy at RM 83 billion (approximately USD\$ 20 billion). The timing and size of each of the 8 packages can be seen in Figure 3. A number of packages were targeted to particular populations – for example, PENJANA focused on providing tax incentives to attract foreign companies to relocate their operations to the country through a 0% tax rate for a decade to

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<sup>6</sup>More details can be found here: <https://www.thestar.com.my/news/nation/2021/03/13/mcmc-promises-fair-probes-but-doubts-persist>

companies in the manufacturing sector with investments in fixed assets between 300 million ringgit (US\$70 million) and 500 million ringgit (US\$116 million).<sup>7</sup> PRIHATIN PLUS, the second stimulus package, was targeted to small and medium enterprises (SMEs), which constitute about 97% of the total number of business establishments in Malaysia. Some of its benefits specific to SMEs included an income tax rebate of up to RM 20,000 per year for 3 years for newly established SMEs between the 1st of July, 2020 till 31st of December, 2021.

Aside from direct fiscal injections in the form of cash handouts, the majority of assistance given through the stimulus packages include employment-related measures such as the creation and expansion of a wage subsidy program, a reduction in the foreign worker fee for all companies in the country, a moratorium on loans and financing repayments (specifically under PRIHATIN and PEMULIH), increased access to credit and grants for micro-SMEs, as well as the highly controversial move to allow Malaysians with retirement money saved in the national private retirement fund, Kumpulan Wang Simpanan Pekerja (KWSP), to withdraw from their accounts. The KWSP withdrawals were done in stages and through 3 different programs in 2020 and 2021 – i-SINAR, i-LESTARI, and i-CITRA. Each of these 3 programs had their own requirements for withdrawal – such as having been laid off recently by an employer – and were limited to a fixed amount, subject to the remaining savings amount in the KWSP account. The fourth and last series of retirement withdrawals was announced in April 1st, 2022, in which members were allowed to withdraw a maximum amount of RM 10,000 (with a RM 50 minimum) and were allowed to fully deplete their Account 2 savings (i.e. the account that allows for pre-retirement withdrawals in emergency situations such as health crises) before taking money out of their Account 1 savings. KWSP estimated that RM 100.9 billion was withdrawn by 7.3 million KWSP members between April 2020 and February 2022 – which does not include the last tranche of payments that was allowed in April 2022.<sup>8</sup> Given that the Department of Statistics Malaysia (DoSM) estimates that the Malaysian workforce is about 16.30 million persons large<sup>9</sup>, the sheer size of KWSP withdrawals is very worrying, signaling liquidity issues amongst households. This is particularly true when considering that only about half of the formal workforce have accounts with and save with KWSP,

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<sup>7</sup>Please see the following for more details: <https://www.aseanbriefing.com/news/how-malaysias-permai-stimulus-package-benefits-businesses/>

<sup>8</sup>Please see this news article for a summary of additional facts: <https://www.theedgemarkets.com/article/bad-and-ugly-side-allowing-more-epf-account-1-withdrawals>

<sup>9</sup><https://bit.ly/3R8LAMD>

which only serves individuals who work in the private sector – a part of the economy that has traditionally paid the highest.

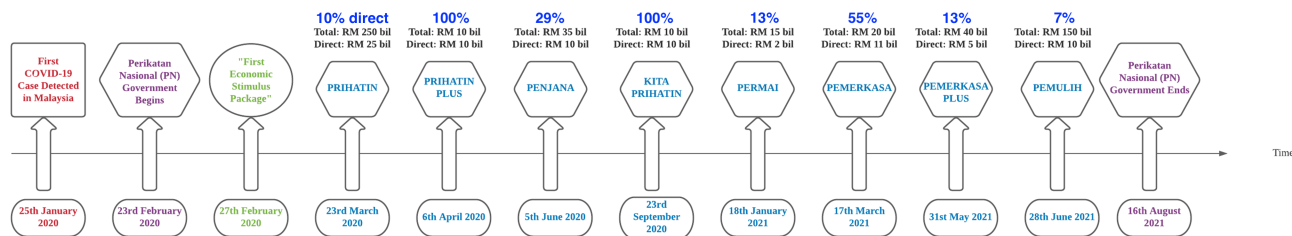


Figure 3. The timeline for the 8 stimulus packages launched by the PN government. Note that the blue text indicates the percentage of the spending that was direct.

It's important to note that aside from federal stimulus packages, other states also extended their own packages for residents. For example, the state of Sabah allocated RM 2 million (approximately USD\$500,000) to a fund designated to bring Sabahan students stranded in Peninsular Malaysia home, and also gave a 6-month rental exemption to public housing tenants, amongst other forms of help. Many states gave discounts or exemptions on public premises to businesses and business licensing.

### 3 Implementation of the Stimulus Packages

Aid in any form is only useful if it is able to reach the intended recipients. During the pandemic, given the physical restrictions imposed on many populations, it became difficult to make sure that those who needed aid from the government the most actually received it. Conventional wisdom from academic dictates that direct cash transfers can be useful in a variety of settings, and are very effective at short-term outcomes such as improving dietary diversity and improving the use of health services, as in (Bastagli et al., 2016). This being said, many individuals could not actually leave their homes to access banking services in order to obtain cash; additionally, access to food for those in rural areas or those under “enhanced lockdowns” who were not allowed to leave their homes at all became a real issue (Nungsari et al., 2022). Malaysia, similar to other developing countries, is also vulnerable to the problem of *elite capture* – a situation where a public good or access to resources are monopolized by an elite few, at the detriment to the rest of society. Thus, concerns of whether or not the aid given in the stimulus packages actually reaches beneficiaries is very valid.

(Nungsari et al, 2022), for example, documented the following difficulties with individuals on the ground who tried to access aid give by the federal government. Three



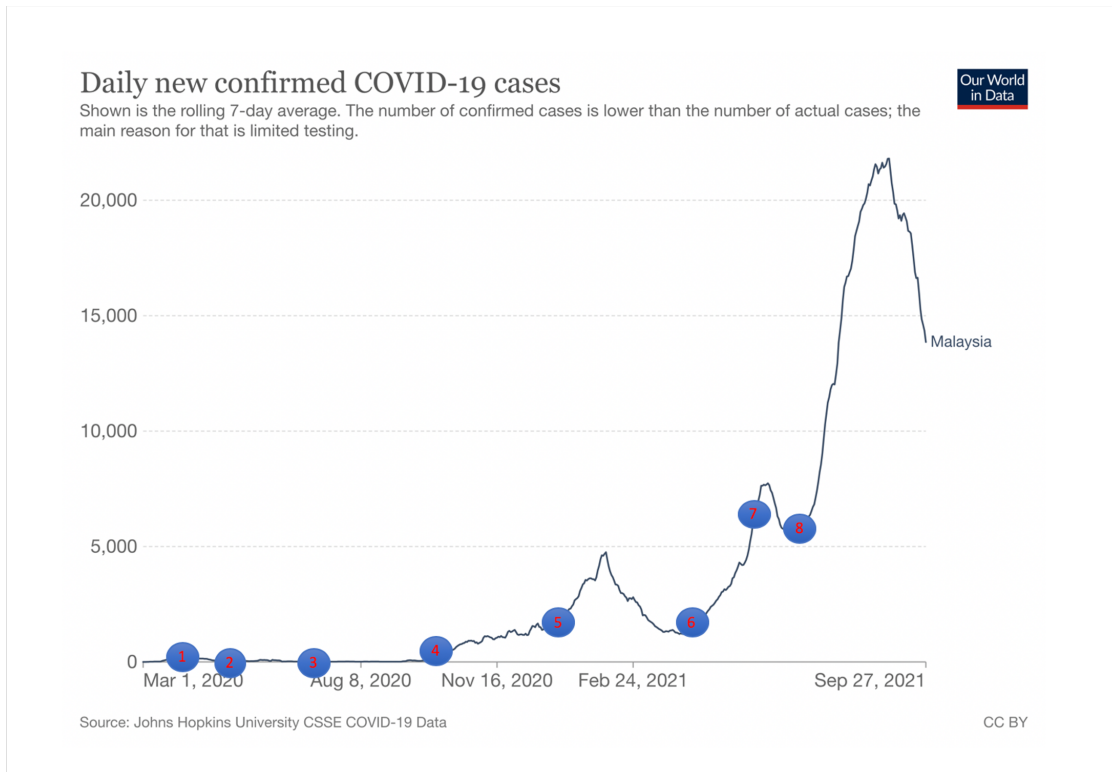


Figure 4. The timing of the release of the stimulus packages coinciding with the COVID-19 waves.

key highlights are as follows. The first is that stateless Malaysians – i.e. individuals who have the legal right to citizenship but for some reason have not been able to access documentation to prove their status – had significant difficulties in accessing aid. The following is a quote from a non-governmental organization (NGO) worker describing their experience trying to get aid to the community they work with:

During the MCO, a few of us we went around to check on people who actually needed help. We thought the government initiatives were very good and encouraging. But those people who are getting these kind of benefits are only Malaysians who have citizenship. So our focus at that time was actually to help the people who do not have citizenship. People who are not even looked upon at by any of these government agencies. Many of them are daily workers and they don't have wages per month. So the employer doesn't pay them if they don't work. But during the period also they couldn't work and a lot of them can't really afford pay for food and things like that. So we saw a lot of these kinds of situation, we saw

a lot of these families who are actually having this kind of difficulty.

The second highlight was that communities in rural areas – such as many indigenous populations in Peninsular Malaysia and Malaysia Borneo – were not able to access aid. The following are two quotes from distinct individuals documenting this fact:

(Quote 1) You know the government cash aid program – they give you 200 ringgit in cash aid, right? So a lot of indigenous people, they didn't manage to get it... They need to pay for things like for the kids' school and all that... [but] because they don't stay in a place where there's any [Internet] reception so they missed the date to register.

(Quote 2) If you remember, the government came up with an aid program of about RM500–1,000, which was a very good program, very helpful, but many indigenous people were not registered... because they don't pay income taxes or they don't work, and so on. So we moved from food distribution to registration [so that they can qualify for cash aid]. The government was giving about 1,000 to one family and we were giving out at most 3,000 per village... The problem is that they are entitled to it but they're not getting it because of all this bureaucracy.

(Nungsari et al. 2022) also documented other issues on the ground that were pertinent to whether or not the stimulus packages reached intended beneficiaries, with unclear government policies and non-cooperation between agencies being reported as a key issue. Putting a large burden on documentation on populations to access aid was also reported, with this being more severe in areas with spotty or no internet connection and access.

Finally, the third highlight surrounding the delivery of aid on the ground was that the reliance of the federal government in partnering with local or state-specific NGOs sometimes caused more difficulties than benefits. For example, members of vulnerable groups criticized the *mechanism* of aid delivery on the ground, stating that aid providers who were given funding by the federal government sometimes cared more about social media appearances and public relations than doing the actual work. The following is a member of a vulnerable group explaining their experience as a beneficiary:

Some NGOs are building NGOs, or they're running NGOs, just to do the charity, or just to do the welfare. And mostly just want this to do one-off programs. There are many popular NGOs, they will have artists, singers as ambassadors ... they will go to the ground and they will sell in their Facebook posts or other social media posts, more on sentiment, more on the sad story of the beneficiaries.... The last time I saw this was during this earlier lockdown, there was one female actor came from Peninsular Malaysia. She distributed the food but in front of the [stateless] people who were begging for food.... So then netizens will say "pity them, they have no food". But if you distribute it properly, if you tell them early, they will come by groups ... according to the time that we gave. We educate them to follow instructions and also to be patient in taking food packs, because they are not animals that we just give food [to] right away. The way some NGOs do this is that they sell stories of marginalized communities, of beneficiaries being unethical, sentiments, sad stories, without uplifting their capabilities.... The other point is they didn't highlight the real issue of why [they] are not getting help from the government or other things – for example, why are they are living on the sea? Because of that, people will see that these particular communities just live on food baskets ... without thinking about how to uplift or how to grow the community by making them more sustainable. It is easier for NGOs to do one-off programs, compared to thinking about one program that can sustain the community.... So I can say they are unethical, because they just come and go, they post sentiments about beneficiaries without highlighting the real issues.... that they are stateless or undocumented. They cannot get education. The people who don't live here don't have a proper idea. We don't get the picture. So that's how I think leads to the judgemental and prejudice parts. Do we Malaysians not take it as an issue that the government has to be responsible for?

#### **4 Impact of Stimulus Packages - Was it Enough?**

A study conducted in April 2020, right after the PRIHATIN stimulus package was released, found that at that time, while a substantial minority of M40 respondents and

a nearly half of B40 respondents<sup>10</sup> reported negative cash-flow due to the crisis, the stimulus policies are able to decrease negative cash-flow rates among our respondents to levels at or below those that persisted before the COVID-19 crisis for the month of April, assuming income and expenditures from March persist (Flanders et al. 2020). Among the minority who still have negative cash-flow, most have enough savings to survive for more than three months; however, a small minority of respondents in our survey were still likely to run out of money in the next few months, especially among the B40. The main policy recommendation from this study was to increase cash transfers to lower-income individuals – i.e. families making RM 4,000 or less and single individuals making RM 2,000 or less – since these targeted transfers were dramatically more effective than transfers to households in any higher income groups.

The findings of this study foreshadowed the significant amount of economic loss and suffering nationally for the next year or so – especially given that the cash transfer program was not expanded in any meaningful way. Specifically, the median household income fell by more than 11% in 2020 – in this same year, the economy contracted by 5.6%. Some 20% of households who earned more than RM 4,840 a month in 2019 fell below that threshold in 2020. The number of poor households rose by more than 50% from 405,400 households in 2019 to 639,800 households in 2020. The incidence of absolute poverty increased from 5.5% to 8.4% in a single year. Median household salaries fell by almost 16% from RM2,442 in 2019 to RM2,062 in 2020. In September 2021, the World Bank revised Malaysia’s GDP growth down to 3.3% in 2021 from the 4.5% prediction made in June 2021, partly due to restrictions on businesses and economic activity that were still in place.

(Lee and Zhang, 2021) also pointed out that Malaysia’s stimulus packages prioritized more experienced workers with very few measures specifically targeting young workers and fresh graduates. Young people in Malaysia truly suffered a significant amount in terms of current wages and income, as well as facing a rather severe decline in human capital investment due to interrupted schooling. Prior to the pandemic, Malaysian youth unemployment was 10.5% in 2019, while June 2021 data showed that youth unemployment rose to about 13.7%. Graduate unemployment also rose to 4.4% in 2020 against 3.9% in 2019, highlighting worries about job-skills mismatches and quality concerns with graduates. The country’s unemployment rate, as of the first quarter of 2022, remained high at 4.1%. Skill-related underemployment of grad-

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<sup>10</sup>In Malaysian public policy lingo, M40 refers to the middle 40% in the national income distribution, while B40 refers to the bottom 40%

uates remains enormous at 1.81 million persons – this includes graduates placed at jobs that do not require their qualifications (i.e. jobs in semi-skilled and low-skilled occupations). 1 in 4 of the Malaysian workforce was self-employed in 2020, which was also hit hard by pandemic restrictions. It’s also important to note that though unemployment overall was on a declining trend, as of the end of 2021, it was still higher than the pre-pandemic period.<sup>11</sup> Another major concern with the current economic situation is inflationary pressures and supply chain issues pushing food prices up, increasing vulnerabilities for households. What is more pressing for Malaysia is the fact that “normal times” policymaking – such as price controls on certain goods, such as chicken and cooking oil – may be limited in its strength in the face of multiple negative supply shocks, such as the unexpected war in Europe and rising energy prices. Many households are still reeling from the effects of multiple lockdowns in 2020 and 2021, and the inability to afford food will exacerbate these concerns.

It should also be said that the Malaysian Ministry of Finance had prioritized minimizing *inclusion errors* from their federal stimulus packages instead of granting a broader net of support and potentially subsidizing subpopulations that do not need it. This narrative can be summarized through the following quote by the Malaysian Minister of Finance (MOF), Tengku Zafrul Aziz, in the 83rd MOF LAKSANA Report, which are reports released by the ministry on updates surrounding the programs and support that they provide citizens:<sup>12</sup>

Bila berbicara tentang hasil, perkara yang sama penting adalah cara hasil itu dibelanjakan. Jadi, subsidi bersasar juga satu aspek yang perlu diberi penekakan. Sebagai contoh, subsidi petrol RON95 dinikmati oleh semua golongan, tidak kira sama ada B40 atau T20. Kajian Khazanah Research Institute pada 2014 mendapati 80% subsidi sebenarnya diterima oleh orang berpendapatan tinggi. Bayangkan jika subsidi ini dapat dilaksanakan dengan bersasar, penjimatan tersebut boleh dibelanjakan untuk memperkasa B40 dan PKS mikro, atau mana-mana inisiatif pembangun sosioekonomi rakyat yang lain.

(Translation) When we talk about income, a similarly important issue is how it is spent. So, targeted subsidies is something we need to focus on. For example, RON95 petrol subsidies are enjoyed by everyone,

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<sup>11</sup>All data were obtained from Department of Statistics, Malaysia (DoSM).

<sup>12</sup><https://www.mof.gov.my/portal/pdf/laporan-laksana/laksana-83/>

whether or not you are B40 or T20. Research done by Khazanah Research Institute in 2014 found that 80% of subsidies are actually received by high-income individuals. Imagine if these subsidies could be executed in a targeted manner – these savings would be used to uplift poor people and micro-businesses, or channelled to any other initiatives to develop citizens’ socioeconomic development.

In the following subsections, we further analyze and take a look at the following topics: the wage subsidy program, which was a key focus on multiple federal stimulus packages throughout the pandemic, structural labor market issues related to skill-related underemployment that were present prior to (and exacerbated by) COVID-19, schooling disruptions and potential long-term economic impacts, and the impact of skills-based training programs that were a part of the federal stimulus packages.

#### **4.1 A Look at the Wage Subsidy Programs and Unemployment**

As mentioned in a previous section, many iterations of the federal stimulus packages involved wage subsidy programs. In total, there were 5 wage subsidy programs – i.e. “Program Subsidi Upah 1.0, 2.0, 3.0, 4.0, 5.0” - and were executed as part of the PRIHATIN, KITA PRIHATIN, PERMAI, PEMERKASA, and PEMERKASA PLUS packages. The wage subsidy programs involved financial support paid to employers for each Malaysian citizen employee earning RM4,000 and below. Subsidies of up to RM1,200 a month were given for a maximum total of 6 months to help employers retain workers. Certain wage subsidy programs targeted specific sectors affected by the pandemic. For example, Program Subsidi Upah 3.0 targeted services related to the tourism sector. The Ministry of Finance reported that a total of RM20.177 billion was disbursed through the wage subsidy program to 357,468 employers to retain 2,952,064 local workers.<sup>13</sup>

It is impossible to observe the counterfactual to the wage subsidy program to measure how employment would have been affected in the absence of the program. This being said, the main economic indicator for the success of this program would be unemployment rates throughout the pandemic, particularly at the beginning of 2022, when the country started relaxing all restrictions on all economic sectors. According to Department Statistics Malaysia, Malaysia entered the pandemic in February 2020 with a labor force that was 15.860 million large. Throughout the pandemic, the labor

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<sup>13</sup><https://www.mof.gov.my/portal/pdf/laporan-laksana/laksana-83/>

force monotonically increased, reaching 16.44 million in March 2022. This would mean that approximately 17.9% to 18.6% of the labor force was impacted by the wage subsidy program.

This being said, the unemployment rates in Malaysia have remained persistently high throughout the pandemic. Malaysia entered the pandemic with an unemployment rate of 3.3% in February 2020, which rose to 5.3% in May 2020. Though decreasing throughout the pandemic, the unemployment rates stayed mostly above 4.5% up till the most recent measurement for April 2022, which recorded an unemployment rate of 3.9% – the lowest since the first wave of the COVID-19 disease spread.<sup>14</sup> Thus, it would be logical to conclude that although the wage subsidy program itself reached almost 1 in 5 workers in Malaysia, it appears that it should have been expanded to help cushion unemployment throughout the pandemic. It is, however, unclear that whether or not a higher wage threshold should have been imposed to include more employers, or that the subsidies themselves should have been increased for each worker.

## 4.2 Skill-Related Underemployment: A Pre-Existing Structural Problem

A key observation on the Malaysian labor market is that the incidence of skill-related underemployment within the economy, defined as employment of graduates in low and medium-skilled jobs, was high even before the pandemic. Between the first quarter of 2017 and the fourth quarter of 2019, an average of 32.7% of total employ persons – roughly 1.4 million individuals – experience skill-related underemployment. In the third quarter of 2020, skill-related underemployment rose to 36.8% of total employed persons within the quarter. This indicator remained persistently highly throughout the pandemic, with the latest measurement (first quarter of 2022) being that 36.9% of individuals experienced skill-related underemployment. As the country struggles to remain competitive internationally with attracting foreign investment, retaining talent domestically, and with creating high-skilled jobs in the country, this remains an structural problem that has a long history in the economy but remains unresolved.

Skill-related underemployment was also not explicitly addressed through any of the stimulus packages and is likely going to remain unaddressed for the foreseeable future as it requires structural changes that may be beyond the ability of a myopic government awaiting federal elections. All of the programs and aid distributed

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<sup>14</sup>Data is from Department of Statistics Malaysia. Also, see: <https://www.theedgemarkets.com/article/dosm-malaysias-unemployment-rate-dips-below-4-first-time-covid19-outbreak>

through the federal stimulus packages were meant as short-term measures and were not intended to address much-needed reforms to the economy.

### 4.3 Schooling Disruptions and Translations to Worse Economic Outcomes

Malaysia’s very significant length of school closures and disruptions also raises red flags for possible worsening economic outcomes for its workforce. Although evidence is still being gathered, economists have started to explore the long-term impacts of school closures on economic outcomes by looking at past pandemics. (Ager et al. 2020) found that, by studying the 1918-1919 influenza pandemic, that there were no effects of school closures on adult educational attainment, wage income, non-wage income, and hours worked in 1940 (i.e. more than a decade later). This being said, they caution against interpreting these results in the context of COVID-19, stating that the situation back then was very different (and possibly more favorable), due to the following facts:

1. schools were closed in 1918 for many fewer days on average compared to American rates in 2020 – and far fewer than in Malaysia
2. the 1918 virus was deadlier than COVID-19 to adolescents and children, which meant that absenteeism was high even in schools that were kept open
3. the lack of effective remote learning platforms in 1918 may have created a socioeconomic “leveling” effect in that all families, rich or not, were not able to do this effectively

Using data across 174 countries, the World Bank found that the present value lifetime earnings lost for a typical student was between \$6,680 and \$32,397 (Azevedo et al. 2021). Globally, this would mean that a “school shutdown of 5 months could generate learning losses that have a present value of \$10 trillion.” For a point of comparison, Malaysia had significantly more than 5 months of learning disruptions, which is concerning. The authors also point out that this disruption in schooling could potentially set the world back in our joint of goal of reducing poverty across the globe. Finally, as an upper-middle income country, Malaysian schoolchildren are also more vulnerable compared to their peers in richer countries (Psacharopoulos et al., 2020), with children from poorer backgrounds being more susceptible to learning and economic losses. This is true even assuming very conservative assumptions about



the quality of remote learning – i.e., that closures only last 4 months and that school quality while learning online is not affected.

#### 4.4 Training Programs – Worth it?

Finally, we consider the fact that a bulk of programs through the federal stimulus packages involve training programs, such as the “Professional Training and Education for Growing Entrepreneurs (PROTEGÉ)” program, in which participants are given business training and classes to help them professionalize their small businesses.<sup>15</sup>, and the “Ready-To-Work” program, where more than 9,000 university graduates were given professional training and placements with government-linked-companies (GLCs) in the country. Since the returns to any sort of human capital training typically take a significant amount of time to bear impact for participants, a main point of criticism against these programs would be that it does not address acute problems with accessing economic opportunities and can even waste the time of participants with training that may not help in improving their economic outcomes (Nungsari et al., 2022). Due to lack of data provided on impact measurements of these training programs, an assessment of whether or not they constituted a fruitful spending through the federal stimulus programs cannot be made. This being said, given the long-term nature of assessing any meaningful impact of human capital development programs, expanding the wage subsidy program to help cushion individuals against losing their jobs would have objectively been a better policy response.

## 5 Conclusion

The economic scarring the Malaysia has faced due to the pandemic is deep and significant. Some portion of the economic trauma inflicted by the spread of the virus was in fact *caused* by policymaking by an ineffective government – and so, hoping that policymaking will be able to resolve what it itself has caused seems a bit of a lost cause. It is clear from headline economic indicators that recovery has been painfully slow in the country. This, coupled with the highly uncertain political situation, means that recovery will continue to be sedate. There are also a number of long-term issues that are very troubling. The first is the fact that Malaysian schoolchildren were out of physical classrooms for the majority of 2020 and 2021, which could possibly translate to longer-term negative economic outcomes. The second is concerns surrounding the

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<sup>15</sup><https://www.mof.gov.my/portal/pdf/laporan-laksana/laporan-100/>

ability of individuals to retire, particularly older-aged individuals who significantly drew down from their KWSP savings as part of the stimulus package announcements. Labor shortages in the country and a reliance on increasingly reluctant neighbors for sources of cheap labor will continue to harm the Malaysian economy.

One of the few benefits that the pandemic brought was forced digitalization across the nation and an increase in demand for services through digital platforms. The Malaysian Investment Development Authority reported in late 2021 that the pandemic had accelerated business digitalization by 3-4 years.<sup>16</sup> Though none of the stimulus packages addressed digitalization specifically, it was born out of the need to stay home and away from the public. Plugging more businesses into the digital space and getting the workforce used to working digitally could potentially be a door to the “high-value jobs” that Malaysia has always searched for, being trapped in its upper middle income bracket. This being said, a significant amount of policymaking and most importantly, political will, will be needed to push the economy to being more productive along these lines. It remains to be seen whether the country will see such leadership in the indefinite future.

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<sup>16</sup>Please see this link for more information: <https://www.mida.gov.my/mida-news/digitalisation-during-the-pandemic-a-force-for-organisational-change-and-talent-development/>

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