

Edited by  
Alizan Mahadi • Lee Min Hui

**WHERE DO WE GO  
WORK-WISE?  
MALAYSIA'S  
LABOUR  
LANDSCAPE**





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# Foreword



In just three years, Covid-19 dramatically transformed the way Malaysians lived and worked. The pandemic triggered economic shocks that upended simultaneously entire economies and unravelled the livelihoods of many.

The Malaysian labour market was not spared from the tectonic shifts catalysed by the pandemic. It exposed gaps in employment safety and disruptions to jobs that have not been felt equally across society. The pandemic also highlighted the acceleration of technological trends in the workplace. Combined with the Fourth Industrial Revolution (4IR), these shifts are transforming the future of work, with major implications for policymaking and development.

Having weathered this journey, Malaysia stands at an opportune time to harness the lessons from the pandemic, not only to rebuild, but to ensure that we build back better. We should seize these currents of change to build inclusivity, resilience and adaptability into the labour market.

Talent Corporation Malaysia or TalentCorp, an agency under the Ministry of Human Resources, has long invested in this vision by laying the building blocks for the future of the workplace through strong collaborations with employers, regulators and institutions of higher learning. Since its

establishment in 2011, TalentCorp's objective has remained steadfast: to optimise Malaysian talent, facilitate global talent and build networks of top talents to strengthen the availability, competency and output of Malaysia's workforce.

Leveraging on the relationship with the Institute of Strategic & International Studies (ISIS) Malaysia, one of the country's oldest think-tanks, this book aims to become a key resource for policymakers, researchers and the business community.

*Where do we go workwise? Malaysia's labour landscape* puts forth a central question on the future and direction of the labour market, signalling the path ahead. Featuring some of the country's leading policy researchers and thinkers, the publication takes a retrospective view of Covid-19 to discuss its implications for the endemic era.

By analysing the labour trends arising from the pandemic, the authors chart pathways towards creating a sustainable ecosystem on labour market reforms. It discusses all the key aspects of the labour market, including wage reform, quality jobs, informal work, social protection, women's work and care duties, skills-based hiring and digitalisation, and the effect of climate change on jobs.

At the crux of it, this book aims to provide a wide-ranging, nuanced and multidisciplinary analyses of the state of the labour market. It is my hope that the policy recommendations here become a critical point of reference to drive evidence-based policymaking and foster a more inclusive and resilient labour market for all in line with Malaysia Madani.

I take this opportunity to express my heartiest congratulations to TalentCorp, ISIS Malaysia and all contributors on their efforts towards producing an outstanding publication.

**YB Tuan V. Sivakumar**

Minister of Human Resources

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# 1 Introduction

Alizan Mahadi & Lee Min Hui

When Covid-19 first struck, large swathes of jobs and workers reeled from the impact of the economic and health shocks that trailed in its wake. In the process, it also accelerated the path towards the future of work – now a portent of disruptions looming on the horizon. But like all disruptions in the past, not all jobs were equally impacted, with certain forms of employment, skills and sectors left at a bigger disadvantage than others.

In this regard, labour intensity, level of skills and informality<sup>1</sup> were the key factors that shaped the extent to which workers were affected. Like the rest of the world, Malaysia's most vulnerable workers were left exposed to the worst of the pandemic, suffering the brunt of both job losses and health hazards, which deepened socioeconomic inequality. Yet, the inequality of the Covid-19 crisis highlights the need for a re-evaluation of how our labour markets work and raises the question of how we can develop a fairer world of work.

Even as we return to “normality”, revisiting the lessons of Covid-19 is far from superfluous. The pandemic profoundly reshaped the ways we live, work and learn – necessitating new strategies to navigate the labour market challenges of tomorrow. The future of work will require careful understanding of the new contours of the labour market and how workers, employers, policymakers and governments play a role in the reshaping.

This book aims to capture that spirit by charting both an analytical overview of the Covid-19 disruptions and outlining the path ahead. By bringing together experts from both local and international research organisations, these chapters represent multi-disciplinary approaches to provide an overarching narrative on the labour market for the endemic era. Written in October 2022, this book aims to provide nuanced analyses of the pandemic's disruptions and crucial lessons learned for the future of work.

By first analysing the state of the labour market and the institutions that shape it, this book maps pathways towards strengthening wages, jobs, working conditions and social protection in Malaysia – questions the country has long grappled with in its quest for economic growth – as the key fundamentals for recovering from the pandemic. Amid this, we undertake a review of the short- and long-term impacts of the pandemic on the economy, and what the implications are for an overarching labour market policy to build back better. It moves on to identify specific worker groups who exist at the margins of the labour market or who remain most vulnerable to the onslaught of crises and economic shocks, such as informal workers and women. Here, we consider their plight in and beyond the pandemic to establish the foundations for a more inclusive world of work. Finally, we consider future trends for the labour market through transformational shifts in hiring, digitalisation and the green economy. Even as technological advancements and climate change pose a functional threat to labour markets, these shifts, if well harnessed, also present opportunities for growth.

In the first chapter on *Decent work, wage growth as national objective*, **Lee Hwok-Aun** and **Kevin Zhang** of **ISEAS-Yusof Ishak Institute** review Malaysia's labour standards, detailing its transition out of a low-wage regime through the long-awaited introduction of a minimum wage in 2013. This represented a significant step towards achieving decent work in the country. But the effects of Covid-19 have been drastic, wiping out at least a few years of wage growth for low-wage workers, while exposing the country's pervasive low-wage issues and inadequate labour institutions. The authors argue that minimum wage, in itself, while safeguarding the well-being of low-wage workers, has its limits. The authors critically

consider the issue of a living wage as a concept that aligns more closely to the ideals of “decent work”. Policy solutions thus require a focus on unemployment assistance and job protection, wage growth and improving work and living conditions for all workers, including migrants.

In *Post-Covid-19 recovery and quest for ‘good jobs’*, author **Calvin Cheng** from **ISIS Malaysia** delves deeper into the complexities of this issue. The chapter discusses the structural inequalities that have widened as a result of the pandemic and how, if left unchecked, will pose long-term consequences for economic development, social mobility and socio-political stability. Within this, the author shows how the demographics most affected were younger, lesser educated and women. An equitable and inclusive recovery requires the incentivisation of “good jobs” – essentially those that ensure individuals earn a middle-class living wage while enjoying employment stability and protections. But the risk lies in leaving the market to its own devices when it comes to creating such jobs. Future labour market policies can buttress Malaysia’s quest for good jobs by implementing two key pillars: safeguarding the welfare of workers and building resilience against crises while supporting the longer-term development of workers and creating opportunities.

**Amanina Abdur Rahman** and **Alyssa Jasmin** of the **World Bank** explore the impacts of the pandemic on informal workers who, due to their exclusion from employment-related protection, were rendered more economically vulnerable than formal workers. In *The changing nature of work: an overview of informal employment in Malaysia*, the authors provide a foundational look at the trends in informal employment and employment characteristics: likely youth or older workers and those who are less highly educated. In a bid to support their protection and productivity, Malaysia has taken significant strides towards developing policies and programmes for the informally employed through the Socso and Employees Provident Fund (EPF) schemes. They argue what lies ahead is a need for new approaches to be explored to improve individual-based protection. The dominant association of informal employment with gig work also runs the risk of excluding “traditional” informal workers in agriculture, forestry and fishery. Finally, the authors contend that informal workers are a heterogenous group and reflecting that nuance

in the design of subsequent policies and social protection programmes is vital to the plight of informal workers.

Across the board, women workers have also stood out as particularly vulnerable to the impacts of Covid-19 – a fact that is heavily emphasised throughout this volume. In *Centring women's work and care at core of recovery*, authors **Lee Min Hui** and **Sofea Azahar** of **ISIS Malaysia** look deeper into the “she-cession” catalysed by economic shocks during Covid-19. The pandemic disproportionately affected women, who experienced more negative labour impacts and whose recovery in the endemic phase has been considerably slower. Locating the source of inequality in the burden of care shouldered by women across households, the chapter delves into the necessity of a care-centred approach in policymaking. But existing labour laws, such as the Employment Act 1955, are unlikely to bring about such change and undermined by implementation challenges. By further juxtaposing the care policy packages across Asia, policies like maternity and paternity leave, shared parental leave and childcare support are vital for the formation of a gender-responsive and family-friendly labour future for workers.

Beyond that, one of the biggest changes wrought on the world of work has been the transition to hybrid and flexible work. In the chapter on *Prepping the nation for skills-based hiring*, **Nurul Izzati Kamarulbahri** and **Mohd Ikhwan Abdullah** of **TalentCorp Malaysia** suggest that where educational degrees used to be a proxy to guarantee employment, there has since been a shift towards skills-based hiring – what many deem a “structural reset” accelerated by the pandemic. The chapter provides a brief look into the skills employers now seek amid shifts in technological currents. The result is a demand for more hybrid competencies, such as a balance between higher cognitive and socioemotional skills with technical skills. In the context of Malaysia, however, these hiring trends are a double-edged sword. While it could equalise the playing field for the country’s “lost generation” – young people badly affected by education gaps during the pandemic – it risks confining qualified graduates into underemployment or informal work. Future policies will need to set conditions for better skills-based hiring through education, training and



development programmes, stronger commitments to lifelong learning, and rethinking remuneration levels for employees.

Finally, **Ahmad Afandi** of **ISIS Malaysia** and **Darshan Joshi** of **The Asia Foundation** and **World Bank** identify opportunities for green jobs in light of Covid-19 in *Putting environment and climate action at heart of job creation and security*. The pandemic has revealed the link between climate risks and the rise of zoonotic diseases, highlighting the ways in which planetary boundaries have been crossed through ecosystem exploitation, agricultural intensification and climate change, which combined are now affecting human health on a grand scale. In its wake, it also stalled progress towards achieving the United Nations Sustainable Development Goals (SDGs) even as Malaysia has exhibited an encouraging reorientation towards risk-based thinking and focus on green growth in recent years. The authors further emphasise the role of jobs driven by the green economy, sustainability and environmental, social and governance (ESG) agenda as a key solution to building back better. Finally, they argue that a climate and environmental lens is an important aspect of labour policies to achieve the twin goals of job creation and worker protection.

It is a pivotal time for Malaysia's labour landscape. The opportunity to reshape it to be safer and more inclusive to thrive in the endemic era is now. Indeed, it is no small task – requiring evidence-based policymaking, and cross-cutting and sustained collaboration across labour market institutions, employers, worker groups and policymakers. But the lessons from the pandemic offer strategic direction for the future – one that factors in resilience, equitability and inclusivity.

## Note

<sup>1</sup> Park, C. Y., & Inocencio, A. M. (2020). *Covid-19, technology, and polarizing jobs* [ABD Briefs No. 147]. <https://www.adb.org/sites/default/files/publication/623036/covid-19-technology-polarizing-jobs.pdf>



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## 2 Decent work, wage growth as national objective

Lee Hwok-Aun & Kevin Zhang

Malaysia aspires to be an economy that generates good and well-paying jobs, which would foster workers' wellbeing, social protection and economic security. Decent work, as defined by International Labour Organisation (ILO, 2014), is work that is “productive and delivers a *fair income*, security in the workplace and *social protection* for families”, provides for “personal development and social integration” and “*equality of opportunity and treatment for all*” (italics added). Although the term tends to be referenced in a passing manner in Malaysia's policy discourses, there is tripartite consensus to pursue it as a national objective, firmed up by recent legislative and policy developments.

The shift towards decent work is an encouraging sign, a stark contrast to the low-wage regime, which the government pursued in preceding decades. The outbreak of Covid-19 dealt a serious blow towards achieving decent work, as mobility restrictions in both the domestic and global sphere triggered an economic downturn. The pandemic also exposed Malaysia's low-wage problem and inadequate labour institutions. In addition to the economic and public health crises, the country experienced unprecedented political volatility since 2020 with four prime ministers. A silver lining amid the political flux is that both the government and opposition agree on the importance of tackling low wages while improving workers' conditions.

The pandemic revealed the government's capability to provide a basic level of job protection and economic relief. Unemployment increased but did not spike in 2020 during the first and most restrictive movement-control order (MCO). Nonetheless, wages fell significantly in 2020 and the latest data indicate that median income remains below pre-pandemic levels for certain age groups. The Covid-induced recession had also put a pause on initiatives to improve worker protection and labour market institutions. Fortunately, with the economic reopening since 2021, there is a renewed emphasis on this front, as illustrated in the substantial increase in minimum wage in 2022. The concurrent pursuits of decent work and a high-wage economy will be crucial in the years to come.

This chapter provides an overview of Malaysia's efforts to foster decent work, assessment of the impacts of the Covid-induced recession and discussion of pertinent legislative and policy shifts in the post-Covid period. The minimum wage was raised in 2022 but the reversion to a single national rate limits the scope of this policy instrument to redress the problem of low salaries, especially for fresh graduates. The Employment Act amendments and proposed legislation for 2023 mark progressive steps towards better work conditions and work-life balance, such as lower hours, extended maternity and paternity leave, flexible options and regulations against forced labour and discrimination. These initial steps must be built upon, with decent work as the guiding principle. Breaking out of a low-wage regime will need continual progress to transition the economy towards quality jobs, good work conditions and high worker productivity.

Decent work encompasses multiple dimensions. This chapter will focus our Covid-19 impact assessment on unemployment assistance, job protection, wage growth, and workplace and living conditions that particularly affect migrant workers.<sup>1</sup> We will also focus on minimum wage as a primary wage-raising instrument while discussing policy implications more broadly, especially in light of contemporary and broad-ranging legislative changes.

## **1.0 Recent developments and gaps**

For much of its history, labour standards and practices in Malaysia have lagged international norms and the achievements of relevant comparators, such as upper-middle-income economies and regional neighbours. Cleaving to an industrialisation and growth model driven by foreign direct investment, low wages and weak labour regulations, the country has persistently resisted progressive change aligned with international standards. As an established upper-middle-income country, Malaysia resisted minimum wage until 2013, many years after lower-middle-income neighbours, such as Indonesia and Cambodia, had legislated wage floors. On matters, such as work hours, anti-discrimination measures, unemployment benefits and trade union formation, Malaysia continuously conceded to ideological opposition to such developments or to fears of losing “investor confidence”. The country adopted a supply-side strategy in numerous attempts to develop a skilled resident workforce while allowing substantial inflows of predominantly low-skilled foreign migrant labour. Consequently, work conditions and wages are largely left to market “self-regulation”.

However, the 2010s began to witness firmer moves towards improving the quality of work and wages. Malaysia had gained some disrepute internationally for human trafficking and forced labour. On the home front, the persisting hardships of lower-income households, generically termed the B40 (bottom 40%), began to receive mainstream attention, while the aspiration for high-income status grew increasingly dissonant against the prevalence of low-paying jobs and poor worker protection (NEAC, 2010; Economic Planning Unit, 2010).

External and domestic pressures compelled Malaysia to address the inadequate state of its labour market institutions. Articulations along the lines of decent work largely surfaced in the context of Malaysia’s engagement with international agencies and the United Nations Sustainable Development Goals (SDGs). In 2019, the government signed a tripartite memorandum of understanding with the Malaysian Employers Federation and Malaysian Trades Union Congress, with guidance of the ILO. The Decent Work Country Programme (DWCP) 2019-2025 aligns with

SDG 8, which strives to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”, and hinges on three priorities: (1) rights at work – promoting rights at work; (2) future of work – strengthening national capacities to meet the needs of current and future work; (3) labour migration – strengthening labour migration governance (ILO, 2020).<sup>2</sup>

Policy pronouncements in the 12th Malaysia Plan (12MP) 2021-2025 support decent work, albeit obscurely. Chapter 10, entitled “Developing Future Talent” and echoing the 17 SDGs, outlines Malaysia's 2030 Agenda which commits to eradicating hardcore poverty; building a peaceful, just and inclusive society; creating conditions for sustainable, inclusive and sustained economic growth; *providing decent work for all*; ensuring protection of the environment and natural resources; as well as promoting shared prosperity (Malaysia, 2021: 1-4, italics added). Another mention of the term applies to a specific sector – 12MP specifies “decent work for gig workers” as a policy objective.

Interestingly, “Review of Labour Laws” constituted a major achievement under the 11MP for its contributions to “improving labour efficiency and productivity”. However, the 12MP omits projections of further advancements in labour laws (Malaysia, 2021). The 12MP also only makes passing mention of forced labour and trafficking in persons – despite the potentially consequential National Action Plan on Forced Labour (NAPFL) 2021-2025 and third National Action Plan on Anti-Trafficking in Persons 2021-2025 (NAPTIP 3.0). Overall, decent work remains in the policy framework – but is not ascribed importance and coordinated action.

In the past decade, Malaysia has implemented several landmark legislations to advance decent work, with the introduction of minimum wage as arguably the most salient initiative. The passage of the National Wages Consultative Council Act 2011 established the process for minimum wage setting and enforcement. Following deliberations and consultation, the inaugural minimum wage rates were gazetted in 2013, but in practice took effect in 2014 after a grace period for many employers. A few other major developments pertinent to decent work transpired later that decade. While Malaysia has maintained regulations regarding

employers' compensation for retrenched workers, the unemployed have lacked government-funded or mandatory insurance that covers income loss and assists with job search. Between 2018 and 2019, the two-phase Employment Insurance System (EIS) began operations – a breakthrough that filled these distinct gaps.

Some of the significant developments have involved the extension of social protection or basic provisions for migrant workers and the self-employed. In 2019, the Social Security Organisation (Socso) was amended to mandate provision for non-citizens. In addition, its employment injury scheme extended to self-employed and gig workers who were hitherto excluded, given their non-employee status. The Employees' Minimum Standards of Housing, Accommodations and Amenities Act 1990 (previously named Workers' Minimum Standards of Housing and Amenities Act) was amended in 2019 to enhance regulatory efficacy, chiefly by requiring employers who provide housing to obtain a certificate for accommodation. The timing of these new developments, followed soon after by the pandemic, posed implementation and compliance challenges, although the recession also underscored the importance of these reinforcements to decent work objectives.

## **2.0 Covid-19 mobility restrictions: impact on jobs, wages and workers' lives**

The repeated rounds of MCOs, border closure and restrictions on production capacity and commerce placed immense stress on the economy's capacity to retain jobs and sustain wage growth and decent work. Malaysia's gross domestic product plummeted by 17% in the second quarter of 2020. The adverse consequences of these measures were most acute in the labour market.

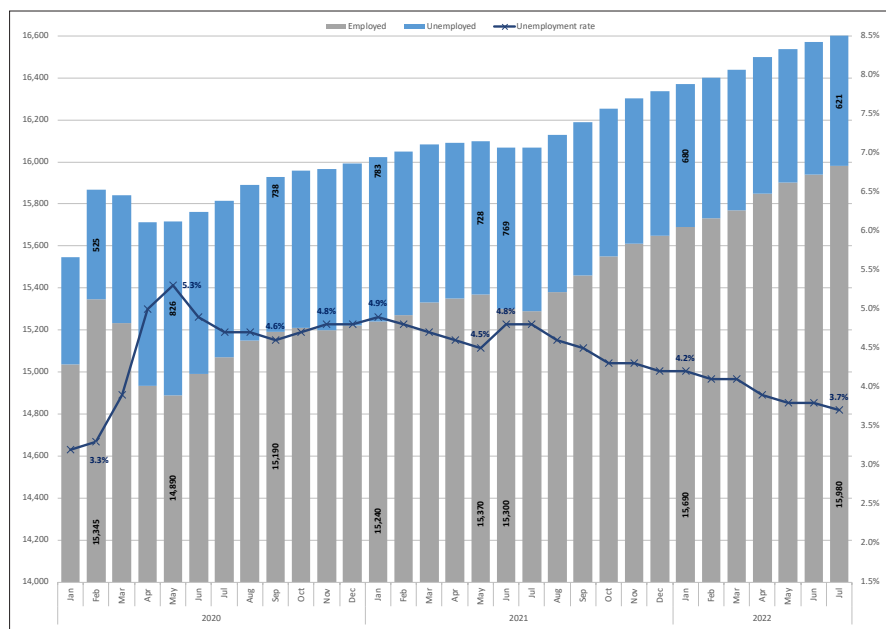
### **2.1 Job loss and employment vulnerability**

The first and severest MCO expectedly displaced workers (figure 2.1). Based on the labour force survey, the number of unemployed rose from 525,000 to 826,000, translating into a 2% rise in the unemployment rate within three months, from 3.3% in February to 5.3% in May 2020. This

is steep by the standards of Malaysia's sustained low unemployment baseline and the slight percentage increase during previous crises. The Asian financial crisis caused unemployment to rise from 2.5% to 3.2% in 1997-1998 while the global financial crisis triggered a slight increase from 3.3% to 3.7% in 2008-2009.

Job-protection measures in 2020, implemented to mitigate the unprecedented scope of economic shutdown, undoubtedly pre-empted an even higher surge in unemployment. The magnitude of 2020s economic woes should not be understated. There is also the likelihood of undercounting the unemployed in the labour force survey principally due to the non-sampling of workers' dorms and worksites, where many construction and plantation workers reside. If retrenched migrant workers had remained in Malaysia instead of being repatriated, the unemployment rate would most likely be higher.

**Figure 2.1: Labour market impact of Covid-19 and MCOs: monthly number of unemployed and unemployment rate (Jan 2020 to Jul 2022)**



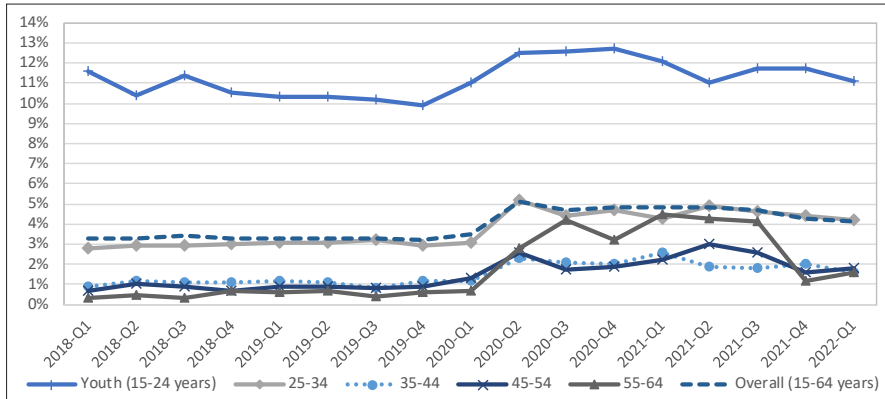
Source: DOSM labour force reports  
 Note: Labour force = employed + unemployed



The age distribution of unemployment has consistently been a policy priority, particularly the high unemployment rate of youth (15-24 years, as conventionally defined). We should note that youth unemployment is higher than that of older adults in almost all countries, primarily due to frictional unemployment of new job entrants seeking work and higher rate of transition between jobs of the young labour force. The ratio between youth unemployment and national unemployment rate is relatively high, a similar trend to Asian countries with low overall unemployment rates (Lee, 2020). Youth unemployment rate rose at a faster pace than the national rate despite the already higher baseline – unemployment for 15-24-year-olds rose from 9.9% in the fourth quarter of 2019 to 12.6% in the third quarter of 2020 (figure 2.2).

The higher unemployment rate for youth throughout the MCO garnered the bulk of attention. However, older workers were also hard hit. Unemployment among 55-64-year-olds climbed from 0.6% to 4.2% from 2019Q4 to 2020Q3. Unemployment among all age brackets declined from late 2020, including senior workers, but youth unemployment appeared to have recovered more slowly. The underlying data are unavailable, but one plausible interpretation is a substantial return to the labour force of seniors seeking work to cope with the pandemic-induced recession.

**Figure 2.2: Quarterly unemployment rate by age group (2018Q1 to 2022Q1)**

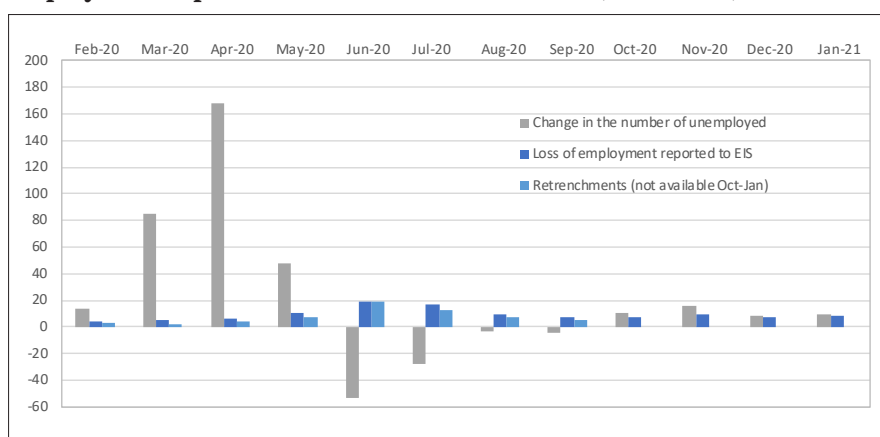


Source: DOSM labour market review (various issues)

Two main institutions were created to assist with job loss or business stress situations: EIS, which assists the unemployed with income and job search, and wage subsidy by supporting businesses or self-employed on condition that wage levels were retained. EIS, which inaugurated operations in January 2018, was most timely. However, EIS data – specifically, the loss of employment (LOE) registered to claim the unemployment benefit – suggested under-utilisation by the unemployed. By February 2020, at the onset of the pandemic, there were 6.24 million EIS contributors, slightly fewer than the total 7.08 million Socso contributors. As shown in figure 2.3, the change in number of unemployed greatly exceeded reported LOEs in March-May 2020. It is possible that most of the jobs displaced at the start of pandemic were workers who lacked formal social protection and hence did not qualify for EIS.

The wage subsidy was initiated soon after the first MCO, with the principal objective of averting job and income loss through the government paying a portion of employees' wages on the condition that employers did not cut wages. The wage subsidy, since it was available to the self-employed and entities not formally in Socso's registry, might possibly have averted more job losses in April-May if it was availed simultaneously when MCO was announced. Of course, that is not a realistic expectation – in fact, the

**Figure 2.3: Monthly change in the number of unemployed, loss of employment reported to EIS and retrenchments (thousands)**



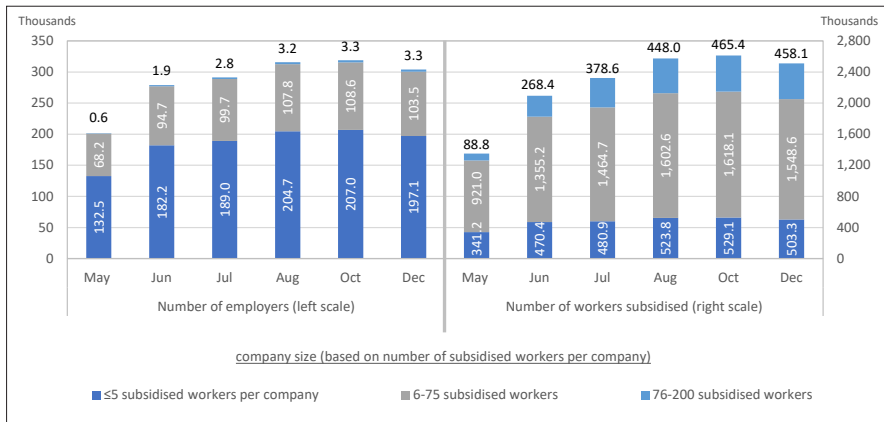
Source: Authors' compilations from DOSM monthly labour force reports, EIS reports and Yasmin & Munira (2021)

wage subsidy was commendably rolled out within weeks. Nevertheless, the experience offers lessons for policy design – such as database maintenance for immediate rollout, and the adequacy of the fixed amount of subsidy instead of being proportionate to salary.

The labour market was undoubtedly impacted in ways not captured by the data. There is indication of a lagged effect. The number of LOE rose in June-July 2020 after the height of the MCO, possibly due to businesses struggling to cope with the continuing restrictions after the period of strict national lockdown. We can observe that by late 2020, new LOEs and the increase in the unemployed became more closely aligned. Retrenchment figures, reflecting job loss that goes through formal procedures, offer further insight. For May-July 2020, the period of high LOEs, the number of retrenched workers moved in tandem. These patterns provided some preliminary indication that workers formally retrenched may be more likely to claim EIS benefits.

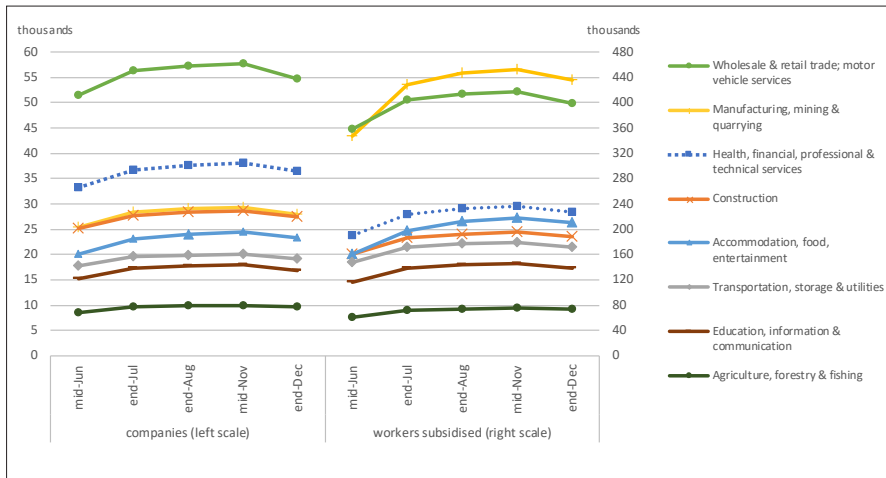
The capacity of micro and small businesses to cope with lockdowns was a major concern. Wage-subsidy claims confirm that need for such support was inversely proportional to scale of business: companies claiming five or fewer subsidised employees accounted for the majority of *total claimants* (figure 2.4). Larger companies accounted for a greater

**Figure 2.4: Wage subsidy in 2020: number of subsidised employers and workers**



Source: Data extracted by the authors from the full list of wage-subsidy recipients (published in 2020-2021 through <https://prihatin.perkeso.gov.my/>)<sup>6</sup>

**Figure 2.5: Wage subsidy in 2020: number of subsidised companies and workers (by industry)**



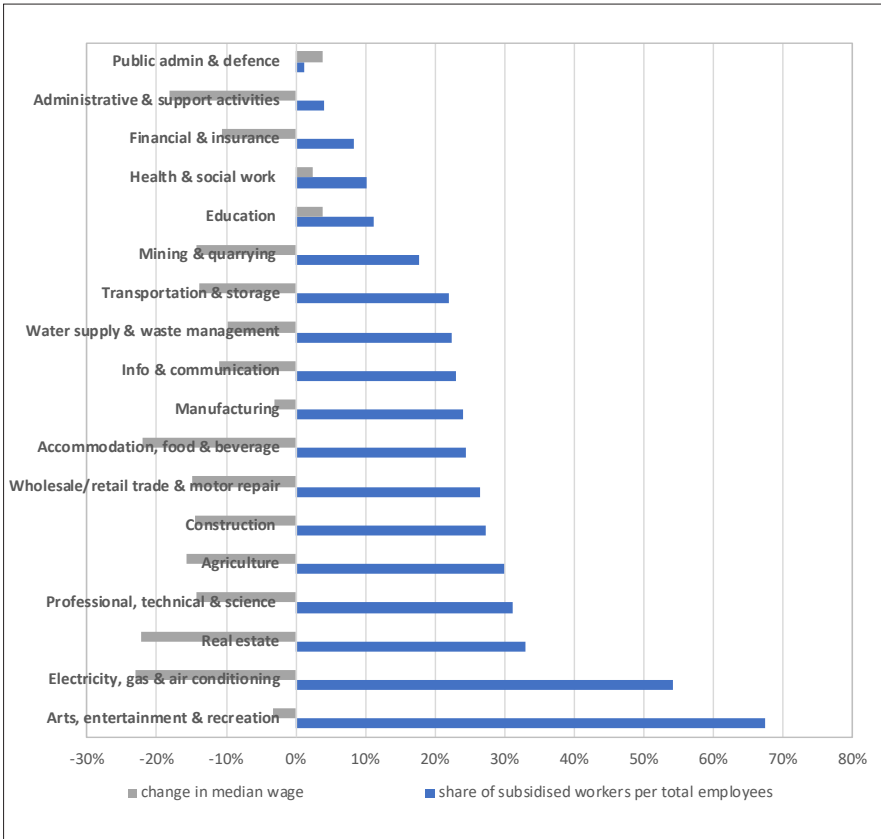
Source: Data extracted by the authors from the full list of subsidy recipients (published in 2020-2021 through <https://prihatin.perkeso.gov.my/>)

proportion of total employees supported by wage subsidy. Notably, companies in the service sector – especially wholesale and retail trade – formed the largest number of beneficiaries, while employees in the manufacturing sector comprised the largest group, presumably due to more workers per establishment (figure 2.5).

To gain some insight into the relative contribution of wage subsidy by industry, we computed the number of subsidised workers as a proportion of total employees. We conducted this exercise using data extracted from online disclosure of wage-subsidy recipients, and the salaries and wages survey report which provided estimates of employee numbers and wage levels. It should be noted that one quarter of subsidy recipients did not identify the industry of employers. The available data, though, provide some telling information.

Figure 2.6 shows the percentage of employees on wage subsidy and changes in median wage, according to industry classified in the wages and salaries survey. We can first note that certain sectors were less dependent on the subsidy, most saliently public administration, finance, health and

**Figure 2.6: Employees, by industry: change in median wage and share of workers receiving wage subsidy**



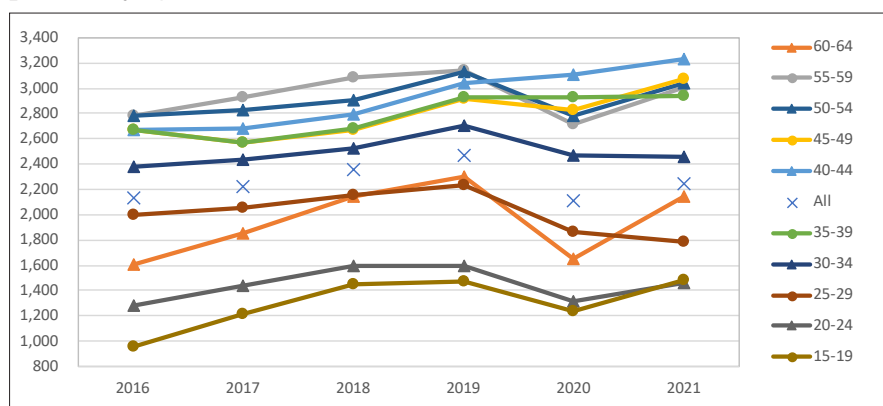
Source: DOSM (2021) data extracted by the authors from the full list of subsidy recipients (published in 2020-2021 through <https://prihatin.perkeso.gov.my/>), salaries and wages survey report 2020

education. This is plausible due to the concentration of the public sector in these industries, which did not implement a salary cut throughout the pandemic. In addition, despite mobility restrictions, the demand for finance, health and possibly education services remained unchanged. Accordingly, median wages also declined less or even continued to grow. In most of the remaining sectors, which have large employment sizes – for instance, retail trade, construction and accommodation, food and beverage – about 20-30% of employees were supported by wage subsidy, but median wage nonetheless fell by at least 10% if not even greater.

Manufacturing wages declined by a lesser margin, reflecting the greater capacity of manufacturing firms to buffer the crisis. At the other extreme, arts, entertainment and recreation recorded the highest share of employees who benefitted from the subsidy, at close to 70% – an unsurprising outcome, since this sector was among the most impacted by the mobility restrictions and limitations on public performances. Notably, the industry also registered lesser wage losses. While these findings must be interpreted with caution, they point to the possibility wage subsidy can be targeted at the worst-impacted sectors and can play a role in mitigating both job and wage loss.

For a more general picture of the pandemic's impact on wages, we consider the salaries and wages survey report, which also provides breakdowns by age bracket. Despite the implementation of wage subsidy, which was conditional on employers maintaining their employees' wages, there was an overall decline in wages from 2019 to 2020 (figure 2.7). As non-Malaysians were excluded from the report, the actual decline is expected to be even larger than official statistics should migrant labour be included.

**Figure 2.7: Malaysian employees' median salary (RM per month, constant prices), by age, 2016-2021**



Source: DOSM (2022)  
 Note: Malaysian citizens only

Median wages for senior workers (the three categories above 50) dropped considerably in 2020, followed by a steady recovery in 2021, although income remains below pre-pandemic levels. Meanwhile, median income for those aged between 35 and 49 saw negligible decline in 2020 – some age brackets even enjoyed continuous wage growth from 2016 to 2021. There was a sharp drop in median income for workers below 35. The decline is concerning for the 15-19 and 20-24 age groups since they have a low starting base, although they rebounded in 2021. The most worrying trend, however, pertains to the 25-29 bracket, which registered a net decline across the past five years.

### **3.0 Recent policy interventions and discourses**

#### **3.1 Minimum wage, living wage**

Minimum wage is the legally mandated minimum amount of remuneration whereby firms must pay their employees for the work rendered and this amount cannot be reduced by individual or collective agreements outside of the legal mechanism (ILO, 2016). ILO provides broad guidelines that minimum wage should “cover the minimum needs of the worker and his or her family” while serving as one possible avenue to “overcome poverty”.

Malaysia’s minimum wage has a short history, since the country was late to introduce its legislation, but quite an eventful past few years, which underscored the importance of this policy instrument. Malaysia’s inaugural minimum wage level was determined through a formula that takes reference to the monthly expenditure required for basic needs – as reflected in poverty line income (PLI) – and labour productivity. Minimum wage revisions, which are conducted every two years, reference the prevailing statutory level, and factor in changes in unemployment, inflation and productivity growth. The result, as illustrated in table 2.1, is that Malaysia’s minimum wage levels, rather fortuitously, mirrored the national PLI in the first half decade of its implementation. At the 2018 general election, both the incumbent Barisan Nasional and challenger Pakatan Harapan coalitions promised to raise the minimum wage to RM1,500 a month – a baseline that has received much public attention.

In 2019, a revision to the PLI saw the amount doubled to RM2,200. This was generally well received as the PLI had long been criticised for being set too low, at a level that does not credibly represent the threshold for assessing poverty. However, the higher PLI also shone a light on the prevailing minimum wage of RM1,100, which looked out of line with basic needs. Sluggish wage growth, compounded by workers' economic troubles through the pandemic, maintained the momentum for minimum wage to be increased to RM1,500 in 2022.

**Table 2.1: Minimum wage and poverty line income**

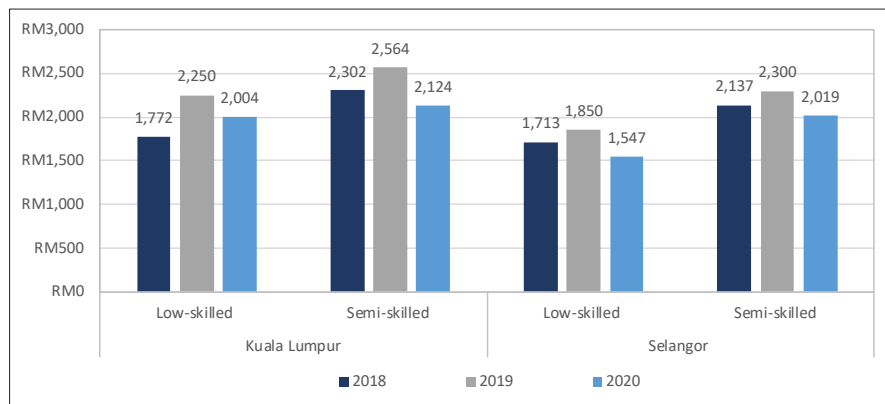
	<b>Minimum wage (per month)</b>	<b>Poverty line income (per month, for household of 4)</b>
<b>2013-2014</b>	RM900 (peninsula) RM800 (Sabah/Sarawak)	RM 930 (peninsula) RM1,080 (Sabah/Sarawak)
<b>2016</b>	RM1,000 (peninsula) RM 920 (Sabah/Sarawak)	RM1,080 (nationwide)
<b>2019</b>	RM1,100 (nationwide)	RM2,200 (nationwide)
<b>2020</b>	RM1,200 (56 urban districts) RM1,100 (rest of country)	
<b>2022</b>	RM1,500 (nationwide)	

Note: Minimum wage was introduced in 2013 but compliance was widely waived until 2014

Despite the already low wages, workers in these categories were not spared from recessionary impacts of the pandemic. As seen in figure 2.8, incomes for low-skilled and semi-skilled workers in Kuala Lumpur and Selangor declined by between 12% and 21% from 2019 to 2020. Low-skilled workers are defined as elementary workers, such as cleaners, helpers and labourers; while semi-skilled workers include clerical support, service and sales, and craft and related trade, as well as plant and machine operators and assemblers. Apart from low-skilled workers in Kuala Lumpur, median wages in 2020 for the remaining three categories all fell to even below 2018 levels. The pandemic wiped out a few years of wage growth for low-wage workers.

As the RM1,500 minimum wage was implemented recently and until the income data for 2022 become available, the exact impact of wage hike is impossible to gauge. Nonetheless, it is plausible that the minimum wage



**Figure 2.8: Median income of low-skilled and semi-skilled employees in Kuala Lumpur and Selangor**

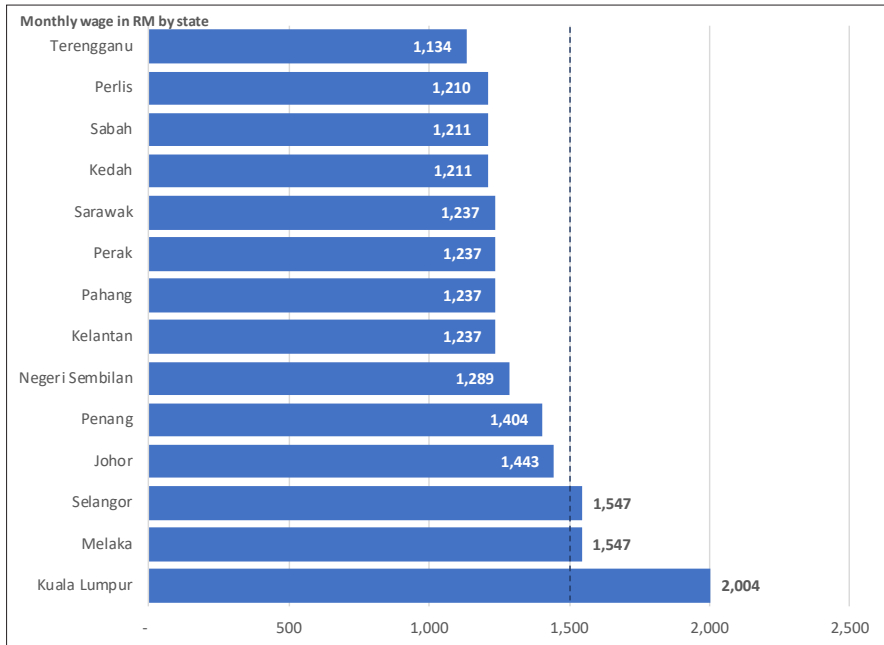
Source: Data provided by DOSM (used with permission)

hike in 2022 provided limited income gains for a large portion of low-wage workers in the Klang Valley – encompassing Kuala Lumpur and much of Selangor. The only group of workers who potentially stood to benefit from the minimum wage hike were low-skilled workers in Selangor where the median of RM1,547 was a notch above the revised wage floor. Even though the RM1,500 minimum wage is below existing wages for the vast majority in Klang Valley, the revision from RM1,200 to RM1,500 is likely to deliver positive impacts for other states which are less economically developed. As seen in figure 2.9 and 2.10, the current mandated wage floor is higher than median wages for low- and semi-skilled workers across eastern and northern peninsular regions and Borneo states.

Minimum wage, while important, remains confined. Even after the increase to RM1,500, its intention of meeting the basic needs of employees falls short of the higher objectives of decent work, which encompass “fair wage... security in the workplace and social protection... provides for personal development and social integration.”

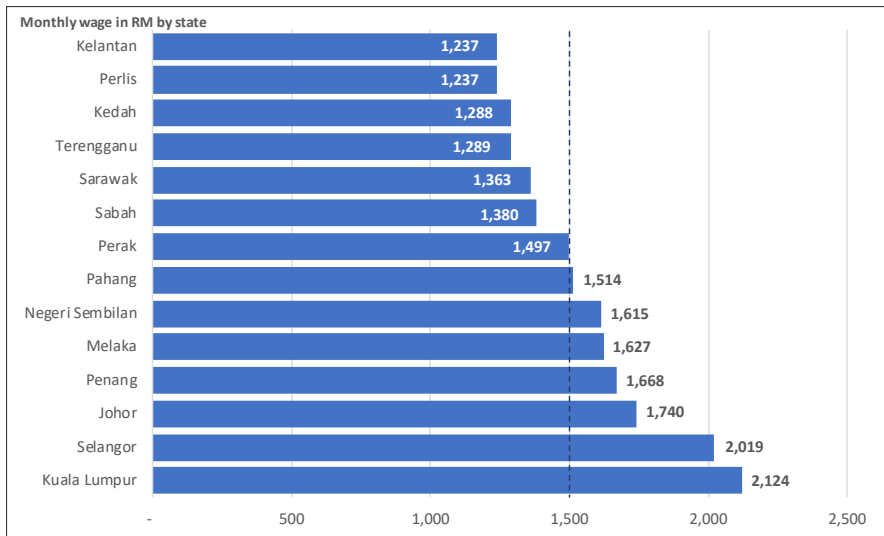
The living wage is a concept that aligns more closely with decent work. Living wage was given prominence as a feature article within Bank Negara Malaysia’s (BNM) 2018 annual report, which stated that a living wage should reflect the “minimum acceptable standard of living” that,

**Figure 2.9: Median wages of low-skilled employees in 2020**



Source: Data provided by DOSM (used with permission)

**Figure 2.10: Median wages of semi-skilled employees in 2020**



Source: Data provided by DOSM (used with permission)

in addition to fulfilling basic needs, also provides for “participation in society, personal and family development, freedom from financial stress” (Chong & Khong, 2018). Guided by these criteria, BNM’s survey and research concluded that the living wage for a single individual household in Kuala Lumpur is RM2,700, while the amount is higher for married households without children (RM4,500) and those with children (RM6,500).

We reference median wages of the categories against BNM’s RM2,700 baseline living wage for a single individual household. As seen in figure 2.9 and 2.10, median wages for low-skilled and medium-skilled workers in Kuala Lumpur and Selangor are significantly below the RM2,700 living wage threshold. The evidence indicates that the majority – possibly even bulk – of low-skilled and semi-skilled workers in Kuala Lumpur and Selangor do not meet BNM’s proposed living wage standards.

Granted, it is unrealistic for minimum wage to be on a par with living wage. Both instruments have differing goals and the means of achieving the latter – by fiat, inducement, or a combination – remain open questions. Nonetheless, the Malaysian government has acknowledged the importance of decent work and public sentiments indicate strong support for such an agenda. A 2022 survey by Architects of Diversity indicated that minimum wage is among the top three electoral concerns for young Malaysians, regardless of one’s political leanings.<sup>3</sup> Malaysian workers have few avenues for collective bargaining due to legal restrictions and corporate work culture. Low- and semi-skilled workers, who rely on group negotiations to demand a higher wage, have disproportionately borne the brunt of the decades of labour union containment stemming from a cost-competitive, export-driven growth model. Minimum wage continually serves as one of the governmental tools in achieving decent work among low-wage workers. However, the abrupt elimination of wage variations for urban districts and the rest of the country decidedly warrants a reconsideration. Minimum wage needs to account for regional differences, based on productivity levels, existing median wages and cost of living.

Another perennial low-wage problem concerns starting salaries, particularly of tertiary graduates who constitute an increasing share of labour market entrants. From 2019 to 2020, the proportion of degree graduates earning under RM2,500 rose marginally, from 69.4% to 70.3%. More concerning, the share of degree graduates earning RM2,001-2,500 decreased from 18.7% in 2019 to 16.7% in 2020, while the share earning under RM1,500 increased from 32.6% to 35.2%. Among diploma graduates, those earning below RM1,500 increased from 63.6% in 2019 to 64.3% in 2020 (Lee & Zhang, 2021). This is clearly a complex issue that requires a multi-pronged approach to be resolved. For a start, however, the problem has again registered some alarm in the government, significantly due to revelations in September 2022 of engineering graduates' abysmally low starting wages.

### **3.2 Work and living conditions**

Consolidating decent work – particularly on matters beyond wages and contract benefits, such as workers' protection, rights and voice – rests on legal underpinnings. Malaysia has been undertaking various labour reforms in the form of action plans and legislative amendments. Some changes were made to align the country more closely with international labour standards on issues such as maternity and paternity leave and work hours. Various reforms have been significantly driven by the Malaysia-US labour consistency agreement of 2015 that was, in turn, conforming to the Trans-Pacific Partnership Agreement (subsequently reconfigured as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTTP).

Among the major points of this agreement are the reduction of constraints on trade union registration, membership and activity, as well as measures to combat forced labour and human trafficking.

A few developments prior to the pandemic are worth noting. In 2017, the self-employed could access Socso and in 2019, its employment injury scheme was extended to migrant workers. That same year also saw the passage of amendments to the Employees' Minimum Standards of Housing, Accommodations and Amenities Act. The reinforced law retained employers' health and hygiene obligations, including

transportation of sick employees to hospitals but most distinctively, added a requirement that living quarters provided to employees must obtain a certificate for accommodation.

Compliance with these regulations has been mixed. By March 2020, 1.42 million migrant workers had been registered with Socso, and the figures appear to correspond with the number of work permits: 1.74 million members in July 2021, declining somewhat to 1.01 million in June 2022 (EIAS, 2022). Minimal housing standards legislation was gazetted in September 2019 and came into force in June 2020, but employers were granted grace periods and the law was only fully enforced starting December 2021. By October 2020, the government received applications for certificate for accommodation for only 9% of the 1.6 million work permits. At end 2021, workers' accommodation of almost half of the companies inspected by the Labour Department were deemed non-compliant.<sup>4</sup> Economic conditions since 2020 have been challenging, but Malaysia's disrepute for poor workers' housing and this violation of basic rights should also serve as a clarion call for decisive action.<sup>5</sup>

Policy and legislative landmarks are proceeding to the implementation stage after a pandemic slowdown in progress. In 2021, Malaysia launched the NAPFL 2021-2025 and renewed the NAPTIP 3.0 that started in 2011. The Employment Act amendments were signed into law in March 2022, while Parliament's July session saw the first reading of the Trade Union Act amendment bill. The enforcement date of the Employment Act amendments, initially slated for September 2022, was postponed to January 2023.

These Employment Act amendments encompass various aspects of employment. Some of the amendments, notably the extension of maternity leave from 60 to 98 days and introduction of a 7-day paternity leave, and reduction of working hours from 48 to 45, have been advocated for many years. These provisions, explored further by Lee and Sofea (this volume), align with the broader objectives of work-life balance, quality jobs and high-productivity and high-wage employment, and a shift away from production based on low wages and overwork. Another significant addition, pertaining to forced labour and mainly affecting migrant

workers, enters in the form of indirect prohibition. All employers must be clear of forced labour before being allowed to recruit foreign labour. However, the scope of forced labour is rather narrow – confined to some but not all the 11 indicators established by ILO.

Several other enhancements signal new priorities – even if questions arise over the adequacy of implementation guidelines and mechanisms. Flexible-work arrangements can be requested by the employee, to which the employer must respond within 60 days and provide reasons if rejecting such request. The pandemic had shown the importance of flexibility within regular and stable employment, including work from home and use of virtual platforms. Nonetheless, the grounds for flexibility to be granted and for adjudicating employers' response to their employees' requests remain vague. Effective 2023, the director-general of the Labour Department may also inquire into matters relating to discrimination in employment, but the absence of a legal framework around the complex problem of discrimination, which can take various overt or subtle forms, again renders the legislative amendment rather cosmetic.

## **4.0 Recommendations**

A few general priorities and specific implications follow from our overview of Malaysia's longstanding decent work and wage policies and Covid-19 responses. We conclude this chapter with a few recommendations, arranged in three spheres. It is pertinent to record a brief note on how progress can be more cohesive and sustainable. As noted earlier, Malaysia shows implicit commitment to decent work and a tripartite memorandum of understanding of the DWCP is in effect. Curiously, decent work scarcely appears in policy discourses. In this light, decent work can serve as a focal point and core objective for driving the national agenda.

### **4.1 Unemployment assistance and job protection**

With various institutions already in place, the concerns here revolve mainly around implementation. The take-up of unemployment benefits during the MCO warrants closer empirical examination, in view of the data showing much fewer EIS claims than job losses and a three-month lag between the spike in unemployment and the increase in LOEs and

in tandem with the apparent movement of LOEs and retrenchments. It is crucial to know the gaps in EIS coverage and the extent to which laid-off EIS account holders did not access the benefits, especially those who were retrenched formally. Efforts to promote awareness of the EIS and to expand coverage to the self-employed and gig workers should continue.

The wage subsidy showed itself an effective crisis response instrument that may be reprised in future crises. Of course, its possible redeployment will be contingent on circumstance, whether a repeat pandemic situation that involves widespread mobility restrictions and economic shutdown or a financial crisis or recession or sector-focused downturn. The 2020 practice of fixed subsidy amounts and automatic approvals for smaller wage subsidy claim while larger claims needed to provide evidence of financial stress, and the 2021 shift to a sector-based implementation, hold important lessons. Socso, which maintains registries of the EIS and Socso schemes, should merge the databases so that more ad hoc responses, such as wage subsidy, can be more efficiently executed by retrieving company data already on hand rather than launching fresh applications.

## **4.2 Wage growth**

Minimum wage remains an effective policy instrument for safeguarding the wellbeing of low-wage workers and pushing the labour market towards a high-wage regime. While directly applied only to the wage floor, there are also “ripple effects” on wage levels of jobs that earn a margin above the minimum. The structure of Malaysia’s minimum wage and mechanisms for determining the level, however, warrants a rigorous review. The abrupt abandonment of the previous urban versus non-urban tiered structure in favour of a single national baseline has not been cogently justified. There is power in simplicity, but introducing two or three levels of variation can account for productivity and cost-of-living differences without overcomplicating implementation. Aside from legalisation, voluntary opt-in among employers could be another avenue in progressing towards living wage. In the United Kingdom, Living Wage Foundation is an independent organisation which annually publishes its own minimum living wage for workers in London and the rest of UK. Based on a different methodology, the foundation sets wages which

are usually higher than government-mandated minimum wage. It also provides accreditation for firms which fulfil the wage levels and claims that there are about 11,000 accredited employers.

The problem of persisting low market wages must be addressed decisively. On the supply side, underperformance of the pre-labour market entry and continual skills training for the employed has been a priority for many years. These areas need continual attention and bold action on suboptimal setups, including duplication of programmes under different ministries. Low starting salaries, particularly of degree graduates, remain a conundrum with no easy solutions. A combination of measures may be considered, such as positive reinforcement – spotlighting the exemplary practice of companies that opt for a “high road” strategy of paying workers well to raise productivity – and augmenting workers’ collective voice, such as by facilitating unionisation of professionals.

### **4.3 Work and living conditions**

Numerous action plans and legislation need to be implemented in a sustained manner, notably the national action plans on forced labour and on human trafficking (NAPFL and NAPTIP 3.0). Compliance with employee housing regulations and the various measures required to eliminate forced labour practices must be accorded high priority to safeguard basic rights of migrant workers and repair Malaysia’s international disrepute.

Recent years have seen access to social protection that Malaysians enjoy extended to non-citizen workers. These are laudable moves but full-fledged equality is well worth considering, most saliently, in the form of Socso invalidity benefits and EPF provision for migrant workers. Recently enacted labour law amendments are consonant with decent-work principles, including reduced work hours, maternity/paternity leave extensions and empowerment through collective organisation. The work-hour definition, reduced from 48 to 45 per week, should continue its progress towards the international standard of 40 – with adjustments to hourly minimum wage and a focus on hourly productivity rather than overtime. One outstanding omission must be highlighted. While



the Employment Act now allows for employees to lodge complaints of discrimination with the Labour Department, the complexities and nuances of the manifestations of workplace discrimination warrant a specific legislation and the creation of a public oversight commission with adequate knowledge and resources.

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## Notes

<sup>1</sup> We adopt the term migrant worker instead of foreign worker despite the latter being more widely used in Malaysia, referencing the UN definition of a migrant worker articulated in the 1990 International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families: "a person who is to be engaged, is engaged or has been engaged in a remunerated activity in a State of which he or she is not a national."

<sup>2</sup> Decent Work principles of the ILO encompass: (1) standards and fundamental principles and rights at work; (2) employment; (3) social protection; (4) social dialogue.

<sup>3</sup> Ashman, A., & Milad, H. (2022, May 25). Survey: Majority of youths ready to vote in GE15, but four out of 10 still on the fence. *Malay Mail*. <https://www.malaymail.com/news/malaysia/2022/05/25/survey-majority-of-youths-ready-to-vote-in-ge15-but-four-out-of-10-still-on-the-fence/8722>

<sup>4</sup> International Labour Organisation. (n.d.). *How to define a minimum wage?* <https://www.ilo.org/global/topics/wages/minimum-wages/definition/lang-en/index.htm>; International Labour Organisation. (2014). *Contract cleaning sector: Decent work programme*; The Star. (2021, April 23). *Bosses to be given more time to fulfil housing condition*. <https://www.thestar.com.my/news/nation/2021/04/23/bosses-to-be-given-more-time-to-fulfil-housing-condition>; Bernama. (2020, December 3). *Accommodation for more than 90% of foreign workers not in compliance with Housing Act*. *The Star*. <https://www.thestar.com.my/news/nation/2020/12/03/accommodation-for-more-than-90-of-foreign-workers-not-in-compliance-with-housing-act>; Bernama. (2021, December 22). *Almost 50pct of employers fail to comply with Act 446*. *Malaysiakini*. <https://www.malaysiakini.com/news/604116>

<sup>5</sup> Peter, Z. (2020, December 6). Malaysia's Covid woes spotlight 'terrible' migrant worker housing. *VOA News*. <https://www.voanews.com/a/east-asia-pacific-malaysias-covid-woes-spotlight-terrible-migrant-worker-housing/6199239.html>

<sup>6</sup> The data were extracted using the Octoparse app. The authors gratefully acknowledge subscription to the app provided by the ISEAS-Yusof Ishak Institute.

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# 3 Post-Covid-19 recovery and quest for ‘good jobs’

Calvin Cheng

Covid-19 created the largest labour market shock in Malaysia’s post-independence economic history. Throughout two years of sporadic lockdowns and heightened global uncertainty, large aggregate demand shocks interacted with existing vulnerabilities to create severe labour market consequences for millions of workers. The first section of this chapter provides a review of the pandemic’s impact on jobs, workers and the labour market – looking at the differences in vulnerability of employment to Covid-19 shocks and health-containment measures and variation in labour market outcomes across demographics and geography. The second part considers the future of Malaysia’s workers, providing solutions to mitigate the severe and unequal impacts of the pandemic on the labour market by building crisis resilience and creating opportunities for inclusive growth.

## **1.0 Covid-19’s impacts on workers**

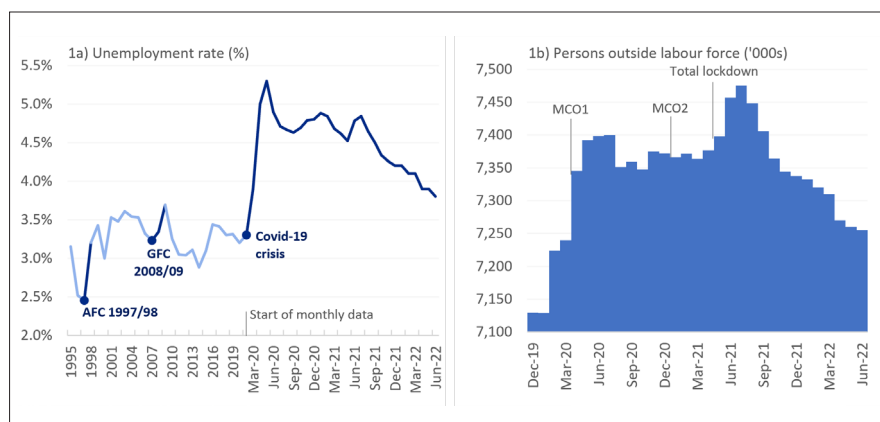
### **1.1 Channels of transmission**

The pandemic affected workers through two main channels. The first were external shocks from a slowdown in goods and services trade (including tourism), higher uncertainty and shifts in global capital flows. The second was domestically generated from the imposition of

containment measures aimed at reducing the spread of Covid-19 (e.g. mandated business closures, movement restrictions) and shifts in consumption patterns from perceived health risks.

Both combined to create aggregate demand shocks and induced a shift in consumption and work patterns. The consequences have been wide-ranging. There were large jobs, employment and labour force participation impacts, which created knock-on effects on wages, poverty and inequality. On aggregate, headline unemployment rate surged from a pre-crisis average of about 3% to about 5.3% at its peak in May 2020, the highest level in about four decades (figure 3.1a). In line with labour market trends observed in many economies, the pandemic drove many Malaysian workers to exit the labour force completely. By the end of 2020, there were about 242,400 more Malaysians outside the labour force than at the end of 2019 (figure 3.1b).

**Figure 3.1: Summary of key labour market impacts during the pandemic**

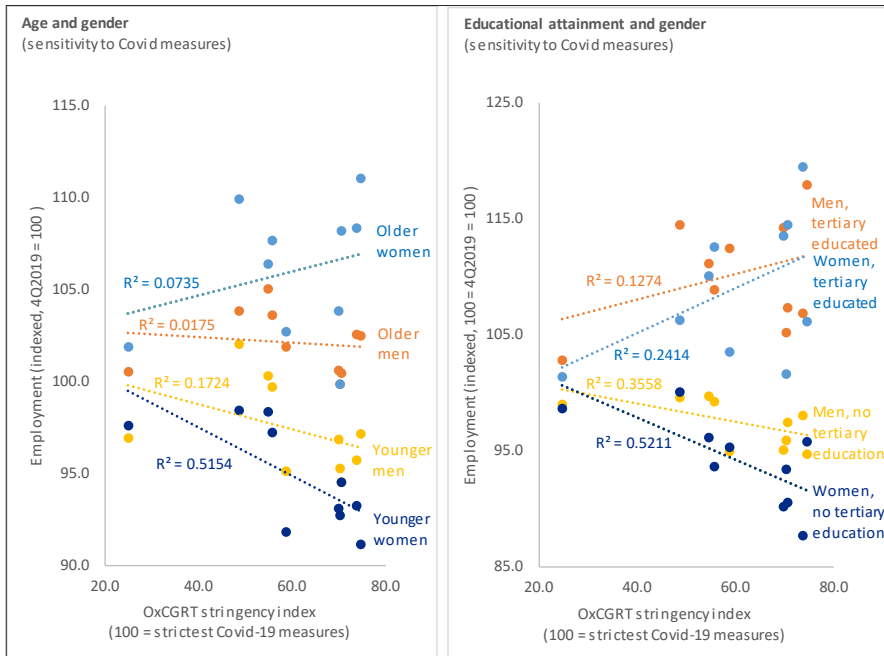


Using the OxCGRT stringency index as a proxy for the extent of containment measures in Malaysia, data show that there is a strong negative relationship between the stringency of Covid-19 restrictions and the employment of certain disadvantaged workers. Across demographic, education and skill-related characteristics, preliminary correlation analyses suggest that the employment of younger women and men, those without tertiary education (particularly women) and lower-skilled workers were far more affected by Covid-19 restrictions than the average

worker (figure 3.2). In contrast, the negative relationship between Covid-19 restrictions and employment was not present for older workers and for higher skilled individuals with tertiary education. In fact, scatter plots show that stricter Covid-19 restrictions tended to *increase* the employment of these groups (figure 3.2).

**Figure 3.2: Covid-19 containment measures affect different workers differently**

Employment index vs OxCGRT stringency index



These differences in employment vulnerability were reinforced by basic regressions of employment of different worker demographics on the OxGRT stringency index and GDP growth (table 3.1). Estimated coefficients from the set of regressions show that there is a statistically significant relationship between the employment of marginalised worker groups (like younger, non-tertiary-educated women and lower-skilled workers) and the intensity of Covid-19 containment measures and GDP growth. Broadly, these results, while not causal, provide two insights into the experience of disadvantaged workers during the pandemic. The first is that the shocks generated by the pandemic have vastly heterogeneous

effects for different worker demographics. The second is that changes in Covid-19 restrictions seemed to have had an outsized impact on the employment outcomes of these groups, more than just declines in GDP growth by itself.

**Table 3.1: Sensitivity of different worker groups to containment measures and GDP growth**

	Sex	Demographic	Coefficients	
			Covid-19 containment measures	GDP growth
<b>By gender and characteristic</b>	Women	Younger	-3.6*	409.1*
		Older	2.5	689.9**
		Non-tertiary	-7.1**	-150.0
		Tertiary educated	5.3**	825.8*
	Men	Younger	-2.7	307.4*
		Older	-0.2	264.3
Non-tertiary		-4.6*	719.6	
			2.7	174.9
<b>By occupation type</b>	All	High skilled	5.1	277.9
		Semi skilled	-5.0	1,265.2
		Low skilled	-3.7**	54.2

Source: Author's estimates, DOSM

Note: Coefficients are from regressing the employment (measured in thousands of workers) of each worker demographic on OxCGRT stringency index points (Covid-19 containment measures) and GDP growth (in annual percentage changes); younger = 15-34 years old, older = 35-54; \* denotes statistical significance at 10% level, \*\* denotes statistical significance at 5% level

### 1.3 Covid-19's impact on employment and labour force participation

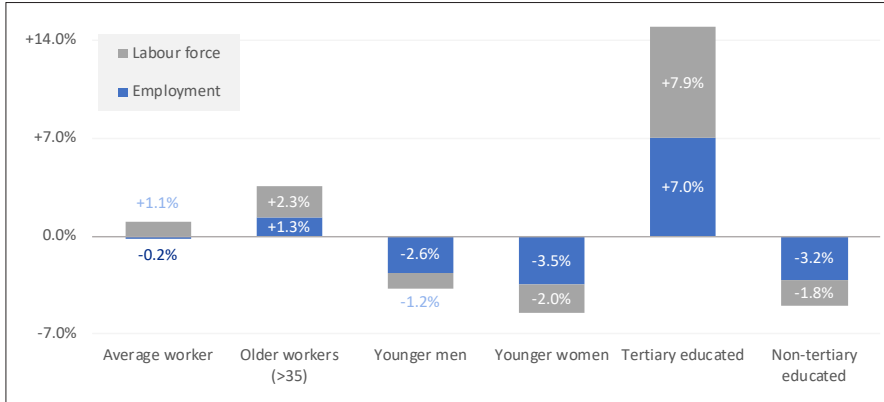
In general, these between-group differences in sensitivity to the shocks created by the pandemic are a direct result of pre-existing inequalities in the labour market – the coalescence of sector-mix and skill-mix effects and deeper structural inequities relating to women and work.

These differences in vulnerabilities manifested in vastly unequal labour market outcomes for different workers. When the first Covid-19 restrictions were enacted in 2020, younger workers, particularly women, and lower-educated, lower-skilled workers faced employment losses up

to 18 times higher than the average worker (figure 3.3).<sup>2</sup> Younger women and men, especially women without a tertiary education, were pushed to exit the labour force completely. By the end of 2020, there were about 554,229 more non-tertiary educated women and 285,401 non-tertiary educated men outside the labour force compared to before the pandemic.

**Figure 3.3: Labour market impacts in 2020**

Change in labour force and employment by worker demographics (% annual change)



Source: Author's estimates, DOSM

Note: Figure recreated from Cheng, 2021;<sup>6</sup> younger = 15-34 years old, older = 35-54

In 2021, a resurgence of Covid-19 cases in Malaysia prompted policymakers to enact new, stricter containment measures, culminating in a nationwide “total lockdown” in May.<sup>3</sup> These new restrictions, stricter than the set of measures announced in 2020, once again hit the worker group demographics most sensitive to these containment policies: younger workers without a tertiary education, especially women (figure 3.4).

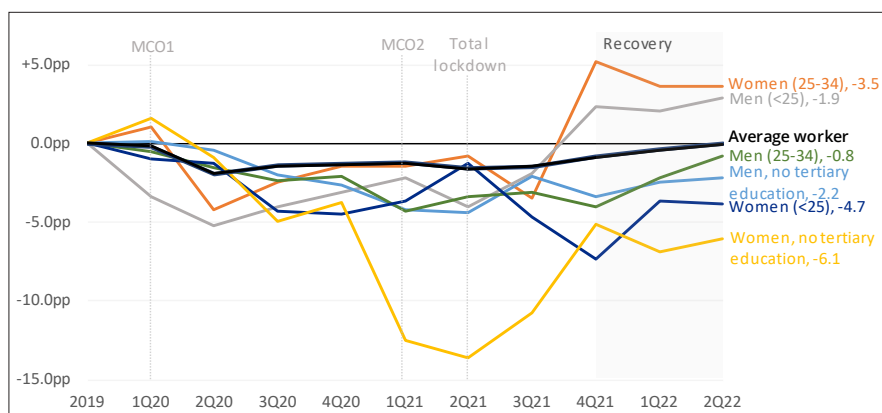
Later on, higher vaccination rates allowed policymakers to relax Covid-19 restrictions by the fourth quarter of 2021. This, along with an uptick in global demand, created ripe conditions for a labour market recovery. Quarterly data for 2Q2022 show that aggregate employment-to-population ratios have, for the first time since the pandemic, recovered fully to prepandemic levels (figure 3.4). This is a significant milestone for the recovery of Malaysia’s labour market. Yet, despite these successes, the recovery is uneven.<sup>4</sup> While many marginalised worker demographics that

have suffered tremendous impacts during the pandemic have recovered, there are still groups left out of the recovery altogether.

Looking at employment rates (which reflect both employment and labour force outcomes), worker demographics like younger men (<25 years) and women (25-34 years) have recovered strongly and now have higher employment rates than before the pandemic. But other groups have been less fortunate. The employment rates of women without a tertiary degree are still -6.1 percentage points below pre-crisis levels, while younger women (<25 years) and men without a tertiary education still record employment-to-population ratios of -4.7 percentage points and -2.2 percentage points lower than pre-crisis levels respectively.

**Figure 3.4: An unequal recovery from an unequal crisis**

Change in employment rates by worker demographic (indexed to show percentage point difference from pre-pandemic levels)

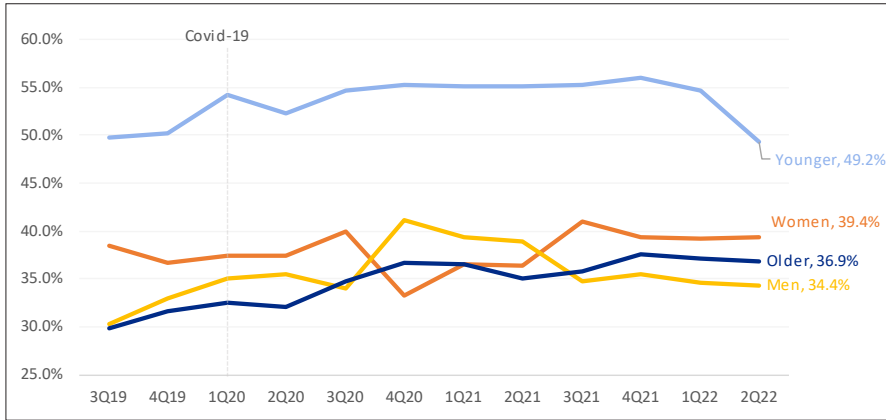


Source: Author's estimates, DOSM  
 Note: MCO = movement-control order

But employment rates alone may not capture the full story. Measures of labour market underutilisation rose at the peak of the pandemic – and while the tighter labour market has reduced it slightly in recent months, this has not been true for all groups. There are signs that certain worker groups have also moved into less desirable forms of employment (figure 3.5).<sup>5</sup> Indeed, younger workers and women continue to see higher rates of both skill-related and time-related underemployment than older workers and men (figure 3.5).



**Figure 3.5: Younger workers still face higher rates of underemployment**  
Skill-related underemployment by demographics



Source: Author's estimates, DOSM  
Note: Younger = 15-34 years old, older = 35-54

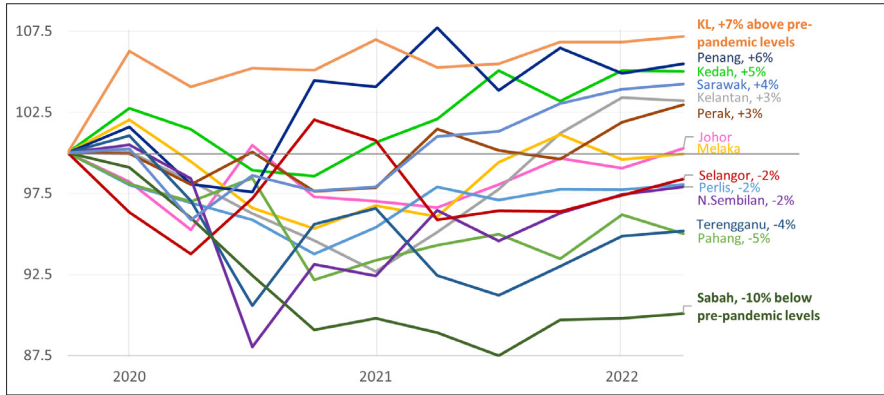
### 1.4 States of unemployment

The unequal labour market impacts extended across states, too. Some states suffered tremendous employment impacts during the height of the pandemic and have not managed to recover close to pre-pandemic levels. For example, Sabah, Pahang and Terengganu were all severely affected at the onset of the pandemic, recording large declines in employment rates throughout 2020 and 2021. Into 2022, these states continue to be excluded from recovery (figure 3.6) – with the 2Q2022 state-level employment rate index showing that employment outcomes were still well below levels seen before Covid-19. In 2Q2022, Sabah, Pahang and Terengganu have employment rates – -10%, -5% and -4% – below pre-pandemic levels respectively.

Other states have fared better. Johor, Melaka and Selangor were hit hard in 2020 and 2021 but have since recovered to pre-pandemic levels in 2Q2022 (figure 3.6). Lastly, other states saw only modest labour market impacts during the pandemic and their current employment rates are higher than before Covid-19. These include the economic and manufacturing hubs of Kuala Lumpur and Penang – as well as Kedah.

**Figure 3.6: High variation in employment impacts by state**

State-level employment rate index (100 = recovered to pre-pandemic levels)



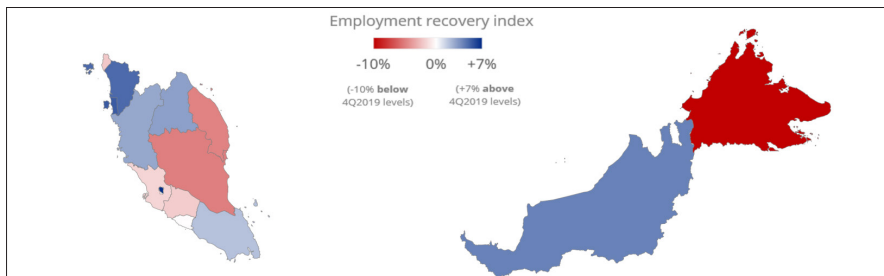
Source: Author's estimates, DOSM

Note: State-level employment recovery index calculated based on employment-to-population ratios by state/region, indexed to 4Q2019 as a benchmark for pre-pandemic levels of employment

In summary, while the broader labour market recovery means that it is now virtually business-as-usual in many economic hubs like Kuala Lumpur and Penang, there are regions where employment opportunities continue to deteriorate well into 2022 (figure 3.7). The stratification in employment recovery across states likely points to vast state-level differences in the types of jobs that are in demand in each region. The types of jobs that are most likely to have seen a recovery, which tend to be higher-skilled, white-collar employment, also tend to be concentrated mostly in urban regions. This continued decline will intensify poverty and deprivation, especially for states suffering a surge in poverty.<sup>7</sup>

**Figure 3.7: States of unemployment**

2Q2022, Employment recovery index (100 = recovered pre-pandemic levels)



Source: Author's estimates, DOSM

## **1.5 Long Covid: longer-term implications**

The severe and vastly unequal impacts of the Covid-19 crisis will create longer-term consequences for Malaysia's labour market and workers long after the anxieties about Covid-19 fade into the background. This is true on a macro-developmental level and for workers. On a macro level, the shocks of the pandemic may hamper economic growth – potentially through a reduction in productive capacity or structural shifts in potential output growth.<sup>8</sup> For workers, severe recessions tend to create persistent unemployment effects or labour market “scarring” because of crisis-induced unemployment or underemployment spells for certain marginalised worker groups. As workers lose their jobs, they also permanently lose firm specific skills – and the longer they remain unemployed, the more their “skills” or human capital depreciate.<sup>9</sup> The average length of unemployment spells increased dramatically during the height of the pandemic – and unemployment spells lasting six months or longer are still 10% higher now than before Covid-19 despite the recovery.

This may be particularly damaging for graduates.<sup>10</sup> There is a wealth of evidence that graduating into a bad job market has persistent negative effects on future earnings,<sup>11</sup> with effects potentially lasting a decade or more, especially if there are repeated bouts of unemployment.<sup>12</sup> As we saw earlier, there is already evidence pointing to the fact that some badly affected worker demographics have moved into less-desirable forms of employment.

Because the labour market outcomes of marginalised worker groups were disproportionately affected, it is disadvantaged groups who will face the greatest scarring effects from the pandemic. Worse, these labour market “scarring” effects intersect with the wider social impacts of Covid-19. These include the pandemic's impact on education (lost years of schooling from the shift to remote learning) and health (poorer health outcomes for more disadvantaged groups).<sup>13</sup>

This is true regionally as well. States with lower per capita household income averages tended to face higher increases in poverty during the pandemic – and as highlighted earlier, some of these states (Sabah and Terengganu) continue to see a deterioration in employment outcomes.<sup>14</sup>

Together, the pandemic served to widen pre-pandemic structural inequities, across demographic groups, class and region. Left unchecked, these will have profound longer-term implications for Malaysia's economic development, social mobility and sociopolitical stability.

## **2.0 Future of Malaysia's labour market: policy recommendations**

Overall, the labour market effects of the pandemic have been threefold. First, disadvantaged demographics like women, younger and lesser-educated workers have faced disproportionately large negative labour market impacts and some were left out of the jobs recovery in 2022. Second, preliminary evidence shows that the pandemic will have lasting consequences on the employment and underemployment of younger workers and women. Third, these employment and labour force effects will have knock-on effects on poverty and inequality on a broader level – cutting across demographics and regions.

These impacts have important implications for the future of Malaysia's labour market policy. In this chapter, we suggest that the future of Malaysia's labour market policy should have two explicit goals. The first is safeguarding the welfare of workers and building resilience for future crises. The second is policies to support the longer-term development of worker skills and create opportunity. Centring labour market policy on these goals will go a long way towards equalising labour market outcomes, reducing the negative labour market shocks workers face in crises and supporting workers' welfare in the long run.

### **2.1 Building resilience**

Building upon the recommendations listed in Cheng (2022),<sup>15</sup> policy action should first focus on increasing the resilience of workers facing unexpected shocks like the pandemic. This can be done through strengthening protections and making them more flexible and responsive to unanticipated economic shifts.

A key component of building resilience is strengthening automatic fiscal stabilisers. Automatic fiscal stabilisers are policies that generate an automatic response to a change in economic conditions. When economic conditions deteriorate, for example, because of a global recession, these policies increase quickly and automatically public spending or decrease taxes.<sup>16</sup> The building blocks of these already exist: including social programmes like the Employment Insurance System's (EIS) Job Search Allowance and the national cash transfer programme, Bantuan Keluarga Malaysia (BKM, formerly Bantuan Prihatin Nasional and Bantuan Sara Hidup).

During times of economic distress as workers lose their jobs, more individuals will automatically qualify as recipients of EIS' Job Search Allowance (essentially unemployment insurance), and more will fall below the income threshold to be eligible to receive BKM benefits. In this way, automatic stabilisers respond to an economic slowdown quickly and automatically. They neither require additional legislation or deliberation in the case of discretionary fiscal stimulus (e.g. stimulus packages like Prihatin), and do not suffer from lengthy delays between when a recession hits and when counter-cyclical stimulus is injected into the real economy.

Automatic stabilisers have both macro and micro (welfare) stabilisation effects. At the macro level, they stabilise fluctuations in aggregate demand – providing a counter-cyclical fiscal boost and helping to stimulate economic growth in times of need. At the micro level, automatic stabilisers safeguard the welfare of workers and families, providing monetary relief and diminishing the consequences of recessions. There is also evidence that stronger automatic stabilisers help to reduce inequality impacts of a crisis.<sup>17</sup>

We are only now beginning to emerge from the depths of the pandemic. But someday, Malaysia will face another crisis. This is why strengthening and improving its automatic stabilisers is so important. They represent the first line of defence against economic shocks – protecting the welfare of workers and households and preventing severe impacts from generating longer-term consequences that will be harder to reverse. In a global inflationary environment and with a relatively weak ringgit,

fiscal policy and automatic stabilisers will become even more crucial as the trade-offs with using expansionary monetary policy levers become uncomfortably large.

There are several ways to strengthen Malaysia's automatic stabilisers. These include strengthening the role of automatic fiscal stabilisers through improving the underlying social benefits itself, broadening coverage and making them flexible and responsive.

- **Increasing level of automatic stabilisation**

Automatic stabilisers are the net result of a country's tax-and-transfer system. The first step towards increasing the degree of automatic stabilisation would be to improve the effectiveness and coverage of existing social transfers.<sup>18</sup> This would mean increasing the depth (size) and breadth (coverage) of both unemployment insurance (via EIS) and income-targeted cash transfers (BKM). On transfer size, there is room to increase the generosity of transfers for the poorest households under BKM (measured by income-replacement rates)<sup>19</sup> and lengthen the minimum duration for Job Search Allowance benefits. Policymakers could also look at improving the design of existing social benefits. This includes smaller tweaks like simplifying BKM/EIS eligibility procedures and making it easier to apply for and receive aid, and tackling work disincentives in BKM by implementing a sliding scale approach.<sup>20</sup>

Broadening coverage of unemployment support and reducing the gaps in protection between different types of worker groups would further improve resilience. Currently, the self-employed, gig workers and other non-standard workers in informal employment<sup>21</sup> are not covered or have extremely limited coverage under the EIS. A rough low-end estimate puts this number at least 5.1 million<sup>22</sup> – or about 8.5% of the employed in 2020. As such, when an adverse economic shock occurs, a large proportion of Malaysian workers are effectively excluded from protection.

This leads to a lower degree of automatic stabilisation and severe impacts on the welfare of workers, forcing the government to rely on discretionary fiscal stimulus – as exemplified by Malaysia's experience in the past two years. In general, the more workers and households are covered by social

benefits, the greater the degree of automatic stabilisation and the more resilient the economy is to sudden shocks. Hence, broadening coverage improves both the macro aggregate demand stabilisation and welfare-protecting effects of existing automatic stabilisers.

- **Making automatic stabilisers more flexible**

Beyond strengthening automatic stabilisers to deal with economic distress, policymakers should look into making these policies more responsive and flexible. This entails tweaking the design of underlying tax and social benefit policies to enable them to accommodate changes in economic conditions.

On the spending side, shifting BKM away from an annual system will make the social protection floor more adaptable. Currently, BKM (and past iterations of the means-tested unconditional cash transfer programme like Bantuan Sara Hidup) operates on an annual basis – only processing and means-testing new applications at a pre-determined time each year. For BKM 2022, the application window was open for a single month in January. Further, households which fell below the income eligibility threshold outside of the application window could not apply and receive aid. This limits the flexibility of BKM to respond to changes in demand and, as such, curtails the degree of its automatic stabilisation. BKM should become a permanent year-round programme, with scheduled payment phases each quarter to enable liquidity constrained households to access support when they need it. Similar benefits could be realised by reducing time to transfer unemployment insurance applications.

On the taxation side, personal income taxes are also an important automatic stabiliser.<sup>23</sup> Progressive income taxes by design automatically decrease taxation burdens as workers and families experience declines in incomes. Here, making personal income tax rates more progressive will increase how much tax burdens decrease in response to income shocks (tax elasticity) – directly improving its automatic stabilisation potential.<sup>24</sup>

- **Legislating automatic triggers**

Exceptional circumstances require exceptional measures. In some cases, unprecedented shocks (such as the onset of a pandemic) require emergency measures that are quick and responsive – without waiting for policymakers to pass discretionary fiscal policy measures. This can be done through implementing automatic triggers or “contingencies” that kick in when a high-frequency economic indicator deteriorates below a certain threshold.<sup>25</sup>

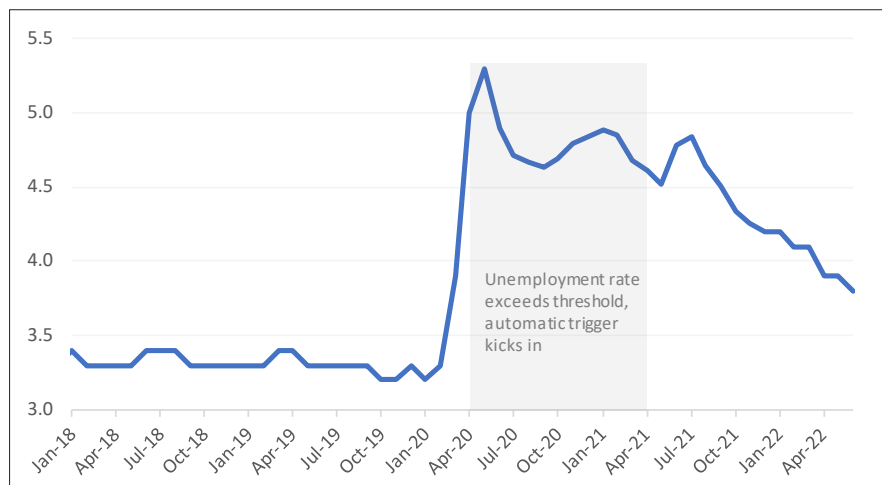
For example, following similar proposals in the United States,<sup>26</sup> Malaysia could legislate contingency measures that would trigger when a three-month moving average unemployment rate rises by more than one percentage point or more compared with its lowest point over the past 12 months (see figure 3.8 for an example). When emergency measures are triggered, this would temporarily increase the duration and income replacement rates of the Job Search Allowance benefits beyond the six-month maximum duration for receipt of unemployment benefits, conditional on the magnitude of the negative shock. The same could be done for BKM, where the same emergency measures automatically trigger additional supplementary benefits for existing recipients – similar to what the government did numerous times during the pandemic with supplements to Bantuan Prihatin Nasional.

Some forms of contingency triggers exist in Canada, the United States, Chile and Poland.<sup>27</sup> In Canada, duration of unemployment insurance and eligibility conditions vary with regional unemployment rates.<sup>28</sup> In the United States, the Extended Benefits (EB) programme extends the duration individuals receive unemployment benefits when state-level unemployment rates rise beyond a certain level.<sup>29</sup> During a severe crisis, work disincentives are likely smaller, fiscal multipliers are higher and the overall social value of benefits greater.<sup>30</sup> This points to increasing the generosity and duration of income support during economic distress. Legislating these contingency “triggers” during the pandemic could have benefited hundreds of thousands of the unemployed.<sup>31</sup> If implemented during the crisis, this would have contributed to a quicker and more inclusive labour market recovery.



**Figure 3.8: Stylised example of an 'automatic trigger' in Malaysia**

National unemployment rate (%)



Source: DOSM, author's estimates

Note: Shaded region denotes a hypothetical automatic trigger for emergency measures that kick in when the three-month moving average of the national unemployment rate exceeds its past 12-month low by one percentage point

## 2.2 Creating opportunity

The labour market impacts of the pandemic have been vastly unequal, with evidence of longer-term consequences on inequality across demographics and regions. As such, a crucial objective for the world transitioning from Covid will be creating opportunities and restoring employment pathways towards shared growth.<sup>32</sup> In this chapter, we focus on two aspects: active labour market policies and creating “good jobs”.

- **Labour market activation policies**

Active labour market policies (ALMPs) are activation policies that aim to get more workers into productive employment in contrast with “passive” policies like unemployment benefits and worker protection. Broadly, there are three types of ALMPs: skills training/development; job search assistance/matching; and firm/employment subsidies. Micro-evaluation evidence from the past few decades suggests that ALMPs generally have a modestly positive effect on employment outcomes<sup>33</sup> – particularly when tied to regional labour market demand and focused on at-risk

and/or marginalised groups.<sup>34</sup> From a macroeconomic perspective, well implemented ALMPs can lower the structural unemployment rate, reducing joblessness and long-term unemployment.<sup>35</sup>

Since the establishment of Malaysia's EIS in 2017, many of these ALMP components have already been set up. These include job search and matching (via MYFutureJobs), career services and skills/vocational training across 677 different training providers.<sup>36</sup> While this progress has been encouraging, there remains room for improving the access, design and targeting of ALMPs.

At present, the full suite of EIS' assistance programmes and ALMPs (including skills and vocational training) are only available to current recipients of EIS benefits. This means that access to ALMPs is limited to a small group of workers: effectively formal sector workers who experienced a loss in employment and have registered with EIS. This excludes many individuals, who are either not eligible for EIS coverage (e.g. self-employed or domestic workers or do not meet contributory conditions), or did not experience loss of employment over the past month. Broadening access to ALMPs across the entire working age population would allow more Malaysians to benefit from upskilling and re-skilling initiatives, facilitate lifelong learning and improve labour market outcomes for a larger subset of workers.

Similarly, improving active-passive complementarities and the design of ALMP skills training would increase its positive labour market impacts. Evidence from evaluations of ALMPs around the world suggests increasing ALMP intensity in combination with passive labour market programmes like social protection floors can have multiplicative effects.<sup>37</sup> When there is sufficient spending on active labour market interventions, the positive impacts of passive policies (like unemployment insurance) are magnified while work disincentives are diminished. This points to increasing investment in both the active and passive components of the EIS and strengthening the links between public employment services and social assistance programmes (including income-targeted cash transfer programmes like BKM).<sup>38</sup>

Improving the design and targeting of ALMP skills training could also improve its impacts. International experience with ALMP reskilling/upskilling initiatives indicates that there is mixed evidence for one-size-fits-all skill training programmes.<sup>39</sup> Instead, a greater focus on demand-driven skills training that aim to reduce sectoral and spatial skills mismatches tend to have wider benefits.<sup>40</sup> Helping workers either move to opportunities or gain the skills their local job market demands is a crucial component of creating opportunities for gainful employment.

- **Incentivising ‘good jobs’**

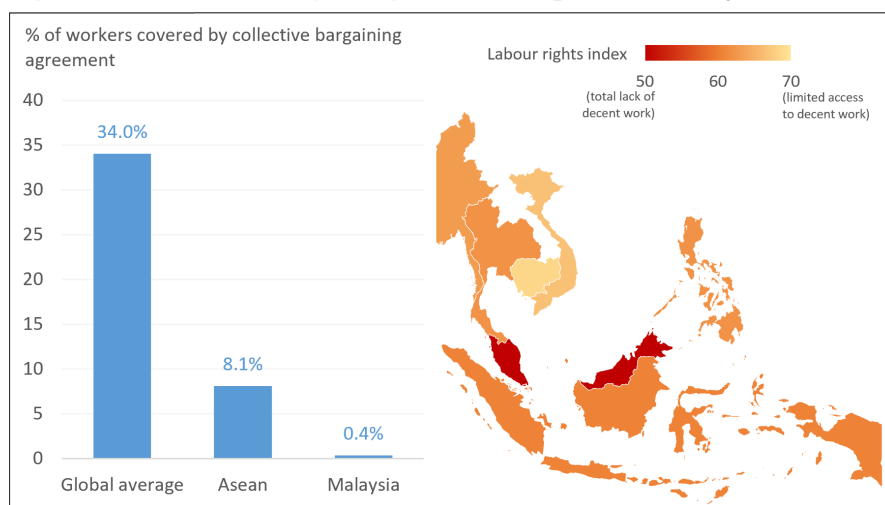
There are varying definitions of good jobs.<sup>41</sup> Broadly, a “good” job is one that allows an individual to earn a middle-class living wage while enjoying adequate stability and protection from dismissal.<sup>42</sup> For workers, good jobs provide opportunities for meaningful economic participation and upward social mobility. For society and the country at large, good jobs create wide-ranging positive externalities. The reverse is also true. An absence of good jobs breeds inequality, economic exclusion, social instability and in the longer term, political polarisation.<sup>43</sup> After all, ex-post redistribution alone is insufficient to realise shared and inclusive economic development.<sup>44</sup> The most successful countries at democratising gains from growth are those most successful at creating equitable and inclusive markets – and creating good jobs is a large part of that.

Yet, when left alone, market forces tend to undersupply good jobs.<sup>45</sup> Simply put, good jobs represent a costlier investment while the public value of good jobs is far higher than the gains captured by any one firm.<sup>46</sup> This points to the role of labour market policy and institutions incentivising the shift towards a “good jobs” equilibrium.

To start, a “good jobs” policy should first look to strengthen Malaysia’s labour market institutions and standards. Malaysia’s labour market institutions and worker bargaining power have traditionally been very weak – an outcome of decades of business-friendly policies that have acted to keep wages low and stifle worker voices.<sup>47</sup> According to data from the ILO, Malaysia has the lowest collective bargaining coverage rate in the world, with only 0.4% of workers covered by collective bargaining agreements compared with the global average of about 34% (figure 3.9).

A more holistic measure, the Labour Rights Index – which encompasses issues like fair wages, employment security, family responsibilities and maternity at work – suggests that Malaysia has the lowest labour rights standards in Asean, with a rating of “total lack of decent work” (figure 3.9).

**Figure 3.9: Collective bargaining and worker power in Malaysia**



Source: ILO, Labour Rights Index, author's estimates

Progress has been made over the last decade – the minimum wage in 2013, EIS in 2017 and recent amendments to the Employment Act 1955.<sup>48</sup> But there remains much room for improvement. Improving enforcement of labour regulations, while improving both the policy design (regional minimum wages) and strength of labour market institutions (collective bargaining and minimum wages) will create a stronger ecosystem that incentivises higher quality employment.<sup>49</sup>

Policymakers should work to agree on a common definition for what constitutes a good job, based on local living wages and working conditions. With this, larger firms can be encouraged to report data on the quality of their jobs: salaries, hours, working conditions and gender pay gap. Similarly, in the longer term, “carrots” and “sticks” in the form of tax incentives and exclusion from government procurement can help to internalise good job externalities – increasing the willingness of firms to invest in creating more “high-road” employment.<sup>50</sup>

Local firms are the largest creator of jobs. Accordingly, a “good jobs” policy should also encourage higher job creation through improving local firm formation and new business density. At the same time, there is a sense that there has been too much focus on microenterprises and microentrepreneurs. Policymakers should support the creation of large domestic firms through acceleration efforts to expand and upgrade existing medium-sized firms. Large locally owned firms create more jobs, are more able to offer higher-quality employment and often easier to direct towards national development goals.

### **3.0 Closing thoughts**

Malaysia is only just emerging from the depths of the pandemic. Covid-19 has levelled severe and persistent impacts on Malaysia’s workers and labour markets. While the jobs recovery since the removal of movement restrictions had been quicker than expected, it has not been the tide that lifts all boats. Many disadvantaged workers continue to face worsened labour market outcomes than before the crisis.

Despite recent efforts to strengthen labour standards, Malaysian workers continue to contend with low bargaining power and deep-seated structural inequities. As Malaysia sets its sights towards attaining a higher-wage equilibrium, policymakers now face a difficult choice between taking the “high road” and the “low road”.<sup>51</sup> The high road is the path of stronger labour market institutions. Focusing on building local competitiveness, creating pathways to productive employment and aligning private interests with broader sociodevelopmental goals. Taking the low road means a backslide towards a low-wage, low-cost model, along with pro-business policies and weaker labour market institutions.

## Notes

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<sup>39</sup> McKenzie, *How effective are active labor market policies in developing countries?*

<sup>40</sup> Ibid.

<sup>41</sup> The "good jobs" term is used more commonly in the labour and development economics literature; Congdon, W. J., Scott, M. M., Katz, B., Loprest, P. J., Nightingale, D. S., & Shakespre, J. (2020). *Understanding good jobs: A review of definitions and evidence*. Urban Institute. <https://www.urban.org/research/publication/understandinggood-jobs-review-definitions-and-evidence>; Rodrik, D. (2020). *Building a good jobs economy* [HKS Working Paper No. RWP20-001]. <https://www.hks.harvard.edu/publications/building-good-jobs-economy>

<sup>42</sup> This related to concepts like "high-road" employment, job quality and high-performance work organisation (HPWO) – see Osterman, P. (2018). In search of the high road: Meaning and evidence. *ILR Review*, 71(1), 3–34. <https://doi.org/10.1177/0019793917738757>

<sup>43</sup> Dal B'ò, E., Finan, F., Folke, O., Persson, T., & Rickne, J. (2019). *Economic losers and political winners: Sweden's radical right*. <https://www.bde.es/f/webpi/SES/seminars/2019/Fich/sie20191009.pdf>

<sup>44</sup> Acemoglu, D. (2019). *It's good jobs, stupid* [Economics for Inclusive Prosperity Research Brief]. <https://econfp.org/wp-content/uploads/2019/06/Its-Good-Jobs-Stupid.pdf>

<sup>45</sup> Ibid.

<sup>46</sup> Rodrik, *Building a good jobs economy*.

<sup>47</sup> Hector, C. (2017, November 17). How the British suppressed the Malayan labour movement. *MalaysiaKini*. <https://www.malaysiakini.com/news/402317>

<sup>48</sup> Lee, M. H. (2022, August 4). Women might pay the price of employment 'progress'. *The Edge Markets*. <https://www.theedgemarkets.com/article/my-say-women-might-pay-price-employment-progress>

<sup>49</sup> Osterman, In search of the high road.

<sup>50</sup> Ibid.

<sup>51</sup> Ibid.





# 4 The changing nature of work: an overview of informal employment in Malaysia<sup>1</sup>

Amanina Abdur Rahman & Alyssa Farha Jasmin

Informal employment or work that falls outside the ambit of standard employment contracts is not a new feature of the global economy. What is striking, however, is its rapid rise in recent decades, particularly in developed countries in which standard employment contracts and relationships have been the norm. In contrast, informal employment has always been more prevalent in emerging and developing countries than in developed countries (OECD/ILO, 2019). Globalisation, rapid technological advancement, and social and demographic changes are among the factors that have contributed to the increasing diversity and fluidity of work. More importantly, diversity has presented a major challenge to employment-based protection policies – from which informally employed workers are typically excluded – in countries at all levels of development (World Bank, 2019b). Informally employed workers can be working in either the formal or the informal sector. The International Conference of Labour Statisticians (ICLS) provides standards and guidelines on the definition and measurement of informal employment (International Labour Organisation [ILO], 2013). The conceptual framework for informal employment is illustrated in figure 4.1.

Following the 17th ICLS guidelines, the formality status of own-account workers, employers, contributing or unpaid family workers and members

of producers' cooperatives depends on the formality status of the type of enterprise they are working in.<sup>2</sup> In comparison, the formality status of employees depends on the conditions of employment. Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income tax, social protection or entitlement to certain employment benefits (such as, advance notice of dismissal, severance pay, paid annual or sick leave). In practice, countries use different indicators to determine the formality of employment (figure 4.2). Of the indicators in figure 4.2, Malaysia uses four: social security coverage, paid annual leave, paid sick leave and paid maternity leave.<sup>3</sup>

Informal employment includes gig employment, which refers to non-standard employment typically facilitated through digital labour platforms (ILO, 2021). Gig employment is usually flexible and based on short-term, temporary arrangements between organisations and individuals. There are two broad categories of digital labour platforms: online web-based platforms and location-based platforms (ILO, 2021). Through these platforms, three types of tasks can be performed: (i) digital microtasks, (ii) freelance or digital work, both hosted on online web-based platforms, or (iii) location-based work, hosted on location-based platforms. Digital microtasks refer to simple tasks that do not require specific skills, such as data entry or image processing. Freelance work refers to skilled digital work, such as website development, graphic design or software testing. Location-based work refers to work enabled through digital means (typically through an app) but needs to be performed on site, such as ride-hailing, delivery and domestic services.

The rapid rise of informal employment, with gig employment at the forefront, raises concerns over workers' protection. Social protection in many countries, including Malaysia, is traditionally based on formal and fixed employment. Thus, the rise of temporary and other types of non-standard employment arrangements that do not provide workers with social protection, such as retirement savings, employment injury insurance, health insurance and other benefits, also increases their vulnerability to health and financial shocks.

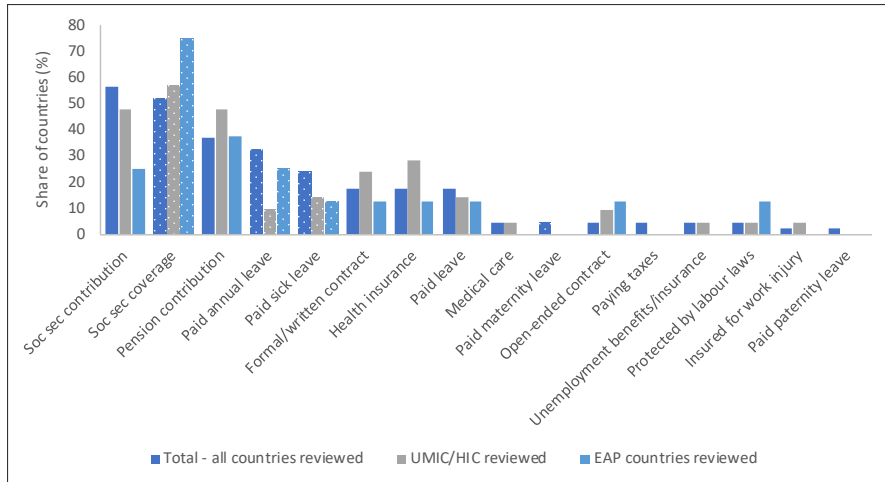
**Figure 4.1: Conceptual framework for informal employment**

Production units by type	Status in employment											
	Employers		Employees		Own-account workers		Unpaid family workers		Members of producer's cooperatives			
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal		
Formal sector enterprise	Dark Blue	Light Blue	Grey	Light Blue	Dark Blue	Light Blue	Grey	Dark Blue	Dark Blue	Light Blue		
Informal sector enterprise	Grey	Dark Blue	Grey	Light Blue	Grey	Dark Blue	Grey	Dark Blue	Grey	Dark Blue		
Households	Grey	Dark Blue	Grey	Light Blue	Grey	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue		
<table border="0" style="width:100%; text-align:center;"> <tr> <td style="width:33%;"> By definition an impossible combination</td> <td style="width:33%;"> Informal employment</td> <td style="width:33%;"> Formal employment</td> </tr> </table>										By definition an impossible combination	Informal employment	Formal employment
By definition an impossible combination	Informal employment	Formal employment										

Source: Adapted from ILO (2013)

Note: Informal sector enterprises include all household unincorporated enterprises, excluding households employing paid domestic workers. It is defined by the 15th ICLS resolution. Households include those producing goods exclusively for their own final use and those employing domestic workers.

**Figure 4.2: Indicators used to define informal employment**



Source: Authors' analysis using OECD/ILO (2019) and national statistics offices

Note: The patterned bars reflect indicators used in Malaysia. Calculations are based on 46 countries, including Europe and Central Asia, Latin America and the Caribbean, East Asia and the Pacific.

This chapter provides an overview of informal employment in Malaysia that could be used to inform policies and programmes to support the protection and productivity of informally employed workers. The next section defines informal employment in Malaysia. This is followed by an outline of the trends in informal employment over the years, a description of the employment characteristics, and the policies and programmes in place. The chapter concludes by elaborating on four main messages. First, informally employed workers are not homogenous and policies should allow and cater for this heterogeneity. Second, there is some evidence that informally employed workers are less productive than the formally employed. Third, informally employed workers are more economically vulnerable than the formally employed, reemphasising the importance of government support, particularly during times of crises. Fourth, Malaysia has made important progress in providing individual-based protection and new approaches should be explored and tested further.

## **1.0 Defining and measuring informal employment**

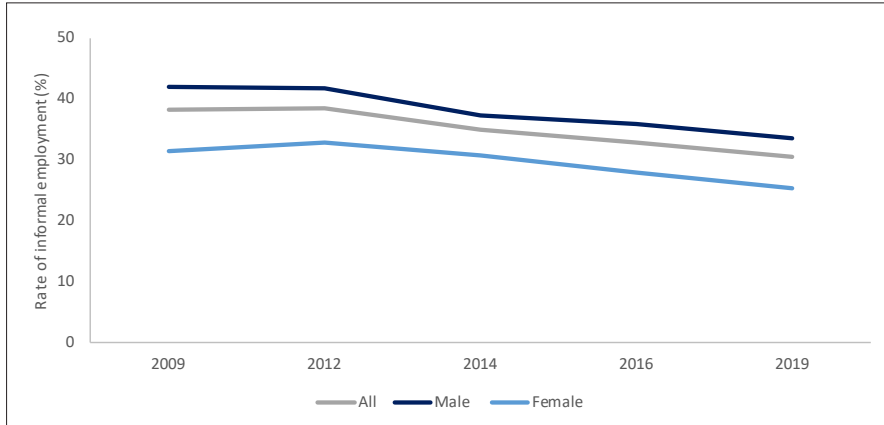
For the purpose of this chapter, an informally employed worker is defined as one without access to social insurance (i.e. pension, retirement savings or employment injury insurance) or unpaid family worker or an employer or own account worker in an informal sector enterprise. In the case of Malaysia, social insurance typically includes coverage from the Employees Provident Fund (EPF) or Social Security Organisation (Socso). This definition is consistent with international definitions. Figure 4.2 shows that out of 46 countries, more than half include (the lack of) social security coverage as one of the characteristics of informal employment. Registering a worker for a social security scheme means that in the event of an economic shock, such as during the Covid-19 pandemic, the worker would be identifiable to the government for the purpose of channelling economic support, such as targeted cash transfers. The definition used here includes workers in all sectors, including agriculture.<sup>4</sup>

### **1.1 Trends in informal employment**

While globally, there has been a rise in non-standard forms of employment, data for Malaysia suggest that the rate of informal employment has been

declining. Figure 4.3 shows that it declined from 38.2% in 2009 to 30.5% in 2019 – the rate in 2019 translates into about 4.6 million workers.<sup>5</sup> The same figure shows that the rate of informally employed men has consistently been higher than women. In 2019, the gap between the two stood at 8.3 percentage points.

**Figure 4.3: Rate of informal employment, 2009-2019**

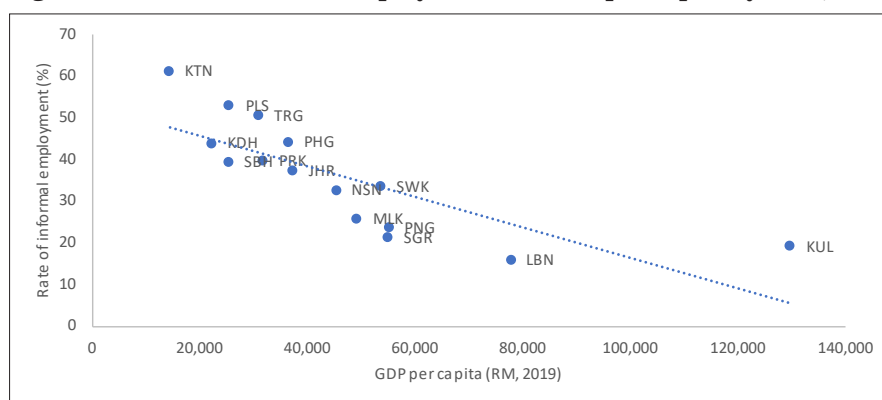


Source: Authors' calculations using the Household Income Survey (Department of Statistics Malaysia, DOSM)

As mentioned previously, those in informal employment are those who do not have social insurance coverage. Thus, the declining rate of informal employment over the years may be partly due to programmes implemented by EPF and Socso to protect informally employed workers (see section 3.0). Specifically, in 2010, EPF introduced a voluntary contribution programme known as Skim Persaraan 1Malaysia (SP1M), which has since been rebranded to i-Saraan in 2018, while Socso introduced the employment injury and disability insurance for self-employed workers called the Self-Employment Social Security Scheme (SESSS) the same year. The number of members enrolled in i-Saraan and SESSS has been increasing since their inception. Hence, while the downward trend of the rate of informal employment is likely due to an increase in the creation of formal jobs over time, the declining rate of informal employment between 2016 and 2019 is partly due to the increase in EPF and Socso coverage through i-Saraan and SESSS.

In Malaysia, the less-developed states have higher rates of informal employment. Figure 4.4 shows that there is a negative relationship between GDP per capita and the rate of informal employment at the state level. The rate of informal employment is higher in more rural and less developed states, such as Kelantan and Perlis at 59.3% and 50.4% respectively. The informal employment rate is substantially lower in the more developed states of Kuala Lumpur, Selangor and Penang at 15.6%, 17.8% and 21.2% respectively. The correlation coefficient of the relationship is -0.78, which is relatively high.

**Figure 4.4: Rate of informal employment and GDP per capita by state, 2019**



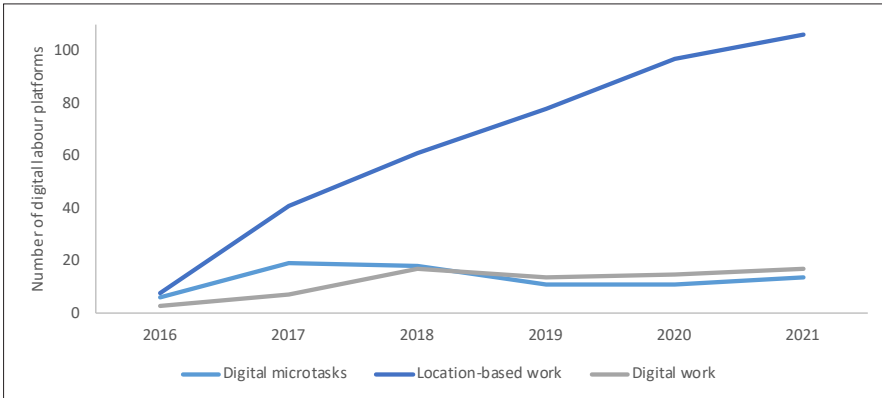
Source: Authors' calculations using the Household Income Survey (DOSM)

This highlights one of the positive aspects of informal employment. In the absence of sufficient formal employment opportunities, informal employment provides an alternative to sustain livelihoods. The same argument is made in describing informal employment as a shock absorber at times of crises (McCaig & Pavcnik, 2021). On the other hand, even though the relationship is not causal, it does suggest lower levels of productivity in states with higher rates of informal employment.

Despite the decrease in the informal employment rate over time, data from the Malaysia Digital Economy Corporation (MDEC) reflect the increasing prevalence of employment through digital labour platforms, or gig employment. Of the three broad categories of digital labour platforms and associated work, location-based work has seen the largest growth, both in terms of number of platforms and number of workers (figure 4.5

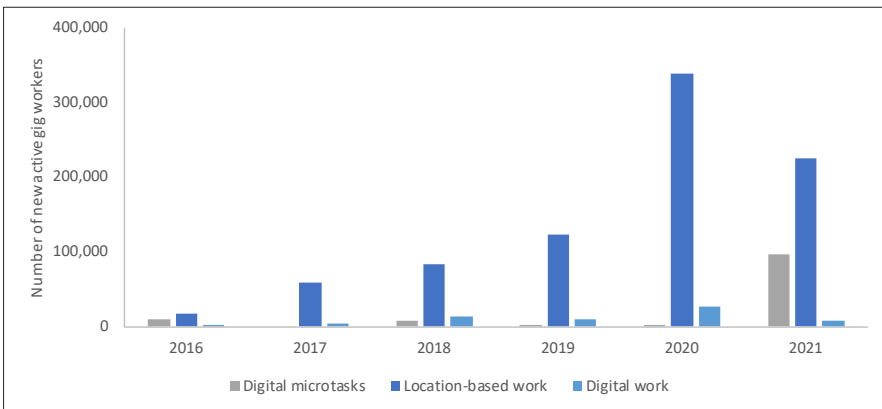
and 4.6). In 2021, there were 106 digital labour platforms (equivalent to 77.4% of all platforms) facilitating location-based work registered with MDEC. In the same year, the share of gig workers performing location-based work was 68.1%. The predominance of location-based work in Malaysia, particularly ride-hailing and delivery services, is apparent in the widely dominant notion that gig work colloquially refers to the two types of work.<sup>6</sup>

**Figure 4.5: Number of digital labour platforms registered with MDEC, 2016-2021**



Source: MDEC

**Figure 4.6: Number of new active gig workers working on MDEC’s platform partners, 2016-2021**

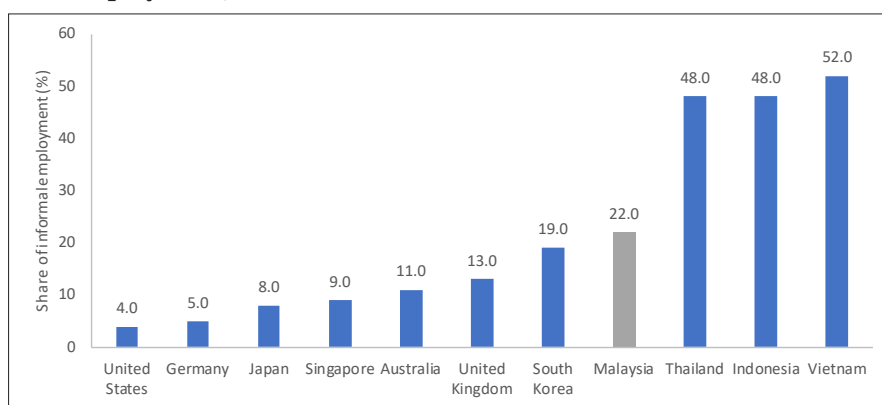


Source: MDEC

Note: New active gig workers are defined as income earners on digital labour platforms registered with MDEC

There is some indication that informal employment in Malaysia is higher than in more developed countries but lower than regional peers, which are less developed. Figure 4.7 shows that own account workers and unpaid family workers made up about 22% of employment in 2019. This is higher than more developed countries, such as the United States, Germany and Japan. However, this share is lower than in less-developed regional peers, such as Thailand, Indonesia and Vietnam, which are known to have high rates of informal employment.

**Figure 4.7: Own account workers and unpaid family workers as a share of total employment, 2019**

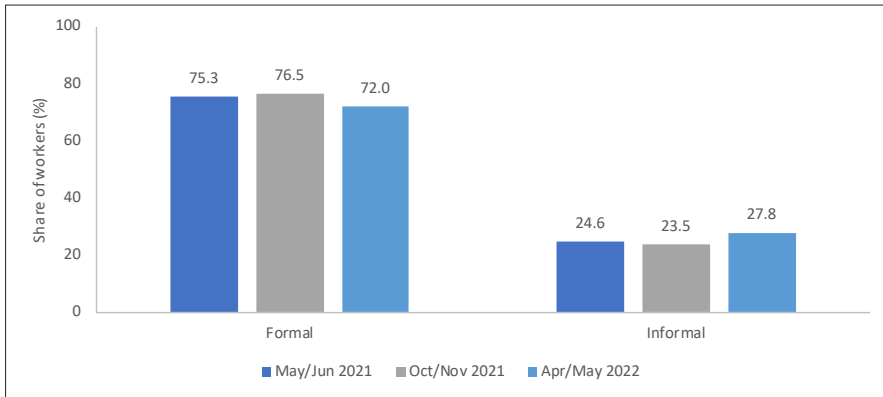


Source: ILOSTAT and Labour Force Survey (DOSM)

Data collected by the World Bank (2021) during Covid-19 through a high frequency phone survey (HiFy) found that the share of informally employed workers increased throughout the pandemic and even as the economy gradually recovered in mid-2022 (figure 4.8). Moreover, the same dataset showed that people not working at the start of the pandemic were more likely to have obtained informal jobs rather than formal jobs during May-June 2021 (World Bank, 2021). This suggests that for those outside the labour force during a crisis, it may be easier to access informal jobs. Informal jobs, therefore, served an important role of providing these new entrants with the means to earn an income or as a shock absorber during a crisis. Nonetheless, informal jobs do not offer adequate protection and may not be ideal in the longer term. Their more precarious and less remunerative nature will be discussed in section 2.1.



**Figure 4.8: Share of workers by employment status during Covid-19**



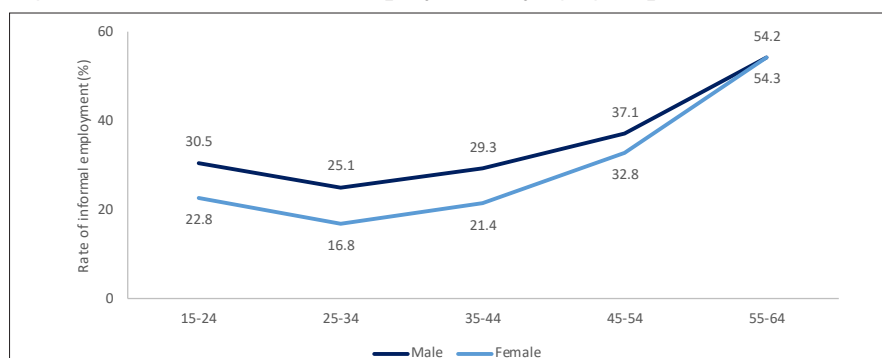
Source: World Bank (2021)

## 2.0 Profiles of informally employed workers

Informal employment is more likely among youth and older persons. Figure 4.9 shows that for both men and women, the informal employment rate is higher among those aged 15 to 24, compared with 25-34 and 35-44. This is plausibly due to informal employment in the transition between secondary school and tertiary education, which typically occurs after the age of 17. After 44, the informal employment rate increases substantially, peaking at about 54% for those 55 to 64. This is consistent with earlier research, which found that the share of self-employed workers – who are more likely to be informally employed – increases with age (World Bank, 2020). Further, data collected by the Institute of Labour Market Information and Analysis (ILMIA, 2019) suggest that 53.3% of respondents above 40, who are interested in working longer, plan to be self-employed.<sup>7</sup> Qualitative evidence indicates that many older workers in Malaysia opt for self-employment after they have reached the minimum retirement age of 60, partly because of more flexible working hours (ILMIA, 2019). At the same time, the minimum retirement age of 60 appears to act as a strong signal to retire to both employers and employees, buttressed by the EPF minimal withdrawal age (Geppert et al., 2019; ILMIA, 2019; World Bank, 2020). This may decrease both the opportunity and the preference for formal employment as they grow older.

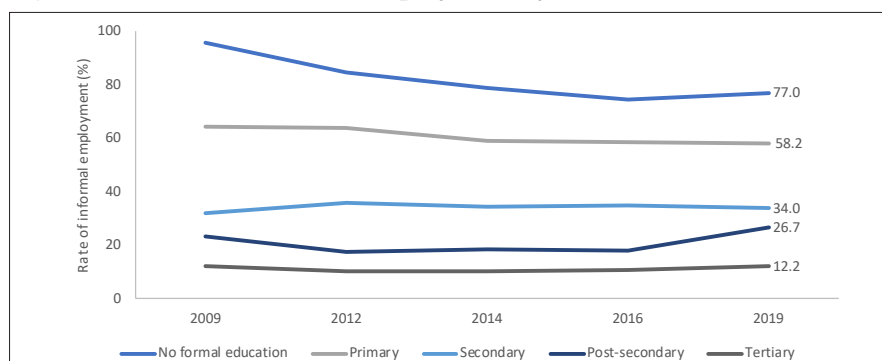
Informal employment is also higher among those with lower levels of education, consistent with the largely mid-skilled nature of informal employment in Malaysia. Figure 4.10 shows that the informal employment rate is highest among workers with no formal education at 77%. The rate is lower for workers with higher levels of education and lowest among those with tertiary education at 12.2%. This is consistent with the occupational skill level of informally employed workers, with about 70% of the informally employed in mid-skilled jobs. In comparison, 18% hold low-skilled jobs and 13% high-skilled jobs. This data also reinforces the finding of the predominance of location-based work compared to digital work – which typically requires higher levels of education and skill – on digital labour platforms. The decline in the rate of informal employment among workers with either no formal education or primary education

**Figure 4.9: Rate of informal employment by age group, 2019**



Source: Authors' calculations using the Household Income Survey (DOSM)

**Figure 4.10: Rate of informal employment by education level, 2009-2019**

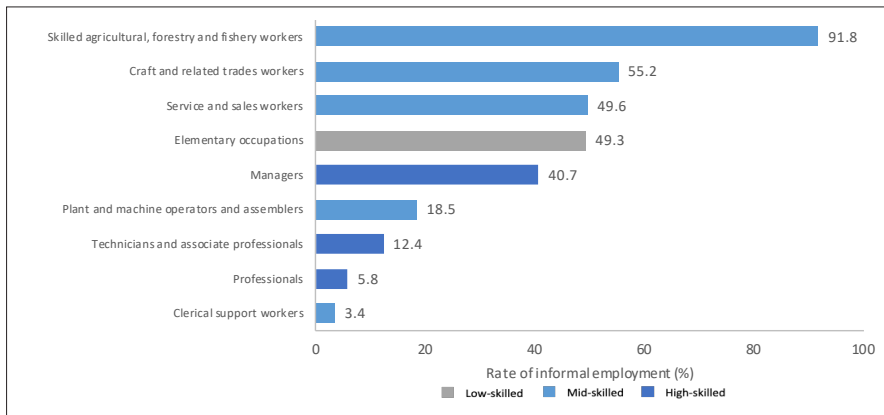


Source: Authors' calculations using the Household Income Survey (DOSM)

over time is reflective of the decline in the rate of informal employment overall (see figure 4.3).

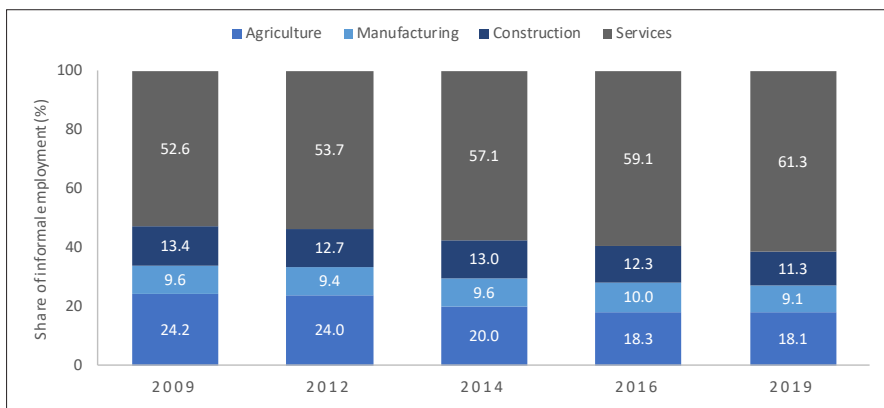
The rate of informal employment is highest among workers in agricultural occupations at 91.8% followed by craft and trade workers at 55.2% (figure 4.11). These jobs are also typically mid-skilled jobs.<sup>8</sup> At the same time, informally employed workers largely comprised of those working in the services sector, taking up 61.3% of the share in 2019, followed by agriculture, construction, manufacturing and mining.

**Figure 4.11: Rate of informal employment by occupation, 2019**



Source: Authors' calculations using the Household Income Survey (DOSM)

**Figure 4.12: Share of informal employment by sector, 2009-2019**



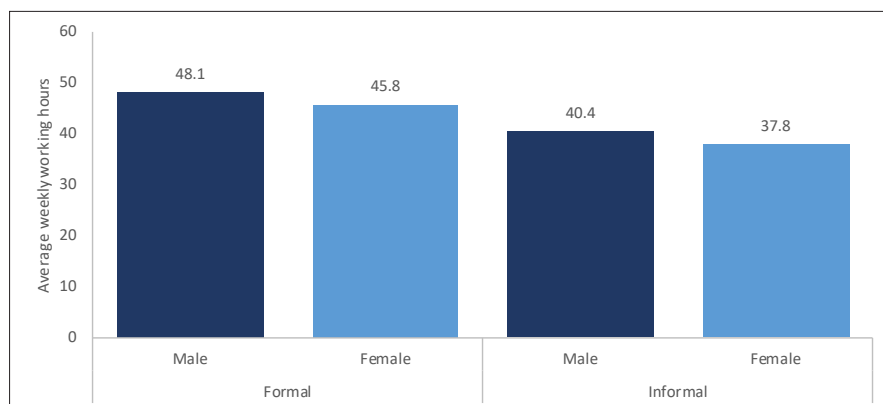
Source: Authors' calculations using the Household Income Survey (DOSM)

Note: The share of informal employment in the mining sector is very low, at 0.2% in 2019

## 2.1 Characteristics of informally employed workers

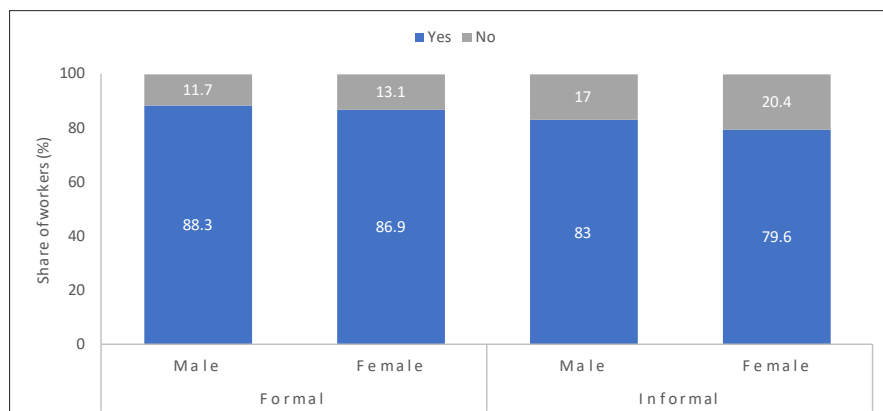
On average, informally employed workers work less than formally employed workers and appear less willing and able to work more hours. As shown in figure 4.13, formally employed workers work about eight hours more per week compared with the informally employed, regardless of sex. At the same time, figure 4.14 shows that a slightly higher share of informally employed workers are less willing or able to work more hours. This may reflect the fact that some workers choose to be informally

**Figure 4.13: Average weekly working hours by type of employment and sex, 2017**



Source: Authors' calculations based on Labour Force Survey (DOSM)

**Figure 4.14: Willingness and ability to work more hours by type of employment and sex, 2017**



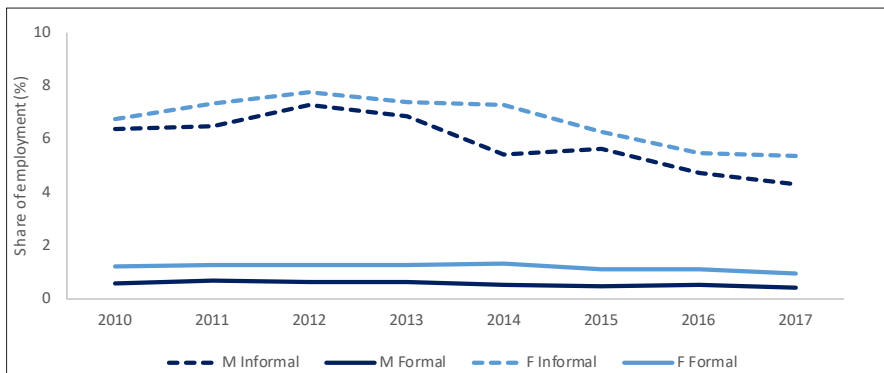
Source: Authors' calculations based on Labour Force Survey (DOSM)

employed because they would not need to or are unable to work full time. Informally employed women are also more likely to work less hours and less willing to work more hours, possibly because of caregiving and household responsibilities (World Bank, 2019a).

Both time- and skill-related underemployment is higher among informally employed workers with a majority experiencing skill-related underemployment. Time-related underemployment captures the share of workers working less than 40 hours a week who are willing and able to work more hours. In 2017, the time-related underemployment rate was 4.8% for informally employed workers and 0.6% for formally employed workers, and slightly higher for women compared with men (figure 4.15). Skill-related underemployment, defined as the share of workers with tertiary education working in mid- or low-skilled jobs, is also higher among informally employed workers. In 2019, the skill-related underemployment rate stood at 69.2% for informally employed workers and 21.6% for formally employed workers.

The relatively rapid increase in the underemployment rate of informally employed workers has led to a widening of the gap in the underemployment rate between informally and formally employed workers, from 18.5 percentage points in 2010 to 46.7 in 2019. The skill-related underemployment rate is particularly high for informally employed women at 77.2% compared with 68.9% for men. These

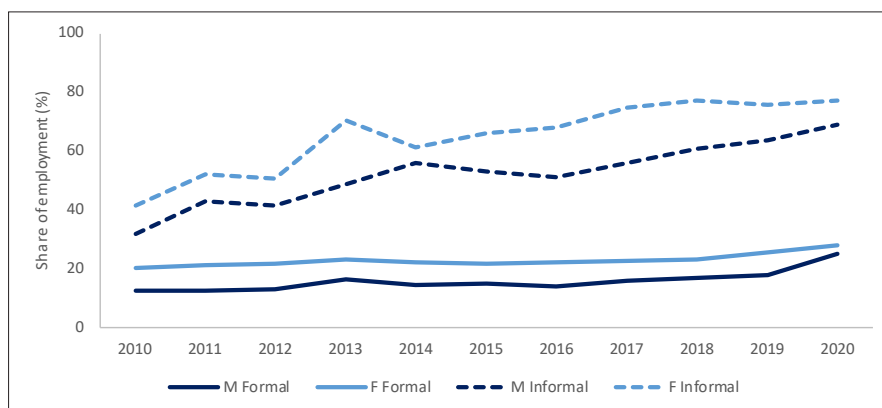
**Figure 4.15: Time-related underemployment by type of employment and sex, 2010-2017**



Source: Authors' calculations using the Labour Force Survey (DOSM)

findings suggest that the largely low- and mid-skilled nature of informal employment in Malaysia reflects an underutilisation of human capital, which can have an adverse effect on productivity (Vandeplass & Thum-Thuysen, 2019). Although skill-related underemployment is high for the economy (World Bank, 2022), its increase is driven by the high and rapidly increasing rate among informally employed workers.

**Figure 4.16: Skill-related underemployment by type of employment and sex, 2010-2020**

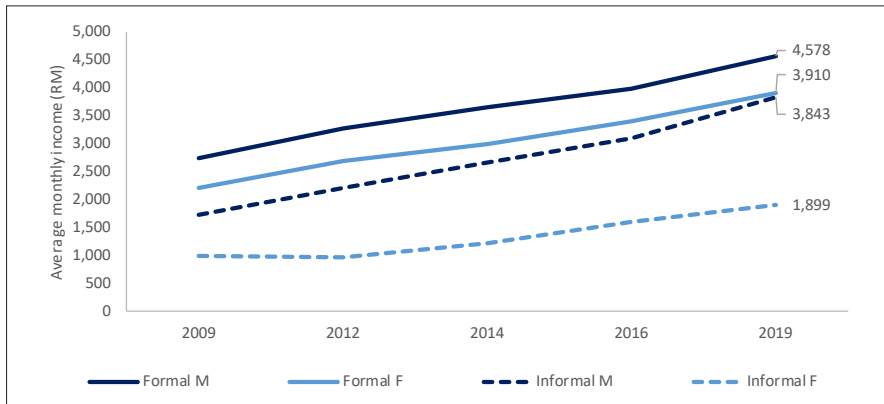


Source: Authors' calculations using the Labour Force Survey (DOSM)

Informally employed workers earn less than formally employed workers on average, even after factoring differences in working hours, education level, age, sector of employment, ethnicity and urban-rural location. Both figure 4.17 and 4.18 show that average monthly income is higher for formally employed workers compared to informally employed workers and that the gap is also higher among women. This disparity remains even after controlling for working hours, education level, age, sector of employment, ethnicity and urban-rural location, suggesting that informally employed workers are penalised for their status in employment, rather than socioeconomic characteristics and sector of employment, as shown in figure 4.18. That said, the formality premium – or the degree to which earnings are higher for formally employed workers compared with informally employed workers, after controlling for the aforementioned characteristics – has been declining over time, from 43.4% in 2009 to 30.4% in 2019. One factor contributing to the formality

premium is the skill-related underemployment, which is substantially higher for informally employed workers, particularly women. The gender gap in earnings in Malaysia is also a well-known phenomenon – between 2010 and 2017, men have consistently earned more than women, where women’s average earnings were 70.6% to 83.2% of men’s average earnings across different educational groups (World Bank, 2019a).

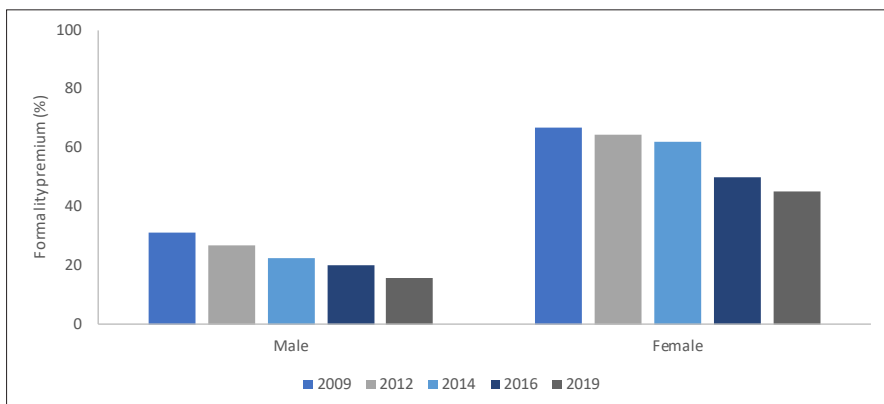
**Figure 4.17: Average monthly income by type of employment and sex, 2009-2019**



Source: Authors’ calculations using the Household Income Survey (DOSM)

Note: Unpaid family workers are excluded

**Figure 4.18: Formality premium based on hourly earnings by type of employment and sex, 2009-2019<sup>9</sup>**

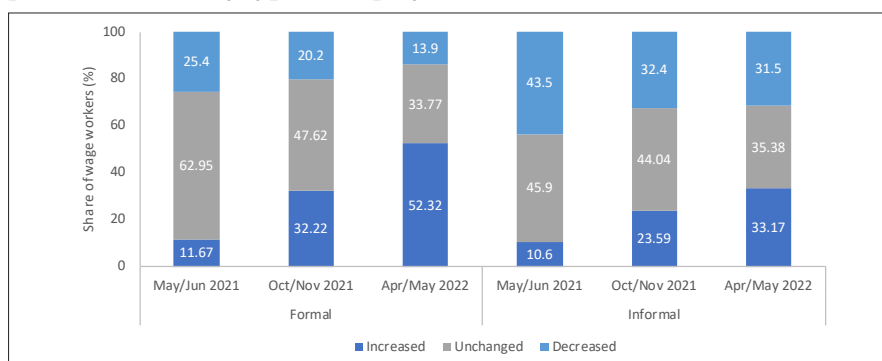


Source: Authors’ calculations using the Household Income Survey (DOSM)

Note: Unpaid family workers are excluded. The Mincer regressions control for education level, age, age-squared, sector of employment, ethnicity and urban-rural location.

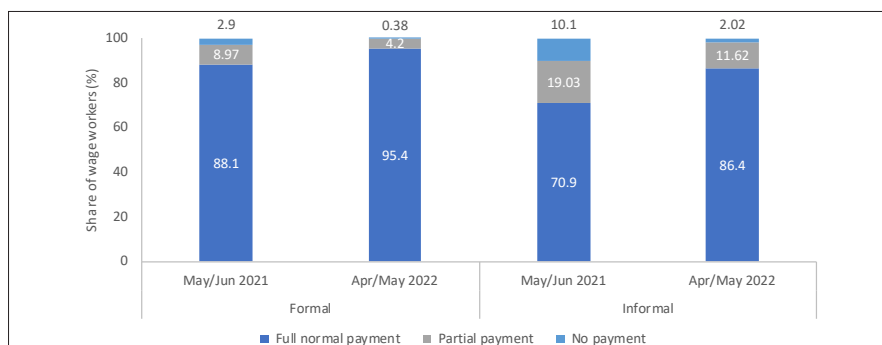
During the pandemic, informally employed workers were more likely to have experienced income reductions and irregular wage payments. As seen in figure 4.19, about 46% of informally employed workers experienced an income reduction, compared with 24% of formally employed workers. This is particularly pronounced among informally employed men (World Bank, 2021). Informally employed workers were also less likely to have received normal payments and more likely to have received no payment at all (figure 4.20). This resulted in higher probabilities of food insecurity and inability to pay rent among informally employed workers, with a more pronounced effect among those from low-income households and those who had experienced a decrease in income (World Bank, 2021).

**Figure 4.19: Share of workers and income changes compared to pre-pandemic levels by type of employment**



Source: World Bank (2021)

**Figure 4.20: Share of workers and payment received in the last 30 days by employment type**



Source: World Bank (2021)



### 3.0 Policies and programmes for informally employed workers

Malaysia has made important strides in developing policies and programmes for informally employed workers, as summarised in figure 4.21. These include Socso and EPF social insurance schemes, Job Search Allowance by the Employment Insurance System (EIS) and support for access to digital labour platforms by MDEC.

**Figure 4.21: Overview of main policies and programmes for informally employed workers**

<b>Social insurance</b> <ul style="list-style-type: none"><li>• Self-Employment Social Security Scheme (mandated and voluntary) by Socso</li><li>• i-Saraan by EPF</li></ul>
<b>Job search allowance</b> <ul style="list-style-type: none"><li>• Employment Insurance System Job Search Allowance+ (SIP EMP+)</li></ul>
<b>Digital labour platforms</b> <ul style="list-style-type: none"><li>• Job facilitation, onboarding support and training for access to digital labour platforms (eRezeki and GLOW) by MDEC</li></ul>

Source: Authors' elaboration

#### • **Employment injury and disability insurance**

SESSS was introduced in 2017 and provides the self-employed protection against employment injuries, including occupational diseases and accidents during work-related activities. It also provides temporary disablement benefits and permanent disablement benefits. Workers can make either monthly or annual contributions, with the minimum monthly payment at RM13.10 (for an insured monthly earning of up to RM1,050, and the highest at RM49.40 (for an insured monthly earning of up to RM3,950).

During the pandemic, the government increased its support for the protection of informally employed workers by offering partly and fully subsidised coverage for SESSS. In June 2020, the government announced it would subsidise 70% of the contributions for SESSS. In 2021, the government fully subsidised SESSS for selected categories of workers: delivery riders, volunteers from the military, police, public defence and

maritime sectors, mosque workers (guru takmir, noja, siak, imam, bilal and merbut), and public sector workers employed under contracts. This support was extended in 2022, with some categories of workers eligible for an 80% subsidy for SESSS and others eligible for a full subsidy.

SESSS represents an important step forward for the protection of informally employed workers and is considered a novel approach even by global standards. It moves away from the “traditional” model of employment-based protection towards individual-based protection, which is what the World Bank (2019b) suggests is needed given the changing nature of work. However, it does face several challenges. The first is the low take-up rate. In 2020, with a 70% subsidy from the government, the coverage of SESSS was 5.1% of self-employed. In 2021, when it was fully subsidised for selected workers, it went up to 16.4%. While this is a significant increase, a majority of self-employed workers remain uncovered. Moreover, this coverage was only achieved with high or full subsidisation by the government. This gives rise to the fiscal sustainability of the programme in a fiscally constrained environment (see World Bank, 2022).

- **Retirement savings**

In 2010, EPF, which is Malaysia's national retirement savings fund catering to the private sector, introduced SP1M, a retirement savings programme for the self-employed, which later rebranded to i-Saraan in 2018. i-Saraan is a voluntary matching contribution scheme through which EPF members, who are self-employed and do not earn a regular income, can make voluntary contributions of up to RM60,000 per year. The government provides a 15% matching contribution for all eligible workers – including those without fixed employer contributions and under 60 – of up to RM250 per year. This matching contribution is valid between 2018 and 2022. Registration and contributions to i-Saraan can be made both online and in person. Workers can make online transfer directly through their digital banking accounts with nine banks. Recurring contribution options are available for five out of these nine banks. Workers are also able to make contributions to i-Saraan at the counter in four banks and through EPF.

Despite efforts to increase coverage and accessibility, take-up remains low. Even though the absolute number of i-Saraan members has increased over time, coverage as a share of employment remains low. The share of i-Saraan members increased from 0.7% to 2% of all employed workers between 2017 and 2020. This is equivalent to 3.2% and 10.6% of all self-employed workers, defined as own account workers and unpaid family members. The same figure shows that the coverage of i-Saraan is higher among women, likely because of the simultaneous i-Suri matching contribution targeted at housewives.<sup>10</sup> As of 2021, there were 329,202 i-Saraan registrants (EPF, 2021). This represents about 2.2% of employment and 12% of self-employment in 2021.

EPF has also partnered with digital labour platforms to boost coverage of retirement savings. EPF partnered with Grab and GoGet, taking different approaches with each platform. Grab introduced matching contributions for its workers and organised a campaign to promote saving with EPF. There are also arrangements to set up mobile EPF teams at Grab offices to facilitate registration. The collaboration between EPF and GoGet is even more dynamic. Together, they have introduced a “contribute as you earn” model, through which workers on GoGet (referred to as GoGetters) have the option of contributing a share of their earnings from every job through automatic deductions. Further, GoGet introduced an easy registration process, allowing GoGetters to be opted-in to the programme with their consent. Finally, information on the importance of retirement savings is also shared on the app, alongside other information that may encourage GoGetters to enrol.

These novel approaches utilise behavioural techniques to support coverage and influence people to make choices that contribute towards their retirement savings. Other methods include a simplified registration process, townhall sessions with on-site registration and setting i-Saraan as a key performance indicator for EPF offices. These methods appear to have been successful in increasing EPF membership by workers on these platforms, which is an important first step in encouraging retirement savings. There remains to be room to increase the number of registered workers actively contributing and subsequently increasing the adequacy of their retirement savings. Nonetheless, these initiatives illustrate

the possibility of increasing coverage without the need to impose any mandate. This could also encourage other digital labour platforms to implement similar novel approaches to improve their workers' coverage.

- **Job search allowance**

In 2021, the government introduced unemployment assistance<sup>11</sup> in the form of job search allowance for non-Socso contributors, which continued in 2022 with a longer duration and a work preparation allowance. In 2022, the programme, referred to as SIP EMP+ (Sistem Insurans Pekerjaan Elaun Mencari Pekerjaan+ [Employment Insurance System Job Search Allowance+]) was opened to individuals aged 18 to 60 who had yet to register or contribute to Socso after 1 June 2021 and were not recipients of other forms of financial assistance administered by the EIS office. Beneficiaries are required to attend at least one interview for each allowance received, up to a maximum of three instalments of RM300. If a beneficiary is hired within four months, he is eligible to receive a one-off work preparation allowance of RM400. Beneficiaries are required to self-report attendance to interviews and job offers, with the EIS conducting spot checks. In effect, SIP EMP+ incentivises formal employment, or formalisation. Other than the financial assistance, beneficiaries are also assigned to a counsellor.

- **Digital labour platforms**

e-Rezeki is a digital labour platform aggregator which provides onboarding support and access to digital microtasks, location-based work (used interchangeably with the term “digitally enabled work”) and digital work hosted by digital labour platforms. These types of work are typically informal, as they do not provide automatic access to social insurance, leaving those who do not have other (formal) jobs uncovered. Hosted and developed by MDEC, a government agency tasked with the development of the digital economy in Malaysia, e-Rezeki's objective is to provide opportunities to earn additional income through working online, with a focus on those in the bottom 40% of the income distribution (B40). In the 11th Malaysia Plan (2016-2020), e-Rezeki was listed as one of the strategies to raise the income and wealth of B40 households. In the 12th Malaysia Plan (2021-2025), its importance was reiterated but with a slight shift in

focus. e-Rezeki was listed as one of the strategies to provide skills and opportunities to Sabahans and Sarawakians, who live in the two lagging states,<sup>12</sup> and as a means to expand digitalisation with the wider goal of inclusive development.

The onboarding support, provided both online and in-person, includes familiarisation with the portal and the process of applying for tasks or jobs offered by platforms, and receiving digital payments. Given that e-Rezeki is a digital platform *aggregator* and not a digital labour platform in and of itself, its role is to familiarise workers with the different types of work and digital labour platforms through which they would be able to obtain jobs.

MDEC also introduced the Global Online Workforce (GLOW) programme, which aims to equip workers with skills to perform digital work or to become freelancers. The training modules in GLOW relate to knowledge on starting a profile as a digital freelancer, understanding the workflow, managing and improving performance, and financial management. Given the high-skilled nature of digital work, the eligibility of GLOW is limited to Malaysians aged 18 and above with computer skills, English proficiency and the specialised skills needed to perform digital work, such as programming. During Covid-19, the government channelled emergency funds towards a strengthened version of GLOW targeted at retrenched workers, those who had salary cuts and unemployed graduates for digital freelance work. The GLOW PENJANA and GLOW PEMULIH programmes were the more intensive versions of GLOW, through which participants were trained, monitored and mentored for three months. Workers trained through GLOW could bid for digital work through e-Rezeki or directly on digital work platforms.

These programmes and their prominence in the Malaysia Plans and during the pandemic, illustrate the government's recognition of the potential of digital labour platforms supporting the livelihood of workers and the economy. e-Rezeki and all versions of GLOW are fully subsidised by the government. Nonetheless, there remain gaps in the protection of these workers and concerns over their long-term sustainability – financially and as a means to providing livelihoods. This is especially true for workers who rely on digital labour platforms as their main source of income.

## 4.0 Conclusions and policy recommendations

This chapter analyses trends in informal employment, profiles and characteristics of informally employed workers, and policies and programmes implemented for informally employed workers, with the main objective of providing an overview of informal employment in Malaysia, an area in which there is little knowledge and consensus about. This knowledge base can then be used to inform policies to support the protection and productivity of informally employed workers. The main findings and policy recommendations are:

- 1. Informally employed workers are not homogenous, and policies should allow and cater for heterogeneity.** Even though informal employment is colloquially referred to as being synonymous with gig work (in particular, ride hailing and delivery services, likely due to their rapid growth and ubiquity in recent years), data show that there is diversity in informal employment. It is important to not lose sight of more “traditional” informally employed workers, such as agricultural workers and hawkers. The informal employment rate among skilled agricultural, forestry and fishery workers is 92%, the highest among all occupations. Moreover, while some informally employed workers may choose informality, others may resort to informal employment due to the lack of suitable opportunities or arrangements to access formal employment. For example, older people may resort to informal employment due to difficulties in obtaining formal employment after the minimum retirement age of 60 (World Bank, 2020).

Women, particularly those after childbearing age, may opt for informal employment – which may underutilise their skills, thus leading to the high level of skill-related underemployment – to have the flexibility to be able to fulfil their household responsibilities (World Bank, 2019a). Hence, it is important to consider this heterogeneity when designing policies and programmes for gig workers. Given the seasonality of their work, some agricultural workers may require more flexible payment schemes to enable access to social insurance. They may also require greater outreach and financial literacy training compared to, for instance, digital

freelancers. Moreover, different groups of workers may also experience different barriers to enter formal employment. Ageism may be a barrier for older workers and women might lack access to affordable and quality care services. All in all, it is important for policy solutions to be tailored to tackle different challenges for different workers.

- 2. There is room to increase the productivity of the informally employed, who are generally less productive than formally employed workers.** First, the rate of informal employment is higher in less-developed states, with a relatively high correlation coefficient of -0.78 (excluding Kuala Lumpur, which has an exceptionally high level of GDP per capita, the correlation coefficient is -0.91). Second, formally employed workers earn about 30% more than the informally employed, after controlling for working hours, education level, age, sector of employment, ethnicity and urban-rural location. Third, informally employed workers are more likely to experience skill-related underemployment, with the gap being 48 percentage points. The formality premium and skill-related underemployment are likely related and because the informally employed are underemployed, they are likely to earn less than their formally employed counterparts, despite having the same level of education. More importantly, both the formality premium (or informality penalty) and skill-related underemployment are higher for women, suggesting that they are more likely to take less productive informal jobs compared with men, perhaps, as previously mentioned, because of the need for more flexible employment, given their household responsibilities (World Bank, 2019a). Nonetheless, this represents an underutilisation of productive resources in the economy. One option to address this issue is to provide opportunities for skills training to the informally employed, so that they may enhance their productivity. Skills training programmes can also be targeted at women.

- 3. Government support is important for informally employed workers, who are more economically vulnerable than formally employed workers, particularly during times of crises.** Other than earning less income and no access to social insurance through employment, World Bank data collected during the pandemic show that the informally employed were more vulnerable during the period. They were more likely to have experienced income reductions and irregular wage payments. Worryingly, this vulnerability also translated into more harmful coping strategies that may reduce their households' long-term productive potential. For example, they were more likely to have reduced food consumption and sale of assets, and this was true even among those who received government assistance (World Bank, 2021). These findings emphasise the need to strengthen the social-protection system in Malaysia. Government transfers during the pandemic were inadequate to offset the effects of shocks among low-income households, particularly among informally employed workers (who were often less likely to receive government support). This finding also highlights the need to improve social insurance coverage as a mechanism to channel financial support to a population that typically eludes both employment-related databases and registries that capture the hardcore poor.
- 4. New approaches should be explored and tested to improve individual-based protection.** The Socso and EPF schemes introduced during Covid-19 for informally employed workers represent novel approaches for extending coverage, even by global standards. Still, there remains room for improvement, particularly in terms of boosting their take-up rate. The government can work with different worker groups or workers on digital labour platforms to design pilot schemes that can cater to their preferences and needs, incorporating behavioural nudges to encourage take-up. It would then be important to systematically monitor and evaluate these pilot schemes to draw lessons for remedial action or future schemes.



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## Notes

<sup>1</sup> Yashodhan Ghorpade (World Bank) provided useful inputs and Natalie Cheng (World Bank) provided excellent research assistance. The findings here are based on a study conducted by the World Bank and the Human Capital Development Division of the Ministry of Economy in Malaysia on informal employment in Malaysia. An upcoming report will further elaborate on these findings, including that on the informal employment rate.

<sup>2</sup> A discussion of the informal sector is beyond the scope of this chapter. See International Labour Organisation (2013) for a full definition of the informal sector.

<sup>3</sup> The definition of informal employment in Malaysia is available in the Informal Sector Work Force Survey Report 2019 by the Department of Statistics Malaysia (DOSM).

<sup>4</sup> As stated in the Informal Sector Work Force Survey Report 2019 published by the DOSM, the official definition of informal employment in Malaysia excludes workers in the agriculture sector, as it is traditionally viewed to be difficult to apply the criteria for formality of businesses and employment to the agriculture sector. Given that the data sources used do not allow for the measurement of the exact definition of informally employed workers, proxy measures are used. For analyses using the Household Income Survey, informal employment is proxied by private sector employees not receiving contributions to EPF or Socso, all employers and own account workers who do not report any contributions to EPF or Socso, and all unpaid family workers. For analyses using the Labour Force Survey, informal employment is proxied by all account workers and all unpaid family workers.

<sup>5</sup> The Informal Employment and Informal Sector Survey Report 2021 by the DOSM shows that the informal employment rate stood at 23.3% in 2021.

<sup>6</sup> Gomes, V. (2021, October 4). Gig economy: The perks of fractional employment. *The Edge Malaysia*. <https://www.theedgemarkets.com/article/gig-economy-perks-fractional-employment>

<sup>7</sup> A survey on gathering views on work preferences of those aged 40 years old and above was conducted by the Institute of Labour Market Information and Analysis (ILMIA) in 2018 as part of the national strategic development plan on ageing population, with a sample of 4,832 respondents.

<sup>8</sup> The skill-level associated with jobs is based on their occupational groups based on the Malaysia Standard Classification of Occupations (Masco). Occupations in Masco 1-3 are high-skilled occupations, Masco 4-8 (mid skilled) and Masco 9 (low skilled).

<sup>9</sup> The hourly earnings variable was estimated by dividing monthly earnings by average work hours per month, where average work hours have been calculated by sex, status in employment (i.e. employer, employee, or own account worker), and ethnicity using LFS microdata. These variables have been found to account for more than 50% of the variation in working hours based on an R-squared decomposition.

<sup>10</sup> Under i-Suri, housewives or their husbands can make voluntary contributions to EPF, and are eligible to a 100% matching contribution of up to RM480 per annum. As of January 2022, 24.4% of i-Saraan members are housewives.

<sup>11</sup> While the programme is implemented by the Employment Insurance System office, it is more accurately described as unemployment assistance given that workers are not required to make contributions.

<sup>12</sup> World Bank (2022) describes lagging states in Malaysia as those with relatively low levels of GDP and high levels of poverty.

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# 5 Centring women's work and care at core of recovery

Lee Min Hui & Sofea Azahar

## 1.0 Malaysia's she-cession in the pandemic

Talk of the pandemic ebbed considerably when Malaysia entered endemicity in 2022. The national conversation shifted towards recovery and rebuilding, encapsulated by the oft-heard phrase of “building back better”. But even in endemicity, the pandemic’s impacts remained painfully tangible – and within that nexus, women have been hit hardest, with chances of recovery simultaneously slow and slim.

But to what extent has “building back better” been inclusive for the recovery of women’s economic and labour outcomes? With women of different races and socioeconomic backgrounds bearing the intersection of multiple disadvantages, policies aimed at long-term recovery need to be both nuanced, comprehensive and gender-sensitive.

These are pertinent questions given that the pandemic has been uniquely disadvantageous for women. It has not only exacerbated existing inequalities but also stalled critical progress towards closing gender gaps.<sup>1</sup> Experts have since dubbed the pandemic a “she-cession” for its disproportionately negative impacts on women in the workforce.<sup>2</sup>

Since Q3 2021, countries have gradually lifted pandemic restrictions and embarked on a journey towards economic recovery. But there remains cause for concern: governments tend to rely on gender-blind

frameworks to develop policies and programmes, with little to no recognition of the prevailing power dynamics that underpin women's economic marginalisation.<sup>3</sup> In the throes of a crisis, gender-blind policy responses risk entrenching gender inequalities.<sup>4</sup> As Malaysia looks towards revitalising the economy, it has never been timelier to begin employing a gender-responsive policy approach.

This chapter will look at the impacts of the pandemic on women's labour outcomes, drawing out the ways in which they have been hit harder and continue to lag men in the endemic phase. It then provides an overview of care-centred, gender-sensitive policies to improve the circumstances for women juggling the double burden of care and paid employment. It further analyses where Malaysia stands compared with its regional peers in terms of employment-related policies to ease care work and takes a critical look at the recently amended Employment Act 1995. Finally, policy recommendations delve into creating an ecosystem of family-friendly and gender-sensitive policies through a comprehensive care policy package.

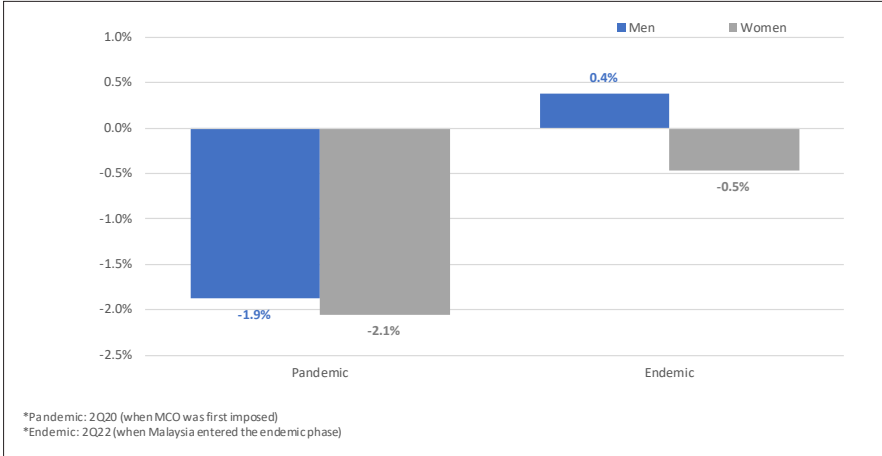
To grasp the extent to which the recovery process has been inclusive, we first consider the impacts on men and women at the height of the pandemic after lockdowns were first imposed (2Q2020) and in the endemic phase of recovery (effective 1 April 2022) in comparison to pre-pandemic levels in 2019.

In figure 5.1 and 5.2, we see that women's employment and labour force participation rate (LFPR) declines were larger relative to men, especially in 2Q2020.<sup>5</sup> This evidence indicates that women experienced more negative labour impacts because of lockdowns and the subsequent economic crisis. The data also suggest that recovery for women's labour outcomes since Malaysia entered the endemic phase has been significantly slower and yet to match men's levels.

These patterns are no different from what has been experienced by women in the rest of the world. It is a result of wider inequality patterns where women are more highly concentrated in the sectors most affected by the pandemic, with far less capacity to withstand major economic shocks because of lower incomes as well as less savings, job security and social protection access compared to men.<sup>6</sup>

**Figure 5.1: Employment-to-population ratio (percentage point change from average 2019)**

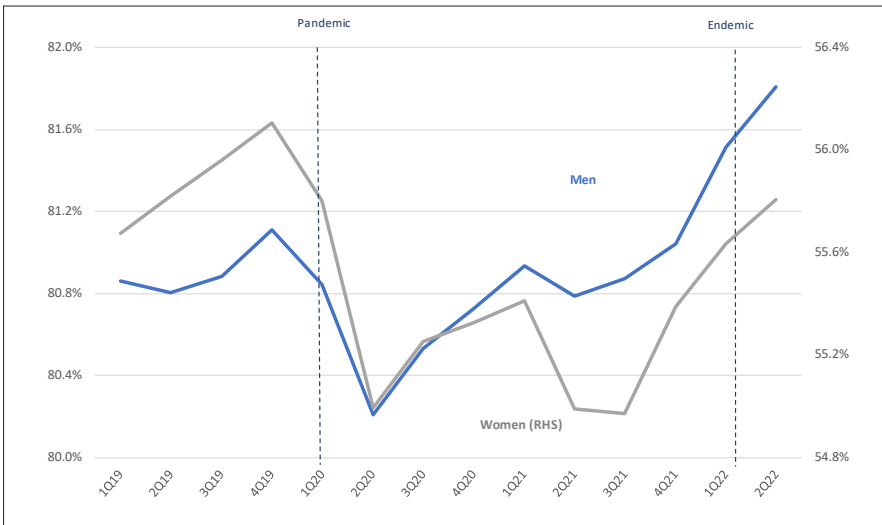
Women faced higher employment losses during the pandemic and have yet to recover as quickly as men in the endemic phase



Source: DOSM

**Figure 5.2: Labour force participation rate (%)**

Women's labour force participation rate declined more than men's during the pandemic and remains lower



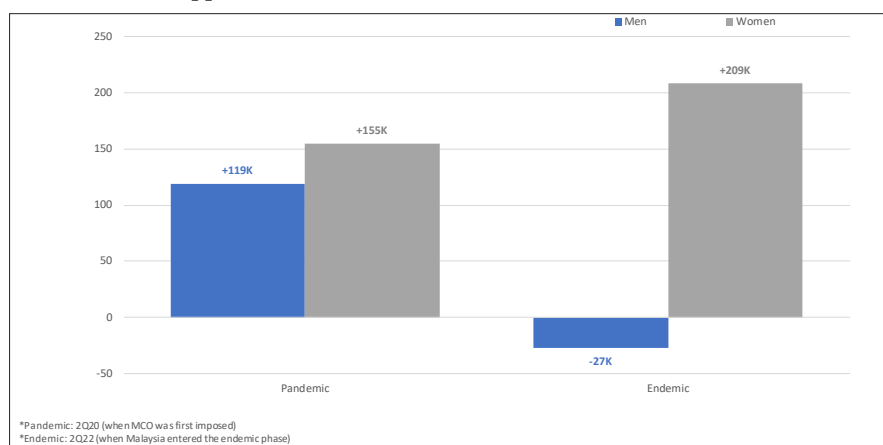
Source: DOSM

Underpinning these disadvantages lie the crux of the problem: women are usually the ones saddled with childcare responsibilities and the pandemic has only made this more burdensome as schools and childcare centres were shuttered during the lockdowns. In Malaysia, research indicates that each additional hour of unpaid care work in the home for women results in less time for participation in the labour force as well as diminished income.<sup>7</sup> These factors combined made women more vulnerable to cuts and lay-offs than men during the pandemic.<sup>8</sup>

The circumstances women were subjected to prior to the pandemic likely played a major role in shaping pandemic outcomes. Malaysian women were already dropping out of the labour force long before the pandemic – citing household duties as one of the key reasons for doing so,<sup>9</sup> with numbers recording sharp spikes during the pandemic.<sup>10</sup> Now in the endemic phase, these numbers have only climbed higher, relative to pre-pandemic levels (figure 5.3). In 2021, housework and family obligations remained one of the key reasons for women choosing not to seek work alongside schooling-related reasons or lack of interest, with these numbers increasing significantly in comparison to pre-pandemic levels (figure 5.4).

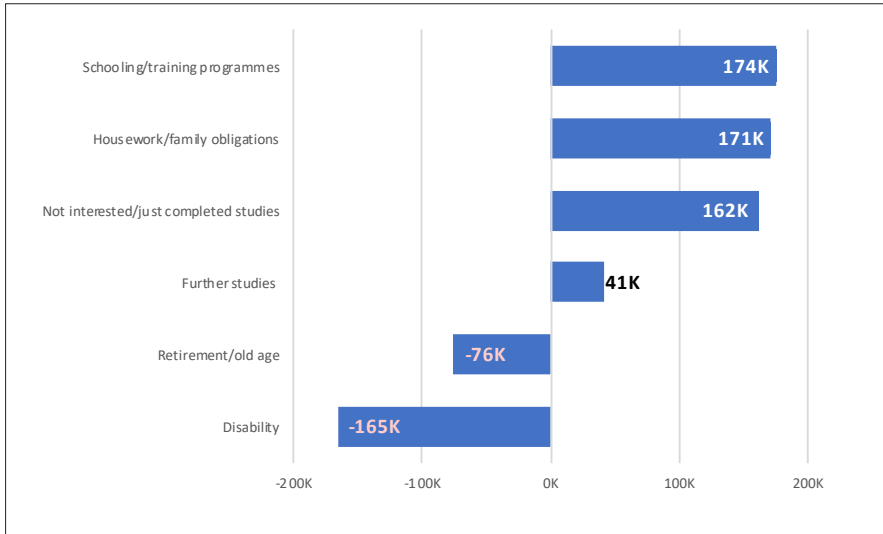
**Figure 5.3: Change in number of persons in endemic period (2Q22) vs beginning of pandemic (2Q20)**

More women dropped out of the labour force



Source: DOSM

**Figure 5.4: Difference in number of persons, 2021 vs 2019**  
Women's reasons for not seeking work or participating in the labour force



Source: DOSM

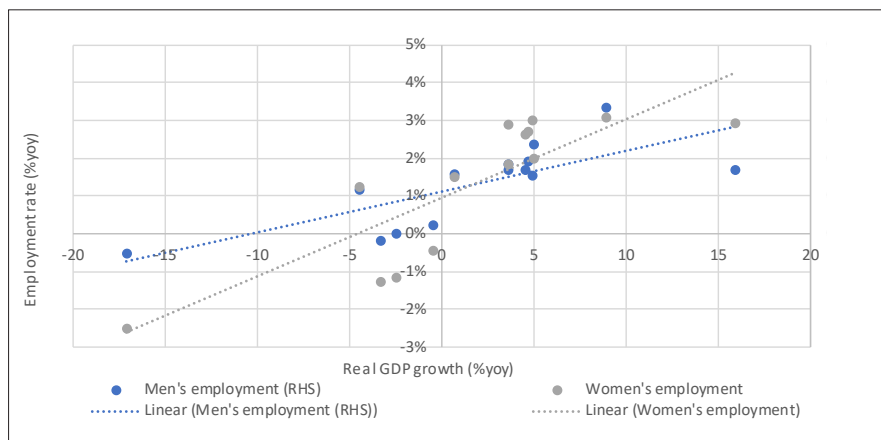
The constraints of care work and the pandemic's economic pressures could likely spell further disadvantages for women in the long run. Global research indicates that career disruptions during recessions or crises tend to be more severe<sup>11</sup> and might pose long-term dampening effects on earnings and employment.<sup>12</sup>

There is also a growing camp of experts who believe that the pandemic played an “equalising” role in the division of labour in the home, as fathers have had to spend more time on childcare during lockdowns.<sup>13</sup> But even with both parents working from home during the pandemic, mothers still took up the bulk of care work.<sup>14</sup> Additionally, telecommuting remains a luxury for many workers and it is difficult to extend these conclusions to Malaysia – a country that has been ranked relatively poorly in the gender gap index consecutively, and whose society remains persistently shaped by gender norms.<sup>15</sup>

Despite that, there are some small promising signs that GDP recovery has benefited women to some extent (figure 5.5). There is a positive correlation between GDP growth and men's and women's employment,

indicating that the latter's employment rate is increasing along with the recovery in GDP growth.

**Figure 5.5: Correlation between GDP growth and employment**



Source: DOSM

However, it is important to note that this correlation could likely be a symptom of the volatility of women's employment and sensitivity to economic growth, due in part to their concentration in the service sector.<sup>16</sup> While Malaysia's GDP recovered in the endemic period, its correlation with women's employment does not paint a full picture of labour recovery for women, especially since the indicators discussed earlier show that women have yet to recover to men's levels.

It is important to analyse critically whether *all* women have benefited from Malaysia's recovery since it entered endemicity. The reality is that sub-groups of women will likely remain locked out of the recovery process, especially the low-income and those with lower levels of education, whose chances diminish if they live with disabilities.<sup>17</sup> For Malaysia's building back better to be more inclusive, a gender-responsive approach that centres care and family-friendly policies must be at the core of consolidated policy efforts and implementation.



## 2.0 Centring care in world of work

With the pandemic laying bare the ways in which care work both upholds the economy and determines how people fare in a crisis, recovery cannot be fully inclusive without significant investments in care by governments and employers. By centring the vital role of care in people's lives, family-friendly policies provide a crucial path towards making the world of work more inclusive. It recognises that people with caregiving responsibilities, especially women, need support to balance the demands of and reap the benefits of family and work life.<sup>18</sup> Support for workers and their roles as parents and family members with care obligations could be transformational – it could enhance gender equality in the home, which sets the basis for gender equality in the world of work.<sup>19</sup>

But it is not just employees and their families who benefit from family-friendly policies. Latest research from the United States indicates that employers who put in place such policies stand to gain from higher employee satisfaction, retention, engagement, productivity, diverse teams and leadership and to some extent, increased profitability.<sup>20</sup>

Much of the impact depends on the contexts in which these policies are implemented, and results may differ from workplace to workplace, and society to society. But the changes in attitudes of younger generations may herald stronger preference for more flexible workplaces. As such, employers will have to adapt to meet workers' demands. In the age of endemicity, it is likely that demands for care investments will grow in urgency as workers gradually transition into being physically present at work.

Family-friendly care policies have their own unique benefits. This chapter explores four key examples of these policies and their core elements. Combined, they make up the basis for a care policy package that could be transformative for Malaysian parents, especially women. This could very well catalyse a family-friendly future through the recognition, reduction and redistribution of unpaid care work.<sup>21</sup>

- First, **maternity and paternity** leave is fundamental to any family-friendly policy. Adequate maternity leave lowers infant mortality

rates, facilitates better maternal health outcomes and labour force participation. Paternity leave is equally critical. It facilitates health and economic gains for mothers, a more equal distribution in household duties and enhanced paternal bonding with children.<sup>22</sup>

- **Shared parental leave** refers to “employment-protected leave of absence for employed parents, which is often supplementary to specific maternity and paternity leave periods”.<sup>23</sup> Shared parental leave is a key way in which governments can facilitate the reconciliation of parents’ care obligations with work.<sup>24</sup> Usually, long parental leaves are taken up by women but research has shown that a break beyond a year could undermine their attachment to the labour market and exacerbate gender inequalities.<sup>25</sup> With shared parental leave, fathers are also recognised as caregivers and offered a certain allocation.
- **Childcare assistance** is an integral component, which goes a long way facilitating women’s labour force participation and incomes. In many countries, parents regularly face issues related to gaps in both services and quality, and a lack of affordability or accessibility. As such, it is essential that leave policies are complemented by access to or the provision of childcare services. This chapter will focus solely on childcare assistance with emphases on reducing the costs. For low-income families, the cost of childcare can be prohibitive or even undo the economic benefits of employment.<sup>26</sup> Subsidies or financial support for childcare allows parents to opt for centre-based care rather than home-based or informal arrangements, which run the risk of failing due to caregiver illness and other related issues, while improving a parent’s retention in the labour force.<sup>27</sup>

### **3.0 Overview of care policy packages in Asia: where Malaysia stands on care investments**

When it comes to crafting a comprehensive care policy package in Malaysia, the experiences from other countries grappling with issues related to women’s economic empowerment provide not only strong cases for reference but also guidelines for adaptation. The path towards a more

family-friendly future in Malaysia could be paved from the policy and implementation takeaways of other countries, so a comparative overview of where Malaysia stands among other countries is employed here.

Nordic countries are often cited as successful examples of how policies can facilitate gender equality and family-friendly initiatives. However, this chapter will compare Malaysia with Japan, South Korea and Singapore. These are Asian countries that arguably provide more nuanced insights into how policies can be wielded to counterbalance gendered norms for workplaces to be more equal. The three countries have comprehensive family-friendly policies and care regimes which are largely responses to their declining fertility rates, emerging demographic challenges because of an aging society and moves towards improving gender equality.

Malaysia is experiencing some of these same demographic shifts, transitioning into an aging nation by 2030 amid a decline in the total fertility rate.<sup>28</sup> As such, enhancing women's labour-force participation is crucial to offset the effects of an aging population while also improving gender equality. This is where a comprehensive care policy package is key to future-proofing the labour force and aiding families and women to balance care obligations and work.

While each country has its own unique socioeconomic and cultural contexts and demographic configurations, comparisons among the countries in table 5.1 indicate that there remains much leeway for Malaysia to progress towards creating comprehensive care policy packages. In the following section, we identify gaps in Malaysia's care policies, where they stand vis-à-vis regional peers, implementation concerns and ways forward.

On **maternity leave**, Malaysia is on a par with the minimum international labour standard of 14 weeks or 98 days, even surpassing South Korea (recommended length is 18 weeks). However, progress on this front has been relatively recent. In a long-awaited move to meet international labour standards, Malaysia in 2022 increased maternity leave from 68 to 98 days via amendments to the Employment Act 1995, effective 1 January 2022. The amendments include restrictions on the termination of pregnant women – a decisive step towards eradicating gender

**Table 5.1: Comparison of care policy packages**

	Japan	Singapore	South Korea	Malaysia
<b>Maternity leave</b>	<ul style="list-style-type: none"> <li>• 14 weeks (paid)</li> </ul>	<ul style="list-style-type: none"> <li>• Either 16 weeks of government-paid maternity leave (GPML) or 12 weeks of maternity leave, depending on whether the child is a Singaporean citizen and other criteria (paid).</li> <li>• <b>Government-paid maternity benefits</b> for mothers ineligible for GPML (eight weeks for first and second child and 16 weeks for the subsequent child).</li> </ul>	<ul style="list-style-type: none"> <li>• 12.9 weeks (paid)</li> <li>• Eligible for all permanent and temporary workers but they must be insured for 180 days prior to the start of leave.</li> </ul>	<ul style="list-style-type: none"> <li>• 14 weeks for private sector and 12.9 weeks for public sector.</li> </ul>
<b>Paternity leave</b>	<ul style="list-style-type: none"> <li>• Four weeks in one or two instalments within eight weeks after birth (effective 1 October 2022).</li> </ul>	<ul style="list-style-type: none"> <li>• Two weeks</li> <li>• <b>Government-paid paternity benefits</b> for those who do not qualify for paternity leave or adoption.</li> <li>• Paternity benefits for two weeks.</li> </ul>	<ul style="list-style-type: none"> <li>• 10 days</li> </ul>	<ul style="list-style-type: none"> <li>• Seven days but limited to only five births.</li> </ul>
<b>Financing options</b>	<ul style="list-style-type: none"> <li>• Maternity, paternity leave and shared parental leave <b>covered by social insurance up to 67% or government funded.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Maternity and paternity leave <b>fully government funded.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Financed by <b>Employment Insurance Fund.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Primarily <b>employer funded.</b></li> </ul>
<b>Shared parental leave</b>	<ul style="list-style-type: none"> <li>• Paid individual entitlement of up to 12 months. Both parents can take leave concurrently.</li> </ul>	<ul style="list-style-type: none"> <li>• Leave can be shared between both parents if the mother opts in. Fathers can use up four weeks of the 16 weeks of GPML (only applicable if the wife is eligible for GPML scheme).</li> <li>• Paid six-day <b>childcare leave</b> annually for Singaporean children while the self-employed are covered subject to certain criteria. Parents of non-citizens are entitled to two days.</li> <li>• <b>Extended childcare leave</b> (two days).</li> </ul>	<ul style="list-style-type: none"> <li>• For private sector employees, there is an individual entitlement of 12 months until the child is eight.</li> <li>• Civil servants entitled to take up to three years per child (one year is paid).</li> <li>• Leave non-transferable.</li> <li>• One year reduced working hours' arrangement, i.e. any untaken leave can be transferred to reduced working hours.</li> </ul>	<ul style="list-style-type: none"> <li>• No equivalent policy in Malaysia.</li> </ul>

<p><b>Public childcare support and benefits</b></p>	<ul style="list-style-type: none"> <li>• <b>Free preschool</b> for 3-5-year-olds.</li> <li>• <b>Free daycare</b> (0-3).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Subsidised preschool with additional benefits</b> for lower-income families.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Universal childcare policy</b> with the first three years of preschool free.</li> <li>• <b>Flexible working hours</b> for women within the first 12 weeks or beyond week 36 of their pregnancies. They are allowed to reduce their working hours by two hours per day without a reduction in pay.</li> <li>• <b>Monthly allowance</b> for each child under seven.</li> <li>• <b>Monthly allowance</b> for infants below 12 months in 2022, with the cash allowance likely to be expanded by 2025.</li> <li>• <b>Cash bonus</b> to cover prenatal expenses.</li> <li>• <b>Congratulatory allowance</b> for pregnant women.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in <b>weekly working hours</b> from 48 to 45.</li> <li>• <b>Childcare subsidies</b> for the B40.</li> <li>• All public service workplaces are required to provide facilities.</li> </ul>
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discrimination in the workplace. Malaysia's increasing of maternity leave to 14 weeks, in line with ILO conventions, is critical as it forms the basis for ensuring equality at work by preventing women from dropping out of the labour force altogether.<sup>29</sup>

On **paternity leave**, Malaysia trails other countries in Asia, despite recently increasing its length from three to seven days in the same Employment Act 1995 amendments. While Malaysia has made a significant step towards recognising the role of fathers in caregiving by increasing and standardising the length of paternity leave, it is far too short to reduce parental barriers and redistribute care responsibilities in the home. ILO has yet to set standards dictating the length of paternity leave, which explains the different provisions worldwide. For the countries considered here, the length of paternity leave ranges from 10 days to two weeks. Malaysia would do well to consider increases in paternity

leave and introduce flexibility by allowing fathers to use paternity leave intermittently over a set time.

In addition, Japan, South Korea and Singapore have various flexible and adaptable mechanisms for **shared parental leave** while Malaysia has no similar policy. Shared parental leave policies have yet to receive attention in employment legislation. The latest amendments to the Employment Act 1995 allow employees to apply for flexible working arrangements, subject to the review of employers. However, these new legislations are not specific to parents nor designed to meet their care needs. Japan has a generous shared parental leave policy of up to 12 months, which are structured to maximise flexibility by allowing leave to be taken in four instalments.<sup>30</sup> This facilitates a “continuum of care over the life force”,<sup>31</sup> supplementing the role of paternity and maternity leave, which can only be taken during childbirth. These are important as children require care well into adolescence, so shared parental leave policies facilitate this – particularly when childcare services are not affordable, widely accessible, or lacking in quality.<sup>32</sup> As such, this is a potential gap in care leave that Malaysia should address if it aims to support families as the economic backbone of the country.

The **financing of care leave** determines the sustainability of policies. Cross-country comparisons indicate that all countries considered in this chapter have in place some form of government or social insurance funding to ensure that employers do not bear the full costs – except in Malaysia where it is fully employer funded. ILO has emphasised the need for benefits to be covered by mandatory social insurance or public funding to mitigate or prevent labour market discrimination.<sup>33</sup> When employers assume the full cost of maternity protection, for example, it could disincentivise employers to hire women, resulting in discrimination that undermines the intention of these policies to equalise the playing field. The financing of care leave policies thus needs to be considered critically for Malaysia to ensure that it does not exacerbate existing gender gaps and to sustain these policies.

With **childcare support**, the approach in Malaysia has been to pursue policies that are more focused on poverty relief with social assistance for children of low-income families while facilitating the growth of the

market for private childcare centres and services.<sup>34</sup> Subsidies or childcare support in Malaysia are reserved for the bottom 40% of household income earners or B40 – but even so, these subsidies have been criticised for being insufficient relative to wages and the cost of living.<sup>35</sup> Despite the “low” subsidies, the government has in recent years started to pay attention to childcare. In previous annual budgets, resources have been allocated towards establishing new early childhood care and education (ECCE) centres, especially in government buildings with matching grants for private companies. These actions, however, pale in comparison to the other countries considered here.

### **3.1 Implementation hurdles**

A more inclusive recovery could be achieved by moving away from the “ideal worker norm” or “male model of work” that dictates that workers should prioritise jobs over and above caregiving responsibilities.<sup>36</sup> There needs to be a major change to how the workplace is structured, particularly with regard to demands on time and workload.<sup>37</sup> Given this, the design of policies should account for imperfect implementations as a result of organisational and societal cultures that privilege gendered norms.

Considering implementation hurdles, the question remains if amendments to the Employment Act 1955 will equalise the playing field for women at work, especially since they were among the hardest hit during the pandemic. Implementation is thus a critical component of effectiveness and if poorly carried out, could deepen gender inequalities. The experiences of the countries considered in this chapter serve as a sobering guide. Women in Japan who take maternity leave experience “maternity harassment” from employers or what has been termed *matahara*. Alongside psychological and physical harassment, Japanese women face the prospects of demotions or losing their jobs.<sup>38</sup> This is in stark contrast to Japan’s womenomics programme, a 2013 initiative of former prime minister, the late Abe Shinzo, which aimed to improve women’s labour force participation. As such, despite the strategic aim of empowering women economically, implementation on the ground ran into deeply rooted gender biases, including prejudicial perceptions

of pregnant women as being less productive.<sup>39</sup> While maternity leave is generally beneficial for women and can facilitate their attachment to the labour market, it often places them on what is termed the subordinate “mommy track”.<sup>40</sup>

In Malaysia, evidence indicates that women suffer similar penalties in the workplace. A survey conducted by the Women's Aid Organisation in 2020 indicated that at least 31% of women workers reported being overlooked for projects or opportunities after maternity leave.<sup>41</sup> Another 21% reported having received negative comments or questions about “leaving work on time to get home to their child” and another 27% received comments or questions about their “ability to perform certain tasks while pregnant”.<sup>42</sup> At its worst, employers may engage in gender or pregnancy discrimination by refraining from hiring women at all. Although the latest amendments to the Employment Act 1955 now include long-awaited restrictions on the termination of pregnant women, current legislation fails to account for unintended discriminatory consequences that occur during hiring.

On the other hand, enforcement of paternity leave has suffered a similar fate. Japan is home to one of the most generous paternity leaves in the world, but uptake has been dismal.<sup>43</sup> These patterns are echoed in countries such as Singapore<sup>44</sup> and even those that have historically exhibited far higher levels of gender equality, such as the United Kingdom<sup>45</sup> and countries in the European Union.<sup>46</sup> Across the board, the reasons for doing so tend to feature the same argument: lack of organisational and cultural support. Within that, fathers fear that their career progression may be jeopardised if they take paternity leave. These trends are concerning given that paternity leave is crucial towards redistributing care work in the home, facilitates co-parenting and at its core, challenges the norm that women are inherently caregivers and men breadwinners.<sup>47</sup>

There is reason to fear that these experiences could be mirrored across workplaces in Malaysia. The Malaysian Employers' Federation (MEF) pushed back on the imposition of paternity leave in 2019<sup>48</sup> and more recently, urged the government to delay enforcement of the amendments



to the Employment Act.<sup>49</sup> The key reason for this resistance has been cost as financing these policies is borne by employers.

Hence, without organisational support, implementation of family-friendly policies could fall prey to gender bias and cost concerns. If legislation and policies are to be meaningful or impactful, they will need to account for these pervasive gender norms in the design and need to be enforced properly. The implementation hurdles that other Asian countries have experienced indicate that the design and diversification of family-friendly policies are crucial alongside proper enforcement and organisational uptake to offset gendered norms.

#### **4.0 Policy recommendations: supplementing existing maternity and paternity leave with comprehensive care policies**

Malaysia lacks a comprehensive care policy package that will facilitate women's employment and attachment to the labour force. With only maternity and paternity leave being the only forms of care leave enshrined in employment legislations, policies currently fail to ensure a continuum of care over the course of a child's development.

The gaps in Malaysia's family-friendly policy indicate that the foundational basis for a care policy package should, at the minimum level, include the following:

- 1. Shared parental leave with specific allocations for fathers.** To account for poor uptake by fathers, the design of parental leave policies needs to be cognisant of gendered norms. Some countries, such as Canada, Norway and Iceland, have compensated for poor paternal uptake by establishing a "daddy quota" which mandates a set number of leave days for fathers that are non-transferable to the other parent. It has produced some encouraging results – though this needs to be analysed in the context of specific countries – such as increases in the hours spent on childcare by fathers, improvements in children's exam scores and more equal distribution of work in the home.<sup>50</sup> However, for fathers to make use of paternal leave and benefit from it, leave needs to be well compensated and

complemented by other family-friendly policies, including flexible work.

2. **Wider access to and increased financial support for childcare alongside significant investments in the care economy.** At present, rates for childcare assistance are around RM180 per child for a family with an income per capita of RM800, which ECCE experts consider irrelevant now that the minimum wage has been revised to RM1,500.<sup>51</sup> This also means coverage of financial support remains limited, potentially locking out middle-income families alongside the usual exclusion errors. Middle-income families are often not eligible for social assistance but lack sufficient income to take advantage of tax reliefs.<sup>52</sup> The government should consider increasing the coverage and amount of financial support for childcare, instead of focusing only on narrowly defined forms of assistance for the “deserving poor”. Such action will have wider implications for the care economy and the economy as a whole. A simulation conducted by the Khazanah Research Institute indicated that a conditional care allowance of RM100 could increase women's LFPR, encourage real GDP growth and boost the care economy through increased employment in childcare centres just within a year.<sup>53</sup> Financial support for childcare should not come at the cost of supply-side initiatives, such as improving the coverage of the public childcare system and enhancing its overall quality through investments in the workforce.

In essence, policy design needs to be nuanced and move away from gendered biases. Care policy packages must avoid promoting or reinforcing the notion that women are the sole caregivers and focus on being more transformative by redistributing that burden across men and women in families.

3. **Making the Employment Act 1995 more gender responsive.** Malaysia's family-friendly policies are prone to implementation hurdles. To prevent the entrenchment of further gender bias and discrimination against women, the Employment Act 1955, as the main act governing the relationship between employers and employees, requires certain improvements. These should include:

- **Defining and prohibiting pre-employment discrimination:** jobseekers, especially women, risk being discriminated during the hiring process as they are often perceived to “assume” caregiving responsibilities later in their career. This is concerning for women who exist at the intersection of racial, ethnic and class differences, which will only reduce their agency and bargaining power. Where the director-general of labour decides on employment discrimination as outlined in Section 69F, the government should also undertake due consideration to expand this remit to hear disputes on recruitment discrimination.
- **Defining discrimination:** the amendments to the Employment Act 1995 empower the director-general to decide on discrimination disputes, making it imperative to define what counts as discrimination. When it comes to women, discrimination can be more subtle – such as being passed up for opportunities and projects, redundancy, lower pay or a combination of all three.<sup>54</sup> It needs to account for workers who are likely to hesitate reporting discrimination or may even fail to identify it as such. Definitions need to be outlined clearly, considering the realities faced by women workers.
- **Raising the costs of non-compliance and workplace discrimination:** current legislations in the Employment Act 1955 lack the “teeth” to compel organisations to observe and implement latest changes, especially where maternity and paternity leave is concerned. Beyond mandating family-friendly practices in legislation and existing dispute mechanisms, companies could also be held accountable through regular publishing of a list of non-compliant firms. This not only raises the costs of non-compliance but also facilitates monitoring and evaluation, providing potential jobseekers transparency into an organisation's performance on family-friendly policies. To facilitate commitment by company leadership, the government must provide a well-researched road map that outlines how employers can establish tools, such as targets and metrics to

guide both recruitment and treatment of employees where family-friendly policies are concerned. Other “penalties” could include companies missing out on targeted incentives. This can look like subsidies or grants to reduce any potential or real cost associated with women’s employment or investment, tax incentives or public procurement incentives.<sup>55</sup>

**4. Sustainable options for financing parental leaves and childcare.**

Across the world, the most regularly used sources of financing for maternity cash benefits include employment-linked social insurance or contributory schemes, fully employer-borne schemes, or a mixed system which is an amalgamation of the two.<sup>56</sup> ILO research finds that employer liability schemes – such as is implemented in Malaysia – may result in discriminatory action against women in the labour market. Such an arrangement also has the capacity of undermining key principles of “solidarity of funding... and pooling of risks which are essential to allow the combination of resources to ensure a fairer and collective distribution of the costs and responsibilities of bearing children”.<sup>57</sup> Malaysia might benefit from establishing tripartite funding of care leave and childcare assistance. A tripartite funding arrangement means that care leave or childcare is paid for by contributions from employers, employees and the government.<sup>58</sup> Such an arrangement may be useful as an alternative to public-funded care leave, given Malaysia’s limited fiscal space.<sup>59</sup> For example, Finland subsidises at least 60% of childcare places while parents contribute a certain amount based on their income. Employers and parents finance the remaining 40% of childcare places.<sup>60</sup>

**5. Cash maternity benefits for low-income women.** The Employment Act 1995 and its latest amendments tend to benefit women in formal employment or those in white-collar jobs. This leaves out a significant proportion of vulnerable low-income women in the informal economy – at least 43.7% in 2019<sup>61</sup> – who survive on daily wages and have little to no access to employment-related social protection. For pregnant women in informal work and their families, the effects of having no maternity protection could be severe. ILO reports that any loss of income during pregnancy, childbirth and

nursing, combined with the costs of maternity can push families further into poverty.<sup>62</sup> As a result, women in the informal economy, who cannot afford the loss of income, tend to continue working far into pregnancy and/or return to work too early after childbirth, which poses significant health risks to both mother and child.<sup>63</sup> Cash maternity benefits thus replace women's lost income during the maternity period. While also ensuring that women workers in atypical work arrangements are not in financial distress during pregnancy, the provision of cash benefits should meet international labour standards of not being less than two-thirds of a woman's prior income or the full amount.<sup>64</sup>

## **5.0 Conclusion**

This chapter provides a brief overview into the ways that Malaysia can achieve family-friendly policies: by introducing more care leave, improving and enhancing access to childcare and ultimately, enforcing implementation. Across the region, Malaysia's commitment to care remains lacking, reflected in a scant framework of employment policies that leave many vulnerable women and families unsupported while inching towards progress. Current legislations and policies only serve the bare minimum to support women and their families. What is needed to uplift them and ensure recovery from the pandemic is a comprehensive care policy package that allows parents to access and provide care throughout a child's development and does not entrench gender gaps between men and women.

A family-friendly and gender equal world of work is one that removes barriers to access and participation in an inclusive way while removing the opportunity cost between work and care. To achieve that vision, policy approaches need to be care-centred, recognising the invisible yet integral ways that care work supports economies and societies. It must also be gender-sensitive because men and women experience the world of work differently and we fail to account for the needs of women who make up half the population, relegating them further into the periphery. If families are the backbone of Malaysia's economy, then it is time that the government addresses holistically the care work that keeps it running.

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# 6 Prepping the nation for skills-based hiring

Nurul Izzati Kamrullah & Mohd Ikhwan Abdullah

Covid-19 was an unprecedented public health crisis that altered the lives of billions worldwide. Its after-effects are likely to be felt for many years. The severity of the pandemic extended to health impacts and economic activity and led to upheavals in labour markets. Malaysia was no exception as the unemployment rate hit a record high in May 2020 at 5.3% – the highest since 1989.

Undeniably, Covid-19 also highlighted inequities in the workforce and exacerbated skill shortages alongside shifts like the transition to hybrid and flexible work where 87% of businesses reported either dealing with or expect to deal with a skills gap in their workforce in the following years.<sup>1</sup> The rapid changes in economic trends because of technology also spilled over to skills demand. Employees need to gain skills beyond their degrees.

However, education degrees have often served as the benchmark for professional competency and a necessity for employment. This perception tends to perpetuate the illusion that work and the knowledge required for it are inherently static items, when that has not been the case. A 2016 World Economic Forum (WEF) report found that work and the conditions for employment are in constant flux such that “in many industries and countries, the most in-demand occupations or specialities did not exist 10 or even five years ago, and the pace of change is set to accelerate”.<sup>2</sup> This indicates that a subject studied in secondary school may

not be relevant once they have graduated from an institution of higher learning. Thus, additional skill courses are needed after graduation.

For Malaysia, conversations surrounding skills in the post-pandemic era have mostly centred around adopting digital-related proficiency. This is understandable given the increasing transitions from traditional work, in which employees are physically required to be at the workplace, to remote work, where employees can be working from anywhere and the growing dependency on digital or online platforms for day-to-day activities. Unfortunately, this tends to drown out other vital discussions on skills, particularly ones that highlight hybrid abilities or talents that go beyond technical and occupational prowess. Hybrid abilities are a combination of soft and hard skills. Rapid technological growth has resulted in non-technical jobs (focusing mainly on soft skills) now being attached to new technology elements (requiring technical or hard skills).

This chapter provides an overview of the current skills-based hiring by businesses in Malaysia and how the pandemic has altered this. The second part describes Malaysia's readiness to embrace this shift from the perspective of educational institutions and businesses. Institution readiness is central to policy interventions and planning – which will be detailed in the final section of this chapter.

## **1.0 Skills-based hiring trend**

One of the biggest pandemic “winners” was the social media app TikTok. While many businesses failed at the peak of the pandemic, TikTok saw tremendous success at the beginning of the pandemic and became an overnight unicorn company with 151% growth year-on-year in 2020 and saw more than 360 million downloads in Southeast Asia alone.<sup>3</sup> With a 111% year-on-year increase in revenue,<sup>4</sup> its rapid rise led its parent company, ByteDance, to pursue expansion in foreign markets – including Malaysia. This resulted in an increased demand for talents that could grow its presence in the broader regional market.

Naturally, one would expect TikTok to focus its talent-hiring activities on niche IT-related skills, especially when it has excelled through the development of intelligent algorithms and a user-friendly interface.

However, technology firms, such as TikTok, also look for employees in non-tech areas like marketing and project management.<sup>5</sup> Algorithms can only do so much, but great marketing campaigns and successful strategic planning and management are the keys to maintaining user loyalty.

This shift in demand contrasts with what was traditionally required at least a decade ago. Business priorities then focused on providing leaders with success-guaranteed skills and succession planning<sup>6</sup> and looking for talents with the highest level of education. It was not long until businesses realised that these approaches could not make for sustainable growth. It is crucial to identify the emerging non-technical skills that will be relevant to Malaysia in the coming years.

Covid-19 expedited three significant trends that could transform work – remote working, digitisation and automation.<sup>7</sup> With lockdowns to curb the spread of the virus, remote working became the only alternative for businesses to continue operating. As such, around 20% to 25% of workers in advanced economies worked remotely from three to five days a week on a long-term basis. This will most likely remain as the new norm in endemicity.

However, as much as technology is the main game changer in the world of work, mastery of socioemotional and higher cognitive skills – such as the ability to think analytically, problem-solving and creativity – will be prioritised in the future. This is reflected in WEF's 2020 future of jobs report, which highlighted that jobs requiring human-to-human interaction would remain unaffected. There will likely be increasing demand by employers for highly skilled workers in jobs that involve higher cognitive and socioemotional skills, such as communication, collaboration, emotional intelligence and leadership.

Yet industries in Malaysia still face difficulties finding talents with a balance of technical and socioemotional skills. With the emerging industrial revolution and the impacts of the Covid-19 pandemic on work, workplace and workforce, many organisations have to be innovative and keep one step ahead in their strategic decisions – or risk losing to organisations with more resources and flexibility to innovate and make risky strategic plans.

**Figure 6.1: Emerging types of future skills**

Analytical thinking and innovation	Active learning and learning strategies	Complex problem-solving	Critical thinking and analysis	Creativity, originality and initiative
Leadership and social influence	Technology use, monitoring and control	Technology design and programming	Resilience, stress tolerance and flexibility	Reasoning, problem-solving and ideation
Emotional intelligence	Troubleshooting and user experience	Service orientation	System analysis and evaluation	Persuasion and negotiation

Source: Future of jobs 2020 report, WEF

Note: Light blue box = clusters of non-technical skills, dark blue box = clusters of technical skills

The Malaysia Critical Occupation List (MyCOL) study<sup>8</sup> shows that many businesses are increasingly seeking candidates with hybrid competencies in response to Covid-19. This is partly attributed to hiring freezes and salary cuts and the inevitable need to prioritise hiring that can benefit strategic growth in the long run. For many of the industries covered under the COL, current trends in the labour market are not about talent under-supply but under-skilled.

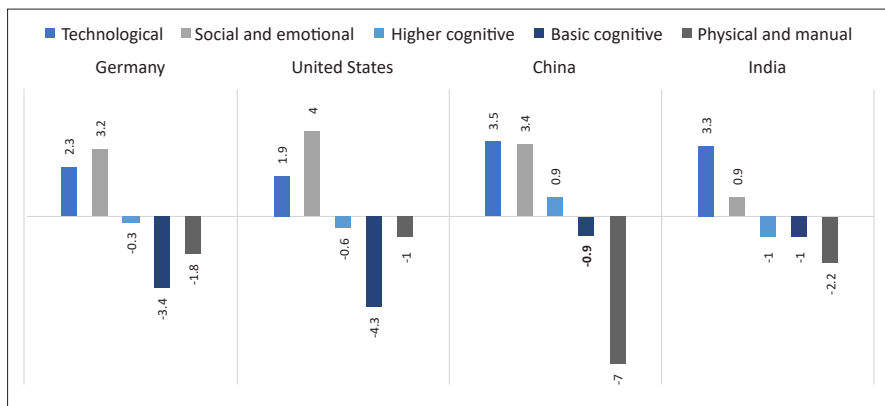
This demand is echoed across Malaysian employers from a range of industries. The Malaysian Association of Themepark & Family Attractions (MATFA), for example, cited that although tertiary education institutions might produce many marketing graduates, not many possess the creativity to drive sales and marketing for the tourism and theme park industry. It was also highlighted that the same talents are also required to possess in-demand skills such as digital marketing. Coca-Cola Malaysia echoed a similar expectation. It needed marketing talents who could deliver beyond compelling marketing materials. They must also be adept at route-to-market strategies for different products and services while understanding how they can contribute to growing the company's revenue.

This experience is not limited to Malaysia. In the United States, the shift to skills-based hiring began before the pandemic, especially between

2017 and 2019, in what was labelled a “structural reset”. The Burning Glass Institute reported that the structural reset represented a measured and potentially permanent shift in American hiring practices as it reflected 63% of changing occupations, compared with only 27% of “cyclical reset”, which occurred in response to the pandemic.<sup>9</sup> As a result, this was projected to add 1.4 million jobs that did not require a bachelor’s degree in the next five years. This reset could have major implications for how employers find talent and open up opportunities for the two-thirds of Americans without a college education. In effect, employers will become more specific about skills in job postings, spelling out the soft skills that may have been assumed to come with a college education, such as writing, communication and being detail-oriented.

The cyclical reset cushioned the impact of labour shortages during Covid-19 and also forced employers to rethink their preferences permanently – spelling wide-ranging impacts that will likely heighten the structural reset and change the American hiring landscape. In fact, what was notable about the “reset” phenomenon was the impact on middle-skill jobs and the increasing demand for soft or social skills. In the United States, the impact on middle-skill jobs can be seen when the skill requirements for job openings that require a bachelor’s degree are not significantly different from those that do not require the same educational attainment.

**Figure 6.2: Change in share of total work hours by skills, 2018-2030**



Source: Lund, Madgavkar, Manyika, Smit, Ellingrud & Robinson (2021)<sup>10</sup>

This is consistent with the McKinsey Global Institute (MGI) findings,<sup>11</sup> which predict the need for workers in all sectors to become more adaptable in the future as emotional intelligence and adaptability may become significant differentiators. Countries like China, Germany and India are experiencing the same shift in demand for socioemotional and higher cognitive skills within the next eight years.

### **1.1 Impact of skills-based hiring in Malaysia**

The discussion on emerging trends shows that the expectation towards employable skills is dynamic and highly reactive towards impacts of crises such as Covid-19. With employers exercising dynamism and responsiveness in hiring, what does this mean for Malaysian talents and businesses?

For local talents, the practice of skills-based hiring may present itself as a double-edged sword. On the one hand, less-fortunate individuals who could not acquire formal education and credentials stand a better chance of gaining formal employment in this new skills-focused landscape. This may level the playing field, especially given the education inequalities exacerbated by the pandemic. For one, the closure of schools and other educational institutions along with the disparity in accessibility to online learning has deepened education gaps, particularly between urban and rural schools, as well as between children from high-income and lower-income families. With a rate of loss of 0.95 years (11.4 months), Malaysia recorded the highest learning loss rate among Asian developing countries.<sup>12</sup> At such alarming rates, Malaysia is predicted to face increasing numbers of talents with less access to formal education and employment in the next 10 to 15 years. This will have significant impacts on the economy through a gradual loss of around RM80 billion of gross domestic product (GDP) for each learning loss year and a decrease in potential earnings. A transition to skills-based hiring could alleviate the negative consequences of a lost generation of Malaysians whose educational outcomes remain deeply affected by Covid-19.

At the other extreme, talents who have invested in attaining educational diplomas or degrees may have less room to navigate the formal

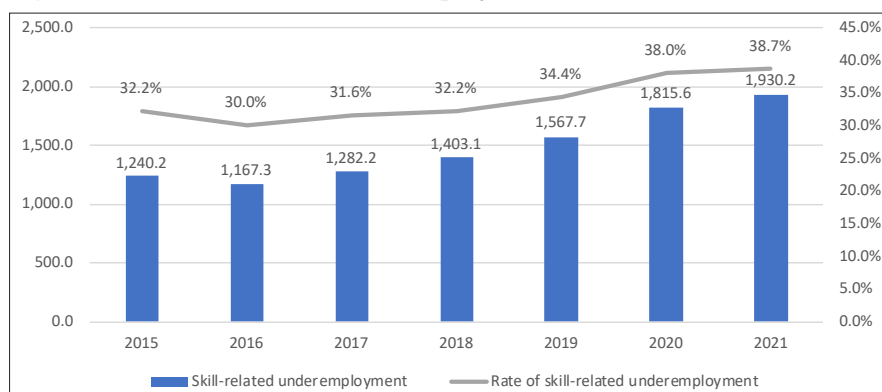


employment space and may be pushed into informal employment, especially if they lack competitiveness in higher cognitive, socioemotional skills. The informal employment sector still lacks comprehensive safety nets with uniform and concrete solution measures. Should another crisis on the scale of Covid-19 recur, gig workers, particularly in industries or occupations that are likely to be impacted by movement restrictions or those who work irregular hours with no employment-related social protection, would be the most vulnerable group.

It is also crucial to note the impact of skills-based hiring on underemployment<sup>13</sup> in Malaysia. The pandemic contributed to an increasing number of talents gaining jobs that are not commensurable to their qualifications. Immediate policy action is thus necessary to address these labour market mismatches.

For businesses, reduced dependency on formal credentials as a minimum requirement could decrease significantly the cost of hiring multiple talents for specific tasks and potentially increase competitiveness in a tight labour market. Talents possessing sought-after skills are expected to be the beneficiary of such developments. The ability of these talents with higher cognitive and socioemotional skills to contribute beyond what is expected from them within their job description will lower costs as businesses can invest their resources in other talent development efforts, particularly in upskilling and reskilling programmes.

**Figure 6.3: Skilled-related underemployment, 2015-2021**

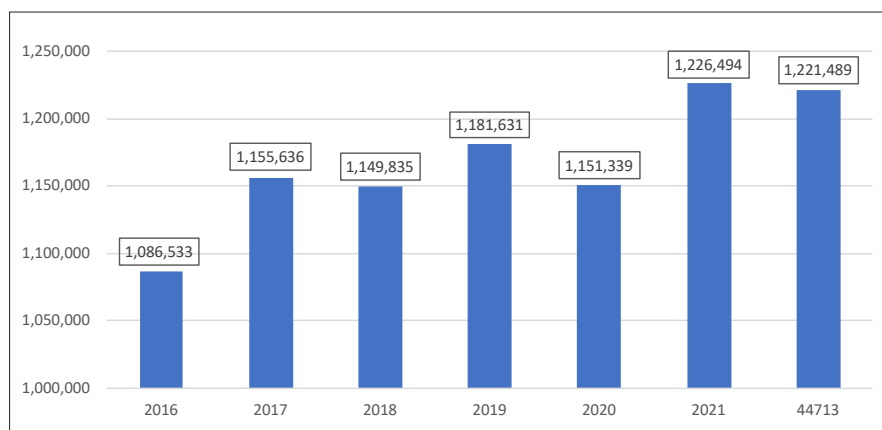


Source: Labour force survey report, Malaysia, 2021, Department of Statistics Malaysia (DOSM)

Thus, attention must be paid to the ability to invest consistently in development programmes as skill requirements evolve over time. The Covid-19 measures and lockdowns impacted many Malaysian businesses severely, particularly micro, small and medium enterprises (MSMEs), which encompass 97.5% of total establishments.<sup>14</sup> The financial impact of those measures remains, so these businesses are highly unlikely to be able to ensure sustainable investment in continuous in-house learning.

In Malaysia, few businesses have adopted the practice of providing training and in-house learning. Only 36% of employers provided training and development for their employees.<sup>15</sup> Yet, about 60% of employees reported being keen to develop soft skills and 61% indicated an interest in upgrading their technical skills. With this gap between employee demands and training culture in organisations still prevalent in the labour market, businesses may not be fully equipped to transition into skills-based hiring – rendering the talent pool unable to meet the market's current sought-after skills.

**Figure 6.4: Number of SMEs in Malaysia, 2016-June 2022**



Source: Interactive Malaysia Statistical Business Register (i-MBSR), DOSM<sup>16</sup>

Note: The number of establishments reflects six sectors/sub-sectors – services, wholesale & retail trade, construction, manufacturing, agriculture, and mining & quarrying

## **2.0 Readiness to adopt skills-based hiring**

Given the employment trends, a few pertinent questions arise. While the country has geared up efforts to boost employability through certain upskilling and reskilling interventions for certain segments, have these efforts been effective and impactful enough to cater to demand? Second, have these efforts been well distributed across all training providers and higher learning institutions (HLIs)? Finally, are industries ready to provide benefits that match the level of competency required?

Malaysia has been grappling with the employment and skill gaps for decades now. The gaps between what is taught at educational institutions and industry expectations have plagued Malaysia's talent employability for many years. While we would like to think the labour market is agile to the shift in skills, the reality is otherwise. To measure Malaysia's readiness in producing talents with skills that align with industries' ever-changing expectations, one must understand the history of skills development in Malaysia and its progress over the years.

Efforts to narrow the gaps and transform talent-shaping programmes at the HLI level have intensified since the early 2000s, with a focus on preparing and equipping talents with skills that include the components of non-specialised and socioemotional competencies. This need led to the gradual transformation of the tertiary education syllabi with the aim of helping students balance their proficiency in technical skills with socioemotional prowess and boosting employability in the process.

The realisation of the need to inject elements of non-technical skills into HLI courses came about almost two decades ago in 2006, when the Higher Education Ministry identified 34 "must-have" soft skills.<sup>17</sup> These skills were then clustered into seven different areas: communication, critical thinking and problem-solving, teamwork, lifelong learning and information management, entrepreneurship, ethics and professional moral, and leadership.

However, given the non-compulsory nature of the mandate, implementation has been dependent on the resources and commitment by HLIs – making it challenging to gauge the overall success rate of the

policy. This is because certain HLIs do not make such courses compulsory and for certain institutions, there are not enough financial and qualified human resources to support the implementation of these programmes.

To compound matters, there is a lack of, if not absence of, comprehensive data detailing the list of public and private HLIs and training providers that have implemented non-technical skills training in response to the mandate. As such, this has posed a challenge capturing the situation on the ground and guiding the accomplishment of a holistic policy driven environment.

In the context of tertiary education transformation, another aspect worth considering is the potential establishment of a proper mechanism to plan more targeted skills-related programmes that avoid a one-size-fits-all solution. Research on this subject showed that the perception and grasp of soft skills vary significantly according to demographics. Ahmad (2013) finds that sex, types of schools and the urban-rural divide affect students' perception of their soft skills proficiency.<sup>18</sup> While group-specific tailored interventions incur considerable financial and human resource burdens, recognising each group's requirements would impact positively on the development of holistic talent and employable skills. One way to execute this well is a structured mechanism that carries on from early childhood education. There must also be organised efforts to recognise students' strengths and categorise them according to their profiles and capabilities.

From the perspective of industries, they must be ready to adapt to the inevitable shift of skills requirements. With more than 97% of businesses in Malaysia made up of SMEs, the ability to offer rewarding compensation and benefits that could match skills expectations is limited.

According to the 2022 Hays Asia Salary Guide, employees are becoming increasingly aware of the expanded boundaries of their job scope,<sup>19</sup> so employers will need to rethink and review financial rewards to reflect the current demand for hybrid competencies or the juggling of multiple hats. However, as previously examined, and because a significant majority of establishments in Malaysia consists of SMEs, a gap exists between compensation expectation and businesses' ability to reward employees for their competency and grasp of skills beyond basic cognitive abilities

and traditional technical roles. If not addressed immediately, businesses could lose their competitive advantage acquiring and retaining talents to establishments with better compensation packages and structured learning and development environments.

In fact, two pull factors leading to skill shortage in Malaysia, as highlighted in the 2022 Hays Asia Salary Guide, were a high probability of increasing talent movement and a rise in turnover rates for disadvantaged businesses.<sup>20</sup>

### **3.0 Key recommendations**

As Malaysia entered the endemic phase in April 2022, uncertainties remain in the labour market as businesses try to return to pre-pandemic profitability. Although skills-based hiring is finding its way into the labour market, the extent of Malaysia's preparedness to embrace the shift remains undetermined.

To foster a collaborative landscape that encourages skills-based hiring, HLIs must redefine skills at the institutional level to fit industries' changing expectations. At the same time, industries must be transparent and collaborate with the government and HLIs to ensure expectations are conveyed and can be translated into policies and effective implementation. For the government, the task will be to consider bridging and finding opportunities to connect and engage with different stakeholders.

The following recommendations would foster such collaborations:

- 1. Integrate soft skills into learning programmes at HLIs and schools.** It is vital to recognise the value of developing sustainable programmes that emphasise the cultivation of higher cognitive skills at all levels of education. The restructuring of the formal and informal syllabus should begin with profiling strengths and competencies, followed by clustering solutions that correspond to demographic differences. This allows the creation of a more targeted approach that focuses on personalised interventions instead of a one-size-fits-all solution. This effort can be facilitated by intensifying industry-academia collaboration, which is assisted by relevant private and public agencies.

- 2. Facilitate an industry-wide adoption of lifelong learning opportunities.** To flourish in an increasingly skills-focused labour market, industries must acknowledge the importance of providing consistent learning development options. As certain market segments slowly shift towards recognising skills above formal qualifications, Malaysian businesses must consider reviewing their remuneration structure. Talents who can excel in cross-functional roles will demand more benefits, not only in terms of compensation but also for instilling a culture that values lifelong learning.
- 3. Establish coherent labour market policy legacy.** Malaysia is not alone in its inability to address the gap between policy and realities on the ground. Labour markets worldwide have struggled with ensuring the sustainability of policy interventions that can withstand any crisis. To ensure the continuous execution of plans and to prevent major disruptions, structures must be in place to safeguard the foundation of labour market policies. This can be done by establishing a government-industry-initiated permanent skill council of independent experts from various backgrounds and interests who will take into account the lessons from Covid-19. The skill council should consider public-private collaboration to refine policies that consider each aspect of their crisis-proofed plans of actions.
- 4. Introduce a centralised autonomous skills registry.** At present, the structure determining the required skills for occupations comes in various frameworks. Numerous skills frameworks and occupation platforms are developed and based on the objectives, definitions and focus areas of various public and private agencies. As such, there is no official occupational registry with skills standards at the national level. The My National Skills Registry (MyNSR), a centralised skills platform mandated under the 12th Malaysia Plan, acknowledged this gap and has set out to assist in policy coordination and enhance human capital planning. It also aims to act as a guide to showcase required skills for a range of occupations, and as the primary reference for the standards of skills and future competencies. With the existence of a centralised platform, interested stakeholders are

expected to navigate the process of policy planning seamlessly. Subsequently, this would enable them to propose upskilling and reskilling interventions suited to an evolving labour market, be it due to crisis-induced disruption or through a changing landscape.

## Notes

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<sup>13</sup> The term underemployment measures those with tertiary education and working in the category of semi-skilled and low-skilled jobs; Department of Statistics Malaysia. (2022, April 27). *Labour force survey report, Malaysia, 2021*. [https://www.dosm.gov.my/v1/index.php?r=column/cThemeByCat&cat=126&bul\\_id=L1kxcjNmdDduMXBHUIl2VGlweCsxQT09&menu\\_id=Tm8zcnRjdVRNWWlpWjRlbmtlaDk1UT09](https://www.dosm.gov.my/v1/index.php?r=column/cThemeByCat&cat=126&bul_id=L1kxcjNmdDduMXBHUIl2VGlweCsxQT09&menu_id=Tm8zcnRjdVRNWWlpWjRlbmtlaDk1UT09)

<sup>14</sup> Malaysia Statistical Business Register (MSBR) is a list of establishments/enterprises operating in Malaysia which encompasses Register of Companies (ROC), Register of Businesses (ROB) and Limited Liability Partnerships (LLP) that registered with Companies Commission Malaysia (CCM) as well as establishments that are registered with the local authority and professional bodies; Department of Statistics Malaysia. (2022, June 30). *Interactive Malaysia Statistical*

*Business Register (i-MSBR)*. [https://www.dosm.gov.my/v1/index.php?r=column/cthree&menu\\_id=WXXvV3RYTmE3RmtwQ2RicVZTbVkvZz09](https://www.dosm.gov.my/v1/index.php?r=column/cthree&menu_id=WXXvV3RYTmE3RmtwQ2RicVZTbVkvZz09)

<sup>15</sup> Randstad. (2022). *Workmonitor 2022: A new era in the #howwework revolution*. [https://www.randstad.com/s3fs-media/rscom/public/2022-04/Randstad\\_Workmonitor\\_2022.pdf](https://www.randstad.com/s3fs-media/rscom/public/2022-04/Randstad_Workmonitor_2022.pdf)

<sup>16</sup> Ibid.

<sup>17</sup> The Higher Education Ministry defined soft skills as “generic skills which include cognitive elements related to non-academic abilities; Nikitina, L., & Furuoka, F. (2012). Sharp focus on soft skills: A case study of Malaysian university students' educational expectations. *Educational Research for Policy and Practice*, 11(October), 207–224. <https://doi.org/10.1007/s10671-011-9119-4>

<sup>18</sup> Ahmad, S. B. S. (2013). Soft skills level of Malaysian students at a tertiary institution: A comparative case study based on gender, area of residence and type of schools. *International Journal of Asian Social Science*, 3(9), 1929–1937. <https://archive.aessweb.com/index.php/5007/article/view/2548>

<sup>19</sup> Hays. (2022). *Upskilling: The sustainable path forward* [The 2022 Hays Asia Salary Guide]. <https://www.britishchambershanghai.cn/content/media/2022/03/The-2022-Hays-Asia-Salary-Guide.pdf>

<sup>20</sup> Ibid.



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# 7 Putting environment and climate action at heart of job creation and security

Ahmad Afandi & Darshan Joshi

Covid-19 caused one of the largest shocks to Malaysia's sustainable development trajectory. It posed major challenges for the country's economy, health and societal wellbeing and in the process, derailed progress towards achieving the Sustainable Development Goals (SDGs). The magnitude of the impacts exposed the country's systemic vulnerabilities and has reoriented risk-based thinking to cope with future risks at the national level – including the threats posed by climate change and ecological crises. Experts and commentators have linked these crises, as well as the Covid-19 pandemic, to a human disconnect with nature as the root cause. The result has been a massive deterioration in environmental quality, food and water insecurity, heightened natural disaster risks, and major threats to human health.

The potential emergence of zoonotic diseases highlights the importance for humanity to live within a “safe operating space”, which is the capacity of our planet to provide life-support systems and the need for us to stay within planetary boundaries.<sup>1</sup> There has since been a growing realisation that business-as-usual norms are not equipped to facilitate a critical sustainability shift to mitigate these developments, thus raising the urgency for a collective agenda that promotes climate action and sustainability transitions.

This chapter thus explores the implications of the changes catalysed by the pandemic on Malaysia's sustainable development trajectory. The reorientation of risk-based thinking, the country's growing recognition of climate action and its commitment to sustainability transitions will be assessed from two aspects: first, how the transition to a green economy will shift the landscape of the labour market in terms of job creation and losses, especially for high greenhouse gas emitting sectors, such as coal and oil and gas. Second, how climate hazards and environmental degradation have affected the economy, businesses and workers during the pandemic. This chapter underlines the importance of incorporating environmental and climate action into Malaysia's labour policy to ensure job creation and worker protection and concludes with policy recommendations towards strengthening the nation's climate resilience as it navigates an increasingly unpredictable 21st century.

## **1.0 Covid-19 and the reorientation towards risk-based thinking and green growth**

For the past 20 years, experts have warned that the degradation and destruction of ecosystems as well as the loss of biodiversity could foster the emergence of new viruses and zoonotic diseases.<sup>2</sup> It is estimated that 31% of emerging infectious disease (EID) outbreaks, such as Ebola, Nipah and the Zika virus, were closely related to habitat loss and deforestation.<sup>3</sup> The Global Risk Report 2021 survey indicated that infectious diseases are one of the top five risks by likelihood alongside extreme weather, climate action failure, human environmental damage and biodiversity loss. As such, the spatial, temporal, as well as the severity of disease aspects vary around the world because of climate change. This may also contribute to the emergence of new or rather ancient zoonoses.<sup>4</sup> The drivers of pandemics are frequently also the drivers of biodiversity loss and climate change, and these two intricately linked systemic challenges have only grown in intensity in recent years.

The effects have been devastating: the Covid-19 pandemic exposed various systemic vulnerabilities and deep-rooted issues across the economic, social and governance landscape. It serves as a sobering reminder to respect the earth's planetary boundaries and continue the

discourse and action on sustainable development. In response, it has become a key policy move globally to use green and resilient growth to cope with climate change impacts and extreme weather events, especially to address future risks and seize the opportunity to build back better in the endemic period.

Echoing this trend, the Malaysian government has introduced various green measures to spearhead the transition towards a green economy. In Budget 2021, former prime minister Tan Sri Muhyiddin Yassin acknowledged the “promising path of green recovery” to spur economic growth and societal wellbeing while also enhancing climate resilience and low-carbon efforts.<sup>5</sup> In the budget, a sustainable focus was instituted, alongside a slew of climate-friendly initiatives. These took the form of supply chain and technology-focused programmes designed to support the nation’s environmental, social and governance (ESG) ecosystem, localisation of the SDGs, steps towards improving the domestic green financing ecosystem, and mechanisms to support biodiversity conservation and protection, among others.<sup>6</sup> Budget 2022 subsequently maintained this emphasis on sustainability.<sup>7</sup>

Within this, green growth and sustainability efforts have been a national priority since the late 2000s, with the passing of climate-focused policies. These are the National Policy on Climate Change, National Renewable Energy Policy and Action Plan, establishment of the Sustainable Energy Development Authority and a variety of economic and financial instruments, such as the feed-in tariff, green technology financing schemes and green investment tax allowance. This emphasis appears to have gained greater weight and urgency in the Covid era.

It is against this backdrop that the ESG agenda has become a significant focus in Malaysia, driven by actions at the firm-level by statutory bodies, such as Bursa Malaysia (stock exchange) and Bank Negara Malaysia (BNM – central bank), as well as industry and professional coalitions. Much of this reorientation of risk-based thinking occurred in 2021. BNM launched the climate change and principle-based taxonomy in April with the goal of assisting financial institutions assessing and categorising economic activities based on their climate friendliness,

resource efficiency, biodiversity and ecosystem conservation.<sup>8</sup> The central bank also standardised the classification and reporting of climate-risk exposure to encourage climate financing. Meanwhile, Bursa launched “financing4ESG” in November, an initiative designed to encourage ESG practices across listed companies, building on previous efforts to improve sustainability reporting and support the Task Force on Climate-related Financial Disclosures (TCFD). The emphasis on ESG and sustainability is linked to broader global movements to address climate change.

These can be traced back to the 2015 Paris Agreement, which established a coordinated, global desire to limit global warming to “well below 2° Celsius” above the pre-industrial average. In the years since, many countries and companies have set a slew of ambitious nationally determined contributions (NDCs), low-carbon energy and “net-zero by 2050” targets. These changes are usually accompanied by policy, regulatory, technological and market shifts that pose impacts for the economy. According to BNM, if Malaysia fails to comply with transition risks, it will lose US\$65.3 billion in annual export revenue.<sup>9</sup>

## **2.0 Renewed interest in climate policy**

The 12th Malaysia Plan (12MP), launched in September 2021, included initiatives geared towards low-carbon development and proposed the deployment and enhancement of climate economic instruments, such as carbon pricing, ecological fiscal transfers and payments for ecosystem services.<sup>10</sup> 12MP also coincided with the announcement of Malaysia's net-zero target, following in the footsteps of a growing number of private sector entities, including Petronas, the state oil and gas company, and Tenaga Nasional Berhad, Malaysia's largest electricity utility.

Malaysia also increased its NDC to the Paris Agreement, pledged to reduce deforestation and methane emissions by 2030, and committed to halt the construction of new coal-fired power plants at the long-delayed COP26 in late 2021. In accordance with the 12MP, the government would develop a domestic emissions trading scheme, carbon tax and voluntary carbon market (VCM).<sup>11</sup> As part of its international climate obligations, the Environment and Water Ministry (KASA) would review and update

the National Climate Change Policy, develop the NDC road map and long-term low emissions development strategy (LT-LEDS).<sup>12</sup>

## **2.1 Jobs driven by green transition, sustainability and ESG**

The demand for green jobs spiked when discourse surrounding sustainability transitions and the ESG agenda came to the forefront during the pandemic. The International Labour Organisation (ILO) defines green jobs as “jobs that reduce the environmental impact of enterprises and economic sectors, ultimately to a level that is sustainable while also meeting requirements of decent work – adequate wages, safe conditions, workers’ rights, social dialogue and social protection”.<sup>13</sup> Robert Walters, a leading headhunting and recruitment agency in Malaysia, anticipates more hiring around ESG, especially in the financial services, commerce and manufacturing sectors.<sup>14</sup> This correlates with the findings of a study by SBR, which show that demand for ESG jobs in Malaysia increased by 986% compared to pre-pandemic levels, the highest in Asia compared with other countries, such as India (468%), Hong Kong (442%) and Singapore (257%).<sup>15</sup>

The government has also increased efforts to promote more green jobs. Besides increasing enablers and instruments for accelerating green economy financing and investments, KASA launched a job portal<sup>16</sup> in 2021 as a one-stop centre for jobs related to technical specialities in six sectors – energy, water, waste, building, transportation and manufacturing – to support the target of providing more than 200,000 green jobs by 2030.<sup>17</sup>

More broadly, investment in the green economy should be viewed as addressing three issues simultaneously: achieving greater emission reductions and mitigating Malaysia’s contribution to climate change; enhancing actions which contribute to increased resilience to the effects of climate change; and creating sustainable, long-term jobs in a strategic sector that will form a cornerstone of the global economy in the coming decades. In Malaysia, four sectors stand to benefit from a policy tilt in favour of the creation of green jobs: energy (renewable energy [RE] industries), transport, waste management and agriculture.

An emphasis on investment in RE is imperative as the nation strives to achieve its targets of reaching an RE-installed capacity share of 31% by 2025 and 40% by 2035 as per the Malaysia RE road map (MyRER)<sup>18</sup> and a total installed capacity of 18,431MW by 2040 (the current installed-RE capacity amounts to just under 7,600MW).<sup>19</sup> As the climate ambition grows in tandem with the effects of climate change, these targets will only be revised upwards. This creates scope for investment that promotes local production and deployment of RE – particularly solar and biofuel because of their abundance.

In terms of the labour market impacts resulting from green jobs, evidence indicates an average of 6.5 million direct, indirect or induced jobs will be created per annual GWh of electricity generated from solar PV sources.<sup>20</sup> The UK Energy Research Centre estimates that a further 21.6 job years of “short-term” jobs are likely to be created per MWp of installed capacity during the construction phases of solar PV projects.<sup>21</sup> If the same formula is applied, should Malaysia reach its RE target depending solely on solar energy, it is estimated that this would generate at least 311,000 to 350,000 new jobs.<sup>22</sup> Of this figure, roughly 234,000 would come in the form of short-term jobs during the construction phases. Job creation for biomass lags that of solar energy: 6.4 job years of short-term construction jobs are created per MWp, and between 0.5 and 1.1 jobs created per annual GWh generated.<sup>23</sup> Meeting a quarter of Malaysia's targeted installed-RE capacity of 31% increase using biomass (roughly 2,700 MW) would create between 29,100 and 43,300 jobs, with 17,000 being short-term construction jobs.

In the transport sector, three strategies can culminate in the creation of both climate-related benefits and job creation. They include local production of fuel-efficient cars and electric vehicles, improvements to public transport and improvements to pedestrian and bicycle infrastructure in urban areas. Estimating with any precision the number of jobs created through these transport-related initiatives, however, is a complex endeavour. But it is relatively straightforward to envision how pro-climate policies, including the imposition of fuel economy standards for internal combustion engine vehicles (ICEVs) and incentives for local automakers to produce and assemble components for electric vehicles

and fuel-efficient ICEVs can create highly skilled and highly paid jobs in the automotive industry.

Improvements to public transport infrastructure, meanwhile, can spur activity in domestic construction, while increasing investment can serve to boost the labour market. The construction industry would benefit from investments earmarked for improving the condition of Malaysian roads, particularly in cities, including retrofitting certain areas with dedicated bicycle and bus lanes and steps to improve pedestrian infrastructure. Such initiatives would likely have knock-on effects across other sectors that are dependent on context and, therefore, difficult to project with any precision.

A policy emphasis should be placed on increasing recycling rates for commercial, industrial and residential sectors. While conventional waste collection and landfill disposal creates one job per 1,000 tonnes of waste material managed, recycling – depending on the material(s) in question – creates anywhere from six to 13 jobs per 1,000 tonnes of waste.<sup>24</sup> Emphasis in Malaysia should be placed on improving rates of recycling for metals and electronics, which fit towards the upper end of the job creation range. Labour market benefits can be realised should the government provide access to cheap financing for companies to build new or expand existing sorting and recycling facilities for such waste, a process that will create specialised long-term jobs.

The increasing trends of electronic and metal consumption would only add to this figure, especially with the emphasis on boosting the digital economy. Jobs and positive environmental impacts can also be created through the promotion of waste-to-energy initiatives, such as the commissioning of gasification plants and anaerobic digesters, in addition to the focus on the use of biofuels as a form of RE. This focus could create higher-skilled jobs, both in the construction and operation of such plants and combined with action to promote recycling rates can contribute to enhancing “circularity”.

Opportunities also abound for the creation of sustainable, long-term jobs in the low-carbon sphere across industries. The onus is on the

government to issue policy instruments that drive investment in low-carbon technology domestically and contribute to its increased deployment. This is pertinent, given the global economic context of recent years, beginning with the onset of Covid-19 and the resulting economic lockdowns and supply chain shocks, which contributed to inflation and global recession. With Malaysia signalling greater climate ambition through its focus on increasing the capacity of RE, the enhancement of domestic and international climate targets and its aim to introduce carbon pricing, a rapid and sustained growth in green job creation is sure to follow.

## **2.2 Climate hazards and environmental risks on economy, labour market**

Jobs plus our economic and societal wellbeing rely on our natural environment for ecosystem services, such as clean air, food, water purification, recreation, pollination and other benefits.<sup>25</sup> They play an important role supporting the economy and labour market, especially in some sectors.

The oil palm pollinating weevil, for example, is critical for the oil palm sector, which generates RM108.52 billion in export revenue<sup>26</sup> while flying foxes are important pollinators for durian trees.<sup>27</sup> In the worst-case scenario of a partial ecosystem collapse, Malaysia's GDP could contract by 6% per year by 2030, in comparison to a baseline scenario.<sup>28</sup> These effects will be felt most acutely in natural resource-based sectors, such as agriculture, fisheries and forestry, which account for 7.1% of GDP and directly employ nearly one million people, primarily in rural areas.<sup>29</sup>

To compound matters, climate risks are only growing in urgency. The Covid-19 virus is a type of environmental risk that brought to light long-standing environmental issues, such as ecosystem exploitation, agricultural intensification and climate change, which altogether increase the likelihood of future zoonoses emerging.<sup>30</sup> Further, the exploitation and unsustainable use of natural resources, such as excessive deforestation, illegal land clearing, overfishing and poaching, frequently result in pollution, biodiversity loss and increased disaster risk, which



have disruptive effects on local communities' and their livelihoods – particularly in poorer and rural areas. The marine and fisheries sector, which exemplifies the “tragedy of the commons”, is an example that is frequently overlooked in sustainability policies and discourse. The latest fish stock assessment shows that Malaysian fish stocks have been exploited beyond maximum sustainable yield and have yet to recover<sup>31</sup> and this has been linked to an increase in fish prices during the pandemic. The impacts are being felt by the country's most vulnerable. For example, in Johor, the combined effects of the pandemic, rising sea levels, lack of government support and diminishing catch have hit Tg Kupang's small-scale and artisanal fishermen badly.<sup>32</sup>

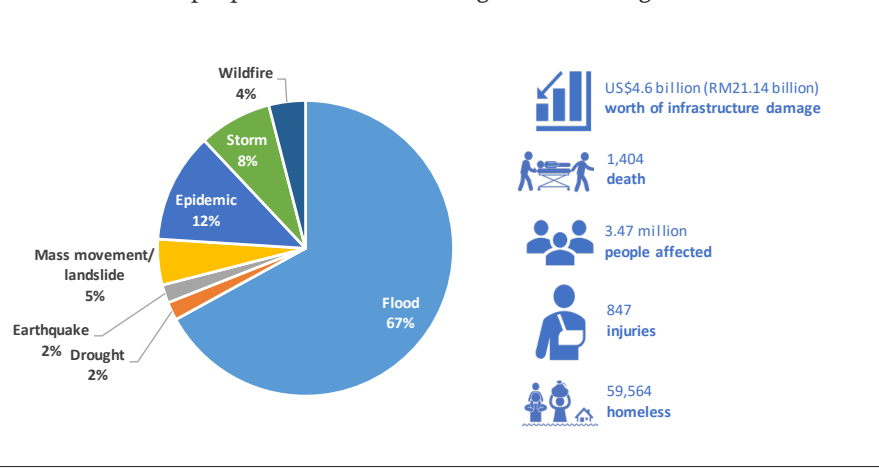
Then there is global warming, a human-induced climate change, that has also resulted in changes in the temporal and spatial distribution of climate hazards, such as floods, droughts and heatwaves. Scientific consensus confirms that the exponential increase in greenhouse gases in the atmosphere between 1850 and 1900 had resulted in 1.2°C of warming compared with the pre-industrial period.<sup>33</sup> During the pandemic, the Intergovernmental Panel on Climate Change (IPCC) released a series of sixth assessment reports. They found that climate impacts were more widespread and severe than scientists first thought and that current commitments and policies are nowhere near meeting the Paris Agreement target.<sup>34</sup> After a slight drop in global CO<sub>2</sub> emissions in the first half of 2020,<sup>35</sup> the numbers rose quickly as the global economy gradually recovered.<sup>36</sup>

But environmental and climate-related risks were not uncommon in Malaysia prior to Covid-19. Malaysia's geographic location and relatively lower poverty rates mean both its risk and vulnerability to natural hazards are comparatively lower than most of its Southeast Asian neighbours.<sup>37</sup> However, the effects of climate change have been observed in Malaysia, with increased mean temperature, annual rainfall and sea level rises.<sup>38</sup> Natural disasters, especially floods, are not uncommon (box 7.1) and several extreme weather events such as floods were recorded during the pandemic (table 7.1).

According to the ILO, climate change poses significant risks and has had a negative impact on employment in a variety of sectors and regions (see figure 7.2). However, two limitations must be considered when determining the true extent of the impact of climate change on employment and the labour market in Malaysia. First, the relationship between climate change and labour markets is a relatively new research area, so existing literature is limited. Second, because of a lack of disaggregated data on disaster and climate risks, the stated impacts may not be documented adequately. Even if available, the data may be difficult to access or dispersed across government domains. Nonetheless, data from stakeholder reports and anecdotal evidence from local communities show how climate change affects workers, with major implications for policymaking.

**Box 7.1: Major disasters in Malaysia (1980-2021)**

Based on international statistics, there have been 95 major disasters related to geophysical and climate-related events in Malaysia since 1980. Annually, floods account for the most frequent and significant damage and are responsible for the highest number of human lives lost, disease spreads, property and crop damage, and other losses. On the other hand, despite the low frequencies of drought, more than two million people were affected during the 2014 drought.



Source: International disaster database by the Centre for Research on the Epidemiology of Disasters<sup>39</sup>

Note: Only disaster events that conform to one of the four following criteria are recorded in the graphic above: i) 10 or more people dead, ii) 100 or more people affected, iii) the declaration of a state of emergency, iv) a call for international assistance. Therefore, these records may differ from government disaster records.

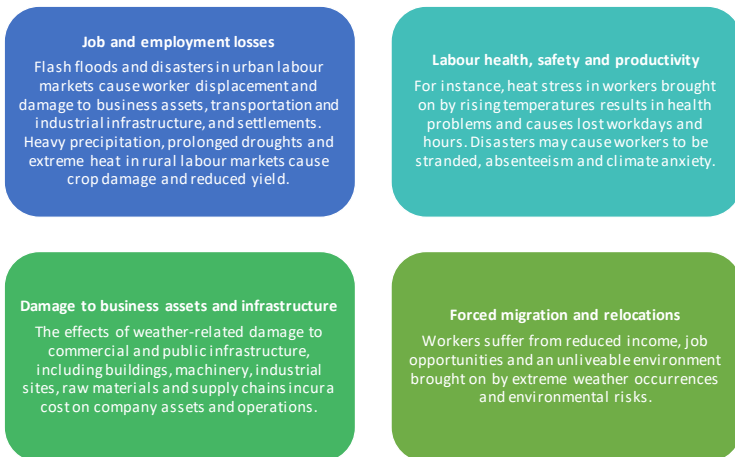
**Table 7.1: Major natural disasters during the pandemic**

Event	Date	Location	Description	Impacts
2021-2022 Floods	Dec 2021- Jan 2022	Klang Valley and 8 states in the peninsula	<ul style="list-style-type: none"> <li>Tropical depression of Typhoon Rai made landfall in the peninsula, resulting in a 'one-in-100-year flood' – a month's worth of rainfall fell in 24 hours.</li> <li>Unusual as it took place in the economic hub of the country – Klang Valley – a region that rarely receives torrential rainfall.</li> </ul>	<ul style="list-style-type: none"> <li>RM5.3-6.5 billion (government estimations), RM20 billion (unofficial estimations)</li> <li>55 deaths</li> <li>2 missing</li> <li>About 71,000 displaced</li> <li>Nearly 130,000 affected</li> </ul>
Debris flood ( <i>banjir puing</i> )	4 Jul 2022	Gg Inas, Baling, Kedah	<ul style="list-style-type: none"> <li>Main factors included cascading geological process combined with heavy rain, landslides, debris flows and floods, and mud floods.</li> <li>Land use change and deforestation added to impact.</li> </ul>	<ul style="list-style-type: none"> <li>RM25.91 million losses</li> <li>3 deaths</li> <li>17 destroyed houses</li> <li>3,546 villagers affected</li> </ul>
	18 Aug 2021	Gg Jerai, Yan, Kedah		<ul style="list-style-type: none"> <li>6 deaths</li> <li>1,000 affected</li> </ul>

Source: Government reports and newspaper clips

Note: This list is not exhaustive but provides indications of types of disaster during the pandemic

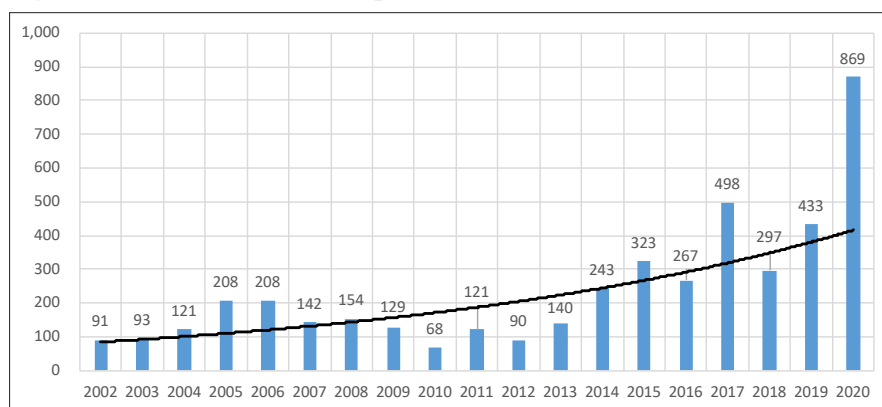
**Figure 7.1: General impacts of climate change on labour markets**



**Natural disasters and environmental degradation can create ripple effects across individuals and organisations.** In Malaysia, the effects of disasters are frequently discussed in terms of hard costs, such as billions of ringgit on recovery and rebuilding – but the link between climate risks and human resources is rarely considered. In general, severe weather events can result in decreased productivity, increased absenteeism and higher turnover. It is difficult for employees to come to work when they have lost their homes or forced to evacuate. It is also difficult to be productive when natural disasters threaten financial stability. While some employees can navigate these situations, many cannot, particularly entry-level workers and junior staff. Poor policies and practice by companies can also aggravate negative effects for workers. During the 2021-2022 floods, there were reports of flood-hit employees being forced back to work with no access to emergency leave and threatened with pay cuts or termination.<sup>40</sup>

**Climate and environmental risks in Malaysia are not uniform across economic sectors and geography.** They depend on type of climate hazards and how they interact with local exposure and climate vulnerabilities. In the context of labour, the impacts of climate hazards such as flooding, droughts or heat waves differ across various interlinked dimensions, such as economic sectors, job types, workplace, sex, age and income level. For example, climate risks are bigger in cities because of Malaysia's 77% urbanisation rate and its high concentration of communities, economic

**Figure 7.2: Number of flood reports (2002-2020)**



Source: Department of Irrigation and Drainage, 2021

activities and infrastructure.<sup>41</sup> In addition, communities in high-risk areas, such as low-lying flood-prone areas, riverbanks and coastal areas, are also more exposed to natural hazards.

**Flooding has the most wide-ranging impact on population.** According to the National Disaster Management Agency (NADMA), five million Malaysians or 21% of the population live in flood-prone areas. When factoring in urban flash floods, at least 67% of the population is at risk of flooding, the highest among Asean member states.<sup>42</sup> During the pandemic, there was a record increase in the occurrence of flash floods in urban areas and the outskirts. Official flood reports have increased exponentially in the last two decades, with 2020 recording twice the number of flood events compared to the previous year (figure 7.1). These risks have been exacerbated by local factors, such as rapid urbanisation, ineffective drainage systems, deforestation and logging, which reduce permeability and natural sponge capacity.<sup>43</sup>

In rural areas and near highlands, there were increased occurrence of debris flood (*banjir puing*), a natural geological phenomenon induced by landslides and water surge that is often compounded by increased sedimentation from logging and monoculture plantations.<sup>44</sup> There have been 25 recorded events of debris flood since 1990 but four were recorded in 2021 and 2022 alone.<sup>45</sup> Besides the loss of lives and houses, and the rise in displaced people, communities in Gg Inai and Gg Jerai in Kedah also lost their farmlands and aquaculture farms. Experts foresee more such disasters over the next decade because of changing rainfall patterns.

**Slow-onset events, such as heat and rising sea levels, pose an equal if not greater risk to Malaysia's population, making certain members of the workforce more vulnerable.** Temperatures have been steadily rising in Malaysia since the 1990s, with land surface temperatures in five major cities of Kuala Lumpur, Georgetown, Ipoh, Bayan Lepas and Johor Bahru rising between 1.64°C and 6.75°C over the last few decades due to urban heat-island effects.<sup>46</sup> Workers particularly vulnerable to heat and hot weather include fishermen, farmers, construction workers and delivery drivers.<sup>47</sup> Blue-collar workers, already in the low-income demographic, are particularly vulnerable to heat-related illnesses,

notably heatstroke because of prolonged exposure, long working hours, poor working conditions and abuse by employers.<sup>48</sup> Informal workers, such as stateless foreign labour and refugees, may even be subjected to longer working hours.<sup>49</sup>

Rising sea levels also threaten the livelihoods of coastal communities in Kedah, Johor, Penang, Terengganu and Sabah.<sup>50</sup> During the pandemic, the All-Party Parliamentary Group on SDGs in 2021 discovered that sea level rise and sand mining along the Malacca Strait have resulted in land loss, degradation and saltwater intrusion, with major impacts on agricultural yield in Muar, Johor. Warming seas have also altered fish migration patterns in some areas of the South China Sea and the Johor Strait, affecting small-scale fishermen's income and fish prices.<sup>51</sup>

**The effects of climate change on the economy and labour markets extend beyond national borders.** Globalisation has resulted in singular node events posing cascading effects on the global economy, including trade-dependent nations like Malaysia. A combination labour shortage from the pandemic, the Russia-Ukraine war and a prolonged dry spell in Argentina and Brazil, where Malaysia relies on for 90% of corn imports to produce chicken feed, resulted in an increase in chicken prices because of the limited supply of feedstock. As such, a climate lens is necessary in the creation of and policymaking for the labour market.

In general, the rise of natural disasters or unmanaged natural hazards that turn into disasters during pandemics threaten to exacerbate poverty and inequality. This acutely hurts low-income earners in sectors that rely heavily on climatic conditions, such as agriculture and fishing, and those employed in informal sectors without formal social protection. As such, climate change cannot be viewed as a standalone issue since its impacts are often amplified by other global risks, such as ecological crises, rising inequalities, conflicts and protectionist policies. Against this backdrop, future threats on the horizon risk exacerbating these conditions. Policymakers will thus need to consider the following major factors in efforts to build sustainable and resilient labour markets:

- **The bleak future climate trajectory and its socioeconomic impacts:** the latest projection by the IPCC found that in almost all emission

scenarios, warming is expected to exceed the 1.5°C threshold by the early 2030s. Based on the Paris Agreement commitment to reduce emission, the world is on track to reach from 2.4-2.6°C warming by the end of the century,<sup>52</sup> which has major implications for Malaysia's economic trajectory and labour market, especially as Malaysia sits in one of the most vulnerable regions to climate change in Southeast Asia.<sup>53</sup> More extreme floods, prolonged droughts, rising sea levels and heatwaves will soon be the new norm. It is estimated that by 2030, the nation will lose 2% of working time to heat stress, which translates to productivity loss equivalent to 80 million jobs.<sup>54</sup>

- **Inadequate resilience and adaptation planning:** during the pandemic, Malaysia made great strides responding to climate issues with the government setting the target to be a carbon-neutral nation as early as 2050 and consideration of market-based instruments such as carbon pricing. However, for a long time, Malaysian climate discourse and initiatives have always focused on mitigation<sup>55</sup> and low-carbon development. Yet the increasing frequency of extreme weather events and their consequences highlight the critical need for climate adaptation<sup>56</sup> to cope with the worst effects of climate change, reduce loss and damage, and protect workers, particularly vulnerable groups. The positive news is that adaptation is increasingly being incorporated into development plans, such as the five-year plan and the national physical plan. Nonetheless, Malaysia still lacks an overarching and comprehensive adaptation policy. Despite being in the works since 2015, the national adaptation plan has yet to be formulated.
- **Social protection gaps:** protection for businesses and workers against climate-related disasters and natural disaster events is lacking in terms of policies and financing. While Malaysia has various labour standards and laws in place, such as the Occupational Safety and Health Act 1994 and the Employees' Social Security Act 1969, they do not adequately address the specific issue of climate shocks and slow-onset events. These risks have a clear impact on the safety and health of workers in numerous sectors.

A lack of financial protection against natural disasters due to underinsurance is a major gap in Malaysia. While awareness of disaster risks may be higher among large corporate and public institutions, small and medium enterprises (SMEs), homeowners and vehicle owners tend to underestimate these challenges. According to an AIG Malaysia study, only 15% of SMEs have purchased flood insurance, implying that more than 80% are unprotected. It is further estimated that 74% of Malaysian homeowners are not insured against floods, leaving at least two out of 10 households in flood-prone areas uninsured. The uptake rate for vehicle disaster insurance is even lower since these require additional premiums for “special perils”, such as landslides, floods and other natural disasters. According to the General Insurance Association of Malaysia (PIAM), as of 2020, only 4% of vehicle owners have flood coverage, with cost cited as the main reason for the low uptake. Allianz Bank indicates that only 11% of its 1.11 million customers purchased protection against “special perils” but that in the aftermath of the 2021/22 floods, uptake increased to 22%.<sup>57</sup>

This low penetration rate reflects the underlying reasons flood insurance is not widely bought. A survey by Malaysian Reinsurance Berhad and Faber Consulting found that while insurance for floods is widely available, many view them as a last resort, and this does not exclude the government.<sup>58</sup> While there has been limited research on this topic in Malaysia, some studies attribute this to a low “perceived risk” of disaster, a lack of affordable insurance products among low-income groups, charity hazards<sup>59</sup> and insufficient marketing by insurance providers.<sup>60</sup> But insurance demand is also heavily influenced by the government's willingness to support and compensate the low-income population for disaster-related losses. This is despite evidence that bailouts were insufficient to compensate the B40 segment for its losses.

Poor uptake of insurance and low penetration rate will result in increased vulnerability especially among B40 groups and informal workers as they lack the capacity and means to recover from disasters. The lack of disaster coverage among communities may require the government to increase its allocation for disaster welfare aid, which may affect fiscal sustainability as the government navigates a tight fiscal space post-Covid, a bleak economic outlook and a rise in climate-related disasters.



### 3.0 Conclusion and policy recommendations

Climate resilience in the post-Covid era must be inclusive to ensure that no one is left behind. As the world transitions to a low-carbon future, there is a need to ensure that it is a just transition in which certain groups are not discriminated against, resulting in the loss of jobs and sources of livelihood, while propelling green growth as a new engine for job creation. Second, climate policies must prioritise risk-based planning and disaster-risk financing to protect the labour force, particularly vulnerable groups significantly disadvantaged in dealing with the effects of climate change. At the crux of it, we need to pursue policies that place climate change at the heart of job creation to pave the way for a sustainable future.

- 1. Develop a holistic educational curriculum to support the upskilling or training of workforce to become sustainability and ESG professionals.** This effort starts with an emphasis on climate change and sustainability for youth, and must be integrated into university and graduate-level courses, programmes on climate change and sustainability, and training courses for professionals. To meet the high demand for ESG and sustainability related jobs, the government should invest to ensure enough labour to support the nation's low-carbon aspirations. This will enable the private sector, too, to enhance its contributions towards climate action.
- 2. Focus on job creation and technological deployment within low-carbon electricity, transport and waste.** Low-carbon industries provide a significant opportunity for growth and employment, particularly given the ongoing global emphasis on decarbonisation. As one of the largest producers of solar panels, and a significant source of biofuels largely through the oil palm industry, there is potential for greater job creation and technological deployment within low-carbon energy industries. This energy transition, coupled with an emphasis on low-carbon transportation initiatives – most notably through local automotive manufacturers, such as Proton and Perodua – can also create sustainable jobs in the transport sector. Finally, there is room for improvement in the waste sector, which contributes just under a tenth of national emissions, particularly in the areas of methane emission reductions and the circular economy.

- **Reinforce Malaysia's position as a global leader in the production of photovoltaic panels:** with the solar industry already relatively established in Malaysia, the government should focus on the creation of domestically owned “national champions”. Emphasis should be placed on expanding the production and generation capacity of solar energy across the country and positioning Malaysia as a global leader in cutting-edge photovoltaic R&D and production.
  - **Provide low-cost financing and other incentives for the domestic production of electric vehicles (EVs), including buses, cars, motorcycles and EV components:** these incentives should be targeted at automakers, such as Perodua and Proton. Such an approach could create the conditions to support the development of low-cost, domestically produced mass-market EVs which can hasten vehicle fleet electrification. It can also support job creation in an industry driving the low-carbon transport transition, and may even facilitate Malaysia's growth towards becoming a key global supplier of affordable EVs, particularly to other developing markets.
  - **Invest in the creation and improvement of infrastructure for pedestrians and cyclists:** such a move could create collective health benefits while extensive and safe pedestrian pathways and bicycle lanes can address last-mile connectivity and traffic congestion. This would also support economic activity, increase productivity and create jobs in the construction industry.
3. **Undertake comprehensive risk and vulnerability assessments for major economic sectors and labour markets.** While the government has conducted some preliminary risk and vulnerability assessments on key sectors, such as agriculture, which includes major crops and critical infrastructure, the extent of climate change impacts on other primary, secondary and tertiary sectors, as well as associated workforce and labour trends, has yet to be assessed fully. As such, systematically evaluating the risk and vulnerability of these sectors will serve as a starting point for embedding climate-related risks across all sectors and undertaking risk-based planning. The

data will also be useful in assisting the private sector in publicly disclosing climate-related considerations in accordance with the TCFD recommendations, which will be made mandatory in 2025.

4. **Revise existing legislations and policies on labour to include specifics of climate change and disaster risk.** Some legal instruments need to be revised to address climate change challenges. The upcoming climate change legal framework under study by KASA needs to integrate environmental risk and labour-related objectives. The Occupational Safety and Health Act 1994, as the apex legislation to protect workers, can include the provision of conducting periodic assessments of new risks related to climate change, improve, adapt, or develop and create awareness of standards for technologies and work processes related to the transition and review policies concerning the protection of workers. Adaptation solutions and policies, such as flexible working arrangements and allowing a minimum amount of emergency leave during and post-disaster, should be explored. But assessments are needed to ensure these policies are context specific based on jobs.<sup>61</sup>
5. **Formulate comprehensive national climate adaptation and disaster-risk financing strategy, including climate-risk financial instruments.** Public spending on flood mitigation has increased significantly across subsequent Malaysia Plans, from RM14 million in 1970<sup>62</sup> to more than RM15 billion in 2022. KASA estimates that more than RM300 billion is needed to address long-term flooding issues,<sup>63</sup> with most of the funds going towards infrastructure development. Government expenditure on social support and financial aid through extra budgetary funds has also increased in tandem, as relief and response have always been the primary focus of Malaysia's disaster-risk management.<sup>64</sup>

As flash floods and natural disasters become increasingly common and unpredictable, there is an urgent need to finance disaster risk in a more economically efficient manner and prevent market failures that increase disaster risks. A comprehensive disaster-risk financing strategy is required, which outlines the most optimal financial instruments that the government can utilise to decide which risks

to retain and transfer, such as catastrophe bonds, parametric insurance, national disaster funds or using revenue generated from market-based environmental policy instruments, such as carbon tax and polluter tax.

To protect labour and workers, disaster- and climate-risk insurance is an effective tool that has been adopted worldwide as it is a versatile and low-cost economic device. First, the government can provide incentives to boost uptake and pool resources to develop a climate-risk insurance market. To assure affordability and eliminate moral hazards, subsidies should be income-based, with higher subsidies for the B40 group. Second, develop a national public insurance scheme through residual markets to cover individuals or companies that are unable or unwilling to purchase private insurance, such as the US national flood insurance programme and UK national flood programme.

Climate-risk insurance can improve social protection, but it is not the only risk management strategy. It must be incorporated into a wider disaster-risk management strategy and support efforts to improve adaptation. Insurance is supposed to enhance economic efficiency by spreading risks, but not necessarily reducing loss and damage. This means that a disaster risk management approach in Malaysia must be more holistic addressing the entire disaster-risk cycle, particularly by taking actions to ensure natural hazards do not escalate into disasters. This can be achieved by investing in resilient infrastructure, nature-based solutions and community-based disaster-risk management.

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<sup>58</sup> Faber Consulting AG. (2022, May 17). *Malaysian insurance highlights 2021*. [https://www.malaysian-re.com.my/api/uploads/MIH\\_22\\_final\\_a6da7cf755.pdf](https://www.malaysian-re.com.my/api/uploads/MIH_22_final_a6da7cf755.pdf)

<sup>59</sup> Individual tendencies to not insure or take any other mitigation measures as a result of the reliance on expected financial assistance from federal relief programmes or donations by other individuals.

<sup>60</sup> Roslan, A., Shaharuddin, N. A., & Che Yahya, N. (2019). Determinants of the intention to purchase flood cover: An empirical evidence from a flood-prone area in Malaysia. *Journal of Entrepreneurship and Business*, 7(1), 60–68; Alam, A. S. A. F., Begum, H., Masud, M. M., Al-Amin, A. Q., & Filho, W. L. (2020). Agriculture insurance for disaster risk reduction: A case study of Malaysia. *International Journal of Disaster Risk Reduction*, 47, 1–9. <https://doi.org/10.1016/j.ijdr.2020.101626>

<sup>61</sup> Day, E., Fankhauser, S., Kingsmill, N., Costa, H., & Mavrogianni, A. (2019). Upholding labour productivity under climate change: An assessment of adaptation options. *Climate Policy*, 19(3), 367–385. <https://doi.org/10.1080/14693062.2018.1517640>

<sup>62</sup> Shah, S. M. H., Mustaffa, Z., & Yusof, K. W. (2017). Disasters worldwide and floods in the Malaysian region: A brief review. *Indian Journal of Science and Technology*, 10(2), 1–9. <https://doi.org/10.17485/ijst/2017/v10i2/110385>

<sup>63</sup> Harun, H. N., Radhi, N. A. M., & Yusof, T. A. (2022, January 20). RM300 billion needed for long-term measures to address floods. *New Straits Times*. <https://www.nst.com.my/news/nation/2022/01/764503/rm300-billion-needed-long-term-measures-address-floods>

<sup>64</sup> Omar Chong, N., & Kamarudin, K. H. (2017, September 26–27). *Issues and challenges in disaster risk management in Malaysia: From the perspective of agencies* [Conference paper]. Persidangan Geografi dan Alam Sekitar Kali Ke-6, Universiti Pendidikan Sultan Idris, Tg Malim, Perak.



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