3 Post-Covid-19 recovery and quest for 'good jobs'

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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.

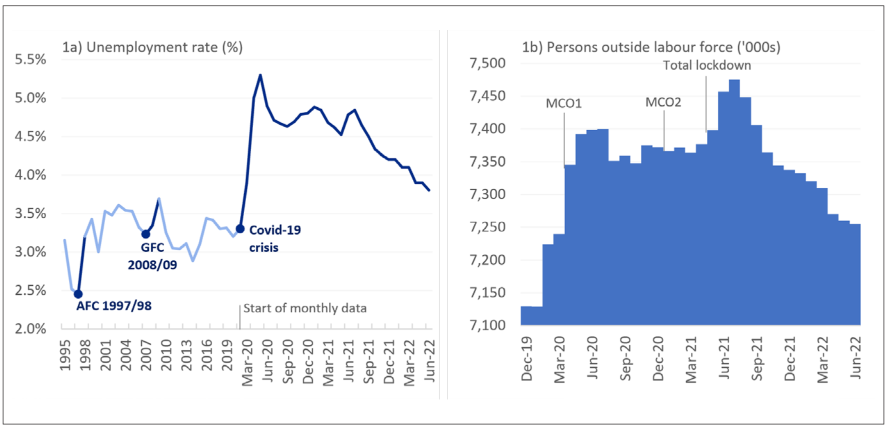
1.0 Covid-19's impacts on workers

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.

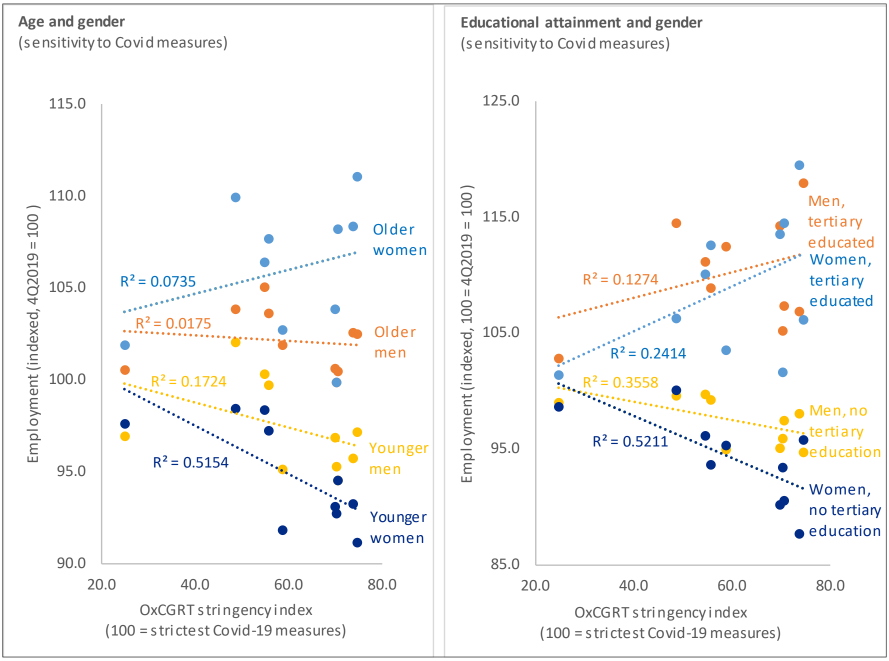
Both combined to create aggregate demand shocks and induced a shift in consumption and work patterns. The consequences have been wide-ranging. There were large jobs, employment and labour force participation impacts, which created knock-on effects on wages, poverty and inequality. On aggregate, headline 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

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

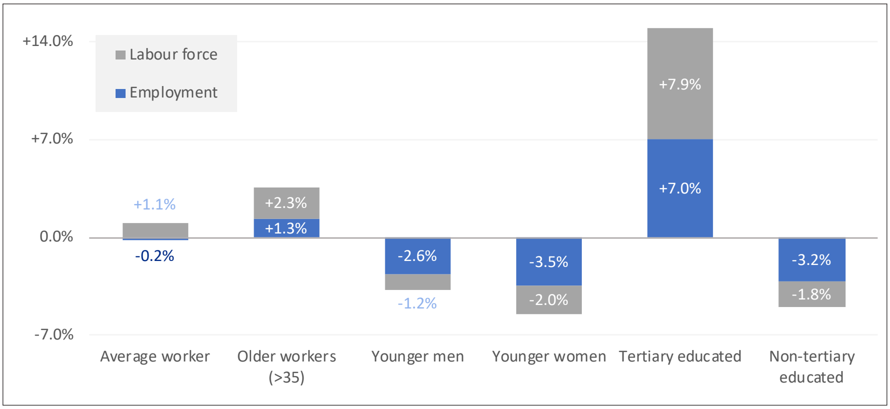
Source: Author's estimates, DOSM
Note: Coefficients are from regressing the employment (measured in thousands of workers) of each worker demographic on OxCGRT stringency index points (Covid-19 containment measures) and GDP growth (in annual percentage changes); younger = 15-34 years old, older = 35-54; * 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).[2] 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)



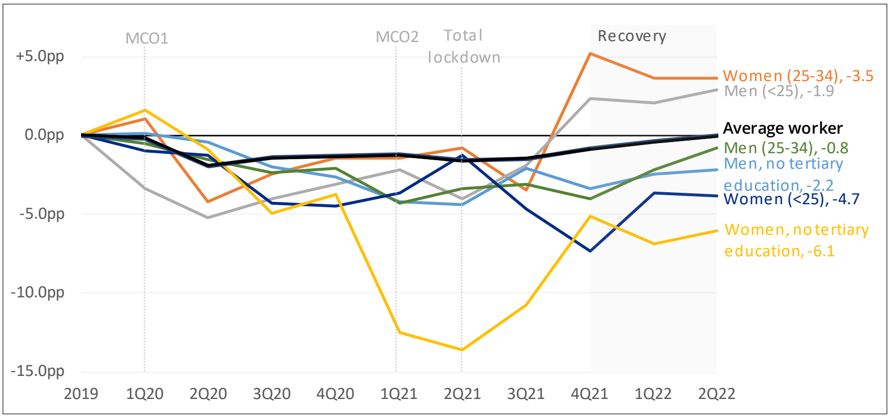
Source: Author's estimates, DOSM
Note: Figure recreated from Cheng, 2021;[6] younger = 15-34 years old, older = 35-54

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.[3] 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.[4] 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.

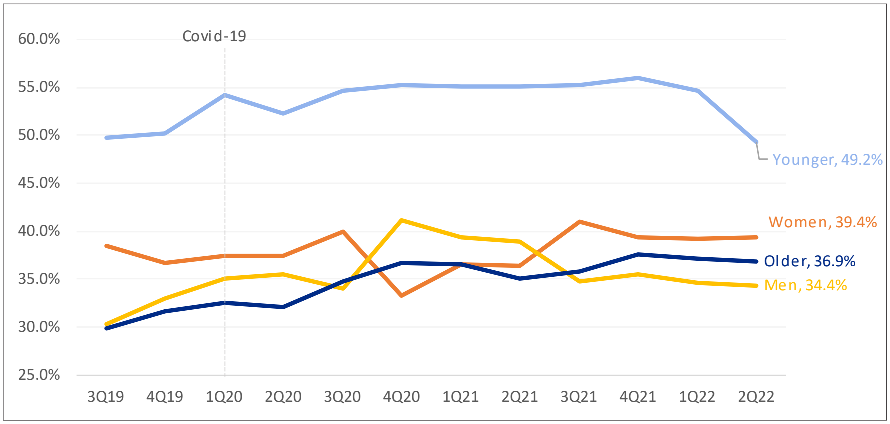
Figure 3.4: An unequal recovery from an unequal crisis
Change in employment rates by worker demographic (indexed to show percentage point difference from pre-pandemic levels)



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).[5] 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



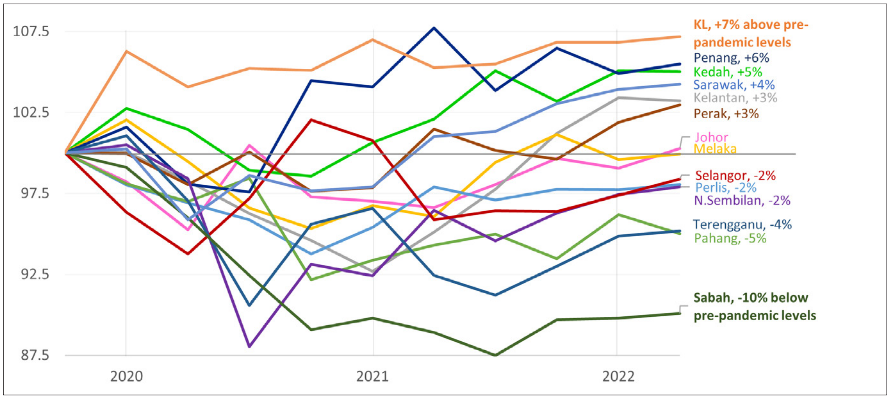
Source: Author's estimates, DOSM
Note: Younger = 15-34 years old, older = 35-54

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.

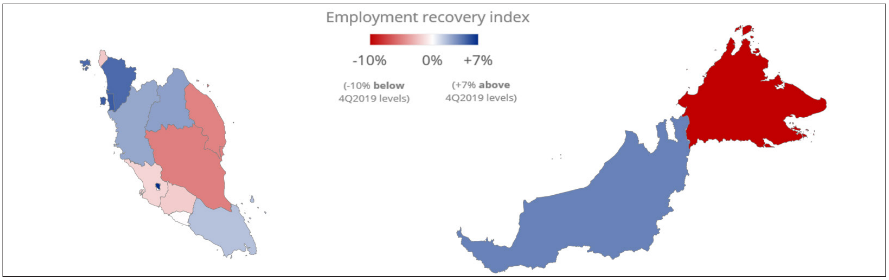
Figure 3.6: High variation in employment impacts by state
State-level employment rate index (100 = recovered to pre-pandemic levels)



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.[7]

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.[8] 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.[9] 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.[10] There is a wealth of evidence that graduating into a bad job market has persistent negative effects on future earnings,[11] with effects potentially lasting a decade or more, especially if there are repeated bouts of unemployment.[12] 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).[13]

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.[14]

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),[15] 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.[16] 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.[17]

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.[18] 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)[19] 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.[20]

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[21] are not covered or have extremely limited coverage under the EIS. A rough low-end estimate puts this number at least 5.1 million[22] – 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.[23] 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.[24]

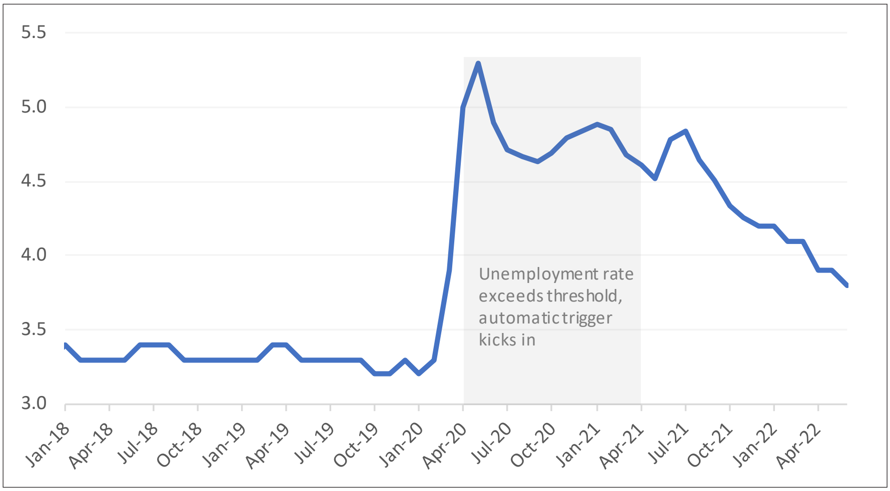
- **Legislating automatic triggers**

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.[25]

For example, following similar proposals in the United States,[26] 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.[27] In Canada, duration of unemployment insurance and eligibility conditions vary with regional unemployment rates.[28] 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.[29] During a severe crisis, work disincentives are likely smaller, fiscal multipliers are higher and the overall social value of benefits greater.[30] 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.[31] 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.[32] 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[33] – particularly when tied to regional labour market demand and focused on at-risk and/or marginalised groups.[34] From a macroeconomic perspective, well implemented ALMPs can lower the structural unemployment rate, reducing joblessness and long-term unemployment.[35]

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.[36] 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.[37] 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).[38]

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.[39] Instead, a greater focus on demand-driven skills training that aim to reduce sectoral and spatial skills mismatches tend to have wider benefits.[40] 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'**

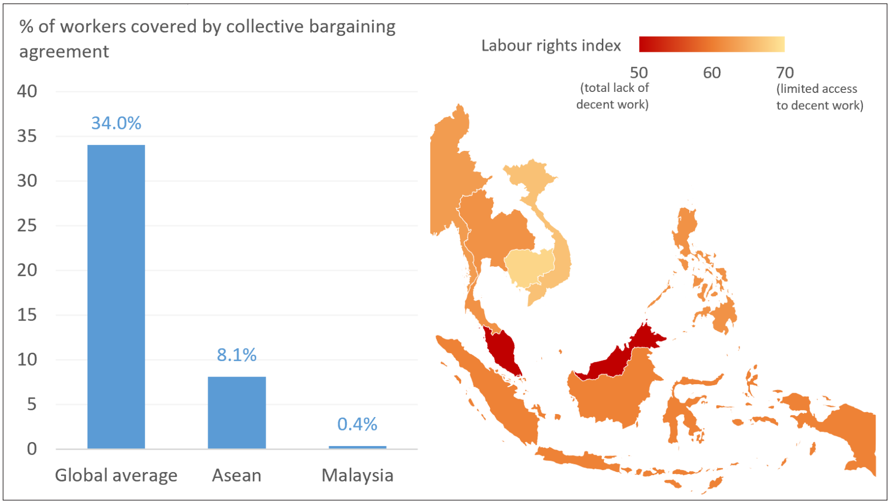
There are varying definitions of good jobs.[41] Broadly, a "good" job is one that allows an individual to earn a middle-class living wage while enjoying adequate stability and protection from dismissal.[42] For workers, good jobs provide opportunities for meaningful economic participation and upward 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.[43] After all, ex-post redistribution alone is insufficient to realise shared and inclusive economic development.[44] 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.[45] 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.[46] 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.[47] 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.[48] 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.[49]

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.[50]

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".[51] 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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