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Realising the potential of a resilient Malaysia

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TWENTY twenty was truly exceptional. What many envisioned as the year of transformation for Malaysia unfolded into an annus horribilis of economic contraction, exposed systemic issues and the vulnerable made more fragile by the Covid-19 pandemic.

Thankfully, Malaysia's economy weathered through a tumultuous 2020 in a show of resilience, finding its feet reasonably well amidst the capable handling of the Covid-19 outbreak, and in the government's strong resolve in containing the pandemic's impact on its people and businesses through four economic stimulus packages, i.e., Prihatin, Prihatin SME+, Penjana and Kita Prihatin.

Based on a better understanding of the virus, the decisive action to gradually reopen the economy helped businesses adapt and resumed their operations. This delicate balancing act in protecting lives and livelihoods resulted in a slower GDP contraction of 2.7% in the third quarter, compared with regional peers such as Indonesia (-3.49%), Singapore (-5.8%), Thailand (-6.4%), the Philippines (-11.5%), and even other key economies like the US (-2.9%).

The year 2020 also gave us a chance for deep self-reflection, honest soul-searching and a priceless opportunity to

recalibrate Malaysia's way forward. As we (gladly) bid farewell to 2020, I feel the time is right to remind ourselves of our strong fundamentals, not our weaknesses; of matters that unite us, not those that divide us; and, through Budget 2021, the good things we can and should develop to rebuild our economy in 2021, and beyond.

Growth premised on solid fundamentals

First off, I would like to clarify Malaysia's revenue projection for the year 2021. Many have said this is overly optimistic, given our limited tax base and current tax regime, and how global economic uncertainties have impacted our growth prospects as a trading nation.

Yes, our 2021 estimated revenue of RM236.9bil is lower than the 2019 level of RM264.4bil, due to lower tax and non-tax revenue. This assumption also draws on our 2008-2009 Global Financial Crisis experience, when individual and corporate income taxes grew 18.1% year-on-year in 2010. For 2021, the growth projection is actually much more conservative at 12.3%.

This projection is consistent with Malaysia's expected GDP growth of 6.5%-7.5% in 2021, which is in line with forecasts by the World Bank (6.7%) and the International Monetary Fund or IMF (7.8%), to name a few. Additionally, IMF forecasts 2021 global GDP growth at 5.2%, while the Asian Development Bank sees 6.8% growth for developing Asia and 7.2% for South Asia.

On the back of this healthy global and regional recovery are better world trade prospects. The current roll-out of Covid-19 vaccines globally supports a more optimistic outlook in 2021, both for the global economy and Malaysia, whose first batch of vaccine is expected to be distributed in as early as the first quarter.

Secondly, to address revenue shortfall, there is also a concerted effort to stem leakages vis-a-vis the shadow economy, particularly the smuggling of high-duty goods. Malaysia's shadow economy is estimated to be roughly 18.2% of GDP in 2019 (or RM258.7bil in 2015 constant prices). This is a sizeable potential income to the country.

Thirdly, the government is also executing its Medium-Term Revenue Strategy which, among others, will enhance our tax framework to meet medium-term revenue goals. Any review must result in a tax regime that is equitable to all, is appropriately-timed and takes into consideration its impact to the rakyat and businesses.

Finally, our Medium-Term Fiscal Framework aims to reduce our budget deficit from the projected 5.4% of GDP in 2021, with an average of 4.5% in 2021-2023. To this end, one key reform initiative is the formulation of the Fiscal Responsibility Act, to improve fiscal prudence, governance and transparency based on international best practices.

A country poised for economic recovery and real growth

One reason Malaysia managed to weather the Covid-19 shock is its well-diversified economy. In 2020, growth in key manufacturing and export sectors like medical equipment and electrical and electronics (E&E) helped cushion the blow to the services sector, particularly with international borders still closed.

From January to September 2020, Malaysia recorded RM109.8bil worth of approved investments comprising RM42.6bil of foreign direct investments. The government remains focused on high quality investments that can translate into knowledge transfer, high-paying jobs and more sustainable development for Malaysia.

Still, Malaysia's economic strengths remain largely untapped. We have an agricultural prowess that can be upscaled through agritech, crop diversity and downstream development. We have yet to ramp up our expertise in green technology, such as solar panel production and "green" building. We have the capabilities to be a key player in the global Islamic finance and the US\$1.4 trillion global halal market.

A concerted effort is long overdue for these, and many other sectors like education, manufacturing and even the creative industry.

As the first step towards developing such potential, Budget 2021 has measures such as the RM1bil special incentive package for investments in high value-added technology and knowledge-based industries; RM1bil fund provided by Bank Negara to support high-tech and innovative companies; the extension of the Green Technology Financing Scheme 3.0 with a RM2bil fund size; and multiple forms of tax breaks, rebates and tax cuts, including for commercialisation of research and development (R&D) which is also extended to higher learning institutions.

Medium to longer-term efforts in catalysing the development of new areas of growth includes Penjana Kapital, which recently facilitated the commitment by eight international venture capital fund managers to invest, together with the government, up to RM1.57bil into Malaysian start-ups in the fields of fintech, edutech, agritech, mobility and artificial intelligence (AI), which are set to create 1,800 high-skilled jobs in the process.

All these initiatives make up the first five steps of the government's 6R Strategy comprising Resolve, Resilience, Restart, Recovery and Revitalise, and set the foundation for the final stage (Reform) represented by the upcoming Twelfth Malaysian Plan (12th MP). The 12th MP is an important roadmap for the next phase of Malaysia's economic development.

As we continue to pivot towards high-value production and services, it is crucial to leverage on this crisis to undertake the necessary structural improvements. We must never waste a good crisis, and must be prepared to reinvent ourselves to ensure future agility and resilience amid constant uncertainties.

Uniting our efforts to achieve economic stability

Admittedly, 2020 was a difficult year for many. The RM55bil fiscal injection under the stimulus packages last year helped ease the burden of those in the lower-income bracket and the vulnerable, of which RM18bil were channelled as Bantuan Prihatin Nasional, above and beyond the RM4.74bil Bantuan Sara Hidup distributed in 2020.

The government is aware that recovery will take time, and 2021 may not be any easier. Hence, to continue alleviating their burden, Budget 2021 has allocated RM30.8bil for targeted assistance, direct aid, subsidies and other support for these groups.

I would also like to stress one well-acknowledged fact in economics: policy is about trade-offs, and about trying to deliver the most benefit with existing resources. As much as some like to compare Malaysia's efforts against other countries', we must acknowledge that each country has its own socio-economic dynamics and characteristics, requiring its own unique solutions.

Two decades in the corporate world and now a government servant, I have seen how easy it is for certain parties to put up unreasonable demands, as they do not shoulder the responsibility of managing the nation's purse. And for some to focus on the negatives while conveniently ignoring the progress we have made, although numbers clearly do not lie.

Nonetheless, as we begin the year 2021, I strongly feel that it is time for all parties to put their differences aside and, particularly for policymakers, to focus on how we can best serve the needs of the rakyat and businesses. The Finance Ministry (MoF) is open to working with various institutions, government-linked companies (GLCs), government-linked investment companies (GLICs), private sector players, non-governmental organisations (NGOs), civil society organisations (CSOs) and even key opinion leaders who have offered to play a greater role in healing the nation's economic and social wounds, particularly given this priceless opportunity to recalibrate and reset our priorities, and ensure equitable growth for all.

In this new norm, I am optimistic about Malaysia's future prospects, taking into account the resumption of business activities, positive developments in the roll-out of Covid-19 vaccines globally, and the government's ongoing efforts to Revitalise and Reform the economy. We have stood strong in many public health battles, but we must continue to persevere in order to win the Covid-19 war. We have flattened the curve once, we can do it again.

Most importantly, we must take all the lessons learned from each crisis to emerge stronger. History has taught us to stand united in the face of adversity. There is so much room for our beloved nation to grow, especially considering how we have prevailed through one of the toughest years in our 63-year nationhood.

I have faith in Malaysians' strength in unity, and I am confident that we have what it takes to stabilise the economy, and for all of us to grow and prosper together. Teguh kita, menang bersama!

Tengku Datuk Seri Zafrul Tengku Abdul Aziz is the Finance Minister. Views expressed here are the writer's own.

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