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World Bank: M'sia on right track

Report says nation set to be a high-income economy in five years

PETALING JAYA: Malaysia is likely to make the transition from an upper middle-income economy to a high-income economy within the next five years despite setbacks from the Covid-19-induced recession, says a new World Bank report.

However, according to the "Aiming High: Navigating the next stage of Malaysia's development" report, Malaysia is growing slower than many countries that have achieved high-income status in the past.

"Compared to many other countries that have graduated from middle-income status, it has a lower share of employment at high skills levels and higher levels of inequality.

"And compared to countries in the OECD (Organisation for Economic Co-operation and Development), Malaysia collects less in taxes, spends less on social protection and performs relatively poorly in terms of measures related to environmental management and the control of corruption," it said, adding that many of these fault lines were exposed during the pandemic.

Malaysia, it said, had been severely affected by Covid-19, adding that it would take "several years before the scars of the pandemic are fully erased".

The 196-page report is expected to be launched today by Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz in a virtual event that will also see Minister in the Prime Minister's Department Datuk Seri Mustapa Mohamad delivering his special address on Malaysia's next development plan.

The report said policies that had enabled Malaysia to successfully transition from low

to middle-income would need to be adapted to meet future challenges, adding that these policies and institutions which had worked in the past might no longer be appropriate.

Malaysia's transition, it said, was also subject to a number of significant downside risks, especially the high level of uncertainty over what would be the "new normal" after Covid-19 and how this would impact the country.

"The Asian Tigers that achieved high-income status in past decades did so in a more benign international environment.

"Malaysia faces not only a global pandemic and a worldwide recession but also a looming international debt crisis, a heightened risk of a resurgence in trade disputes, the potential unravelling of global value chains, and the impact of disruptive technologies that will change the nature of comparative advantage," it said.

Domestically, Malaysia also faced ongoing political uncertainty and a significant increase in government debt from financing the economic measures to help the rakyat during the Covid-19.

While it was normal for Malaysia to experience decelerating growth before Covid-19 as it achieved a higher level of development, it appeared to have slowed down more than it should have relative to its potential.

"The country must adopt a new course for greater knowledge-intensive and productivity-driven growth. In this context, the Covid-19 crisis might usefully provide an opportunity to undertake much-needed reforms," it said.

The report also noted that as Malaysia positioned itself for the next phase of develop-

World Bank: What Malaysia needs to do to achieve high-income status

1. Revitalising long-term growth

Malaysia's trend GDP growth rate is expected to fall over the next 30 years as its growth trajectory converges with that of high-income countries.

- > Invest more in human capital
- > Increase female labour force participation
- > Improve total factor productivity by boosting innovation, infrastructure, skills, and institutional quality

6. Creating jobs

Creating a sufficient number of well-paying, high-quality jobs is becoming more complex as Malaysia moves toward high-income status and as the nature of work changes

- > Improve basic education outcomes
- > Upskill and reskill the workforce by making the academic and TVET more responsive to labour market demands
- > Improve immigration and emigration policies

5. Financing shared prosperity

Reforms are needed to increase tax revenues, strengthen social safety net and target assistance more effectively

- > Explore options for new sources of revenue
- > Improve spending efficiency
- > Increase the progressivity of the personal income tax framework and broaden indirect taxation

2. Boosting competitiveness

Reform key services sectors to promote more competitive markets and improve the competitiveness of manufacturing

- > Increase the effectiveness of competition policy and ensure competitive neutrality between public and private operators
- > Modernise the investment ecosystem
- > Incentives for researchers to collaborate more closely with the private sector and strengthen intellectual property rights

3. Promoting inclusion

Focus on creating high-skilled, high-paying jobs

- > Update benchmarks for monetary and non-monetary deprivation to set higher standards
- > Deepen Malaysia's shallow social safety net

4. Modernising institutions

Strengthen parliamentary oversight and improve government effectiveness

- > Enhance the capacity of the public service
- > Strengthen competition within the state-business nexus to raise standards of governance, transparency, and accountability among GLCs

Source: World Bank

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ment and beyond the pandemic, many of the issues related to this transformation were being addressed and discussed, including through the 12th Malaysia Plan and the Shared Prosperity Vision 2030.

"With the impact of the Covid-19 pandemic and its potential to depress growth into the future, issues related to Malaysia's readiness for the future have become even more significant," it added.