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Associate Professor Dr Chan Sok Gee of Institute of China Studies, Faculty of Arts and Social Sciences, Universiti Malaya, in an exclusive Q&A session with SunBiz, discloses her views on Malaysia's current economic situation and strategies to move forward

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What is your projection on the Malaysian economy this year (2023)?
In my analysis, Malaysia would face great challenges ahead given the slowdown due to elevated inflation, higher interest rates, reduced investments, supply disruptions caused by Russia's invasion of Ukraine, and the recent World Bank's downward global economic growth forecast from 3% to 1.7%. However given the circumstances, my projection is that Malaysia could be attaining a 4% growth, consistent with the views of multiple economic pundits worldwide.

What effect has this economic crunch had on our ability to plan our finances efficiently?
As this round of crisis is rather unprecedented, the actual output is rather hard to predict. As a result of the escalation of goods and services' prices, along with the shortage of supplies in commodities ranging from agricultural to manufacturing products, people will allocate more than 50% of their hard-earned money to foods, which will then inevitably disrupt their ability to save.

On the business side of the spectrum, especially the small and medium enterprises (SME), they are facing the surge in the cost of doing businesses such as raw materials, wages and rental rates. These price instabilities will undoubtedly leave little rooms for both the companies and the consumers to plan ahead for their savings and investments.

What is your analysis about the inflation trend going forward?
Hopefully we will face a slowdown in prices soon. As we see in Malaysia, the inflation started to surge at a sturdy rate of 4% for the past two months. In hindsight, the prices which we are experiencing now are still high compared to the previous years during which we enjoyed an inflation hike of just around 2-2.5%. With the increase in interest rates and the shortages of food supplies and raw materials, we expect the prices will not decrease any time sooner.

The cost of living crisis is affecting us all, how would you say this has impacted the consumers more specifically?
Reduction in purchasing power. In other words, it will be the case as if a consumer having the same amount of money as last year, but obtaining lesser amount of goods and services this time around. A lot of people have begged the question on why can't employers significantly increase the salary to reduce the burden of the costs of living.

The answer is as straightforward as increasing the wage rate without at the same time increasing the productivity, the economy will then certainly be led to an inflationary acceleration trend. In fact, this is exactly what happened last year due to the implementation of the minimum wage rate from RM900 to RM1,500.

What advice would you give to those worried about the growing cost of living crisis? How can the government help those in need during these times?
Be patient. The aim or objective to reduce the cost of living crisis involves medium to long-term policy solutions. It is not just as simply providing cash assistance and subsidising the cost to the people; in fact, doing so without any form of reviews and a set of limitations may harm the economy due to multiplier effects by increasing the aggregate demand.

Pursuing further such policies may create fewer revenues for the government for the purpose of future sustainable economic revitalisation and development.

Therefore, we need to carefully consider of reducing the cost of productions as this crisis was triggered by factors of productions as a result of multiple disruptions in the supply chains such as Covid-19, the Russian-Ukraine war, and climate change.

Additionally, we may need to strategise the country's policy by empowering our SME as they are the backbone of our economy – covering 97.4% of our total business establishments composition, with 78.6% on micro, 19.8% on small, and 1.6% on medium enterprises. In terms of our gross domestic product (GDP) share, SME contributed 37.4%, 47.8% in employment rate, 11.7% in exports, but only 0.1% in productivity. This is why a more holistic approach is needed to bring our SME to the next developmental stage.

The digitalisation of SME infrastructure, working hand in hand with the government's JaminKerja scheme, combined with universities and TVET centres, will help transform SME and micro businesses into a bigger scale for international trade operations and the optimum way for the industry to be tapped into the realm of digital economy. In order for this goal to become a realisation, the government could set up a special task force for the sole purpose of creating a standardized platform for the SME to venture into an international e-commerce business structural coordination.

Furthermore, it is now an ideal time for the country to take into measures in integrating key industrial businesses from the production of raw materials to the international trade system in order for us to become better-prepared and less vulnerable to worldwide supply chain shock. This will also allow us to slowly restructure our economy to become a more competitive environment so as to reduce the power of the cartels, which is a critical issue we are facing presently.

As we are trying to rectify the state of our economy, we however must not ignore our environmental, social and governance (ESG) and sustainable development goals (SDG) commitments. These will involve all sectors to be in compliance with the ESG and SDG standards, and we can start on prioritizing on agricultural and transportation sectors as these two are critically vital to overcome the existing cost of living upheaval. Along the way, we can then focus on other economic segments as well during the period when our country is gaining a better economic momentum.

As a final note, do you have any key points to add/emphasise?
Restructuring is a necessity. We have to focus on high value-added products for exports and becoming self-reliant by looking for cheaper costs of productions. These can be in the form of substitutes, digitalisation, and also core industrial integrations.