



# **Post Covid-19 Potential Unemployment and Human Capital Development**

Training Digest No.1/2020

Although the recent number of new Covid-19 cases in Malaysia is slowly going down, yet the effect of Movement Control Order (MCO) has undeniably given impact to businesses. Nevertheless, without the certainty of vaccine or other medical remedies to Covid-19, the future of economy will never be the same when business and consumer activities will be very different with necessary social distancing and reduced outdoor activities in general.

## **Without the certainty of vaccine or other medical remedies to Covid-19, the future of economy will never be the same**



With challenges as such, many are concerned about the looming unemployment. Malaysia Employers Federation (MEF) and Malaysian Institute of Economic Research (MIER) have given early estimates that potentially there would be 2 million to 2.4 million job losses in this challenging economic climate, where 67% are unskilled workers. The concerns are not unfounded as employment would be gravely affected should business survival is questionable.

Before we decide to paint a gloomy future of employment in Malaysia, let's visit some basic concepts on the types of unemployment. For this article purposes, let us discuss only 3 types of rather commonly known unemployment namely (1) frictional unemployment, (2) cyclical or some call it Keynesian unemployment and (3) structural unemployment.

First, frictional unemployment is something that we would not need to worry too much about it, its basic concept is that the individual chose to be in transition in search for a "better matched job" according to the individual's interests, perceived better opportunities, higher wages or ancillary benefits that suit that individual's wants and needs. This type of unemployment is usually healthy as individual workers could optimise their respective performance for higher productivity, if not happen too frequently. Nonetheless, this type of unemployment mostly happens in less economic challenging times where individuals could go "job shopping" where employers were also in good shape to offer competitive wages to attract talents.

Second, cyclical unemployment is where the MEF and MIER concern about. This type of unemployment stemmed from the reduced aggregate demand from the economy where there are less consumers or businesses needing goods and services, and therefore less workers are needed in the economy. To make the matter worse, the MCO has stopped the production of goods and services from non-essential businesses, in other words those employers and workers cannot even benefit from reduced demand of services (or low sales) but rather to have no sales at all, these are the part and parcel of collateral effect that many are to take in exchange of getting the pandemic under control. Nevertheless, the good news is that the impact from this type of unemployment can often be remedied by government interventions through spending (e.g. stimulus package), employing expansionary fiscal policy (e.g. lowering taxes) or monetary policies (lowering OPR to encourage lending) to revive the economy systematically. Often times the economy will be revived when demand of good and services are back on track and thus creation of jobs will increase accordingly.

Structural unemployment happens when there is a skill gap between employers and employees



Third, and perhaps the less apparent one is structural unemployment. In simple terms, structural unemployment happens when there is a skill gap between employers and employees. Some may argue that Malaysia has always suffered from skill gap where certain employers indicated “fresh graduates lack the attitude to work hard”, or “wrong wage expectation” and so on. I would consider these arguments may merit to certain degree of workers’ underemployment because the unemployment rate in those times was still controlled around 3%, this is NOT the structural unemployment I’m talking about.

The picture that I'm trying to paint here may even be a worse bullet to bite because I am talking about long term unemployment of certain segment of workers (especially low skilled and semi-skilled workers). The structural unemployment I'm trying to describe here could be potentially triggered by the MCO as a collateral incident, where there is a sudden realisation by the employers of the extent of productivity of certain workers in an organisation becomes apparent during the MCO. As we are well aware, Malaysia is not the fastest adapter when it comes to different mode of working (e.g. work from home), we were still relatively attached to the work culture of "working in the office premise" before Covid-19 and thus many supporting services were required like office premise safety and health, cleaning, photocopy, filing etc. However with the MCO taking effect, employers and workers were forced to get accustomed to work from home, and the need of certain office based services are becoming less obvious. With the already challenged balance sheet, there is a high possibility a certain segment of workers would be retrenched even when the MCO is lifted by then, especially low skilled workers.

## Due to the inability to invest in further education or job training, structural unemployment could be long lasting

If employers realised that same productivity can be achieved with a smaller office space after the MCO experience, there will be a sudden massive structural unemployment happen not only in Malaysia, but many regions around the world. For low skilled workers, their salaries or wages are usually paid as minimal as possible and thus as an individual low skilled worker, there are less or no savings for upskill or reskill activities. Due to the inability to invest in further education or job training, their unemployment could be long lasting.



Unfortunately, qualitative input from various HRDF engagements with stakeholders often found that the factors for low training activities are also multidimensional including but not limited to lack of training fund, unwillingness of workers to participate in training, and lacking in general human resources management skills in investing training fund in relevant upskilling training etc. While the current stimulus package maybe helpful to mitigate some effects from cyclical unemployment, structural unemployment is a different issue to deal with.

If and when structural unemployment happens, HRDF plays a vital role to handle the looming structural unemployment. To start with, HRDF has experience as it is started and built upon economic structural reforms in Malaysia's transition from agrarian to industrial economy in 1993, in order to bridge skill gaps for manufacturing sector. Over 27 years of experience in reskilling and upskilling for the nation, HRDF has built a considerable training ecosystem to train and place trainees in the market, and therefore the existing experience and mechanism are already in place to handle such circumstances.

Unfortunately, HRDF, just like Malaysia, has not experienced to handle any massive structural unemployment before. Although HRDF's existing mechanism, processes and experience can help to handle certain extent of structural unemployment, it does not have sufficient resources to handle larger scale of it. Therefore, this article serves as a wake-up call for every one of us to be vigilant to ensure our skills and knowledge are relevant to the market. At the same time, HRDF will be getting ready for such circumstances and we hope that our partner in hands will work together to ensure all Malaysian are adequately skilled and resilient to economic shocks.

