

Online Forum on Economic Policymaking in Conditions of Uncertainty

By Faizal Bin Yahya

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Introduction

The COVID-19 global pandemic has highlighted the need for strategic policymaking for all stakeholders, such as governments and companies among others, in conditions of uncertainty. In this context, IPS conducted a web forum on 14 July 2020 to examine “Economic Policy Making in Conditions of Uncertainty”, planned and organised by Dr Faizal Yahya and moderated by Mr Manu Bhaskaran from Centennial Asia under Chatham House Rules. Panellists included speakers from ASEAN + 3 (AMRO), AlphaBeta Advisors, Singapore Management University (SMU), ThinkPlace, and Kimberly- Clark. The framework for the discussion was to examine the impact of COVID-19 at the regional level and the effectiveness of government policy responses to mitigate the adverse impacts and ability to keep infection rates in check. Economically, one of the key adverse impacts of COVID-19 has been the rising rates of unemployment. While policymakers have implemented a wide range of policy support both monetary and fiscal in nature, the forum also examined the ability of companies as employers to make sense of the uncertainty and formulate strategic plans to cope with the current crisis and transform their companies.

Executive Summary

Key points highlighted in the Web Forum were that the rate of COVID-19 infections has plateaued in the East Asian region as a whole and recovery with the next two years would be dependent on whether a second or succeeding waves of infection could be prevented, and whether stimulus and fiscal packages could be sustained. In the ASEAN region, economic growth rates will be reduced between 3 to 11 per cent and job losses between 5 to 7 per cent. To address unemployment challenges, key policy measures have included wage support schemes, training relief packages or subsidies, financial assistance for unemployed individuals, temporary employment schemes and increased training provisions. For employers planning a strategic management framework at firm level, a possible approach for them is to leverage dominant theories such as the resource-based view and to improve their information and access to resources to be better prepared for shocks. Alternatively, using scenario-planning pathways such as the Cynefin model, a strategic pathway could be mapped to guide policymakers out of the current chaos. Companies have to be adaptive and agile to mitigate adverse impacts to their business operations. Swift action is necessary with or without accurate and relevant data for forecasting. Companies may need to resort to planning

approaches that leverage a vision, intuition and trust built among their staff to guide them out of the chaos and to seek new opportunities. Policymakers would have to provide as much specificity in information as possible and balance public health concerns and over-regulating the economy, in order to move the economy forward.

ASEAN + 3

The first panellist, from the ASEAN + 3 Macroeconomic Research Office (AMRO), examined the regional impact of COVID-19 on the ASEAN region and its Plus Three partners, namely, China, Japan and South Korea. For this region, the rate of infection has plateaued for most economies but the risks of second and succeeding waves of infections remain significant. Among all the risk factors determined by AMRO, the threat of COVID-19 for economic activities within the short term of two years is the most significant.

Impacts to three key stakeholders consisting of governments, companies and households were evaluated. From the perspective of companies, concerns have arisen due to issues of liquidity — cash flow, demand outlook, investment decisions and the viability of their business models. The consumer and business sentiments indices among the ASEAN + 3 region have fallen. The index of uncertainty for policymaking has risen but governments are making efforts to cushion the impact through stimulus and fiscal packages for households and corporates. Cuts in interest rates are aimed towards creating a monetary stimulus.

The prudent economic policymaking among economies in the region over the last few years has created moderate policy space to deal with near-term uncertainties. A rebound in 2021 is dependent on whether subsequent waves of infection could be averted due to the physical and economic costs of containment measures. Policymakers should also pay heed to medium- and longer-term challenges, as structural shifts have already occurred due to the pandemic.

Impact on Employment in ASEAN

One of the key impacts of COVID-19 concerns employment in the ASEAN region, and this was examined by the second panellist, from AlphaBeta Advisors. Her presentation focused on three key questions. First, what are the broad impacts of the COVID-19 pandemic on the ASEAN economies and jobs? Second, where in ASEAN (sectors and communities) will job impacts be most strongly felt? Third, what have been the key policy responses and have they targeted the largest areas of impact?

The overall impact of COVID-19 on the ASEAN economies has seen their respective forecasts of growth rates reduced between 3 to 11 per cent. The projected job losses in the region due to the pandemic ranges from 5 to 7 per cent of total employment. The projected job losses among Thailand, Malaysia, Indonesia and Singapore would most heavily occur in the hospitality, F&B and transport services, ranging from 6 to 26 per cent of total employment. However other sectors such as manufacturing, construction, trade and utilities will also be affected although to a lesser degree from 4 to 6 per cent of total employment. In Singapore's case, for example, over 2,800 freelance workers have been affected with a loss of 9,000 projects amounting to approximately S\$30 million in May 2020.

In the ASEAN region, five key policy levers have been adopted to address the job impacts of COVID-19. These are wage support schemes, training relief packages or subsidies, financial

assistance for unemployed individuals, temporary employment schemes and increased training provision. In Singapore's case these were the Jobs Support Scheme (JSS), SGUnited Skills Programme, Covid-19 Support Grant and SGUnited Jobs Package. However, more robust policy responses will be required going forward. These would need to better target specific labour segments with a focus on the long term, and develop mechanisms for critical skills training that would be required by the work force in the "new normal".

Strategic Direction and Planning at Firm Level

The third panellist, from Singapore Management University (SMU), examined firm-level strategic management because companies as employers need to develop frameworks to guide them through uncertainty. The panellist, working in the strategic management domain, opined that firms could leverage on the resource-based view (RBV) as a dominant theory in strategy to develop competitive advantage and prepare for shocks. Firms that have valuable, rare, hard to imitate and non-substitutable resources were able to create sustained competitive advantage. While these resources could be "tied" to the firms, they could also reside outside of the firms, in the form of supplies of natural resources, brands, reputation, trust and political networks. Although these resources reside outside of the firm, the RBV could be used by companies to provide some form of control over these resources such as limited structural discretion as a guide to plan for expected shocks with a view towards managing these external resources. In this regard, the key questions raised were first, what is the direction of the expected shocks (positive or negative)? Second, do firms have the technical discretion to deal with factor shocks (specific or generic complementarity)?

The panellist highlighted that resource heterogeneity is the de facto economic reality that firms need to manage. Therefore, firms follow idiosyncratic pathways to acquire, accumulate and integrate their resource configurations. Diversity of resource configurations can also lead to equifinal competitive advantage. The SMU panellist added that distinct resource configurations can underpin competitive advantage, but the resource's ability to create competitive advantage is susceptible to changes in the availability of external shocks. The resources can in themselves differ in technical discretion in terms of complementarity and sensitivity to factors that are presumed to be homogeneous in industry.

The panellist provided four strategic pathways to the firms affected by shocks as options on how to successfully navigate through these shocks. First, in the specialisation strategy, in order to manage a negative factor shock, it was recommended that companies be less rigid in their respective expertise so that they would be able to increase their process efficiency and attain a higher relative competitive advantage. Second, in the flexibility strategy, to manage a negative factor shock, it was recommended that companies be adaptable and versatile so that they would be able to redesign their process flow and redeploy if need be, and maintain their relative competitive advantage. Third, in the amplification strategy, in dealing with negative factor shock, it would be ideal for companies to be versatile and upscale rapidly to remain competitive and avoid social penalty of betrayed endowment. Fourth, in the connectivity strategy, to manage a negative factor shock, it was recommended that companies develop superior information and access to achieve a higher relative competitive advantage.

Scenario Planning

The fourth panellist, from ThinkPlace, used scenario planning as an approach for companies and other stakeholders to react during uncertain conditions. Under the frame of a volatile, uncertain, complex and ambiguous (VUCA) world that has been made more complex with the pandemic, one of the models ThinkPlace uses is the Cynefin Model. In the chaos, there is a need to act first to restore order, to arrive at a complex order scenario in which the problem can be resolved. This would enable the human-related systems to be adaptive. The process has to be repeated until workable solutions are uncovered. If there is no action taken to restore order, the chaotic situation could accelerate into a complicated scenario in which it would be harder to resolve the problems due to governing constraints.

The act of engaging all actors together in an inclusive process in real time through in a multidisciplinary design brings together the “voice of intent” that are stakeholders such as government and big business to initiate the idea of change. The voice of intent group has to engage the voice of experience that consists of labour, industry and customers. Connecting with the voice of expertise are the experts with deep knowledge and academia in economic policy making. The six key things for decision making in uncertainty is dependent on strategic intent, system mapping, ethnographic research, abductive thinking, innovative framing and prototyping.

With the strategic intent, stakeholders need to create change with cross-sectional representation through system mapping. Thereafter, through the ethnographic stage, the stakeholder community picks up the intelligence and valid information and uses a mixed-model approach to arrive at the innovation framing stage. This would enable the collective of stakeholders to identify the key challenges. Without a clear path ahead, abductive thinking may need to be employed with the use of imagination to gain foresight through deductive reasoning to imagine the future goals we are heading towards. With the goals in mind, there is a need to put the ideas into action through simulations and testing. This prototyping of workable solutions would provide the content for policy setting.

The act of engaging with complexity at multiple levels and time frames enables ideas and imaginings to be pieced together to design and deliver a future scenario. For example, these could be used to manage workshops with public and private sectors on rapid design of coronavirus risk mitigation with industry, codesigning new regulatory schemes with an industry sector, inclusive design for alternate economic futures, and rapid design of new government policies and programmes. These could be timely contributions given the rapid and dynamic changes to regulations, and enhance insights on how to reopen the economy safely through risk mitigation strategies.

A Practitioner’s Observations

The fifth panellist, from Kimberly-Clark, commented on the need for the leadership of companies to review their approaches during uncertain conditions and continue operations in the best and safest way. Kimberly-Clark has been listed as a corporation under essential services and they have manufacturing plants across several countries. Some of the key points highlighted were:

- The need for speed and agility is imperative and uncertainty only accelerates this trend.

- Strategic planning is essential despite the difficulties of forecasting developments. Companies have to plan for all possible scenarios with an objective in mind and evaluate any plans implemented.
- Data is useful for decision making in the immediate present such as the interest rates in the markets and the personal protective equipment (PPE) protocols for the safe operations of factories. However, in uncertainty going forward, data is limiting.
- There is a need for vision, instinct and trust in planning approaches to have a consistent, transparent pathway for the company. For example, the use of masks may be uncomfortable for workers but they are essential for their own safety and that of their peers. The workers may grumble about using masks but they feel safer within the factory facility than outside its premises.
- For governments, companies need more specificity in terms of guidelines and regulations in the event of “lockdowns”. Policymakers need to balance providing support for public safety and over-regulating. For example, a sudden and draconian shutdown will inflict heavy losses on companies.

Corporations need to play a huge role but how do they come out of this crisis stronger? First, they need to manage the crisis with the points mentioned. Second, they need to find the opportunities being presented and the teams within the corporations that are able to evaluate and exploit those opportunities in the fastest way possible. They need to move with agility and speed to discern old business units that will fade away and new ones that are emerging.

It is important to manage the media “noise”, including from social media, and to differentiate what is relevant and important to make the right decisions. Do not play to the “gallery” as what a CEO once said, and “every single human life is important”. It is important to protect workers’ trust and to ensure that workers are able to function despite the pandemic. Another point was not to get “bogged down” in ideological debates, but to be pragmatic, take lessons and move forward.

Question-and-Answer Session

The moderator started with two key questions. First, what would be the triggers to withdraw and extend policy support especially for SMEs? Second, how to approach the challenge of opening borders and initiating cross-border travel?

In order to assess the health of the economies, there would be a need to evaluate and differentiate the type of policy responses based on circumstances. The longer the pandemic is in duration, the “start and stop” economic cycle would suggest the need for a pragmatic and targeted approach to the lockdowns. Most policymaking is seen to be short term in nature but there is a need to develop long-term policies to reset the economy. The lessons from other economies could be used as a guide for the parameters to reopening. The experience from the East Asian region suggests the need for social distancing and lockdowns to contain the virus and to assume the worst possible scenario of a second wave.

There will be a tendency to be overly reliant on data. There is the added challenge of whether we know enough for the data to be reliable. But if the data is false, then the outcomes will speak for themselves. Therefore, there is a need to develop real-time, high-frequency data which is not readily available, and early warning indicators to alert policymakers. For example,

social networks such as Facebook could be alternative data points. In addition, for companies with operating plants in several countries, the rate of infection in those factories could mirror the infection rates in the host countries, and the policy responses would need to be swift to contain the infection rate.

There will be a need to increase random testing to protect businesses. Other considerations include a moratorium on mortgages and how to manage the balance sheet. Pragmatically, experts need to be assembled to assess how the economy is evolving and more targeted support would be effective. Policymakers may need to be incentivised towards a more nuanced approach to risks where possible, depending on the level of trust. This would facilitate the design of good support measures and not sustain “zombie” (shell) companies. It is also important to note that governments should not look through the perspective of sustaining companies but its people.

The safe reopening of borders for cross-border travel would need the implementation of testing and isolation, with the suspension of liberty on entry and access to reliable testing. This would involve safeguarding strategic and national interests through companies such as Singapore Airlines (SIA). There will be a need to decipher what the “new normal” means for skill sets and for the workforce to transition towards more resilient sectors. Current approaches through technology via digital adoption have been proven to be useful in the current pandemic. SMEs that employ the bulk of the workforce would be especially challenged to survive a prolonged lockdown. An easy credit programme to tide them over this pandemic period would be an option. This could entail the use of short-term credit facilities for SMEs. But the question of focus for long-term policy measures remains. The collection of transparent and robust data sets should be treated with caution, and there would need to be nuance in the search for insights.

If companies could manage the risks and seek opportunities, this approach would help in their strategic planning. Obviously, pre-COVID-19 systems have been inadequate and this has resulted in the need to transform existing business models to be more robust and resilient. It would be a fundamental mistake to withdraw from the global value chain but rather to highlight the need to diversify.

Some key questions and comments that were raised by the panellists and participants but due to time constraints were not addressed included the following.

First, digitalisation gives advantage to size. Prior to COVID-19, an SME might have benefited from footfall traffic and location, but the COVID-19 phase has accelerated working from home and online shopping.

Second, many SMEs experienced reduced demand from customers in the Phase 2 reopening, and found it difficult to compete with more established brands despite the E-commerce Booster package provided to SMEs to gain access to business-to-consumer (B2C) platforms like Lazada and Shopee.

Third, how would the current job losses intersect with longer-term risks to employment such as automation?

Fourth, how much do we seek to protect and revert to the status quo and how much do we accelerate transitions to more future-ready models?

Fifth, given the speed with which digital tools previously deemed too difficult to use are being adopted by businesses due to COVID-19, what impact would this have on the digitalisation timeline in relation to the Industry Digital Plans and Industry Transformation Maps (ITMs)?

[Faizal Bin Yahya](#) is a Senior Research Fellow at IPS.

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