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Post-Covid Emerging Market Economy Policy Framework

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Now that vaccines are becoming more available (although unevenly), the advanced markets are already planning for a Post-Pandemic world. The pandemic exposed almost all the social, planetary, economic, political, military, technological and geopolitical cracks, deepening into canyons of polarization. Opinions are heated, people are confused and there is no guru or economist of the stature of John Maynard Keynes to lead the world out of the looming crises. In short, it is as much an intellectual or mind-set crisis, as social, political, economic or financial crises.

Despite this, we see some broad trends that most people can agree on.

First, the shift towards online or digitization of business, government; and services will proceed faster than ever. Second, technological competition, innovation, and research and development will accelerate across almost all sectors, including the military, travel, distribution, fintech, and health, as people realize that artificial intelligence, Big Data, and genomics will determine whether companies and economies succeed or fail in the coming decades. Third, education and re-skilling of workers across all age groups will become top priority, as the future of work will be very different from the present. Fourth, finance will become very complicated as the rich age, the young need capital, and industry will be transformed by cyber-currencies and quantitative easing (rapid increase in fiat money). Fifth, even the media industry will be transformed as society and governments have become aware of the massive power of social media and tech platforms that intrude into every aspect of human behaviour.

Dealing with the present mess and transforming the economy and social systems for the future will be extremely contentious, mainly because there is no consensus on both the diagnosis and prognosis. Not only are we not sure of the science (doubting doctors and technical experts) but also questioning whether we should have vaccines or wear masks.

In short, we are rapidly moving into the age of Big Government and Big Tech. This raises the key issues that emerging markets like Malaysia are confronted with, which the Brookings/Rockefeller Foundation study on Sustainable Development Goals (SDG) identify as the Four Great Transitions¹ – justice, environment, technology and next generation.

Are we ready for the Big Reset in our policy framework? This analogy is like switching off the computer, reboot and starting again. A mental reset is certainly necessary, but politics is complicated precisely because the vested interests refuse to be “reset”, as they would lose their power and influence. We cannot implement “rational” economic and social policies because there are huge emotional factors like race, religion, gender, class and regional issues that are rationally irrational.

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¹<https://www.brookings.edu/research/great-transitions-doubling-down-on-the-sustainable-development-goals/>

And as long as politics is divided, even a coherent set of sensible policies cannot be implemented or at least carried out without being reversed or stalled for the simplest of reasons – someone will object.

My diagnosis of Post-Pandemic Economics is to think about economics as a complete system comprising at least four major components:

1. Meta-Economics – the thinking or philosophy behind economic theory, which would include also the history of economic thought. People think that modern economics was founded by Adam Smith, but his theory of the Wealth of Nations was a study of the political economy of how to build mercantilist free trade to make Britain wealthy. The word economics came from the Greek word *oikonomia*, which means household management. Economic philosophy has shifted from a classical linear, mechanical model of the economy to an organic, systemic, holistic, multi-disciplinary approach towards understanding economic behaviour. This means that economics cannot be divorced from psychology, sociology, politics, technology, etc. Economics is shifting towards complexity, non-linear theory and will be changed by Big Data, AI and agent-based modelling.

2. Macro-economics is what most people associate with economics: the study of economic behaviour in aggregate, such as GDP production, consumption, income, savings, and consequently how to exercise policies such as fiscal, monetary and structural policies to achieve our economic goals. Most criticism of economics since the 2008 global financial crisis was against macro-economics and finance, because the models used failed to predict the crises, and the solutions have led to very controversial outcomes, such as growing inequality. Financial economics will undergo major changes due to the arrival of cyber-currencies, quantitative easing and blockchain technology that is transforming finance as we have known it.

3. Micro-economics – the study at the micro economic behaviour level, or firm, household, or small market levels. These are smaller models that can be limited by assumptions and therefore are less contentious.

4. Meso-economics – or the institutional framework that links the micro with the macro. Human beings created institutions to solve problems, such as the establishment of universities for education, banks and markets for finance, civil service for provision of public goods. Anglo-Saxon economics tends to down-play the importance of the institutional framework, often taking it for granted. The Austrian school, or European and Chinese schools of economics tend to emphasize their importance. In the post-pandemic world, we will see more of whole-of-society, whole-of-government institutional cooperation and competition in order to achieve major structural changes due to technology and social media's impact on behaviour. Technological innovation has enabled major changes in institutions, improving knowledge, cutting costs and dealing with issues. But technology brings its own set of problems. There is no free lunch.

At the institutional level, we see a fundamental shift in the hierarchy of almost all institutions and their policy responses. As technology advances and the policy complex becomes more complex, there is more and more concentration or centralization of powers to form “presidential” styles of governance to respond quickly with complex change². The present set of neoliberal policies with lots of promises, plus growing and cumbersome bureaucracies, has led to dysfunction whereby the masses are not getting the service they need, so there is a huge loss of trust between the elites and the masses. In many countries, this has led to populism and polarized, fragmented politics and failing governance. With the arrival of social media and technology, it is now possible to flatten hierarchies to be more “bottom-up”, but so far, no successful models have emerged as the right model to copy. This is an area where EMEs have lots of room for innovation.

The pandemic has shown that all four aspects of economics play important roles in our next policy framework. As the behavioural economist, Daniel Kahneman said, “we can be blind to the obvious and we are also blind to our blindness.” Specialisation in economics made these experts forget that different disciplines, such as anthropology, sociology and politics often provide very important insights to predicting not just economic, but social behaviour³.

²See Pierre Rosanvallon (2018), *Good Government: Democracy beyond Elections*, Harvard University Press.

³Gillian Tett (2015), *The Silo Effect*, Simon Schuster

What good is excellent policy when most of the outcomes are bad, such as the growing inequality or the destruction of our green planet? In fact, the best rated health systems often suffered the worst pandemic outcomes precisely because of blind spots, and their institutional inability to cope with the scale of infection and hospitalizations. Economic policy will require multi-disciplinary thinking, and even inter-disciplinary, or transdisciplinary “integrative” approaches. How to work with very disparate agencies, departments and civil society and business to respond to fast, unseen crises is going to be very challenging.

We are beginning to see major shifts in policies. First, everyone is now focused on technology as a driver of national competitiveness, so state investments in innovation, core technology, home bias, defence and national security, all play into post-pandemic policies. Governments will be far more intrusive, with more regulations and less emphasis on free markets.

Second, since the fiscal position has deteriorated, there is now agreement on minimum 15% income tax for the G7 countries, which will eventually be adopted worldwide. This reflects a major global shift to collect not just taxes, but information on many aspects of individual and corporate behaviour. The OECD sharing of information of offshore banking information has made it more difficult for individuals and companies to hide their profits and wealth overseas to escape tax or official surveillance.

Third, monetary and financial policies are witnessing a silent revolution with the rise of central bank digital currencies (CBDC), private cyber-currencies such as bitcoin, new exchanges, asset classes, new clearing and settling platforms, and new delivery mechanisms for credit, investments (crowd funding), payments and asset management. We have arrived in an Age of Magic Money⁴, where central banks can print money to finance what used to be thought unsustainable fiscal deficits. However, the costs may have been postponed to the future in terms of latent inflation, growing inequality and financial crises.

Fourth, structural policies cover a lot of ground, including labour, health, social security and pension, education, technology and the like. All these are now under major review. Let me take labour/demographics, education and work/life style policies to illustrate how tough the reforms are likely to be. We should remember that for most democratic economies, it is difficult enough to implement three or four important reforms during one election term, with likelihood of reversals if the electorate is unhappy with the outcomes or because of very different concerns, such as the referendum that led to Brexit.

Labour policies: there is little doubt that under the rubric of capitalism, labour was under-valued and capital was preferred. In the rich countries, the middle class workers have revolted⁵, when globalization shifted jobs to cheap-labour countries and wages have been kept low because of allowing the import of foreign or migrant labour. In middle-income countries like Malaysia, whilst the middle-class and industry have benefited from large imports of foreign labour to keep services and manufacturing competitive, such low wages actually have two bad effects. The first is to keep the entry-point wages low, especially those for low-skilled or undergraduates, which creates a high youth unemployment rate. The second is that industries are not incentivized to move up the productivity curve. Foreign labour has short-term benefits, but also long-term political and economic costs.

The pandemic has revealed that if protection and detection is not undertaken in the foreign labour enclave, the coronavirus will spread to the rest of the population. Hence, many countries are beginning to re-think the use of foreign labour to focus protection for domestic citizens, but also because going forward, it may be both politically and economically expedient to invest in re-skilling for citizens, rather than foreigners, since these can move on.

Innovation, Education and Workforce Re-skilling policies all are entangled together. In today’s competitive world, technology defines whether a middle-income country remains trapped or achieves breakthrough to higher income, advanced country status. Other than oil and gas-endowed wealth for a small number of Arab nations, the only middle-income countries that have broken into high income levels are South Korea, Taiwan and Singapore. These countries devoted substantial efforts to research and development, technology and upgrading labour, skills and income.

⁴Sebastian Mallaby (2020), The Age of Magic Money, Foreign Affairs, July/August.

⁵Martin Gurri 2018, Revolt of the Public and Crisis of Authority in the New Millenium, Stripe Press.

The pandemic and earlier incidences (such as the Bangkok flooding) revealed that global supply chains can easily be disrupted if one key chain or vulnerable point fails due to natural disaster or say, lockdowns. The lesson was that simple linear assembly line systems are vulnerable and fragile. Creating a resilient supply chain requires not only diversification of supply sources, but also adaptability of labour to shocks. In other words, we have to up-skill our workers to be nimble, dexterous, innovative and flexible, so that the whole system responds quickly to new market trends or shocks.

Think about the current education system as a linear assembly line in which the young are fed with information and knowledge that creates specialization without teachers or parents understanding that the environment has changed. The young go through kindergarten, six years primary, six years secondary schooling, followed by three to four years under-graduate studies. But if the curriculum has not adapted or refreshed to employer needs, we have a remarkable situation whereby employers complain that universities produce graduates they cannot employ!

The reality of course is that companies are also threatened because if they do not adapt to global or market needs, they will be marginalized or fail. So they need to up their quality, brands and respond quickly to changing market conditions. In short, they also need very flexible and innovative workers and managers. They cannot respond “mechanically”, but must react “organically” to survive.

The bottom line is that we have to blend or mix-up the feedback mechanisms between schools, ministries of education, and employers, so that the education providers teach the young what the market needs, adjusting quickly rather than lagging in response.

We now come back to an important insight in terms of policies and strategies. Given highly complex environmental changes, risks escalate, and to survive or thrive, we must re-tool our thinking, (meta), macro- and micro-policies, but also our institutional (meso) framework, processes and structures.

The old linear, mechanical approach is failing, so we have to adapt organically. That requires more delegation to make the institutions flatter (more bottom up) and enable the decentralized parts – families, communities, villages, cities, local governments, departments or unit – to act locally and adapt to global challenges.

To put it simply, the translation of the 17 Sustainable Development Goals into actionable programmes, projects and policies are transformational, but very complex and very hard work. We have moved from the era of theory to the era of execution in practical, pragmatic manner, so that we deliver what the people want, not what the elites want.

To do this massive transformation, in justice, planet, technology and generationally, we need a new Social Compact. The people must agree or at least understand what we ask of them, how to change, why to change and what is the end-game.

The present system of different ideologies along capitalism, socialism, race, religion or whatever, is not working, because they are not delivering the peace, prosperity, profits or planet that the people were promised. We cannot do this in an instant, like a reset.

Crisis is an event; reform is a process. To make reform successful, we need a process to manage the complex processes of change. This is like a Windows control programme that manages the separate functional programmes of Word, Excel, Powerpoint, Outlook etc. In a world of many unknown unknowns, we have to accept that there is no one-size-fits-all theory that works. We simply use a recursive (repeated) process of search, experiment, pilot programme, implement, learn, adapt and move on, in order to continually fine-tune our policies, strategies and institutions. We need to do this at all levels of society, so that everyone learns gradually why we need common goals and to cooperate in order to compete.

In sum, COVID revealed many problems that were not unknown to us, but were previously swept under the carpet. The pandemic has given us now the opportunity to re-think what has worked or not worked. The good news is that every country, firm or community is facing the same problems, only with different resources and perspectives. The bad news is that those who do not change will be marginalized or fall back further in the poverty league.

All crises bring new opportunities. This opportunity should not be wasted. Time and tide wait for no one because the process of change is relentless. Not to recognize that process is itself a process failure.