



PRIME MINISTER'S DEPARTMENT
DEPARTMENT OF STATISTICS MALAYSIA

DEALING WITH UNCERTAINTIES

MY PERSPECTIVE



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Department of Statistics Malaysia

Dealing with Uncertainties: Unearthing Measures for Recovery

4TH OCT. 2022
(VIRTUAL)
&
5TH OCT. 2022
(ILSM, SUNGKAI, PERAK)



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DEALING WITH UNCERTAINTIES:

MY PERSPECTIVE

5 October 2022 (Wednesday)

ILSM, Sungkai Perak



DATUK DR MOHD GAZALI ABAS
Prof Ikhtisas/Adjung UKM
(Mantan KSU KPM/KPT/KSM/Pengarah INTAN)



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1. Preamble -What is uncertainty?



- Uncertainty - a situation in which something is not known, or something that is doubtful.
- Certain - having no doubt or knowing exactly that something is true, or known to be true, correct, exact, or effective.
 - <https://dictionary.cambridge.org>
- ... could be **due to** unavailable/ inaccessible/ missing/ unreliable/ conflicting/ noisy/ confusing/ ambiguous/ intricate/ unpredictable/ probabilistic/ unstable **information or knowledge**.
- ... Could also due to **ignorance**.



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.... current econ. unc... highlights/e.g



- What impacts of increasing US interest rates? How much will the Fed raise interest rates in 2022 and 2023?
- How far it will affect our exchange rates and inflation?
- What are the impacts of our monetary policy response?
- How far this will affect our economic growth momentum ?
- How the world economy perform next year – slower growth?
- How far it will affect our economy in 2023?
- How far 7th October 2023 budget announcement will address all those uncertainties?



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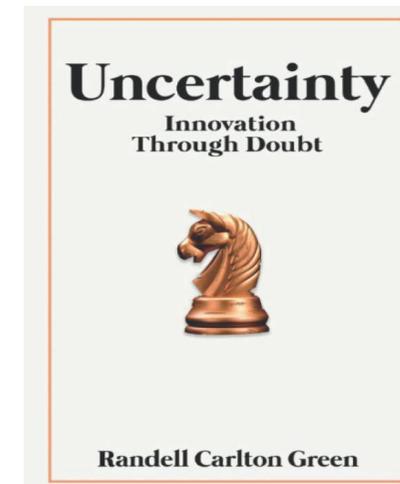
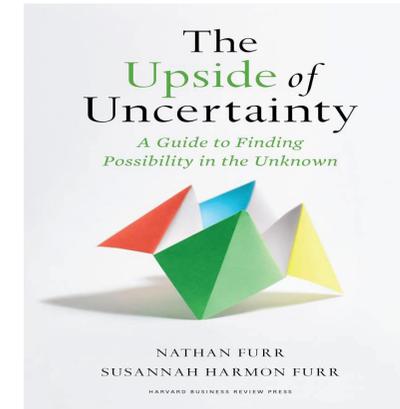


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.. but, not all uncertainties are bad



- **The Upside of Uncertainty: A Guide to Finding Possibility in the Unknown**, by Nathan Furr, Susannah, Harmon. July 2022.
- **Uncertainty: Innovation Through Doubt**, by Randell C Green. August 2022
- **Positive uncertainty: A new decision-making framework for counseling**. *Journal of Counseling Psychology*, 36(2), by Gelatt, H. B. 1989.



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... as unc. drive human to do better



- ... e.g. - better aircraft safety



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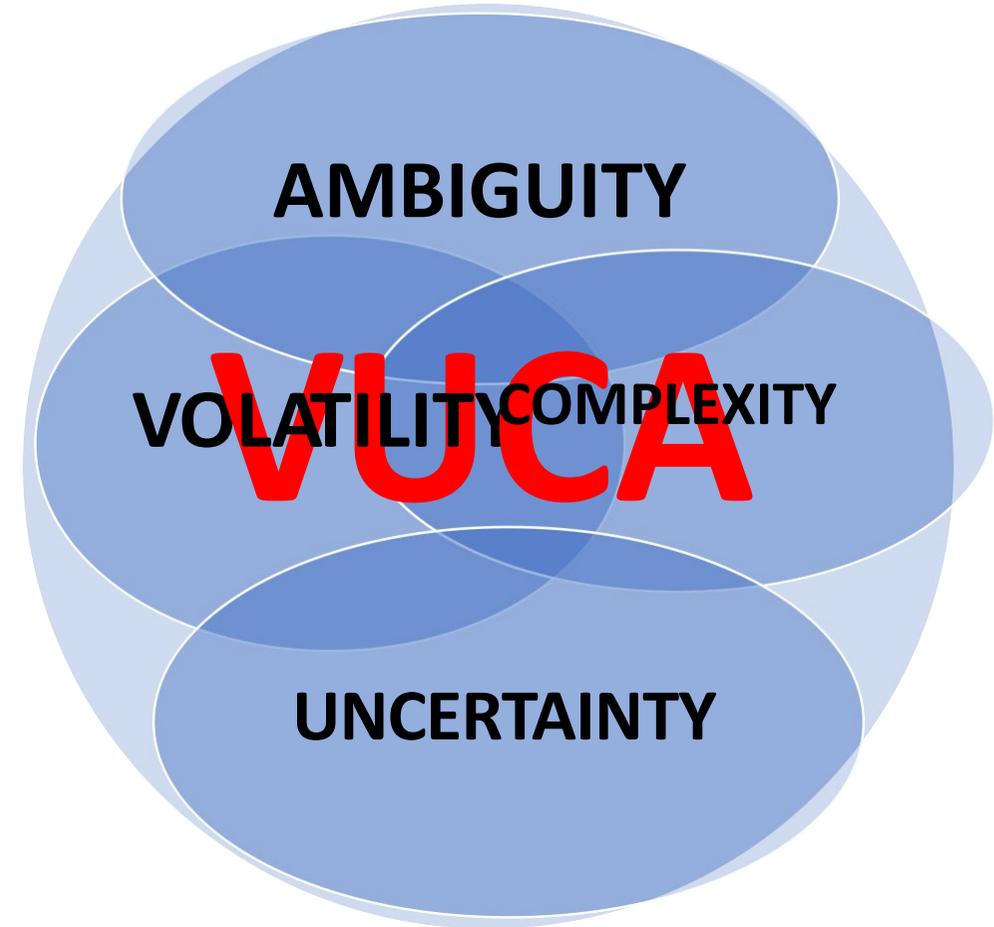
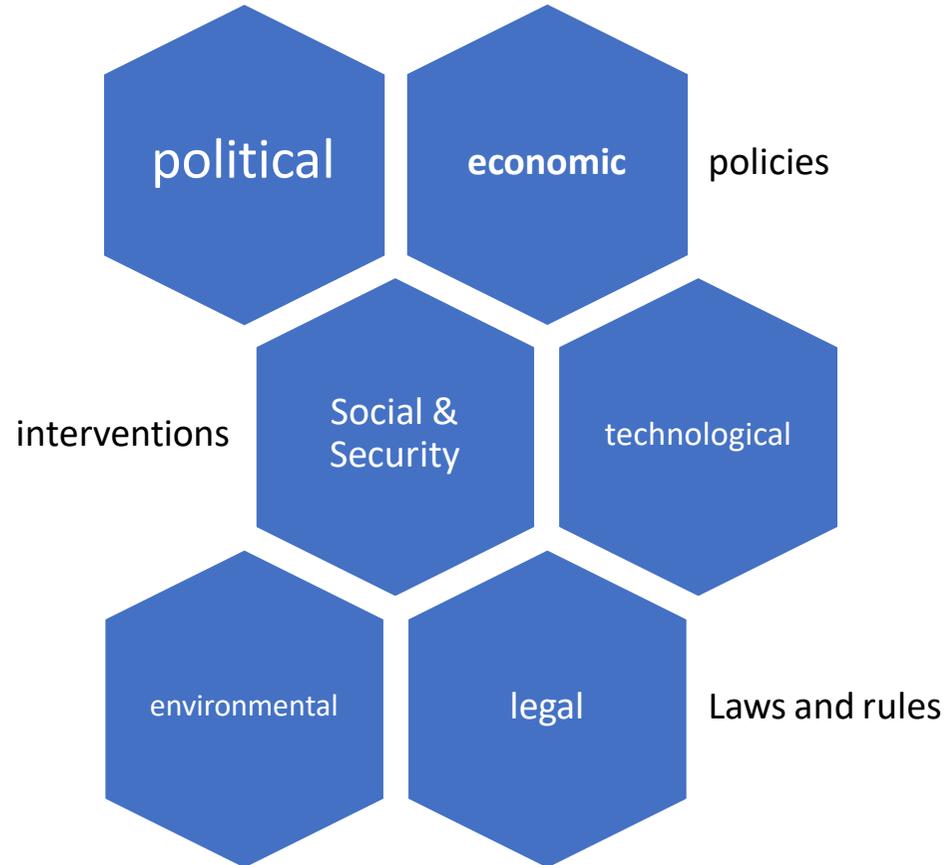


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2. Managing unc. .. by ... policies, rules, interventions, innovations n tools subject to VUCA level



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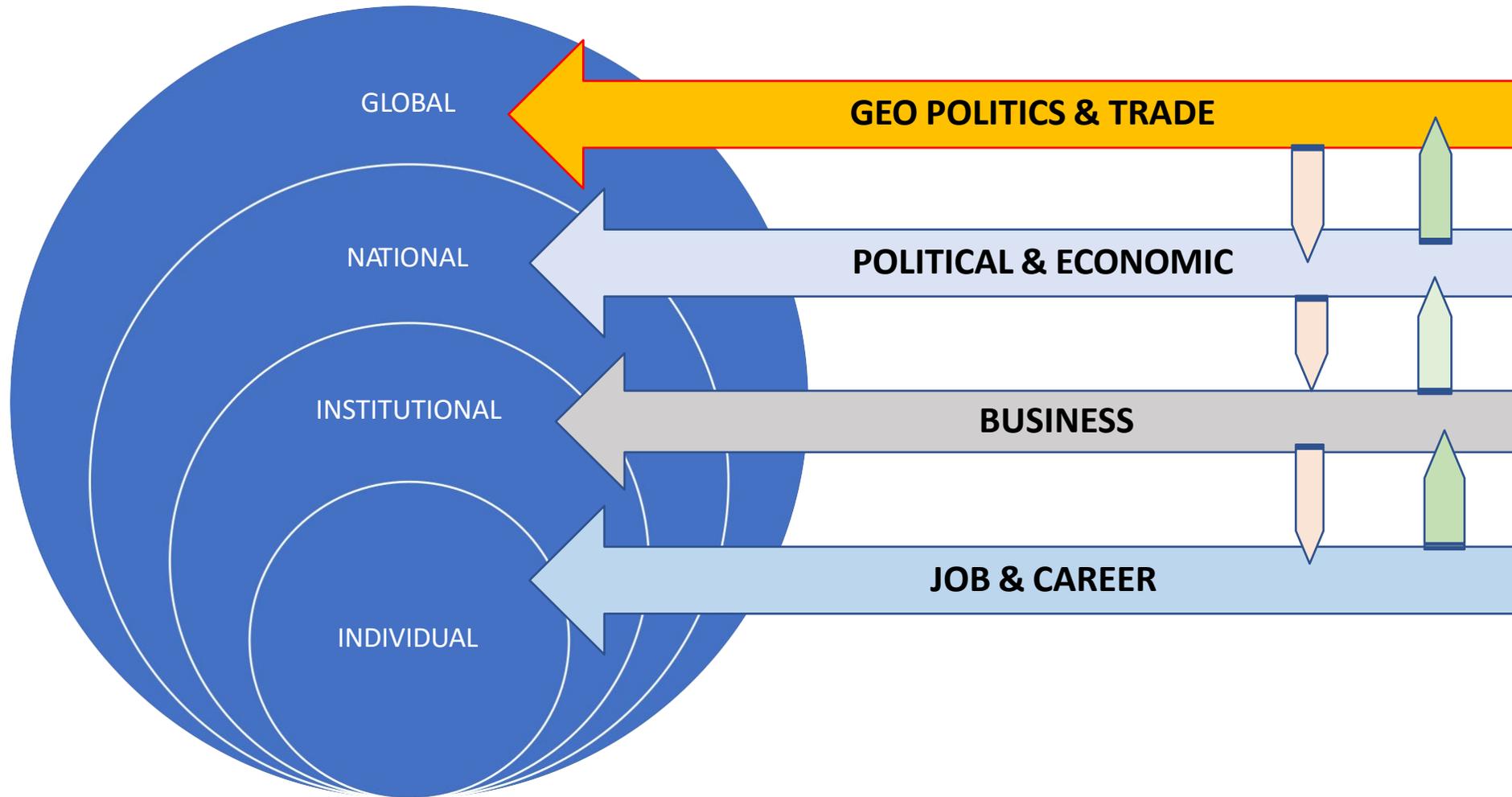


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... also subject to the scope of unc. ...



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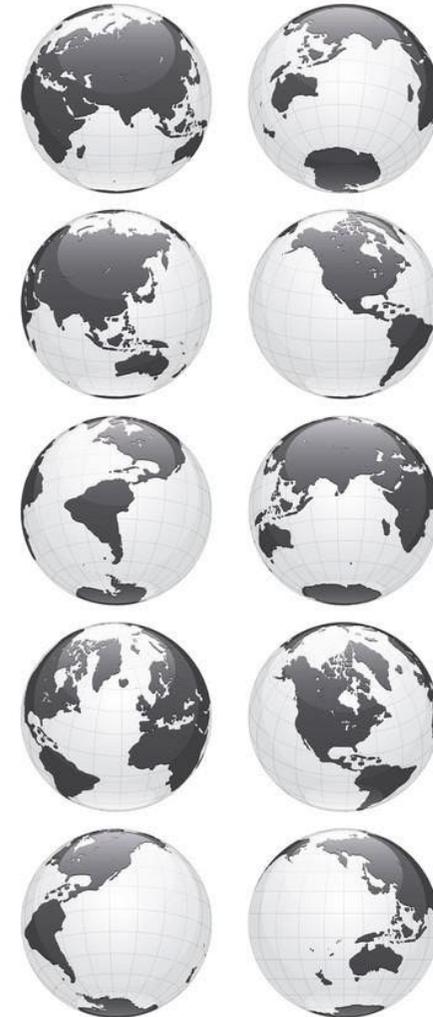
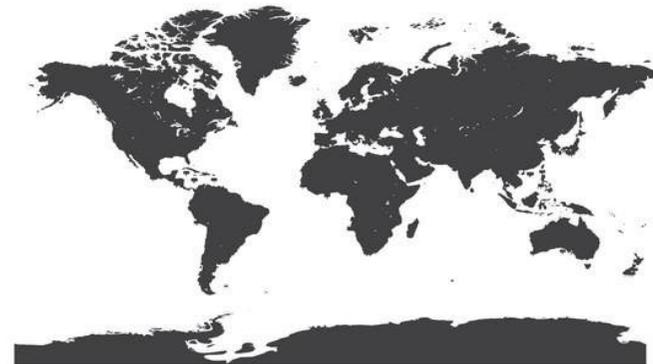
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Global scope ..

1. Geo-politics
2. Climate change
3. Trans boundaries issues
4. Trade barriers
5. Economic sanctions



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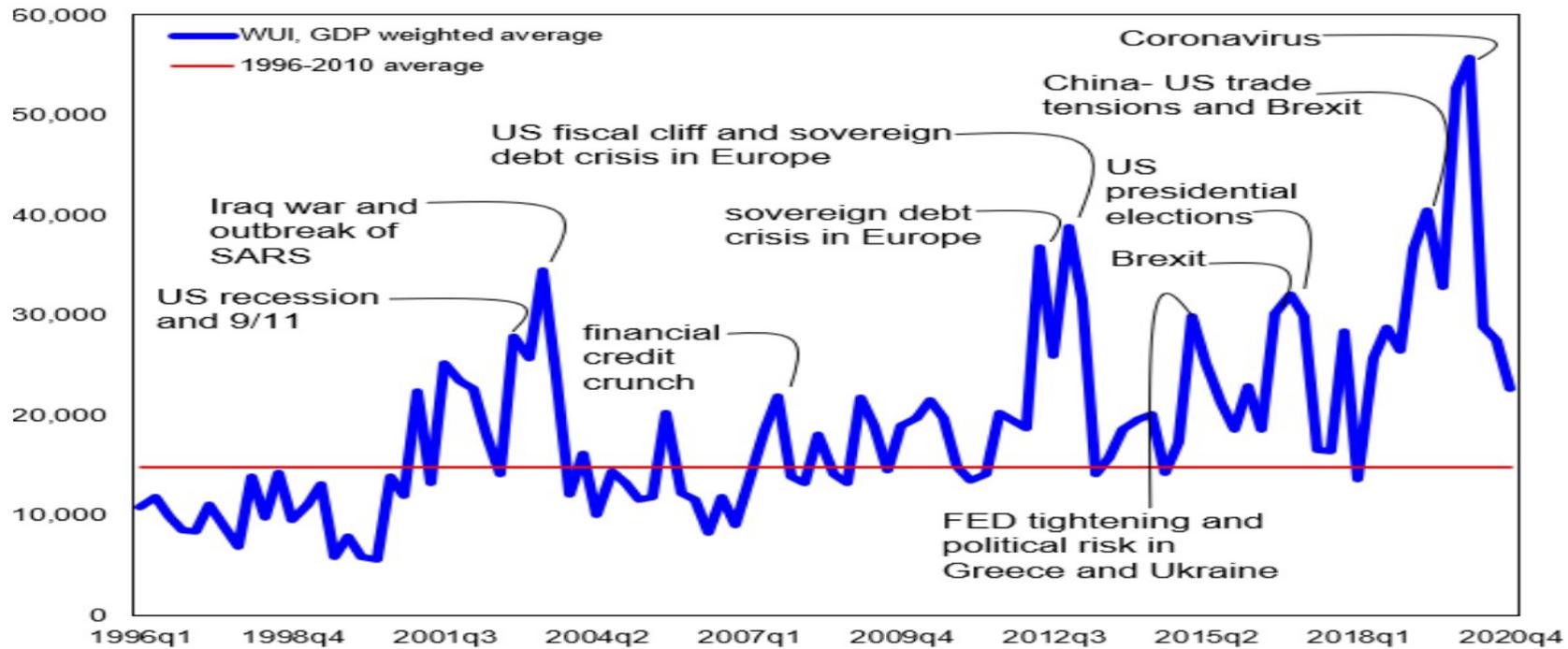


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Uncertainty in the world

Global uncertainty as measured by the World Uncertainty Index remains high.

World Uncertainty Index (GDP weighted average)



Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo.

Note: The World Uncertainty Index (WUI) is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The WUI is then rescaled by multiplying by 1,000,000. For example, an index of 200 corresponds to the word uncertainty accounting for 0.02 percent of all words, which—given the EIU reports are on average about 10,000 words long—means about 2 words per report. A higher number means higher uncertainty and vice versa.

INTERNATIONAL MONETARY FUND



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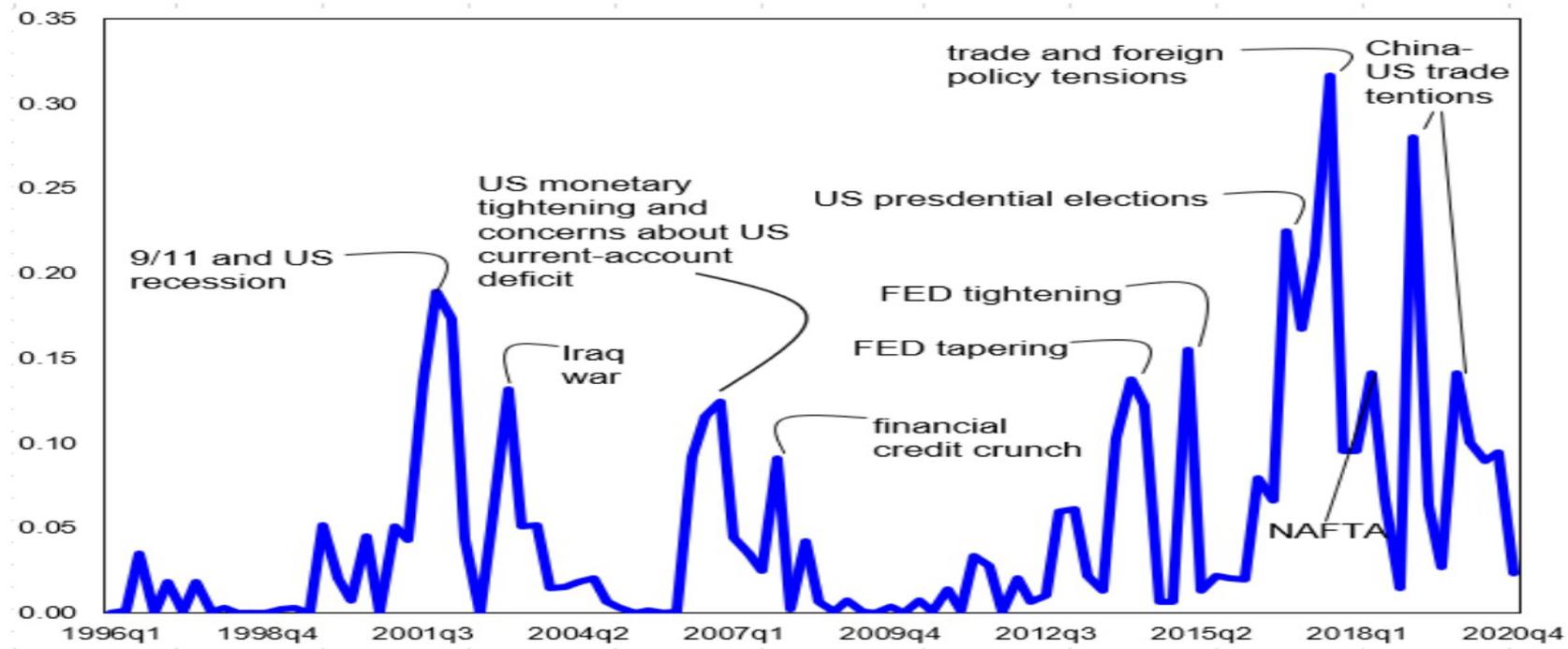
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U.S. spillovers

Uncertainty related to the United States has been a key source of uncertainty in other countries.



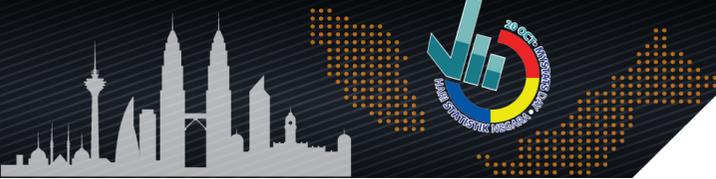
Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo.

Note: This chart plots the ratio of uncertainty related to the United States to overall uncertainty (first chart). Uncertainty related to the United States is computed by counting the percent of word "uncertain" (or its variant) that appear near a word related to the United States in the Economist Intelligence Unit country reports. Words related to the United States include the following: Alan Greenspan, America, Barack Obama, Ben Bernanke, Bill Clinton, Donald Trump, Federal Reserve, George H. W. Bush, George W. Bush, Janet Yellen, Jerome Powell, NAFTA, North America, and the United States.

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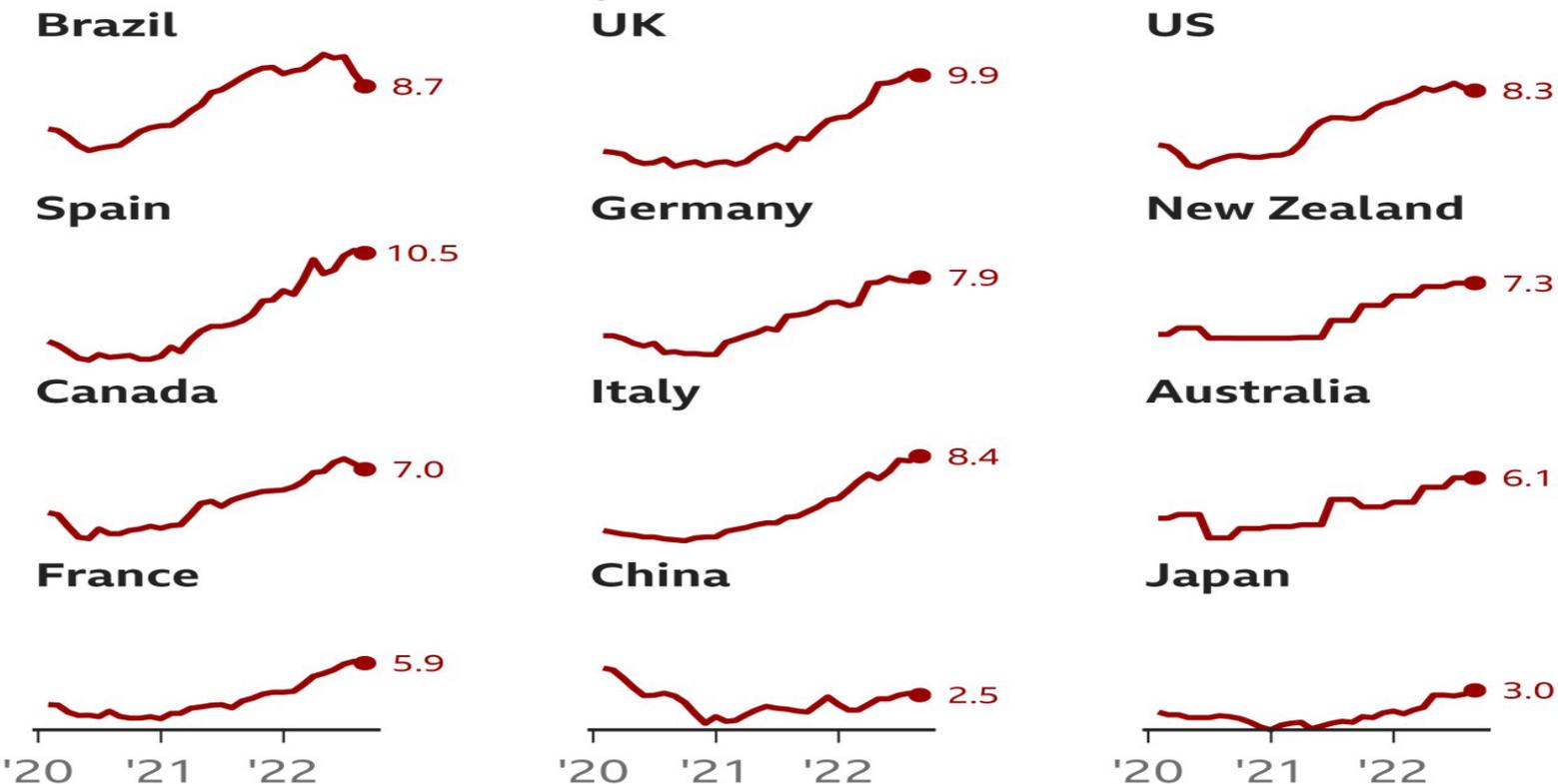
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World inflation



Global inflation rates have risen since 2020

Selected countries, September 2022



Note: Countries measure inflation differently, so rates may not be directly comparable.

Source: Bloomberg

BBC



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Fed rate hike: US interest rates hit 14-year high in inflation battle – *BBC News, 21 Sept 2022*



.... by another 0.75 percentage points, lifting the target range to between 3% and 3.25%. (**5th lift from near 0 in March**).

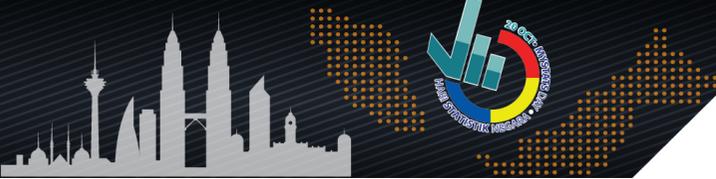
.... the move comes despite mounting concern **that the cost of controlling inflation could be a harsh economic downturn.**

... . Fed. Reserve chairman Jerome Powell said the rate rises were **necessary to slow demand, easing the pressures putting up prices and avoiding long-term damage to the economy.**

.... but he conceded that they will **take a toll.**



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National scope of econ. unc.....



- Economic shocks
- Policy changes
- Source of economic growth
- Job creation and employment
- Inflation
- Trade performance
- Investment performance
- Foreign workers
- Capital flow

Learning from the recent economic shocks ...

Commodities shock in 1985/86

Asian financial crisis 1997/98

Global financial crisis 2008/09

Covid 19 pandemic 2020/2021

Russian/Ukraine war 2022/2023?

<https://www.theedgemarkets.com/article/cover-story-lessons-last-three-major-economic-crises>



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Malaysia not in economic crisis, says Tengku Zafrul, MOF



– Sept 13, 2022

- Ringgit's performance should be viewed **holistically**.
- While the Ringgit has **depreciated by 7.5%** against the US dollar since the beginning of 2022, many currencies in the region and developed countries have also fallen against the greenback ..
 - the **Japanese yen** has slid **19.2%**, the lowest in **24 years**;
 - the **pound sterling** has dropped **14.4%**, the lowest in **37 years**;
 - the **euro** has weakened by **11.7%**, the lowest in **20 years**.
 - Although the currencies of these countries have declined in value against the US dollar, they – including the European Union and Japan – are **not experiencing an economic crisis**.



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... Ringgit performance ...



- While it has declined against USD, but Ringgit has **strengthened** compared with the currencies of Malaysia's other trading partners, by ...
 - **14.2%** against the **Japanese yen**,
 - **8.2%** versus the **pound sterling**,
 - **4.5%** vis-a-vis the **euro**,
 - **3.9%** compared with the **New Zealand dollar**, and
 - **7.2%** against the South **Korean won**.



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... indications of strengthening economic fundamentals ..



- **GDP** has grown for three consecutive quarters... 3.6% in the 4th quarter of 2021, 5.0% in the 1st quarter of 2022 and 8.9% in the 2nd quarter.
- **Unemployment** rate of 3.7% in July 2022, the **lowest** since the Covid-19 pandemic hit the country.
- **Industrial production** index **rose** by 12.5% year-on-year (y-o-y) **in July** 2022, and sales value of the wholesale and retail trade surged 41% to RM130.7 billion in the same month.
- **Wholesale and retail trade** for the first seven months of this year, was valued at RM882.1 billion, 19% **higher** than last year.
- **Exports** increased by 38% y-o-y to RM134.1 billion in July.
- **Foreign investment** in the local stock market had amounted to more than RM8 billion and net retail investment had reached RM1.8 billion year-to-date.
- **Inflation** rate is also **manageable** at 2.8% for the first seven months of 2022 due to price control measures, particularly through the provision of subsidies of almost RM80 billion this year.



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Institutional scope (business) unc...



- Costs of doing business
- Change in demand
- Competition
- Source of input
- Technology change
- Barrier to entry
- Access to financial market
- Policy change
- Rules and governance
- Business risks

Birth and Demise of Supermarkets in Malaysia

- AEON
- Lotus's
- Village
- Mydin
- Giant
- 99speedMart
- Lulu

IN

- Carrefour
- Makro
- Tesco
- Tops
- Hankyu Jaya
- Yaohan
- Batu Road

OUT



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Individual scope unc...



“The Only Constant in Life Is Change.” - Heraclitus – A Greek philosopher - 500BC

- Some examples
 - Education
 - Job & career
 - Work-life balance
 - Security
 - Social safety
 - Cost of living
 - Having family
 - Shelter
 - Health
 - Old age
 - Life cycle
 - Psychology & spiritual



https://www.123rf.com/photo_71258559_life-cycle-and-aging-process

- Change causes uncertainty
- Predictability reduces uncertainty



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..... tools to deal with uncertainties ...



GLOBAL/ NATIONAL

- Treaties/agreements/MOUs
- Policies/blue prints
- Regulation/rules/procedure
- Long term perspective plan
- Five-years development plan
- Annual planning
- Sector planning
- Scenario planning
- Strategic plan
- Implementation plan
- Contingency plan
- Emergency plan
- 'The Art of War'
- Negotiation
- Alliances

SCOPE

- Census and survey
- Pilot/Experiment/Test
- Modelling
- Risk mitigation
- Prediction/Forecast
- Simulation
- AWACS
- Vision and mission
- Review
- Indicators
- Standards
- Benchmark
- Diagnostic
- Prevention/Deterrence
- Preparedness/readiness

NATIONAL/ INSTITUTIONAL

- insurance
- KAIZEN
- Interview/referee
- Delphi/consultancy
- Calibration
- SWOT/PESTEL/ERRC
- Probability
- Education/syllabus/ Learning outcome
- Strategic communication
- R&D/innovation
- Training/practice/ preparation
- Code of conduct/governance/compliance



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.. codifying econ. unc. in long term policy blueprints- reframed as issues n challenges, as in 12th MP (2021-2025) ..

- Low Productivity among Micro, Small and Medium Enterprises
- Low Quality of Investment
- Slow Structural Economic Transition
- Widening Development Gap between States
- Low Share of Compensation of Employees
- Limited Gains from Global Value Chain Participation
- Disruption of the Medium-Term Fiscal Consolidation
- Adverse Impact of Economic Growth on Environment



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... and by setting its Way Forward -



- Enhancing Productivity to Sustain Quality Growth
- Promoting Quality Investment to Strengthen Economic Growth
- Accelerating Structural Economic Transition to Move Up the Value Chain
- Reducing Development Disparity to Promote Regional Balance
- Increasing Share of Compensation of Employees to Improve Living Standard of Workers
- Leveraging Participation in the Global Value Chain to Strengthen Trade and Balance of Payments
- Strengthening Fiscal Governance to Enhance Public Finance Management
- Advancing Green Growth to Enhance Environmental Sustainability



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.... generic measures for recovery ...



• Macro economic measures

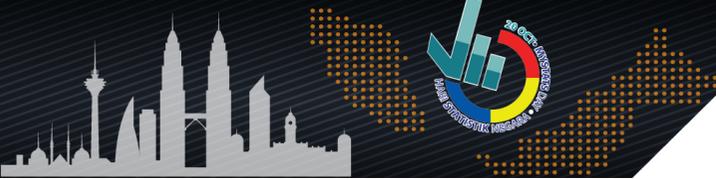
- Economic efficiency
- Ease of doing business
- Boosting tradable services sector (tourism, education, health, financial)
- Export driven industries
- Import substitution industries
- Reversed investment
- Transparency/predictability
- Policy quick wins and medium term adjustments
- Improve prediction capabilities

• Micro/institutional measures

- Business efficiency
- Revisit business model
- Institutionalising KAIZEN
- Staff re-training
- Business rejuvenation strategy
- Boosting technology adoption



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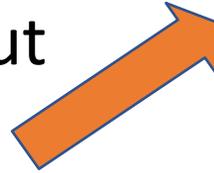


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3. Unearthing measures for recovery – possible questions ...



- Yet to have certainty about measures?
- What's wrong with the existing measures?
- Exploring new measures?
- Or just to have more choices and options ?
- Or what else need to be done?



- What's wrong with the existing measures?
 - insufficient? ineffective?
 - Not practical? Too ambitious?
 - Too complex? Too risky?
 - Too costly?
 - Trial and error in nature?
 - unimplementable?
 - Unsustainable ?
 - Big downside?
 - Not well planned?
 - Not suitable?
 - Failed ?



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... more fundamental questions on recovery ..



- There are signs of recovery ... were that due to existing policy measures or just due to 'tidal factor'?
- or despite of some clear signs of recovery more headwinds are expected - new econ shocks in 2023 ?
- should we focus also on long term, beyond recovery?
- the effect of pandemic only unmasked some of weaknesses, more are still hidden/unearthed?
- the pandemic has aggravated the already known structural weaknesses in the economy?



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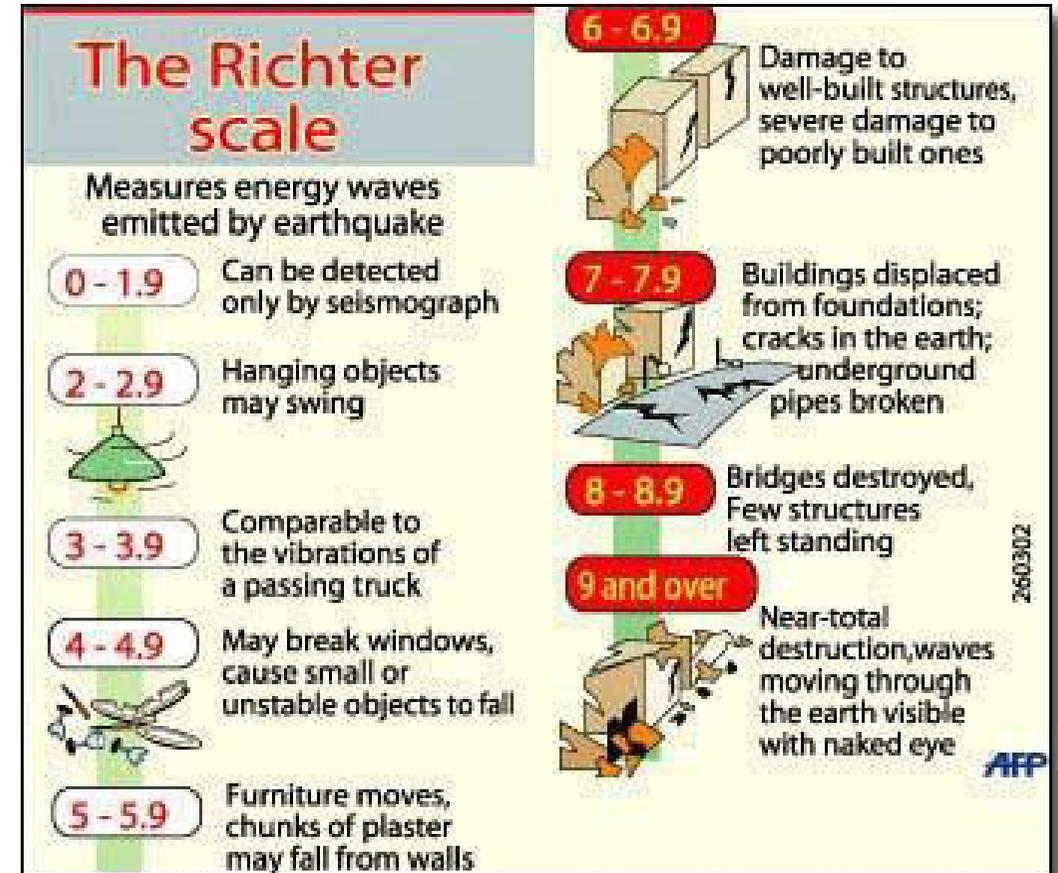


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4. Anecdotes in dealing with different uncertainties



- Recovery Plan 1997/1998 – NEAC/MTEN - unconventional ways of dealing econ unc..
- Minimum wages – address wage unc ..
- Employment insurance – address job unc ..
- 4 years in Japan - preparedness for geological unc ...
- Post 2018 GE – political unc .. new government
- Merger and separation of MOE/MOHE
- 2 MOHR & 5 MOE/MOHE ministers
- Covid19 – dealing with new normal



<https://www.sms-tsunami-warning.com/pages/richter-scale#.YyiabHZBxRY>



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5. Conclusions



- is about the unknown
- is part of life
- is not all bad
- is mitigable n manageable – subject to
 - ability to diagnose, understand signals and predict future scenarios
 - quality of preparedness
 - ability to act and react



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