

Conversation on 2020 Pandemic – The View from Asia (I)

A NUS Business School and ABFER Collaboration, Thursday, April 2, 2020

Summary of Session 1: Economic Outlook (9:30 am – 10:15 am)

- **Panelists:** Qiang Fu, Sun Bae Kim, Johan Sulaeman, Sumit Agarwal
- **Moderator:** Joe Cherian

Since COVID-19 (Coronavirus) was first reported in Wuhan in China towards the end of December 2019, it has rapidly spread globally and the World Health Organisation declared it a pandemic on March 12th, 2020. By April, the world has seen more than 2 million people infected and more than 120,000 deaths; these numbers are still rising.

The serious public health threat has forced many governments to impose extreme measures – lockdowns – to mitigate the spreading of the disease. China locked down Wuhan on Jan 23 and then many other countries followed. Many Asian countries have practiced very demanding social distancing, e.g., forbidden large crowd gathering, closed schools, and some eventually practiced lockdowns. While Asia may have somewhat contained the spread of COVID-19, the number of infections worrisomely surged in Europe and North America. Public health and economic anxieties fill the globe.

The Asian Bureau of Finance and Economic Research (ABFER) and NUS Business School (Finance Department) hosted a series of discussions via Zoom on the Asian experience in general and the Singapore experience in particular. This piece summarizes the content of the first of these series, which focuses on the economic outlook.

An economy is heavily dependent on person-to-person interaction. Policies severely limiting human-to-human interaction induce significant declines in supply and demand, and interrupt global value-chains. Recent data show that China caught a big down draft in February through a collapse in its PMI. Similarly, the US saw an unprecedented rise in jobless claims in April on a scale not seen even at the height of the global financial crisis. Note that these economic setbacks fall most heavily on the lower income group – those in the labor-intensive service sector, part-timers, temps, and the self-employed.

The global economic contraction throughout the world is going to surpass the global financial crisis by a big margin. Correspondingly, equity prices and corporate earnings have dropped precipitously; liquidity problems are spreading, and many companies, especially small and medium enterprises, may have to declare bankruptcy.

The International Monetary Fund has declared that the current situation is worse than the Great Recession. Governments around the world are delivering the historically most costly intensive monetary and fiscal stabilizing policies in a hurry.

China has unlocked its cities. Factories are running again. However, China cannot thrive alone because the rest of the world is still stuck in a shutdown. For example, some factories are sending their workers home again because of extremely weak export orders. Global consumption has decreased and certain economic sectors are literally shut down, thus affecting supply chains. Unlike the SARS (2003) period, or even the Great Recession, the world is now deeply interlocked: the recovery of a single economy relies on the simultaneous recovery of many economies.

Four ASEAN (Association of Southeast Asian Nations) countries – Indonesia, Malaysia, Singapore, and Thailand – have thus far provided over US\$150 billion in subsidies ranging from 5 to 16 percent of their Gross Domestic Product (GDP) to stimulate economic recovery. These huge amounts of subsidies may, however, not be effective.

Firstly, economic recovery is not possible without an improvement in the public health outlook, which is being clouded as the public health policies are not being coordinated well with economic policies.

Secondly, except in Singapore, most rescue money is directed at helping businesses avoid bankruptcies rather than ensuring that jobs are preserved. With high unemployment, spending is curtailed.

Third, this region’s recovery depends on recovery in larger Asia and other continents. The global economic outlook is currently highly uncertain due to a lack of global cooperation and concerns about the risk of a second wave of inflection. This may result in a stop-start-stop-start situation for different national economies. This is particularly gloomy for poorer countries due to their lack of funds for multiple rounds of stimuli.

The COVID-19 pandemic is a particularly devastating blow to low-income countries, including India. They do not have a good healthcare system. As testing and providing ventilators on a large scale is not possible, the only thing they can do is to make sure that there is social distancing to flatten the curve. They have done that very aggressively by locking down the whole country. But the resulting economic fallout would mean that people will end up suffering from hunger, family stress, crime, and loss of economic hope for a prolonged period.

Ironically, the cost of a stimulus package increases with the proportion of the population suffering from poverty, which lower-income countries’ governments cannot afford. For example, the Indian government has a stimulus package of around US\$28 billion, which is tiny for a big country like India. A well thought out, bigger and broad-based package along with well-coordinated public policies will be needed to help revive the economy, which had already been on a downtrend since last year. But, where to find the money?

Without international cooperation, recovery may be very slow and long. As a consequence, higher income countries should pool their resources to help the lower income countries. Afterall, this is a global exogenous negative shock! Even with international cooperation, dealing with the pandemic and getting an economic recovery is like a marathon.

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