

# EASTASIAFORUM

ECONOMICS, POLITICS AND PUBLIC POLICY IN EAST ASIA AND THE PACIFIC

Vol.12 No.2 April–June 2020 \$9.50

*Quarterly*



## Immunising Asia

**Barry Eichengreen** The most serious crisis of all

**Naoto Kan** Cooperation essential to deal with future risks

**Brad Setser** Key Asian economies well-placed to ride out crisis

**Lili Yan Ing and Yessi Vadila** Indonesia's COVID-19 stimulus

**Jia Qingguo** China's diplomatic response to COVID-19 ... **and more**

**ASIAN REVIEW: ABER Expert Group: Asian strategy for recovery**

# EASTASIAFORUM

Quarterly

ISSN 1837-5081 (print)  
ISSN 1837-509X (online)

## From the Editor's desk

'Stand your ground, don't retreat' is how to survive a bear attack. The same is true for surviving COVID-19. Countries that retreat into themselves will face worse health outcomes, deeper recessions and slower recoveries than open ones. Whatever misguided comfort people may get from closing their country, it cannot overcome the basic arithmetic of national accounting: closed economies will see living standards collapse. Governments understandably were first preoccupied with domestic priorities but a regional response will now make domestic challenges easier to manage. A lack of cooperation will make them harder.

Global integration clearly has its downsides. We are living them right now. Asian economies face three crises simultaneously: a health pandemic, an economic collapse of both demand and supply, and a wave of financial crises engulfing emerging economies. Each crisis is feeding the others. Different countries are in different stages of each crisis, but the core shocks are the same. Struck first by the virus, Asian economies are now positioned to restart their economies sooner.

'Remember the good times' is what we tell people when they lose a loved one. We remind them that the decades of good times far outweigh the bad times they are experiencing. The same is true for Asian integration. The pain being experienced from COVID-19 is severe, but temporary. It does not justify throwing out the decades of uninterrupted prosperity delivered by openness to international trade, investment and people.

Asia needs more integration, not less, if it is to manage these crises. The case for cooperation has never been stronger. Access to medical equipment, vaccines and food is strengthened by open markets, not diminished by them. Concentrating supply chains in a single national market makes them less resilient, not more. Macroeconomic stimulus is stronger when it is coordinated, and financial crises spread faster than health crises.

This issue of *East Asia Forum Quarterly* features an important strategy paper by more than dozen distinguished experts that details a compact for cooperation among Asian countries to manage the immediate impact of the crises, plan for a speedy exit from the economic damage and protect against similar catastrophes in the future.

Asia's response to the triple-crises of COVID-19 will only be as strong as the weakest link in response to it. Instead of accentuating differences and retreating from openness, the lessons of past crises point to a need to realise the common interest in immunising Asia from a great depression.

**Adam Triggs**

## CONTENTS

### 3 BARRY EICHENGREEN

The most serious crisis of all

### 5 BRAD SETSER

Asia's key economies well-placed to ride out crisis

### 7 NAOTO KAN

Cooperation essential to deal with future risks

### 9 JIA QINGGUO

China's diplomatic response to COVID-19

### 11 SHIRO ARMSTRONG

Economic distancing from China would carry heavy costs

### 13 ABER EXPERT GROUP

ASIAN REVIEW: An Asian strategy for recovery and reconstruction

### 21 JAMES CURRAN

ASIAN REVIEW: A new contagion afflicts US-China relations

### 25 SAYURI SHIRAI

Japan's triple economic shock

### 27 LILI YAN ING AND YESSI VADILA

Implementing Indonesia's COVID-19 stimulus

### 29 JAMES HOU-FU LIU, CHAN-HOONG LEONG, SHU-YI HUANG, SYLVIA XIAOHUA CHEN, HOON-SEOK CHOI, SUSUMU YAMAGUCHI, I-CHING LEE, YUMI INOUE

Vigilance, civic responsibility critical to East Asia's success

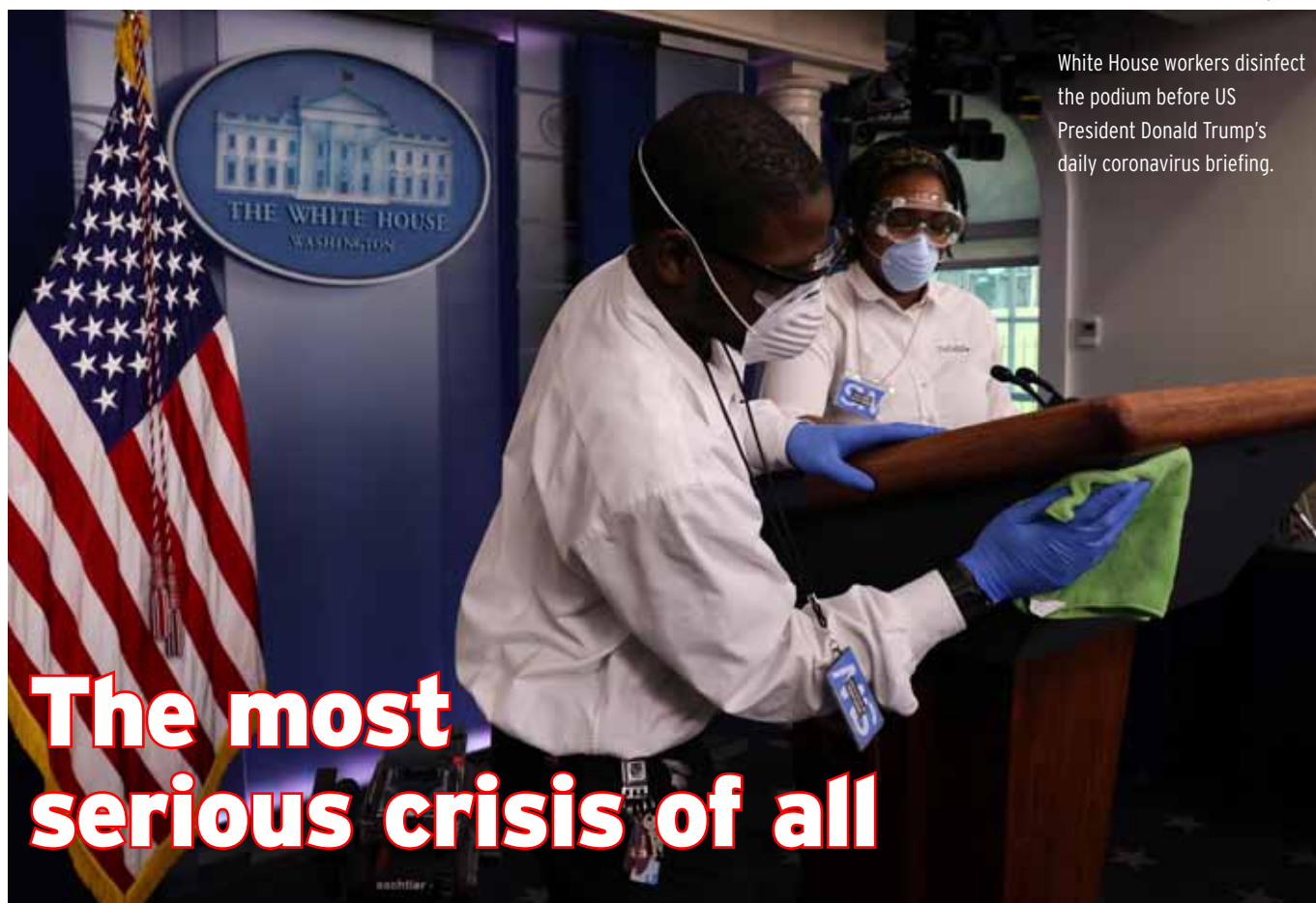
### 31 MINH CUONG DUONG

COVID-19 and after: impact and ways forward

### 33 RAINA MACINTYRE

Unmasking the challenges in India and Indonesia

COVER: An artist wears a face screen during a ceremony at the Erawah Shrine in Bangkok in May 2020. Picture: Soe Zeya Tun, Reuters.



White House workers disinfect the podium before US President Donald Trump's daily coronavirus briefing.

# The most serious crisis of all

BARRY EICHENGREEN

**I**N THE current COVID-19 crisis, as in all crises, public policy dialogue and debate are heavily informed by history. Our instinct is to avoid repeating the mistakes of the past. But in seeking to avoid past mistakes, we risk committing new ones.

The first questions that reporters and financial analysts invariably ask are, 'how does the current crisis compare to the global financial crisis and the Great Depression?' and 'how powerful is the monetary and fiscal policy response compared to 2008–9?' This framing is understandable. When stock markets crash, unemployment rises and the economy enters a recession, there is a natural tendency

to recall previous occasions when such things happened. There is a tendency to look back on public policy successes and failures and ask whether we can repeat the successes and avoid the mistakes.

This tendency to reason by way of analogy is not only natural, it is intrinsic to human cognition. Cognitive scientists argue that analogical reasoning is central to human reasoning. Uniquely among species, the use of analogy appears to develop spontaneously in humans. We have evidence of analogical reasoning as far back as there is evidence of written language—in the Babylonian *Epic of Gilgamesh* for example.

Policymakers lean on analogies when there is least scope for other forms of analysis such as deductive

reasoning—meaning when there is least scope for analysing formal models in which conclusions flow from assumptions. Specifically, they invoke historical analogies as mental shortcuts during crises—moments when, by definition, there is no time for formal theorising and systematic data-gathering.

This point has been elaborated by analysts of US foreign policy. They show how president Harry Truman, in deciding to go to war in Korea, based his reasoning on the Munich analogy. They describe how John F. Kennedy, in responding to the Cuban missile crisis, leaned on the analogy with Pearl Harbor.

Directly on point, scholars have shown how president Gerald Ford and his advisors, when deciding how to



### Issue Editor

Adam Triggs, Director of Research, Asian Bureau of Economic Research, The Australian National University.

### Series Editors

Peter Drysdale, Head, East Asia Forum and East Asian Bureau of Economic Research, Crawford School of Public Policy, ANU.

Shiro Armstrong, Director, Australia–Japan Research Centre, and Editor, East Asia Forum, Crawford School of Public Policy, ANU.

### Editorial Staff

*Coordination:* Marie Armstrong.

*Editing:* Nicol Brodie, Benjamin Clarke, David Chieng, Alison Darby, Oliver Friedmann, Annie Gao, Illiana Jain, Jade Lin, Dorothy Mason, Maya Salama, David Wu, ANU.

**Editorial Advisers:** Peter Fuller, Max Suich.

**Production:** Peter Fuller, Words & Pics.

**Email** Peter.Drysdale@anu.edu.au, Shiro.Armstrong@anu.edu.au.

*Views expressed are those of individual authors and do not represent the views of the Crawford School, ANU, EABER, EAF, or the institutions to which the authors are attached.*



Published by ANU Press  
The Australian National University  
Canberra ACT 2601, Australia  
Email: anupress@anu.edu.au  
Web: <http://press.anu.edu.au>

respond to an outbreak of swine flu in 1976, based their reasoning on the analogy of the 1918 Spanish influenza, which killed more than 20 million souls globally. It turned out that swine flu was less contagious and deadly. But, anticipating a public health emergency, the Ford administration rushed through an expensive vaccine with dangerous side-effects. Some 500 Americans experienced complications including paralysis and respiratory arrest, and 25 died as a result. Not a single person died from swine flu itself, except for those who had direct contact with pigs.

This is not to argue that mobilising resources to develop a coronavirus vaccine is wrong-headed or that we are overestimating the threat to public health—to the contrary. But it does counsel against relying mechanically on analogies with recessions and depressions past when formulating the economic policy response.

Where comparisons with past crises have value is precisely in highlighting how this crisis is different, and therefore how the policy response should vary. First, this crisis did not originate in the financial system, in contrast to 1929 and 2008. Flooding financial markets with liquidity, as central banks have done, may prevent problems on the real side of the economy from destabilising financial institutions and markets. But doing so will not mend the economy or even halt its downward spiral. Achieving this requires first containing the pandemic.

Second, in contrast to these earlier episodes, major fiscal stimulus packages are not the right policy focus. Unlike in the past, we have also experienced an unprecedented supply shock. It makes no sense to try to sustain demand at earlier levels at a time when production can't keep

up, since it is not yet safe—and won't be safe for some time—for people to return to work. The time for demand stimulus is later. The task for now is income maintenance—targeting public support at the unemployed so that parents can feed their children.

Third, this crisis will be most acute in low-income countries. These countries have weak health systems. They are being hit by weak commodity prices, falling remittances, capital flight, a shortage of trade credit and collapsing currencies all at once. They were not the focus in 1929 or 2008 because those crises centred on the global financial system, and because low-income countries had only rudimentary financial systems and were not integrated financially.

**T**HIS time, low-income countries are at risk of a crisis that will dwarf anything in the advanced-country world. Addressing their plight should be priority number one on humanitarian grounds, but also because what happens there will spill back on to the rest of the world through both economic and epidemiological channels.

With the International Monetary Fund and World Bank spring meetings now behind us, one wonders whether advanced countries will look beyond their domestic concerns. One worries that their preoccupation with the questions 'is this downturn more serious than the global financial crisis?' and 'could unemployment rise as high as in the Great Depression?' will cause them to lose sight of what is about to become the most serious crisis of all.

EAFQ

*Barry Eichengreen is George C. Pardee and Helen N. Pardee Professor of Economics and Political Science at the University of California, Berkeley.*



A currency exchange vendor wears a protective face mask while waiting for customers in Bandung on 22 May 2020.

# Asia's key economies well-placed to ride out crisis

BRAD SETSER

**S**OCIAL distancing has become the primary tool for protecting public health amid the coronavirus pandemic, and its inevitable impact on economic life has required governments to provide income and support to those who can no longer work, even as spending on public health rises. Nearly all governments globally are now running large fiscal deficits, and a sharp rise in the stock of public debt globally is expected. Asian countries, though, are well-suited to handle this increase in public debt—with some exceptions.

Countries like Taiwan and South Korea have it relatively easy. Taiwan was running a 10.5 per cent of GDP current account surplus before the virus, using its high level of savings to invest around the world. Its life insurers in particular were big buyers of risky global bonds. Thanks to an effective public health response, Taiwan appears likely to avoid the kind of economic shock experienced by Europe and the United States. But there is no doubt that it can accommodate large fiscal deficits. In fact, more Taiwanese bond issuance would help Taiwan's insurers, who are being forced abroad by the

lack of domestic supply.

South Korea is broadly in the same position. The country stood apart from the rest of the G20 by maintaining (unnecessary) fiscal surpluses after the global financial crisis, instead relying on a weak won and exports for growth. As recently as 2018, South Korea ran a fiscal surplus of close to 2 per cent of GDP. As a result, the nation can also reduce its overall risk profile by issuing domestic bonds to its National Retirement System and its life insurers. Financing domestic fiscal deficits is less risky than searching for yield in the US corporate bond market.

Japan fits alongside these countries

as well. Japan has long been able to borrow at zero—almost eliminating the real burden of its admittedly large stock debt. Japan's domestic debt stock gets too much attention, while its role as a global creditor gets too little. Japan's government, counting the Government Pension Investment Fund, has more external foreign currency assets than it does external foreign currency liabilities. It too can reduce its national risk profile by substituting Japanese government bonds for international assets on its national balance sheet.

China also faces no immediate financial difficulties. This surprises some, as an enormous amount of attention has been paid to the rise in China's domestic debt after 2008. But that debt isn't actually central government debt—China chose to carry out its 2009 stimulus through local government investment vehicles, state enterprises funded by state banks and its shadow financial system.

The Chinese Ministry of Finance's bonded debt is actually very low—around 20 per cent of China's GDP. In fact, increasing stimulus at the central government level and relying less on local government investment vehicles could help reduce some of the risks building inside China's financial system.

In the past, too much stimulus was undertaken by entities borrowing on the strength of implicit guarantees. Relying on the central government would also allow China to use the strength of the Ministry of Finance's balance sheet to finance a major expansion of spending on public health and a much-expanded system of social insurance.

What gets lost in the discussion of China's domestic debt is that China's massive borrowing and investment binge was financed entirely internally.

China never ran a current account deficit and is steadily building up external assets. China remains, globally speaking, a creditor, not a debtor. In fact, the greatest risk is that China doesn't do enough stimulus because of misguided concerns about its internal debt load and a persistent unwillingness to use the Ministry of Finance's clean balance sheet to fund domestic stimulus, instead relying on exports to drive its recovery.

Only one of the major economies in East Asia poses a real concern—Indonesia. Indonesia's public debt-to-GDP ratio is modest, at a third of GDP. But with a low savings rate and a small domestic tax base, Indonesia has been borrowing externally. Indonesia's government entered 2020 with around US\$200 billion in external debt, including the roughly \$80 billion in rupiah-denominated bonds held abroad. Unlike most other Asian economies, Indonesia has never held significant foreign exchange reserves. Thus it screens as vulnerable.

Indonesia's rupiah borrowing helped buffer its finances from the currency's fall in 2020, as the burden of domestic currency debt doesn't

---

Japan's government, counting the Government Pension Investment Fund, has more external foreign currency assets than it does external foreign currency liabilities.

change with the exchange rate. But as Hyun Shin of the Bank of International Settlements noted, local currency debt can be a double-edged sword—it helps countries absorb currency shocks, but the flight of foreign investors out of the local bond market can generate volatility.

Indonesia is a case in point. Sales of rupiah bonds by foreign investors contributed to the balance of payments outflow that led Indonesia's reserves to fall by US\$10 billion in March. Indonesia was then able to place a US\$4.3 billion bond with international investors in April. Higher borrowing needs from a fiscal deficit that is forecast to rise to 5 per cent of GDP without steady foreign inflows into the local bond market do pose a financing challenge.

Indonesia may be able to manage by relying on the market alone, as the government takes on more currency risk to secure access to funds. If politics could be set aside, Indonesia would also benefit from the extra reserves available through the IMF's new Short-term Liquidity Line—and it should be able to count on at least some support from its Asian neighbours. The good news is that even in a relatively bad scenario, the sums Indonesia would need are modest and well within the capacity of the IMF and Indonesia's neighbours to provide.

The bottom line is this: the increase in debt associated with the policies implemented to support income and protect private firms in the face of pandemic control measures do not pose substantial risks to most of Asia's key economies. **EAFQ**

*Brad Setser is the Steven A. Tananbaum Senior Fellow for International Economics at the Council on Foreign Relations, New York.*



A man is sprayed with hypochlorous acid water at the entrance of Kichiri Shinjuku, Tokyo, to prevent COVID-19 infection.

# Cooperation essential to deal with future risks

NAOTO KAN

**A**T THE end of 2019, the outbreak of COVID-19 in Wuhan, China, quickly spread worldwide. While some countries are beginning to see a decline in the spread of transmission and to relax restrictions after almost six months of disruption and uncertainty, there are still no signs of an end to the emergency in many countries, including Japan. Meanwhile, the global economic

impact of the virus is worsening, and there is concern that the number of suicides linked to economic collapse will increase.

In Japan, the infection began to spread in February when the Diamond Princess cruise ship stopped in the port of Yokohama. An infectious disease specialist aboard the ship, Professor Kentaro Iwata (Kobe University), was alarmed by the handling of the situation on the ship. There was no division between

dangerous zones ('red zones') and safe zones ('green zones'). Just as Iwata feared, the infection aboard the Diamond Princess spread. The government also allowed passengers to disembark the ship with incomplete polymerase chain reaction (PCR) tests. Inadequate measures to prevent infection after disembarkation then caused great anxiety among the public.

The Japanese government's response to COVID-19 was a failure from the outset. Since the mishandling



of the Diamond Princess outbreak, the expansion of PCR testing has not progressed. Testing rates per head of population remain extremely low. From a crisis-management perspective, some have compared the government's COVID-19 response to the Fukushima Daiichi nuclear power plant accident nine years ago, when I served as prime minister. Although the context of the crisis is different, Japan is in a similar crisis situation today as it was then. The most important thing in a crisis is to first ensure that there is accurate information about what's going on.

The morning after the accident at the Fukushima nuclear power plant, as prime minister, I promptly visited the site. At that time I was strongly criticised for my actions, with claims that I had 'disrupted the scene'. But if you don't understand the level of the crisis at the plant that caused the accident, making informed decisions about an evacuation plan would be impossible.

The evacuation of people, which causes a great deal of distress, must be judged by politics, not by nuclear experts or the plant operator, Tokyo Electric Power Company (TEPCO). I needed to make that judgement. Even now I believe that visiting the disaster site and hearing from the officials in charge was very helpful in making a number of decisions in the aftermath of the disaster, despite receiving no information about the exact situation at the plant from TEPCO's head office.

The same is true for coronavirus control measures. In order for politicians to make policy decisions, it is necessary that they listen carefully to the opinions of medical experts who have infectious disease knowledge, such as the characteristics of coronaviruses. The legal system, the financial burden and the division of

authority between the different levels of government must be decided by politicians, not medical experts. The failure of the current government's response to properly distinguish between the judgement of infectious disease experts and that of Prime Minister Shinzo Abe has led to delays in the COVID-19 response.

If Prime Minister Abe has determined that an 80 per cent reduction in human contact is essential to curb the spread of the disease, then he has a responsibility to use all political means to make that happen. The government should explain how Japan can achieve this 80 per cent reduction. If, for instance, the government needs to ask restaurants and other businesses to close, this should first be communicated to the public. The government must then create a situation where workers in these sectors can take time off work with peace of mind by offering compensation packages. That is the responsibility of the prime minister, who is the chief executive.

**T**HE coronavirus response is continuing, but serious thought must be dedicated towards the post-COVID-19 world. Humans have fought many wars throughout history. But according to historians, more people die from infectious diseases than from war. When the 1918 Spanish flu spread after the First World War, the estimated death toll was between 50 million and 100 million—more than the war itself. War can be ended by human will, but infectious diseases are not easily eliminated by human will alone.

Especially in recent years, the cross-border movement of people and goods around the world has increased rapidly, and it is clear that the spread of infectious diseases cannot be

managed solely at the level of the nation-state. The entire human race is at a crossroads as to whether the coronavirus crisis can be overcome and a lesson can be learned for the future.

In this context, historian Yuval Noah Harari raises a key point about historical choice. Harari writes, 'In this crisis we are faced with two important choices ... do you prefer "totalitarian surveillance" or [the] "empowerment of citizens"?' Another choice is between 'nationalistic isolation' or 'world unity'. These are fair questions. The important question is what kind of path the world will follow after the coronavirus crisis ends, and how Japan can make use of the lessons learned to create a vision for the future.

Currently, some of the world's political leaders blame the spread of the virus on other countries and international organisations. At the same time, the idea that totalitarian surveillance is more effective in managing it has also gained currency. It is, of course, necessary to investigate the virus's origins and cause of the spread. But it is clear that international cooperation is essential for dealing with the spread of infectious diseases in the future. A major challenge for the future will be to build a system of international cooperation that does not follow unilateralism and isolationism. **EAFO**

*Naoto Kan was Prime Minister of Japan and President of the Democratic Party of Japan from June 2010 to September 2011. He is now a Supreme Advisor to the Constitutional Democratic Party of Japan and a member of the House of Representatives.*





# China's diplomatic response to COVID-19

JIA QINGGUO

**T**HE term ‘responsible power’ is finding its way into the Chinese official lexicon more frequently—including in President Xi Jinping’s report to the 19th party congress. But being a responsible power is easier said than done. As China’s experience with the outside world since the outbreak of COVID-19 testifies, it can be difficult and even traumatic.

Beijing is fighting the coronavirus at home and fending off suspicions and criticisms overseas. Despite its success in containing the virus—

following a short period of hesitation and confusion—and its unprecedented assistance to others when the epidemic became a global pandemic, China is not receiving the recognition or appreciation it thinks are its due for these efforts. Instead, China is receiving ridicule and accusations of bad faith, especially from the United States—probably the largest recipient of medical supplies from China.

When COVID-19 infections began in Wuhan in December 2019, people knew very little about the virus. The Wuhan government was caught completely unprepared and initially

refrained from taking tough measures to control the virus. This delay was allegedly because it did not wish to cause public panic and it feared that such measures would negatively affect *Lianghui*—an important local political event scheduled for 6–10 January. Beijing was alerted to the situation but apparently it too needed time to assess the situation to make a proper response.

The delay in taking more effective measures to address the epidemic turned out to be lethal. Soon the virus took over the city and spread beyond it. Then Beijing stepped in.

It sacked Wuhan's leaders and took unprecedented measures to contain the virus, including locking down the city of 17 million, sending more than 40,000 medical staff and huge quantities of medical supplies, quickly building two large temporary hospitals and imposing the strictest nationwide social distancing policies in history. Except for essential industries and services, the country was shut down.

As more people were infected and died in China, popular frustration mounted and complaints filled internet chatrooms. People were frustrated with the delay in an official response, with the treatment of Dr Li Wenliang who warned his friends and colleagues about the virus, and the difficulty in accessing medical treatment. Against a background of soured relations between China and the United States and increasingly critical views of the West on Chinese politics and foreign policy, the Western media had a field day covering these complaints.

On 31 January the United States led the world in imposing a travel ban on foreigners who had been in China in the previous 14 days. The United States ramped up hostile action against China, including passing the so-called Taipei Act. Promised US official assistance did not arrive.

Confronted with domestic and international pressures, Beijing took a two-pronged approach to its foreign relations.

First, it engaged in international cooperation. Soon after it realised the severity of the situation, it updated the World Health Organization (WHO) and the United States on the crisis, shared the gene sequence of COVID-19 (as soon as its scientists were able to identify it) and agreed to the WHO's request to send investigators to China.

Second, Beijing went out of its way

to fight the Western smear campaign. In an effort to counter the conspiracy stories coming from the United States about the origin of the virus, one senior diplomat tweeted openly his suspicion that the US military brought the virus to Wuhan. His allegation contributed to US President Donald Trump's efforts to rename COVID-19 'the Chinese virus'. It took a Xi-Trump summit call to de-escalate the tension.

Despite the one or two months that China bought for the rest of the world to prepare for the epidemic, European countries and the United States were still ill-prepared. As the number of confirmed cases and the death toll rocketed in these and other countries, China responded by sending medical teams and shipping large quantities of medical supplies overseas.

**B**EIJING believed that it deserved recognition both for successfully controlling the epidemic in China and for providing so much assistance to the outside world, despite the limited aid it had received during its crisis. But instead of international appreciation, there was only another round of China-bashing.


Perhaps out of concern that China's efforts would lead to greater Chinese influence and to divert attention from their own responses to the virus, the United States and some of its Western allies first attacked China for allegedly politicising aid and sending medical supplies of poor quality. Then they touted the idea that China's lack of transparency and poor handling of the epidemic was responsible for their woes.

With its popular support waning, the Trump administration decided to use the China issue to rally domestic support for the upcoming presidential election. It vigorously propagated the story that China had created the

virus in a Wuhan lab, despite the prevailing contrary view among the Western intelligence and scientific communities.

Infuriated by these accusations and attacks, the Chinese government encouraged its diplomats to launch a new round of counter-China bashing campaigns. They took every opportunity to fight the accusations—speaking up at press conferences, media interviews, international meetings and in newspaper articles. Some diplomats went out of their way to be tough and became known as 'wolf warrior diplomats'. Commentaries on Chinese official TV stations at times specifically named US Secretary of State Mike Pompeo and Trump's former advisor Steve Bannon as people with evil intent.

Despite this counteroffensive, China continued to live up to its own international responsibilities by delivering aid to other countries and endorsing multilateral cooperation to manage the fallout from COVID-19. It fought against US attempts to smear and sabotage the WHO's efforts to fight the virus. In response to US suspension of support to the WHO, China donated an additional US\$30 million to the organisation.

Looking ahead, China's diplomacy is likely to continue unchanged for the foreseeable future—fending off Western attacks and endorsing international efforts to fight the pandemic. Despite the challenges in its quest to be a responsible power, China does not believe it should give up. To many, it will appear, the journey has only just begun. 

*Jia Qingguo is Professor of Diplomacy and International Relations at the School of International Studies, Peking University.*

# Economic distancing from China would carry heavy costs

SHIRO ARMSTRONG

**D**URING times of great uncertainty, it's human nature to retreat to what is close, tangible and known. The health crisis, social distancing and economic shutdown due to the COVID-19 pandemic creates fertile ground for nationalism and intolerance. That fear is easy for political leaders to feed and take advantage of, but history has shown time and again that nothing good results.

The health and economic crises from the coronavirus are unlike anything the world has experienced since the Great Depression and Second World War. The global community is at risk of repeating the mistakes of the 1930s and undoing the foundations of lasting peace and prosperity that were forged in the ashes of the Second World War.

Protectionism will exacerbate and prolong the economic and social crises caused by the COVID-19 pandemic. Putting up barriers to trade and investment will cause recessions to deepen into a prolonged global depression, as they did in the 1930s. The world rejected this path after the global financial crisis with G20 cooperation bringing the world back from the brink at the London Summit in 2009. Can it do so again?

The world needs more globalisation to overcome the COVID-19 health and economic crises, not less. There's little doubt that developing a vaccine and eradicating the virus will require a global effort in cooperation,



PICTURE: /CARLOS GARCIA RAWLINS / REUTERS

The Chinese flag flies at half-mast at Tiananmen Square on 4 April, the national day of mourning for victims of COVID-19.

collaboration and coordination, even if those qualities now seem in short supply. This effort is the key to economic recovery, too.

Two related forces gathering momentum in many countries will make the world poorer, weaker and less secure if they grab hold of policy processes in capitals around the world. And they're contagious.

One is economic nationalism: to bolster onshore production, put up barriers to foreign investment and shorten supply chains to the point that they avoid crossing borders. That's the North Korean model of onshoring production and eliminating risk in international economic engagement. The other force is to decouple or

drastically reduce dependence on the Chinese economy. The distinction between the two is not as clear-cut as the proponents of the latter want to believe. Free trade that excludes China is not free trade.

Producing masks, hand sanitisers and ventilators to top-up imports during a global shortage makes sense. Restricting exports of that equipment to other countries, as many are already doing, does not make sense if critical domestic needs have been met. Shortages won't be filled by imports when others are also restricting exports.

Onshoring entails risks and costs. Diversifying supply across the global system where there are differences in climate, technology, costs and endowments makes supply chains more resilient. Supply chains that are concentrated onshore are more vulnerable to other kinds of shocks. A natural disaster or home-grown crisis could wipe out whole industries.

The best insurance against drought or crop failure in one part of the world is openness to supply from producers all around the world. Without strong and existing links abroad, substitution and shifting of procurement is costly and time-consuming. The key is to manage supply chain risk, not to avoid it. Businesses manage risk and diversify. That has helped many countries to maintain imports during shutdowns and a global crisis.

More supply chains run through China than any other country, as it's become the low-cost 'factory of the world' at scale. That gives China a huge

stake in the established open, rules-based multilateral system, even if parts of China don't understand that and act otherwise. Chinese policymakers intervening in international markets increases the cost of doing business with China for the rest of the world. Beijing knows that the credibility of its commitments to the global economic order is central to maintaining living standards and, therefore, social and political stability. Reminding Beijing of what China has to gain through engagement in the protection and expansion of rules will reinforce the rules-based order to everyone's benefit.

China owes its prosperity to participation in this order. Had it not made and abided by the commitments it gave to the World Trade Organization in 2001, it could never have become the dynamic, globally interconnected economy it is today. For either Beijing or its trading partners to risk undoing these accomplishments by turning away from the institutional order that delivered them prosperity would be a mistake of world-historical proportions. It is not a matter of trust but one of self-interest in binding and enforceable commitments.

Economists are said to be naive about security risks, but they understand the positive spillovers to security from economic engagement. Mutually beneficial trade and investment create real stakes in partner countries that help to constrain some of the worst impulses of national leaders. North Korea would not be shooting missiles over Japan if there were North Korean investments there.

The spillovers, or externalities, from economic engagement are rarely given due weight by security hawks. High trade shares with China are not

---

## There is no substitute for a large Chinese economy that is open to trade

a liability but evidence of success. Government policy shouldn't aim to diversify away from that success but to ensure proper international governance is maintained to manage it. The key is to manage the risks from economic engagement, not to avoid them. This approach is not naive about the security challenges from a more assertive China.

There is much public debate in Australia, as there is elsewhere, about reducing dependence on the Chinese economy. That has been turbocharged by the breakdown in trust between Australia and China in the context of US–China strategic competition and the fight over the narrative around the COVID-19 pandemic.

Governments can intervene in the market to slow or stop business with China, as President Trump has done. The Japanese government has allocated 220 billion yen (US\$2 billion) in subsidies to onshore production and a further 23.5 billion yen (US\$219 million) to strengthen supply chains with Southeast Asia. These measures are largely aimed at reducing dependence on the Chinese economy. Yet it's not clear how this corporate welfare will stop companies from selling to the Chinese market or investing further in China. Policies that might be effective in reducing interdependence will come at a much higher cost to national budgets and, more importantly, to growth.

There is no substitute for a large Chinese economy that is open to trade, as a market or supplier. Its scale is

what drives China's large global trade shares. China is the world's largest trading nation and second largest economy. Emerging markets like India and Indonesia are orders of magnitude smaller and poorer, and will be for some decades.

It will be even more costly to try to impede economic engagement with China when countries emerge from the health crisis and try to reboot their economies. Budget repair, jobs and recovery are at stake. Unless there is a devastating second wave of infections in China, its economy will likely be one of the first to recover after the pandemic and deliver an early boost to recovery elsewhere in the world.

Measures to reduce trade and economic engagement with China will not make supply chains more resilient or countries more secure. With China currently facing a hostile external environment, an economic containment strategy that looks like decoupling is more likely to create a self-fulfilling prophecy where China loses its interest in contributing to the existing economic order and abiding by its rules.

Economic distancing from China or self-isolation will both deepen the economic crisis and prolong the path towards recovery. It would also represent a geopolitical catastrophe for both sides, creating enmity where none need exist. Instead of accentuating differences and retreating from openness, the lessons of past crises point to a need to realise the common interest in immunising the global economy from another great depression. **EAFO**

*Shiro Armstrong is Director of the Australia–Japan Research Centre and Director of the Asian Bureau of Economic Research, The Australian National University.*





# An Asian strategy for recovery and reconstruction

ASIAN BUREAU OF ECONOMIC  
RESEARCH EXPERT GROUP

**T**HE health and economic consequences of the COVID-19 pandemic are unprecedented. The health crisis is far-reaching and the scale of the pandemic's impact on the global economy has not been seen in recent times. The human tragedy is enormous: almost 400,000 deaths and 7 million cases have been recorded globally. But coordinated global leadership is absent, and short-term, inward-looking, nationalistic policy settings risk frustrating a recovery for all.

Asia must lead recovery from the crisis, given its weight and potential in the world economy. It can leverage a multilateralism that is formed by

coalitions of the capable and the willing.

Asian nations should take immediate action to:

- Address looming financial problems. Central banks and finance ministries should expand bilateral currency swap arrangements and agree on a new issuance of Special Drawing Rights (SDRs) to create a stronger regional financial safety net.
- Support the development, production and equitable distribution of diagnostic tests, a vaccine and treatments for COVID-19 in Asia through collective commitment of funds to the World Health Organization's COVID-19 Tools (ACT) Accelerator and expansion of the COVID-19 Association of South East Asian

Nations Response Fund to include ASEAN+6 nations: that is, the ASEAN nations plus China, Japan, South Korea, India, Australia and New Zealand.

- Keep medical and food markets open through a regional agreement to reduce or eliminate tariffs and non-tariff measures on medical goods and services and restrictions on international food markets.
- Lead the development of protocols for people movement to fast-track the resumption of international commerce, travel for study, scientific exchange, temporary labour movement and tourism, via the introduction of protocols of health certification for international travel.
- Embrace the accelerated digital transformation that COVID-19

has brought to health management as a source of dynamism.

Digital technologies offer great opportunities for participation, higher productivity and economic growth. Asia can initiate a proactive agenda for collective governance of digital infrastructure that includes regulatory coherence, privacy standards and data-sharing.

- Conclude the Regional Comprehensive Economic Partnership (RCEP) agreement immediately to ensure regional trade solidarity, while also keeping open a path for eventual Indian membership.

ASEAN will have to lead collective Asian action to implement this compact through its ASEAN+3—the ASEAN nations plus Japan, China and South Korea—and the ASEAN+6 groupings, engaging the East Asian Summit countries and the Asia Pacific Economic Cooperation and G20 forums, while stepping up to lead reforms of the World Trade Organization (WTO) and the International Monetary Fund (IMF). Indonesia has a central role to play as leader of a coordinated Asian response, being the largest country in ASEAN, the front line of defence against financial contagion in Asia, and an active proponent of WTO reform in the G20 (which Indonesia will host in 2023 after India in 2022).

### **COVID-19 has made the costs of protectionism higher**

Without international cooperation and coordination, the world is facing a prolonged health crisis and lasting economic stagnation on a scale not seen since the Great Depression. In its April 2020 World Economic Outlook, the IMF predicts a baseline fall of 3 per cent in global incomes in

2020. Growth, it says, may rebound to 5.8 per cent in 2021 but it also warns of more dire outcomes. China's GDP dropped 6.8 per cent in the first quarter of 2020 on the previous year, Japan's dropped 3.4 per cent and the United States' fell 4.8 per cent. Europe's GDP is forecast to fall 7.8 per cent this year. It is unclear how long the dramatic slump in world output will continue.

In the 2008 global financial crisis (GFC), the global economy shrank by a mere 0.1 per cent. Advanced economies shrank 3.3 per cent but were offset by 2.8 per cent positive growth in the emerging world. But the world looks different in 2020. The loss of employment, human capital and structural damage wrought by the pandemic mean that recovery could take much longer than it did in 2008. Long-term joblessness is a serious danger. Asia must act fast to limit the negative impact of the pandemic on growth this year and beyond.

Predictions of a very sharp (V-shaped) recovery in the latter part of 2020 and in 2021 seem improbable. They assume a quick resumption to business as usual given the limited damage to capital stock and the job retention schemes put in place by a number of governments. That is unrealistic unless consumer and

---

Asia has the opportunity to lead the exit from the COVID-19 crisis and be a vital driver of global economic recovery

business confidence can be restored by governments quickly and the lockdown measures that prevent the movement of people, close down vast swathes of people-focused economic activity and restrict trade can be safely reversed.

International cooperation is essential to get health supplies, diagnostics and equipment where they are needed and ensure their equitable distribution. It will speed the development of treatments and an effective vaccine. It is also essential to establishing international health regulations and protocols that will allow the world to open up again to international travel. Without international cooperation, the Great Depression and the GFC forebode an uncertain and prolonged recovery. The unintended international consequences of nationally driven policy responses will likely lead to recurrent economic shocks and long-term loss of potential income.

### **Asia has opportunity and incentive to lead a coordinated global response**

Struck down by the virus first, and having managed its containment relatively well, countries in Asia are now positioned to restart their economies sooner. Asia has the opportunity to lead the exit from the COVID-19 crisis and be a vital driver of global economic recovery. Traditionally the world has looked to the United States to lead global economic recovery on account of the size of its economy, freedom of policy action given the international role of the US dollar, and its long-established tradition of leadership in global economic diplomacy. But US leadership in global multilateral institutions is unforthcoming.



China's Foreign Minister, Wang Yi, at the ASEAN and Chinese foreign ministers' meeting on 20 February.

Asia—defined as the ASEAN+6 group—accounted for over 40 per cent of global GDP in 2019 and is now the world's biggest region in terms of purchasing power parity. The ASEAN+6 group is the natural choice for an Asian initiative on the COVID-19 crisis, incorporating six Group of Twenty (G20) members and anchored in the ASEAN arrangements.

Asia has the greatest incentive to reverse the accelerating momentum to protectionism and the breakdown of global cooperation. It has an enormous stake in rebuilding trust, strengthening governance and updating global rules. Because of their dense populations and skewed resource endowments, the economies of East Asia are more dependent on the international economy and global supply chains than economies elsewhere in the world. The World Bank estimated that the average trade-to-GDP ratio for all of East Asia and the Pacific was 57 per cent in 2017, double that of the United States. East Asia's economic and political security crucially depend on open trade and commerce.

The world can no longer rely on

conventional architectures of top-down leadership. Being part of this multilateral coordination will be a fresh opportunity to help raise levels of trust across all nations thus engaged. It will also help allay worries from historical missteps and mistakes. Closed economies will face slower recoveries. International economic cooperation will be vital to managing the recovery through trade, a faster reopening of business supply chains and lower investment costs.

**First step: open dialogue and share insights into pandemic's effects**

Supply chain disruptions, challenges in repaying or refinancing external debt, the dive in export earnings and plummeting investment, if not addressed, will leave policy settings that weigh on recovery and growth. Governments in Asia can share important insights into the impact of the pandemic on their domestic economies, including economic growth and the macroeconomy, employment, food and energy markets. Multilateral coordination on financial policy can help to lift the capacity of

developed and emerging economies to execute fiscal and monetary policy that alleviates the negative impacts of the recession on people and businesses. This can be done globally through the IMF, through regional arrangements and development banks, and bilaterally via currency swap line agreements.

Promoting international solidarity based on trust and sharing as a basis for collective action to deal with the crisis is central to success. International organisations must play a central role in monitoring and assessing the impact of the crisis on trade, investment and global value chains. Joint commitments at the regional and multilateral level will ensure different national measures are transparent, proportionate and temporary, and are removed based on evidence and data rather than economic exigencies or political pressure. Mutually agreed guiding principles will help to constrain the actions of Asian nations to ensure that responses to the crisis do not reinforce or entrench existing inequalities and distortions.

**Coordination to deal with the health and economic impacts simultaneously**

Asian countries must deal simultaneously with the international health policy and the economic policy challenges of emerging from the crisis. Failure to do so will cause more social disruption, more deaths and more economic hardship. Differences in country circumstances and the different stages of health and economic recovery increase the payoffs from sharing experience, cooperation and coordination. This will help to avoid unintended consequences from national policy interventions. International medical and scientific

cooperation through multiple channels including the WHO is vital to an effective pandemic response.

Countries must commit to funding and empowering international and regional health agencies to manage and monitor the ongoing response to the crisis—especially in developing economies—while keeping open trade in medical equipment and supplies, sharing diagnostic tests, vaccines and technology. Cooperation in managing COVID-19 outbreaks will also be critical to any recovery. A task force can be established to collaborate on protocols for health certification of international travel both before and after universal vaccination becomes possible. Open sharing of data and information on disease outbreaks with epidemic and pandemic potential will underpin stronger future pandemic preparedness.

Threats to the funding of the WHO are not consistent with global interest in insulating the world against inevitable outbreaks of communicable diseases and future pandemics. Scientific analysis is an essential global public good. It should be uncontaminated by blame germinated in the heat of the national politics of dealing with the pandemic. Countries in Asia have an interest in committing to maintaining the work of the WHO and expanding its capacity to monitor and manage the spread of communicable diseases.

Asia's collective commitment of funding to the WHO's COVID-19 Response Fund is a first step. Asian countries also have direct interest in building regional capacities for scientific and medical research and exchange to complement global efforts. ASEAN+3's commitment to a COVID-19 ASEAN Response Fund should be expanded to include ASEAN+6 partner countries.

To fast-track the resumption of international commerce, scientific collaboration and educational exchanges (critical to both regional development and understanding) and tourism, a graduated system of protocols of health certification for travel needs to be put in place quickly. Implementation of such a system may require collaboration with the WHO.

The economic storm facing Asia must also be confronted. Most recessions are caused by a demand shock (think 9/11), a supply shock (think the first oil price increase) or a financial shock (think Lehman Brothers). COVID-19 is delivering all three. Each type of shock demands a different policy response. Fiscal stimulus during a supply shock boosts inflation and little else. Supply-side reforms do little if businesses have no customers, and neither demand nor supply-side measures are effective without a functioning financial system.

### **Coordinated fiscal response ensures regional stability; coordinated supply-side reforms deliver bigger bang for your buck**

Pooling experience and mobilising support to manage the

---

Central banks and finance ministries need to be charged with the urgent task of developing regional financial safety nets to prevent financial contagion in Asia

fiscal dimensions of social and economic lockdown strategies in different countries will be critical to getting policy settings for recovery right. Sharing information, data and experience will be vital to understanding the economic shock and the best policy responses. Countries can use ASEAN+ frameworks, APEC and the G20 to learn from each other about the impact of the pandemic on their economies, the best policy responses, and how to tailor fiscal, monetary and structural policies.

Coordination gives demand-side measures like fiscal stimulus a bigger bang for each buck. It makes supply-side measures like structural reforms and opening-up supply chains more effective. It helps to minimise financial risks, mitigate financial shocks and prevent their contagion. It also gives political cover and enhances regional consistency. Stabilising economies and financial systems and repairing structural damage to supply chains are preconditions to implementing the reforms needed for economic recovery.

Countries need macroeconomic policy space and financial stability if they are to combat the crisis. The governments of many emerging Asian economies face a difficult trade-off between supporting their economies and healthcare systems while also minimising financial risks. Governments have borrowed internationally to finance vital healthcare spending, fiscal stimulus, income support and development programs. Emerging economies hold US\$5.8 trillion in dollar-denominated debt. But this creates financial risks which are being exacerbated by COVID-19. The consequences of this trade-off are too much financial risk and too little fiscal support.





Sachi Johnson working on COVID-19 antibody research at Sorrento Therapeutics, San Diego. International cooperation is essential to combat the illness.

Central banks and finance ministries need to be charged with the urgent task of developing regional financial safety nets to prevent financial contagion in Asia. These must provide needed external funding and introduce new financial mechanisms to cover funding shortfalls. Indonesia is the front line of defence against financial contagion in Asia. Bilateral currency swap lines between central banks and loans between financial ministries should be used to fill the gaps left by inadequate global and regional safety nets. This will reassure markets and provide temporary foreign exchange to refinance ballooning debt.

### **Regional institutions need to tackle financial risk and lead solutions to debt transparency**

Regional macroeconomic surveillance is vital to identifying financial risks and their implications early. Unlike the facilities in

development banks, the Chiang Mai Initiative Multilateralization (CMIM) remains untested and is not yet fully operational. The ASEAN+3 Macroeconomic Research Office will play a critical role in bolstering regional surveillance, operationalising the CMIM and better coordinating the CMIM with the IMF. Addressing these risks will require liquidity facilities which countries can access quickly. The Asian Development Bank, the Asian Infrastructure Investment Bank and the New Development Bank should encourage fiscal support for health programs. Ensuring adequate trade and development financing will help governments to free up other resources to better respond to the pandemic. Asian IMF members should push for a major new issuance of SDRs, combined with the creation of new limited-conditionality precautionary lending facilities to provide vital foreign exchange.

Asian countries must also work with China in international and

regional settings to improve the transparency of emerging economies' debt obligations for Belt and Road Initiative investment projects. Chinese creditors and policymakers can seize the opportunity presented by the pandemic to establish shared norms around investment financing. This can be done while distributing financial risk across multiple creditors.

Supply-side constraints need to be removed in product and capital markets and structural reforms implemented to accelerate recovery and lift growth potential. These reforms should build off the innovations forced by COVID-19 as a source of economic dynamism and greater productivity. The pandemic has accelerated adjustments in many sectors, particularly digital transformation. Organisations are changing work patterns and adopting business models that leverage digital infrastructure for production, supply-chain management and delivering goods and services.

Labour market reform, government budget repair, social safety net expansion and reform of healthcare systems will be needed to sustain recovery and manage the next crisis. The aftermath of the pandemic will see new work arrangements, distressed assets, large budget deficits, accumulated corporate and household debt and weakened health systems globally. Inequality in societies will grow and policies that were previously unthinkable will be needed for recovery. This is an opportunity to cement reforms that make economies more resilient, flexible and equitable.

### **Structural reform must shift from Wall Street to Main Street**

Coordinated commitment to reform will have a greater chance of succeeding. The commitment to keep markets open in partner countries will facilitate reforms at home. Cooperation and coordination can facilitate the sequencing and enhancement of positive spillovers from structural reform. They can give countries new ideas and provide political cover for them to be more ambitious than they would be otherwise.

Structural reform can be matched with demand-side income stimulus to drive growth, bolstering domestic markets and providing a source of growth for other countries as they lift lockdowns. Asian economies can shape the APEC and G20 agendas by identifying areas of common interest on trade and digital governance reform. Sustainable infrastructure, the digital economy and strengthening the resilience of supply chains stand out as priorities. The policy priorities should also shift from 'Wall Street' to the 'Main Street'. For many Asian countries, supporting small and

medium-sized enterprises (SMEs) and households effectively is a new and major challenge.

### **Regional coordination and digital transformation key to supply chain resilience**

Asian countries must lead the campaign against protectionism by their own actions. Onshoring does not increase supply chain resilience. Policy shifts to onshoring would bring with it a concentration of risks and costs that make supply chains more vulnerable to shocks. Instead, diversifying supply across the global system where there are differences in climate, technology, costs and endowments makes supply chains more resilient. Decisions to locate or relocate production should be driven by private companies that already have to diversify and mitigate risk.

To reduce supply-chain vulnerability, governments must facilitate the digital infrastructure that helps to manage supply-chain risk. Developing digital infrastructure and creating international regulatory coherence in digital trade will help to identify supply-chain vulnerabilities and can be harnessed as a driver of economic recovery. Regional data privacy standards, interoperability, tax and other incentives to share data will encourage the use of digital supply

---

APEC will be important for forging consensus and mobilising broader groups of countries, including the United States

networks.

Digital technologies have played a critical role in the crisis response through big data, artificial intelligence and modelling. This has highlighted the importance of robust digital connectivity to promote economic participation and drive inclusive growth. This includes both physical infrastructure assets and regulatory regimes that enable society to maximise the benefits of digital connectivity while protecting consumer privacy and trust. Only 53 per cent of the world's population is connected to the internet and as more of daily life moves online, existing disparities in internet access are set to exacerbate the digital divide between urban and rural areas as well as the poor and the wealthy.

Beyond digital change, the perceived risk of food shortages during the crisis led governments to restrict exports of rice and other staples. But export restrictions and trade barriers undermine food security and lead other countries to reciprocate. Strong, credible commitments to maintain food supply are needed from agricultural producing countries to ensure that others have confidence that shortages can be met from the international market. The 1979 Agreement on the ASEAN Food Security Reserve and the 2011 ASEAN+3 Emergency Rice Reserve should be updated and expanded. Signatories should recommit to the schemes.

### **Concluding RCEP and initiating WTO reform: two regional actions with global impact**

Collective Asian efforts will be large and influential enough to help safeguard the international system. Immediate conclusion of RCEP among

PICTURE: KHAM / REUTERS



Suburban Hanoi: demand-side stimulus can drive growth and bolster domestic markets.

managing the crisis but also sets the broad strategic direction for reform and managing the frictions in the global trading system.

An Asian initiative in the G20 must set a forward-looking international policy agenda for recovery. It is the key economic forum for the leaders of the world's largest developed and emerging economies to discuss, engage and work through the shared economic challenges of the COVID-19 crisis. Asian initiatives should include regional cooperation on trade, health and finance priorities framed and projected within the broader regional and global architecture. Asian interests in leadership of global institutions will exist alongside—not at the expense of—the United States and Europe.

### Three immediate actions for an Asia-led recovery

Asian economies should collaborate on a multilayered approach to give effect to regional cooperation on trade, health and finance priorities as well as structural reform. First, Asia must convene a leaders' summit to commit to these health and economic measures as well as global cooperation on them. Building trust and functional action in Asia—by agreeing on the elements of the agenda—will be a big first step in addressing the crisis and limiting its impact on people across the world. An ASEAN+6 summit is a good place to start to commit to specific health and economic approaches.

ASEAN+6 countries are already actively engaged on the trade and economic cooperation agenda. Indonesia is best placed to coordinate this initiative with ASEAN. Engaging Australia, India and New Zealand beyond the ASEAN+3 group brings in two more G20 members, provides a

the 15 ASEAN+6 members, less India initially—will ensure food security, vastly improve energy security and keep markets open in East Asia and hold the momentum of liberalisation globally. The commitment to liberalisation and trade reform in the RCEP may make a difference in keeping the global trading system open. The RCEP group must also define a protocol of engagement with India that keeps open a path for eventual Indian membership and actively promotes cooperation with South Asia.

APEC will be important for forging consensus and mobilising broader groups of countries, including the United States. Taiwan is a member and it links to economies across the Pacific but importantly APEC does not include India and some ASEAN members. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership grouping can mobilise like-minded countries but lacks weight without China, the United States, India, Indonesia, South Korea and others. These limitations do not need to impede progress.

Although the WTO has been an

effective backstop against the surge in protectionism it needs updating to be fit-for-purpose for the interconnected and globalised economy of the 21st century. It will be a critical bulwark in avoiding disintegration of the international economy and markets after the COVID-19 economic crisis. The core rules that govern goods trade and underpin the global trading system need to be preserved and protected. That will be made easier if serious progress can be made now with updating and expanding WTO rules in new areas of importance to international economic exchange.

The important dispute-settlement function of the WTO can be protected by the partners in the Multiparty Interim Appeal Arbitration Arrangement (the MPIA) initiative and Asia is a key theatre for action to expand its membership. Indonesia has taken a lead role with its proposed WTO reform framework of 2019. Indonesia can lead a task force on reform of the WTO that builds on the 2019 initiative, and report to the G20 grouping. Indonesia and the taskforce must suggest ways forward for the WTO so that it is relevant to members



platform to engage India and includes two more countries with early success at containing COVID-19. Indonesia, given its standing in the G20, role in ASEAN and its reputation for fair play, is best placed to convene such a summit with the ASEAN Chair.

Second, Asia should use available cooperation institutions—including multilateral financial institutions—and forums such as APEC to cover gaps in membership, build trust and promote coherent and consistent agendas. Asian regional cooperation in dealing with all dimensions of the COVID-19 crisis must have global objectives and impact. The ASEAN+6 grouping has six G20 members (and APEC has nine). These regional, multilateral frameworks will increase China's capacity to contribute constructively to regional and global recovery without the encumbrance of conflictual geopolitics.

The pandemic has exacerbated US–China strategic competition. Because both countries are so big economically and each is a leader in digital technology and innovation, both will play key roles in Asia's contribution to global economic recovery, repair and revival. The prospects for the global economy will be brighter if Asia's contribution is harnessed in a way that helps to facilitate US–China cooperation. Multilateral processes are based on principles of cooperation and openness that can help to defuse bilateral tension by bringing the perspective of others to bear on difficult bilateral problems.

Finally, task forces of medical, economic and business experts will need to be convened to help shape action on each facet of the agenda. Assembling the necessary scientific, medical and professional expertise to help to implement health, social and economic policy strategies will be

There is no simple solution to the social and economic damage done by the pandemic

important to constructive cooperation at all levels.

There is no simple solution to the social and economic damage done by the pandemic. Different countries are in different stages in the crisis and their circumstances vary markedly. But to address an economic event as damaging as the Great Depression, urgent national action to arrest the pandemic within national borders now needs to be combined with regional and global coordination on public health, food security, fiscal, financial and trade policies. Otherwise prolonged economic stagnation and international disruption from the pandemic will continue to unfold. The weight and potential of Asian economies as well as their ability to leverage a multilateralism that is formed from coalitions of the capable and the willing will be central to global economic recovery. [EAFQ](#)

*The ABER Expert Group comprises: **Chatib Basri**, University of Indonesia and former Finance Minister, Indonesia.*

***Suman Bery**, Non-resident Fellow, Bruegel, former director-general, National Council of Applied Economic Research, Delhi, and Chief Economist, Shell.*

***Gordon de Brouwer**, Honorary Professor, Crawford School of Public Policy, The Australian National University, former G20 Sherpa and Secretary of the Australian*

*Department of the Environment and Energy.*

***Yiping Huang**, Professor and Deputy Director of the National School of Development, Peking University, Chair of the China Finance 40 Forum Academic Committee, and former member of the PBOC Monetary Policy Committee.*

***Motoshige Itoh**, Professor, Faculty of International Social Sciences, Gakushuin University and former member of the Japanese Prime Minister's Council on Economic and Fiscal Policy.*

***Danny Quah**, Professor and Dean, Lee Kuan Yew School of Public Policy, National University of Singapore.*

***Heather Smith**, former G20 Sherpa and Secretary of the Australian Department of Industry, Innovation and Science.*

***Rebecca Sta Maria**, Executive Director of the Asia Pacific Economic Cooperation secretariat and former Secretary-General of the Malaysian Ministry of Trade and Investment.*

***Somkiat Tangkitvanich**, President of the Thailand Development Research Institute and the Asian Bureau of Economic Research.*

*Convening Secretariat: **Peter Drysdale, Shiro Armstrong, Adam Triggs, Jacob Taylor and Jiao Wang**, Asian Bureau of Economic Research, Crawford School of Public Policy, The Australian National University. The Secretariat is grateful for the advice and input of **Mari Pangestu**, Managing Director, World Bank, and former Indonesian Minister of Trade.*

This article is a digest of the paper *An Asian Strategy for Recovery and Reconstruction after COVID-19*, launched by the Asian Bureau of Economic Research on 3 June 2020 ([eaber.org/covid19](http://eaber.org/covid19)).





# A new contagion afflicts US-China relations

JAMES CURRAN

**E**VEN before the onset of coronavirus and the narrative war now raging between Washington and Beijing, it had become something of a truism to talk of US–China relations plunging into a new era of heightened geopolitical competition.

Slogans such as a ‘new Cold War’ or ‘Cold War 2.0’ have been increasingly applied to the growing mistrust between the two countries, particularly with tensions in the South China Sea, the trade war and Beijing’s sabre-rattling reaction to the

Hong Kong protests.

In early January 2020, a widely read analysis by *The New Yorker’s* Evan Osnos quoted a White House official describing the relationship as ‘being in free fall’, with the Washington establishment having ‘all but abandoned engagement with China.’ The problem, Osnos noted, was that Washington had not yet found a ‘strategy to replace it.’ The article also detailed how China’s strategic manoeuvring in Asia had ‘radicalised members of America’s national security community’, with Pentagon planners no longer debating whether

China is an ‘enemy’, but instead ‘planning for war’.

That judgement was supported by private remarks from a former senior official in George W. Bush’s National Security Council (NSC), who stressed that any moderate US voices on China had been ‘stampeded’ by those pushing a tougher line. Even the Chinese embassy in Washington now has little inclination to seek out the views of those articulating the need for ongoing US engagement with China.

Hawkish voices were not confined to the Pentagon, with a younger generation of State Department

officials being ‘particularly ideologically gung-ho on countering China.’ An official at the Australian embassy in Washington put it in different terms, observing that the various flocks of hawkish views on China in Congress—on trade, human rights and national security—far from taking different flight paths as they had in the past, now flew in unison.

So dominant had this narrative become that around the same time, Fareed Zakaria issued a plea in *Foreign Affairs* for US thinkers and analysts to avoid the rush to ‘panic’ about China’s rise. Zakaria identified a ‘new consensus’ in Washington which holds that China is ‘now a vital threat to the United States both economically and strategically.’

**O**NE consequence of this has been a pronounced shift in ‘the public’s stance towards an almost instinctive hostility’ where China is concerned. But Zakaria’s plea for calm was still firmly grounded within an older American assumption about how China’s international behaviour might ultimately be managed—that of former deputy secretary of state Bob Zoellick. Thus Zakaria advised that ‘a wiser US policy, geared towards turning China into a “responsible stakeholder”, is still achievable.’

Viewed against this background, the COVID-19 outbreak has provided yet another platform on which this barely concealed hostility and recrimination is being played out.

But so acrimonious has the war of words become that it makes the debate over the future of US–China relations from even a few months ago seem almost quaint.

The crisis has done little to alleviate the mutual suspicion between Washington and Beijing, layering it with yet more tit-for-tat barbs over the

origins of the virus, its handling by the respective governments and the form of any future inquiry. US President Donald Trump and Secretary of State Mike Pompeo have chopped and changed in using references to the ‘China virus’ or ‘Wuhan virus,’ with Pompeo saying that using the terms is payback for initial Chinese disinformation about the pandemic.

Pompeo even tried—though without success—to insist that the G7 adopt his usage of the phrases. White House trade adviser Peter Navarro has used the slogan ‘China lied, people died.’ The President has most recently himself blamed Chinese ‘incompetence’ for ‘this mass worldwide killing.’ US claims that the virus was deliberately released by a viral laboratory in Wuhan have led to disagreements among the Five Eyes intelligence community, with some publicly distancing themselves from US statements.

China for its part has expelled nearly all US nationals working for *The Wall Street Journal*, *The Washington Post* and *The New York Times*. In response, the US Department of Homeland Security has tightened visa restrictions for Chinese journalists in the United States. China’s official news agency, Xinhua, posted online an animation mocking US handling of the crisis. And Chinese ambassadors in Paris, Stockholm and Canberra have been pushing back strongly against local criticism of Beijing’s initial response to the virus. In some cases, such as Australia, there has been economic retaliation, with Beijing threatening to slap restrictions on other Australian exports on top of barley and beef.

Issues that had already been plaguing the US–China relationship—over Chinese aggression in the South China Sea and trade negotiations

in particular—are now being joined by new ones. The United States has been pressuring allies, for instance, to support its move to have Taiwan’s status as an observer at the World Health Organization restored, a move bound to provoke Beijing’s ire.

President Trump even threatened to strip China of its sovereign immunity and thus litigate Beijing for its handling of the crisis, while the two countries are now competing, along with many others, to find a vaccine. As the *Financial Times*’ Ed Luce warned, ‘if a COVID-19 inoculation becomes a weapon of political leverage, which is most likely if it is developed in China or the United States, things could turn nastier than they already have.’

**T**HE element of danger in this narrative war comes not from the risk of it sparking a major conflict—which although often raised in some feverish commentary remains unlikely. The real risk comes with the reinforcement on both sides of existing stereotypes that each has of the other. If US minds are made up that China already poses an economic and military threat, then the coming of the virus, which has taken so many US lives and ushered in levels of unemployment approaching those seen in the Great Depression, will only intensify the antagonism towards China in the US policy community and wider public.

As Paul Heer, former national intelligence officer for East Asia, remarks, ‘Washington seems to want an adversarial China that poses an existential ideological and national security threat because such a China validates Americans’ sense of vulnerability and uncertainty’ and ‘provides an enemy against which to mobilise.’

President Trump, sensing an

PICTURE: NICHOLAS KAMM / REUTERS

opportunity to make China more of an enemy that it already is, has stated that the pandemic is ‘worse than Pearl Harbor [and] worse than the World Trade Center. There’s never been an attack like this.’ He insists that ‘it could have been stopped in China.’

In the past, those kinds of crises faced by the United States, along with Sputnik and Japan’s economic challenge in the 1980s, were deemed shocks to US prestige and acted as catalysts for national unity. But the coming of coronavirus reveals just how a multifaceted crisis like a global pandemic can paralyse US leadership rather than revitalise it.

Now US–China relations are the inevitable hostage to the cut and thrust of a US presidential election campaign. Both Republicans and Democrats have played their cards early—each labelling the other as weak on China. An independent super political action committee supporting Democratic candidate Joe Biden thundered in one advertisement that President Trump had ‘rolled over for the Chinese’ at the outbreak of the virus by dispatching them US medical supplies. But as reported in *The Washington Post*, the State Department assisted in the delivery of donations to China funded by private charities.

Meanwhile, the Trump campaign alleges that Biden as vice president had a record of appeasing Beijing. Furthermore, the National Republican Senatorial Committee sent all campaign staff a detailed memo advising its candidates to adopt what one analysis called three main lines of assault: that China caused the virus by ‘covering it up’, that Democrats are ‘soft on China’ and that Republicans will ‘push for sanctions on China for its role in spreading this pandemic.’

Presidential elections are no stranger to China-bashing—recall



Mike Pompeo: engaged in payback.

Bill Clinton’s attack on George H. W. Bush in 1992 for being insufficiently tough on what he called the ‘butchers of Beijing’ who had ordered the deadly crackdown on pro-democracy protesters in Tiananmen square three years earlier. While candidates who have adopted a tough campaign line on China have later moderated in office—and Trump himself has occasionally been an example of this—this year’s rhetorical screaming matches do not augur well for the kind of US–China cooperation that is required in the post-pandemic global recovery.

Perhaps surprisingly, of all the statements that have intensified US–China competition, the speech by Deputy National Security Adviser Matt Pottinger, delivered at a recent symposium on US–China relations, is the most remarkable. It shows the lingering temptation in the US policy community to look at the China relationship through the prism of American exceptionalism.

In remarks given in Mandarin, Pottinger appealed to the spirit of the May Fourth Movement, a student demonstration in Beijing in 1919 sparked by outrage over the treatment of China at the Paris Peace Conference, especially the decision to grant to imperial Japan Chinese

territory that had been previously occupied by Germany. This, said Pottinger, ‘galvanised a long running struggle for the soul of modern China.’

Not only did he elevate those ‘Chinese heroes’ whose ‘democratic ideals’ went on to play a key role in the signing of the Declaration of Human Rights, he identified a series of ‘heirs’ to the May Fourth Movement: ‘civic minded citizens who commit small acts of bravery.’ These included Li Wenliang, the doctor in Wuhan who blew the whistle on the virus and was persecuted by Chinese authorities as a result. It also included a group of Catholic priests who ‘have refused to subordinate God to the Communist Party, and the millions of Hong Kong citizens who peacefully demonstrated the rule of law last year.’

Put simply, Pottinger’s speech is not so much harking back to the ‘loss of China’ in the wake of the Communist triumph in 1949, but rather a ‘lost China’, a China that had been trending towards the achievement of a ‘Chinese enlightenment’ before being thwarted by the rise of Mao’s Communists.

Pottinger’s remarks have already been widely interpreted as endorsing a grassroots-led challenge to the regime, but during the same symposium he did break with the more aggressive postures taken by other White House officials, stressing that the United States was not considering ‘punitive measures’ against China over its handling of the pandemic. What influence the NSC has on the White House executive is another question entirely.

It has become a commonplace in the recent US–China debate to acknowledge that the underlying beliefs driving US policy towards Beijing since the 1970s—that China’s embrace of capitalism would ultimately lead to greater political

liberalisation and democracy—had been shown to have feet of clay.

This is especially the case since Kurt Campbell and Ely Ratner identified a ‘China reckoning’ for US policymakers, amounting to an abandonment of the conviction that US power and hegemony could ‘readily mould China to the United States’. Campbell and Ratner’s 2018 article in *Foreign Affairs* sparked an intense debate about an entire generation’s policy settings on China. Yet there was still hope that, freed of this kind of emotional interpretation of China’s expected trajectory, US policymakers would be able to craft a more viable strategy of competition and cooperation.

Pottinger’s speech, however, suggests that it will be some time before some senior US policymakers can truly let go of a view driven by an exceptionalist belief of what the Chinese people want. What China really needs now, Pottinger concluded, was ‘a little less nationalism and a little more populism’. This is an odd conclusion to reach and a misreading of history. The May Fourth Movement had nationalism, not democracy, at its core. But Pottinger is advising the Chinese to drop ‘nationalism’ in favour of ‘populism’. In an almost euphoric finale, he traced a new mystic chord from Trump’s election, through Brexit and Jefferson’s drafting of the Declaration of Independence, asking ‘wasn’t a similar idea beating in the heart of the May Fourth Movement too?’

It is difficult to foresee what might ultimately come from all this. The pandemic was bound to be interpreted through the prism of geopolitical competition. Scrambling for a slogan to give it purchase in the language of international relations, some analysts have rushed to label it a ‘new type of

---

Leaders in Washington and Beijing are unlikely to drop their underlying assumptions about each other any time soon

Cold War’, acknowledging that while it is no exact match for the US–Soviet rivalry of last century, the clash in political values and strategic ambitions are still eroding mutual trust. In the words of former Australian prime minister Kevin Rudd, it is at least a ‘Cold War 1.5’.

The likelihood is that the pandemic will for some time yet become a benchmark or test of both countries’ style of governance and their ability to respond to the welfare of their peoples. Such a benchmark will continue to be assessed in the same zero-sum terms that have characterised so much of the debate surrounding US–China strategic rivalry. Leaders in Washington and Beijing are unlikely to drop their underlying assumptions about each other any time soon.

What matters is how each country comes out on the other side of the virus. Both are under siege—China from its initial handling of the outbreak, and the United States from chaotic presidential leadership that has once more revealed the deep fractures in US society and the inability of a beleaguered political class across the country to effectively respond. China’s growth rate may plummet as much as its soft power credibility, its new assertiveness in diplomacy only serving to antagonise rather than assuage anxieties over how Beijing

intends to use its rising power.

All of this brings us no closer to a credible US strategy for how to deal with China. Rather more alarmingly, it looks to be taking Washington closer and closer along the spectrum to full containment. President Trump and Secretary of State Pompeo sound as if they desire an iron curtain-like stand-off with China—but just how that is possible with China’s global economic heft remains unclear.

There are some signs of optimism, particularly with the cautious agreement of both sides to push on with phase one of the trade deal. But that may also prove to be wishful thinking.

But the White House would not have missed a Pew Research Center survey in March which found that 66 per cent of Americans now have an unfavourable view of China—a rise of 20 per cent since Trump came to office. To its drumbeat of the economic and strategic threat China poses, the White House now adds a virus that has taken US lives and hit its economy hard.

The atmosphere of retribution and even revenge that such inflammatory rhetoric sows in the broader community does not bode well for the relationship in a second Trump term or, for that matter, a Biden presidency. In that latter scenario, Washington’s rhetoric may not have as sharp an edge but much of the intent will remain the same. The public mood in the United States will demand it. That should surely put to rest the facile judgements from some observers that the United States has an opportunity to ‘course correct’ come this November. **EAFO**

*James Curran is Professor of Modern History and Non-resident Fellow at the United States Studies Centre, The University of Sydney.*



# Japan's triple economic shock

PICTURE: YOMIURI SHIMBUN / REUTERS

SAYURI SHIRAI

**J**APAN'S economy has experienced three consecutive shocks over the past year-and-a-half. The first shock struck Japan in early 2019 when the US–China trade war and slowing economic growth adversely affected Japan's manufacturing sector. This economic effect was exacerbated by a second demand shock caused by the consumption tax hike from 8 to 10 per cent on 1 October 2019. Just as Japan's economy was recovering, a third shock caused by COVID-19 dealt the most severe blow, plunging Japan into a full-blown recession.

COVID-19 forced a one-year postponement of the 2020 Tokyo Summer Olympics. After the International Olympic Committee chose Tokyo in 2013, Japan's tourism industry saw an upturn. The government's Visit Japan Campaign was implemented to encourage tourism by easing visa restrictions and promoting Tokyo as a global financial centre. The sharp depreciation of the Japanese yen driven by the Bank of Japan's (BOJ's) monetary easing since 2013 made it cheaper for foreigners to visit.

The 2020 target for foreign visitors was set ambitiously at 40 million. Hosting the games in 2020 and low interest rates resulted in nationwide city development projects. Real estate prices and the Real Estate Investment Trusts (REIT) index rose steadily by promoting foreign capital inflows. Domestic banks increased loans to



Workers in Osaka store the vertical flags that were to be used for the Olympic torch rally.

the real estate sector relative to other sectors and invested in REITs. While tourism, construction and real estate development helped to offset declining manufacturing activities in 2019, some potential risks emerged—economic growth now depends on construction, real estate development, and inbound tourists.

Before the pandemic, there was concern that Japan might fall into a

recession triggered by a decline in real estate prices after the Olympics. Most construction projects were completed at the start of 2020 and some real estate prices were overvalued because of oversupply. The COVID-19 pandemic is accelerating this problem.

Since February 2020, some businesses in the accommodation, restaurant and retail sectors have entered bankruptcy. The REIT index

has dropped substantially—economic and social activities are likely to pick up only moderately from June, once the emergency period is over. But the recovery process will be slow for Japan due to public concerns over COVID-19 containment and the limited availability of tests. Bankruptcies will rise and bank loans will transform into non-performing loans as economic hardship continues.

Japan's economic growth contracted for two consecutive quarters at an annualised rate of -7.3 per cent for the fourth quarter of 2019 and -3.4 per cent for the first quarter of 2020, compared with the previous quarter. Growth for the second quarter is expected to deteriorate by a further -20 per cent.

**C**OMPARED with the United States and Europe, the Japanese government's actions have been slow even though the amount of support is comparable. The government announced an economic package in early April 2020 amounting to around 21 per cent of nominal GDP.

The package is primarily comprised of deferred tax and social security payments, and the provision of subsidised loans and guarantees on bank loans. Wage support for firms maintaining employment is covered in the package, but complicated applications and the slow approval process have discouraged many firms from applying. The package includes cash transfers to firms and individuals of about 3 per cent of nominal GDP. Additional cash support is likely to be needed for affected firms.

The government initially wanted to provide cash to targeted households (US\$2800 per household) but it has switched to providing cash to all individuals (US\$935 per person) as complaints emerged about the

complicated eligibility requirements. This is why the passage of the relevant bill was delayed at the Diet until the end of April 2020. The crisis has revealed inadequate e-government services together with a low penetration ratio of 'My Number' cards issued to the general public upon request and used for social insurance, tax and financial transactions.

The BOJ's response to COVID-19 is limited compared with those of its US and EU counterparts. In mid-March 2020, a temporary liquidity operation was initiated by the BOJ to commercial banks at 0 per cent interest with maturity within a year (most only three months) by loosening the collateral requirement until September 2020. But the BOJ lowered the lending rate by a mere 10 basis points and did not provide interest subsidies on lending rates. In contrast, the European Central Bank provided three-year loans to banks with substantial interest subsidies.

The BOJ increased purchases of corporate bonds and commercial papers moderately, mainly to support large firms. Many large firms already have cash and deposits and issue such bonds and notes for precautionary reasons. The impact of these purchases on overall corporate financing conditions is limited since the market sizes are relatively small—about 11 per cent of nominal GDP in total—compared with bank loans to the corporate sector amounting to 60 per cent of nominal GDP. The BOJ increased the amount of stock exchange trade fund (ETF) purchases, but the impact on the household sector is limited since households' stock holdings account for only 10 per cent of total financial assets.

The BOJ's balance sheet rose by a mere 5 per cent after early March 2020. The increase was largely a result

of providing US dollar liquidity to banks through borrowing from the Federal Reserve. While this may help large banks with exposures to foreign markets, it is largely irrelevant to many local banks and credit unions.

At the end of April the BOJ expanded its purchase amount of corporate bonds and commercial papers. The temporary liquidity operation expanded eligible collateral and eligible financial institutions, but these measures appear insufficient to promote an increase in banks' lending to small firms affected by the COVID-19 crisis. The limited actions of the BOJ clearly reflect the limited room left for monetary accommodation after the continuation of monetary easing since 2013. It may also reflect the BOJ's unwillingness to take greater risks, since it is already bearing high risk through substantial purchases of stock ETFs.

**I**F THE Japanese economy enters a protracted downturn, it may be worth the BOJ's while to examine options for closer collaboration with the government, including through a loss-sharing scheme. For example, the US Federal Reserve's Main Street Lending Program—which purchases about 95 per cent of eligible 4-year loans from banks through a special purpose vehicle capitalised by the Treasury—may be one option worth considering.

COVID-19 is testing the government and the BOJ and demanding they be more innovative and flexible in order to provide much-needed support to the economy.

**EAFC**

*Sayuri Shirai is Professor at Keio University and a former policy board member of the Bank of Japan.*



An airport officer disinfecting the terminal at Kualanamu international airport, North Sumatra, in April 2020.

# Implementing Indonesia's COVID-19 stimulus

LILI YAN ING AND YESSI VADILA

**C** OVID-19 is a wake-up call for the world. The pandemic has brought some of the worst economic impacts since World War II. While some Eastern countries seem much better prepared than their Western peers in terms of handling infections, testing, and mitigating the pandemic's economic impacts, the poorest countries will be hit hardest.

As of 27 May 2020, COVID-19 has taken more than 348,000 lives, infected more than 5.6 million people and brought about half a billion people—8 per cent of the world's population—into poverty, including 60–80 million

into extreme poverty.

In Indonesia alone, between early March and the end of May, COVID-19 caused 1,391 deaths, infected 22,750 people and dragged more than 1.1 million into poverty. An estimated 30 million Indonesians will fall into poverty this year—worse than Indonesia's experience after the global financial crisis, or even worse.

This pandemic is affecting the Indonesian economy in three ways. First, lower global demand is reducing demand for Indonesia's main export products. Second, as global capital dries up, foreign direct investment to Indonesia is also decreasing. Lastly, a drop in tourism is hitting services

and many small- and medium-sized enterprises (SMEs). The Indonesian economy is estimated to grow at a maximum of just 0.5 per cent this year, with the Chinese economy estimated to grow at a rate of 1.2 per cent. And it will take Indonesia at least three years to recover its COVID 19-related economic losses.

Like in other developing countries, the main issues for Indonesia caused by this pandemic are rising poverty and youth unemployment. For the past ten years, about 70 per cent of Indonesia's population has been of working age. Since the global financial crisis, the unemployment rate has remained fairly stable, ranging



between 5.3 and 7.1 per cent. By February 2020, Statistics Indonesia recorded total unemployment at 6.9 million. Between March and May 2020 alone, more than 2.1 million people are estimated to have been either laid off or asked to voluntarily leave without pay.

To mitigate the economic impacts of COVID-19, the Indonesian government has launched a major fiscal stimulus package totalling around Rp 405.1 trillion (US\$27.5 billion), equivalent to about 2.5 per cent of GDP. Of this amount, Rp 75 trillion (US\$5.1 billion) is earmarked to support the healthcare sector, Rp 110 trillion (US\$7.4 billion) for social safety nets, Rp 70.1 trillion (US\$4.7 billion) for tax incentives, and Rp 150 trillion (US\$10.1 billion) for National Economic Recovery. This will include credit guarantees for the private sector.

The fiscal stimulus package is accompanied by monetary stimulus that will reduce interest rates to 4.5 per cent, lower reserve requirements for banks and increase the maximum duration for repos and reverse repos to up to 12 months. The stimulus will also introduce daily repo auctions and increase the frequency of foreign exchange swap auctions. Bank Indonesia will take measures to ease liquidity conditions and support bond market stability.

While a combination of fiscal and monetary stimulus packages is a good start, there are many areas for improvement in its implementation.

First, the COVID-19 social safety nets must be effective and efficient, but temporary. Indonesia should learn from its past mistakes and ensure that subsidies for fuel and rice are provided at the cost of future generated income. The payment should be delivered according to a clear, single criterion—for example, the social protection

payment should go to families that do not have access to electricity or who use 450 watts or less per month. The program will run for a temporary period, subject to change as the pandemic situation develops.

Second, all tax incentives should go only to productive sectors such as agriculture, industry and services. In the last ten years, around 30 per cent of loans went to consumption goods, only 15.8 per cent went to industry and 7 per cent went to agriculture, forestry and fisheries. There is no reason for lower interest rates to go to property or consumer goods. Easing both the interest rate and the terms of the interest for productive activities will help to 'correct' the economy in the long run. If the government fails to achieve this, Indonesia will be trapped into providing subsidies for unused commodities.

**T**HIRD, to address the issue of rising youth unemployment, the government launched 'pre-employment cards' on 11 April this year. This scheme provides unemployed people with access and funding for a range of training to improve their chances of finding work. The government has allocated Rp 20 trillion (US\$1.3 billion) for the program, targeting 5.6 million workers who were either laid off or furloughed, including informal workers and SMEs impacted by COVID-19. Each beneficiary will receive a training fund worth Rp 1 million (US\$67), post-training incentives of Rp 600,000 (US\$40) a month for four months and an incentive of Rp 150,000 (US\$10) for completing three surveys on their working status.

The program was received with great enthusiasm—1.4 million people applied for it on the first day.

Despite good intentions in

offering a multi-benefit program that provides financial support as well improving skills and productivity, the pre-employment card has at least three main caveats that need to be addressed.

First, this program has been criticised because a large chunk of the funds goes to services providers for materials that were already readily and publicly available, instead of to beneficiaries. This will not solve the core problem of the laid-off and furloughed workers, who urgently need 'cash to survive' while they wait for employment opportunities to arise. Second, the program lacks transparency in how training services providers are selected and how their credibility to share skills and education is determined.

Finally, there are issues with the data on beneficiaries. The government should have a clear database of targeted beneficiaries. But, in a recent interview, a senior official mentioned that applicants can be rejected if they include low-quality pictures in their application. If the government is not well-prepared, there is a risk that the program will not be rolled out fairly and well-distributed.

The bottom line is that the stimulus package and pre-employment card program should be accompanied by a well-prepared list of targeted beneficiaries and a well-designed monitoring and evaluation system to ensure that these programs are 'purely social and not political'. **EAFO**

*Lili Yan Ing is Lead Advisor, Southeast Asia Region, the Economic Research Institute for ASEAN and East Asia (ERIA).*

*Yessi Vadila is Trade Analyst, the Ministry of Trade of Indonesia.*



# Vigilance, civic responsibility critical to East Asia's success

PICTURE: YOSHIO TSUNODA / AFL0 / REUTERS

JAMES HOU-FU LIU, CHAN-HOONG LEONG, SHU-YI HUANG, SYLVIA XIAOHUA CHEN, HOON-SEOK CHOI, SUSUMU YAMAGUCHI, I-CHING LEE, YUMI INOUE

**T**HE COVID-19 outbreak that started in Hubei province in central China has devastated the global economy. Yet some of China's major trading partners—Japan, Hong Kong, South Korea and Taiwan—have escaped the high levels of infection and death that plague China's two largest trading partners, the United States and the European Union. China itself has been more successful in containing the spread of COVID-19 than the United States and many EU member states. Singapore has also done well, despite early exposure to the virus. The reasons why these diverse East Asian societies have slowed or stopped the spread of the coronavirus provide lessons for other countries. Observers suggest that their relative success is due to a cultural emphasis on collective interest and deference to authorities on matters of national interest.

In China, the spread of COVID-19 from a wet market with wild animals for sale demonstrates the continued challenges to China's regulation of such food markets. China's initial response to COVID-19 was delayed, as it was for SARS. Some local government officials suppressed, and disciplined those responsible for, early notification reports, as in the case of whistle-blower Li Wenliang. The novel coronavirus was not officially



Tokyo Governor Yuriko Koike announcing the three-step road map to ease measures against the new coronavirus during a media conference at the Tokyo Metropolitan Government office on 22 May.

announced until 31 December 2019. This delay contributed to a major outbreak requiring the central government to take heavy-handed measures. China locked down Wuhan on 23 January 2020 and tried to prevent travel during Chinese New Year. Social distancing (including through privacy-compromising phone apps) was imposed and the country's resources were mobilised to fight the outbreak. These efforts successfully flattened the infection growth curve by February, and reduced new cases to a trickle by March.

Taiwan's response to COVID-19 was exceptionally fast. Its experience of being shut out of the World Health

Organization (WHO) during SARS led to the creation of a National Health Command Center for coordinating responses to epidemics. Border controls were the centrepiece of the government's prevention strategy. These were enforced from 31 December 2019, when airline passengers from Wuhan were tested for pneumonia. Taiwan escalated to an even higher alert level in January, while the WHO was still equivocating about the extent of human-to-human transmissions. Direct flights from Wuhan were banned on 23 January. As late as one month later, 29 February, the WHO still continued to 'advise against the application of travel

or trade restrictions to countries experiencing COVID-19 outbreaks.' The WHO claimed that 'In general, evidence shows that restricting the movement of people and goods during public health emergencies is ineffective in most situations and may divert resources from other interventions.'

The Taiwanese response was threefold. First, it involved early and increasing border stringency, with targeted passenger-testing and tracking. Second, authorities ensured adequate reserves of and widespread use of masks and protective gear. Third, the government communicated extensively to the public (sometimes using humour, even when imposing strict policies). Despite having 850,000 of its 24 million citizens living in China, and also hosting around 2.7 million mainland Chinese tourists annually, Taiwan has had only 441 infections and seven deaths due to COVID-19 as of 27 May. This was achieved without locking down the economy or closing schools.

**S**OUTH Korea has been at the forefront of developing technology for rapid testing, tracking and treatment, after an early and massive outbreak of COVID-19. The development of medical technology was fast-tracked by emergency use authorisation, a process legalised after South Korea's experience of the 2016 MERS epidemic. South Korea instituted roadside testing alongside health treatment at public health centres organised at city, county and district levels. Mass testing has provided South Korea with the most comprehensive and representative database on the epidemiology of COVID-19. This is supported by the provision of sophisticated testing, tracking and healthcare. The South Korean government has also been

recognised for its overall transparency in dealing with the crisis.

Hong Kong and Japan were both constrained in possible prevention measures at the outset of the pandemic. Hong Kong was not allowed to close its border with China, and the Japanese government was focused on maintaining its prospects for hosting the 2020 Olympics. Despite these constraints, Hong Kong has an exceptionally low number of cases and deaths, while Japan has a relatively low number of cases. As civil society pushed the Hong Kong government to exert stronger border controls, it implemented rigorous airport testing (including high-tech tracking bracelets for travellers disembarking), surveillance for risky cases, and school closures. In Japan, there is concern that low levels of COVID-19 are due to lack of reporting and testing. There has been relatively little communication from the government about its strategy for combatting the pandemic; it has encouraged voluntary social distancing and working from home, and rolled out economic stimuli, without any lockdown. Citizens in both societies have voluntarily adopted the use of masks. Perhaps because of previous experiences with SARS, in Hong Kong published studies put mask use at above 95 per cent.

Finally, the legalistic and top-down system of democracy in Singapore afforded its government a free hand and immediate access to all the resources needed to deal with the pandemic. Its quick response had initial success in containing COVID-19. This was achieved through border controls, testing and tracing incoming passengers for potential risks, and by mandating wearing masks. Singapore also developed a mobile application for contact tracing, but less than 50 per cent of people

surveyed were willing to share their data with the government. A second wave of infections recently hit poor migrant workers living in cramped dormitories. This has stimulated considerable debate about fairness and equity issues, and underscores the need for the state to work more in partnership with civil society.

Most East Asian societies imposed a more nuanced and technical solution than lockdown to fight COVID-19. The exception is China, which was forced into a regional lockdown, and Singapore, after it experienced a second wave. But the best results were obtained by Taiwan, Hong Kong and South Korea after they implemented the three Ts: testing, tracing and treatment. Early testing involves tight border controls at international airports and ports, and includes targeted testing of high-risk passengers. Incoming travellers, especially from places that have been infected, need to have their movements traced. If large public gatherings are allowed, contact tracing of guests at events is important. But contact tracing must be weighed against privacy concerns, so debate about surveillance and public safety is needed. The treatment of infected people depends on the availability of quarantine facilities and protocols, in addition to healthcare infrastructure.

**D**ISPARATE policies across Japan, Hong Kong, Singapore, Taiwan, South Korea and China suggest that authoritarianism was not a common ingredient for success. Some governments faced strong opposition parties, while others did not. Some governments communicated a clear strategy, while others failed to do so. Rather, the common element was a strong sense of vigilance in civil society. Collectivist norms contributed

to the widespread practice of wearing masks and compliance with social distancing regulations to ensure the safety of others. These may have been East Asia's secret weapon in preventing the spread of COVID-19.



*James Hou-fu Liu is Professor of Psychology at Massey University, New Zealand.*

*Chan-Hoong Leong is Associate Professor at the Centre for Applied Research, Singapore University of Social Sciences.*

*Shu-yi Huang is Assistant Researcher at National Taiwan University Hospital.*

*Sylvia Xiaohua Chen is Professor at the Department of Applied Social Sciences and Associate Dean of Faculty of Health and Social Sciences, The Hong Kong Polytechnic University.*

*Hoon-Seok Choi is Professor at the Department of Psychology, Sungkyunkwan University.*

*Susumu Yamaguchi is Professor Emeritus at the Graduate School of Humanities and Sociology, The University of Tokyo.*

*I-Ching Lee is Professor of Social Psychology at the National Taiwan University.*

*Yumi Inoue is Senior Lecturer at the Department of Japanese Studies, The Chinese University of Hong Kong.*

## VIETNAM

# COVID-19 and after: impact and ways forward

MINH CUONG DUONG

**T**HE number of COVID-19 cases and deaths in Vietnam are much lower than in most countries worldwide due to early and aggressive anti-pandemic response. But this does not mean that the impact of the pandemic on Vietnam is less severe.

The crisis has adversely affected all sectors in Vietnam and COVID-19 related losses may not be fully reflected in the statistics. The economic impact is seen in the airline and tourism industries, which are among those most affected anywhere. Vietnam Airlines—the only national airline—has reported that the damage from closing routes to be about US\$1.3 billion. Vietnam's tourism industry is facing an expected loss of between US\$5.9 and US\$7 billion.

Prime Minister, Nguyen Xuan Phuc, signed Directive No 15 and Directive No 16 in late March which introducing measures that included nationwide social distancing. These measures have been effective but several business sectors, including restaurants, shops, cinemas and entertainment venues, have been affected by the collapse in demand.

Even as social distancing measures are relaxed, non-essential businesses remain closed. Vietnam's foreign entry restrictions are still in effect to prevent domestic outbreaks. It is estimated that up to 10.3 million workers could

lose their jobs or have their incomes decreased. Vietnam's GDP growth could fall from 7 per cent in 2019 to 4 per cent in 2020.

The education and training sector has also been affected by nationwide school closures. Schools will reopen in phases. Education is being delivered online despite teachers and students finding it difficult because of a lack of training and infrastructure. School closures remain a controversial issue, with some suggesting that the public health benefits of this action are disproportionate to the social and economic costs imposed on children and their families.

However, since Vietnam has made protecting health and lives a priority, the government's decision is understandable and explains its success in containing COVID-19. The government has put in place guidelines to ensure the safety of students when they return to school.

Despite the overcrowded healthcare system, the government's mass mobilisation of its resources has contributed to Vietnam's success. Nevertheless, Bach Mai Hospital—one of the largest tertiary hospitals that provides medical services to more than 1.75 million patients annually—shut down for 14 days due to a COVID-19 outbreak. A long interruption to hospital services is among the greatest impacts of COVID-19 on the local healthcare system.

**EASTASIAFORUM**  
Quarterly

OUR NEXT ISSUE ...

**JAPAN'S  
CHOICES**



Residents of Dong Cuu village, near Hanoi, celebrate after authorities lifted restrictions from the last Vietnamese quarantined.

Social distancing policies have also had nationwide social and cultural impacts. These include the shutdown of theatres, sports centres and other nonessential services and the suspension of religious rituals, crowded festivals and outside gatherings.

As the world's third-largest rice exporter, Vietnam has monitored its rice exports closely to ensure food security during the crisis. Vietnam has approved a US\$2.66 billion support package for those affected by the virus and delayed collecting tax and land-use fee payments to support businesses. Vietnam is also encouraging localities, businesses and trade promotion organisations to develop online marketing measures and e-commerce activities, and to

boost the use of IT in their operations.

E-commerce businesses are seeing a surge in demand, with a 20 per cent increase in online shopping as of March 2020. Given the estimated 63.6 million internet users in Vietnam, this may encourage businesses to develop better services after the pandemic is over.

Although new in Vietnam, the temporary shift to online learning during the COVID-19 crisis may help to solve disparities in access to learning across the country. E-learning methods have been developed despite infrastructure challenges, especially in rural areas. To maximise the flexibility of online learning, it will be necessary to integrate this new model with traditional learning. Students will need other kinds of ongoing support, such

as training and improved internet penetration.

IT-based solutions have expanded into the healthcare sector with the development of high-tech apps to help prevent and control COVID-19 and implement telemedicine. This approach reduces treatment-related costs and overcrowding at tertiary hospitals and can be applied to manage other diseases. The early genetic re-creation of the novel coronavirus, the made-in-Vietnam COVID-19 test kits approved by the World Health Organization and the donation of medical supplies to several countries like the United States and Cambodia, have demonstrated Vietnam's capabilities in healthcare research, development and manufacturing.

The COVID-19 pandemic has



# Unmasking the challenges in India and Indonesia

provided new opportunities for businesses developing test kits and personal protective equipment in Vietnam. The government's management of the frontline team, including doctors, orderlies, military personnel and volunteers, has been successful in catching imported cases and maintaining Vietnam's low community transmission in the second phase of the pandemic.

Community awareness of public health issues and health promotion have been greatly improved by COVID-19 information being distributed daily through various media and telecommunications channels. This approach should continue to maintain the community's knowledge about the prevention and control of respiratory illnesses and other prevalent diseases in Vietnam.

Although Vietnam is on the right track in fighting COVID-19, the management response has had adverse effects in the community, just as in other countries. But an international survey showed that 62 per cent of participants think Vietnam is doing the 'right amount'—the highest percentage among the 45 countries surveyed.

The pandemic will be controlled, but there are likely to be other health crises in the future. The COVID-19 pandemic is a test for all systems in Vietnam. The importance of prompt action, social connectivity and adaptivity in facilitating effective anti-pandemic responses underlie its relative success. [EAFQ](#)

*Minh Cuong Duong, an infectious disease specialist and epidemiologist, is an Associate Lecturer at the School of Public Health and Community Medicine at the University of NSW.*

RAINA MACINTYRE

**C** COVID-19's unprecedented health, economic, social and geopolitical impacts are still unfolding. They are often compared to the 1918 Spanish flu because both pandemics have similar fatality rates, but the world has become more connected and mobile since then, exposing our dependence on global supply chains, travel and trade.

It has also become clear that tackling a highly infectious disease requires global disease control. Governments cannot neatly segregate populations and selectively apply epidemic control measures. Singapore learned this lesson with a resurgence of cases in migrant worker dormitories. Initially cited as a model response, the country was forced into lockdown and school closures by April.

Poor control of infection in any part of a society will affect all of society

---

Any crowded, closed setting can produce amplified transmission and more explosive outbreaks.

and poor control in any country will have global impacts. This is why Asia's response to COVID-19 matters for the rest of the world.

The novel coronavirus has two features which make it far more difficult to control than SARS. First, the disease is most infectious just before symptoms develop and on the first day of symptoms when the illness is still mild. It is also transmissible in people who never develop symptoms. In contrast, SARS was only infectious when infected people displayed symptoms, so infectious people could be readily identified and isolated. Second, there is growing evidence that the virus can be transmitted through fine, respiratory aerosols.

Without a vaccine, societies must rely on five measures to contain the spread: testing, contact tracing and quarantine, travel bans, social distancing and the use of face masks.

Low-income countries' capacities for testing may be limited and of low quality, so their official case numbers may just be the tip of the iceberg. Indonesia became a focus of interest in February because it had not yet reported any cases of COVID-19. Yet a modelling study which looked at the frequency of travel between China and other countries predicted that by 4 February, Indonesia should have had at least five cases.

Identifying cases of infectious diseases depends on public health infrastructure, routine disease

surveillance systems, diagnostic testing capacity and reporting. The World Health Organization's International Health Regulations stipulate that countries must comply with surveillance and reporting—but many low-income countries in Asia and the Pacific cannot do so because they have weak health systems and poor diagnostic tools. Others may fail to report cases because of fears that this may impact tourism, trade and the economy. Failure to detect or report cases is creating a silent epidemic in Southeast Asia.

In Asia's young populations, 80 per cent of COVID-19 infections will be mild. But if left unchecked, the epidemic could grow until the 20 per cent of severe cases will have an impact on the health system. This occurred in Seattle in the United States, where a lack of testing resulted in several generations of undetected spread.

The rate of testing per head of population is low in India and even lower in Indonesia. Still, Indian data shows a steady rise in detected cases. India's lockdown on 25 March does not appear to have flattened the curve, suggesting poor compliance with social distancing.

Indonesia took a softer approach, with localised lockdowns in Jakarta but other centres remaining open. The epidemic curve shows a more constant rates of new cases—but this is unlikely to be because of the partial lockdowns. Instead, the curve may reflect the limits of testing capacity, if only a fixed number of tests are administered each day.

Test kit availability is reportedly low in Indonesia, and lower-income individuals may not have access to testing at all. There are also concerns that Indonesia has used unreliable antibody tests and that the true scale

of infection is therefore unknown. In addition, a surge in domestic travel just before Eid-al-Fitr in breach of government bans may see intensified transmission in the country. Despite this, there are plans to reopen Bali to tourists by July.

Urban slums are another concern. Any crowded, closed setting can produce amplified transmission and more explosive outbreaks. Mumbai's Dharavi slum houses over one million migrant workers from all over India and has been locked down, leaving people unable to work and living in conditions which make social distancing impossible. In situations where social distancing is not possible, universal face mask use may be a useful intervention to mitigate spread.

Extensive testing and the ability to move sick people into isolation are also important to reduce transmission. The crowded, unsanitary conditions and low number of latrines in urban slums are a public health concern as a source of epidemic spread—the virus

is shed in faeces.

In Indonesia, COVID-19 is spreading in *kampungs* (villages) but testing is limited and relies on antibody screening, which cannot identify active infections. A lack of assistance for people who are unable to work because of lockdown, quarantine or illness may further worsen epidemic control as people breach disease control mandates to feed their families and pay their rent. If people are required to remain in lockdown in crowded slums, provisions for food, water and sanitation—as well as extensive testing and isolation facilities—are essential.

The strength of health systems is crucial to epidemic control. This includes physical resources, human resources and essential medical supplies, including personal protective equipment for health workers. One state in India that stands out as having an excellent public health response is Kerala, which has the experience of Nipah virus behind it and a very strong



Swab samples collected to detect coronavirus at Leuwipanjang Station, Bandung. Extensive testing and the ability to move sick people into isolation are important to reducing transmission.

PICTURE: BUKBISJ CANDRA ISMETH BEY / SIPA USA / REUTERS





Kolkata residents shower health and municipal workers with flower petals on 16 May, in gratitude for fighting the COVID-19 outbreak in the city.

health system. States and countries with low ratios of doctors and nurses per capita will not fare as well, especially if an already-thin health workforce is decimated by illness and death.

Countries with highly privatised health systems such as India will require public-private partnerships for epidemic control. The Australian example of 'nationalising' private hospitals in preparation for the pandemic may be a useful model.

Low rates of case identification and isolation or low rates of contact tracing and quarantine will both result in epidemic blow-out. An Indian study estimated that an unmitigated epidemic would result in over 364 million cases of COVID-19 and 1.56 million deaths by mid-July in India.

Some have argued for allowing the widespread transmission of COVID-19 in India with the aim of acquiring 'herd immunity'. They argue the death toll will be low due to India's young population—the median age in India is 28.7. But the hope of acquiring herd immunity through infection is a myth. It has never been achieved in the pre-vaccine era for any infectious disease. Indeed, India was the last stronghold of smallpox in the world and the disease did not magically eradicate itself by unmitigated spread. Nor will COVID-19.

Without a vaccine, there is no foolproof exit strategy. It is likely that we will live with intermittent epidemic periods of COVID-19 for two to five years, depending on when a vaccine becomes available. This may require

applying and releasing the brakes of epidemic control, with continued travel restrictions. A COVID-19 vaccine stamp may become a requirement for travel, much like that for Yellow Fever.

It is possible that in the medium term, countries with similar levels of epidemic control could open their borders to each other. This could be an incentive for countries to commit to common disease control approaches—including expanded testing capacity and reliably reported health data.

EAFO

*Dr Raina MacIntyre is National Health and Medical Research Council Principal Research Fellow and Professor of Global Biosecurity at the University of New South Wales.*



Australian  
National  
University

ANU COLLEGE OF  
ASIA & THE PACIFIC

**There has never been a more urgent time to use research to shape public debate, policy decisions and the well-being of our society.**

Connect with us  
[asiapacific.anu.edu.au](http://asiapacific.anu.edu.au)

