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

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

Summary of Session 2: Policy Response (10:30 am – 11:15 am)

- **Panelists:** Bert Hofman, Sumit Agarwal, Bernard Yeung, Sun Bae Kim
- **Moderator:** Joe Cherian

The second session looked at the learning from Asian governments' monetary and fiscal packages and policies to stem the economic damage from the pandemic.

There is an estimated loss of 4% of global GDP, amounting to US$3 trillion, due to the pandemic. While it is a big thing, it is not a desperate situation. The reasons are as follows: (i) the world knows what needs to be done on the healthcare side, even though it is non-trivial; (ii) countries have learned from the Global Financial Crisis the toolkit and the necessary policy responses, though they have to be very large in scale this time and delivered in an agile manner.

The targets are clear too: to help save people's livelihood, to keep companies alive – especially the SMEs and to maintain financial stability. Going forward, the bigger issue is how to restart aggregate demand, for which a big fiscal stimulus is needed.

Besides learning from the Global Financial Crisis, Asian countries have also learnt from past episodes like SARS. The steps taken by Asian governments are a combination of sensible public health and economic policies. Their messages to the public have been consistent and draw people's attention to where they should be. To protect the public, the state conducts prudent testing, tracing and tracking, targeted quarantining, limiting the size of social gatherings, closing schools and locking down as a last resort. The people are aware of the importance of broad-based cooperation: they wear masks when needed, practice personal hygiene and generally follow public healthcare policy guidelines. Asia's lower infection and death rates are a result of their countries' preparedness, prudent government communication, the society's understanding of epidemics, and businesses cooperation with the government.

Singapore's fiscal policy has the hallmark of most rescue plans aimed at compensating members of a state against exogenous systemic negative shocks. Singapore's actions include: (i) bolstering the resources available to the healthcare system, (ii) addressing individuals' immediate hardships and covering their basic needs, (iii) mitigating job market disruptions and preventing permanent damage to businesses' organizational capital, particularly those in the hard-hit industries like transportation, tourism, retail and restaurants; and (iv) maintaining financial stability.

However, some Asian countries, e.g., India, have taken very limited initiatives where a big bang policy is actually needed. Some ASEAN countries, for instance Indonesia, are reserved in their policy responses. In contrast, Singapore has committed fiscal resources that add up to about 12% of GDP. It would be a blessing if Indonesia, Malaysia, Singapore, Japan, Korea, India, and China can step up in their economic remedial policies altogether, well-coordinated and executed. Larger countries with more resources have to commit bigger amounts of resources to help.

Financial stability needs close attention. While some bankruptcies are inevitable, the market is distinctly dealing with uncertainty, not risk. This is because there is no accurate data. A lot of countries, including rich developed countries, are still not investing enough in testing and on developing comprehensive epidemiology data. The government should invest in testing and on developing measures to identify the infection, recovery and death rates stemming from COVID-19.

Generally, the financial institutions and markets have not behaved as well as one would have hoped given the legacy and learnings from the global financial crisis. In the last two to three weeks there had been a mad scramble for liquidity and US dollars in financial markets. To make matters worse, there had even been a temporary selloff in safe-assets, e.g., the US treasury bonds.

There is a substantial risk of some kind of an emerging market crisis materializing as there is an estimated US$12 trillion (in US dollar) borrowings in the rest of the world, including in the emerging markets. Then, there is the solvency risk in the corporate sector. Another risk is that the financial institutions themselves are highly leveraged and this is now being exposed by the collapse in share prices, which will raise issues about the potential need for recapitalization. There is a need for the international pooling of resources, currency swap lines, etc., to provide regional and global financial stability.

In the longer run, the world has to digest the current huge increase in government debt and deficits. For example, the G20 has pledged US$5 trillion, which is bigger than the economic damage from the pandemic; the US has approved a US$2.3 trillion-plus in fiscal support (about 10% of GDP); Japan has promised rescue plans that is up to 20% of its GDP, etc. These programs will create huge government deficits and raise sovereign debt to an unthinkable level. Yet, more rescue programs may be needed as the pandemic may cause more infection, death, and public health anxiety.

Sadly, the current younger generation will be hit twice: facing a long stretch of poor job market outlook and in the future a long stretch of higher taxes and inflation to pay off the current increase in government debt across most economies.

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