



**NATIONAL PRODUCTIVITY ORGANIZATION
LIAISON OFFICE APO, JAPAN**

BRIEF REPORT ON PRODUCTIVITY TALK ON
THE ECONOMICS OF COVID-19 AND ITS IMPLICATIONS FOR PRODUCTIVITY
IN THE ASIA-PACIFIC REGION

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Presentation/ Discussions by Prof. Hak Kil Pyo

1. COVID-19 as a Global Pandemic

COVID-19 was declared as Global Pandemic by WHO on March 11, 2020. It is a unique and explosive Pandemic as compared to various catastrophes such as earthquakes in Japan, AIDS Virus, MERS, which were limited and specific in nature.

2. A New Asian Contagion

Developing economies face higher risks specially densely populated south and southeast Asia due to much lower health system capacity, people have less possibility to wash hands with soap, economic structures are more dependent on advanced economies demand and more vulnerable to the crisis, and medical capacities are much lower.

3. Economics of COVID-19 Pandemic as a Catastrophe

Corona Virus infects Global Markets - Global Oil demand in the first three months of 2020 is now expected to drop by 435,000 barrels per day as compared to a year earlier.

Impacts on Unemployment and Finances

Loss of working hours in Asia during 2nd quarter of 2020 is equivalent to 125 million people unemployed due to lockdown (ILO); By the end of year unemployment in US can reach 12.6% and USD 950 billion of mortgage loan can be defaulted (UBS); unemployment rate in Euro zone can increase from 7.4% to 9% (Capital Economics); OECD Composite Leading Index reduced from 99.6 (Feb '20) to 98.8 (Mar '20); and total National Bonds issued in Mar '20 reached USD 2.1 trillion (Institute of International Finance).

High risk industries include hotels, restaurants and manufacturing, wholesale and trade industries. It contains almost 38% of the total industrial structure of the economy. The impact on Asian countries would be very high due to lack of the medical capacity. Economies like China and India has higher proportion of informal labor, and in India 90% population is linked to non formal jobs. So non-formal jobs would be reduced firstly

then part time workers and then they may lay off full time workers and ultimately unemployment would be increased. V shaped recovery of economies is possible if employment and business sector are saved.

Debate on Economic Outlook

- Economic forecasts: 2nd Quarter 2020 US GDP: Morgan Stanley (-30%), Goldman- Sachs (-24%), JP Morgan-Chase (-14%)
- “Greater depression compared to Great Depression in the 1929-1939” (Rubini of NYU). I-shaped slump with no immediate recovery closer to natural catastrophe rather than 1930s world-wide depression.
- “Both stock market and real sector are weak and volatile; market may collapse” (Schiller)
- 30% reduction on 2nd Quarter GDP in US and prolonged recession after the 2nd quarter rather than V-shaped quick recovery, by Ben Bernanke.
- “We may live but the economy will die” (New York Times, 23rd March 2020)
- But as of now (March 28), the global spread of COVID-19 is faster and wider and persistent with no immediate outlook of slowdown. Persistent recession and prolonged recovery is more likely.

4. Productivity Shocks of Covid-19 Pandemic

- 1st stage: Many disruptions exist across the supply chain and value chain; hardest hit sectors are: tourism, aviation, oil and gas, automotive, consumer products and consumer electronics and semi-conductors.
- 2nd stage: Unemployment may soars from lower-skilled jobs affecting aggregate demand, higher skilled are more likely to work from home. These downturns may exceed the pain of 2007-2008 recessions.
- 3rd stage: Supply and demand loop will create the financial crisis; firms dependent on cash flows lack liquidity to fulfill supply commitments and are forced to file bankruptcies
- 4th stage: unemployed workers >>>>>>> No income>>>>>>>lower consumption.
- Rising Income Inequality and Economic Depressing Loop
 - a. Many small businesses >>>>>>> rely on cash flows
 - b. Many mortgagors and renters>>>>>>> little cash-on-hands
 - c. Large drop in demand>>>>>>> force firms to close and cut off workforce
 - d. Lower Skilled Work and low-paid jobs cannot work at home>>>>>>> income inequality will rise

Economy falls into a depressing Loop of Productivity Shocks!

5. Could the Next Normal Emerge of Asia?

- Economist (April 11) predicts acceleration trend in readjusting global supply network due to covid-19 related trade war. Global companies like Apple will increase inventory of parts and components near US will be assembled using smart technology. Their profit rate will decline but they will become more resilient in recovery from shocks like Covid-19.
- McKinsey predicts that the next normal will be a transition from globalization and regionalization. Covid-19 demonstrated that the global supply chain is very fragile.
- *Expert prediction: Shifting supply network from China to other Asian regions may happen more slowly over time because global investors in China including Japanese automakers and Korean electronics' firms had invested to access the Chinese market rather than cost factors.*

Recommendations

Health Policy and Strategies

- Slowing down the speed of contagion is the most urgent strategy and expanding testing equipment and manpower and intensive care capacity and ventilators.
- Social distancing and self-isolation are the key elements in flattening the spread curve of Covid-19.

Recent experience in South Korea, demonstrated the effectiveness of these policies.

Macro-economic Policy imperatives for Asia-Pacific region

- Mostly countries are providing immediate and massive fiscal packages to its people. Like US announced a \$ 2.2 trillion dollar's worth of lifeline relief fiscal package, EU is considering the issue of Euro Corona bonds 750 billion Euro, UK announced a package worth of 15 % of GDP.
- The government of Korea is considering a survival cash payment of about 900 dollars (1 million Won) per person upto about 150% of median income; lower income class and middle class (50%-150% class of median income). Government priority spending is Public Health sector.

Immediate and massive fiscal package is necessary.

Questions & Answers

Question 1 What will be the impact on local economies after lock downs?

Answer Separation policy is working effectively in many economies. It is very necessary to do lockdowns, social distancing, self-isolation policies by Govt. to control the spread, otherwise, it will persistently spread and become dangerous for local economies as well for public health. It is important that Covid-19 test and medical care are covered in national insurance policies. Korea nationwide health system helped in control. However, America, Italy and Europe health facilities are too expensive which has a negative impact. Therefore, health insurance policies must cover for supporting its control.

Question 2 What is your suggestion on productivity policy to prevent further economic recession while reducing Covid-19 mortalities?

Answer Productivity shocks will come through plans, firms, industry and economy wide level as 4 stage waves. Supply bottlenecks i.e. parts and components may not be supplied in adequate fashion resulting in cut off production, cut off labour. Then demand reduction e.g. Korean companies are expecting 30% reduction in demand in terms of exports. Best if to recover in a stabilized manner. The governments may have to move to lift up Total Factor Productivity (TFP) e.g. labour cut off to be supplemented with investment in IT so that overall TFP could be enhanced.

Question 3 Reference to regionalization, do you mean companies would be serving local and regional demand only?

Answer Moving from globalization to regionalization is inevitable. Regionalization may not be as high as reports predict, as it is a very costly transition. Also organizations that invested heavily globally, it is very difficult to move their facilities to regionalize. Lesson is that too much reliance on globalization has risks to some extent.

Question 4 China, Korea, Germany are part of globalization value chains and are connected to big economies such as US. How we look at regionalization in this context?

Answer Not necessarily all countries go for regionalization. Vietnam, Indonesia, Myanmar could be next center for regionalization. Companies try to manufacture near to their home sites so that the risks of globalization can be minimized. Therefore, risk in value chains will be minimized. But regionalization will take time.

Question 5 How we can help SMEs, informal sector in post Covid-19 scenario?

Answer Cross country comparison shows that Vietnam, Singapore, South Korea, Hong Kong relatively successfully controlled Covid-19 situation due to strong role of their Governments and their Public Health Systems. Government is not only one economic unit but also initiates public policy. They have policy for protecting their SMEs. Fiscal budget and fiscal deficit is relatively better in shape in comparison to Latin America, Middle East and European countries. All these countries are designing SME protection programs.

Question 6 Economies are now injecting stimulus but what will happen to the productivity of the country later?

Answer It depends on economic structures, natural resources. For example in Malaysia & Brunei, tourism, airlines and investment will decline and a big issue will arise for countries which are receiving heavy investments. Suggestion is to invest in environmental and health related infrastructure for improving health of the people leading to increased productivity.

Question 7 How we can address stages of productivity shocks?

Answer Stages of shocks will be different in different countries. For example, S. Korea demand in foreign investment as compared to China is much larger. 30% decline in investment in S.Korea is expected, whereas only 10% in case of China. Therefore, role of the Govt. is important and Govt. has to stab in to control the situation or shocks.

Question 8 What is the best step taken by South Korean Government in a means to fight Covid-19 crisis on economy?

Answer Government has initiated fiscal policy stimulus. They have paid the households with low income to meet their day to day basic needs and to help them survive. These measures are short term; governments need to make other policies to recover immediately and effectively from the crisis.