

# Coping with the Economic Consequences of the COVID-19 Pandemic

## - The need for international coordination and cooperation -

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The present crisis is surrounded by a high degree of uncertainty. We cannot eliminate the uncertainty, but we can fathom possible scenarios. Therefore, NIRA (Nippon Institute for Research Advancement) and DIJ (German Institute for Japanese Studies) decided to jointly hold a policy discussion on COVID-19 with experts from several major regions across the world.

The international conference was held online on April 23 and was attended by experts from China, the US, Germany, Sweden and the EU, as well as participants from Japan. The main purpose of our web-meeting was not to recount the publicly available information we already shared, but to exchange opinions about the economic impacts of the pandemic and the various national countermeasures based on the participants' assessments.

At the conference, various issues were discussed: the need for international coordination and cooperation; the economic impact of the COVID-19 crisis and national economic countermeasures; the impact of the crisis on global energy markets; social and regional disparities; and the role of scientific expertise.

The present pandemic presents a challenge to humankind. To cope with its global dimensions and implications requires intense and continuous international dialogue, not only for coordination and cooperation, but also for mutual understanding and learning.

Editor: Chiharu Hagi (NIRA), Jonathan Webb

# Introduction

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## **Franz Waldenberger**

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## **Noriyuki Yanagawa**

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While the COVID-19 pandemic seems to have been contained in some countries, it continues to ravage others. Death tolls differ greatly across regions reflecting – besides severe statistical inaccuracies – differences in the level of preparedness, the timing and effectiveness of emergency measures, the capacities of the health sector, socio-geographic conditions, as well as pure luck. There is still great uncertainty about when the pandemic will be contained globally, including fears of a 2<sup>nd</sup> or 3<sup>rd</sup> wave and when medicines and vaccines will be available. What seems quite certain already, however, is that the responses to the crisis, especially the travel bans, the lockdowns of cities, and the interruption of supply chains have created a tremendous shock to our economies and are likely to cause a downturn deeper than the world financial crisis in 2008/2009. Despite the huge differences in death tolls caused by the virus, the economic impact will be quite similar across countries due to the high degree of interdependence among national economies. It follows that no matter at what time and how bad the actual pandemic has hit our countries, overcoming the ensuing economic crisis can only be achieved jointly.

The need for international coordination and cooperation was strongly emphasized in an international online conference with experts from China, the US, Germany, Sweden, the EU and Japan conducted on April 23. The discussion focused on the economic impact of the COVID-19 crisis and national economic countermeasures. The following pages introduce the experts and summarize their respective statements. The reports show that governments are launching economic relief and support schemes of historic dimensions to stabilize employment and income and to ensure liquidity. There still remain many questions as to whether the vast funds committed will be sufficient, how their deployment can be monitored, and whether they will reach those in need in time. It was also stressed, however, that national policies alone will not be successful unless they are supplemented by international coordination and cooperation in order to address these uncertainties and to deal with possible future decline of global demand. Moreover, international coordination may include special support measures for those countries with less capacity to act due to, for example, weaker fiscal conditions at the outset.

Among the other themes addressed during the conference was the impact of the crisis on global energy markets as seen by the collapse of oil prices. In addition, there were concerns that the pandemic may widen existing income inequalities as well as social and regional

disparities. Another aspect was the relationship between scientific expertise, party politics, and economic interests in national approaches to the crisis, as well as the question to what extent the provision of comprehensive information and credible risk communication can substitute for restrictive regulations.

The present pandemic presents a challenge to humankind. To cope with its global dimensions and implications requires intense and continuous international dialogue, not only for coordination and cooperation, but also for mutual understanding and learning. We very much hope that the insights collected in the following pages will be effective in contributing to this end.



#### **Franz Waldenberger**

Dr. Franz Waldenberger is the Director of the German Institute for Japanese Studies (DIJ). He has held his present position with the DIJ since taking a leave of absence from his position in Munich in 2014. He holds a PhD in Economics from the University of Cologne. He specializes in the study of the Japanese economy and corporate governance, conducting comparative research on Japanese and German economic and financial systems and corporate governance.



#### **Noriyuki Yanagawa**

Dr. Noriyuki Yanagawa is an executive vice president at the Nippon Institute for Research Advancement. He is also a professor at the Graduate School of Economics, at the University of Tokyo where he received his PhD in Economics in 1993. His research specializations are contract theory and financial contracts. He has served as a member of Japan's Council on Economic and Fiscal Policy, and participated in various other initiatives of the Japanese government.

# China's Recovery and Avoidance of a Second Wave of COVID-19 Ultimately Depend on Bringing Down Infection and Mortality Rates Worldwide

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**Shujie Yao**

Vice Dean of Social Sciences Faculty and Professor of School of Economics and Business Administration, Chongqing University / Chief Expert, Chongqing Municipal Government

China is currently coping with a double challenge in responding to the COVID-19 pandemic: preventing a second wave domestically, while resuming economic normality. In order to achieve both, global cooperation is a necessity.

In China, COVID-19 cases were first found at the end of December 2019 in Wuhan, the capital city of Hubei province. The number of infected cases rose rapidly in the latter half of January 2020. Wuhan was locked down for 76 days from January 23 to April 8, 2020 after human-to-human transmission of the virus was confirmed. Between January 24 and January 28, 2020, provinces throughout the country began imposing the “first class” anti-epidemic control measures that placed 1.4 billion people under quarantine, with all but essential workers staying at home for between 50-60 days. By the end of February, the situation was brought more or less under control. Now, less than 1,000 people are currently hospitalized in China with the disease, and the total number of cases peaked at about 84,000 and deaths at about 4,600, if one includes Hong Kong, Macau, and Taiwan. Without the strict and rapid imposition of quarantine, these figures would likely have been much larger.

While the measures were very effective, the Chinese economy suffered massively due to the shutdown across the country. The country hasn't seen negative growth rates for many years since before 1978. The economy has gradually returned to normality since mid-February. However, as the disease is now spreading widely and rapidly in Europe, the US, and other parts of the world, international trade and flights have stopped, which affected the economy severely. In the first quarter of 2020, China's GDP plunged by 6.8% while Hubei's GDP contracted by 39.2%. This in and of itself does not equate to an economic collapse and is in fact not as bad a result as it could be. However, it did involve a sharp contraction in some activities. Car sales shrank by 42%, and international trade by 8.4%. The government budget declined by almost 10%. Despite the country's efforts, I wouldn't say that it has fully recovered as many sectors are still suffering.

Recognizing the essential link between the domestic and global economy, the Chinese government is working hard to ensure economic recovery both at home and abroad. The government is focusing on maintaining international supply chains, especially for medical goods and services that are in high demand internationally. In March and April 2020, China exported 71.2 billion yuan worth of medical goods, with the daily amount of exports rising from 1 billion yuan in early April to 3 billion yuan by the end of April. Various measures are also being taken to minimize the damage on foreign trade and cross-border FDI. In order

to stimulate domestic economic activity, the government is implementing a variety of fiscal policies such as reducing interest rates and providing more credits (re-credits) for small- and medium-sized enterprises. The government has also strongly indicated its intent to support job security in rural areas, and among those in the lower income brackets. This has been challenging, however, with just over 2 million jobs created in the first quarter of the year, a drop of nearly 1 million compared to the same quarter in 2019. Nonetheless, the government is committed to eradicating the so-called “abject poverty” in China, defined as Purchasing Power Parity of around 1.9 US dollars per person per day, by the end of this year. Even amidst a pandemic, the need to lift people out of poverty is a social, economic, and political goal that the government is committed to achieving. Support includes material aid, basic schooling, health care, and decent housing. This should help protect the most vulnerable group from the pandemic and assist in preventing a second wave of the disease.

Around the world, there seems to be great interest in whether China can fully recover economically. My answer would be no. If China can achieve 1-2% growth in the second quarter it would be quite good. While it is hoped that the economy will pick up in the third and fourth quarters of the year, this really depends on the environment outside China. If Europe and the US can contain the disease within this quarter, the Chinese economy may fully recover in the second half of the year and will be able to achieve a 2-3% GDP growth rate for the whole year.

My concern is that it may take a long time to resolve the pandemic, as different countries are facing different situations. This is concerning for China because in contrast to countries like Sweden where a larger portion of the population was exposed and may have developed some immunity, many people in China were not exposed. Were a second wave of the disease to occur, China could be subject to a more severe shock. To prevent this from happening, China continues to impose a variety of strict preventive measures as the economy gradually returns to normality. China’s recovery is ultimately dependent on bringing down the infection and mortality rates in the rest of the world, especially in countries that are not participating in our discussion today like India, Russia, Brazil, and some countries in Africa. If those countries come to experience what the US and Europe are going through, there will be a third wave that we have to be prepared for and nobody knows what the consequences will be.



Dr. Shujie Yao is an expert on economic development currently working as the vice dean at the Social Sciences Faculty of Chongqing University. He is also a guest chair professor of the Nottingham University, Ningbo, China. He completed his PhD in Economics at the University of Manchester in 1989. His research interests include Quantitative Methods and Applied Econometrics, Income Distribution, and Poverty and Economic Development in China.

# The United States Faces Its Worst Crisis Since World War II in COVID-19

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**Glen S. Fukushima**

Senior Fellow, Center for American Progress

The United States has been devastated by the COVID-19 pandemic, with more than a million confirmed cases, over 60,000 dead (more than in the Vietnam War), and tens of thousands of new infections every day at the time of this publication. Mandatory lockdowns have been imposed in a majority of states, largely curtailing social and economic activity with a predictably devastating impact on the economy.

The scope of the economic dislocation is massive, with over 30 million individual filings for unemployment in just six weeks. At the time of publication, the US Congress has passed four bills to counteract the negative impact of the virus for a total of roughly three trillion US dollars in relief. Despite the unprecedented scale of these federal stimulus packages, the situation remains precarious, with many state governments risking bankruptcy in their efforts to counteract the economic damage caused by COVID-19. Overall the outlook is grim, and this is compounded by the fear expressed by some public health experts that an initial recovery could be reversed if the onset of the influenza season in the fall coincides with a resurgence of COVID-19. While some private sector actors, such as the Gates Foundation, are offering assistance, the scale of the problem is so huge that further support from the federal government will be necessary.

Due to the massive nature of the stimulus packages, there will be ongoing scrutiny regarding their adequacy, scope, coverage, beneficiaries, and eligibility requirements. Harvard University, for example, announced that it would not be accepting \$8.7 million allocated to it through one of the education assistance programs after questions were raised whether the funds were going to those institutions most in need. There is also concern about the timing of disbursements, as well as appropriate monitoring to ensure accountability for how the money is spent, on which there are continuing tensions between the White House and Democrats in Congress.

Furthermore, there is an intense debate in the US about the proper time to reopen for business. Republican governors in such states as Georgia and South Carolina have been most resistant to lockdown measures, and Democratic governors in such states as Michigan have faced protesters, encouraged by President Trump, who are clamoring for a return to business as usual. On March 24, the President stated his desire for the country to be “opened up” by Easter (April 12), but this had to be abandoned as unrealistic given the continuing increase of infected cases and deaths.

The pandemic has exacerbated the nation’s divisions regarding region, race, education, income, and wealth, with infection and mortality rates disproportionately hitting the disadvantaged. Even as the epidemic ravages the country, the proper role of government in the economy continues to be debated between Democrats and Republicans, with the former



advocating a larger role (as in the New Deal era under President Franklin Delano Roosevelt) and the latter deeply skeptical of government's role.

Both Democrats and Republicans are highly conscious of this year's presidential election, set for November 3. The voters' evaluation of the Trump Administration's response to the pandemic will affect not only who wins the presidency, but also who controls the Senate, the House of Representatives, and state and local legislatures around the country. Democrats have been critical of Trump's response, while Republicans have been supportive, and much will depend on how Independent voters assess the situation.

The crisis has raised questions about the global role of the US, among them: (1) its role in preventing and managing future pandemics; (2) its support for the WHO, which President Trump has criticized and from which he has threatened the withdrawal of US funding; (3) its relationship with China; and (4) whether the G7 and G20 are adequate forums for dealing with the economic effect of pandemics. Although it is only natural for the US to evaluate its international commitments against its domestic priorities, "America First" has become "America alone," with all its limitations. COVID-19, as with any other global challenge, requires that the US work effectively with other countries and international institutions, including the WHO. The US also needs to put science, facts, truth, and transparency above politics. If the election on November 3 results in a Democratic Administration, we are likely to see a profoundly different US approach to dealing with the current pandemic as well as future pandemics.

At this point, no one can predict the eventual outcome for the US of this pandemic. If it peaks by June or July with a return to semi-normalcy by late July or August, perhaps things will stabilize by the time of the November 3 election. But if the pandemic continues to worsen or resurges in the fall in conjunction with an influenza epidemic, as some have predicted, this could create a much more difficult situation than what we've seen so far. In conclusion, the outlook for the US is uncertain. In the short term, it depends on how the pandemic develops and the Trump Administration's response. In the longer term, it depends on whether there is a new administration that takes office on January 20, 2021, in which case the world can expect a more proactive US response based on science and global cooperation than what we have seen so far.



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# Coordination Throughout Europe is a Key for Germany's Economic Recovery

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**Hubertus Bardt**

Managing Director/Head of Research, the German Economic Institute

In Germany, lockdown measures have been in place to cope with COVID-19 since mid-March in combination with other measures such as expanding medical capacity – in particular, significantly increasing the number of intensive care units and beds. We have seen the effects of these measures in the decline in the number of active cases by a third as of early April, as well as in the fact that the increased capacity of intensive care units remains unused.

Several businesses like hotels, event spaces, and restaurants have been closed and will be closed for weeks or months. This will bring many of them close to bankruptcy. Within the manufacturing sector, COVID-19 has had its most severe impact in the automotive industry. Demand is down and international value chains will have to be restarted. This is happening while the automotive industry is in the midst of a major structural change, seeking to shift to electric mobility. They need every resource available to invest in new technologies and help accelerate this structural change. Thus, the present crisis is a heavy blow with potential long-term effects. Other industries are also impacted by the decrease in demand from the car manufacturers as well. Moreover, the machinery industry could suffer negative consequences on the demand side if emerging countries, where they export much of their products to, face longer periods of slower growth. This is in addition to the damage done to the complex inter-European (and international) value chains, as important suppliers in Northern Italy and Spain have been taken offline.

All that said, from a medical perspective, the situation is not that bad, and in an effort to ensure it remains so, we are not yet discussing a quick reopening. Our ability to reduce restrictions must be used to limit economic damage. So far, the number of unemployed has not changed much in the short term due to Germany's "short-time work" program; companies can reduce the working hours of employees and the labor agencies cover a large portion of the income loss. Workers therefore will be able to get back to work once it is safe enough. So far, about 750,000 companies have applied for this program, which means that millions of people are currently engaged in "short-time work." This method was very successful in the last crisis 10 years ago. Additionally, the government also supports companies by providing liquidity such as loans and postponement of tax payments and is currently discussing the possibility of non-refundable subsidies.

In an optimistic scenario, we see at least a 5% drop in GDP due to the COVID-19 crisis. However, it will depend on how and when we are able to reopen the economy, and



ease or lift the lockdown. If GDP falls by more than 5%, then it seems difficult to achieve the 2019 level of economic activity by 2021, and it will probably take until early 2022 for the economy to return to the pre-crisis level. Due to fiscal policies taken in the past, the country is in a pretty good fiscal situation with a debt-to-GDP ratio of 60%. Even if it increases by 10-15%, it will not be a significant problem for Germany as long as we can achieve a slow and careful way out of the lockdown situation.

That said, while short-term consumption is likely to recover quite quickly, durable goods could suffer from a lack of demand if people postpone consumption due to a lack of confidence in the prospect of their future income as a result of insecurity or unemployment. Consumer confidence in Germany is reportedly at a very low level, and it is unclear whether and when it will bounce back. Therefore, we have started to discuss additional stimulus packages such as a growth policy, supply-side reform, as well as tax breaks, which will be needed once the lockdown ends.

The real problem for the German economy's recovery is that international demand will likely grow much slower than in the past. As Germany is an export-oriented economy, it depends on global demand, which isn't something Germany can stimulate on its own. Additionally, the supply chain of German industries, notably suppliers from Northern Italy, need to be rebuilt when Germany gets back on track. Even if it is controversial within Germany and the EU, I think we need some kind of jointly organized financial assistance to bring the important European regions back on track. Confronting the uncertainty caused by COVID-19, many EU member states are making their own decisions to tackle the virus, with inadequate consideration given to sustained cooperation to find a better and wider solution for Europe as a whole. As a result of the pandemic, we now have new rules and habits, and we are learning to live with a new kind of risk. Yet we must rekindle the kind of coordination required in order to restart the value networks and value chains that Europe depends on.



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# Uncertainty Exacerbates COVID-19's Economic Impact as Sweden Balances Epidemiology with Individual Liberty

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**Tomas Kåberger**

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In Sweden, the number of cases has now been stable for several weeks, and it has been concentrated mostly in the capital region of Stockholm. The data used in Sweden so far is based on confirmed cases. People who have been diagnosed with COVID-19 are primarily those who work in the health sector, those who come to the hospitals with relevant symptoms, and those counted as dying from COVID-19 due to having had relevant symptoms and being diagnosed postmortem. On this point, one interesting aspect in the coming weeks and months will be getting a better understanding as to what extent the virus has infected significantly more people than those who have been diagnosed because they've had severe symptoms.

To combat COVID-19, the government has provided a lot of information and recommendations, while imposing few restrictions in comparison to countries under lockdown or shelter-in-place-type measures. We are still able to travel as much as we like. Restaurants are still open, albeit following best practices to maintain necessary social distancing. Thus far, people are respecting the government's recommendations, in large part, I believe, because those recommendations are not seen as being politicized. In Sweden, the daily press conferences on COVID-19 are run by the state's chief epidemiologist, not politicians. He is also running a press seminar every day at a fixed time. Politicians merely repeat what he says regarding disease control and make suggestions on how to handle the economic consequences.

I would expect that the Swedish economy will be significantly less affected than many other countries where regulations have forced a myriad of sectors to close down completely, although the tourism sector, including travel companies, aviation companies and tourist-focused hotels, have of course been severely affected. Small technology companies have also been significantly impacted by COVID-19. Since the financial sector is becoming much more hesitant to take on any new investment decisions, small technology companies which are dependent on continuous finance from investors during the startup phase of their business are facing difficulties.

As in the case of Germany, there are policy instruments to support the sectors facing challenges by compensating them for their losses. For example, companies that need to lay off employees temporarily can receive government support to continue paying a portion of those employees' wages to them. There are also many special loans and financing options

available. However, for many companies, that is not really going to save them as they are reluctant to borrow money that will be difficult for them to pay back in the future.

In the energy sector where I am active, by contrast, we see very little impact on electricity consumption, particularly in Sweden. The electricity consumption in Sweden is even increasing slightly despite the fact that we've had a mild winter which had brought down electricity consumption. Electricity prices remain low due to the large amount of electricity generated by hydropower and wind power. From a global perspective, I think one of the sectors that will be severely affected is the oil industry given that dramatic reductions in the transport sector reduced demand around the world. Oil exporters in North America and Norway for example, will struggle to be profitable during this period of very low oil prices. In the US, this could lead to instability amongst financial institutions, many of which have large investments in the shale oil industry.

One interesting point is the change in the way that Sweden is being covered in the US media. The current Swedish measures are based on the principle of respecting individual liberty. This has resulted in a role reversal where US TV stations that are typically very critical of Sweden, are suddenly loving Sweden's approach, while those that typically present Sweden as a positive example for the US are now very skeptical of it.

In the end, uncertainty is undoubtedly a very important factor in Sweden and around the world. We don't know precisely how many people have been infected or recovered, nor whether infection confers immunity to the virus. If the second or third wave of the outbreak hits the countries that have been most successful in mitigating the spread of the virus via lockdowns, they will be forced to shut down again. If that is the case, this will be extremely expensive for those countries that have been very effective in their shutdown and less expensive for those that have allowed the virus to spread more broadly. What is clear is that the long-term consequences of the various approaches will undoubtedly be up for intense debate in the months and years to come, and I look forward to a continuing discussion on this issue.



Dr. Tomas Kåberger is a professor at Chalmers University of Technology and has been the chair of executive board of Renewable Energy Institute since 2011. He holds MSc in engineering physics and PhD in Physical Resource Theory at Chalmers University of Technology. Dr. Kåberger was director general of the National Swedish Energy Agency from 2008 until 2011.

# More Coordination Needed to Combat the Disparities in Europe's COVID-19 Epidemic

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**André Sapir**

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Despite major differences in how COVID-19 has impacted the health situation in individual countries, Europe's economic interconnectedness means that all countries have been gravely economically impacted. According to the European Commission's latest Spring forecasts all EU27 countries will see GDP contract by 5%-10%. To take an example, the German health situation may be relatively mild, but if factories in Italy are unable to supply essential parts to the German automobile industry and if customers in France are unable to go to the store to buy cars, then the German economy will be severely impacted. This kind of dynamic can be seen throughout Europe.

However, while the economic impact from a purely numerical perspective may be similar, the capacity of countries to counteract it is not. Germany and a number of other countries entered this crisis in a favorable fiscal position and are thus much more resilient than some other European countries. Italy, Greece and Spain by contrast, were already facing difficulties, and the fact is that these countries along with France are all countries where tourism, one of the industries most impacted, plays a major role. Thus the overall impact and the capacity of different countries to digest the health and economic shocks beyond 2020 remains a very real question.

In mid-March the ECB put forward the Pandemic Emergency Purchase Program, buying massive amounts of both government and corporate debt. The ECB has also announced it will further loosen its collateral policy. So, the ECB is signaling to governments that they should not be shy about getting indebted to deal with this crisis.

Nonetheless, there are still concerns in countries such as Italy, about what happens when the crisis goes away, if their debts, which were already high before the crisis, increase massively. As long as the ECB is essentially providing insurance to governments and businesses that it will purchase their debt on a massive scale, there is no problem. However, while discussion exists about how debts could, potentially, be mutualized, that doesn't fit with the existing political configuration of Europe and thus, the potential for a future sovereign debt crisis certainly exists.

Looking forward, a key question for Europe and the world is when and at what speed "deconfinement" should take place. Interrelated with this question is that of the timing and pace of a resumption of more normal international travel, trade, and migration. Given the vast differences in COVID-19 status across countries and regions this will of course have to vary. What is important however, is to recognize how all of our economies are incredibly intertwined. So every country big or small, both in the EU, and globally, but even more so in the EU, where we are so much more intertwined, has an interest in, and a responsibility to

promote greater policy coordination on these issues. Particularly for countries like Germany, which are emerging from the pandemic in a stronger position and are also export-orientated, there is an expectation that they will exercise responsible and compassionate leadership to rebuild international cooperation.



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# Japan Ramps Up to Fight COVID-19 While Eyeing Increased Global Cooperation

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**Yanagawa Noriyuki**

Executive Vice President, Nippon Institute for Research Advancement,  
Professor Graduate School of Economics, The University of Tokyo

The situation in Japan is currently quite different from that in the United States and the European Union, although Japan's approach to countering the virus bears many similarities to that of Sweden. The most obvious difference is clearly the number of COVID-19 deaths in the country so far, which has been quite low compared to the US and European countries: roughly 550 deaths for a population of just under 127 million, which equates to just over 4 deaths per million inhabitants. The reason for the current low mortality rate is still unknown, and the number of confirmed cases and deaths in Japan has recently begun to accelerate. Concern over this increase led the Japanese government to declare a state of emergency in Tokyo and six other prefectures containing major metropolitan areas on April 7, and that state of emergency was expanded to cover the entire country on April 16. The duration of the state of emergency was recently extended and is tentatively scheduled to be in effect until May 31.

That said, the state of emergency declared in Japan resembles neither the hard lockdown seen in Wuhan and parts of Europe, nor the "shelter-in-place" orders in effect in parts of the US. It is often referred to as a "soft lockdown." The law upon which the declaration was issued does not give prefectural governors powers to forcibly restrict people's freedom of movement, nor sanction companies that continue operating during the pandemic. The law only provides that they can issue a "request" strongly urging them to stay home and limit business operations. Under the law, many restaurants and most supermarkets are open, and travel within Japan is generally unrestricted.

Nonetheless, the government's requests possess real weight and have produced a noticeable impact due in part to social customs or social pressure surrounding obeying government requests. Many Japanese are now staying at home and the economic impact of this policy will be huge, particularly in the restaurant, hotel, and tourism industries that have been so heavily affected by similar policies around the world. To be more specific, if this policy continues for 2 to 3 months or even longer, many restaurants, hotels, theaters, and other businesses in the service sector will, depending on the degree of continued compliance by the populace, go bankrupt unless significant subsidies or other relief is provided by the government. The most recent economic forecasts show a sharp decline in the annual GDP growth rate to around -3% at best.

However, the impact on the supply side, for example in the manufacturing sector, has not yet been seriously damaged despite a sharp decline in the exports of automobiles and some electronics over the past few months. Although domestic production at automobile



companies such as Toyota and Honda saw a 13.2% and 11.4% year-on-year decline in March, respectively, and total domestic production is estimated to have declined by over 40% in April according to the Nikkei Shimbun, there are signs pointing to a recovery, particularly in the export of automobiles to China, which have increased by 19.2% as the Chinese economy has recovered. In summary, the slowdown of economic activity in the manufacturing sector has been mild so far.

Nonetheless, indicators such as the increase in claims for unemployment and the increasing number of bankruptcies are a real cause for concern. These generate a heavy reduction of total aggregate demand in the Japanese economy, which might generate further financial distress for Japanese companies, or otherwise negatively influence the balance between supply and demand. The most recent figures indicate the number of COVID-19-related bankruptcies has now exceeded 100 companies across a variety of industries including hospitality, restaurants, and bars, with the impact expected to increase going forward. I fear this negative interaction could generate a global decline of aggregate demand that could precipitate a global economic depression.

Japan announced its economic countermeasure plan, the Emergency Economic Package Against COVID-19, in April. The total amount exceeds 117 trillion yen, equivalent to over 20% of Japan's GDP. The most significant measures include cash handouts to all Japanese residents, the deferral of tax payments and social security contributions by businesses, and concessional loans from public and private financial institutions. While the measures may sound significant, most experts think it is too small to spur a proper recovery from the economic shock that COVID-19 has given the country. In an attempt to provide further assistance, the Bank of Japan has decided to pursue a more aggressive monetary policy through unlimited purchases of Japanese government bonds, along with special funds-supplying operations providing loans to financial institutions to facilitate the provision of financing to corporations during the crisis.

It is important to pursue policies that will provide adequate monitoring of the situation and address the decline in aggregate demand in our countries during this time of crisis, and as some countries enter a tentative recovery period. We should share information about our projected economic conditions, particularly on the demand side, because changes in global demand might generate a macroeconomic shock to the global economy, which could weaken financial markets and potentially generate a second Great Depression.



Dr. Noriyuki Yanagawa is an executive vice president at the Nippon Institute for Research Advancement. He is also a professor at the Graduate School of Economics, at the University of Tokyo where he received his PhD in Economics in 1993. His research specializations are contract theory and financial contracts. He has served as a member of Japan's Council on Economic and Fiscal Policy, and participated in various other initiatives of the Japanese government.