

STATE OF THE REGION: SPECIAL REPORT ON COVID-19



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The Pacific Economic Cooperation Council (PECC) is a non-profit, policy-oriented, regional organization dedicated to the promotion of a stable and prosperous Asia-Pacific. Founded in 1980, PECC brings together thought-leaders from business, civil society, academic institutions, and government in a non-official capacity. Together, PECC members anticipate problems and challenges facing the region, and through objective and rigorous analysis, formulate practical solutions. The Council serves as an independent forum to discuss cooperation and policy coordination to promote economic growth and development in the Asia-Pacific. PECC is one of the three official observers of the APEC process

The State of the Region Project

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Title

State of the Region Report: Impact of the Covid-19 Crisis

Authors

Eduardo Pedrosa, Secretary General, Pacific Economic Cooperation Council

Christopher Findlay, Vice-Chair, Australian Pacific Economic Cooperation Committee (AUSPECC) and Honorary Professor, Crawford School of Public Policy, Australian National University

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PECC International Secretariat
Singapore
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info@pecc.org

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Message from the Co-Chairs of PECC

On behalf of the members of the Pacific Economic Cooperation Council (PECC), it is our pleasure to present this special State of the Region report on the impact of the Covid-19 crisis on the Asia-Pacific. We would like to express our appreciation to our member committees without whose support and effort our work would not be possible.

As the crisis was unfolding and mindful of the multiple efforts being undertaken by many organizations we had reached out to our members to ask how we might most usefully contribute to ongoing policy discussions. We are very grateful to the chair of our Chilean Committee, Ms Loreto Leyton for her proposal to undertake a special survey to allow us to address concerns raised by members such as the economic impact of the crisis, areas for cooperation, strategies for exiting from quarantine and the likely long-term impacts on business and government behavior.

We thank the Editorial Committee of the State of the Region project for their efforts in providing guidance and advice for the project. We also thank Dr Alan Bollard former Executive Director of the APEC Secretariat and former Governor of the Reserve Bank of New Zealand, Prof Fukunari Kimura, Chief Economist of the Economic Research Institute for ASEAN and Asia, Dr Gordon de Brouwer, Honorary Professor, Crawford School of Public Policy, the Australian National University, Dr Narongchai Akrasanee, Chair of the Thai PECC committee, and Dr Sherry Stephenson from the PECC Services Network for their expert advice and suggestions.

While this report is technical in nature and focused on policy issues, we wanted to focus on why economic cooperation is important. This year is our 40th anniversary. One of the reasons for our establishment was the realization that *“swiftly changing patterns of comparative advantage would require continuous and significant structural adjustments. The costs of these adjustments would lead to stresses in trade relations and resistance by those who wished to shelter themselves from new sources of international competition.”* As much progress as the region has made in the last 40 years those words still ring true today.

At the very first PECC conference, Dr Hadi Soesastro who went on to become one of the longstanding pillars of our community said that it could not be assumed that interdependence necessarily led to shared objectives. While we are facing the deepest economic crisis in a century, we must not forget that at its heart this is a human tragedy. In today’s 24-hour news cycle we risk becoming desensitized by the statistics on the number of lives, jobs, and businesses lost to this disaster. Each one of these is irreplaceable.

While we remain beset by centrifugal forces, perhaps more than any other event in recent history, the Covid-19 crisis has been a shared experience. No economy has gone unscathed. That shared experience is an important basis for moving forward beyond the crisis. The PECC Charter states that our objective is to promote economic cooperation and the idea of a Pacific Community. As we have seen through this crisis the sense of community remains with doctors sharing best practices in the treatment, donations of vital equipment, and agreements on cooperation. No doubt more can be done. That is why organizations like PECC exist, to provide neutral platforms for exchange of views amongst experts.

We can only resolve this pandemic and economic crisis through effective cooperation. As this report argues levels of uncertainty remain high, not only because of the pandemic but because of other factors. Dealing with those policy uncertainties through effective international cooperation and dialogue will help to provide business, workers and individuals with greater levels of confidence than those seen in our survey results.

Lastly, we thank Mr Eduardo Pedrosa, Secretary General of PECC and Coordinator of State of Region Report and Prof Christopher Findlay, Vice-Chair of the Australian PECC Committee for writing this special report.



Don Campbell
Co-Chair



Su Ge
Co-Chair

Executive Summary

The Asia-Pacific is undergoing a health, human, and economic crisis. Its many dimensions make this an exceptional challenge for policy makers and one that can only be effectively overcome through extraordinary international cooperation. While the Asia-Pacific was at the epicenter of the shock, through its long-established norms and processes it can also locate itself at the heart of the solutions.

This report focuses on how regional cooperation can provide governments with more options for recovery in the face of these uncertainties. It assembles a set of proposals on the basis of data collected in a special survey PECC undertook on the impact of the Covid-19 crisis on the region. 710 policy experts from business, academia, government and civil society responded to the survey, which was conducted from 19 May to 12 June, 2020. An analysis of the responses also provides insights for further commentary on the regional outlook and the strategies available for transitioning out of the current situation.

The Economic Outlook

The Asia-Pacific is expected to shrink by 4.7 percent this year before recovering to 5.4 percent growth in 2021 based on data from the IMF. Unemployment for the region is expected to rise from 3.9 percent to 5.5 percent of the labor force. However, there remains a great deal of uncertainty over the size of the shock, its duration, implications for stabilisation policies and an eventual recovery. This uncertainty makes it extraordinarily difficult to formulate policy and therefore may slow down responses. As we have seen in the pandemic, delay can be very costly.

PECC's survey of policy experts and stakeholders shows an even greater degree of pessimism than official estimates. Respondents do not expect a recovery to pre-crisis levels within the next 5 years; and they expect things to get worse before they begin to get better. Even as far out as 3 years on, only 27 percent of respondents expect growth to be stronger than in 2019, and even by then a large group of 31 percent still expect growth to be weaker than last year.

Cooperation on Stimulus Measures

Massive stimulus measures adopted by governments have prevented even greater declines. Governments across the world have cut interest rates, at a time when they were already at historic lows and they have been implementing fiscal stimulus packages to assist people and businesses. These stimulus packages as a percentage of Asia-Pacific GDP are approximately 10.6 percent of the economy, and even higher shares of GDP in high income economies. Their total value is approximately \$5.4 trillion, compared to an estimate of the global total of US\$11 trillion. There are other forms of stimulus. The IMF refers to as 'above the line' – revenue and expenditure measures as well as 'below the line' measures - loans and equity injections.

There are constraints on the extent to which policy makers in the region will apply a stimulus. They are scarred by two financial crises which may constrain their appetite. At the same time, the assessment of the report is that regional economies have space for further stimulus given the levels of financial vulnerability. Even so, coordination and cooperation can help ease those constraints. It would support a bolder approach to fiscal stimulus on the part of the region's emerging economies. They would be more confident of the impact of their fiscal measures. International coordination and cooperation on the design and implementation of these packages of measures would also help restore, as it did during the Global Financial Crisis, confidence as well as build a sense of direction to support future growth.

There are regional mechanisms to facilitate this cooperation. The ASEAN+3 Macroeconomic Research Office (AMRO) was established following the 1997-98 crisis with a mandate to conduct macroeconomic surveillance. APEC officials also now seek to fulfill the mandate from the APEC Trade Ministers Statement on Covid-19 to develop a "coordinated approach to collecting and sharing information on policies and measures, including stimulus packages for the immediate responses to the economic crisis and long-term recovery packages" In this context, East Asian discussion and cooperation that is based in ASEAN+3 mechanisms such as AMRO is highly valuable, and could usefully be extended to the APEC Finance Ministers' process. While not necessarily including all APEC members such a dialogue would help to avoid duplication of effort and help to identify gaps in information and data necessary for strengthening policy cooperation and coordination.

Because of the nature of the role of the US dollar as the global reserve currency, another action that would prevent currency outflows for those with floating exchange rates is to establish and extend swap arrangements. Indonesia for example is in talks with central banks around the region on 'second lines' of defense. In the same way that information sharing should be integrated in forums across the region, so too is it timely to have broader discussions of the adequacy of the financial safety net – including IMF financial resources and the connection between regional and global financial crisis mechanisms – in a range of Asia-

Pacific forums. Again, East Asian discussions and cooperation that is based in ASEAN+3 mechanisms, in this case such as the Chiang Mai Initiative Multilateralization (CMIM), could also usefully be extended to the APEC Finance Ministers' process. APEC is one forum where Asia can have this necessary conversation with the United States.

Exit from Lockdown

One of the great uncertainties is when and how to leave the lockdowns that have been the first response to the virus. Respondents were asked to give their opinion on the importance of each of 15 items. The top pre-conditions for leaving from lockdown were all related to public health, namely

- Sufficient medical capacity to deal with expected number of cases (including hospital beds, doctors and nurses, personal protective equipment, and medical supplies)
- Evidence that the number of new cases is reducing
- The development of a vaccine
- The availability of medical treatments for those found positive with COVID-19
- The capacity to quarantine and support those who test positive

Of great interest were the two matters that immediately followed these. One was the economic cost of the lockdown, its position implying that respondents still considered public health aspects were the priority and the ability to prevent infection in people who are more at risk. As the virus becomes better understood that options for its management will increase and the ability to consider more specific actions better targeted at those at risk of serious illness, long term effects or death.

Another priority at this level among respondents was international cooperation. This is a very significant result, with respondents acknowledging that the exit strategies of all would be facilitated by working together. Examples are provided in the report.

Given the heterogeneity of the Asia-Pacific region another important question is whether there would be large differences among different economies on the factors to be considered for their economy's exit from lockdown. One hypothesis that we wanted to test was whether the economic cost of lockdown policies would be a higher consideration for emerging economies compared to advanced economies. The answer was largely 'no'.

The popular discussion of exit strategy is now focusing on the capacity to achieve goals related to social distancing, to test and also to trace and contact and to isolate those affected. These are regarded as critical to relaxation of restrictions on people movement in the short term. These aspects are being given greater attention as some economies have attempted to relax restrictions, only to see infections rise again. Survey respondents put these measures in a third tier of priorities, following public health matters, economic consequences and international cooperation.

The Cooperation Agenda

The value of cooperation in the implementation of short-term stimulus measures was discussed above. What about longer-term matters? As just observed, respondents ranked this as a top priority for plans for exiting the current situation.

The top 5 elements of cooperation identified by respondents were:

- The sharing of pandemic preparedness practices
- The development of a vaccine
- Trade facilitation on essential products
- The removal of export restrictions on essential products
- The removal of tariffs on essential products

One question for regional organizations in addressing a global issue of this magnitude is 'value-addition' - there are many organizations working to resolve the challenges governments and societies are currently confronting. One approach that APEC might take is to be supportive of ongoing multilateral efforts and that by taking a 'first and second order' priority approach it could identify serious gaps in the system – issues that are not getting sufficient attention. For example, there is no doubt that the sharing of pandemic preparedness practices is a priority, as is the development of a vaccine. But they are not necessarily tasks in which APEC has a comparative advantage. Trade policy is a different matter which we discuss below.

Moving to a Smaller Public Sector

A very important part of exiting from this situation is the withdrawal of the support of various forms of state aid, including equity investment. The size of the public sector has increased dramatically in many economies,

associated with rapidly rising debt levels. This situation demands considerable thought, because of its significant fiscal consequences but also its potential implications for efficiency and for productivity. Movement back from the current situation will most likely meet resistance, from the new sets of interests that have been created, in particular. Others may also argue that in the context of the uncertainty created by the pandemic, it is unwise to unravel the emergency arrangements prematurely. A framework for responding to the pressures of those interest groups and those arguments will be valuable. One well-tried option is that of the public policy framework, which is based on a series of questions related to the nature of the problem to be solved, the tools available to do so, the scope to use market mechanisms rather than regulation followed by a ranking of options and selection of a preferred response. The design of processes for and institutions for managing this work is an important element of regional cooperation.

Trade Related Matters

The contraction in world trade in April compared to March is estimated at 12.1 percent, significantly worse than that during the Global Financial Crisis. However, data shows early signs of a recovery in trade growth, and efforts by economies to remove restrictions to trade, like export restrictions prompted by the pandemic. Despite the expectations of some, these events do not mark the end of globalization.

Given APEC's focus on trade and economic policy issues, the comparative advantage of its work in this area would be how pandemics impact trade and supply chains. This could build on existing work APEC has already undertaken such as the APEC Trade Recovery Program. There is considerable public discussion of the future of global value chains and expectations by some that they will collapse. Opinion is divided on this matter among respondents, and the report discusses a range of options for tackling the issues of the robustness and resilience of GVCs. Our conclusion is that the likelihood of collapse is overstated.

The survey addressed three main trade policy issues for essential products: trade facilitation; the removal of export restrictions; and the removal of tariffs. As noted, the value of all three was strongly supported. In short, the maximum gains for economies will come when all three actions are done simultaneously by as many parties as possible.

A major consequence of the Covid-19 crisis has been a deepening and acceleration of existing trends – especially the growth the digital economy. The use of digital applications has expanded rapidly. This has stretched existing networks in some cases but also reinforced the importance of messages about the risks of digital divides. As schools shut down and continue to be shut down generations of children continue to go without an education if they do not have access to hardware or adequate and reasonably priced bandwidth. APEC had laid out the need to address many of these issues in its Internet and Digital Roadmap, many more lessons have been learnt during this crisis.

One issue that APEC might be able to at last pilot work on is information on essential equipment. For example, while information on stockpiles of medical equipment ranked 8th in the list of priorities, when viewed through the lens of 'second order priorities' it is the joint top of the list. Such efforts should encompass the private sector given that the latter has a much better grasp of the relevant supply chains. Given APEC's strong engagement with the private sector, it could pioneer and pilot such an information exchange.

The pandemic is demonstrating too how important people movement is for trade. This is not just for sectors in which contact is urgent for trade in facilitating supply chain connectivity but more broadly for business, tourism and education. Given the difficulties of a global eradication of the virus, the report reviews a series of options for the short term as the pandemic continues to facilitate the movement of essential workers, including the various plurilateral projects on confidence building in this respect. APEC could seek to develop a set of principles which might apply to the design of these efforts (as done for trade agreements already) so that, ultimately, they contribute to regional integration. It is interesting that the Covid-19 period brought to attention both how much people contact matters but also how much opportunity sits in digital technology.

Capacity building

PECC's survey also revealed priority areas for capacity building, another important dimension of regional cooperation. The Covid-19 crisis has had a clear impact on capacity building needs. Whether this is a temporary or permanent shift remains to be seen. But health security concerns were a clear priority followed by digital technology; supply chain resilience; ecommerce; and structural reform. All these can be seen as a need for policy makers to understand the underlying economic changes wrought by the crisis and the types of policy instruments that could be used in the adjustment process.

Another element related to the redesign or recovery of the public sector is regulatory reform. In this respect, recent experience has included instances of regulatory retreat by governments different from the subsidy elements. Many rules and regulations have been relaxed to lower business costs and facilitate new ways of

operating that are consistent with the response to the pandemic. The WTO recently documented such measures as applied in the services sector. Examples include changes in the regulation of medical services to facilitate the use of telehealth. The information provided by these experiments in reform should be evaluated as to whether each has value that should be continued in the post-crisis environment. There is value in sharing these results and in cooperation on capacity building for the management of reform.

APEC after 2020

APEC has another role, which concerns the development of a way of thinking, and a mindset. Before the Covid-19 Virus crisis struck much of the APEC policy community's attention was focused on assessing progress made on the Bogor Goals and formulating a post-2020 vision for the region. A vision is as important today as it was in 1994 if not more so. When endorsed by APEC leaders, it will provide a long-term strategic framework for regional governments and stakeholders to plan for the future. Without such a framework there is a risk that the recovery will be much slower than need be, opportunities to sustain reform will not be taken, inefficient policies adopted for short term goals will remain stuck in place, and investment plans put on hold. While APEC remains a relatively informal organization through which relationships of trust are built, it must allow for genuine dialogue at all levels. As argued in this report, the Covid-19 crisis is accelerating change, economies will be taking different approaches in response to it, APEC provides an essential platform to exchange views on the motivations behind those policy choices and the international implications that they often have.

Chapter 1: The Economic Impact of the Covid-19 Crisis*

Even before the Covid-19 pandemic hit, the regional policy community was pessimistic on the prospects for growth in 2020 as a result of rising trade tensions across the world: now we are in the midst of a worse scenario than could ever have been expected. However, while the Asia-Pacific is at the epicenter of the shock, through its long-established norms and processes it can be at the heart of the solutions.

In spite of warnings, not even the most advanced economies were sufficiently prepared and equipped to deal with a health crisis of this magnitude. It had elements of both a demand and a supply shock. To prevent the rapid spread of the Covid-19 virus, many governments across the region and the world adopted measures that temporarily shut down much of the economy. The shocks are highly connected internationally, via supply chains, disruption to which was the focus in the first two months of the year. But that aspect of the shocks was greatly magnified by the unprecedented and abrupt stop in demand. Even as the first half of the year comes to an end, and some economies relax or exit from lockdowns, it remains extraordinarily difficult to reach even tentative conclusions on economic growth for the rest of the year.

Reflecting that uncertainty, the IMF's forecast for the global economic growth in April this year was for a contraction of 3 percent, the World Bank's made in June was for a fall of 5.2 percent, the OECD's forecast also in June set out two scenarios: a single hit of 6 percent and a 'double hit' from a second wave of 7.6 percent. Differences in methodology aside, the later the forecast, the worse the prognosis. By June the IMF had downgraded its forecast for the global economy to a contraction of 4.9 percent.

This report focuses on how regional cooperation can provide governments with more options for recovery in the face of these uncertainties. The data reported here is based on a special survey PECC undertook on the impact of the Covid-19 crisis on the region. A total of 710 policy experts from business, academia, government and civil society responded to the survey which was conducted from 19 May to 12 June, 2020. An analysis of the responses provides insights for further commentary on the regional outlook, the strategies available for transitioning out of the current situation and the contributions that regional cooperation can make. The following parts treat the content in that order. The report concludes with some observations on the role of APEC and regional cooperation.

Outlook for the Asia Pacific Region

Based on June IMF estimates, the regional economy is expected to contract by 4.7 percent in 2020. This is far worse than the comparable decline of 0.6 percent in 2009 following the Global Financial Crisis (GFC). As seen in Figure 1.3, and as stressed by the IMF in April

"[I]t is very likely that this year the global economy will experience its worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago."

The IMF anticipates that once lockdown measures are ended, economies will swiftly rebound, as evident in Figure 1.3. However, in addition to downgrading the forecast for 2020, expectations for the recovery in 2021 have become more muted. The IMF's revised its forecast for global growth down from 5.8 percent to 5.4 percent.

The picture for unemployment (Figure 1.4) is just as dire, with the rate in the region expected to rise from 3.9 percent to 5.5 percent this year. The assumption behind this scenario is that the pandemic will ebb, and the containment measures will be loosened in the second half of the year, and if production capacity remains, the recovery in employment will also be v-shaped.

Beyond unemployment, the impact of the crisis on poverty reduction is likely to be disastrous. Estimates from experts at the World Bank suggest the number of people living in extreme poverty (people living on less than \$1.90 a day) will increase from 595 million to 684 to 712 million people.¹ Should the worst-case scenario materialize it will wipe out all poverty reduction over the last 5 years. The lower number is contingent on a relatively swift recovery. The Covid-19 crisis is already having a clear impact on global ambitions to reduce poverty and attempts to make growth more inclusive.

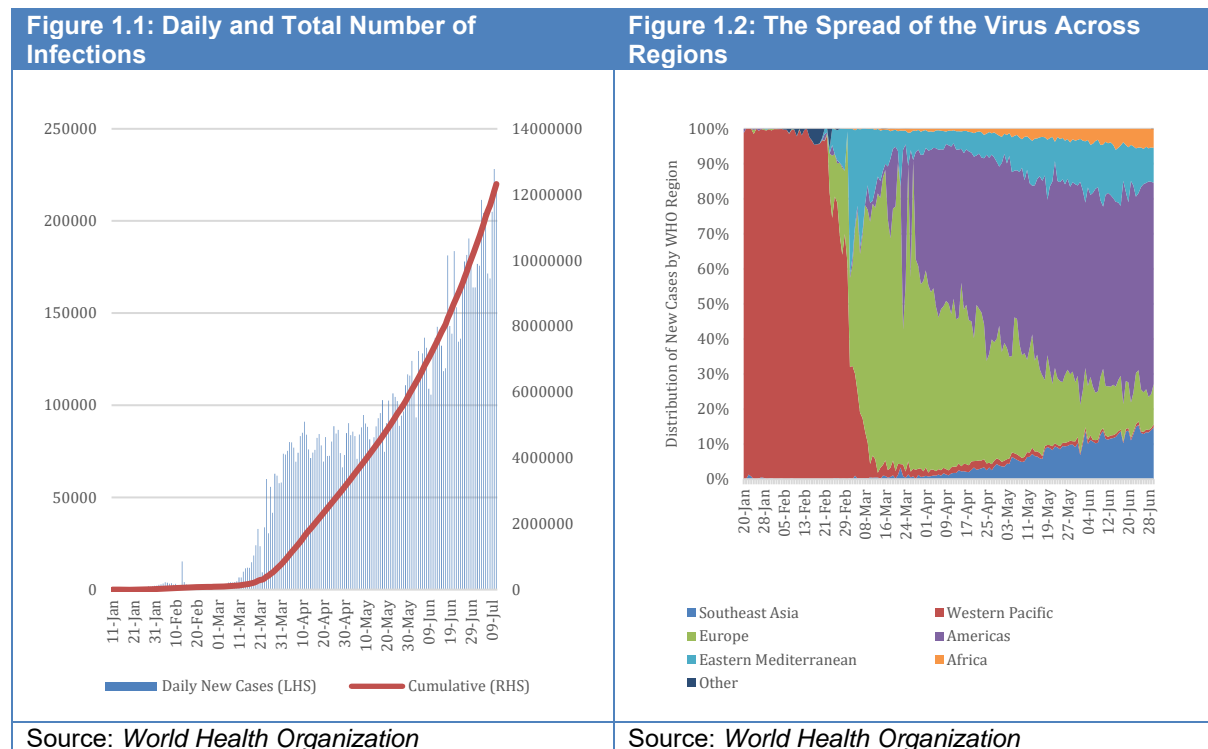
* The authors of this and subsequent chapters are Mr Eduardo Pedrosa and Prof Christopher Findlay. They are the Secretary General of the PECC International Secretariat Vice Chair of the Australian National Committee of the Pacific Economic Cooperation Council respectively. The views expressed here are their own.

¹ <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty>. We also note that in some economies in which social security systems have been deployed in stimulus packages then poverty rates could fall: see for example the case of the United States in <https://www.economist.com/united-states/2020/07/06/americas-huge-stimulus-is-having-surprising-effects-on-the-poor>

The assumptions in the previous paragraphs are easily challenged. On the real side of the economy, will capacity remain if supply chains are broken? Even if capacity supports an increase in output, what will have been the effect of this experience on the confidence of investors and consumers?

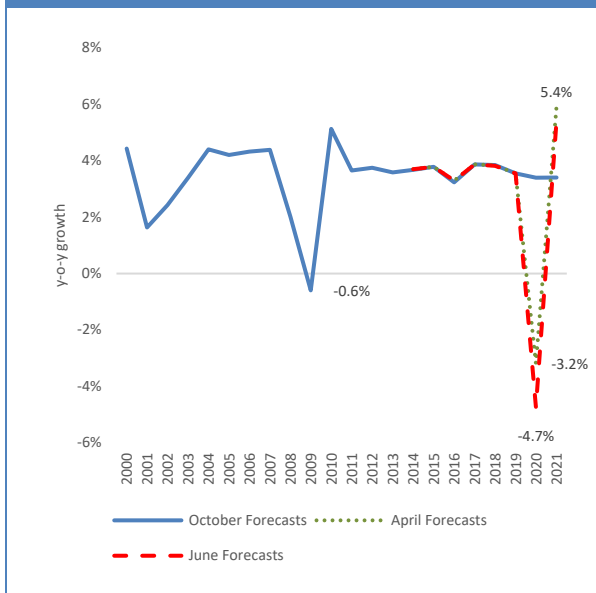
Furthermore, the global crisis appears to be not over, which may have a continuing effect on confidence. The total number of cases is continuing to rise (Figure 1.1), although in different locations: the evolution of the pandemic from the beginning of the year through to the end of June seems to have gone through a number of phases: from February to March when infections were concentrated in East Asia and then across into Europe and now the majority of new cases in the Americas (Figure 1.2). As discussed later this sequence has important ramifications for trade and highlights the importance of an open trading system for resilient societies and the value of policy cooperation.

Another question is what are the risks of a second wave of infection and what are its consequences? A number of economies, not surprisingly with the virus still at large, have experienced a rise in the number of infections as restrictions have been relaxed. At this point in time, there is little ability to evaluate the risk of a second wave of infection.



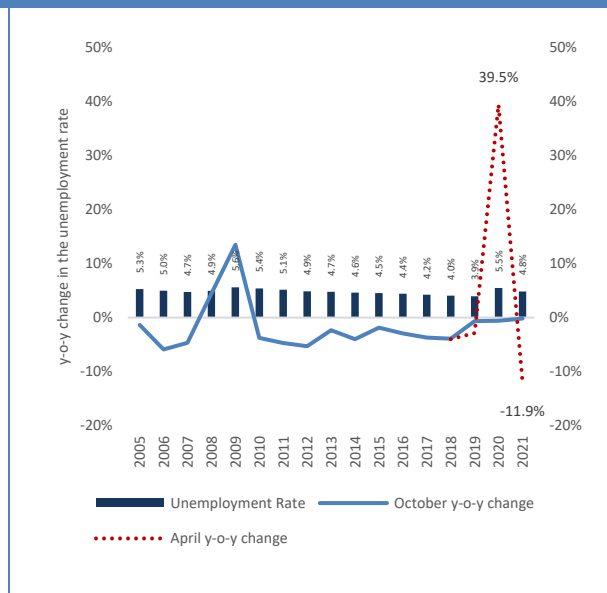
Based on survey responses and other material, we explore these questions in the next part of the report. We first examine survey respondents' expectations of growth and then consider their views on the risks to growth.

Figure 1.3: Impact of the Covid-19 Crisis on Asia-Pacific Economic Growth



Source: IMF WEO October 2019, April 2020 Database and June update, and PECC Secretariat

Figure 1.4: Impact of the Covid-19 Crisis on Unemployment in the Asia-Pacific



Source: IMF WEO October 2019 and April 2020 Database and PECC Secretariat

Will the Recovery be a V, W, a U or a Swoosh?

To get a sense of views around the region with respect to their own individual economies, we asked survey respondents to give their assessments of the impact of the Covid-19 crisis on their economies with respect to growth in 2019. We note however that there remains a great deal of uncertainty over the size of the shock, its duration, implications for stabilization policies and an eventual recovery. This uncertainty makes it extraordinarily difficult, not only for our respondents to assess the situation, but also to formulate policy which may lead to delayed actions.

Figure 1.5 provides a simplified presentation of the survey data. Reflecting the uncertainties at present, the dispersion of opinion is wide in the short term, and even as far out as 3 years on opinions diverge on both sides: by then, 27 percent of respondents expect growth to be stronger than the baseline year of 2019 and a large group of 31 percent expect growth to be weaker.

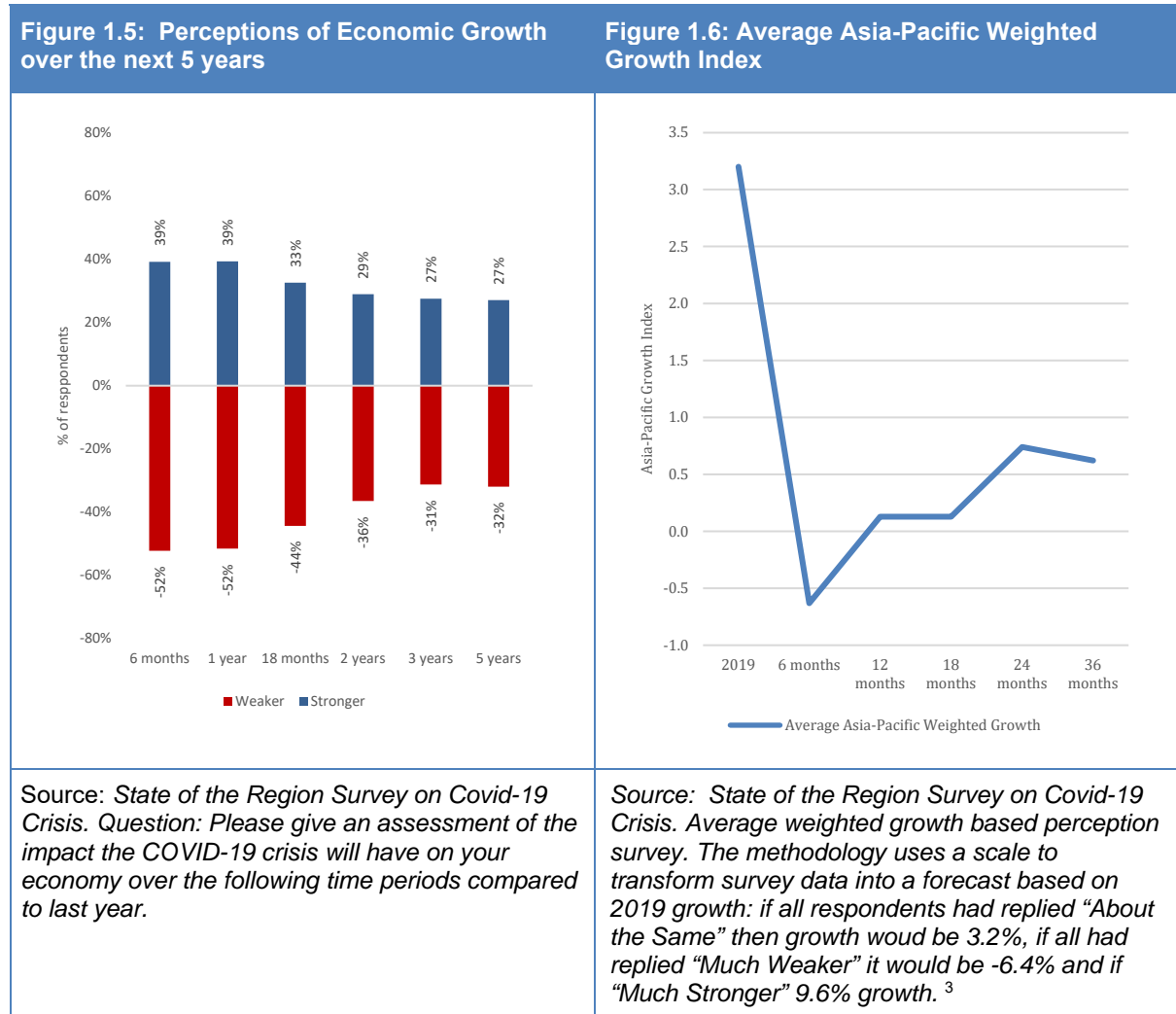
We go a step further in Figure 1.6 to use the survey results to answer the questions of ‘how deep and how long’ respondents think the impact of the crisis will be. Respondents were asked to assess the impact of the crisis on their own economies: in order to derive average Asia-Pacific weighted growth index. Responses have been averaged for each economy and weighted for the size of each economy’s GDP in 2019, and then the weighted average is plotted for each time horizon. This methodology predicts a somewhat similar outcome for 2020 as actual economic forecasts but where it differs substantially is views for 2021. While current forecasts by multilateral agencies are for a rebound for regional economic growth to 5.4 percent, respondents to our survey are much more pessimistic, barely expecting a rebound over the next 3-5 years.

While expectations for individual economies differ significantly, the conclusion from the survey is that respondents expect a ‘swoosh’ shaped recovery for the Asia-Pacific over a 5-year period, as seen in Figure 1.6.

While this is a survey taken at a particular time, and policy interventions can change these perceptions, the extraordinarily pessimistic view amongst respondents has important policy consequences. Low levels of confidence about the future lead to lower spending levels for both households and businesses.² Ultimately that confidence will only be restored when the pandemic is over, and a vaccine is discovered. In the

² Chris Giles and Martin Arnold, “Soaring saving rates pose policy dilemma for world’s central bankers”, 6 July 2020, <https://www.ft.com/content/a81f6870-d571-4aed-8884-d353bec2b329>

interim, international cooperation is essential across a range of issues that would reduce uncertainties about the future.



Risks to Growth

Each year respondents are asked to select the top 5 risks to growth for their economies. How has the policy and stakeholder community’s assessment of those risks changed?

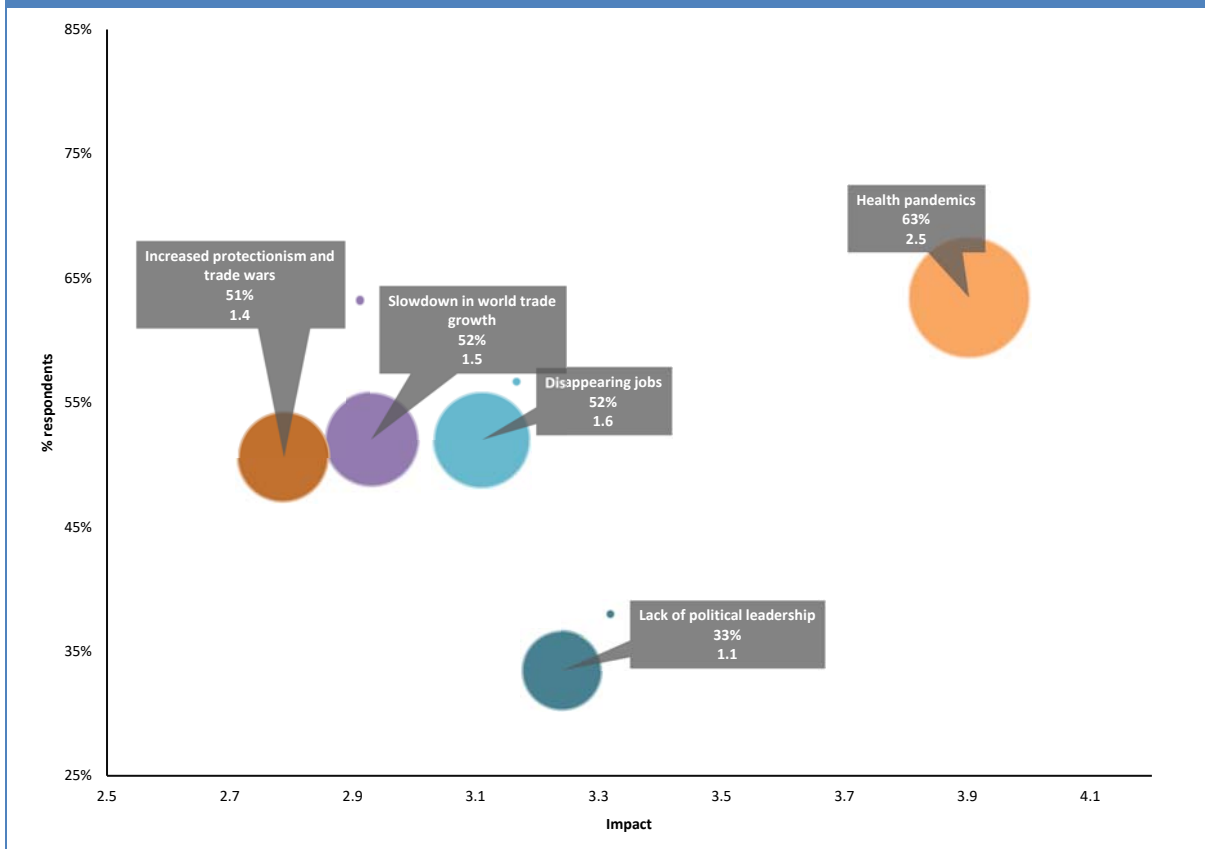
Figure 1.7 shows three dimensions of respondents’ answers for the top 5 risks. The ranking of the top five risks combines data on the percentage of respondents who selected the item as a top five risk (an indicator of its likelihood), and the impact of the event. The results are plotted in Figure 1.7 against frequency (vertical axis) and impact (horizontal axis).

Health Pandemics

Not surprisingly, health pandemics were identified as the largest risk to growth: 63 percent of respondents selected pandemics as a top 5 risk to growth for their economy. This is a reversal of the survey findings in 2019 when it was the lowest risk to growth, when only 4 percent of respondents selected it as a risk.

³ The difficulty is that on a 5-point scale there is enormous room for differences. For our purposes we used a scale of -2 for “Much Weaker”, -1 for “Somewhat Weaker”, 1 for “About the Same”, +2 for “Somewhat Stronger” and +3 for “Much Stronger”. The point is not so much the value but the shape of expectations that it shows, which will not vary with the scale chosen.

Figure 1.7: Risks to Growth



Source: *State of the Region Survey on Covid-19 Crisis*. Question: *Please select the top five risks to growth for your economy over the next 2 years. Please select ONLY five (5) risks, using a scale of 1-5. Please write 1 for the most serious risk, 2 for the next most serious risk, 3 for the next third highest risk, 4 for the fourth highest risk and 5 for the least serious risk*

The bubble size shows the overall assessment of the risk: the percent of respondents who selected it as top 5 risk x weighted risk assessment. The overall score is provided in the label. The x-axis is the risk assessment of those respondents who selected it as a top 5 risk multiplied by weighted risk assessment. The y-axis is the percentage of respondents who selected the issue as a top 5 risk

Figure 1.7 illustrates the significance of three other items, each of similar likelihood, one with higher impact related to jobs and another two related to trade (overall growth in trade but also protectionism). The fifth item in the Figure concerns the lack of political leadership, which is associated with a lower level of likelihood but greater impact. We discuss each of these items in later sections.

Figure 1.8 compares respondents' views on risks in 2019 and 2020, which illustrates the greater attention now given to health pandemics. The red shaded results are in the top 10 group for each year, the darker the shade the more respondents selected that item. The blue shaded results are components of the bottom half, where the darker blue the fewer respondents selected the risk. As seen in the table very few respondents picked health pandemics as a risk in 2019 - in fact it was the least frequently selected risk by respondents. This year it was the most frequently selected risk.

Other items and ones consistently seen as risks to growth throughout the period include (in addition to those in Figure 1.7):

- A slowdown in the Chinese economy
- A slowdown in the US economy
- Failure to implement structural reforms
- Climate change
- Unsustainable Debt

Figure 1.8: Comparison of Risks: 2019 and 2020		
Risk	2019	2020
Health pandemics	4%	63%
Slowdown in world trade growth	54%	52%
Increased protectionism and trade wars	64%	51%
Disappearing jobs	16%	50%
A slowdown in the Chinese economy	48%	35%
A slowdown in the US economy	44%	33%
Lack of political leadership	35%	33%
Failure to implement structural reforms	32%	31%
Climate change	26%	24%
Unsustainable debt	17%	18%
Natural disasters	11%	16%
Fluctuation of oil prices	15%	15%
Food security	7%	14%
Shortage of available talent/skills	14%	13%
Sharp fall in asset prices	12%	8%
Energy security	9%	8%
Cyber attacks	14%	8%
Increasingly restrictive digital environment	8%	7%
Unfavorable currency realignments	14%	6%
A slowdown in the Japanese economy	5%	4%

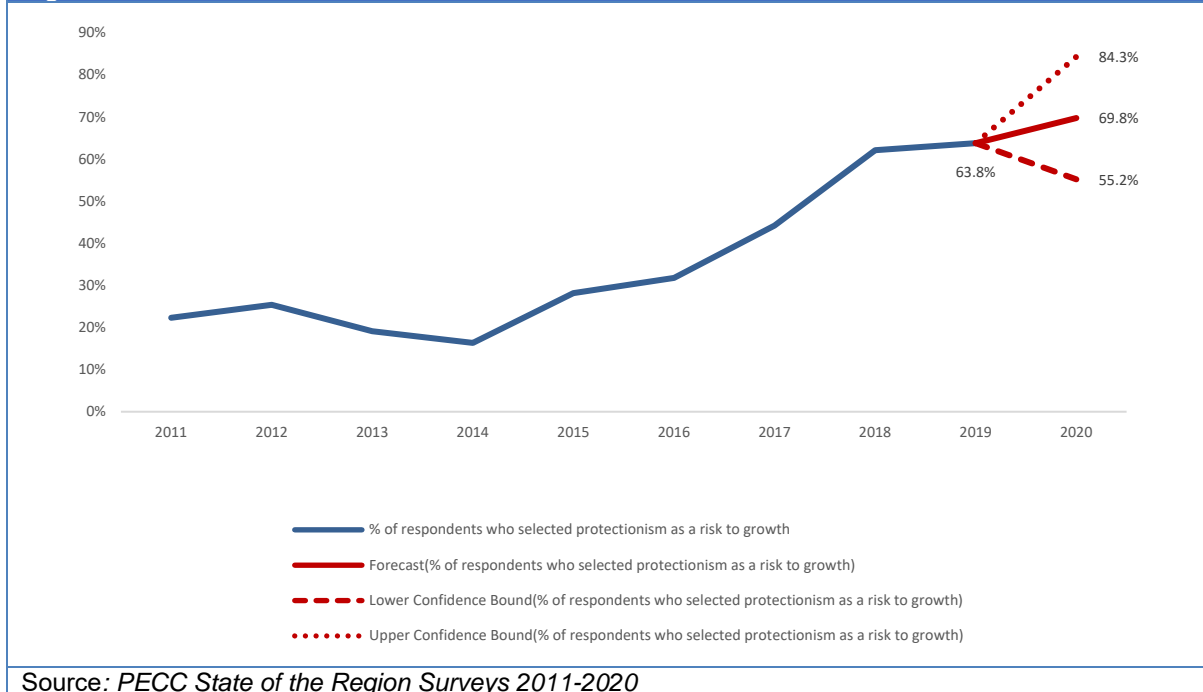
Although not in the top ten list, there was a large rise in the percentage of respondents who selected food security as a risk to growth, especially among respondents from Southeast Asia, 21 percent of whom selected it as a top ten item. Least concerned were respondents from Oceania, only 4 percent of whom selected food security as a risk. This divergence suggests the possibility of stronger cooperation on this issue between the two sub-regions.

An excellent example of this cooperation, and an illustration of the regional leadership in the response, is the Declaration on Trade in Essential Goods for Combating the Covid-19 Pandemic signed on 15 April by Singapore and New Zealand which includes food products. (This and other examples of a regional response are discussed in the section on cooperation below). This builds on the earlier Joint Ministerial Statement to ensure supply chain connectivity amidst the COVID-19 situation among nine economies (Australia, Brunei Darussalam, Canada, Chile, Laos, Myanmar, New Zealand, Singapore and Uruguay).

Increased Protectionism and Trade Wars

Protectionism has been rising as a risk to growth over the past 10 years. The percentage of respondents selecting protectionism as a top 5 risk to growth for their economy has been steadily growing from 25 percent in 2011 to 64 percent in last year's survey. To illustrate the significance of this risk, and based on this trend in survey responses, the 2020 figure would have been expected to have increased again (shown in Figure 1.9). Instead, the result was 51 percent. Its significance has been crowded out, at least temporarily.

Figure 1.9: Protectionism as a Risk to Growth



Source: PECC State of the Region Surveys 2011-2020

However, the result that protectionism is now the 4th highest risk brings little comfort. The risk of protectionism, especially as economic growth plummets is a grave concern. The experience of the Great Depression and of the Global Financial Crisis, and their consequences for protection, should not be lost on policy makers. Significantly, G20 Trade Ministers agreed

“that emergency measures designed to tackle COVID-19, if deemed necessary, must be targeted, proportionate, transparent, and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules.”

They also agreed that

“We will ensure smooth and continued operation of the logistics networks that serve as the backbone of global supply chains. We will explore ways for logistics networks via air, sea and land freight to remain open, as well as ways to facilitate essential movement of health personnel and businesspeople across borders, without undermining the efforts to prevent the spread of the virus.”

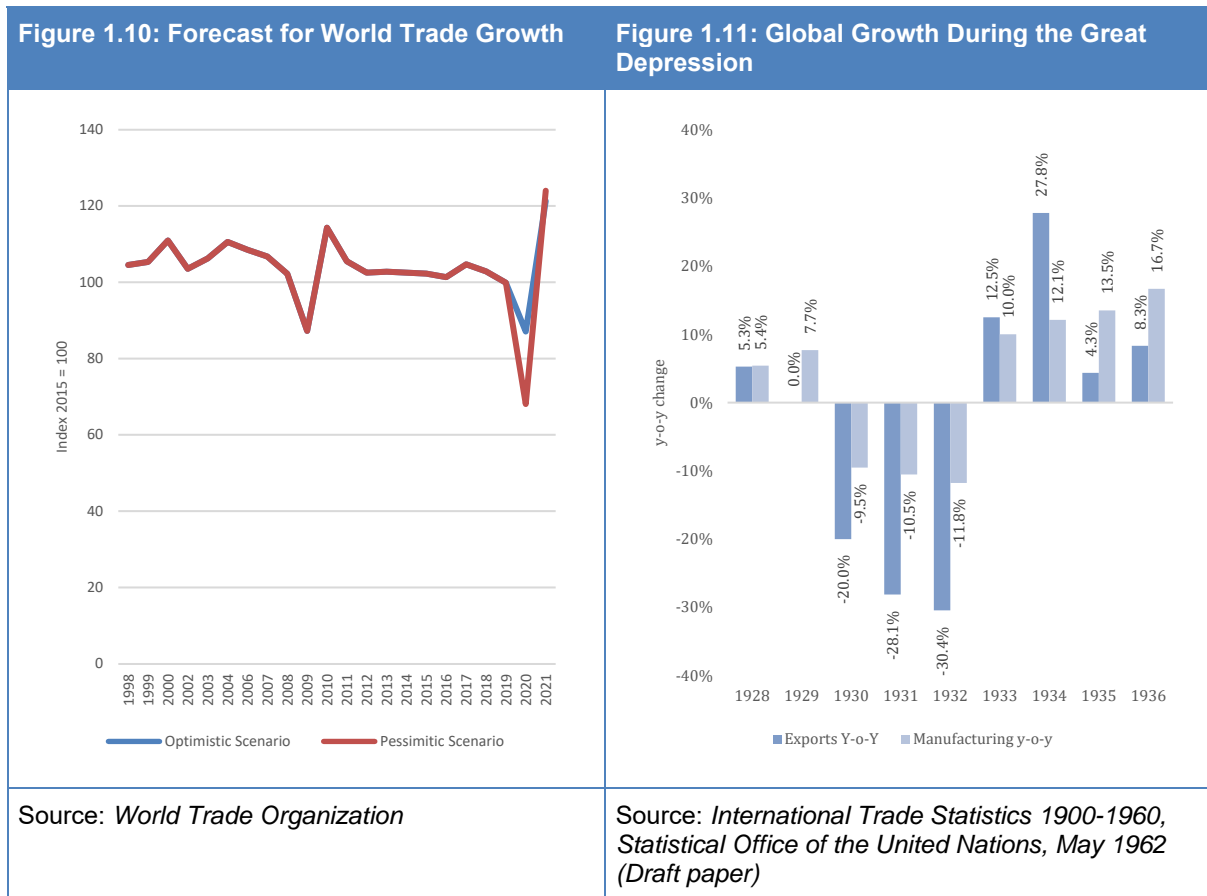
Both APEC Trade Ministers and importantly ASEAN Leaders have agreed to variations on this language.

Slowdown in World Trade Growth

A slowdown in world trade growth was already a top 5 risk in the 2019 survey and remains high on the list of our community’s concerns. Even the most optimistic scenario by the WTO is for a contraction in world trade of 13 percent, with the most pessimistic at 32 percent, as shown in Figure 1.10. The more optimistic outcome is that the WTO currently expects a V-Shaped recovery in 2021 as the global economy recovers, but again this is contingent on numerous factors such as the length of the crisis, and policy measures adopted, including the reversal of “temporary” measures adopted during the crisis. There is positive news in this respect: the latest WTO Report on G20 Trade Measures⁴ found that by mid May 70% of all COVID-related trade measures were trade facilitating. Of the measures which were trade restricting export bans had accounted for 90 percent, but also by mid May 36 percent of restrictive measures had been repealed. The WTO Director General observed that

⁴ https://www.wto.org/english/news_e/news20_e/report_trdev_jun20_e.pdf, 29 June 2020.

...not since 2014 have import-facilitating measures implemented during a single monitoring period covered more trade. There are signs that trade-restrictive measures adopted in the early stages of the pandemic are starting to be rolled back.⁵



Much has been made of the comparison between the depth of this crisis and the Great Depression. Data on the actual impact of Great Depression was developed after it took place, as noted by the APEC Policy Support Unit the measurement of

“GDP was ... conceived in the 1930s in the aftermath of the Great Depression... trying to understand the causes and impacts of the Great Depression”⁶

Figure 1.11 is derived from a post-hoc analysis done by the United Nations in the 1960s, which shows the year-on-year change for two indices that the UN created, the value of total exports for a group of 22 economies and manufacturing production. As seen in Figure 1.11, exports began to fall precipitously in 1930 at twice the rate of overall manufacturing and then at 3 times the rate in 1931 and 1932 as economies around the world began to raise levels of protection. Eichengreen and Irwin calculate that the ad valorem rise in trade costs between 1928 and 1935 was in the region of 8 to 24 percent depending on the bilateral relationship.⁷ During the 2008-2009 crisis, high frequency data also show that global trade fell much more steeply than overall aggregate demand (see below). Despite the initial success of multilateral cooperation in preventing a descent into tit-for-tat protectionism as had been feared at that time, it too was followed by what was initially creeping protectionist measures but eventually became increasingly hostile trade relations. The IMF has estimated that the impact of trade tensions on global GDP was around 0.8 percent in 2019.⁸

⁵ https://www.wto.org/english/news_e/news20_e/trdev_29jun20_e.htm

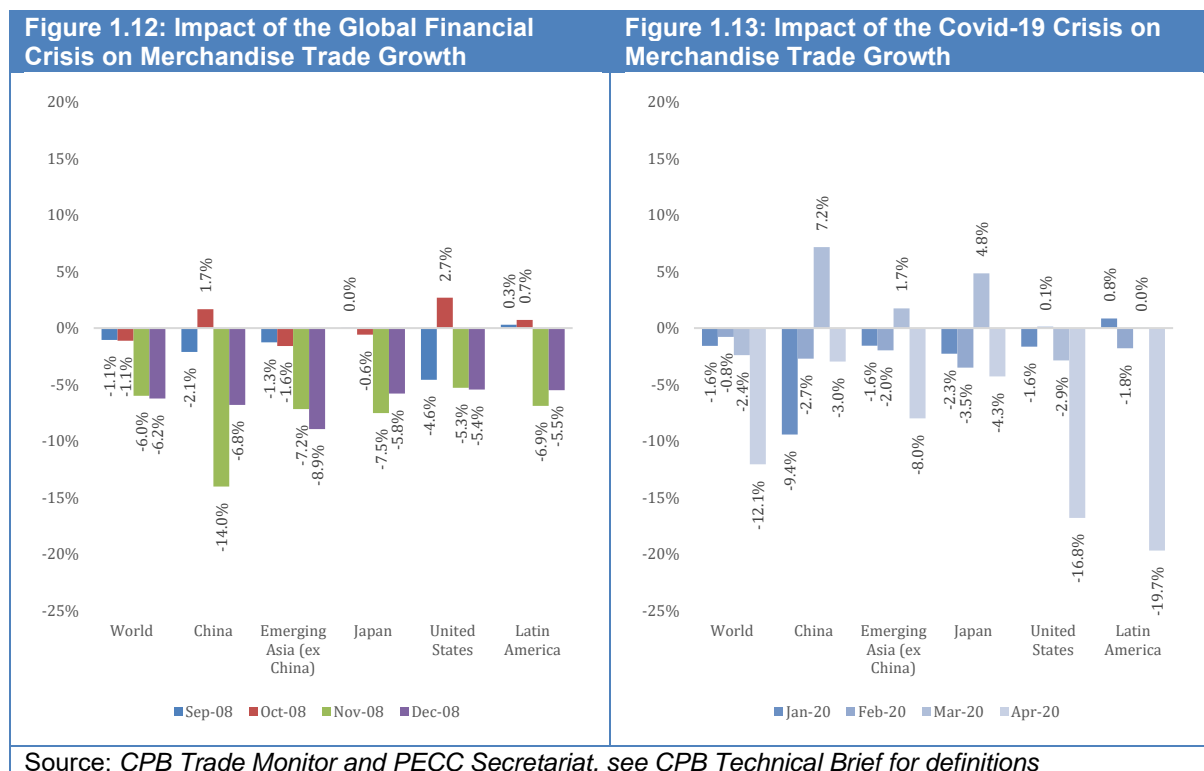
⁶ <https://www.apec.org/Publications/2019/11/APEC-Regional-Trends-Analysis-Counting-What-Counts>. APEC is continuing to work on ideas related to the development of measures of national well-being.

⁷ Barry Eichengreen and Douglas A. Irwin, “The Slide to Protectionism in the Great Depression: Who Succumbed and Why?” NBER Working Paper, 15142, Accessed on 1 July <http://www.nber.org/papers/w15142>

⁸ <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>

In the current context, there are once again significant fears of rising protectionism, especially export restrictions in response to shortages of medical supplies. However, international agreements amongst G20, APEC, and ASEAN to constrain behavior discussed below thus far have prevented the kind of systemic breakdown witnessed in the 1930s. Even so, further pressures on supply chains and missteps that discourage investment and production need to be watched carefully. As described by Eichengreen and Irwin, the breakdown of the system in the 1930s did not happen overnight nor in response to single events. While the global system is now more robust than it was then, with global safety nets and flexible exchange rates in place, the slide into protectionism in the 1930s led to three consecutive years of global trade and production decline.

The Covid-19 Crisis has highlighted the importance of high-frequency quality data to understand both the readiness of societies to cope with a crisis of this nature but also to assess the efficacy of policy interventions (see section below).⁹ Data on trade by month available from the CPB World Trade Monitor (WTM) summarizes worldwide data on international trade and industrial production covering a sample of 86 economies.¹⁰ Figure 1.12 and 1.13 show respectively the impact of the Global Financial Crisis (September to December 2008) and the Covid-19 Crisis (January to April 2020) on merchandise trade.



In Figure 1.13, world trade decreased by 12.1% month-on-month (while world industrial production decreased 8.1%) in April 2020. The trade fall was much sharper than the decline during the Global Financial Crisis (compare Figure 1.12). Also, the COVID crisis differs in the sequencing of the impact across economies, impacting economies at different times, as we also noted earlier with respect to the data in Figure 1.1. It occurs with varying severities especially in the early phases, which has valuable consequences for policy cooperation. As seen in Figure 1.13, the crisis hit East Asia earliest with the supply side crunch. Merchandise trade for China fell by 9.4 percent led primarily by a fall on the export side. As the crisis progressed other economies have also become more affected by the crisis as shown in the drop in world trade. Baldwin and Evenett argue that this situation created an opportunity, but one which (as we have seen) may not have been understood and grasped:

“implies that buyers can switch between suppliers and so reduce the risks of depending on any one of them. This facet of globalization should be seen as a massive risk mitigation device. But for international trade to deliver its magic, supply routes must be kept open. Too many governments

⁹ In a related matter, one of APEC’s priorities this year under Malaysia’s leadership has been to discuss how to improve the narrative of trade and investment including joining the debates on the measurement of GDP.

¹⁰ CPB Netherlands Bureau for Economic Policy Analysis, “CPB World Trade Monitor, April 2020”, accessed on 27 June 2020, <https://www.cpb.nl/en/worldtrademonitor>

turning inward would frustrate this, exacerbate the coming collapse in world trade, and represent an unforced error of historical proportions. The price paid is not abstract – it is in lives lost.”¹¹

Disappearing Jobs

As shown in Figure 1.4 above, based on the IMF’s April estimates, the unemployment rate in the Asia-Pacific is expected to increase from an estimated 3.9 percent of the labor force to 5.5 percent, or a year-on-year increase of 39 percent. This brings unemployment levels to the same depths as those during the Global Financial Crisis. This is a conservative estimate, not only because of the downgrade in the overall economic growth forecast since then, but data from the International Labor Organization (ILO) show that global working hours declined in the first quarter of 2020 by an equivalent to approximately 130 million full-time jobs. For the second quarter the ILO expects the equivalent to 305 million full-time jobs to be lost.¹² The numbers may understate the fall in employment because a large number of people have left the workforce. There may also be a lag effect as some economies have implemented wage subsidies which have delayed recorded unemployment.

‘Disappearing jobs’ has leapt from being the 11th highest risk to growth in the 2019 survey to the 2nd highest risk. Concerns of respondents at that time might have been more about digitization and automation and their impact on employment. The current crisis has had direct impacts on employment but these original concerns remain, and in fact may be accelerated by the crisis and the experience of the response to it, including new ways of doing work.

The increases in unemployment vary by sub-regions. The worst hit by far will be North America where the rate of unemployment is expected to more than double from 3.8 percent to 9.1 percent. Next worst hit will be Oceania where unemployment is expected to increase from 5.2 percent to 8.2 percent, followed by Southeast Asia, Pacific South America and then Northeast Asia.

These figures are affected by significant informal employment in a number of Asia-Pacific economies, where the impact may not be counted, as well as by different measurement systems. This crisis is also different in its extremely rapid impact. For example, in the United States alone unemployment in April rose by 20 million. However, the expectation is that once quarantine measures are lifted, many people will return to the same employers – a survey by the US Federal Reserve found that among those who had lost a job in March 2020, 91 percent had already returned to work for the same employer or expected to do so.¹³ This is seen in the latest data which showed a decline in the US unemployment rate.¹⁴ In short, the situation is extremely volatile and difficult to assess a continual theme of this report.

High rates of employment in the informal sector put workers at risk, when the shutdowns impede their access to customers, since they are not covered by social welfare systems. Previous work by PECC has proposed that structural reforms will bolster the creation of formal sector jobs by lowering the costs of hiring and firing. This, as well as wage and working hours flexibility plus improved social insurance coverage for laid-off permanent workers, can help bring members of such disadvantaged groups from informal into formal sector employment.¹⁵

The ‘gig economy’ provides opportunities for self-employed workers. As noted by the 2017 APEC Economic Policy Report

apps like Uber and Grab give people an opportunity to provide transport services and earn revenue.¹⁶

But these jobs typically also lack social insurance. More recent data suggests that high rates of turnover of workers registering on these platforms go down as outside employment options improve. For many people such jobs are either seen as temporary solutions until better jobs can be found, or they are secondary jobs that provide supplemental income.¹⁷

¹¹ Richard E. Baldwin and Simon J. Evenett, “COVID-19 and Trade Policy: Why Turning Inward Won’t Work”, (CEPR Press London 2020)

¹² International Labor Organization, “COVID-19 and the world of work. Third edition,” ILO, accessed on 23 June 2020, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_743146.pdf

¹³ Federal Reserve Board, “Report on the Economic Well-Being of U.S. Households in 2019”, accessed 19 May, 2020, <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf>

¹⁴<https://www.bls.gov/news.release/pdf/empsit.pdf>

¹⁵ PECC, “State of the Region Report 2015-2016”, accessed 19 May 2020, <https://www.pecc.org/state-of-the-region-reports/271-2015-2016-new/652-chapter-1-structural-reforms-as-drivers-of-growth-and-inclusion>

¹⁶ APEC Economic Committee, “2017 APEC Economic Policy Report”, accessed 19 May, 2020, <https://www.apec.org/Publications/2017/11/2017-APEC-Economic-Policy-Report>

¹⁷ Federal Reserve Board

These social issues are significant in the response to the pandemic. Quarantine policies which are effective have to be fully aligned with economic and social policy. For example, unless people know that their healthcare will be paid for, they are likely to postpone early treatment and stay active, especially if they lack a savings cushion, increasing health risks for society. Also, some commentary on the COVID experience, or looking forward on the design of a response to a second wave if it occurs, are that quarantine policies could be designed in a more specific way for particular groups in society, which deals more efficiently with the expected impacts of the pandemic.¹⁸

A further point for policy attention is the differentiated impact the crisis has had on specific sectors or forms of employment.¹⁹ For example, of the estimated 20 million job losses in the United States in April, 37 percent were in the leisure and hospitality sector. Of those jobs more than 80 percent were in food services and drinking establishments. With respect to forms of employment, staff in some economies have been encouraged to work from home, yet those most able to do so are likely to be relatively highly skilled with higher incomes. Mid skill workers are more likely to be laid off. Low skill workers may continue to work in various essential services other than health (eg public transport).²⁰ As noted above, the COVID experience may also encourage the digitization of mid skill jobs, reinforcing the trend of hollowing out of the labor force by skill level.

Lack of Political Leadership

A lack of political leadership was the 5th highest risk in this survey, and respondents continue to assess its impact as being relatively large (Figure 1.7). As seen in Figure 1.8 it was also a top 5 risk in 2019, a similar 33 percent of respondents selected it as a risk to growth for their economy compared to last year which was at 35 percent. There were considerable variances among sub-regions on this risk: more respondents from the North America and Pacific South America selected this as a risk to growth than other sub-regions 51 percent and 41 percent respectively, compared to Southeast Asia, Oceania and Northeast Asia, 35 percent, 27 percent and 22 percent respectively.

Generally, in times of crisis, attention is drawn to the capacity of leaders, their popularity can shift significantly and diverge across levels of government. Support rises for those who appear to be dealing with the issue, while others suffer. However, that shift in support may be based on the health measures adopted. A wider range of views is likely to be held with respect to economic management, where respondents to this survey may also be taking a longer-term view. Their response may well be linked with concerns over the inability of the political leadership to address consistent concerns over growing protectionism, the failure to implement structural reforms, or the ability of governments to extract themselves from their current participation in the economy.

¹⁸ Baqaee, David, Emmanuel Farhi, Michael J. Mina, and James H. Stock. 2020. "Policies for a Second Wave." BPEA Conference Draft, Summer. <https://www.brookings.edu/bpea-articles/policies-for-a-second-wave/>

¹⁹ US Bureau of Labor Statistics, <https://www.bls.gov/opub/ted/2020/payroll-employment-down-20-point-5-million-in-april-2020.htm>

²⁰ <https://www.theaustralian.com.au/world/coronavirus-the-essential-workers-wholl-keep-australia-ticking-along/news-story/cb7992b6ae722afd0838f17e61338e01>

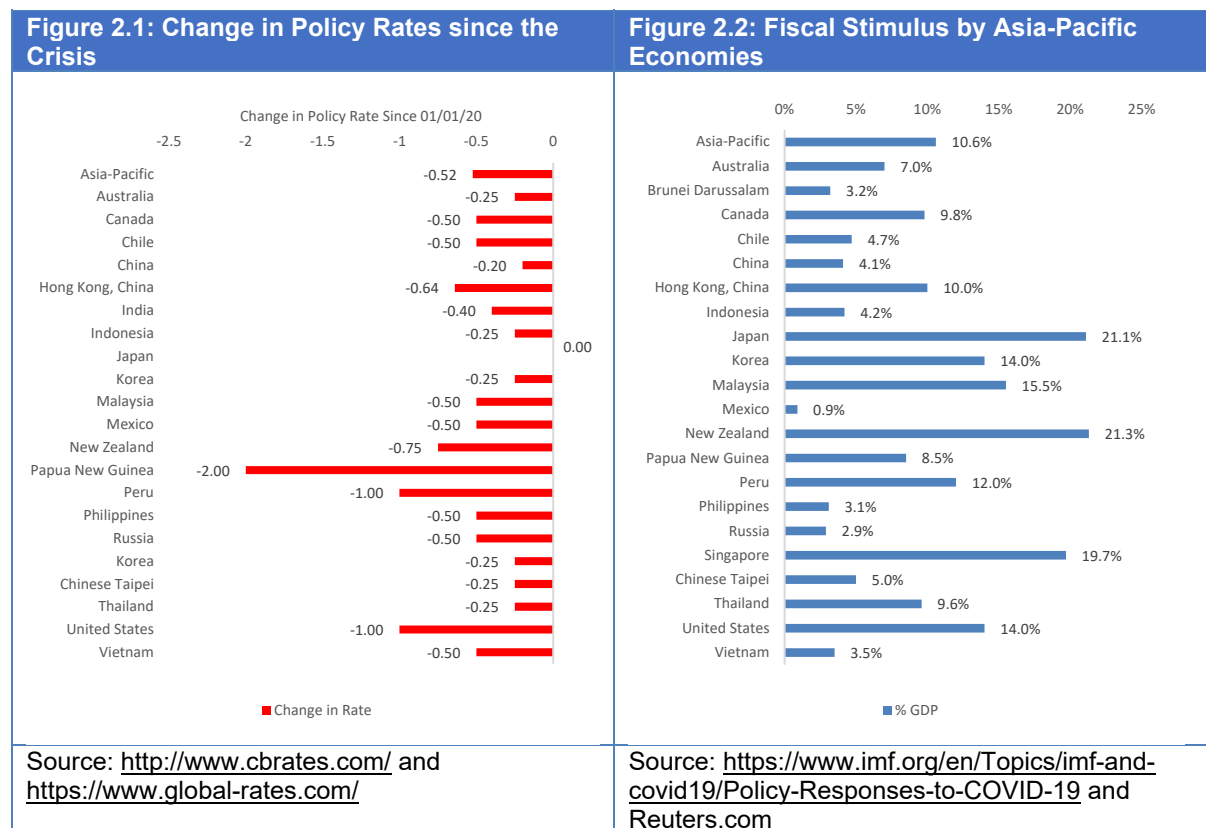
Chapter 2: From Survival, Stimulus and Exit Strategies

A major concern as the crisis has unfolded is its multi-dimensional nature: as a health and humanitarian crisis, as an economic crisis, and with the risk of a financial crisis as well. Governments have acted swiftly to abate the impacts in these areas, that is: by containing the spread of the virus, injecting massive unprecedented monetary and fiscal stimulus to support those in need and restoring some semblance of confidence in markets.

What has prevented a freefall in economies have been massive stimulus measures adopted by governments. As seen in Figure 2.1, governments across the region have cut interest rates by an average of 0.5 points, this is at a time when they were already at historic lows following the long and drawn out recovery from the Global Financial Crisis. But Central Banks did act to cut policy rates and as seen later, regional currencies have recovered some of their earlier losses against the US dollar.

Fiscal responses and Financial Markets

More importantly governments have been implementing fiscal stimulus packages to assist people and businesses struggling through these difficult times. As shown in Figure 2.2 these stimulus packages vary in their magnitude – as a percentage of Asia-Pacific GDP they are approximately 10.6 percent of the economy. Their total value is \$5.4 trillion, compared to an estimate of the global total of US\$11 trillion²¹, but this does not include central bank funding. Estimating the amount of stimulus is difficult as it includes what the IMF refers to as ‘above the line’ – revenue and expenditure measures as well as ‘below the line’ measures - loans and equity injections. Other examples of complementary measures have included



easing insolvency requirements, arranging rent and bank loan reductions or repayment deferrals.²² In spite of the massive stimulus, there remain deep concerns in financial markets about the future trajectory of growth and jobs.²³

²¹ International Monetary Fund, World Economic Outlook, June Update, “A Crisis Like No Other”, accessed on 23 June 2020, <https://www.imf.org/~/media/Files/Publications/WEO/2020/Update/June/English/WEOENG202006.ashx>

²² Fiscal Monitor April 2020, “Policies to Support People During the COVID-19 Pandemic”, accessed on 7 July, 2020, <https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020>

²³ Michelle Jamrisko and Gregor Stuart Hunter, “When \$8 Trillion in Global Fiscal Stimulus Still Isn’t Enough”, Accessed on 1 May 2020, <https://www.bloomberquint.com/china/when-8-trillion-in-global-fiscal-stimulus-still-isn-t-enough>

International coordination and cooperation would help restore confidence, as it did during the Global Financial Crisis, as well as build a sense of direction to support future growth.

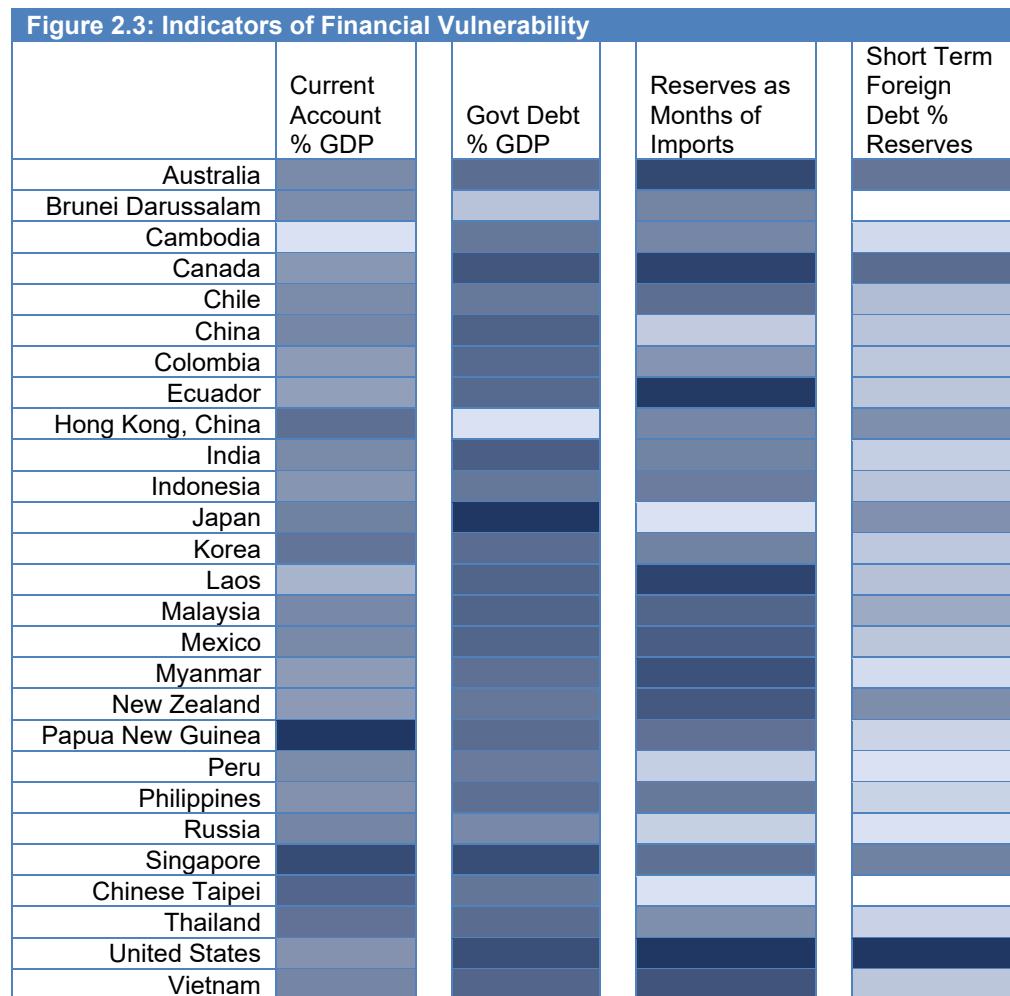


Figure 2.3 is designed by a numerical approach to some key indicators of financial vulnerability: current account balance as a percentage of GDP; government debt to GDP; reserves as months of imports and short-term foreign debt as a percentage of reserves although we omit the actual numbers for simplicity. The darker the bar the more 'vulnerable'. The assessment is made relative to others within the group rather than compared to a global norm. Many other many factors come into play. But as seen in Figure 2.3, relative to their advanced economy peers, emerging economy have relatively strong financial conditions, eg lower public debt to GDP ratios. Moreover, since the Asian Financial Crisis of 1997-98 many emerging Asian economies have amassed significant reserves well-beyond the traditional benchmark of 3 months of imports. Beyond that, in comparison to advanced economy peers, short-term debt to total reserves are significantly lower. The region remains scarred by two financial crises which may contain the appetite of policy-makers to go beyond certain limits in the advent of capital flow reversals. While regional economies do not suffer from significant debt burdens, coordination and cooperation would support a bolder approach to fiscal stimulus on the part of the region's emerging economies. They would be more confident of the impact of their fiscal measures.

There are regional mechanisms to facilitate this cooperation. The ASEAN+3 Macroeconomic Research Office (AMRO) was established following the 1997-98 crisis with a mandate to conduct macroeconomic surveillance. Participants in the APEC process will recall the disappointment of members following the 1997-98 crisis and therefore may consider what it might do to assist, given the developments that have taken place since then. APEC officials seek to fulfill the mandate from the APEC Trade Ministers Statement on Covid-19 issued on 5 May to develop a

“coordinated approach to collecting and sharing information on policies and measures, including stimulus packages for the immediate responses to the economic crisis and long-term recovery packages”

In this context, East Asian discussion and cooperation that is based in ASEAN+3 mechanisms such as AMRO could usefully be extended to the APEC Finance Ministers' process. While not necessarily including all APEC members such a dialogue would help to avoid duplication of effort and help to identify gaps in information and data necessary for strengthening policy cooperation and coordination.

Feedbacks from financial markets, in response to both the COVID events and the fiscal policy responses, including longer term risks associated with the growth of debt, are also important to consider in the transition to recovery.

Regional stock markets had plunged by as much as 28 percent during the third week of March (Figure 2.4). The drop was more extreme for the region's advanced economies which fell by over 30 percent compared to the region's emerging economies stock markets which fell by a GDP weighted average of 20 percent. However, since those depths in March, confidence has started to restore due to the measures taken by governments, and although recovering somewhat equity markets are still down since the beginning of year by an average of 12 percent. In addition, markets remain highly volatile and there are significant risks of financial contagion between different segments of the market and among economies. There appears to be a current lack of connection between 'Wall Street and Main Street.'

A similar story is seen on the foreign exchange front. While exchange rate adjustment is one source of resilience for economies, of more immediate concern is a drop in the value of a currency due to capital flight which has been a considerable concern especially for emerging market economies. A basket of 20 Asia-Pacific currencies weighted for goods and services trade was at its lowest against the US dollar on 25 March having lost 6 percent in value since the beginning of the year. Emerging markets have fared slightly worse losing 7 percent against the US dollar compared to the region's advanced economies which lost 5 percent. However, as with equity markets, currencies have also rebounded somewhat since their nadirs, and stand at around 4 percent lower from their value at the beginning of the year.

According to the data reflected in Figure 2.3 many of the region's emerging economies have relatively strong positions vis-à-vis key indicators of financial vulnerability, However, East Asia's debt is still large in absolute terms, and growing with the fiscal stimulus recently applied.²⁴ Also the valuation of reserves in Figure 2.4 can shift quickly, since about 10 percent are in equities and 7 percent in bonds.²⁵ However, as noted, the historical scarring of the last 25 years may leave many policy-makers wary of greater exposure at a time when markets are so volatile. The IMF urges caution as well, noting the never-before-seen levels of debt relative to global GDP (over 100 percent).²⁶ It argues for consideration to be given to sustainable fiscal balances through plans in the medium term to promote growth, raise revenue and add to efficiency in spending (in both respects efficiency improving measures are feasible, including carbon taxes (former) and removing subsidies (latter)).

Over the longer term but of significant concern for policy-makers today is the issue of the impact of crisis on interest rates. Currently low rates support the use of debt to finance the fiscal stimuluses. The additional government spending required to support economies during the crisis has in most cases been financed by increased public debt. Gavin Goy and Jan Willem van den End review the literature on this issue and find alternative viewpoints – some like Jorda discussed below expect lower long-term interest rates while others such as Summers point to the increased supply of government bonds having an upward effect on the equilibrium interest rate. They argue that

“to bolster potential growth, it is important that public spending supports private investments and productivity by creating growth enhancing conditions, e.g. by spending on infrastructural projects that would elicit private activities.”

Krugman argues that debt sustainability is not an issue as long as interest rates remain below the nominal growth rate – that is very much dependent on effective returns on investment. There are other issues to consider such as social and public goods but in terms of debt sustainability, low interest rates cannot be taken for granted.²⁷

²⁴ Homi Kharas, “What to do about the coming debt crisis in developing countries”, accessed on 30 April, 2020, <https://www.brookings.edu/blog/future-development/2020/04/13/what-to-do-about-the-coming-debt-crisis-in-developing-countries/>

²⁵ Danae Kyriakopoulou, “Beyond swap lines”, Official Monetary and Financial Institutions Forum, 19 March 2020, <https://www.omfif.org/2020/03/beyond-swap-lines/>

²⁶ <https://blogs.imf.org/2020/07/10/fiscal-policies-for-a-transformed-world/>

²⁷ Gavin Goy and Jan Willem van den End, “The impact of the COVID-19 crisis on the equilibrium interest rate”, 20 April 2020, <https://voxeu.org/article/impact-covid-19-crisis-equilibrium-interest-rate>

G20 Central Banks have agreed to

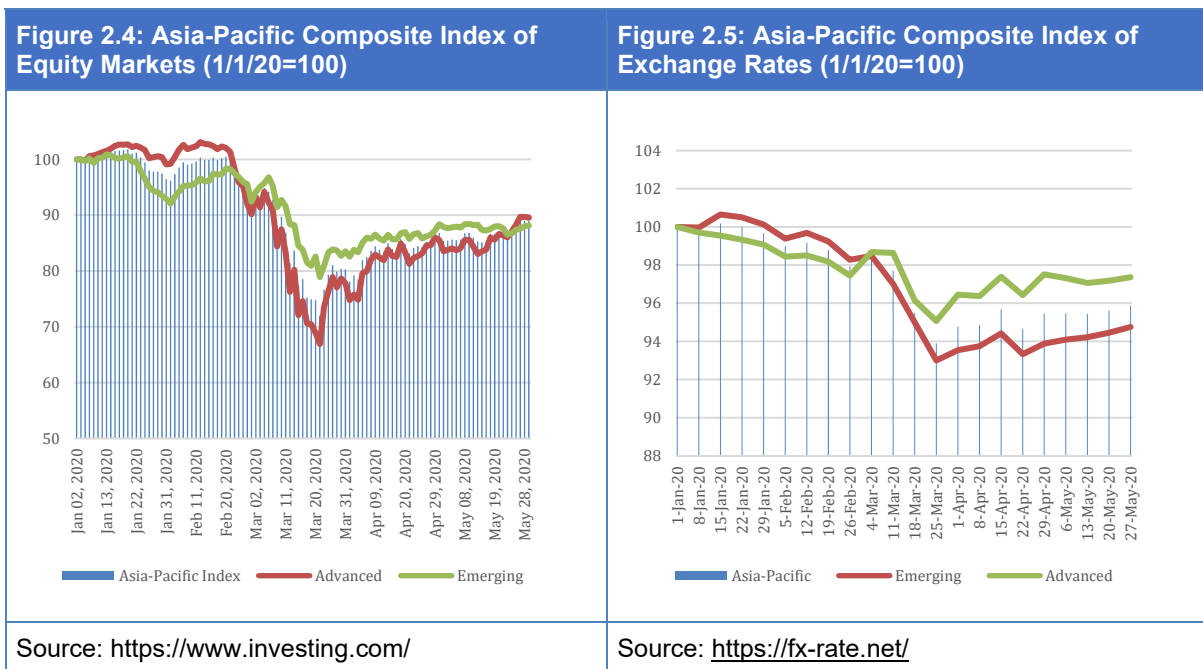
“use all available policy tools to support the global economy, boost confidence, maintain financial stability and prevent deep and prolonged economic effects”,

But risks remain, including those of contagion in financial markets and, over the medium to long term, of secular stagnation, as evident in the results of the PECC survey.

With respect to contagion risks, because of the nature of the role of the US dollar as the global reserve currency, one action that would prevent currency outflows for those with floating exchanges rates is to establish and extend swap arrangements. The Federal Reserve has said that these agreements could

“help lessen strains in global U.S. dollar funding markets, thereby mitigating the effects of these strains on the supply of credit to households and businesses, both domestically and abroad”.²⁸

Indonesia for example is in talks with central banks around the region on ‘second lines’ of defense.²⁹ In the same way that information sharing should be integrated in forums across the region, so too is it timely to have broader discussion of the adequacy of the financial safety net – including IMF financial resources and the connection between regional and global financial crisis mechanisms – in a range of Asia-Pacific forums. Again, East Asian discussions and cooperation that is based in ASEAN+3 mechanisms, in this case such as the Chiang Mai Initiative Multilateralization (CMIM), could also usefully be extended to the APEC Finance Ministers’ process. One of the biggest challenges in strengthening the global safety net is in obtaining U.S. agreement to extend the financial resources of the IMF and improve its governance (while maintaining a U.S. veto). APEC is one forum where Asia can have this necessary conversation with the United States.



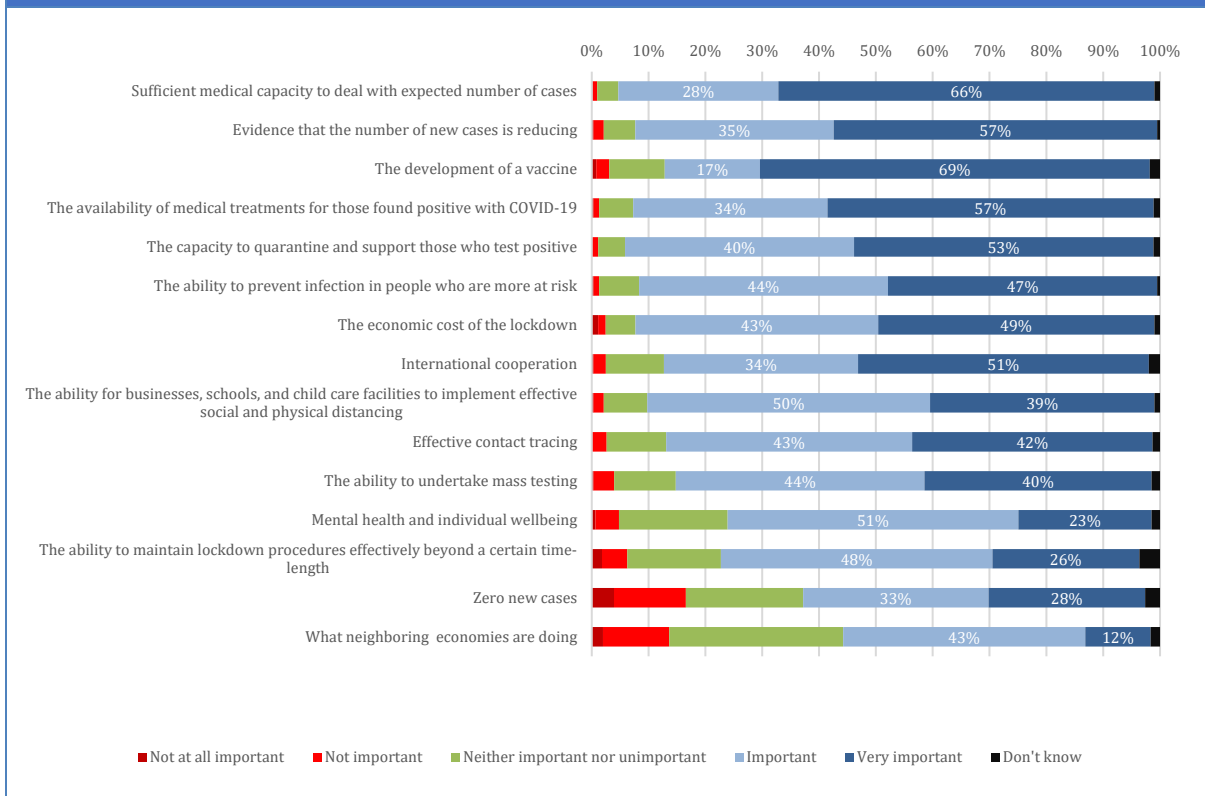
The Mechanics of Leaving the Lockdown

Given the heterogeneity of the Asia-Pacific region we wanted to understand whether there would be large differences between members of the policy community from different economies on the factors to be considered for their economy’s exit from lockdown. A list of 15 issues was selected and respondents were asked to give their opinion on the importance of each of them. One hypothesis that we wanted to test was whether the economic cost of lockdown policies would be a higher consideration for emerging economies compared to advanced economies.

²⁸ US Federal Reserve Press Release, “Federal Reserve announces the establishment of temporary U.S. dollar liquidity arrangements with other central banks”, 19 March 2020, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200319b.htm>

²⁹ <https://www.thejakartapost.com/news/2020/04/02/bank-indonesia-in-talks-with-us-china-on-currency-swaps.html>

Figure 2.6: Factors for Consideration for Exiting from Lockdown



Source: *State of the Region Survey on Covid-19 Crisis*
Question: *How important do you think each of the following should be to the consideration in your economy of exiting from lockdown?*

Figure 2.6 above shows the list in order of their importance. The top 5 (where relatively higher weight is given to 'first order issues') were:

- Sufficient medical capacity to deal with expected number of cases (including hospital beds, doctors and nurses, personal protective equipment, and medical supplies)
- Evidence that the number of new cases is reducing
- The development of a vaccine
- The availability of medical treatments for those found positive with COVID-19
- The capacity to quarantine and support those who test positive

This is followed by a group of three other items which attracted relatively high support. These included the ability to prevent infection in people who are more at risk, which is also related to another on this list which is the cost of the lockdown. A more targeted approach to the former may ameliorate the burden of the latter. But also in this group of three is international cooperation. Indeed, a theme of this report is its value in assisting the response to the crisis, and our respondents concur with that view.

The capacity to achieve goals related to social distancing, to test and also to contact trace and to isolate those affected are not common talking points in the discussion of exit strategies. The relaxation of restrictions on people movement in the short term will depend on their operation in many economies. These aspects are also being given greater attention as some economies have attempted to relax restrictions, only to see infections rise again. It is of interest that survey respondents put these measures in a third tier of priorities, following public health matters, economic consequences and international cooperation.

Figure 2.7 below provides a different way of thinking about these factors. The darker items shaded red are those with higher percentages of respondents selecting as very important in the first column or important in the second column.

Overall, health considerations remain the top priority for respondents, prior to relaxation of lockdown conditions, for example, the capacity of the health care system, support for those who are ill or at risk, quarantine capacity, and even the development of a vaccine. Items such as the economic cost of these measures or the extent of international cooperation are middle ranked. Aspects such as tracing and testing are further down the list.

Figure 2.8 which shows the results for respondents from advanced and emerging economies; there was a remarkable degree of convergence. Because of the relative similarity in overall scores, to give greater contrast, the chart shows how each sub-sector ranked the issue in terms of its importance.

There were four issues on which respondents from emerging and advanced economies had a different perspective:

- Development of a vaccine: respondents from emerging economies ranked this as 2nd most important while those from advanced economies ranked it 5th
- International cooperation: respondents from advanced economies ranked it 6th highest while those from emerging economies ranked it 9th.
- Ability to prevent infection in people who are more at risk: emerging economy respondents rank this 6th highest while those from advanced economies 8th.
- The ability for businesses, schools, and childcare facilities to implement effective social and physical distancing: this was ranked 8th most important for emerging economy respondents and 10th for those from advanced economies.

Other than these four issues, the gap between advanced and emerging economies was no more than one place in ranking.

The issues of medical capacity generally remain a primary consideration. As has been noted, economies around the region and the world were not sufficiently prepared for a pandemic of this magnitude. Sadly, this was well-known even before it happened, an assessment of pandemic preparedness done just last year notes that

'no [economy] is fully prepared for epidemics or pandemics. Collectively, international preparedness is weak. Many [economies] do not show evidence of the health security capacities and capabilities that are needed to prevent, detect, and respond to significant infectious disease outbreaks. The average overall Global Health Security (GHS) Index score among all 195 [economies] assessed is 40.2 of a possible score of 100'.³⁰

In the midst of the crisis some economies have been building the capacity to deal with the expected number of cases. This has involved building temporary hospitals in a record number of days,³¹ and supply chains have responded quickly to the need to supply more ventilators,³² personal protective equipment,³³ face masks,³⁴ and hand sanitizer.³⁵ It turns out that many industrial processes are relatively malleable.

While factories can be retooled, training medical personnel is much harder. This has led to some pressures on mobility of people as well. For example, during the crisis the Philippines issued a ban on medical personnel leaving. Given that Filipinos account for a substantial proportion of nurses in many economies in the world, this could have been problematic but eventually the order was rescinded.

³⁰ Center for Health Security, Johns Hopkins University, "Global Health Security Index 2019", Accessed on 27 March 2020, <https://www.ghsindex.org/>

³¹ Tom Fowdy, CGTN, "How can China build a hospital in six days?" Accessed on 2 February 2020, <https://news.cgtn.com/news/2020-01-26/How-can-China-build-a-hospital-in-six-days--NyU1BM3X1A/index.html>

³² Tom Perkins, The Guardian, "Can Detroit's automakers solve America's ventilator crisis?" Accessed on 23 June 2020, <https://www.theguardian.com/world/2020/apr/05/automakers-gm-ford-ventilators-coronavirus-detroit>

³³ The News Desk, Jakarta Post, "COVID-19: Textile factories face hurdles as they switch to producing medical gear", Accessed on 23 June 2020, <https://www.thejakartapost.com/news/2020/03/30/covid-19-textile-factories-face-hurdles-as-they-switch-to-producing-medical-gear.html>

³⁴ <https://www.abc.net.au/news/2020-03-31/packaging-company-to-create-surgical-face-masks-for-coronavirus/12105226>

³⁵ <https://www.beerandbrewer.com/breweries-team-up-with-distilleries-to-produce-hand-sanitiser/>

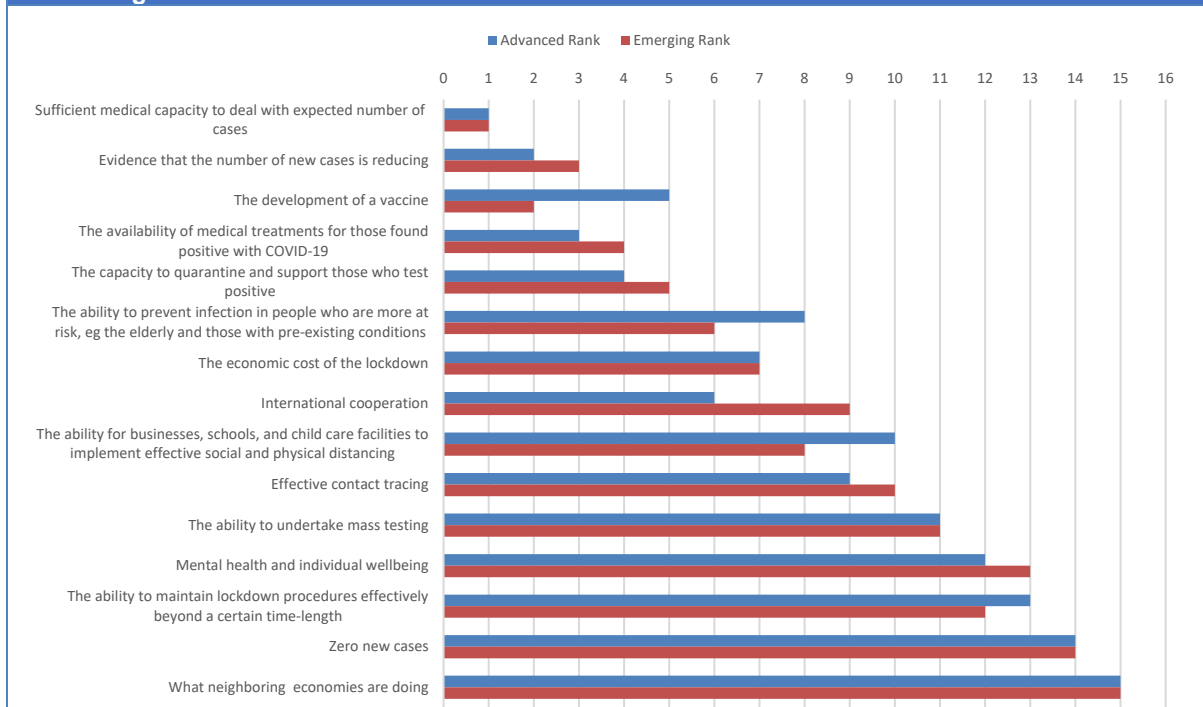
Figure 2.7: First and Second Order Issues for Exiting from Lockdown

Issue	First Order "Very important"	Second Order "Important"
Sufficient medical capacity to deal with expected number of cases (including hospital beds, doctors and nurses, personal protective equipment, and medical supplies)	66%	28%
Evidence that the number of new cases is reducing	57%	35%
The development of a vaccine	69%	17%
The availability of medical treatments for those found positive with COVID-19	57%	34%
The capacity to quarantine and support those who test positive	53%	40%
The ability to prevent infection in people who are more at risk, eg the elderly and those with pre-existing conditions	47%	44%
The economic cost of the lockdown	49%	43%
International cooperation	51%	34%
The ability for businesses, schools, and childcare facilities to implement effective social and physical distancing	39%	50%
Effective contact tracing	42%	43%
The ability to undertake mass testing	40%	44%
Mental health and individual wellbeing	23%	51%
The ability to maintain lockdown procedures effectively beyond a certain time-length	26%	48%
Zero new cases	28%	33%
What neighboring economies are doing	12%	43%

This approach reveals, for example, the importance as a secondary issue of ‘mental health and well-being’. Only 23 percent of respondents selected it as a very important issue for consideration but 51 percent selected as important. Under the weighted scoring system, it ranked 14th out of 15, but it was ranked highest as a second order issue. This approach helps to highlight an important concern for policy-makers in areas still under lockdown to take into account. Even now hotlines for mental health report record increases in calls around the world.³⁶

³⁶ Xiangyun Lim, “Our approach to mental health needs to change. COVID-19 will force us to” Accessed on 22 June, 2020, <https://www.channelnewsasia.com/news/commentary/covid-19-may-worsen-mental-health-in-singapore-12703566>

Figure 2.8: Differences between Emerging and Advanced Economy Responses on Priority Issues for Exiting from Lockdown



Source: *State of the Region Survey on Covid-19 Crisis*. Question: *How important do you think each of the following should be to the consideration in your economy of exiting from lockdown?*

Long Term Impact on Business

To understand perceptions about the possible lasting consequences of the Covid-19 crisis for business in the region, respondents were asked to give their levels of agreement or disagreement on a series of propositions.

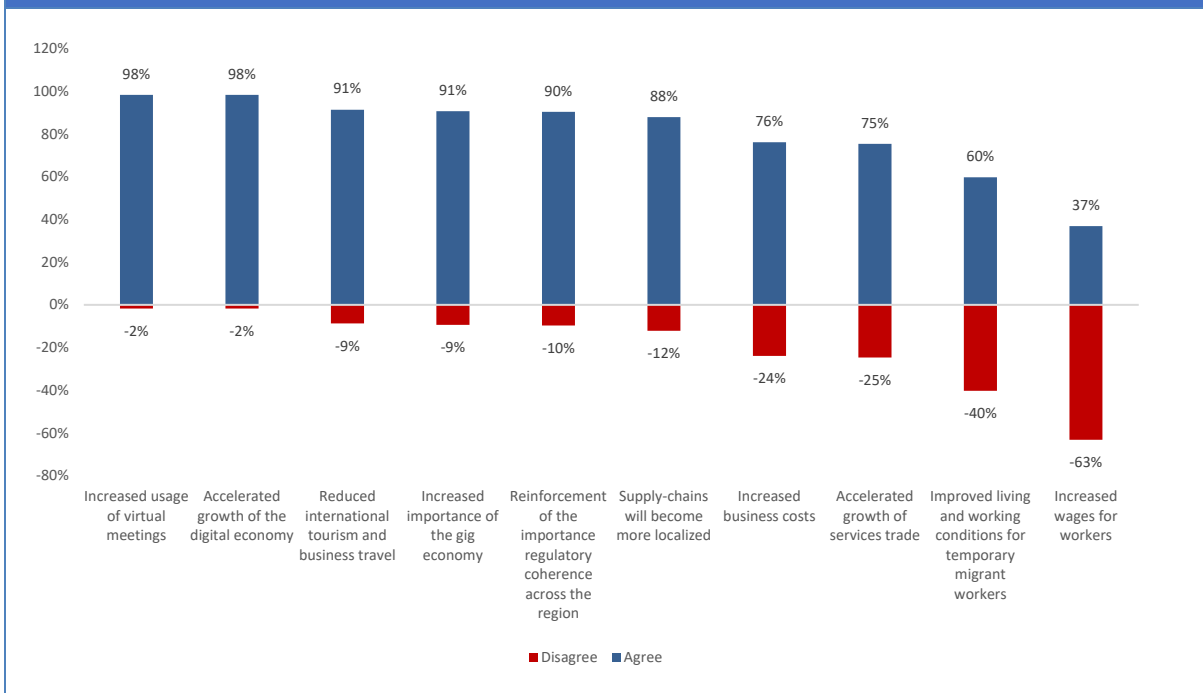
As shown in Figure 2.10 and 2.12, given the very rapid acceleration of video-conferencing and digital technology during the crisis it is also not surprising that there was almost unanimous agreement on the increased usage of virtual meetings and the accelerated growth of the digital economy, along with a reduction in travel.

There is a strong expectation that supply chains will become more localized, and that the value of regulatory coherence will rise in this context. There is some expectation of the growth of services trade and of a rise in business costs, although a quarter of respondents expect the opposite in each case.

There were mixed results on outcomes for workers. This finding is not surprising given the impact that the crisis has had on unemployment and indeed on wages with many workers being asked to take pay-cuts. However, longer-run studies of the impacts of pandemics on wages over the past 700 years show on average a deviation of 5 percent above the baseline for a period of years after the end of pandemic.³⁷ Other impacts include increased precautionary saving and lower long-term interest rates.

³⁷ Óscar Jordà, Sanjay R. Singh, and Alan M. Taylor, “*Longer Run Economic Consequences of Pandemics*”, NBER Working Paper 26934, Accessed on 12 June 2020, <https://www.nber.org/papers/w26934.pdf>.

Figure 2.9: Please indicate your level of agreement/disagreement with the following statements about the lasting consequences of the COVID-19 crisis on the ways in which business is conducted



Source: *State of the Region Survey on Covid-19 Crisis*. Question: *Please indicate your level of agreement/disagreement with the following statements about the lasting consequences of the COVID-19 crisis on the ways in which business is conducted.*

The Accelerated Growth of the Digital Economy

Figure 2.10 shows the number of weekly downloads of business apps. At the beginning of the year the weekly average was around 33.5 million downloads, by February it had grown to above 40 million and then as economies around the world implemented lockdown policies and closed offices the download of business apps skyrocketed to above 80 million a week in April. While global trade has fallen sharply, the digital economy has grown exponentially. Can this shift ameliorate the fall-off in more traditional economic activity?

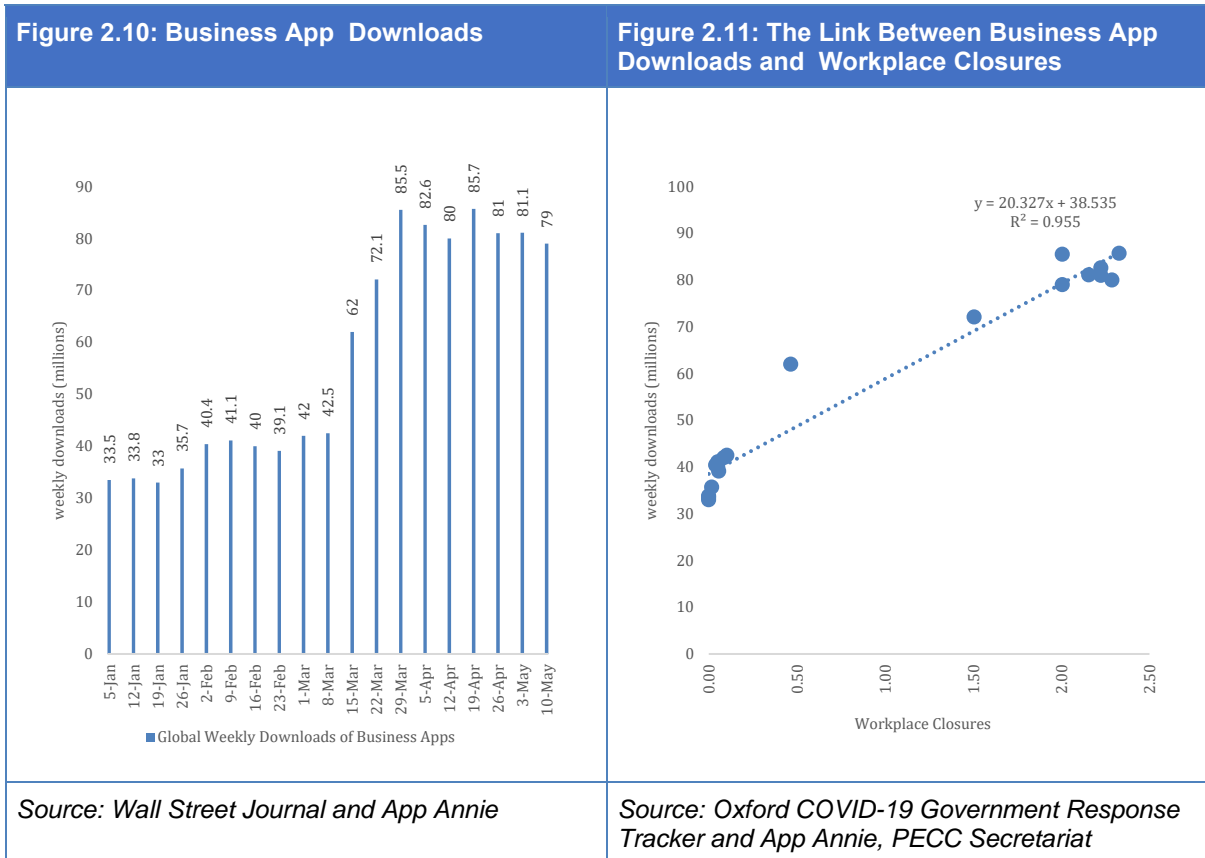
The relationship between the growth of the digital environment and the closure of traditional workplaces is illustrated in Figure 2.11. The values in the tracker are as follows:

- 0 - No measures
- 1 - recommend closing (or work from home)
- 2 - require closing (or work from home) for some sectors or categories of workers
- 3 - require closing (or work from home) all-but-essential workplaces (eg grocery stores, doctors)

The figure shows the positive relationship, as expected, between closures and downloads. The global mean average for the workplace closures peaked (so far) at a value of 2.33 with 57 percent of economies in the group at level 3, 28 percent at level 2, 7 percent at level 1 and 9 percent at level 0.

While much of humanity has been locked down, the digital economy has been a lifeline for millions if not billions. Demand for access to the internet has risen sharply. Companies like Netflix and Google have had to reduce the quality of their streaming content to reduce congestion on the internet.³⁸ This experience highlights the value of the achievement of APEC’s goals on the Internet and Digital Economy Roadmap. For example, two of the key focus areas in the Roadmap are especially relevant at this point:

³⁸ Cliff Venzon, *Nikkei Asian Review*, “*Philippines asks Netflix to drop streaming quality to ease congestion*”, Accessed on 12 May 2020, <https://asia.nikkei.com/Spotlight/Coronavirus/Philippines-asks-Netflix-to-drop-streaming-quality-to-ease-congestion>



- Development of digital infrastructure
- Achievement of universal broadband access

Information from the private sector, particularly digital companies can be critical in the response to the crisis, for example, in providing more targeted and effective support to households and to vulnerable companies, especially micro and small and medium companies. In a case study of China’s response during the crisis, the digital economy was found to have the following advantages:

- Relatively complete credit rating systems specifically for SMEs and individual e-commerce sellers through the use of big data;
- Real-time monitoring of debtors with the help of big data, blockchain finance, supply chain financing and other technologies;
- Lending practices that are free from geographical restrictions that can provide SME credit on a larger scale; and
- The ability to complete credit transactions remotely online, which helps prevent and control the epidemic.³⁹

One particularly important aspect of the digital economy during the crisis has been the ability to complete contactless transactions, essential when social distancing measures are in place to control the spread of the epidemic. This was possible in China with the high levels of online banking/digital wallet adoption.

A recent report from the IMF confirms these findings, arguing that

“during the COVID-19 health crisis, digital financial services can and are enabling contactless and cashless transactions. Where digital financial inclusion is advanced, they are helping facilitate the

³⁹ Yi Huang, Chen Lin, Pengfei Wang and Zhiwei Xu, “Saving China from the coronavirus and economic meltdown: Experiences and lessons”, in “Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes”, eds Richard Baldwin and Beatrice Weder di Mauro (London: CEPR., 2020), 77
<https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes>

efficient and quick deployment of government support measures, including to people and firms affected by the pandemic.”

However, the same report affirms the importance of making progress on the agenda APEC had outlined in its Roadmap on the Internet and Digital Economy, warning that while fintech can lead to more inclusive outcomes, unequal access to digital infrastructure, lack of access to mobile devices amongst others could lead to new forms of exclusion.⁴⁰

There is scope to use private sector data for the analysis of policy responses. A team at Harvard University is now using anonymized data from private companies to understand the impact of the crisis at a highly disaggregated level of locality and income groups. The team has been able to demonstrate the impact of the crisis on consumer spending as well as the efficacy of stimulus policies in almost real time. A very important finding for policy-makers concerns the drivers of the change in demand. The authors report that

“...it is the fear of Covid-19 itself, not executive orders restricting business activity, that are the primary cause of reduced economic activity and job loss.”

In short unless the health crisis is solved, even lifting the lockdown condition will not restore economic growth. Amongst the authors' public policy recommendations is that

“the only way to drive economic recovery is to invest in public health efforts that will restore consumer confidence and spending.”

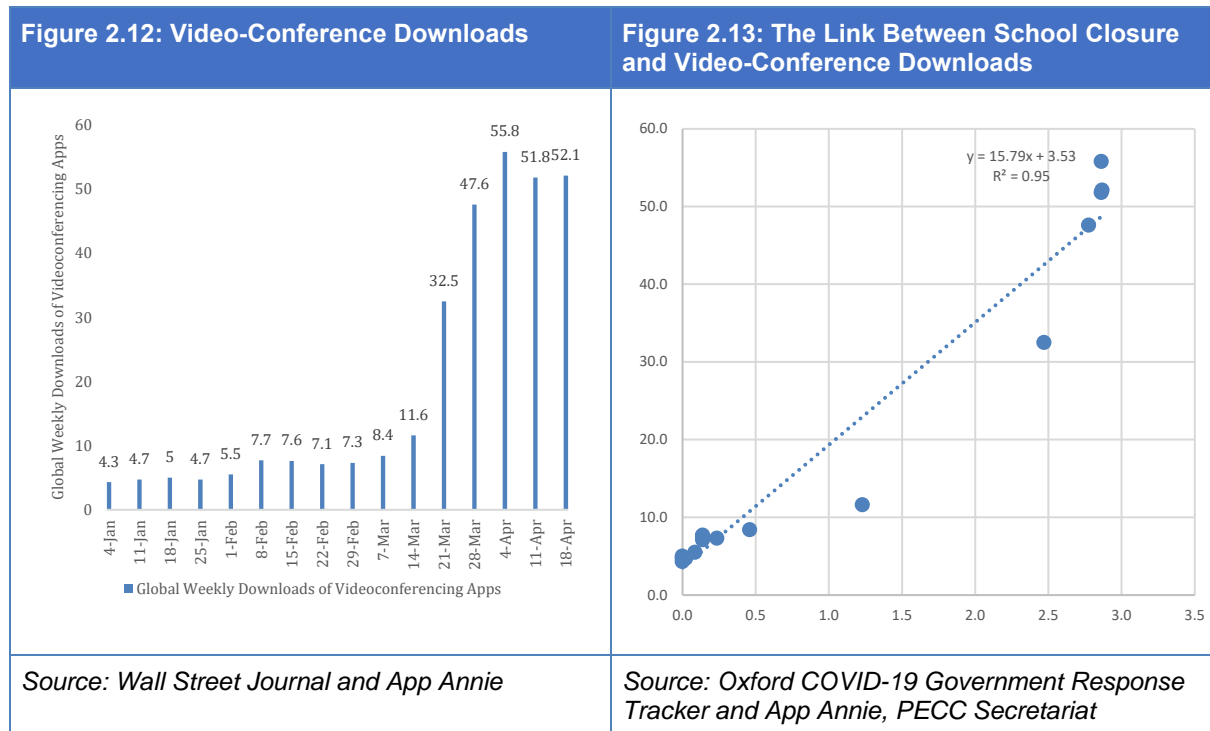
This finding coincides with the PECC survey findings above on the most important conditions for exiting from lockdown.

While limited to the United States, the Harvard University authors believe that much of the methodology could also be replicated in emerging economies as well since the data come from internationally active companies such as credit card firms. The findings of the research are very complementary with the China case study on the importance of having information and feedback mechanisms. Given APEC's desire to look beyond GDP as a measure of performance, the exigencies of the Covid-19 as well as its focus on the digital economy, the Digital Economy Steering Group, in cooperation with the Economic Committee, might seek to examine these developments in the economics research literature.⁴¹

⁴⁰ Ratna Sahay, Ulric Eriksson von Allmen, Amina Lahreche, Purva Khara, et al, “*The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era*”, The International Monetary Fund, Washington DC, 2020, accessed on 2 July 2020, <https://www.imf.org/~/media/Files/Publications/DP/2020/English/PFFIEA.ashx>

⁴¹ Raj Chetty, John N. Friedman, et al, “*How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data*”, accessed on 20 June 2020,, https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

Opportunity for More Inclusive Education with Digital Technology



The digital economy has not just been a lifeline for businesses during the great lockdown. It has allowed millions of school children and university students to continue with their education. Figure 2.12 presents data similar to that in Figure 2.10 but limited to video-conferencing apps such as Teams and Zoom. From a base of around 4.5 million weekly downloads in January, this leaps to 50 million in April. Figure 2.13 shows the correlation between the downloads of video-conferencing apps and school closures around the world.

As in the case of workplace closures a similar story is shown, as schools closed more people downloaded video-conferencing apps. There were of course many other things happening at the same time – including office closures that also use video-conferencing apps. If data were available for purely educational apps downloads a similar story would likely arise, as there is plenty of anecdotal evidence. For example, Microsoft has partnered with the Ministry of Higher Education in Thailand to provide Teams for 150 Universities in Thailand, covering over 60,000 educators and over 2 million students.⁴²

It is not only in business and education that digital has been a lifeline, but also in medicine. With people unable or frightened during lockdowns to easily visit doctors there has been a risk of other sicknesses going untreated. As a result, some telemedicine providers have reported massive increase in demand for their services.⁴³

However, barriers remain to the development of digital delivery in these vital sectors such as finance, education, health care and education including

- Lack of high broadband access
- Restrictions on online payment systems
- Lack of digital ID systems
- Overall restrictive services policies

While APEC has work programs that cover these issues with the APEC Services Competitiveness Roadmap and the APEC Internet and Digital Economy Roadmap, this crisis has laid bare significant gaps

⁴² Microsoft Thailand, “Microsoft Thailand strengthens partnership with Ministry of Higher Education” accessed on 14 May, 2020, <https://news.microsoft.com/th-th/2020/03/26/teamsforedu-en/>

⁴³Sherry Stephenson and Jimena Sotelo, “Trade in digital services is booming. Here’s how we can unleash its full potential”, World Economic Forum, accessed on 8 June, 2020, <https://www.weforum.org/agenda/2020/06/trade-in-digital-services-is-booming-here-s-how-we-can-unleash-its-full-potential/>

in soft and hard infrastructure. Trade and investment flows, supported by cooperation on policy change, could play a significant role in addressing these gaps.

In another example of COVID's accelerating effect with respect to the application of digital technology, tourist attractions are providing virtual tours during lockdown, often free of charge but requesting voluntary contributions.⁴⁴ While not able to compensate for the lost revenue due to the lack of visitors, such measures provide some revenue and publicize attractions to new audiences that may generate real visitors in better times.

Will Supply Chains be More Localized?

As seen in Figure 2.14, there was a broad perception across the Asia-Pacific that supply chains will become more localized. However, the extent of this sentiment varies between regions, and is relatively low in Oceania. Expectations of the future of supply chains may have been mixed up with issues connected with the broader range of imported goods and the availability of medical/emergency supplies.

Supply chain expert Hau Lee once said

"top-performing supply chains possess three very different qualities. First, great supply chains are agile. They react speedily to sudden changes in demand or supply. Second, they adapt over time as market structures and strategies evolve. Third, they align the interests of all the firms in the supply network so that companies optimize the chain's performance when they maximize their interests. Only supply chains that are agile, adaptable, and aligned provide companies with sustainable competitive advantage."⁴⁵

With some prescience he goes on to explain that

"While the threat from natural disasters, terrorism, wars, epidemics, and computer viruses has intensified in recent years, partly because supply lines now traverse the globe, my research shows that most supply chains are incapable of coping with emergencies. Only three years have passed since 9/11, but U.S. companies have all but forgotten the importance of drawing up contingency plans for times of crisis."

There are counter-views to those that supply chains will become more localized. First, there is a lot to lose, since the supply chain architecture has provided gains for participating firms: Japanese firms for example are said to believe that that returning home is impractical and uneconomical.⁴⁶ A banking analyst is quoted as saying that the costs of reconfiguring some supply are 'too great'.⁴⁷ At the economy level, supply chains have delivered productivity growth, higher wages than otherwise, FDI flows, technology transfer and positive spillovers to other local firms. Fragmentation and complexity are the travelling companions of these benefits. Second, while the chain structure involves risks, on which the debate is now focused, the question is how best to manage them.

Miroudot⁴⁸ discusses the notions of resilience and robustness in supply chains. The former refers to the ability to recover from and the latter to the ability to continue operating during a crisis. Firms make choices with respect to these dimensions and their strategies differ as a result.

A focus on robustness (which is relevant for medical supplies in a pandemic) would lead to diversification of suppliers: self-sufficiency is not recommended because disasters also occur at home. Miroudot argues there is also value in anticipating disruptions (through transparency of the supply chain, and data on capacity and stocks at different points) and in promoting agility. Miroudot also refers to several examples where supply chains across borders were critical in supporting the delivery of medical products, in other words, those chains proved to be robust. We noted earlier the role of flexible industrial systems in contributing to robustness.

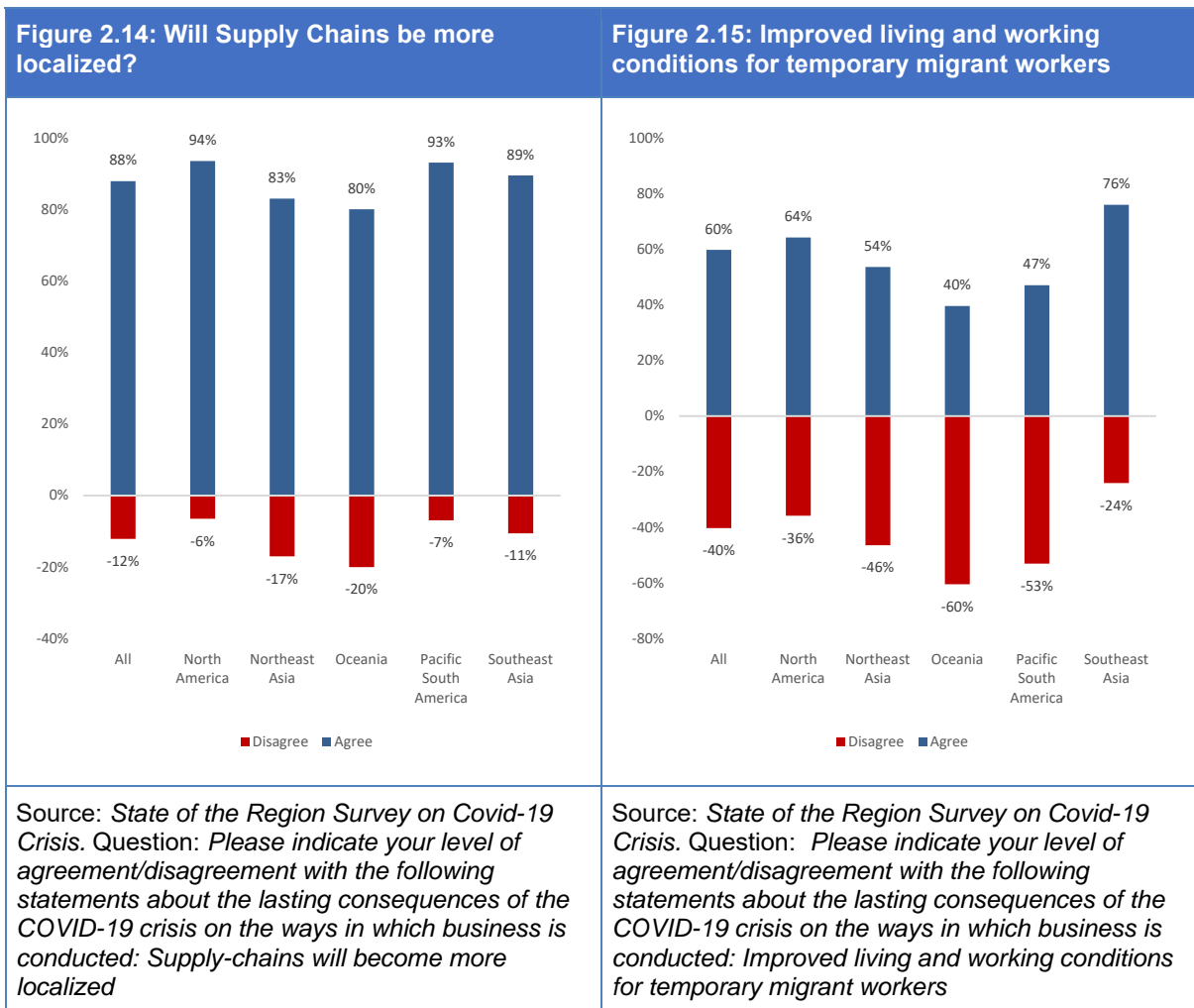
⁴⁴ Lucy Lovell et al, "Check out these virtual tours of museums around the world", Time Out, accessed on 23 April 2020, <https://www.timeout.com/travel/virtual-museum-tours>

⁴⁵ <https://hbr.org/2004/10/the-triple-a-supply-chain>

⁴⁶ Naomi Tajitsu, Makiko Yamazaki, Ritsuko Shimizu, "Japan wants manufacturing back from China, but breaking up supply chains is hard to do", Reuters, 9 June 2020, <https://www.reuters.com/article/us-health-coronavirus-japan-production-a/japan-wants-manufacturing-back-from-china-but-breaking-up-supply-chains-is-hard-to-do-idUSKBN23F2ZO>

⁴⁷ <https://www.ft.com/content/2c4236ac-5b1a-4362-bce1-e8c7e179341d>

⁴⁸ Sébastien Miroudot, "Resilience versus robustness in global value chains: Some policy implications", accessed 24 June, 2020, <https://voxeu.org/article/resilience-versus-robustness-global-value-chains>



However, since it would be costly to be fully prepared for and to maintain a robust network in a global crisis, Miroudot observes in other cases lack of robustness is accepted as a risk and the focus is on resilience. The latter may be supported by fewer suppliers and a long-term relationship with each. Other contributors to resilience are product design (products using more standard inputs) and monitoring and assessment of risks at each point in the chain. The resilience of production networks against supply/demand shocks has been well established in the empirical literature; these structures respond faster once the shock is past.⁴⁹

Better Living Conditions for Migrant Workers

The Covid-19 crisis has also shone a light on the living conditions of migrant workers across the Asia-Pacific. For example, in Canada, reports suggest a relatively high proportion of cases among farming communities where migrants work. Ontario Premier Doug Ford when asked if the province would consider increasing inspections and changing laws regarding communal living in cramped bunk houses, said

"that's something we can put on the table. I've been there and seen the congregate living on these farms. Can we do it a month or so? I just don't think that's a reality," said Ford.⁵⁰

Singapore has also faced an outbreak of Covid-19 amongst the migrant worker population. The government of Singapore recently announced plans to improve the quality of housing. As shown in Figure 2.15, given these experiences it probably not surprising that amongst sub-regions it was North America and Southeast Asia that had the highest level of agreement with the statement that the crisis would lead to "Improved living and working conditions for temporary migrant workers". Interestingly respondents from Oceania were the only sub-region that disagreed with the statement.

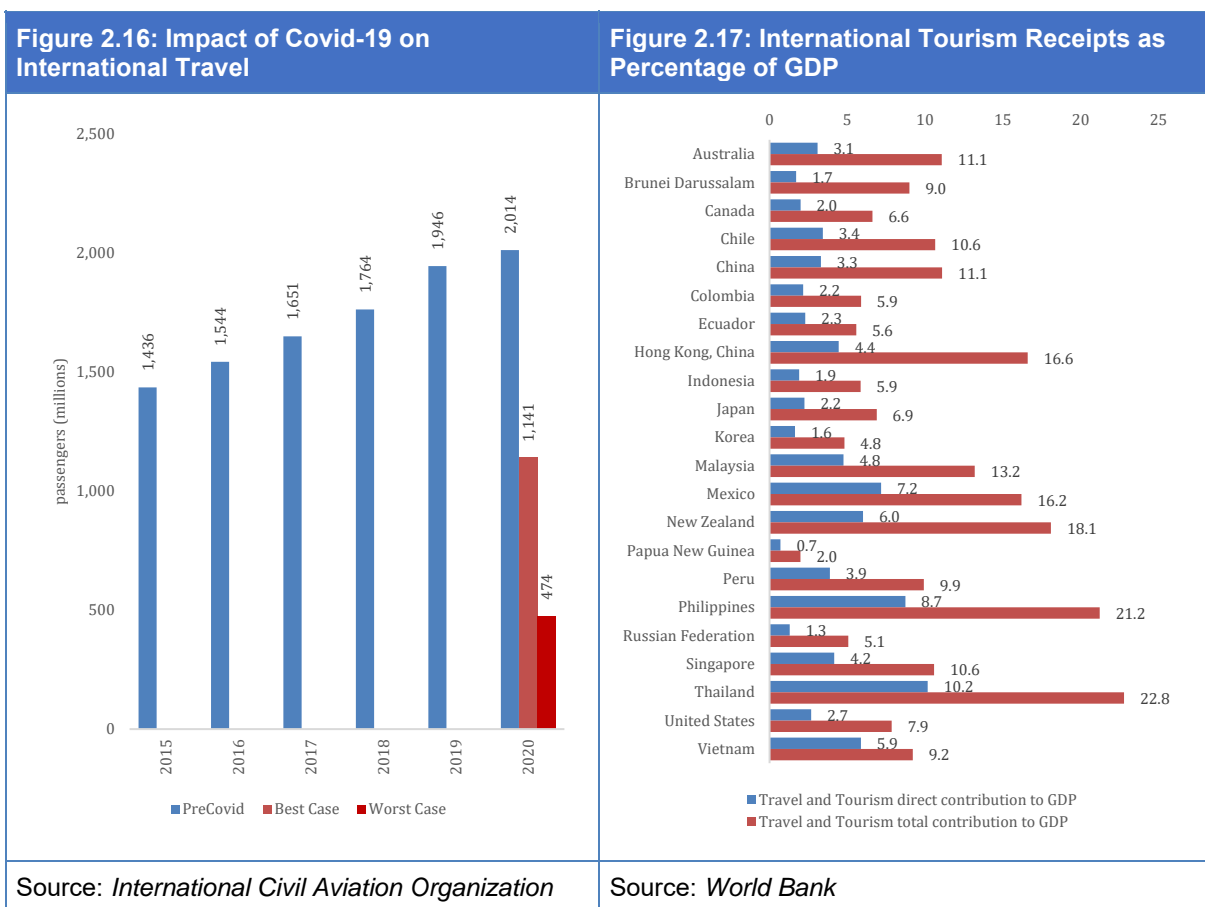
⁴⁹ See the following: <https://www.eria.org/publications/exit-strategies-for-asean-member-states-keeping-production-networks-alive-despite-the-impending-demand-shock/>

⁵⁰ CBC News, "Temporary foreign worker dies due to COVID-19 as disease hits southwestern Ontario farms hard" accessed on 17 June 2020, <https://www.cbc.ca/news/canada/windsor/southwestern-ontario-farms-covid19-migrant-worker-dies-1.5593046>

Connectivity: Jobs and Trade

Unlike the Global Financial Crisis, this crisis has been characterized by an almost complete shut down in international travel. The sharp fall in international travel will have a drastic impact on economies in the region. Tourism receipts accounted for around US\$721 billion in the Asia-Pacific, while the travel and tourism sector’s direct contribution to GDP in the region ranges from around 2-10 percent (see Figure 2.17). The real issue lies however in the contribution that the sector makes to employment. While travel and tourism directly employ 2 to 7 percent of the labor force, the sector indirectly supports more than 20 percent in Thailand and the Philippines⁵¹. Most of these employers are micro, small and medium sized enterprises (MSMEs) with fewer than 50 employees, while a third are micro enterprises employing fewer than 10 people.⁵²

Over the past 10 years the number of international passengers has been growing at an average rate of around 7.5 percent a year, well above the growth of the region’s aggregate demand. The estimated number of international passengers in 2019 was around 1.9 billion and had been expected to surpass the 2 billion mark this year. Now scenarios published by the International Civil Aviation Organization paint a grim picture for the year with a best-case scenario of around 1.141 billion passengers this year and a worst case of around 473.9 million (see Figure 2.16).



There are also likely to be large consequences for trade, especially for micro and small and medium enterprises. Case studies suggests that even with the proliferation of ecommerce trading platforms as many 60 percent of MSMEs continue to travel to source products. The gains that ‘travelers’ have created are significant – those firms who import without traveling are 2.5 months behind the frontier available in the source economy and pay a 12 percent premium.⁵³ With the onset of the Covid-19 traders are no longer able to travel, severely restricting their ability to source new inventory. A significant reason for traders to

⁵¹ The World Travel & Tourism Council, “Economic Impact Reports”, accessed on 23 April, 2020, <https://wtcc.org/Research/Economic-Impact>

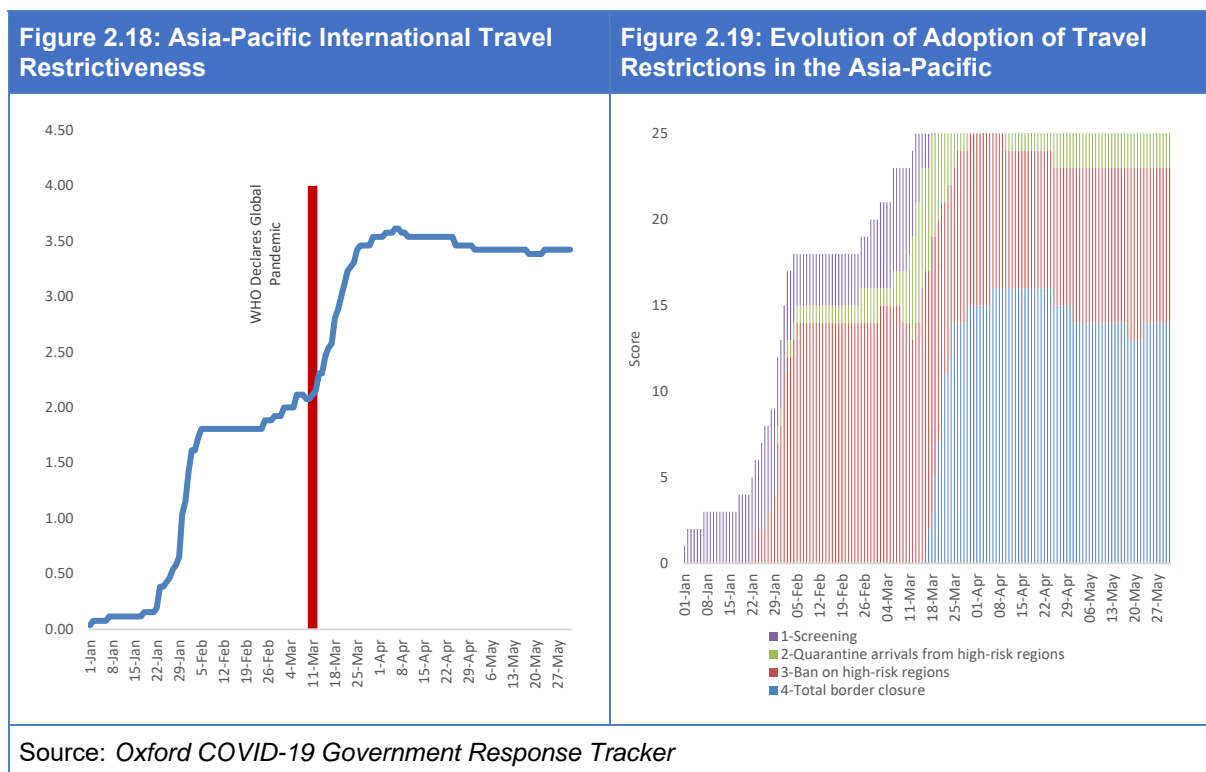
⁵² The International Labor Organization, “The impact of COVID-19 on the tourism sector”, accessed on 23 April, 2020, https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/briefingnote/wcms_741468.pdf

⁵³ Meredith Startz, “The value of face-to-face: Search and contracting problems in Nigerian trade” October 2018, Stanford University, accessed on 24 June 2020, <https://drive.google.com/file/d/1K3NOJdR3Vke2uywfpDjBddpigHCSqyYG/view>

travel is not only to benefit from lower prices but also to gauge trustworthiness of suppliers. Policy prescriptions in the immediate term include removing restrictions which add to the costs of air travel: this is part of the roadmap strategy for reform in the services sector. Longer term proposals are those for ‘improving contract enforceability’ and ‘improving legal systems’ which are structural reform goals.

APEC does however have an initiative that could help in this area. In 2019, APEC established a Collaborative Framework for Online Dispute Resolution (ODR) of Cross-Border Business-to-Business Disputes. The ODR Framework creates a framework for business, (in particular MSMEs in participating economies) to provide technology-assisted dispute resolution through negotiation, mediation, and arbitration for business-to-business claims. Under this ODR Framework, a business may file a cross-border complaint online against a business in another participating economy in cases where both businesses have consented to have such disputes resolved under the ODR framework.

During the first phase of the procedure, the businesses are allowed to exchange information and proposals, and negotiate a binding settlement of their dispute, through electronic means (“Negotiation Stage”). If the parties cannot reach a binding agreement by amicable negotiations, the relevant ODR provider will appoint a qualified online dispute resolution (ODR) neutral to mediate the dispute (and if possible, reach a binding settlement agreement) (“Mediation Stage”) or to arbitrate the dispute (and issue a binding award) (“Arbitration Stage”). The use of artificial intelligence or other modern technology is encouraged in any of the three stages.



As seen in Figure 2.18, the overall level of international travel restrictiveness in the region has evolved over 3 stages

- 1) Stage 1: approximately coinciding with the month of January when the average level of restrictiveness for the region climbed to 1.8
- 2) Stage 2: from the beginning of February to the beginning of March the level was steady at 1.8 and then began to climb again at the beginning of March and sharply so after the declaration of a Global Pandemic by the World Health Organization
- 3) Stage 3: a steady period where the overall average level of restrictiveness has been above 3.4 since the end of March, which value lies between a ban on high risk regions and total border closure.

Figure 2.19 provides a more detailed breakdown of the evolution of travel restrictions adopted by Asia-Pacific economies over the course of the crisis. This more detailed analysis shows how the policy emphasis has shifted over time:

- Screening
- Screening + Ban
- Screening + Ban + Quarantine
- Screening + Ban + Quarantine + Closure

In order to assist the travel and tourism industry, economies have been developing special schemes such as generating alternative revenue; minimizing revenue loss; planning and communication; informing the industry; reducing tax burdens; providing direct financial support; and temporary job reassignment.⁵⁴ However, these policies run risks of cementing existing structures, sustaining businesses that would not otherwise survive (referred to as the problem of zombie firms), and inhibiting innovation. A more efficient policy response is directed at the source of the problem, which is the lack of confidence in travel once economies re-open.

Rebuilding Confidence in Travel: Bubbles and Fast Lanes

A critical part of the transition to the post-crisis period will be rebuilding confidence in international travel once travel restrictions are formally lifted. Already, major aircraft manufacturers have begun studying how the virus behaves during air travel.⁵⁵

Various bilateral or plurilateral projects are underway. The Fast Lane for business travelers between Singapore and China is providing one example that the world can study⁵⁶ while the similar case of the fast track between China and Korea is another.⁵⁷ The planned Trans-Tasman Covid-safe travel zone between Australia and New Zealand or the Trans-Tasman Bubble⁵⁸ will provide the world with a full scale case study in opening up travel between two jurisdictions. Indeed, one consideration that has already been raised is about how the 'bubble' might be extended to neighboring Pacific islands. This is critical for many Pacific island economies for whom tourism often accounts for very large percentages of GDP. The Secretary General of the Pacific Islands Forum, Dame Meg Taylor told an Asia Society Policy Institute event that while several Pacific Island economies had approached New Zealand and Australia about being included in the bubble, the first priority "is that people stay healthy."⁵⁹ Japan has announced that it has begun talks with Vietnam, Thailand, Australia and New Zealand to ease visitor restrictions. News reports suggest that visitors will be subject to taking a polymerase chain reaction (PCR) test for possible coronavirus infection immediately before departure and after arrival and submit schedules of their activities and record their movements using a smartphone app.⁶⁰

While these efforts are welcome, there is value in establishing connectivity between them. Given the international nature of travel, this is an issue most effectively addressed cooperatively and in partnership between consumers, government, and business.

The World Travel and Tourism Council (WTTTC) has developed protocols for:

- Hospitality
- Outdoor Retail
- Aviation
- Airports
- Cruise
- Tour Operators

⁵⁴ Caroline Freund, "We can't travel, but we can take measures to preserve jobs in the tourism industry", World Bank, accessed on 23 April 2020, <https://blogs.worldbank.org/voices/we-cant-travel-we-can-take-measures-preserve-jobs-tourism-industry>

⁵⁵ Andrew Tangel and Alison Sider, "Boeing and Airbus Study How Coronavirus Behaves During Air Travel", *Wall Street Journal*, accessed on 26 May 2020, <https://www.wsj.com/articles/boeing-and-airbus-study-how-coronavirus-behaves-during-air-travel-11590498000>

⁵⁶ Zhaki Abdullah, "Business and official travellers on Singapore-China 'fast lane' arrangement must get COVID-19 swab tests", Channel News Asia, accessed on 4 June 2020, <https://www.channelnewsasia.com/news/singapore/singapore-china-fast-lane-covid-19-swab-tests-business-travel-12798518>

⁵⁷ CGTN, "China and South Korea to allow fast-track entry for business travel", accessed on 23 June 2020, <https://news.cgtn.com/news/2020-04-30/China-and-South-Korea-to-allow-fast-track-entry-for-business-travel--Q6YYyg2hu8/index.html>

⁵⁸ Rt Hon Jacinda Ardern, "Prime Ministers Jacinda Ardern and Scott Morrison announce plans for trans-Tasman COVID-safe Travel Zone", accessed on 16 June 2020, <https://www.beehive.govt.nz/release/prime-ministers-jacinda-ardern-and-scott-morrison-announce-plans-trans-tasman-covid-safe>

⁵⁹ Joshua Mcdonald, "Pacific Island Leaders Weigh Trans-Pacific Bubble With Australia and New Zealand", *The Diplomat*, accessed on 16 June, <https://thediplomat.com/2020/06/pacific-island-leaders-weigh-trans-pacific-bubble-with-australia-and-new-zealand/>

⁶⁰ The Japan Times, "Japan to ease entry for foreign residents and businesspeople", accessed on 18 June 2020, <https://www.japantimes.co.jp/news/2020/06/18/national/japan-talks-ease-travel-curbs-four-countries-says-abe/#>

- Convention Centres, Meeting and Events

Common to all of the protocols developed by the WTTC are the objectives:

- 1) Have the private sector lead the definition of industry best practices as Travel & Tourism moves from crisis management to recovery; and
- 2) Put the safety, health and security of travelers and the Travel & Tourism workforce at the core of the development of global protocols.

As well as the approach:

- 1) Ensure coherence through a coordinated, collaborative, and transparent approach, supported by medical evidence, within the Travel & Tourism sector as well as with governments and public health authorities.
- 2) Share harmonized and consistent protocols which are outcome driven, simple and practical across destinations and economies
- 3) Rebuild trust and confidence with travelers through effective communication & marketing; letting them know the protocols implemented and assurances available to keep them safe.
- 4) Advocate for the implementation of enabling policies to support the recovery and demand regeneration for the sector.

Moreover, given the Pacific Island Forum' observer status in APEC, a technical discussion on the design and application of these protocols would be a valuable opportunity to engage with its members on an issue of almost existential importance to some economies. A technical dialogue could be opened among the agencies implementing the various initiatives to understand how they work and what will be needed as other economies begin to open up. The value of this being with APEC is that it includes major tourist markets.

Relaxing constraints on passenger movements has an important contribution to trade costs. Half of air cargo capacity is in the belly of air passenger flights⁶¹. With the withdrawal of this capacity in the first few months of the year, prices for air cargo were pushed higher. Alexandre de Juniac, IATA's Director General and CEO said⁶²

"At present, we don't have enough capacity to meet the remaining demand for air cargo. Volumes fell by over 15% in March compared to the previous year. But capacity plummeted by almost 23%. The gap must be addressed quickly because vital supplies must get to where they are needed most. For example, there is a doubling of demand for pharmaceutical shipments that are critical to this crisis. With most of the passenger fleet sitting idle, airlines are doing their best to meet demand by adding freighter services, including adapting passenger aircraft to all-cargo activity. But mounting these special operations continues to face bureaucratic hurdles. Governments must cut the red tape needed to approve special flights and ensure safe and efficient facilitation of crew,"

"The capacity crunch will, unfortunately, be a temporary problem. The recession will likely hit air cargo at least as severely as it does the rest of the economy. To keep the supply chain moving to meet what demand might exist, airlines must be financially viable. The need for financial relief for airlines by whatever means possible remains urgent."

The statement by de Juniac leads to the issues of state aid for airlines and of competition policy.

State Support for Air Transport

While IATA understandably calls for support, the extent of assistance provided by governments to the airline sector during the crisis is an issue. While regional airlines such as Virgin Australia, Thai Airways, LATAM, Aeromexico, and Avianca filed for bankruptcy⁶³, other airlines have thus far been able to survive the crisis. The extent of government support is not always clear, according to media reports. For example, American Airlines secured \$5.8 billion for payroll support, United Airlines expects to get \$5 billion in grants

⁶¹ Greg Knowler, "Idle passenger planes take on mini-freighter roles", accessed on 16 April 2020, https://www.joc.com/air-cargo/idle-passenger-planes-take-mini-freighter-roles_20200317.html

⁶² The International Air Transport Association (IATA), "Immediate and Severe Air Cargo Capacity Crunch", accessed on 28 April 2020, <https://www.iata.org/en/pressroom/pr/2020-04-28-01/>

⁶³ Brendan Sobie, "Airline industry faces financial crisis with more bankruptcies looming", 10 July 2020, Channel News Asia, <https://www.channelnewsasia.com/news/commentary/airline-industry-financial-crisis-bankruptcies-job-cuts-covid-19-12917844>

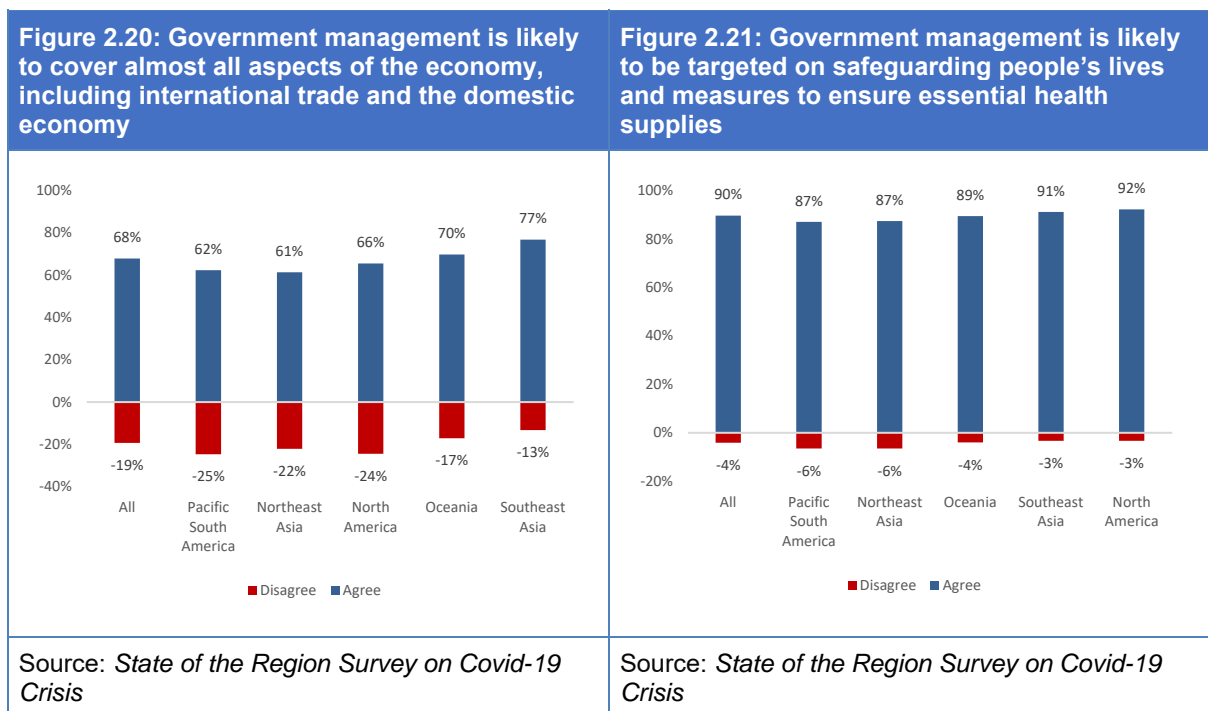
and low-interest loans, and has applied to borrow up to \$4.5 billion from the U.S. Treasury. On the European side, Lufthansa received 9 billion Euro⁶⁴, and Air France-KLM 11 billion Euro.

IATA reports (as of the end of May) that there has been little government support for airlines in emerging economies, especially in East Asia: higher levels of support are observed in developed economies. Support also varies between developed economies: compared to airline revenue in 2019, it is relatively high in the US, Japan, and Singapore. In another example of the risks of support for particular firms, IATA observes there is little correlation between support and the viability of the business model of the airline based on recent performance. IATA also notes that the bulk of support provided (55%) will have the effect of adding to debt rather than providing equity (which accounted for 11% of support: the balance of 34% is based on subsidies).

Greater weight on self-reliance leads to greater use of subsidies and other forms of support. An alternative is to take a value chain approach to this sector, and consider ways in which the service can be provided by access to the capacity offshore providers, and impediments to that result. The cross-border delivery of air transport services is, according to data from the OECD, relatively highly restricted.⁶⁵ A reform agenda, especially with respect to rules on foreign investment is valuable in this context. ASEAN has made air transport a priority area for its own economic integration and that effort could be expanded to the APEC region, through the work on the Services Competitiveness Roadmap.

The participation of government in the air transport is but one example of assistance at the sectoral level. This has been broad based, and potentially very distorting. Is this likely to continue? This is the topic of the next section.

The Role of Government in the Post-Crisis Era



To develop a baseline of the regional policy community's views on these issues, respondents were asked to give their level of agreement on two statements:

- Government management is likely to cover almost all aspects of the economy, including international trade and the domestic economy
- Government management is likely to be targeted on safeguarding people's lives and measures to ensure essential health supplies

⁶⁴ Bloomberg, "Lufthansa bailout to trigger onslaught from low-cost rivals", accessed on 1 June 2020, <https://www.bnesstimes.com.sg/transport/lufthansa-bailout-to-trigger-onslaught-from-low-cost-rivals>

⁶⁵ <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-sector-note-air-transport.pdf> and

Figures 2.20 and 2.21 break down the responses to these questions at the sub-regional level. Many respondents expect government intervention to continue to be widespread. At the same time, there is an expectation that these interventions will be more tightly targeted.

A more important structural reform issue following the COVID experience will be how to extract governments from their crisis roles that emerged during the pandemic and in the course of exit strategies. There are two aspects, one related to support and the other to regulatory reform.

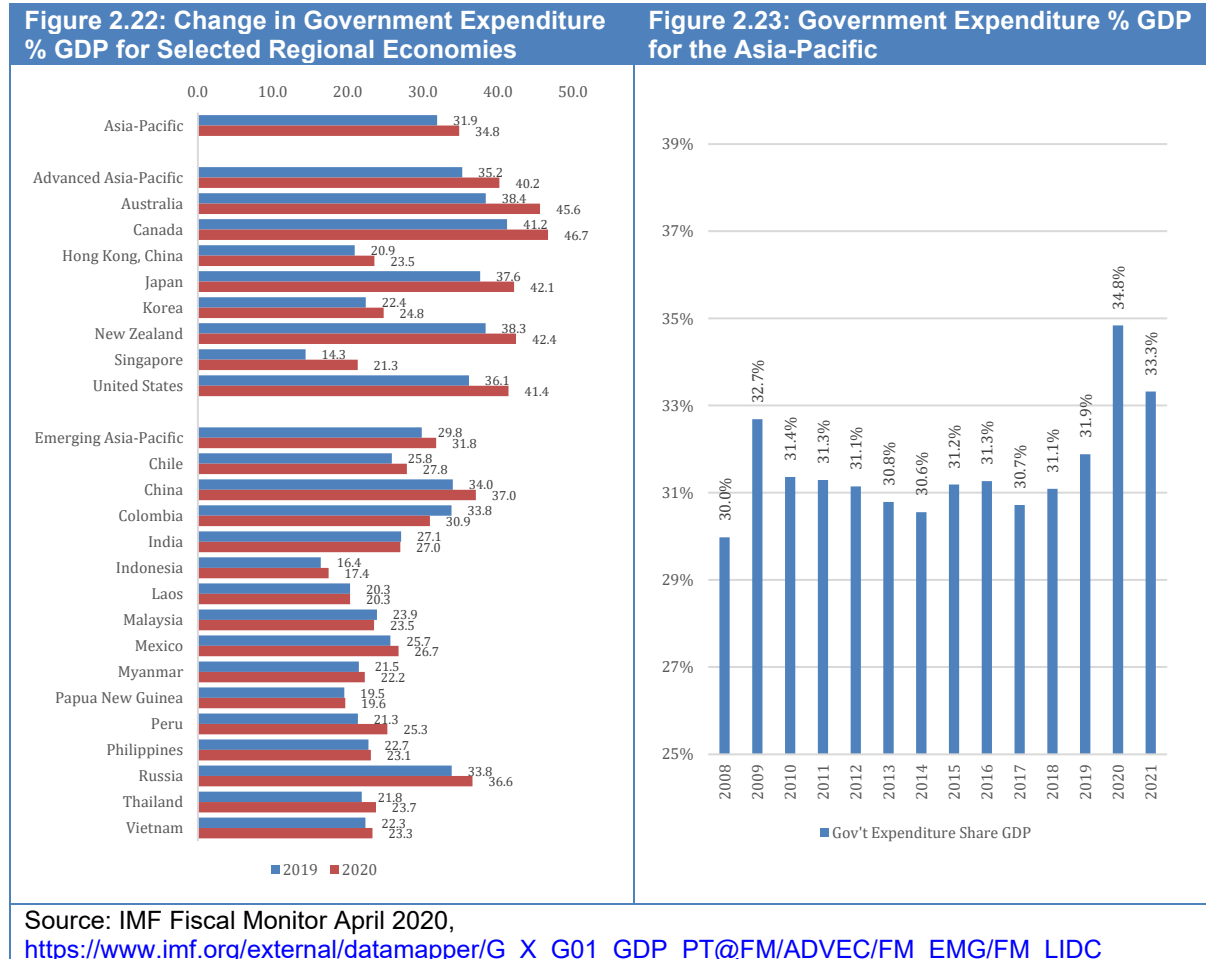


Figure 2.22 above shows the expected change in government expenditure as a percentage of GDP between 2019 and 2020 for those Asia-Pacific for whom data was available. As seen in the chart, the change for region as a whole is an increase of 3 percentage points. But for many, especially the region's advanced economies, the size of government will increase by considerably more, as much as 7 percentage points, according to data from the IMF.

Figure 2.23 shows the size of government expenditure as a percentage of GDP for the same group of Asia-Pacific economies since 2008. Following the Global Financial Crisis in 2008, the government expenditure as a percentage of GDP increased from 30 percent of GDP to 32.7 percent but over time as economies recovered it decreased back towards pre-GFC levels.

As already noted, the persistence of current policies of support, for instance, has not only significant fiscal consequences but also implications for efficiency and for productivity. Movement back from that support will most likely meet resistance, from the new sets of interests that have been created, in particular. Others may argue that in the context of the uncertainty created by the pandemic, it is unwise to unravel the emergency arrangements prematurely. A framework for responding to the pressures of those interest groups and those arguments will be valuable. One well-tried option is that of the public policy framework, which is based on a series of questions related to the nature of the problem to be solved, the tools available to do so, the scope to use market mechanisms rather than regulation followed by a ranking of options and selection of a preferred response. The design of processes for and institutions for managing this work is an important element of regional cooperation, which is the topic of the next section.

The second element is regulatory reform. In this respect, recent experience has included instances of regulatory retreat by governments different from the subsidy elements. Many rules and regulations have been relaxed to lower business costs and facilitate new ways of operating that are consistent with the response to the pandemic. The WTO recently documented such measures as applied in the services sector.⁶⁶ Examples include changes in the regulation of medical services to facilitate the use of telehealth. The information provided by these experiments in reform should be evaluated as to whether each has value that should be continued in the post-crisis environment. There is also value in sharing these results and cooperation on capacity building for the management of reform.

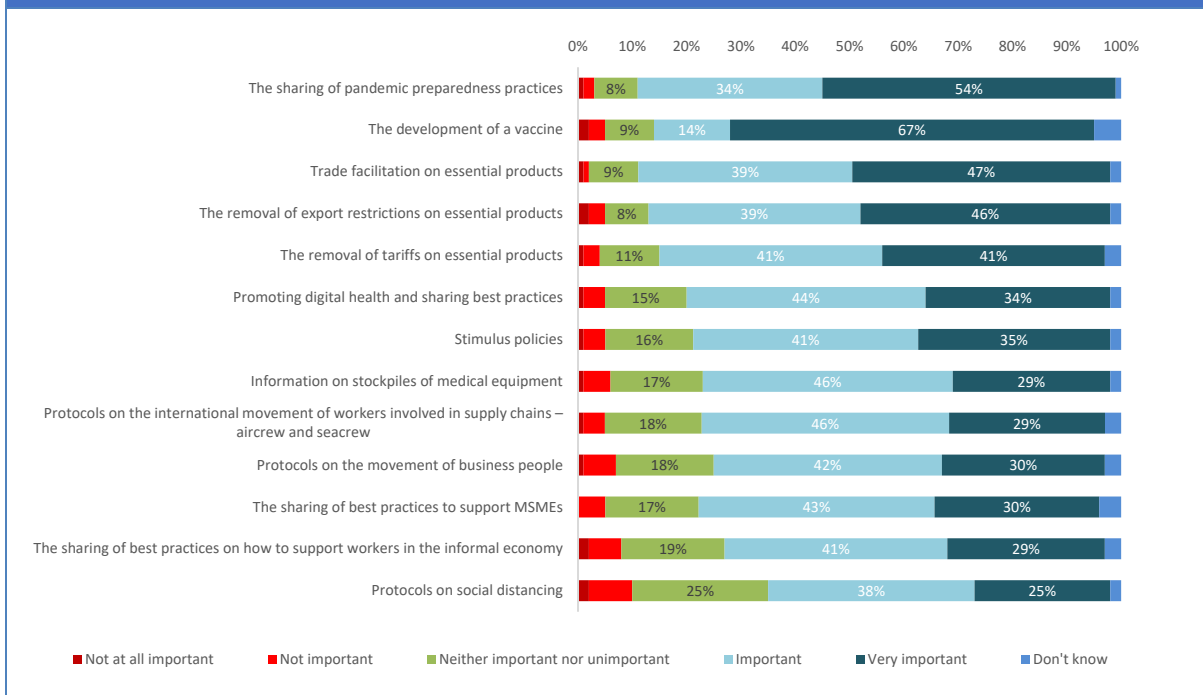
⁶⁶ https://www.wto.org/english/tratop_e/covid19_e/services_report_e.pdf

Chapter 3: Agenda for Cooperation

Previous chapters of this report have identified potential areas for regional cooperation in response to COVID-19. However, survey respondents were also asked for their priorities, and the top 5 issues were:

- The sharing of pandemic preparedness practices
- The development of a vaccine
- Trade facilitation on essential products
- The removal of export restrictions on essential products
- The removal of tariffs on essential products

Figure 3.1: Priority Issues for Regional Cooperation



Source: *State of the Region Survey on Covid-19 Crisis*

Question: *Please rate how important you think it is for APEC to strengthen cooperation on these issues among its members as well as with other regional organizations in combating Covid19?*

Pandemic Preparedness Practices

While there has been some cooperation on these issues, this selection suggests a greater sense of urgency and need for engagement from the Asia-Pacific. In 2003 APEC established the Health Task Force (HTF) to help address health-related threats to economies' trade, focusing mainly on emerging infectious diseases, including naturally occurring and man-made diseases. It was upgraded to a working group in 2007.

Given APEC's focus on trade and economic policy issues, the comparative advantage of its work in this area would be how pandemics impact trade and supply chains. This could build on existing work APEC has already undertaken such as the APEC Trade Recovery Program.⁶⁷

In considering work on pandemic preparedness, a link might also be built with APEC's Disaster Risk Reduction Action Plan and ongoing work in other regional and international forum.

⁶⁷ APEC Counter Terrorism Task Force, "Report on the APEC Trade Recovery Programme Pilot Exercise", accessed on 17 June 2020, <https://www.apec.org/Publications/2010/04/Report-on-the-APEC-Trade-Recovery-Programme-Pilot-Exercise-April-2010>

Vaccine Development

There is already considerable international cooperation on vaccine development, for example at the Global Vaccine Summit held on 4 June hosted by the UK, raised US\$ 8.8 billion from 32 donor governments and 12 foundations, corporations and organizations to support the global fight against COVID-19.

Trade Policy Issues

The survey addressed three main trade policy issues for essential products: trade facilitation; the removal of export restrictions; and the removal of tariffs. All three were strongly supported. This underscores the message from research work by Evenett and Winters that the benefits derived from

“lowering import barriers on medical products and medicines during this pandemic are reduced if there is little available to buy at affordable prices as a result of the export bans imposed by trading partners. This matters now, for if the Global Trade Alert’s information is to correct, over 80 governments have taken steps this year to reduce or eliminate import tariffs on medical supplies and medicines.”

In short, the maximum gains for economies will come if all three actions are done simultaneously by as many parties as possible.⁶⁸

Trade Facilitation on Essential Products

The World Customs Organization has partnered with the WTO, UNCTAD, the CSSO, the GATF, IATA and ITC to develop a COVID-19 Trade Facilitation Repository that consolidates initiatives on trade facilitation into a unique and user-friendly database. It contains a useful listing of all such initiatives broken down by organization, type of measure and subject matter.

Export Restrictions on Essential Products

A key concern is the adoption of export restrictions on essential products. Both the International Chamber of Commerce in its letter to G20 Trade Ministers and the APEC Business Advisory Council in its letter to APEC Trade Ministers have called for their removal. Both G20 and APEC Trade Ministers responded somewhat to this call agreeing that,

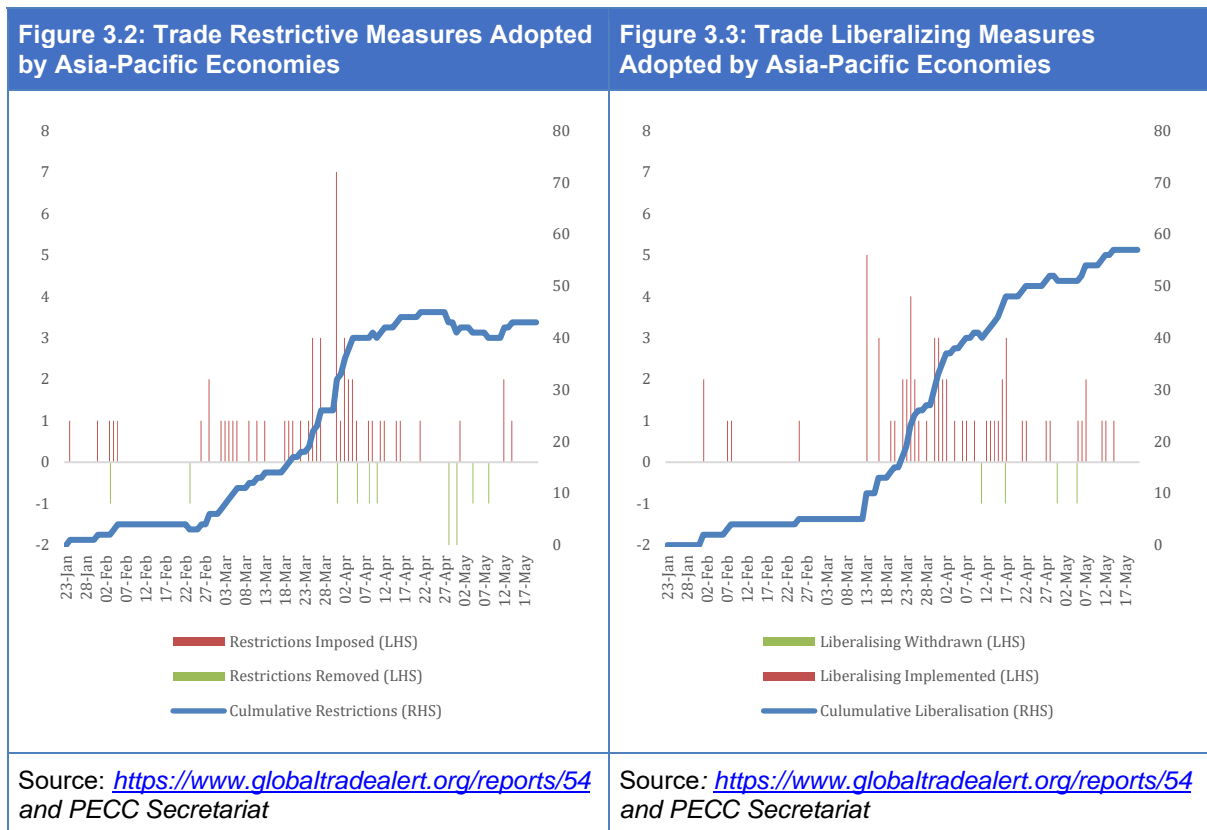
“emergency measures designed to tackle COVID-19, if deemed necessary, must be targeted, proportionate, transparent, and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules.”

The Removal of Tariffs on Essential Products

Interestingly the removal of export restrictions was ranked by respondents as more important than the removal of tariffs on essential products. The difference was small but noticeable, for all respondents to the survey, 85 percent of respondents rated the removal of export restrictions as very important or important while it was 82 percent for the removal of tariffs. Both the ICC and ABAC have called for their removal.

As seen in Figure 3.2 Asia-Pacific economies were adopting trade restrictive measures especially up until the G20 Trade Ministers virtual meeting on 30 March and the Special ASEAN Special Summit on Coronavirus Disease on 14 April. Those trade restrictive measures were not tariffs on imports but restrictions on exports – in the form of export bans, quotas, and licensing requirements. On the other hand, there have also been measures to liberalize trade mostly reductions in import tariffs and trade facilitation measures as shown in Figure 3.3.

⁶⁸ Simon J. Evenett and L. Alan Winters, “Preparing for a second wave of COVID-19: A trade bargain to secure supplies of medical goods”, UK Trade Policy Observatory, cited in Richard E. Baldwin and Simon J. Evenett, “COVID-19 and Trade Policy: Why Turning Inward Won’t Work”, (CEPR Press London 2020)



While G20 and APEC Trade Ministers did not fully accept the ICC and ABAC recommendations on trade restrictions, they did agree that

if deemed necessary, must be targeted, proportionate, transparent, and temporary, and that they do not create unnecessary barriers to trade or disruption to global supply chains, and are consistent with WTO rules.

The lack of transparency and the notification process, however, are problematic for some. Rather than duplicate ongoing work in the WTO, APEC could seek to strengthen transparency in the notification process.

The more systemic problem, however, is that while governments are not going to give up the right to regulate scarce critical supplies in the time of an emergency, export restrictions are sub-optimal responses. They risk retaliation (emulation) by other economies, promoting panic buying and hoarding, and negative reputational effects that will reduce the appetite of investors to finance productive capacity in the sector.⁶⁹

As noted above in the section on risks, increased protectionism and trade wars continues to be seen as a top 5 risk to growth, according to respondents. In addition, for many economies, especially those in Southeast Asia, food security is a growing risk. This is likely a result of export restrictions imposed during the early phase of the crisis, especially before the G20 Trade Ministers Meeting, the APEC Ministers Responsible for Trade Statement on Covid-19 and the ASEAN Special Summit on Covid-19 (see Figure 3.2). However, regional economies have been working to restore confidence in the trading system, with the aforementioned high-level statements. An excellent example of building on those high-level statements is the Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic on 15 April between Singapore and New Zealand. This builds on the earlier Joint Ministerial Statement to ensure supply chain connectivity amidst the COVID-19 situation among nine economies.

The Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic has several important features, including an agreement to: remove customs duties on an agreed list of products; not impose export restrictions on the agreed products; and facilitate the flow and transit of the agreed products

⁶⁹ Bernard Hoekman, Matteo Fiorini and Aydin B. Yildirim, "Enhancing Trade Supply Responses to the COVID-19 Pandemic", accessed on 3 June 2020, <https://www.globalpolicyjournal.com/blog/30/04/2020/enhancing-trade-supply-responses-covid-19-pandemic>,

through their respective sea and air ports. An additional important feature of the declaration is an open accession clause. This is very much in the spirit of a Pathfinder Initiative that other economies could join especially given the complementarities that exist among regional economies in their trading patterns.⁷⁰

Information Sharing

While the above section focused on the top 5 issues for regional cooperation identified by the survey, the top 5 issues by score were also the top 5 in order of percentage of respondents who ranked them as ‘very important’. Thinking of ‘very important’ as first order priorities and ‘important’ as second order priorities a different agenda for cooperation emerges. Noting that the question asked respondents to evaluate the importance of each issue on a scale from 1 to 5, Figure 3.4 shows the percentage of respondents that selected each issue as ‘very important’, ‘important’ as well as the overall score.

Figure 3.4: First and Second Order Priorities for Regional Cooperation

Issue	First Order "Very Important"	Second Order "Important"	Overall Score
The sharing of pandemic preparedness practices	54%	34%	4.3
The development of a vaccine	67%	14%	4.3
Trade facilitation on essential products	47%	39%	4.2
The removal of export restrictions on essential products	46%	39%	4.2
The removal of tariffs on essential products	41%	41%	4.1
Promoting digital health and sharing best practices	34%	44%	4.0
Stimulus policies	35%	41%	4.0
Information on stockpiles of medical equipment	29%	46%	3.9
Protocols on the international movement of workers involved in supply chains – aircrew and sea crew	29%	46%	3.9
Protocols on the movement of businesspeople	30%	42%	3.9
The sharing of best practices to support MSMEs	30%	43%	3.8
The sharing of best practices on how to support workers in the informal economy	29%	41%	3.8
Protocols on social distancing	25%	38%	3.7

The first order of priorities – the top 5 areas of terms of the percentage of respondents who selected these issues as ‘very important’ are the same as those in the overall list which takes into account the weight on second order priorities. The second order of priorities based on the percentage of respondents who selected them as ‘important’ provides an interesting list of concerns on which there has been significantly less international cooperation and which constitutes a potentially rich area of work.

For example, while information on stockpiles of medical equipment ranked only 8th in the list of priorities, when viewed through the lens of ‘second order priorities’ it is the joint top of the list. As Hoekman et al argue

“governments need information systems that allow them to determine where supply capacity exists and that helps to understand the relevant supply chains. Firms generally will have information on supply options, but governments often will not have such information readily to hand. Both sets of

⁷⁰ Ministry of Foreign Affairs, Singapore, “Singapore-New Zealand Declaration on Trade in Essential Goods” <https://www.mfa.gov.sg/Overseas-Mission/Geneva/Mission-Updates/2020/04/Singapore-New-Zealand-Declaration-on-Trade-in-Essential-Good>

actors need to be able to identify bottlenecks in the supply chain in real time and cooperate in addressing them.”⁷¹

Cooperation centered on information exchange, dialogue and peer review may be more feasible. Such efforts should encompass the private sector given that the latter has a much better grasp of the relevant supply chains. Given APEC’s strong engagement with the private sector, it could pioneer and pilot such an information exchange.

Protocols on the International Movement of Workers involved in Supply Chains
The APEC Trade Ministers’ Statement on Covid-19 said they would work to

“minimize disruptions to the global supply chains... We will also ensure that trading links remain open and explore ways to facilitate essential movement of people across borders, without undermining the efforts to prevent the spread of the virus.”

As seen from the list of second order priorities, there is a need to work on protocols for the international movement of workers which include seafarers and marine personnel involved in international supply chains. Eighty (some say 90) percent of global merchandise trade is carried by some 96,000 ships. Those ships are crewed by about 1.8 million seafarers, 20 percent of whom are affected by lock-downs in transit hubs, suspended or limited flights and/or difficulties with entry and exit visas.⁷²

While appropriate international bodies have made progress on sets of protocols, the challenge seems to be in their socialization and implementation. The International Maritime Organization (IMO) has published guidelines for protocols for safe crew changes but adoption has been slow.⁷³ One key concern expressed by industry as well as in qualitative comments in responses to the PECC survey is definitions of ‘essential workers.’

Box: APEC’s Key Role

“APEC has played a vital role in bringing the public and private sectors together to address critical issues. In times of COVID, more than ever, we need an agile and innovative mindset to put into practice solutions that disrupt the status quo. One concerns people connectivity protocols to ensure that the supply or value chains are sustained under this unprecedented period of fear. It is vital that APEC finds ways for essential workers like seafarers to travel from place of origin to a ship at port and back home to ensure that critical food, medicine, PPE products reach those in desperate need, and that global trade is undisrupted”

Doris Ho, former APEC Business Advisory Council (ABAC) Chair and President and CEO of A Magsaysay Inc.

On May 11, the International Civil Aviation Organization (ICAO) noted its concern that

“the extensive and inconsistent border restrictions, in response to the global spread of the COVID-19 pandemic, has severely disrupted the supply chain in delivery of essential medical supplies needed to respond to the pandemic.”

To facilitate flights while preventing the spread of the virus, the ICAO Collaborative Arrangement for the Prevention and Management of Public Health Events in Civil Aviation (CAPSCA) recommended the implementation of a “Public Health Corridor” (PHC) concept.

For APEC, rather than reinventing the wheel, CAPSCA links key international organizations involved in aviation as well as health. What is needed now is socialization and implementation of these practices as well as awareness of the broader implication of not implementing them – that is – chokepoints in supply chains.

⁷¹ Op. Cit

⁷² Peggy Hollinger, Robert Wright and Michael Pooler, “Shipping industry warns of trade logjam as crews remain stranded”, Financial Times, accessed on 8 June 2020, <https://www.ft.com/content/4f2e33a6-e1f7-407f-b2af-8aac31e0d8ee>

⁷³ International Maritime Organization, “IMO endorses new protocols designed to lift barriers to crew changes”, accessed on 8 June 2020, <http://www.imo.org/en/MediaCentre/PressBriefings/Pages/15-crew-changes-.aspx>

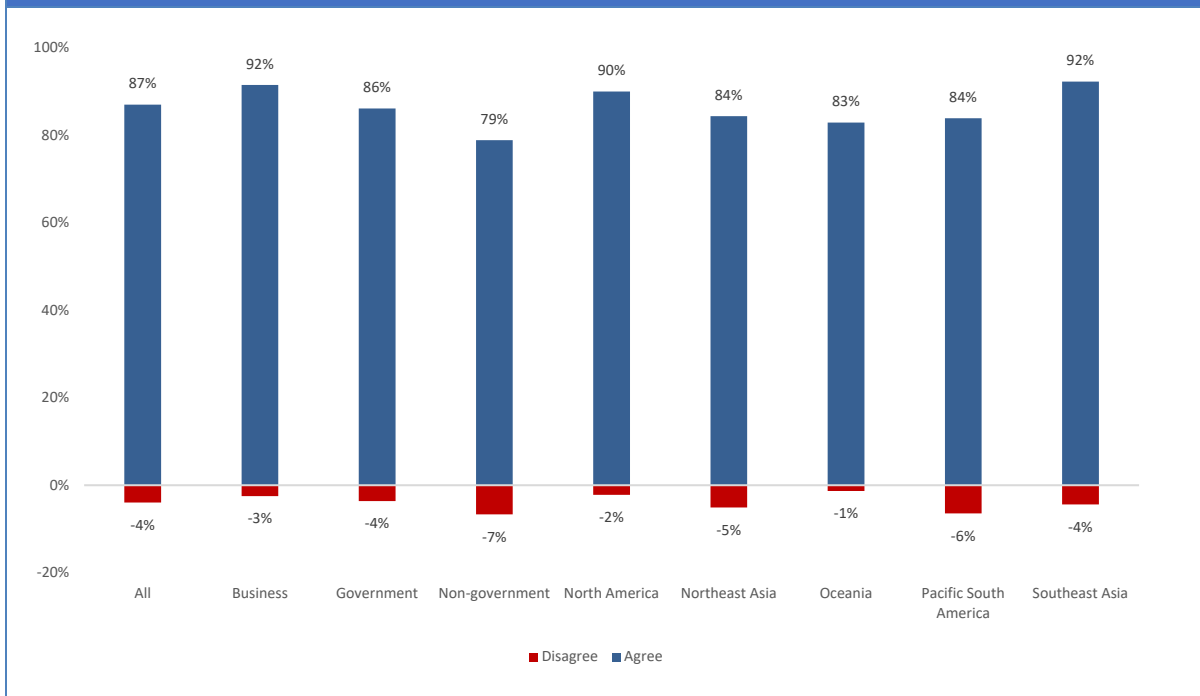
As noted, while governments are facing a once in a hundred-year crisis, these supply chain issues are critical to ensuring the achievement of the objectives set out by APEC Trade Ministers in their Statement on Covid-19.

As with the ICAO and IMO protocols, these were developed in consultation and cooperation with a variety of different stakeholder groups. Emphasis will vary from location to location, but the general underlying challenge will be common across the region. With economies in the Asia-Pacific likely to be among the first to restart international travel, it would be valuable to take a cooperative approach. It will be highly problematic for the industry should governments across the world adopt a 'spaghetti bowl' of protocols and standards for international travel in a post-Covid-19 that will eventually have to be negotiated. This may be good for international negotiators but very costly for businesses and consumers alike.

Contact Tracing

A third question on the role of government was also asked – on the application of information and communication technology to contact trace to control the spread of Covid-19, specifically whether the “Government is encouraged to apply ICT and other innovative technologies to contact trace to control the spread of COVID-19”. As seen in Figure 3.5, there was very widespread support across sub-regions and sub-sectors for the proposition. The “least” enthusiastic were respondents from the non-government sector.

Figure 3.5: Government is encouraged to apply ICT and other innovative technologies to contact trace to control the spread of COVID-19



Source: *State of the Region Survey on Covid-19 Crisis*

An even more important question is 'how' this is done. While the number of mobile subscriptions per capita for most Asia-Pacific economies is above 100, as shown in Figure 3.6, the penetration of smartphones while high is much more variable, which is a constraint on success.

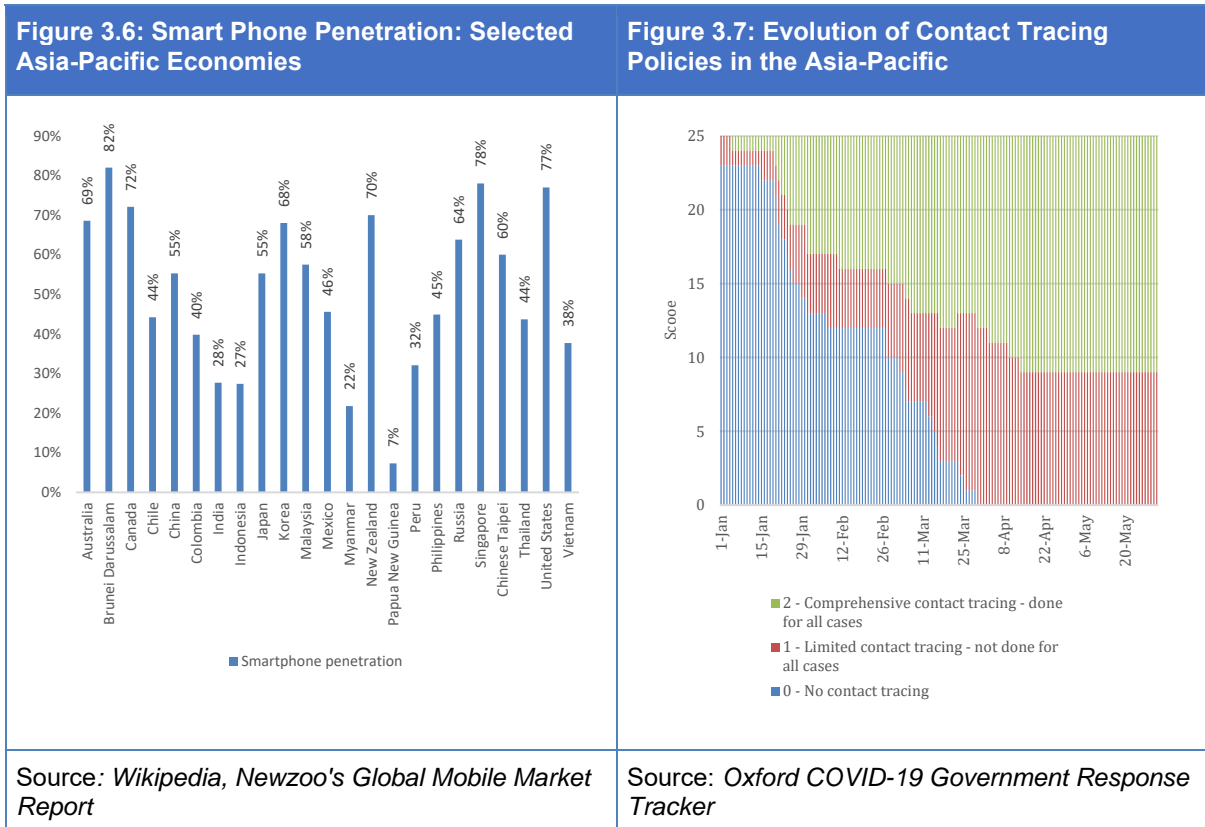


Figure 3.7 shows how contact tracing policy has evolved for Asia-Pacific economies, from predominantly no contact tracing during the starting phase of the crisis to a mix of limited and comprehensive contact tracing. As shown in the chart, all economies in the region are now doing some form of contact tracing whether limited or comprehensive.

The scientific literature on the efficacy of the use of mobile applications for the use of contact tracing points to some useful lessons. For example, one widely reported story is that 60 percent of the population needs to be using a contact tracing up for it to be effective, however, the academic team behind that research has been at pains to clarify their research:

“There’s been a lot of misreporting around efficacy and uptake ... suggesting that the app only works at 60%—which is NOT the case, it starts to have a protective effect (at) much lower levels”

according to Andrea Stewart, spokeswoman for the Oxford team told the MIT Technology Review.⁷⁴

Serious scientific work is being done to understand the efficacy of different technologies to address problems all governments are confronting. APEC with its convening power, especially in bringing together the business and academic communities together with government officials can play an important role in the sharing of this information. Given APEC’s non-binding and non-prescriptive cooperative nature this is an important role APEC can play.

For example, the GSMA Briefing Paper *COVID-19 Digital Contact Tracing Applications* distinguishes between two types of contact tracing apps:

- Location – typically collected from the GPS signal of the user’s device, giving the longitude and latitude coordinates of the device over time. Example – Safe Paths from MIT.
- Proximity – this approach traces the close proximity of pairs of people irrespective of where the proximity takes place. The most common approach is to measure the signal strength of Bluetooth

⁷⁴ Patrick Howell O’Neill, “No, coronavirus apps don’t need 60% adoption to be effective”, MIT Technology Review, accessed on 15 June 2020, <https://www.technologyreview.com/2020/06/05/1002775/covid-apps-effective-at-less-than-60-percent-download>

signals from pairs of devices when the users are in close contact and without any knowledge of the geographic location. Example – TraceTogether in Singapore.⁷⁵

There are many other details that distinguish contact tracing apps. As different economies are seeking to implement their own, APEC, could play a role in assisting especially emerging economies by providing information on the various options available.

This issue of the management of contact tracing has important ramifications for exit policies and restoring confidence in the economy. As noted above, Japan's plans to open travel with other economies is contingent upon, among others, the recording of movements on a smartphone application when in Japan. A major question is whether contact tracing apps adopted by economies need to 'talk to each other' or whether, to comply, travelers simply download the app for the place they are visiting just as they used to buy sim cards on entry.⁷⁶

Furthermore, while several databases exist on policy responses to the Covid-19 crisis, APEC could take the lead on delving deeper into specific aspects of those policy responses. As shown in Figure 3.7, all Asia-Pacific economies are undertaking some form of contact tracing – the Oxford University database provides an ordinal scale:

- 0 - no contact tracing;
- 1 - limited contact tracing - not done for all cases; and
- 2 - Comprehensive contact tracing done

Given APEC's recent focus and advances to address internet and digital economy issues since 2014, it could focus on whether economies are using contact tracing apps and develop its own scale for understanding differences in its adoption, sensitive to the unique circumstances among its membership. This would be a considerable contribution to the ongoing work among the global community struggling to deal with this issue.

Capacity Building for Recovery

As noted in the first section of this report, a major factor that will determine the duration of the crisis are the policies adopted by governments during and immediately after the crisis. While the prognosis of the regional policy community is towards more of a Swoosh-shaped recovery with considerably slower growth compared to pre-crisis levels, a more rapid recovery could be facilitated by the adoption of productivity and trade enhancing policies.

To develop a baseline of understanding of possible priorities for capacity building to enable a post-crisis economic recovery, respondents were asked to rate in terms of their importance a set of 11 activities.

In light of the Covid-19 crisis it is unsurprising that health security was rated most important to enabling a post-crisis economic recovery. This was true for emerging and advanced economies, business, government, and non-government respondents; as well as across sub-regions with the exception of respondents from Oceania. Respondents from Oceania ranked health security 3rd most important, the most important subject of capacity for them was supply chain resilience, which has become a large issue for them because of the lack of health security elsewhere.

Given that capacity building activities are mostly intended for emerging economies, Figure 3.8 provides the overall score for each activity as well as the results for emerging and advanced economies. As seen in the Figure 3.8 emerging economies place a slightly higher degree of importance on all activities compared to those from advanced economies. For health security, the score given by respondents from emerging economies was 4.7 while those from advanced economies was 4.4.

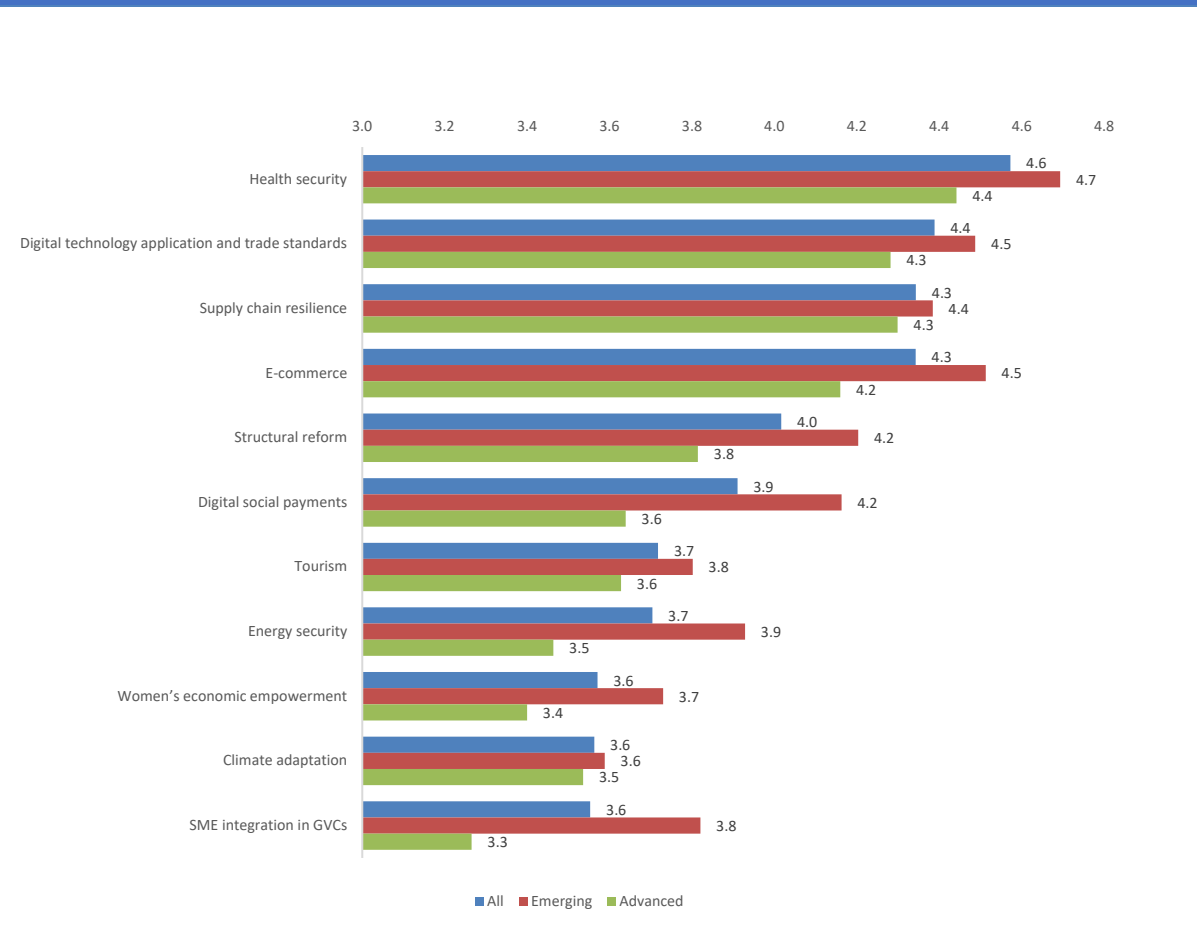
Respondents were most split over the ranking for the second most important activity. Overall digital technology application and trade standards placed second with a score of 4.4 and 53 percent of respondent rating it as very important. However, while it was second ranked for respondents from Oceania and Northeast Asia, it ranked third for those from Southeast Asia and Pacific South America and North America.

⁷⁵ Global System for Mobile Communications, "COVID-19 Digital Contact Tracing Applications", GSMA, accessed on 22 June 2020 <https://www.gsma.com/newsroom/wp-content/uploads/GSMA-Briefing-Paper-Contact-Tracing-Apps.pdf>

⁷⁶ Banyan, "Asian countries try to build travel 'bubbles'", The Economist, accessed on 2 June 2020, <https://www.economist.com/asia/2020/05/28/asian-countries-try-to-build-travel-bubbles>

The third most important was supply chain resilience. While ranked 4th by respondents from emerging economies with a score of 4.4 it was ranked second by those from advanced economies with a score of 4.3. Respondents may have different interpretations of the nature of resilience, which we discussed above.

Figure 3.8: Rating of Capacity Building Activities for a Post-Covid Recovery



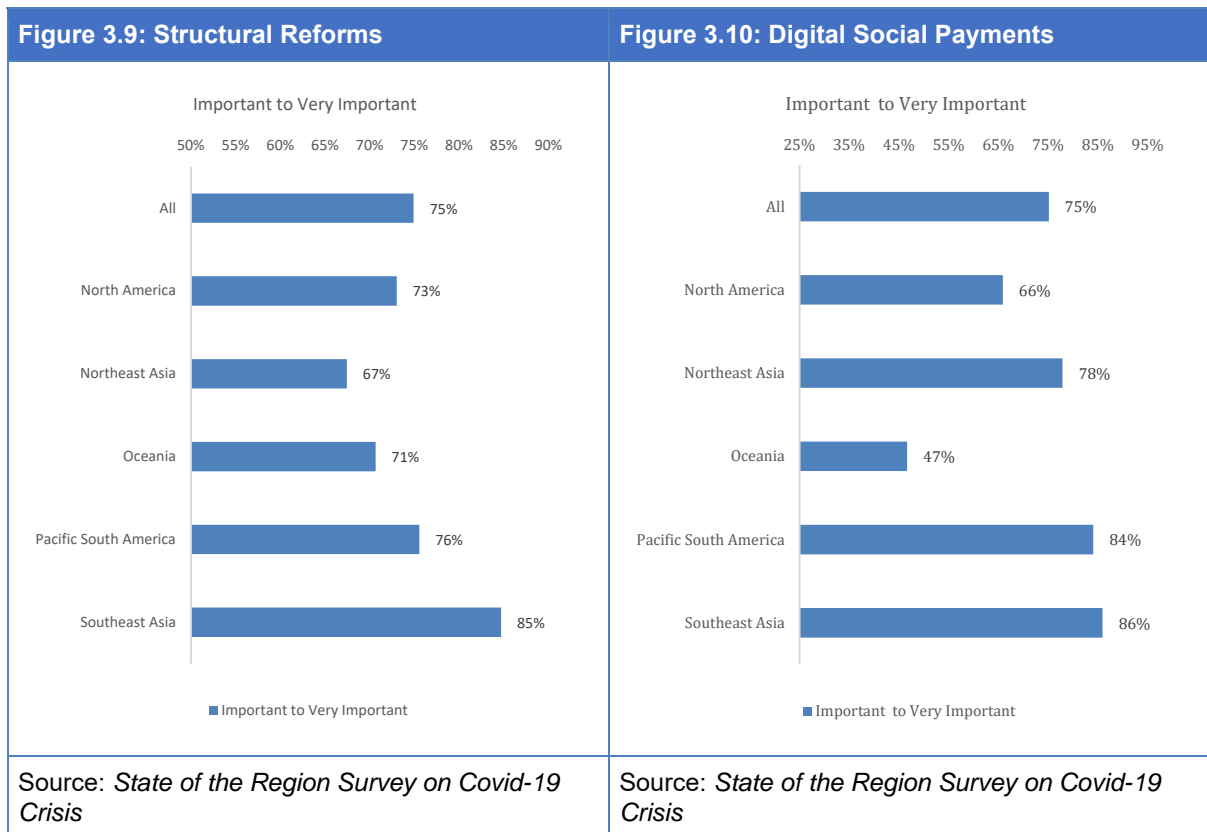
Source: *State of the Region Survey on Covid-19 Crisis*
 Question: *Please rate the following possible subjects of capacity building activities in terms of their importance to enabling a post-crisis economic recovery? Respondents were asked to use a scale of 1 to 5 with 1 being not important and 5 very important.*

The fourth most important capacity building activity was e-commerce. Interestingly, this was ranked second most important by respondents from emerging economies with a score of 4.5 and fourth by those from advanced economies with a score of 4.2. The experience of COVID-19 has drawn attention to the relevance of digital technology for both goods and services producers.

Cross cutting many of these activities is the role of digitally enabled services, which can contribute for example to supply chain resilience and e-commerce. Analytical work referenced earlier shows higher fintech tends to lead to greater women's economic empowerment and digital social payments, which have facilitated the targeting of fiscal stimulus measures, are also often seen as a way to accelerate onboarding of people into the financial system. Not surprisingly then, digital technology application also ranks highly in this list of items for capacity building.

Structural Reforms

The fifth priority for capacity building for the post Covid recovery was structural reform. Both emerging and advanced economy respondents ranked structural reform in fifth place with scores of 4.2 and 3.8, respectively. There was remarkable convergence on the importance of structural reforms to the post-Covid recovery with government, business and non-government respondents all ranking them in fifth place.



However, as seen in Figure 3.9, respondents from Southeast Asia gave a significantly higher level of importance to structural reforms than other respondents.

PECC's work on the post-2020 vision for APEC gave a high priority to the structural reform agenda noting that while trade liberalization has been central to growth in the APEC region, the fundamental norms that have historically underpinned liberalization are no longer sufficient by themselves to drive growth and trade forward. Maintaining future momentum will also be critically dependent on meaningful structural reform in member economies, to:

- Boost productivity through operation of open, well-functioning, transparent and competitive markets;
- Encourage the use of economic instruments to support sustainability objectives;
- Identify and remove barriers to full economic participation by all segments of society; and
- Strengthen social safety nets

In the post-Covid-19 context, structural reforms become even more important to ensure full access to and participation in the delivery of effective and efficient healthcare to citizens.

There are similar differences regarding capacity building on digital social payments. While very high percentages of respondents from Southeast Asia and Pacific South America rated capacity building activities for digital social payments as important or very important, 86 and 84 percent respectively, considerably lower percentages of respondents from more developed sub-regions rated this as an important issue. The ability to use digital payment systems was a lifeline for millions during the crisis, as experience around the world has shown, the onboarding process for many of the systems take place through social welfare payments. These systems also increase transparency and accountability. Work cited earlier by the IMF has found that

“during the COVID-19 crisis, access to government electronic systems that are well integrated with digital financial services platforms such as fintech firms, mobile money companies, and digital banking are proving to be critical in providing wide-reaching policy support promptly and without physical contact. If they are not easily accessible or not well integrated, fiscal support announcements—no matter how large—will fail to reach those most vulnerable and needy. Thus,

the fiscal response should go hand-in-hand with investment in digital infrastructure, and importantly promoting digital and financial literacy to ensure greater digital inclusion.”⁷⁷

Interview with Cindy Hook, Chief Executive, Deloitte Asia Pacific

As CEO of Deloitte Asia Pacific, what stands out to you about the region?

There’s no doubt that the Asia-Pacific is a diverse region, but the level of cultural, economic, political, and social diversity is even greater than I had expected. It’s one of the things that makes this region so unique and exciting. Yet despite this diversity, there is a higher level of collaboration and cooperation among businesses and governments than I’ve seen elsewhere.

The other thing I have observed is the tremendous opportunity for growth. You hear about the “Asian Century,” the shift from “West to East,” and predictions that our region will deliver 60 percent of global growth in the coming decade⁷⁸ – so I came in expecting there would be a lot of potential. But once you start living and working in the region, you get a much deeper sense of how far Asia has come in the past 50 years, and how much more room there is for further gains.

I have also seen a high degree of confidence in the ability of the Asia-Pacific to reach higher levels of economic success and global influence. Of course, we will require greater levels of collaboration to tap into these potential opportunities.

What impact is COVID-19 having on the Asia-Pacific?

The impact of COVID-19 is profound in Asia, as it has been everywhere in the world. This is likely to be one of the most defining moments of our times. But the question is: will the long-term impact be positive or negative?

For many reasons, I believe the Asia-Pacific will emerge stronger from the pandemic. The region overall was more prepared and has weathered the health crisis quite well. This will enable the Asia-Pacific to emerge from the economic crisis faster and stronger than other regions. We are already seeing this in China, for example, where manufacturing activity has continued its expansion after a sharp drop in early 2020.

The crisis is also likely to accelerate a range of fundamental business and societal transformations that were already underway. Things that would have happened over the next five to 10 years will now happen in the next one to three years. These include the digitalization of businesses and the move to the cloud, the reformation of supply chains to ensure resilience, and changes to how and where work gets done – with flow-on effects for inclusiveness, gender equality, and sustainability.

This acceleration is exciting and will create opportunities for those who can adapt and innovate. However, it will also be challenging for many. This will lead to an even greater role for governments as they support society through these transformations.

How should organizations be responding to the crisis?

In a crisis, the human tendency is to retreat to your home ground. And with all the mobility restrictions we are facing, this has literally been the case. Yet if you look at the course of history, economic prosperity has come to those who have demonstrated an outward focus.

So, there is no better time to embrace globalization over nationalism. The saying “change or die” is also more relevant than ever. Those organizations that seek to just keep doing what they always did will miss the opportunities that inevitably arise from this crisis.

Will leadership need to change as a result of the pandemic?

This pandemic will certainly be the biggest challenge of most leaders’ careers. The next couple of years will be incredibly demanding for businesses and governments as they navigate their way through the health and economic recoveries. Many attributes of great leaders – vision, authenticity, purpose, strategic thinking, resilience, and fortitude – will remain important.

Leaders need to consider what the new normal will look like and how that changes aspirations, priorities, and strategic choices. Most businesses will have to shift their strategies coming out of the crisis, and for

⁷⁷ Ratna Sahay et al “*The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era*”, International Monetary Fund

⁷⁸ Praneeth Yendamuri and Zara Ingilizian, “*In 2020 Asia will have the world’s largest GDP. Here’s what that means*”, World Economic Forum, accessed on 26 June 2020, <https://www.weforum.org/agenda/2019/12/asia-economic-growth/>

some it will be a complete pivot. Leaders who are strong agents for change will have an advantage in these times.

One hope I have is that more leaders in government and business will use this opportunity to make a true commitment to sustainability and combatting climate change as part of their strategic agendas. I do think we are seeing a real change as businesses find a new balance between profit and purpose, and place more focus on sustainability. It's clear that growth and development are no longer just about economics, so it would be great to see a new level of commitment to sustainability reflected in everyone's plans.

Will multilateralism and APEC become more or less important in the years ahead?

Both will definitely become more important, and significantly so. Our biggest global challenges – such as COVID-19 and climate change – have no respect for borders and must be addressed in a coordinated way, globally and regionally. This means it's more important than ever to maintain multilateral relationships.

Unfortunately, we haven't always seen such a coordinated response in practice. This underlines the need for us to work with and support international forums. APEC is certainly one of the most important of those and vital for sharing ideas, recommending best practices, and shaping collaborative actions.

I would encourage leaders to use this time of tremendous disruption to think big and pursue bold visions, not just incremental change. The Asia-Pacific is incredibly dynamic and diverse, so it's ideally placed to play a leadership role as the world moves beyond this crisis and finds new ways to succeed.

Chapter 4: Implications for a Post-2020 Vision for APEC

In many ways, APEC is 'ready to roll' with respect to the options for cooperation in the current circumstances. It has processes, systems, structures and tools. It has a significant membership and the flexibility to work with sub-groups and non-members. Its potential is substantial and the value which it can create is large. We first consider matters to which it might contribute related to capability at the domestic level, the vision for regional growth and the design of regional institutions.

- The region and the world have been struck by an unprecedented crisis and attention must be focused on how to overcome the challenges it presents. COVID-19 has accelerated some trends already evident, and on which APEC had a work agenda. The current situation has had both differential effects as well as effects common across many economies, which are further drivers for cooperation offering lessons for all parties and new forms of cooperation and gains from exploiting complementarities. It has also led to a series of policy experiments, from which there is much to learn, for example, with respect to managing supply chain robustness and resilience. APEC has roles related to transparency, information sharing and capability building role in these respects.
- APEC has another role, which concerns the development of a way of thinking, and a mindset. Before the Covid-19 Virus crisis struck much of the APEC policy community's attention was focused on assessing progress made on the Bogor Goals and formulating a post-2020 vision for the region. The PECC post-2020 vision for the region was

"An Asia-Pacific community of open interconnected, and innovative economies cooperating to deliver opportunity, prosperity and a sustainable future to all their peoples."

That vision remains valid. When endorsed by APEC leaders, it will provide a long-term strategic framework for regional governments and stakeholders to plan for the future. Without such a framework there is a risk that the recovery will be much slower than need be, opportunities to sustain reform will not be taken, inefficient policy adopted for short term goals will remain stuck in place, and investment plans put on hold. APEC has a key role to play in articulating that vision.

- The issues associated with the COVID-19 experience will not go away. The rapid spread of the Covid-19 crisis has demonstrated that people are more connected than ever. This is through trade, travel, and digital technologies. Common threats such as pandemics and climate change remain. There will be value in a more tightly coordinated set of responses than observed to date. Success in these respects requires firstly anticipation of when that coordination will matter and the principles of its operation. But success also depends on the presence of governance systems and the institutions that facilitate coordinated responses. These too need to be strengthened not weakened, a task best undertaken in the abstract, rather than in the heat of a crisis. APEC can provide leadership in this area too.

We now turn to some internal matters. There is a rich agenda of items on which cooperation would be useful and this report lays out a number of those. We are not making the case that all those listed should be done, but rather we are presenting them as options for consideration. The question now is how many of these to take up, in order to deliver significant outcomes but at the same time not over-promise and under-deliver. This is an issue, since APEC is already in a relatively fragile state compared to its long history, following the disruptions of the last two years. A careful choice followed by delivery of significant outcomes that demonstrate APEC's relevance and value, and which thereby draws deeper commitments, is important.

A technology of cooperation for making progress in this context, and creating more options for consideration, is the use of pathfinder initiatives, in which a group of interested APEC economies are able to move forward together on a topic while working towards additional membership or eventual APEC-wide consensus. This concept was endorsed by Leaders nearly 20 years ago. A recommendation from the PECC Post-2020 report was for APEC to encourage well-designed pathfinder initiatives that support deeper connectedness and openness. An example follows.

- A potential pathfinder is the Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic. Notwithstanding the technical difficulties of 21 economies of coming to agreement given their diverse tariff schedules, a pathfinder gives sufficient flexibility to those not yet ready to make a commitment. Moreover, given that APEC economies are at the 2020 deadline for the Bogor Goals, there should be little resistance in principle. This also provides an opportunity for APEC economies to provide leadership in putting form to principles for open plurilateral

agreements. These would not be dissimilar from the principles that underpinned the concept of open regionalism but allow for a greater degree of 'variable geometry and with flexible boundaries' as seems necessary in today's world. This would also provide much needed impetus into multilateral rule making.

Other possibilities for pathfinders are evident in the series of suggestions for attention offered here. However, a strong governance structure is valuable for this approach, involving a test of the proposal before the whole membership (even if not all wish to participate), regular reporting on outcomes, demonstrations of commitment and expanding membership, and a willingness to shut down a project which is going nowhere. As APEC confronts the future, pathfinders should be open to non-member participation who meet criteria. This puts form to one of the region's longstanding principles of open regionalism. An audit of existing projects involving the application of an update framework is a useful parallel project to, while not impeding, those driven by the imperatives of COVID-19.

A weakness of APEC that once again recent events have highlighted is the lack of integration of all the pillars of policy that matter. Strenuous efforts have been made to link the agendas of liberalization, facilitation and capacity building. Less developed is the link to developments, policy and institutions in financial markets. Once again, recent events have demonstrated the relevance of those connections, and specific areas of cooperation have been suggested here which involve those linkages. There is an opportunity to build a virtuous circle between these areas of policy, by building up from a series of specific COVID-19 driven projects.

A final observation concerns the development of the intellectual capital available. APEC has developed strong relationships with ABAC and PECC, and this needs to be matched by similarly strong working relationships with appropriate civil society groups and with academia. APEC's norms based on openness and a commitment to economic and technical cooperation plus its modus operandi based on dialogue and collective promotion of best practice are tailor-made to build the stock of ideas, to sustain the capacity to innovate and to meet the challenges of the post-2020 world.

Recommendations

As the approach in this report describes there are many 'first order' issues that need to be addressed, these may not, of necessity be best dealt with by the creation of work programs by regional organizations even if as assigned by policy experts and stakeholders as high priorities. Furthermore, there are many 'second order' issues of high importance that are falling through the gaps that regional processes can make significant progress whether in concert in the form of collective action plans or as pathfinder initiatives among groups of economies.

The following section highlights possible areas for deepening of regional cooperation and/or regional support for actions taken at the multilateral level.

Information Sharing

- To fulfill the mandate to collect and share information on policies and measures, including stimulus packages for the immediate responses to the economic crisis and long-term recovery packages and at the same time avoid duplication of efforts the East Asian discussion and cooperation that is based in ASEAN+3 mechanisms such as AMRO could usefully be extended to the APEC Finance Ministers' process. This would help to identify gaps in information and data necessary for strengthening policy cooperation and coordination.
- To consider how APEC can add value to existing mechanisms to share information on build members capacity for pandemic preparedness. This might include joint work between the APEC Health Work Group and the Emergency Preparedness Working Group.

Flow of Essential Products

- Ensure that all APEC members update information available in the WCO Trade Facilitation Repository.
- The full and accelerated implementation of commitments under the WTO Trade Facilitation Agreement.
- The transparent notification to the WTO of all new trade measures taken in response to the Covid-19 crisis.
- The timely removal of export restrictions imposed in the context of the Covid-19 crisis.
- APEC members to explore the feasibility of adopting the Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic as a pathfinder initiative. This agreement does all three actions: trade facilitation, removal of export restrictions and tariffs on an agreed set of products amongst other actions.

Beyond GDP

- APEC to hold a Public Private Dialogue on Beyond to explore the latest research on the use of data from the private sector with a focus on understanding the impact of the Covid-19 crisis and policy responses to it. A further step would be to develop best practices in the use of business data for public policy. This could be a follow up to work undertaken on "Beyond GDP" under this year's priority themes.

Facilitating Ecommerce

- APEC members could place greater focus on the implementation of the Framework for Online Dispute Resolution (ODR) of Cross-Border Business-to-Business Disputes to help facilitate the greater use of ecommerce and digital trade necessitated by the Covid-19 crisis.

Restarting Travel

- Provide a forum for economies involved in bilateral and plurilateral efforts to restart travel to sharing technical information with an emphasis on engaging with official observers ASEAN and PIF.
-

Minimizing Disruptions to Supply Chains

- APEC members agree to hold a Public- Private Dialogue to explore the creation of a Medical Equipment Market Information System using the G20 Agricultural Market Information System (AMIS) as a model.
- APEC economies should work together to adopt a seamless supply chain protocol to achieve the objectives of the IMO Guidelines to Protocols for safe crew changes. For example:
 - RT-PCR testing done at origin, should be accepted at destination
 - A global system for contact tracing should be adopted globally

- Seafarers that will disembark a ship should take extra health precautions 14 days prior to disembarkation as per IMO recommendations
- Airports around the world should create a special “green lane “ for essential personnel (Sea aside from airline personnel)
- Airlines should agree on a protocol to ensure all passengers are cleared
- APEC should explore the possibility of ‘safe corridors’ and “green lanes” between crew supplying economies to transit hubs to facilitate the crew changes regularly required.
- APEC economies should include seafarers and marine personnel as essential workers given their role in transporting 90 percent of world trade.
- APEC economies should designate aircrew as essential workers

- APEC economies should implement the CAPSCA Harmonized Guidance on Facilitating Cargo Flights and Protecting Crew during the COVID-19 Pandemic

Contact Tracing

- Share information on typologies of contact tracing apps being deployed among membership, own scale for understanding differences in its adoption, sensitive to the unique circumstances among its membership.

Appendix: Results of Survey of Asia-Pacific Policy Community

This report presents the findings of a survey of the Asia-Pacific policy community conducted by the Pacific Economic Cooperation Council from 19 May to 12 June, 2020. The survey was disseminated through PECC member committees, as well as the APEC Policy Support Unit, the UN Network of Experts for Paperless Trade and Transport in Asia and the Pacific (UNNEXT), the Asia-Pacific Research and Training Network on Trade (ARTNET), ESCAP Sustainable Business Network ESNB .

This is not a survey of public opinion but rather, a survey of those whose views influence policymaking, especially at the regional level. As some of the questions tend to be technical, they require a relatively deep knowledge of developments at regional level. However, we do believe that those surveyed include those who are responsible for influencing and often making decisions on various aspects of their economy's positions within different regional groups.

The guidance for identifying panelists is as follows:

- **Government**
Panelists should be either decision-makers or senior advisors to decision-makers. As a guide, the government respondents in previous years included a number of former and current Ministers, Deputy and Vice-Ministers, Central Bank Governors and their advisors for Asia-Pacific issues, current APEC Senior Officials, and a number of former APEC Senior Officials.
- **Business**
Panelists should be from companies who have operations in a number of Asia-Pacific economies or conduct business with a number of partners from the region. This might include each economy's current ABAC members as well as past ABAC members. In last year's survey, these included CEOs, vice presidents for Asia-Pacific operations, and directors of chambers of commerce.
- **Non-government: Research Community/Civil Society/Media**
Panelists should be well-versed in Asia-Pacific affairs, being the type of people governments, businesses, and the media would tap into to provide input on issues related to Asia-Pacific cooperation. These included presidents of institutes concerned with Asia-Pacific issues, heads of departments, senior professors, and correspondents covering international affairs.

Respondents

A total of 778 people responded to the survey but after a threshold test of a 30 percent response rate, 710 responses were counted.

Sub-Regions

We do not present disaggregated results for each economy but rather by sub-regions – Northeast Asia, North America, Oceania, Pacific South America, and Southeast Asia.

- North America: Canada, Mexico, and the United States
- Northeast Asia: China, Hong Kong (China), Japan, Korea, Mongolia, Russia, and Chinese Taipei
- Oceania: Australia, New Zealand, Papua New Guinea, and French Polynesia
- Pacific South America: Chile, Colombia, Ecuador, and Peru
- Southeast Asia: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam

While included in the broader sample we note a significant number of responses from other Asia-Pacific economies and some from multilateral institutions outside the region. From time to time this report has featured prominent sections on India given its membership in the East Asia Summit and until recently the Regional Comprehensive Economic Partnership (RCEP). The RCEP is considered one of the pathways to the Free Trade Area of the Asia-Pacific (FTAAP), a long-term goal for the region.

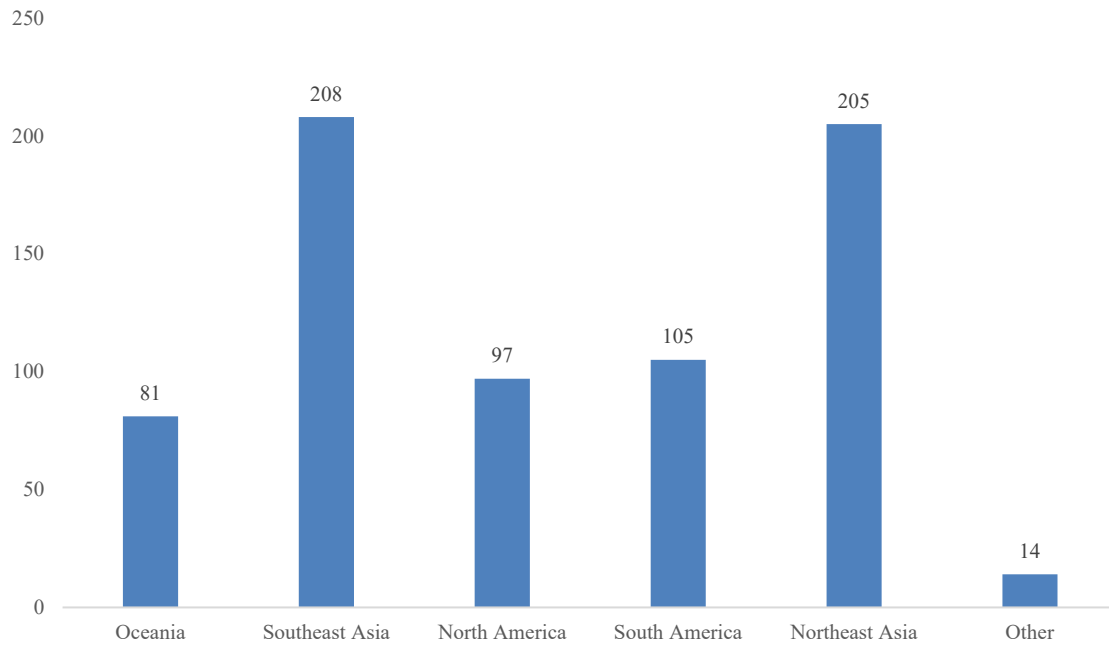
Stakeholder Groups

We also present cross-sectoral results of business, government, and non-government responses. The non-government responses combines responses from panelists who identify themselves as academic/research, civil society, media, and other. Some respondents from statutory boards and independent agencies such as Central Bank identified themselves as 'Other', for the purpose of this survey, their responses were counted as government.

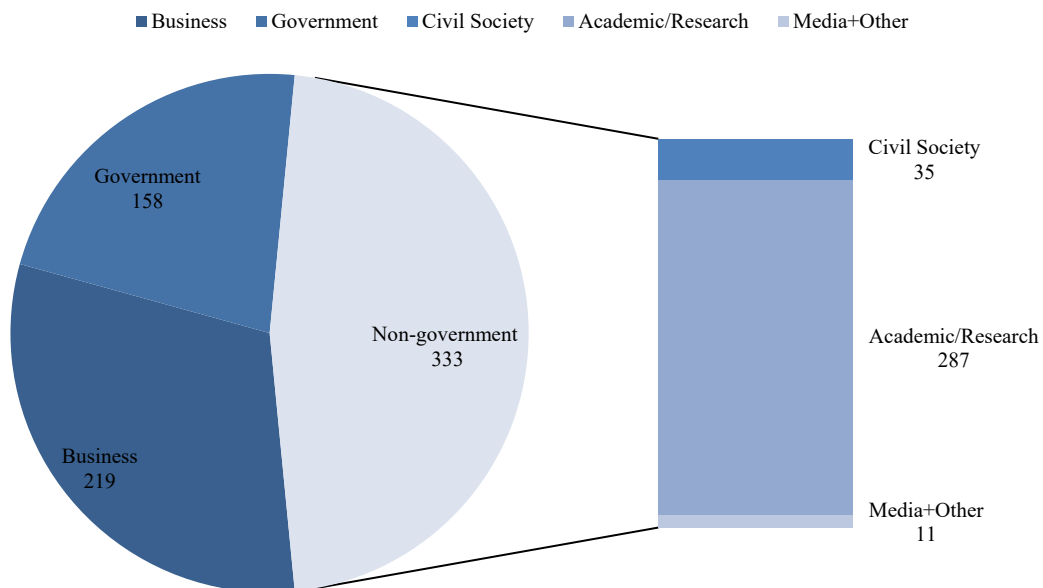
Emerging and Advanced Economies

The terms emerging and advanced economies are commonly used in this report. These are used for analytical purposes. For this report we use the International Monetary Fund's definitions.

Sub-Regional Breakdown of Responses



Sectoral Breakdown of Responses



1. Please give an assessment of the impact the COVID-19 crisis will have on your economy over the following time periods compared to last year?

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much Stronger	Don't know	Total
6 months	41.7%	10.6%	7.5%	8.2%	31.0%	1.1%	100.0%
1 year	26.3%	25.2%	8.0%	17.5%	21.8%	1.1%	100.0%
18 months	13.1%	31.3%	20.1%	21.1%	11.4%	3.0%	100.0%
2 years	10.3%	26.2%	28.9%	22.3%	6.6%	5.8%	100.0%
3 years	16.2%	15.1%	30.6%	20.1%	7.3%	10.7%	100.0%
5 years	20.4%	11.5%	25.1%	18.7%	8.3%	15.9%	100.0%

2. Please select the top five risks to growth for your economy over the next 2 years. *Please select ONLY five (5) risks, using a scale of 1-5. Please write 1 for the most serious risk, 2 for the next most serious risk, 3 for the next third highest risk, 4 for the fourth highest risk and 5 for the least serious risk.*

	5 - least serious	2	3	4	1 - most serious	Total
Health pandemics	5.0%	10.4%	6.7%	5.2%	36.2%	63.5%
Slowdown in world trade growth	9.9%	11.4%	11.7%	10.5%	8.5%	52.1%
Increased protectionism and trade wars	10.0%	12.9%	11.3%	10.7%	5.8%	50.7%
Disappearing jobs	7.3%	13.4%	8.5%	8.5%	12.5%	50.2%
A slowdown in the Chinese economy	6.5%	8.1%	7.9%	9.0%	3.5%	35.0%
Lack of political leadership	6.1%	6.5%	5.0%	4.9%	11.0%	33.5%
A slowdown in the US economy	6.2%	4.6%	9.0%	7.9%	5.8%	33.5%
Failure to implement structural reforms	5.5%	7.5%	7.9%	6.5%	3.2%	30.6%
Climate change	5.9%	4.1%	4.3%	6.4%	3.3%	24.0%
Unsustainable debt	5.8%	2.9%	2.7%	5.2%	1.8%	18.4%
Natural disasters	3.5%	3.7%	4.0%	2.9%	2.3%	16.3%
Fluctuation of oil prices	4.1%	2.9%	3.5%	3.0%	1.5%	15.1%
Food security	3.5%	2.7%	3.7%	3.5%	0.5%	13.9%
Shortage of available talent/skills	4.1%	2.1%	3.8%	2.1%	0.5%	12.6%
Deflation	4.1%	0.8%	1.4%	2.9%	0.6%	9.7%
Sharp fall in asset prices	2.6%	1.5%	1.4%	2.0%	0.9%	8.4%
Energy security	2.1%	2.0%	1.8%	1.7%	0.3%	7.9%
Cyber attacks	2.7%	0.9%	1.5%	2.3%	0.3%	7.8%
Increasingly restrictive digital environment	3.0%	0.5%	1.5%	1.7%	0.5%	7.2%
Unfavorable currency realignments	1.1%	0.3%	1.8%	2.4%	0.3%	5.9%
A slowdown in the Japanese economy	0.8%	0.9%	0.6%	0.8%	0.8%	3.8%

3. Please rate how important you think it is for APEC to strengthen cooperation on these issues among its members as well as with other regional organizations in combating Covid19? Use a scale of 1 to 5 with 1 being 'not at all important' to 5 'very important'. Select 'Don't know' if you don't know or are unsure.

	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know	Total
The removal of export restrictions on essential products	1.8%	2.9%	7.6%	39.0%	46.4%	2.3%	100.0%
The removal of tariffs on essential products	1.3%	3.4%	10.9%	40.6%	41.1%	2.6%	100.0%
Trade facilitation on essential products	1.4%	0.8%	9.5%	39.0%	47.3%	2.0%	100.0%
The sharing of best practices to support MSMEs	0.5%	5.5%	17.2%	43.1%	29.8%	4.0%	100.0%
The sharing of best practices on how to support workers in the informal economy	1.7%	5.8%	18.7%	41.4%	29.3%	3.1%	100.0%
Stimulus policies	1.3%	4.2%	16.5%	40.9%	34.6%	2.4%	100.0%
The sharing of pandemic preparedness practices	1.1%	1.8%	7.5%	34.0%	54.0%	1.5%	100.0%
Protocols on social distancing	2.1%	8.4%	24.6%	38.4%	24.8%	1.7%	100.0%
Information on stockpiles of medical equipment	1.2%	5.0%	17.2%	45.9%	29.0%	1.7%	100.0%
Protocols on the international movement of workers involved in supply chains – aircrew and seacrew	1.0%	3.9%	17.5%	45.6%	29.0%	3.0%	100.0%
Protocols on the movement of business people	1.0%	5.7%	18.3%	41.6%	30.4%	3.0%	100.0%
The development of a vaccine	1.8%	3.0%	8.7%	14.3%	67.1%	5.1%	100.0%
Promoting digital health and sharing best practices	1.3%	3.8%	14.5%	44.4%	33.8%	2.3%	100.0%

4. Please indicate your level of agreement/disagreement with the following statements about the role of government in response to the crisis.

	Strongly Disagree	Disagree	Neither Disagree nor Agree	Agree	Strongly Agree	Don't know	Total
Government management is likely to cover almost all aspects of the economy, including international trade and the domestic economy	2.4%	16.9%	12.5%	39.4%	28.5%	0.3%	100.0%
Government is encouraged to apply ICT and other innovative technologies to contact trace to control the spread of COVID-19	0.5%	3.5%	7.6%	42.3%	44.7%	1.4%	100.0%
Government management is likely to be targeted on safeguarding people's lives and measures to ensure essential health supplies	0.6%	3.5%	4.9%	38.2%	51.5%	1.3%	100.0%

5. How important do you think each of the following should be to the consideration in your economy of exiting from lockdown? Use a scale of 1 to 5 with 1 being 'not at all important' to 5 'very important'. Select 'Don't know' if you don't know or are unsure.

	Not at all important	Not important	Neither important nor unimportant	Important	Very important	Don't know	Total
The economic cost of the lockdown	1.1%	1.3%	5.2%	42.7%	48.6%	1.0%	100.0%
Evidence that the number of new cases is reducing	0.3%	1.8%	5.5%	34.9%	56.9%	0.5%	100.0%
Zero new cases	3.9%	12.6%	20.7%	32.6%	27.5%	2.6%	100.0%
The ability to undertake mass testing	0.3%	3.6%	10.9%	43.8%	40.0%	1.5%	100.0%
The capacity to quarantine and support those who test positive	0.0%	1.1%	4.7%	40.3%	52.7%	1.1%	100.0%
Sufficient medical capacity to deal with expected number of cases (including hospital beds, doctors and nurses, personal protective equipment, and medical supplies)	0.2%	0.8%	3.7%	28.2%	66.2%	1.0%	100.0%
The ability to prevent infection in people who are more at risk, eg the elderly and those with pre-existing conditions	0.3%	1.0%	7.0%	43.8%	47.4%	0.5%	100.0%
The ability for businesses, schools, and child care facilities to implement effective social and physical distancing	0.3%	1.8%	7.7%	49.8%	39.5%	1.0%	100.0%
The availability of medical treatments for those found positive with COVID-19	0.3%	1.0%	6.0%	34.2%	57.4%	1.1%	100.0%
The ability to maintain lockdown procedures effectively	1.8%	4.4%	16.5%	47.8%	25.9%	3.6%	100.0%

beyond a certain time-length							
What neighboring economies are doing	2.0%	11.7%	30.6%	42.6%	11.5%	1.6%	100.0%
Mental health and individual wellbeing	0.7%	4.1%	19.1%	51.2%	23.4%	1.5%	100.0%
Effective contact tracing	0.0%	2.6%	10.5%	43.3%	42.3%	1.3%	100.0%
The development of a vaccine	0.8%	2.3%	9.8%	16.7%	68.6%	1.8%	100.0%
International cooperation	0.3%	2.1%	10.2%	34.2%	51.2%	2.0%	100.0%

6. Please indicate your level of agreement/disagreement with the following statements about the lasting consequences of the COVID-19 crisis on the ways in which business is conducted.

	Strongly Disagree	Disagree	Neither Disagree nor Agree	Agree	Strongly Agree	Don't know	Total
Accelerated growth of services trade	4.7%	20.0%	0.0%	55.4%	20.0%	0.0%	100.0%
Accelerated growth of the digital economy	0.5%	1.2%	0.0%	38.3%	59.9%	0.0%	100.0%
Reinforcement of the importance regulatory coherence across the region	0.2%	9.5%	0.0%	64.3%	26.0%	0.0%	100.0%
Reduced international tourism and business travel	1.3%	7.4%	0.0%	41.0%	50.3%	0.0%	100.0%
Increased usage of virtual meetings	0.3%	1.4%	0.0%	36.7%	61.6%	0.0%	100.0%
Increased importance of the gig economy	1.2%	8.2%	0.0%	63.8%	26.9%	0.0%	100.0%
Increased wages for workers	10.5%	52.7%	0.0%	27.6%	9.3%	0.0%	100.0%
Increased business costs	1.7%	22.2%	0.0%	57.4%	18.7%	0.0%	100.0%
Improved living and working conditions for temporary migrant workers	12.1%	28.2%	0.0%	43.4%	16.3%	0.0%	100.0%
Supply-chains will become more localized	2.8%	9.3%	0.0%	64.8%	23.0%	0.0%	100.0%

7. Please rate the following possible subjects of capacity building activities in terms of their importance to enabling a post-crisis economic recovery? Use a scale of 1-5 with 1 being not important and 5 very important

	Not important	Slightly important	Moderately important	Important	Very important	Don't know	Total
Climate adaptation	4.0%	10.8%	25.6%	33.4%	24.1%	2.2%	100.0%
Digital technology application and trade standards	0.5%	0.5%	7.4%	37.9%	52.7%	1.0%	100.0%
Digital social payments	0.7%	4.1%	16.9%	44.4%	30.8%	3.1%	100.0%
E-commerce	0.7%	1.6%	8.9%	37.2%	51.0%	0.7%	100.0%
Energy security	1.5%	6.9%	29.6%	38.8%	22.2%	1.0%	100.0%
Health security	0.2%	0.8%	4.3%	27.8%	66.3%	0.7%	100.0%
SME integration in GVCs	1.3%	5.8%	19.9%	41.4%	23.4%	8.1%	100.0%
Structural reform	1.3%	5.4%	16.7%	35.1%	39.8%	1.7%	100.0%
Supply chain resilience	0.2%	1.7%	7.8%	38.8%	50.5%	1.2%	100.0%
Tourism	2.3%	7.8%	25.7%	37.6%	25.2%	1.3%	100.0%
Women's economic empowerment	5.0%	8.0%	23.5%	41.3%	20.1%	2.2%	100.0%