

Roundtable with Prof. Fukunari Kimura, Dr. Keiichiro Kobayashi, Yuka Koshino, Prof. Toshihiro Nakayama, Dr. Yusuke Tsugawa & Takeshi Tashiro

# Roundtable Discussion on the White Paper on International Economy & Trade 2020: Economic Policy in the Covid-19 Crisis

By Japan SPOTLIGHT

METI published its White Paper on International Economy and Trade 2020 on July 7. Takeshi Tashiro, director of METI's Policy Planning and Research Office and principal author of the White Paper, told us that the most difficult part of the work was to take account of the latest situation of the coronavirus infection and its impact upon the economy, as it changed drastically during the few months before the publication date. The White Paper was drafted on an extremely tight schedule under extraordinary circumstances as the unprecedented pandemic was spreading around the world.

Experts on the economy, trade, politics and medical and health policy joined our online roundtable discussion on July 17 moderated by Tashiro. Dr. Keiichiro Kobayashi is an economist who focuses on macro policy at the Tokyo Foundation for Policy Research and an advisor to the Japanese government on policies to deal with the pandemic and the economy. Prof. Fukunari Kimura is an economist at Keio University specializing in trade issues who has been a longtime ardent supporter of multilateral free trade. Prof. Toshihiro Nakayama is a political scientist at Keio University SFC specializing in American politics and an advisor to the Japanese Ministry of Defense. Dr. Yusuke Tsugawa is a health policy researcher, physician, and assistant professor at the University of California, Los Angeles (UCLA), and an expert in health policy, health economics, and public health. Yuka Koshino is a foreign and security policy analyst and research fellow at the International Institute of Strategic Studies (IISS), a British think tank in London, with a major interest in US-Japan relations and cybersecurity in the Indo-Pacific region.

(Roundtable online on July 17, 2020)

## Participants



Prof. Fukunari Kimura



Dr. Keiichiro Kobayashi



Yuka Koshino



Prof. Toshihiro Nakayama



Dr. Yusuke Tsugawa



Takeshi Tashiro

## Introduction

**Tashiro:** The pandemic has brought our economy into the most serious crisis since the end of World War II. Our White Paper notes that the coronavirus has limited our face-to-face communication, as this would increase infections, and this will result in the need for fundamental reforms of our economy and society to realize sufficient economic growth. For example, factory production or office business cannot be fully carried out due to the lockdown of the economy to

stop the spread of the virus, and household consumption will significantly decline if people have to stay at home as they will not spend much money on shopping or tourism. In such a situation, economic growth slows down significantly and bankruptcies and unemployment could soar. Considering these large negative economic impacts of the virus, we will need to pursue policies to keep the economy going while trying to curb the spread of infections and minimize casualties. This is, I believe, a new challenge for our economic policy.

The coronavirus has also highlighted a certain aspect of globalization, namely the accumulation of economic and business activities in some urban areas. With large populations and production facilities in big cities where the service industry flourishes, the risk of virus infection there increases, and this would expose essential workers such as medical staff, and supermarket employees to a higher risk of infection. With this geographical concentration of business activities, global supply chains would be exposed to a high risk of disruption.

On the other hand, we should take note that the digitalization of business and production activities enabling us to work remotely will progress significantly and help us overcome some of the challenges brought about by the coronavirus. Online meetings such as the one we are now engaged in will increase from now on. Even before the pandemic, it was obvious that as the digital economy proceeds, our activities will become more subject to a division of labor among individuals due to new technology. The pandemic will push this trend further, and we have been calling for Japanese businesses to be well prepared for this.

Another challenge may be an increase in trade-restrictive policies around the world. Immediately before the pandemic, we saw a proliferation of trade-restrictive measures introduced in a large number of countries leading to an intensified US-China trade war. The coronavirus crisis has even accelerated this trend and eventually export restrictions on masks or other Personal Protective Equipment (PPE) were introduced by many countries.

We believe that we will need to pursue international cooperation against this trend to reinforce the benefits of globalization. Taking advantage of this opportunity, I would like to invite a variety of views on how to address the pandemic and the affected global economy based on a discussion about our White Paper.

## **Assessment of Macro Policy Perspectives Under the Pandemic**

**Kobayashi:** Dr. Masayuki Morikawa, president of the Research Institute of Economy, Trade and Industry (RIETI), and myself have just published a book titled *Economics in the Crisis of Covid-19*. As mentioned in the book, my view is that the key to dealing with this economic crisis is to reduce the risk of virus infections, as a higher risk of infection will raise the cost of economic activity on both the demand and supply side due to the introduction of remote working and social distancing. In order to lower the risk of infection, lockdowns of large cities to stop or restrict economic and business

activities have been implemented so far. They have worked to mitigate the risk of infection but have also seriously damaged the economy. So we need to maintain the economy while continuing to lower the risk of infection. To do this, we should expand the coverage of polymerase chain reaction (PCR) tests or antigen tests and isolate infected people from those who are unaffected, and thereby lower the risk of infection within the overall economic system. This is a medical and public health policy, but at the same time the most effective economic policy, I believe. As this policy proceeds, the economy will be normalized.

The second key issue in this crisis will be income redistribution to mitigate possibly expanding income gaps caused by the pandemic. Non-permanent workers and freelance workers will suffer more seriously than others, as they could be fired more easily by firms facing a downturn, and also workers in the tourism sector will suffer due to the significant fall in tourism, while permanent employees in big companies will suffer very little.

I think our social security system should be reformed in accordance with a “basic income guarantee” which ensures that all people regardless of employment status can receive a minimum income. Employment adjustment subsidies for companies facing a significant decline in business are provided to help these companies keep their permanent employees by suspension of work or job relocation, but this will not help the group of non-permanent employees who suffer most during the pandemic crisis.

Another issue is the tremendous fiscal deficit commonly held by nations suffering from a significant decline in the economy and also a drastic increase in government expenditure to support the economy. Not only Japan, with its gigantic amount of the fiscal debt even before the pandemic crisis, but also many other nations will have fiscal debts about equal to their GDP or even more within a year or two from now.

I think all nations should cooperate in pursuing common tax revenues with a universal tax rate to reduce their fiscal debt. The Tobin tax was an idea to impose a tax on foreign exchange transactions or financial asset transactions to prevent speculation and achieve international financial stability. If all nations commit to cooperation in taxing investors' capital at a universal rate, there would be no capital flight and the gained tax revenues could be divided among nations for reduction of fiscal debt exacerbated by the fiscal stimulus to save the economy from the coronavirus shock. I think such a scheme of international fiscal policy cooperation, to be proposed by Japan or a cooperative nation, would be one of the seeds of a new international order in the post-pandemic era.

## Assessment of Trade & Investment in the Crisis

**Kimura:** We often hear the argument that globalization is over and global supply chains will shrink, particularly in the United States and Europe, as the pandemic goes on. However, I believe it will not be possible to give up or fully restructure the existing supply chain in the manufacturing industry having realized a task-based division of labor.

Secondly, in the light of international economy, trade and investment in the manufacturing industries, we note that the initial shock of the crisis was on both the supply side and demand side. We can see the supply shock in particular in the shortage of parts and components or of intermediary goods imported from China in January and February due to the drastic decline of production from the increase in coronavirus infections and the lockdown of big cities there. The demand shock was initially seen in the decline of domestic demand for goods and services due to everybody staying at home. But from now on the shock will reach income and employment, as total effective demand significantly drops.

It is critical to distinguish the shortage of medical goods and PPEs stemming from the explosive increase in demand for them all over the world and the shortage of parts and components in the automobile or electronics industry due to the disruption of supply chains caused by suspensions of production. I believe it is important to distinguish between demand shock and supply shock, as the policy to deal with each would be different. The White Paper clearly mentions these points, which I greatly appreciate.

Thirdly, digitalization of the economy will be further accelerated. The White Paper stressed that cross-border outsourcing of digital services could further increase due to the progress of digitalization. This trend would lead to Business Process Outsourcing (BPO).

Reform to achieve resilient supply chains is another issue to be noted. On emergency supplies, some would argue that a nation needs to keep production within its borders for self-sufficiency even at a high cost to be well prepared for shocks. But this should not apply to other goods, as it would be extremely costly to be ready for such a large-scale shock.

Whether supply chains need transformation or not will depend upon how much decoupling of the global economy there is against the background of the US-China hegemonic confrontation. We would need to see such a geopolitical development as well as the degree of concentration of production sites in global supply chains. You can see the White Paper implicitly referred to this geopolitical context as

well, which I think was excellent.

There will be continuous severe macroeconomic shocks to income, employment and demand for a few years hereafter and there will be inconveniences if we cannot lift the restrictions on human movement due to the lingering coronavirus. Against such a background, how can we transform supply chains and realize new divisions of labor worldwide? Other crucial questions in such a situation are how we could restore a rules-based trade regime already weakened before the pandemic began, and how we could promote megaregional FTAs against the growing influence of China, and also the digital economy. The White Paper is very successful in showing us a route map to think about those future issues.

## A Future International Order

**Nakayama:** In terms of a public health crisis, this pandemic would not have been much different if it had happened 10 years ago. But in terms of geopolitics there is much difference. In 2009 when the Obama administration took office in the US, they were quite willing to seek international cooperation, and participate in the activities of international organizations and multilateralism. In 2014, when the Ebola crisis broke out in West Africa, the US was ready to take the initiative in containing it. The US Center for Disease Control and Prevention (CDC) and the military collaborated and built up field hospitals in West Africa. Ten years ago, the US and China were searching for possible areas of cooperation. This was often referred to as G2. Not that G2 was desirable, but no one is talking about such cooperation at the moment. Rather, we are in an era of great power competition.

In reality, this pandemic did not occur in 2010. It is happening right now, in 2020. It has accelerated the trend of anti-globalism around the world that was already starting to affect the global economy. It has exacerbated the competition between the US and China and slowed down momentum for international cooperation. Over the years, we haven't made much progress in solving global issues. We can list up many problems but viable solutions are few. This global pandemic, which could have raised momentum for cooperation, has shown us our incompetence in tackling global challenges collectively. Defeatism is not a solution. We have to somehow revive the momentum for global cooperation.

## Health & Economic Prospects

**Tsugawa:** I echo Dr. Kobayashi's comment that the economy is

expected to deteriorate if we cannot control the Covid-19 outbreaks effectively. This is evident from the experience of Sweden, a country that has taken a very different policy in response to Covid-19 compared with neighboring countries. They kept the economy open and tried to contain the pandemic by achieving herd immunity. This is a large-scale social experiment. Although the ultimate consequence of Sweden's approach has not been fully understood, we have some evidence suggesting that Sweden may be suffering from an economic downturn as much as its neighboring countries. An estimated 5,700 people have died of Covid-19 infection in Sweden so far. This number may appear relatively low, but given that the population is only 10 million, the fatality rate per 100,000 population is in fact 40% higher than that of the US, 12 times larger than in Norway, seven times more than in Finland, and six times greater than in Denmark. This makes Sweden one of the nations with the highest number of deaths due to Covid-19 in the world.

Although Sweden's goal is to minimize the economic downturn by keeping the economy open, it is experiencing a severe economic downturn. Sweden's GDP growth in the first quarter of 2020 over the previous quarter was down 4.5%, close to that of Denmark at minus 4.1%. Its unemployment rate increased from 7.1% in March to 9% in May; during the same period the Danish unemployment rate increased from 4.1% in March to 5.6% in May. Considering that Denmark had implemented rather rigorous lockdown policies and succeeded in controlling infections and having fewer casualties, Sweden's relatively drastic approach to keeping the economy open during the pandemic is probably not achieving its goal in terms of the economic performance. This highlights the importance of understanding that we are not considering a trade-off between health and economy, but instead, without effective control of the pandemic, many countries are expected to suffer from both the high burden of illnesses and a decline of economic performance.

In the case of Sweden, it is noteworthy that people's behavior, in particular the behavior of elderly people who have a higher risk of death when infected by Covid-19, changed substantially due to fears about the spread of the virus in the community. They did not go out for dining or shopping or entertainment, and thus, consumption declined significantly. From this example, we can see that the coronavirus's psychological impact on human behavior must be a critical factor in choosing a policy direction. It is estimated to take one year to 18 months to make an effective vaccine for this virus. If so, this may not be a transitory shock to the economy, and the human behavior we have seen during the pandemic may continue for a long time even after the pandemic is over. Continued fear of the

virus will completely change human behavior, and the key to achieving a well-functioning economy with the coronavirus or in the post-coronavirus era will be how we can build a new socioeconomic system that allows the economy to survive in spite of this fear.

Another psychological problem seems to be people's growing lack of confidence in government policies and in professional scientists' views on the pandemic. People are today exposed to a variety of views and information concerning the virus, which is inconsistent, and thus, they sometimes take extremely risk-averting actions as they do not trust their national leaders' decisions. I believe that in Japan, such distrust in science is extremely significant. I think it will be difficult to expect people to follow the government's decision to restart business and economic activities if infections are continuing to spread. Without fixing these two psychological issues, it will be difficult to get rid of the negative psychological impact of the virus on human behavior and get the economy back on the right track.

## Perspectives on National Security

**Koshino:** Another aspect of the pandemic is that digital technologies and services – from telecommunications systems, e-commerce websites, and video conferencing tools, to social media services – have become critical parts of our daily lives. At the same time, countries have become increasingly aware of the security risks associated with the expanding footprint of Chinese technologies and apps.

Even before the pandemic, US-China strategic competition had been most salient around 5G and digital technologies because the country that will dominate cyberspace is likely to have an economic, military, technological, and political advantage in the coming decades, as cyberspace will become the foundation of everyday life. Since then, the US had been pressuring countries to ban Chinese 5G or apps, citing security concerns.

The aftermath of the Covid-19 outbreak and China's growing assertive foreign policy have prompted countries, especially those which were already facing security challenges from China, to review their policies and regulations on using Chinese networks and services. For instance, India had been working with Chinese companies for its 5G. During the coronavirus crisis, however, its border conflict with China worsened, in addition to its security concerns over China in the Indian Ocean. These events prompted India to take tougher measures against China, such as prohibiting the use of 59 Chinese digital apps. The United Kingdom is another example. The UK has long valued its economic ties with China. It

immediately joined China's Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB) when established in 2013. As for the introduction of 5G, the UK, despite US pressure to exclude Chinese companies from its network, originally allowed Chinese companies to participate in it. But China's lack of transparency and accountability regarding the global spread of Covid-19, and the recent Chinese policy change on Hong Kong that violated the Sino-British Joint Declaration of 1984, which guaranteed Hong Kong could keep its capitalist model for 50 years after its return to China, has pushed the UK to change its policy and exclude Huawei from its network by 2027.

Thus, in the post-Covid-19 world, countries will likely pursue an international economic order and digital governance supported by like-minded nations based on mutual trust. There is a potential for a "Quad" – US, Japan, Australia and India – security framework to be used for economic and political issues as well. US President Donald Trump is now proposing to have an expanded G7 meeting, namely a G10 or G11 involving nations that have serious national interest issues with Chinese policies, and the UK government has the same idea. There are emerging discussions about Japan taking part in the Five Eyes intelligence alliance to discuss digital issues. Such new movements deserve keen attention today.

## How Can Experts Contribute to Policy-Making?

**Tashiro:** In dealing with complicated challenges like the pandemic and the damaged economy, I think we should take full advantage of experts' knowledge. Evidence-Based Policy Making (EBPM) would be one way to achieve this. How do you think experts can contribute to the policy-making process? Dr. Tsugawa pointed out that scientific experts today have lost the trust of ordinary people. Can they restore it?

**Tsugawa:** In this crisis, we have been learning about new evidence related to Covid-19 every week, and in such a situation the most important thing is how to achieve the most effective communication between the government and the people to convince them of the utility of the policies being adopted to cope with the crisis. This communication would also include how these experts could inform the people about the uncertainty of the situation. I think it is important for Japanese EPBM that the evidence-producing process and policy-making process are separated. A close connection between the two would prevent both from achieving objectivity and

neutrality. So the experts involved in the evidence-producing process would only have to provide data for the policymakers to make a decision about policies, including uncertainty around the evidence, and probably should not be directly involved in the decision-making of the policies. Ultimate political decision-making is supposed to be the responsibility of policymakers and not of scientific advisors.

In addition, there have been so many wide-ranging views from academics about the pandemic spreading over the media and SNS that have caused confusion among people who do not know what to believe. This is increasing further distrust in science. Scientific communication with ordinary people about the possible effects of radiation did not work well either in 2011 in the wake of the nuclear disaster in Fukushima. Japanese people's distrust in scientists has remained since then. We will need to fix this to mitigate people's anxiety about the virus. In particular, the pandemic badly affects the economy, and so the Japanese government will need to improve communication as much as possible. Communication about the pandemic will not be just the verbal transfer of messages from scientists but must be advice endorsed by academic authority and well-qualified by analysis. So we will need to create an authorized advisory group of scientists who are not engaged in policy-making but who can advise the policymakers on communication.

**Nakayama:** Difficulties related to expert and scientific communication are not limited to Japan. You see antagonism toward experts and scientific knowledge in the US as well. In terms of expert knowledge, the Japanese expert community needs to develop a think tank that is relevant to the policy environment specific to Japan. It would be difficult to compete with Kasumigaseki, the Japanese bureaucracy, in terms of devising a policy. The role think tanks could play in Japan is to focus on evidence-based assessment regarding policy actions taken by the government. In the context of the coronavirus crisis, people talk about the "Japan Model" without actually knowing what that is. Public policy research institutes should focus retrospectively on what that is, so that we can actually learn lessons from our past actions effectively.

**Kobayashi:** On the question of PCR tests for the coronavirus, I think Japanese epidemiologists' views are very different from those of global experts. Japanese experts believe the risk of the errors in testing – meaning an infected person could be judged to be non-infected and vice versa – could prove fatal, whereas some international experts do not, and thus they seem to hesitate to increase the number of tests in order to minimize such possible

errors. The global standard experts consider an increased number of tests would be effective in containing the virus by isolating the infected from the rest of the people. What do you think about this difference, Dr. Tsugawa?

**Tsugawa:** Whether we should have more PCR tests or not could depend upon the situation related to the spread of the virus in the community, and the goals that policies are trying to achieve. There may be a different approach in the regions where the infection is well under control and in those where the infection is expanding. In general, I believe it would be better to increase the capacity for PCR tests. Meanwhile, it would not be relevant to expand testing to people with no symptoms, as I assume the outcome of PCR tests would not fundamentally change the direction of the general public policy on the pandemic.

More importantly, as Prof. Nakayama said, Japan needs more assessments of its policies, such as a decision to close schools at the initial stage of the pandemic, which I personally agreed with. Otherwise, we cannot learn lessons from past experiences, leaving us ignorant of their effectiveness for the future. Without any feedback from assessments of previous policies, we will just see an increasing divergence of views among academics on any issue, and confusion will spread. The best thing would be to achieve a consensus among academics on any specific policy adopted in the past.

## International Relations & Digital Economy

**Kimura:** We should not be disturbed by the recent arguments about the negative aspects of globalization or supply chains or reshoring of production sites to ensure emergency supplies and those of other goods. These are, I think, rather unrealistic ideas, given the reality of existing globalization. But on the other hand, we do need to think about geopolitical risks that have expanded even before the crisis. Businesses must be well prepared for a bigger demand shock to the economy ahead. If this shock continues just for a short time, they can keep production networks intact, but if it continues for much longer they will need to reflect on their business strategy over the long term to survive it. Anyhow, the key to protecting business interests would be policies to keep infections under control and macroeconomic policies for sustainable growth.

**Koshino:** On the issue of the digital economy and cybersecurity, with the digitalization of economic and social activities following the

pandemic, as I mentioned earlier, there is an increasing demand to enhance access to quality telecommunication systems and digital services.

Before the pandemic outbreak, it seemed that China's cheap and high-quality 5G, digital platform services, and data centers were rapidly expanding their global market share with government support. At the BRI Conference in 2017, China declared it would build a "digital silk road (DSR)" consisting of smart cities, digital platform services and 5G networks and that the DSR will help create "a community of common destiny in cyberspace". The US, Japan, and like-minded countries have become increasingly concerned that the spread of Chinese digital technologies could also spread the Chinese model of digital governance, such as censorship and restriction on data flows.

The coronavirus outbreak and China's growing assertive security and economic activities are now forcing countries to question the reliability of Chinese digital technologies. It will be worth observing how the dropout of countries with large mobile subscribers and e-commerce markets from China's DSR, such as India, will affect Chinese President Xi Jinping's digital strategy. These developments also gives opportunities for Japan, the US, and other digital actors to expand their market share abroad.

**Nakayama:** Though I'm not an expert on the issue, since literally almost everybody has benefited from digital technology, I'd like to have a word about it. I was a little saddened that Japan could not show its presence in terms of supporting the remote environment. We talk about how effective Japanese traditional norms have been in somehow managing the explosion of the pandemic, but on the technological side of things it seems like Japan was invisible. All the platforms I use in teaching my classes are foreign. I understand that in terms of digital technology, talking in terms of "national flags" is irrelevant. However, the lack of a sense of innovation in Japan is a factor. I think Japan will need to create a business environment that encourages Japanese initiatives in this promising area.

**Tashiro:** Thank you all so much for a good discussion. I am happy that the discussion covered not only the issues in our White Paper but also issues like the importance of policy assessment or a future international order. METI's international trade policy should proceed to the next stage on the basis of our discussion. **JS**

Written by Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, with the assistance of TapeRewrite Cooperation.