

Exploring the New Economy Under Covid-19

By Naoyuki Haraoka



More than six months have now passed since the World Health Organization declared Covid-19 to be a pandemic on March 11. But we cannot yet see any sign of the pandemic being contained by public policies or by people's own efforts to prevent the spread of infections. The majority of virus experts expect the pandemic to continue for at least another year until vaccines can become available around the world. Thus we need to think about how the economy and society will be changed by this pandemic and how we can turn this challenge into an opportunity for recovery and growth.

This issue highlights a variety of views among economists, industrial policy experts, fiscal policy experts, and business management experts. The common denominator is a long-term perspective, since even if the pandemic comes to an end within one year its impact on the economy and society will remain for many years. Economic growth rates may pick up in 2021 from the negative rates in 2020 in most nations, but even possibly robust growth such as 5.0% in terms of real GDP would not enable GDP to return to levels prior to the pandemic, due to the huge decline in effective demand resulting from both soft and hard lockdown policies. It is not only GDP but also industrial structure, business management and behavior, and innovation in the economy that will not return to their original state for many years.

Our Cover Story begins with an overview by Udith Sikand, an emerging markets analyst at Gavekal, on the prospects for a new economic society under Covid-19. Two Japanese business economists, Takuji Aida and Koichi Kurose, focus their thoughts on the Japanese economy, while

Prof. Kazumasa Oguro, one of our *Japan SPOTLIGHT* Editorial Committee members, offers his view on PCR testing to mitigate virus infections and restore the economy simultaneously. This may appear to be a short-term policy, differing from the long-term perspective on the pandemic's impact on the economy, but assuming that the virus will remain for a long time and infections will not disappear easily, this could be regarded as a long-term view. Controlling infection rates must be the most important long-term economic policy in this light.

We will need to strengthen the supply side of the economy and the competitiveness of industries seriously affected by disruptions to global supply chains due to the pandemic or to huge declines in demand. We will need good industrial policies to restore such competitiveness. We will also need to enhance overall labor productivity to restore the growth potential damaged by reduced demand. Dr. Karl Aiginger, a distinguished industrial policy expert, highlights the role of industrial policy in this regard.

In restoring industrial competitiveness and growth potential, innovation will be another key. We highlight in this context the views of business management experts. How can businesses become more innovative by the introduction of new management? How can they survive the pandemic and turn the crisis into business opportunities for the restoration of prosperity? Two well-known business management experts, Dr. Gary Hamel and Darrell Rigby, respond to those questions in interviews.

It would be a source of happiness if the pandemic could bring us benefits, apart from all the calamities. With the right efforts, we can create opportunities for prosperity in the long run.

(Brief Introductions)

COVER STORY 1

Interview with Udiith Sikand, Senior Emerging Markets Analyst, Gavekal Research Ltd.

Global Investment Analyst Provides Views on the Prospects for a New Economic Society with Covid-19

By Japan SPOTLIGHT

To be successful in restoring the economy from the disastrous effects of the pandemic, monetary, fiscal and structural policies need to be implemented together in a logical and mutually reinforcing sequence.

COVER STORY 2

With Fiscal Expansion in Response to the Coronavirus, Abenomics 2.0 Can Bring Japan Out of Deflation

By Takuji Aida

A premature shift back to contractionary fiscal policies after Covid-19 in Japan, driven by fears of a tremendous increase in government debt, would bring Japan back into deflation.

COVER STORY 3

Impact of Covid-19 on Financial Markets – Japanese Economy Peaked Prior to the Virus

By Koichi Kurose

Widespread use of a vaccine and the development of herd immunity which could take many years to affect the entire world will be necessary to win the war against the virus, but this is the most important economic policy and should be followed by government debt consolidation, corporate debt repayment and normalization of monetary policy.

COVER STORY 4

Expansion of PCR Testing Is the Key to an Exit Strategy, But Which Is More Important – Sensitivity or Frequency of Tests?

By Kazumasa Oguro

The key to an exit strategy from the negative consequences of the pandemic in terms of public health and economy must be “expansion of PCR tests”.

COVER STORY 5

Interview with Dr. Karl Aiginger, Director of the Policy Crossover Center: Vienna-Europe

Industrial Policy to Be Highlighted in the Age of the Pandemic

By Japan SPOTLIGHT

An industrial policy must not be a silo policy but connected with health management, equality of races, and openness of hospitals to everybody to prevent the worst negative consequences of the pandemic for the economy.

COVER STORY 6

Interview with Dr. Gary Hamel, Co-author of the book *Humanocracy*

How Can We Revive Organizations as Innovative as the People Inside Them?

By Japan SPOTLIGHT

Management belief in the freedom of individual employees would lead to creativity and innovation, as his recently published book *Humanocracy* reveals.

COVER STORY 7

Interview with Darrell Rigby, Partner, Bain & Company

The Crisis in Public Health & Economy – Innovation to Tackle the Challenges

By Japan SPOTLIGHT

Establishing agile teams in a company is the first step towards innovation. Executives must build confidence in agile values, principles and practices.

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