

The Year of Economic Recovery?

By Naoyuki Haraoka

As vaccines have officially been accepted for use in the United States and United Kingdom, expectations are rising that an end to the public health crisis is in sight. Will 2021 be the year of economic recovery? Will uncertainty surrounding the global economy be significantly mitigated? People all over the world have become exhausted in adjusting their daily lives to the “new normal” of wearing a mask, keeping social distance and working remotely, and will look forward to more certainty.

This issue introduces our readers to the views of the economists on the path to recovery. International organizations are considered to play a key role and thus they are responsible for publishing their outlooks on how the economy will proceed in the coming year. Our two leading articles are interviews with IMF and ADB economists on their latest economic outlooks for 2021 – Dr. Gian Maria Milesi-Ferretti, deputy director of the Research Department of the IMF, and Dr. Yasuyuki Sawada, the ADB’s chief economist. While the ADB’s outlook is quite optimistic about the Asian economy, as Asian countries are generally containing the pandemic well and their recovery would be stable and robust, the IMF’s outlook is more cautious and characterizes the recovery process for the global economy in 2021 as “a long, uneven and uncertain ascent”.

It is noteworthy that the IMF recommends maintaining a stimulative fiscal and monetary policy to prevent the global economy from losing momentum. Another important suggestion made by the IMF is to strengthen international policy coordination, including vaccine distribution among nations and fiscal and monetary policies. Both economists express concerns about trade tensions, in particular the possibility of a US-China decoupling as a major risk to a robust recovery, as well as the risk of a continued public health crisis in 2021.

In the next article, World Bank economists Ayhan Kose, Franziska Ohnsorge and Dana Vorisek talk about the pandemic’s impact upon Emerging Market & Developing Economies. Their conclusion is also that great care and prudence will be necessary in withdrawing large-scale

fiscal and monetary stimulus for their economies in order to avoid disastrous outcomes.

Sébastien Miroudot, a trade economist at the OECD, contributes an interesting article on the pandemic’s impact on global value chains (GVCs). Many Asian countries are concerned about disruption to GVCs from the pandemic, but his view is more optimistic. Another IMF economist, Dr. Chie Aoyagi, talks about the pandemic’s impact on gender issues, and suggest that men and women could finally find the best work-life balance as a result of having worked remotely during the pandemic. Finally, Dr. Keisuke Kondo, a senior fellow at the Research Institute of Economy, Trade and Industry, suggests reshaping the urban-rural relationship in Japan by effective use of teleworking and online education.

The impact of the pandemic is not limited to the economy, but will impact economics as well. While efficiency has been the principal criterion for economists to judge economic performance, the pandemic has started to move it to income equality, as inequality has been seriously exacerbated by it. Sustainable Development Goals (SDGs) such as wellness and happiness are increasingly considered important policy goals.

As economic efficiency is not a top priority anymore, in the trade policy area free trade may not be an ultimate goal. Free trade may result in economic growth in the long run because competition can achieve economic efficiency. However, in the short run, there will be winners and losers and inequality will expand between them. Economists will need to ensure that both income equality and economic efficiency can be achieved simultaneously. Globalization based on free trade has achieved strong growth, but from now on globalization must be based on not only efficiency but also humanistic values. Thus we may see the beginning of a changed capitalism at the end of the pandemic. Our *Japan SPOTLIGHT* will highlight this in the coming months.

Anyhow, market mechanisms will not be almighty anymore and a more evidence-based and neutral approach rather than one preoccupied with a specific

theory will be recommended in the new economics.

(Brief Introductions)

COVER STORY 1

Interview with Dr. Gian Maria Milesi-Ferretti, Deputy Director of the Research Department of the IMF

The IMF's Assessment of the Struggling Global Economy Under the Covid-19 Pandemic & Prescriptions for Recovery

By Japan SPOTLIGHT

The IMF outlook estimates the global economic growth rate at 5.2% in 2021. It assumes implicitly that the pandemic crisis will be largely contained by the end of 2022. But as the pandemic's impact upon the global economy will remain in the long run, for the first time the IMF has produced a forecast over a five-year horizon. Assuming that the good effects of vaccines will be seen by April 2021, mitigating uncertainties, we will have a better idea of the longer-term economic difficulties.

COVER STORY 2

Interview with Dr. Yasuyuki Sawada, Chief Economist of the Asian Development Bank

Asia to Lead a Global Economic Recovery in 2021 After the Pandemic Recession

By Japan SPOTLIGHT

The ADB outlook estimates Developing Asia's growth rate in 2021 at 6.8%, stronger than the global economic growth rate in 2021 estimated by the IMF. Thus, Asia's presence will be enhanced. But its responsibility for global governance will increase as well. The RCEP and CPTPP or other regional FTAs in Asia are expected to prevent the world economy from falling into a decoupling, with the US-China hegemonic conflict possibly intensified by the pandemic.

COVER STORY 3

Impact of Covid-19 on Emerging Market & Developing Economies

By M. Ayhan Kose, Franziska Ohnsorge & Dana Vorisek

It is to be noted that the learning disruptions associated with widespread school and university closures, as well as income losses, may cause lasting setbacks to human capital accumulation, which is in particular more serious for Emerging Market & Developing Economies than any

other group of nations.

COVER STORY 4

Impact of Covid-19 on Global Value Chains

By Sébastien Miroudot

GVCs would be largely well preserved even in the pandemic, though fine tuning business strategies such as diversification of sources of materials and components or reshoring of production may happen on a small scale in order to make it more resilient to risks. Policies to enforce companies to reshore their production bases or diversify procurement sources of components and materials will not be sustainable, as their productions cost would become unreasonably high.

COVER STORY 5

Guilt, Gender & an Inclusive Recovery: a Lesson from Japan

By Chie Aoyagi

Japanese women who greatly desire to work but who may feel guilty about leaving their kids in childcare facilities could find a way both to work hard and take care of their children by themselves by taking advantage of teleworking at home, as widely adopted during the pandemic.

COVER STORY 6

How Will Covid-19 Reshape Cities in Japan?

By Keisuke Kondo

Another possible impact of teleworking and online education under the pandemic could be to encourage urban-to-rural migration. This could lead to the formation of multipolar sustainable cities in Japan. These revitalized regions could be a basis for the long-term prosperity of Japan.

So the long-term consequences of the pandemic, as the last two authors ingeniously point out, could be positive in that they may enhance the potential growth of our economy. We can turn the crisis into an opportunity.

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