



## SPOTLIGHTS

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LKI's *Spotlights* feature interviews with global thought leaders on aspects of contemporary international relations.

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### **Economic Toll of COVID- 19 on Asia and Strategies for Recovery with Michael Plummer**

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Interviewed by Ganeshan Wignaraja\*

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\***Ganeshan Wignaraja** is the Executive Director at the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI). The opinions expressed in this transcript are the speaker's own views and are not the institutional views of LKI.

**The Executive Director of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI), Dr Ganeshan Wignaraja interviewed Prof. Michael Plummer, Director of SAIS Europe, and Professor of Economics at John Hopkins University on the economic impact triggered by COVID- 19 in Asia.**

**This interview is part of the LKI Spotlight series which feature interviews with thought leaders, academics, diplomats, and professionals from around the world on current and emerging issues concerning international relations.**

**Michael G. Plummer has been Director of SAIS Europe since 2014 and a SAIS Professor of International Economics since 2001. He was Head of the Development Division of the Organization for Economic Co-operation and Development (OECD) in Paris from 2010 to 2012; an associate professor at Brandeis University (1992-2001); and Editor-in-Chief of the Journal of Asian Economics (Elsevier) 2007-2015 (currently Editor-in-Chief Emeritus). Prof. Plummer was president of the American Committee on Asian Economic Studies (ACAES) from 2008 until 2015. He is also a former Fulbright Chair in Economics and Pew Fellow in International Affairs at Harvard University. Prof. Plummer has been an Asian Development Bank (ADB) distinguished lecturer on several occasions and team leader of projects for various organizations including the Association of Southeast Asian Nations, the United Nations, the OECD, the ADB, the World Bank, and the World Trade Organization.**

**See below for a lightly edited transcript of the email interview, featuring Prof. Plummer’s responses to questions posed by Dr Ganeshan Wignaraja, Executive Director of LKI.**

**LKI:** *How different is the Covid-19 economic crisis to the 2008 Global Financial Crisis?*

**Prof. Plummer:** There are similarities as well as differences. First, they are both major shocks with significant short-run repercussions for the health of the global economy, developed, and developing economies alike. The 2008 Crisis led to a major contraction in growth in developing Asia, with trade particularly hit hard. While it is still too early for reliable statistics, it seems pretty clear that the same is true for the Covid-19 crisis. Moreover, the implosion of trade in Asia was in a way exaggerated by statistical problem in an era of regional production networks and value chains, including a great deal of double-counting. Still, while trade in general recovered fairly quickly when the world’s economies recovered, the growth trend in favor of regional production networks after the 2008 crisis begin to slow down and “mature.” Many are predicting that the Covid-19 will not only continue the slow-down in growth in favor of regional production networks but actually could lead to their unwinding, as companies begin to see associated global supply chains as less reliable. I don’t subscribe to this view; it is true that there is anecdotal evidence of firms “returning home” for production, but the data are not yet clear and, in any event, it may be a short-run phenomenon. I don’t see how a complete reliance on domestic supply chains would necessarily be less reliable than global ones.

Nevertheless, there are many differences as well. While we should have been better prepared for the pandemic, the Covid- 19 shock is mostly exogenous to the market system, while the financial crisis was endogenous and mostly derived from bad policy. It is easier to fix the latter, obviously, but recovery from financial shocks usually take a long time to work themselves out, if they do at all (per capita GDP in Italy, where I live, is still lower than it was in 2007). We aren't sure what will happen with the Covid- 19 shock, but the ADB and the IMF tend to be quite optimistic for a strong rebound next year from a deep recession this year. In addition, the Covid- 19 crisis is hitting the real sector first with direct knock-on effects for the financial sector; the opposite was true of the 2008 Crisis. Because of this, the fiscal responses to the Covid- 19 shock have been more decisive and larger; it is one thing to engineer a major bailout for the financial sector which itself was guilty of risky behavior than to compensate workers who have to stay home due to a public health emergency.

**LKI:** *What is the likely economic impact of the Covid- 19 crisis on developing countries in Asia and the poor within them in 2020-2021?*

**Prof. Plummer:** The ADB estimates that growth in developing Asia will fall from 5.2 percent in 2019 to 2.2 percent this year, before recovering rapidly to 6.2 percent in 2021. That is an optimistic scenario; in my view, too optimistic. I agree that there will be a recovery but a shock of this magnitude will require more time before we see 6 percent annual growth again. Also, averages hide the fact that the ADB anticipates considerable divergence in the rates at which developing Asian economies will rebound. For example, while Sri Lanka is expected to grow at the regional average of 2.2 percent in 2020, its recovery will be significantly slower (3.5 percent) than the anticipated regional average. Within countries, the poor are the most vulnerable in this crisis. The need for a social safety net is particularly evident in the case of this pandemic. If a country is in lockdown, low-wage workers in the formal and informal sectors cannot make a living.

**LKI:** *Against a backdrop of US-China tensions and rising populist economic policies, what is the imperative for cooperation, both multilateral and regional?*

**Prof. Plummer:** In a globalized marketplace, economic cooperation at all levels is essential. While populism has tried to turn back the clock on economic integration, and it certainly has had some success in recent years, I am optimistic that the strong economic and strategic imperatives of cooperation will win the day in the longer term. I will give you an example. In a study that will be published shortly by the Peterson Institute for International Economics, my co-author, Peter Petri, and I estimate the implications of the US-China trade war and the degree to which megaregional trade agreements, specifically the CPTPP and RCEP, could compensate for the negative effects of the trade war. In other words, we ask the question: can cooperation overcome conflict? Our results are encouraging: while we estimate that the costs of the US-China trade war will cost the global economy \$301 billion per year in a steady-state, adding in the CPTPP and RCEP (with or without India) more than makes up for it, even though the “warring” countries, China and the United States, both take a strong negative hit. The need for deeper cooperation has also been evident in the Covid- 19 response as well. When scientists work together and countries cooperate in addressing a common foe, everyone wins. When they bicker, as the United States and China have been doing even in this time of

crisis, everyone loses.

**LKI:** *Does the Covid-19 crisis make concluding an RCEP trade deal in Asia more difficult and what are the possible effects on India and the rest of South Asia from such a trade deal?*

**Prof. Plummer:** I believe that the Covid- 19 crisis will have a (marginal) positive influence on the signing of the RCEP agreement but only after a longer delay than anticipated. The negotiating members were hoping to finish up by the end of this year, but very understandably they must now deal with the immediate priority of dealing with the pandemic. Still, when the crisis is over, initiatives to stimulate the economy will be needed, and deeper regional integration will have positive direct effects via increasing trade and foreign direct investment.

We estimate that India will gain significantly by joining RCEP, with a permanent increase in income in the steady-state of \$60 billion, whereas it will lose \$6 billion if it does not join due to trade diversion (the stakes for the rest of South Asia are marginal). Moreover, by linking with the dynamic East Asian region through RCEP, India would be able to integrate more fully into regional production networks and supply chains. It seems to me that the Indian press gives little attention to the overall economic effects and focuses more on the effects of structural change (necessary when an economy increases efficiency), sectoral effects, and the bilateral trade deficits that India has with 11 out of its 15 potential partners, especially China. These bilateral deficits are not important from an economic perspective but they are from a political one. Interestingly, the reasons given by the Modi government for pulling out of RCEP negotiations late last year are very similar to the ones used by Donald Trump when he pulled out of the TPP. And just as the CPTPP is hurt by the US absence, so will RCEP be hurt by India's withdrawal, but in both cases the biggest losers will be the United States and India.

**LKI:** *What are the key national policy priorities to tackle the likely Covid- 19 induced economic shock in developing countries in Asia?*

**Prof. Plummer:** Getting the vector of public health policies right needs to take priority. As China showed very clearly, “flattening the curve” is of the essence. The sooner the pandemic is under control, the sooner the economy can start back up again. Second, there needs to be a strong social safety in place to help the poor and disadvantaged. After all, lockdowns are being done for the public good; it is only fair that the public compensates them for having to stay home. Third, developing Asian countries need to work together to fight the deleterious effects of the crisis, including keeping markets open and launching joint efforts to stem the pandemic.

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