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Governmental responses to COVID-19 and its economic impact: a brief Euro-Asian comparison

Frauke Austermann¹ & Wei Shen² & Assen Slim³

Introduction

The outbreak of COVID-19 is the most global crisis with the heaviest and most immediate impact on people's lives around the world since World War II. Its societal and economic impact is hard to quantify, but in all aspects enormous. Therefore, the COVID-19 crisis has dominated the political agenda of governments around the globe for the past months. Especially the crisis' immediate character differentiates it from the ongoing climate crisis. This circumstance calls for swift analyses of governmental action with a global perspective.

Our paper contributes to this need by providing a brief, timely, and Euro-Asian comparative perspective on COVID-19 with a focus on the interface of government and economy: We analyzed selected Asian and European countries along the degree of strictness when shutting down economic and social life: China, which has reacted with an unprecedented lockdown, especially in Wuhan, where the coronavirus was first detected; South Korea, which has been strict in detecting and isolating confirmed cases but which has refrained from locking down the economy; France, which has highly limited social and economic freedom; and finally Germany, which has taken a more liberal approach of locking down the economy.

Speedy governmental reaction not only saves lives but can also be a savior of extreme economic downturn. However, the level of strictness in government-responses to Corona is an ambiguous variable: On the one hand, a healthy economy is doubtlessly dependent on healthy people; hence, strict measures can safeguard the economy. On the other hand, extreme strictness can strangle the economy and contribute to a severe economic downturn, recession, or even long-term depression. Finding the right balance is key and a demanding task that benefits from comparisons such as the one provided by this paper.

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Responses to COVID-19 and economic impact in Asia: China and South Korea

China

As the first known region to be hit with the outbreak of COVID-19, the economic impact on Asia is severe especially due to the disruption of all key industries. The International Monetary Fund (IMF) calls COVID-19 worse than the global financial crisis (GFC) of 2007/2008, estimating that growth in Asia is expected to stall at 0% in 2020. This makes it the worst year in the last 60 years and under-performing than both the GFC (4.7%) and the Asian financial crisis (1.3%) of 1997 (Rhee 2020). Since the initial coronavirus infections began picking up in Wuhan, Hubei Province, in December 2019, China has implemented a quarantine and lockdown in Wuhan, with a level of strictness in limiting economic and social life that is unprecedented. Due to the high population density and rising number of infections and death toll, the Chinese Government rolled out quickly a comprehensive response that includes heavy restrictions on people's movements, closedowns of restaurant and shops, technology-enabled scanning, and checking tools, which managed to control the pandemic and move ahead of "curve" of the virus headway.

As much as these measures were meant to save lives, and actually have done so, they have severe consequences on China's economy. The short-term direct effect is confirmed by the official data from China's National Bureau of Statistics (CNBS), showing that the country's gross domestic product (GDP) in the first quarter of 2020 shrank 6.8% year on year. The manufacturing sector which is still critical for China's export-oriented growth story, has been harshly hit by the interruption in production and logistics. The low manufacturing activity is attributed to the uncertainties and sluggish demand in the domestic and international market, where orders have been canceled or postponed. Equally, the restaurant sector is under serious threat; large scale chains and small size family-run outlets have seen their businesses shut and running out of cash for paying staff members. Both sectors are a major source of employment, particularly among the country's 288 million floating population, internal migrant workers (a third of the total workforce), who became the most vulnerable group to the economic decline. Without readily available "safety nets" through social securities for most of the migrant workers, China's labor market pressure with an estimation of 70 million jobless workers will have profound socioeconomic effects and even unrests in China. Moreover, the pandemic reveals some concerning repercussion of the COVID-19 for China. One being the attempt by major economies to reduce the trade dependencies and over-reliance on China's manufacturing role in key industries, for instance, the

production of personal protection equipment (PPE), by shifting such production out of China back to home countries. Another consideration for this important move is the potential escalation of the bilateral trade conflict and increasing volatile political tensions between China and the USA. As China's increasing labor costs in recent years have already been off-putting for some foreign investors, the bold move by the US and Japanese governments in offering financial incentives for reshoring manufacturing from China may have a long-term cascading structural effect on China's economy and domino effect on other countries in Europe and elsewhere.

China's economic and political powers have shifted significantly from the GFC and SARS periods, now occupying an ever more crucial position for global manufacturing, supply chain, and governance. As China overcomes the "COVID-19 curve" and slowly returns to a "new normal" period of production daily life, we can expect to see China increase public sector spending and reinforce investment on 5G telecommunication, big data, cloud computing, e-commerce, online education, and advanced medicine manufacturing industries that have played a vital role in combating COVID-19 epidemic.

However, even in the case of strong government fiscal stimulus injection, China is unlikely to shoulder the decline of the GDP and helps with the global recession in the same way as it did during the GFC a decade ago. The emerging tendency of localizing or domesticating the global supply chain is likely to continue, especially for perceived strategic industries of national interests. While an immediate reshoring from China on a large scale is not foreseen, China cannot afford this potential decoupling process and needs to restructure its industrial composition, incentivize higher domestic consumption, and reconsider its strategy for overseas investment—all this amid growing uncertainties, greater scrutiny, and a potentially hostile environment. While we wait for the eventual containment of the novel Coronavirus and cooling down of "politicizing" over the virus crisis, we will likely face a new configuration of China in both global economy and governance, in a post-COVID-19 world.

South Korea

Compared to China, South Korea has taken quite a more liberal path: While the country seeks to trace every Corona-case with large-scale testing and very strictly isolates all confirmed cases with the help of digital support, there has never been any lockdown like in most other countries in Europe, Asia, and indeed most other countries worldwide. Restaurants, schools, and shops all remain open in the southern part of the East Asian peninsula. This is striking: after all, South Korea used to have the highest number of confirmed cases after China in early February 2020. Many other nations with as many cases have reacted with harsh and strict lockdowns, such as China, France, Italy, or Spain: The Coronavirus Government Response Tracker of the University of Oxford has confirmed the positive relationship between number of COVID-19 cases and strictness of governmental response (Oxford University 2020).

The South Korean path seems to be successful: By end of April 2020, no new domestics

cases of COVID-19 were detected (EU Observer 2020). Respectively, the impact on the South Korean economy is by comparison rather limited: Although the South Korean economy is going through its worst time since the 1997-Asian financial crisis, it is expected to shrink by merely 1.2% as expected by the IMF (Hankyoreh 2020), while most other countries have rates of 5% and more.

South Korea benefits from two advantages: One was the learning effect from previous respiratory epidemics, such as MERS. The country is highly routinized and knowledgeable when it comes to the “epidemic-logistics,” with innovative solutions such as drive-through-testing. Second, being a highly digital nation, the implementation of tech-based tracking, via credit cards, mobile phones, or CCTV cameras has been easier for the digital frontrunner South Korea, by comparison to other, even developed countries, especially those with populations that are more technology-skeptical, such as Germany. Such skepticism may be in order: The Bertelsmann Foundation’s Sustainable Governance Indicators consider the South Korean data protection authority not to be very effective (Klatt 2020), which is important input in light of the much-discussed General Data Protection Regulation of the European Union.

Responses to COVID-19 and economic impact in Europe: France and Germany

France

To contrast the rather liberal South Korean pathway, France is an example of a highly strict governmental response to the Coronavirus. When COVID-19 made its first victims in France, the social climate had been under tension for 2 years already, notably due to the demonstrations of the so-called Yellow Vests as well as opposition to the pension reform carried out by President Macron by a diverse group of hospital staff, professors, researchers, and civil servants.

Notwithstanding such societal climate, France indeed could not react as, e.g., Germany or South Korea did, because it did not have the necessary logistical capacity either to promote mass testing (only 45 public laboratories accredited in the country) or to massively produce masks. Rather than explicitly setting the goal of scaling up testing until capacities became sufficient, the government appointed an 11-member scientific council and argued that systematic testing was not needed. The recommendations and political injunctions that followed were contradictory and created a feeling of confusion: Maintaining the first round of municipal elections (March 15) while enforcing the closure of schools (March 12) and then total lockdown (March 17). Lagadec established that disaster communication should avoid confronting the population with a double-bind situation through dissonant incentives (Lagadec 2009). However, the French policy was only reversed on March 28, with the aim of managing a way out from the lockdown.

During the first 55 days of lockdown, the INSEE (the French statistical office) estimated the loss of economic activity linked to COVID-19 at -33% , a decrease in consumption of -32% , and a loss of private salaried employment at -2.3% (i.e., more than 450,000 net job losses) with regions more exposed than others and variations across sectors (INSEE 2020).

Germany

By comparison to other European and Asian countries, and despite variations caused by the 16 different federal states, the overall level of strictness is rather moderate in Germany: German citizens may still leave their homes for activities other than just grocery shopping. However, with all shops that are not “system-relevant” like super- markets or pharmacies being closed, it is still unprecedented in German post-World War II history. The exceptional character of the lockdown and the ensuing limitation of individual freedom are emphasized in German Corona-debates, not least due to the traumatic experiences of the Nazi-past and the totalitarian former East German communist regime. Especially chancellor Merkel, herself from Eastern Ger- many, has communicated the measures with a caution that Germans have rewarded with high levels of trust in her and the incumbent government (Ehni 2020).

The COVID-19-impact on the German economy is enormous: Exports are in “free fall,” the economy is expected to shrink over 6% (Deutsche Welle 2020), and over 10 million employees are on short-term work, a government-supported policy to avoid layoffs in crisis times (Xinhua Net 2020). Nonetheless, Germany is probably one of the best equipped to deal with the crisis: The incumbent government’s policy of a “Black Zero,” which some have named a “national obsession with a balanced budget” (Deutsche Welle 2019), now pays off: With a balanced budget prior to Corona, Germany is likely to “afford” the unprecedented 350-bn-heavy “Corona Protective Shield” (Federal Ministry of Finance 2020) that shall save everyone, from the so-called “Solo Self-employed” over SMEs to large corporations such as Lufthansa—the latter alone shall receive 5.5 bn EUR from the Federal government (Tagesschau 2020).

Despite the relative consensus of the German population that the lockdown is necessary to save lives, voices are becoming louder since end of April that the government must give a perspective on a lockdown-exit-strategy. Such voices with moderate tones were coming from more business-prone political parties, such as the Liberal Democrats, as well as from working parents, who are stuck at home with their children since kindergartens are still closed and schools are only partially open. However, since the beginning of May, a conspicuous movement consisting of extrem- ists and conspiracy-theory supporters of both ends of the political spectrum is taking their frustration to the streets, with a much more aggressive tone. To end this case study on a positive note: Germany has often been considered a developing country when it comes to digitization. Every crisis also offers chances: Thus, COVID-19 has given a real boost in digitizing especially workplaces in Germany, which will certainly be helpful for the German economy in the long-run.

Discussion and conclusion

The pandemic has done nothing less but turning the lives of people all over the world upside down. While saving lives is of course the utmost priority, governments must balance their responses to mitigate the negative consequences for businesses and their economy. After all, a major depression may also cost further lives. The paper has shown that striking such a balance is an incredibly difficult task: While China has things by now under control, the economic consequences for China but also for the global economy are severe. South Korea seems to be the role model in containing the virus and keeping the economy as untouched as possible, with its combination of strict testing and isolating, while refraining from lockdown. France, which has faced its extraordinarily high infection and death rates with a very severe lockdown for weeks already, has just announced a relief of restrictions—not least because the economic consequences are likely to be disastrous. Export-oriented Germany may experience a similar impact but is in a better position to finance measures against the downturn and has left more liberties in the first place for its society and economy.

Despite the above differences across responses to Corona, one thing is striking, namely, that governments across Asia, Europe, and indeed worldwide almost show a concerted action when it comes to the timing of taking measures against the common global threat of the virus: Almost all governmental responses to COVID-19, especially those related to lockdowns, were announced around mid-March. This may be a hint that this truly global crisis has after all been met with quite a global response.

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