

### Larry & Xin discuss Dumb Reopening Mistakes and lessons for EM

- > How can health and economic costs be balanced?
- > Which lessons can be learned from bungled re-openings?
- > What is the outlook for emerging markets regions?

Welcome to a new discussion between Larry and Xin, two prominent economists from the Keynesian tradition, offering a bi-weekly US-Chinese debate. Today, Larry shares his analytical perspective with charts from Washington and Xin responds from Beijing. Disclaimer: names are fictional but analysis may be realistic.

Larry: Happy summer Xin, hope you are staying cool in steaming Beijing.

Xin: Hello Larry, and you seem to get into a hot national holiday week in Washington.

Larry: Yes, with dumber policies than ever, and a badly bungled re-opening in the US. We have some stark contrast in comparing the pandemic fallout across the Americas versus Europe versus East Asia. Our research team has done some empirical analysis across 20 emerging and 10 developed markets to identify several important lessons.

Xin: Well, sadly, we crossed 10 million cases and 500,000 deaths globally with the US taking the lead with over 25% compared to less than 5% of the US share in population. Brazil seems to have even worse growth rates and India is not far behind, while Africa has not yet faced the full force. So how can we compare these pandemic outcomes?

Larry: Let us first look at empirical results comparing health (excess deaths /million) and economic losses (GDP decline in 2020) across 30 countries ranked in percentiles: Chart 7 reveals best results (blue box) in East Asia, then average results (middle) in Germany and Central Europe, and worst results (red box) in Latin America and the UK. Readings for the US, Brazil and India are rapidly deteriorating towards the northeast. The critical insight is that correlation between deaths and economic losses (shown as dotted black line) is **positive**; hence an economic recovery requires a health recovery.

Xin: So not really a tradeoff ... as intuitively some economists had been predicting when they argued that moving from lockdown to reopening would alleviate the economic pain but increase cases and deaths (shown as blue hockey-stick line). Such negative correlation only appears to exist within short periods within countries. And clearly Denmark had superior outcomes than Sweden, both in health and economics.

Larry: And dare we compare the US with Germany, both with huge economic stimulus but Germany doing much better on the health side with one third of the US cases and one third of the US deaths (per million). That's a stark example where strong German policies have produced far superior results than we currently have in the US. Sadly, an even worse contrast is between East Asia and Latin America, albeit with different initial conditions but also with grave policy mistakes, especially in Brazil.

Xin: We are using an analytical framework where we explain results by two factors: initial conditions and policies, measured across 30 countries. **Results** contain four measures of excess deaths, total cases, output declines, and unemployment changes. Best combined results are in East Asia (chart 7) although the Philippines have slightly worse health results. In Europe, the UK has the worst health and economic results. And in Latin America, Peru seems to be an outlier and Brazil has the worst dynamics.

Larry: In our regression analysis, **initial conditions** explain two thirds of the results (chart 8). We measure four initial conditions: urbanization & density, informal sector share, government effectiveness, and community culture (opposite of individualism). Most important are government effectiveness, which is strong in East Asia and Europe, and a so-called community culture, which is weaker in the US, the UK and Sweden.

Xin: That leads us to the most important results from **policy variables**:  
<1> an **early policy response** had by far the strongest impact. Late lockdowns, even with higher stringency, e.g. in the US, Brazil, and Russia, have inflicted higher losses.  
<2> **sustained distancing** (and enforcement) after reopening has a strong dynamic impact on moderating both health and economic losses, e.g. in Taiwan, India, Chile.  
<3> **testing combined with tracing** contributed strongly to contain the virus across East Asia and is also important in countries trying to mitigate the spread of the virus.  
<4> **economic stimulus** has a strong positive impact both on economics and health when unemployment can be mitigated, esp. in Europe, on a short-term horizon.

Larry: These four lessons are borne out empirically (reasonable  $R^2$  of 55%) and also confirm what health professionals have stated. We can develop a policy score for the 30 countries to describe how effective their response to the pandemic has been. Clearly, East Asia had the pandemic contained early and had less need for later corrective policies. The US has built strong policy scores on its economic response (much larger than after the previous 2009 crisis) and on its belated testing surge but is getting failing grades on its late lockdown and its bungled reopening, especially on its poor government effectiveness to emphasize the need for continued distancing and the need to reduce the spread by wearing masks, which has become a political fight. This further aggravates its individualistic culture, which is harmful during pandemics.

Xin: And I thought the US has the highest per-capita health expenditure and the most respected public health agency CDC. But policies seem to have a huge impact there. Let us now discuss the implications for emerging markets that often have much

weaker health systems and lower government effectiveness, as well as a higher urban population density and a large informal sector of migrant workers. The advantage for most emerging markets is their young population, often with less than 10% seniors over the age of 65, as compared to 20% in most of Europe and over 28% in Japan.

Larry: Absolutely, the mortality rates in most emerging markets could turn out much lower, if and only if these countries do their best to emphasize social distancing and mask wearing so that their health care systems do not become overwhelmed. But unfortunately, both Brazil and Mexico appear to be heading in the wrong direction with São Paulo and Rio and Mexico City possibly overtaking New York City's sad death toll. Make no mistake, late and indecisive policies in Brazil and Mexico have caused thousands of unnecessary deaths and have inflicted large economic losses.

Xin: Yes, Brazil and Mexico look at their worst recessions with GDP declining by 10% this year, and the "little flu" already caused 84,000 deaths in these two countries. That shock from Latin America is motivating East Asian governments to redouble their policy efforts to contain the virus as quickly as possible with brute force, and their cultures are more accepting of government controls and overreaches. Wearing masks has also been practiced for years and has been highly beneficial to health outcomes.

Larry: Let us look at the positive example of Kerala, a state of 35 million people in the south of India, which has been quite successful in containing the pandemic with some of the lowest numbers in India. The leftist state government has invested in public health with the best-educated population in India and was quick to mandate quarantines. But the central governments' determination to reopen the economy without having controlled the pandemic's growth rate has many public health experts horrified as they emphasize that social distancing and mask wearing remain essential.

Xin: So a big question mark for India and an even bigger one for Africa, where testing is still sporadic and the pandemic is likely to overwhelm fragile health care systems, even in South Africa. Migrant laborers and crowded urban living conditions will likely exacerbate the spread but mortality rates could be lower for younger populations. Let us hope that these countries will reduce political polarization, enhance public health communications, and educate people to avoid mass gatherings and to wear masks.

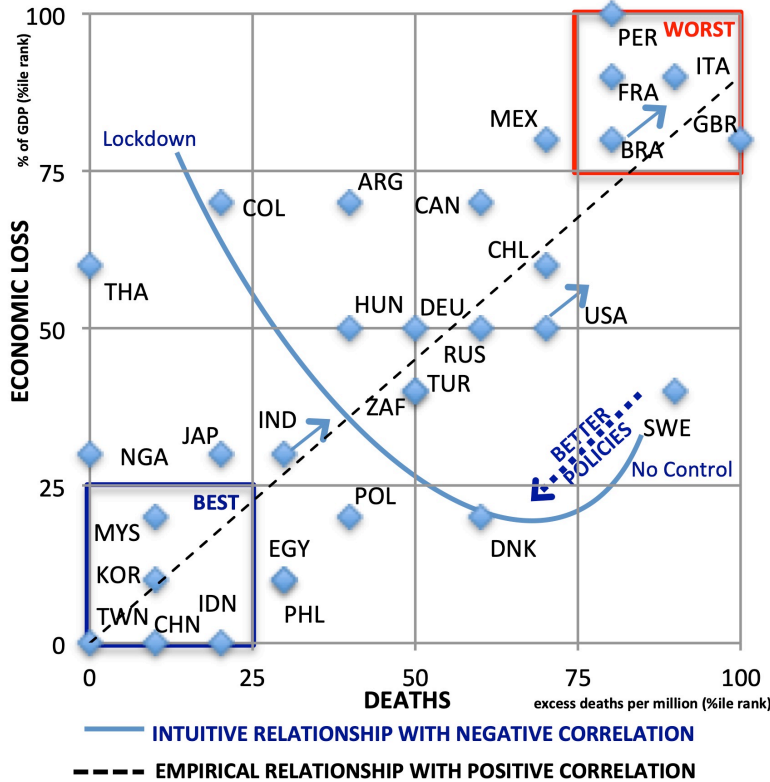
Larry: That brings us back to the US, where we also have large regional differences but the virus does not stop at state borders or political inclinations. We are suffering the fastest growth of the pandemic now, with over 40,000 daily new cases, mostly in southern states that were most careless and political during their reopenings. The US growth dynamic has already eliminated public health benefits gained from extended lockdowns as we approach dark days in July, where again thousands of lives may be sacrificed, new restrictions may be imposed, and economic pain may intensify. Such dumb reopenings, ignorance of scientific advice, stoking of divisions, and reliance on partisan politics will most likely result in landslide losses for republicans in November.

Xin: A final footnote on global affairs, as the EU is about to ban travel from the US, which may prompt some backlash. And China is about to promulgate the security law for Hong Kong that may also spark some fireworks. So maybe it is best to stay home instead of celebrating and to reflect on political and investment implications ahead.

<http://emleaders.com/pdf/eml-tradeoff-2020.pdf>



Cross-Country Pandemic Results



Sources: IMF, World Bank, Worldometer, Johns Hopkins (June 2020)

Regression Analysis:  $R = f(C, P)$



Initial Conditions and Policies explain Results

	INITIAL CONDITIONS (C)	POLICY RESPONSE (P)	HEALTH&ECON RESULTS (R)
VARIABLES	Urbanization & Density (-)	Early Closing & Stringency	Excess Deaths /m (-)
	Informal Work & Smoking (-)	Distancing & Enforcement	Disease Cases /m (-)
	Govt Effectiveness & Infra	Testing & Tracing	GDP Loss 2020 Δ (-)
	Community Culture	Economic Stimulus	Unemployment Δ (-)
STRONG	East Asia: CHN TWN KOR	Early Lock: CHN, IND, ITA, PER	Least cases in East Asia
	Europe: DEU, DNK, HUN, POL	Distance: TWN, IND, CHL, PER	Lower deaths: DEU, DNK, POL
	Culture: RUS, IND	Stimulus: USA, GBR, BRA, DEU	Lower jobless: DEU, DNK, JAP
WEAK	LAC: ARG, BRA, COL, MEX, PER	Late Lock: SWE, BRA, USA, GBR	Most cases across Latin America
	Africa: ZAF, EGY, NGA	Less Dist: SWE, BRA, USA, RUS	Highest deaths: USA, GBR, BRA, ITA
	Culture: USA, GBR, SWE	less needed in East Asia	Econ decline: LAC, FRA, ITA, GBR

$$R = -0.68 + 0.84 * C + 0.42 * P \quad R^2 = 55\%$$

[0.19] [0.25] [0.17]

C3 = Govt Effectiveness = 0.16 [0.04]    P1 = Early Closing = 0.49 [0.03]  
 C4 = Community Culture = 0.15 [0.03]    P2 = Sustained Distancing = 0.11 [0.03]

Sample of 20 EM and 10 DM as shown in chart 7, data as of 6/28/2020  
 Sources: IMF, World Bank, Worldometer, Johns Hopkins, EM Leaders (June 2020)