

Life vs Livelihood: Hobson's Choice for Emerging Markets

April 2020

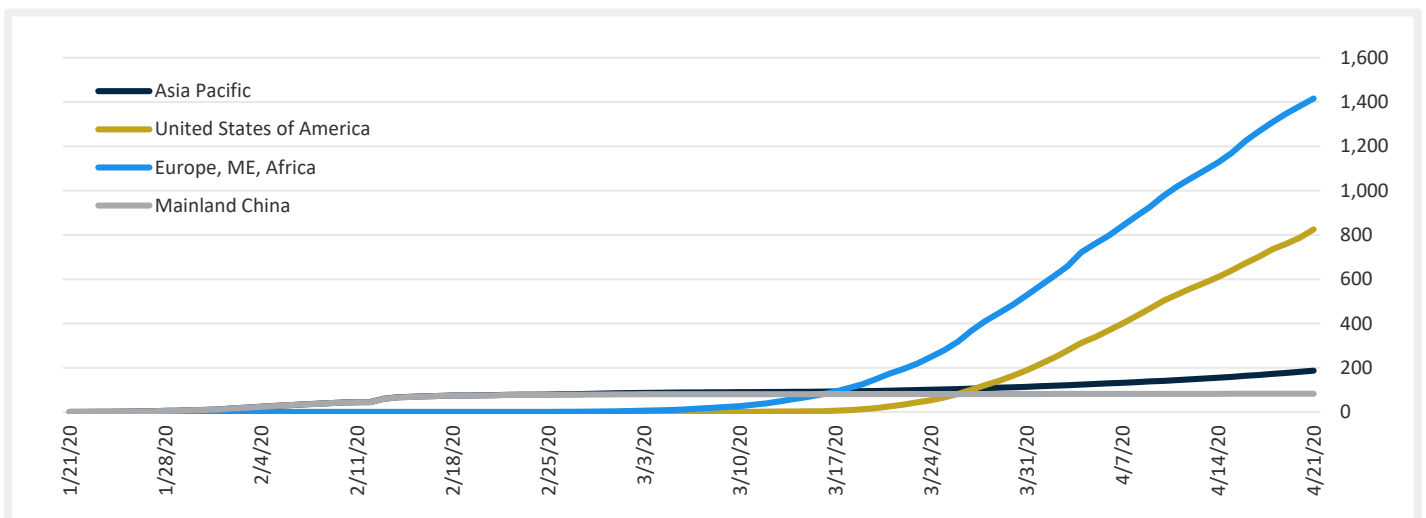


The entire world is fighting the same invisible COVID-19 virus enemy. However, Developed Markets and Emerging Markets face different sets of challenges, constraints, and social norms. As a result, the policy outcomes and societal reactions will be quite different impacting the near-term economic trajectories in the respective universes. Emerging Asian economies seem wired for a quicker restart.

Uniform Threat, Different Reactions

The world economy has been brought to a standstill by COVID-19. Philosophical debates of human existence on this planet, and our selfish pursuit of growth and profits, and our mindless conquest of space and our grab on nature and the environment over other species have come to the fore – even on the minds of stoic financial investors. As the global death toll keeps rising, nations are speculating on the timeline of the tapering of the infection-curve, and they are already planning on easing of restrictions and lockdowns and on resumptions of economic activities. Inevitably, *the moral-philosophical debate on the conflict of “profits over people?”* emerges in the developed world¹ – uncomfortable indeed! For emerging markets, the luxury of any such debate is scant: what is there to debate on “life vs livelihood”? We expect faster easing of restrictions on businesses and social life in Asia, albeit in a phased manner. Not just because Asia is mostly ahead of the Western world on the COVID-19 infection curve timeline, but also because of an *inevitable policy leaning towards the utilitarian² approach driven by dire necessity of sustaining the livelihood of hundreds of millions of poor people*. Additionally, collectivism³ is culturally ingrained in Asia’s community-centric lifestyle*, unlike the Western individualistic societal value system – Asians are more likely to shake off the virus fear sooner, as we have seen from past experiences of SARS and swine flu incidences. For investors, *we believe the bottom line is that Asia will roll back to normalcy sooner, despite the risks of COVID-19 relapses*.

Multi-country COVID-19 Infection Timeline - Confirmed Cases (000s)



Source: CDC & Bloomberg as of 21 April 2020

*I have benefitted from discussions with Aahana Chatterjee [Northwestern University] on topics of philosophy and Asian culture

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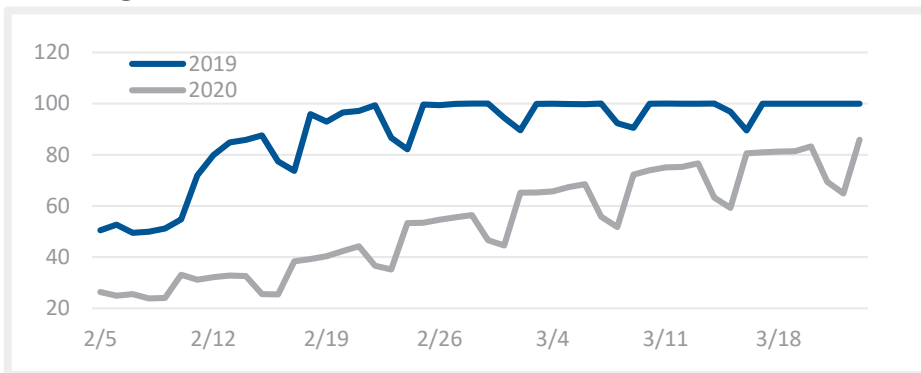
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China Goes Back to Work ... while, the Western World Leans towards the Rawlsian Prescription

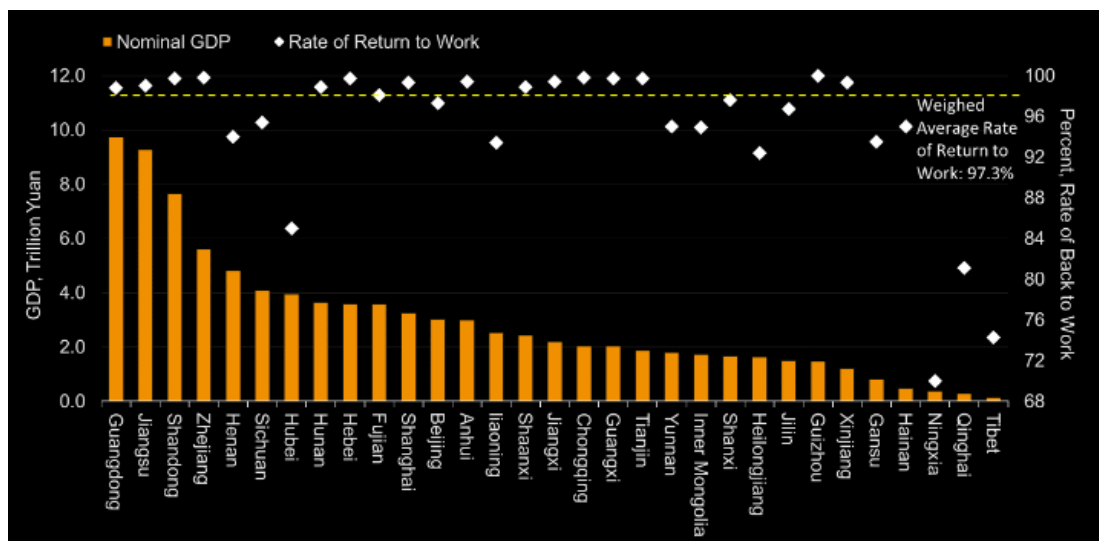
China has taken a more Utilitarian approach to balance the “Life vs livelihood” tug of war. The relaxation of lockdowns in China, allowing factories and businesses to go back to work, may seem too early and too risky by “Western standards”. It is no surprise that the Western/developed world is leaning towards the Rawlsian/Libertarian⁴ prescription. UK and US may take a longer time to ease restrictions on businesses, and it may take even longer for the consumers to shed fear and participate in normal social/crowd-engaging activities. We can expect animated political partisanship and endless public debates on the appropriate timeline of any such relaxations. Not so in China, or in most of the other emerging Asian countries, in our view. While the debate is on “life over profits” in the developed world, it is more of a Hobson’s choice between life and livelihood in emerging markets – where 1.3 billion people live in ‘multidimensional poverty’⁵, of which 650 million are in Emerging Asia, according to a 2019 survey by the U.N. Development Program⁶. Lockdowns hurt the poor more than the rich. Extended lockdowns are simply not feasible in poorer countries. The International Labor Organization (ILO) predicts more than 195 million job losses globally, due to the pandemic, and the UN predicts that another half a billion people may sink below the poverty line⁷. The situation is dire, and the politicians and the policymakers in Emerging Markets face tough choices on the balancing act of life vs livelihood. Thus, the western prescription of ranking “life over profits” with extended lockdowns, is hard to emulate for Emerging Markets.

Percentage of Workers Back to Work in China



Source: Bloomberg as of 25 March 2020

China's Rate of Return to Work



Source: Bloomberg as of 25 March 2020

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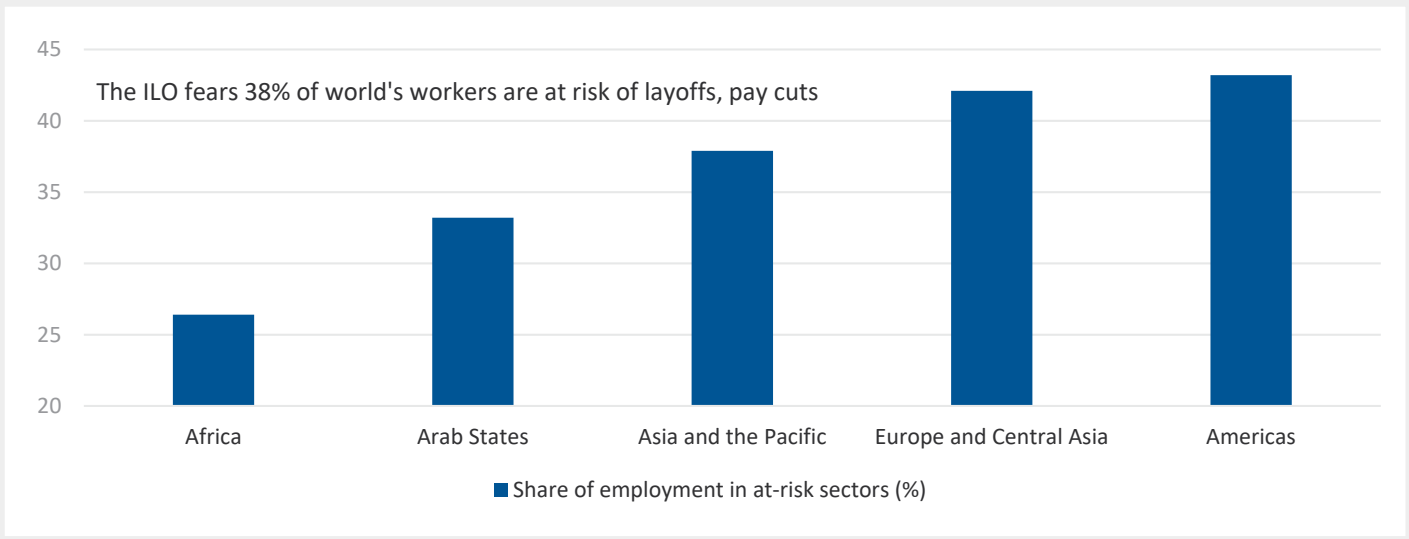
Different Social Norms from the Western World, Thus Rest of Asia to Follow Suit, Despite the Risks

China locked down Wuhan on 23 January, however, infections didn't flare up in China until mid February (of course we could debate endlessly if China's administration suppressed data). California imposed a "shelter-in-place" policy on 19 March and other US states followed. Arguably, the US is behind China on the COVID-19 infection curve by a good 4-8 weeks. So, understandably, China is expected to swing back towards normalcy ahead of the US. Activity reports show that more than 90% of large corporations and factories are already back in action in China⁸. Restrictions on businesses were selectively relaxed. However, consumer activity, while improving, is at about 30-60% of 2019 levels, depending on the type of activity (travel suffers most, while restaurants, and shopping malls and some consumer discretionary demand is coming back more strongly). Taiwan, South Korea, and Hong Kong were quick on travel restrictions and were exemplary on containment of the COVID-19 infection spread. Some of their measures (in China and these other Asian peers) would go strongly against the Western libertarian concepts of personal freedom – like contact tracing and smartphone-based risk-grading with color-coded apps⁹ for citizens. While China, Taiwan, South Korea in particular, seem to be ahead of others on the COVID-19 curve, Philippines, Indonesia and India are seeing rising levels of infection. So, not all of Asia is in the same boat and countries are being hit by different waves of the coronavirus infection. While we believe this utilitarian approach would lessen the impact on Asia's economic engines, there is of course a worrying fallout on the world economy – resurgences and second waves of the virus amid no cure or vaccine. We see such scares revisiting parts of Asia already – including Hong Kong and Singapore.

The Ethical Dilemma: Young vs Old Nations; Living with Persistent Fear ...

The mortality rate is much higher for older people with the COVID-19 disease. The ethical dilemma¹⁰ of lockdowns would thus be less pronounced in younger nations, who can risk it out with "herd immunity"¹¹. Thus, undoubtedly the restraint on business activities would be more prolonged in Europe/UK and also the US. Nevertheless, it goes beyond any economic debate that each human life is precious. That is the reason why we see sense in lockdowns in Manila, Mumbai and Jakarta... the economic epicenters of countries with median ages of less than 27 years. As the countries struggle to contain the outbreak, the biggest risk to the global economy would be relapses, amid the gradual relaxations to restrictions put on businesses and activities. Until there is a commercially available vaccine, the risk to lives would remain high, given possibility of second waves of infection. Meanwhile, reliable, readily and cheaply available antibody testing and diagnostic testing may facilitate more effective back to work initiatives. However, we do not have any of that yet.

Expected Layoffs Ahead



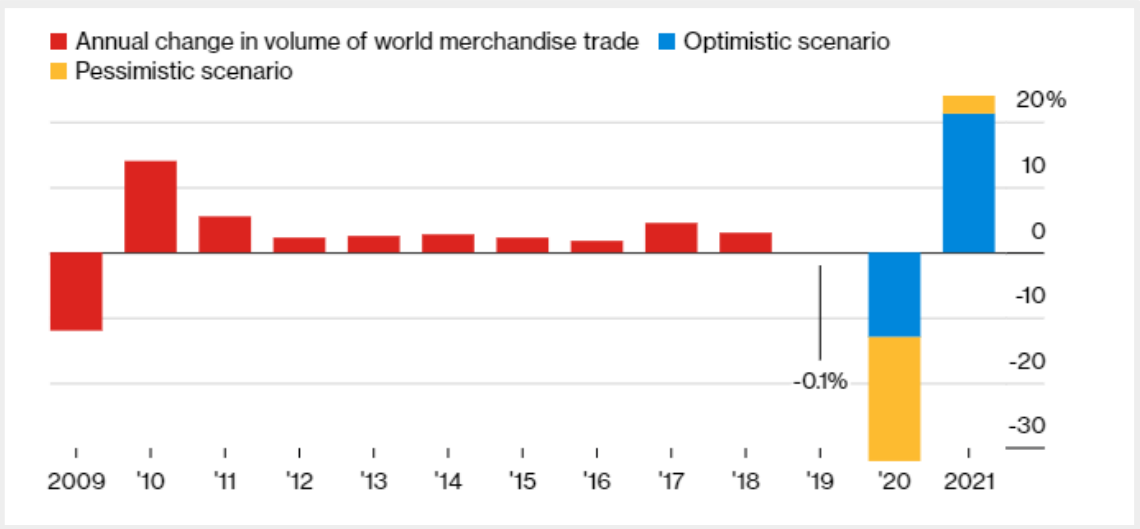
Source: ILO & Bloomberg as of 16 April 2020

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Emerging Asia's Policy Divergence Sustainable?

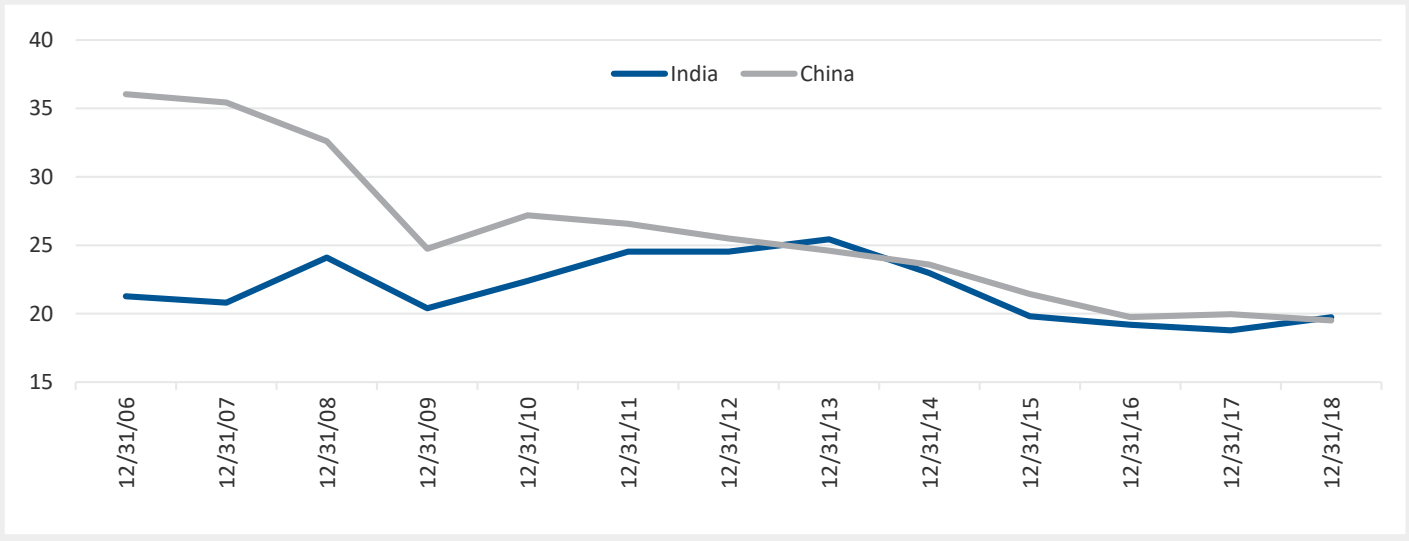
The paralysis in the global economy would significantly impact global trade. Asia's exports may collapse. So, even if they ease on the lockdowns, how would the Emerging Asian economies remain resilient? Well, today, China and most of the Emerging Asian economies are far more reliant on domestic-demand, than a decade back. Exports of goods and services as % of GDP is less than 20% for both China and India. China's reliance on exports has come down significantly since the 2007 Global Financial Crisis, when the ratio of exports of goods and services to GDP stood at 36%. Southeast Asia has a higher reliance on trade (e.g. Thailand: 68% of GDP – mainly for tourism), but intra-region manufacturing supply-chain driven exports constitute a bulk of SE Asia's trade. Korea/Taiwan's export-reliance is skewed by tech, where the demand destruction may be relatively less severe.

Ugly Numbers: The World Trade Organization says 2020 trade could fall as much as 32%



Source: World Trade Organization as of 8 April 2020

Exports of Goods and Services as % of GDP



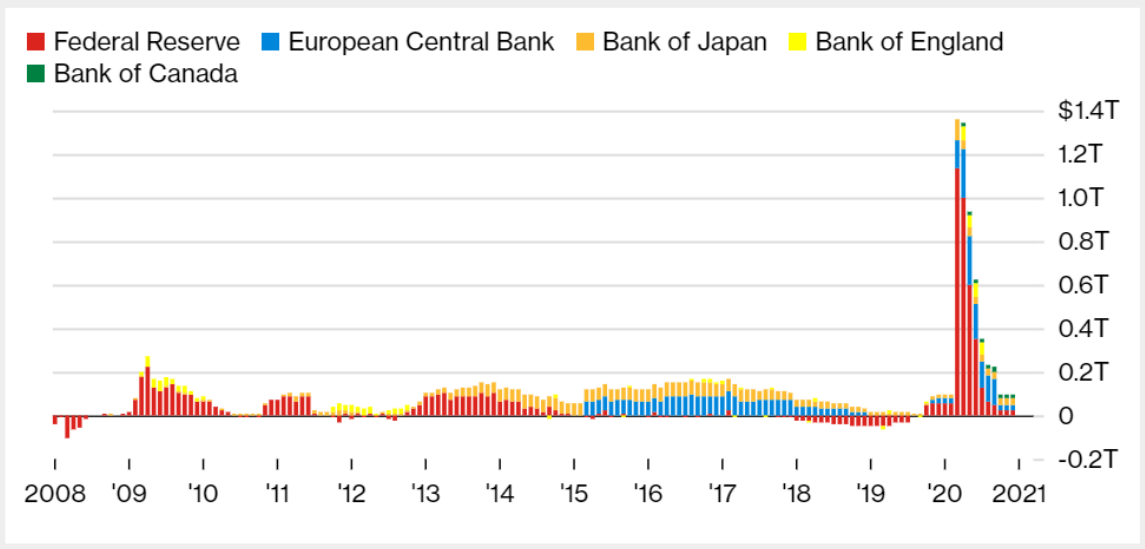
Source: World Bank & Bloomberg as of 8 April 2020

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Different Constraints Different Paths, Possibly Better Economic Outcome for Asia

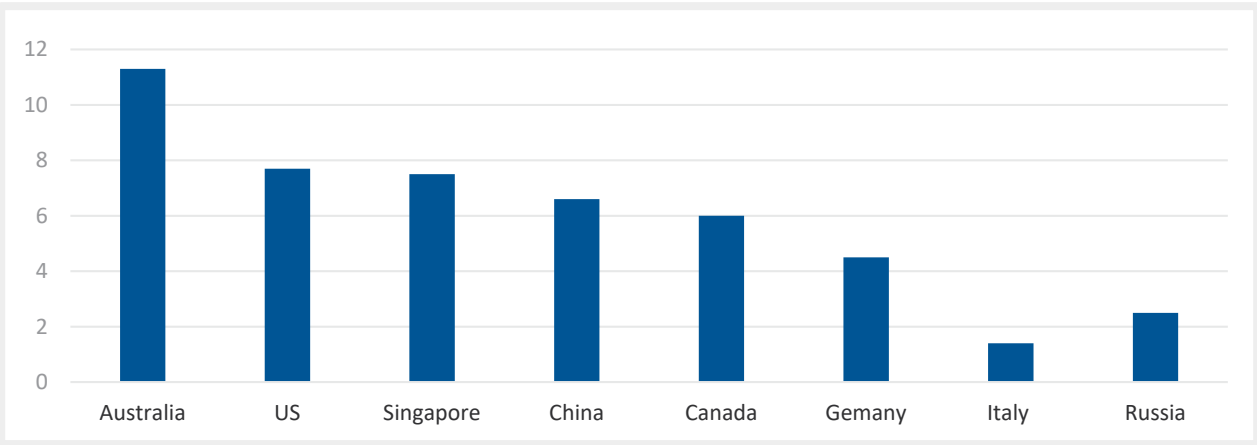
Outsized fiscal and monetary stimuli is difficult to expect from most Emerging Economies. Their fiscal balances are already stretched, country credit ratings are at risk. The COVID-19 pandemic has already resulted in a spate of sovereign downgrades – most notably South Africa, Mexico, Columbia, Kuwait and Oman, including a large number of steep downgrades in the junk sovereign category over the past couple of weeks. Many of these emerging economies are more prone to inflationary supply-side shocks leading to macro instability and follow-through currency crises. Thankfully, the pandemic has prompted the US, Germany and other developed nations to take accommodative policy initiatives. Thus, we are seeing coordinated easing by the major central banks across the world, alongside meaningful fiscal relief packages. We believe Emerging Asia being ahead of the COVID-19 infection curve, with a more aggressive 'back to work' initiative, can piggyback on cheaper global capital with central banks easing globally and the selective government-linked external demand. Thus, Emerging Asia may take a different policy approach to tackle COVID-19 compared to the developed world, with a resultant better economic outcome, in our view.

Quantitative Easing: Net asset purchases for G-7 central banks approached USD 1.4 trillion in March



Source: Bloomberg Economics of 9 April 2020

Additional Fiscal Spending (% of GDP)



Source: Bloomberg and ING Bank report from 2 April 2020, calculations exclude liquidity and guarantees.

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2. The Project Gutenberg EBook of Utilitarianism, by John Stuart Mill: <http://www.gutenberg.org/files/11224/11224-h/11224-h.htm>
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11. High Contagiousness and Rapid Spread of Severe Acute Respiratory Syndrome Coronavirus 2: Steven Sanche¹, Yen Ting Lin¹, Chonggang Xu, Ethan Romero-Severson, Nick Hengartner, and Ruian Ke; https://wwwnc.cdc.gov/eid/article/26/7/20-0282_article

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