

An Asian strategy for recovery and reconstruction after COVID-19

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An Asian compact for recovery

Key message

Asian nations should proactively coordinate financial, trade, public health and food security policies to avoid prolonged economic stagnation and international disruption from the COVID-19 pandemic.

The weight and potential of Asian economies will be central to global economic recovery from the COVID-19 crisis. Cooperation in Asia to effect immediate action and frame ongoing collaboration will help avoid unintended international consequences of nationally driven policy responses and a deeper and prolonged downturn. Regional and multilateral frameworks will increase capacity to contribute constructively to regional and global recovery.

Action

To address looming financial problems, central banks and finance ministries should expand bilateral currency swap arrangements and agree on a new issuance of Special Drawing Rights (SDRs) to create a stronger regional financial safety net. More than 100 countries have sought IMF assistance as Covid-19 triggers a wave of financial crises. Asian countries need macroeconomic policy space and financial stability simultaneously to combat the public health and economic dimensions of the crisis. Extending bilateral currency swap lines and expanding liquidity facilities with regional development banks will strengthen regional safety nets.

Support the development, production and equitable distribution in Asia of diagnostic tests, a vaccine and treatments through collective commitment of funds to the WHO's COVID-19 Tools (ACT) Accelerator and expansion of the COVID-19 ASEAN Response Fund to include ASEAN+6 nations.

Keep medical and food markets open. Trade in medical equipment and supplies should not be restricted after critical domestic needs have been met. Asia must commit to reducing or eliminating tariffs and non-tariff measures on medical goods and services. Food security depends on access to international markets and export restrictions need to be eliminated. Current bilateral initiatives can be consolidated into a regional agreement.

Lead the development of protocols for people movement to fast track the resumption of international commerce, travel for study, scientific exchange, temporary labour movement, and tourism, via the introduction of protocols of health certification for international travel.

Embrace the accelerated digital transformation that COVID has brought to health management as a source of dynamism, greater opportunities for participation, higher productivity and economic growth. Asia can initiate a proactive agenda for collective governance of digital infrastructure that includes regulatory coherence, privacy standards and data sharing. This is now essential to new work practices, new production modes, supply chain management and delivery of goods and services, including government services.

Conclude the RCEP agreement immediately to ensure regional trade solidarity. Collective Asian efforts are large enough to help safeguard the international system. Initial conclusion of RCEP with 15 members will send a global signal, ensure food security, vastly improve energy security and keep markets open in East Asia. The RCEP group needs to keep open a path for eventual Indian membership and actively promote cooperation with South Asia in the global effort to fight the pandemic and contain its economic impact.

ASEAN should lead collective Asian action to implement this agenda through its ASEAN+3 and ASEAN+6 groupings, engaging the East Asian Summit countries, including the United States, and the APEC and G20 forums, while stepping up to lead reforms in the WTO and IMF.

An Asian strategy for recovery and reconstruction after COVID-19

1. CALL FOR COLLECTIVE ACTION

The health and economic consequences of the COVID-19 pandemic are unprecedented. The scale of the health crisis is far reaching and its impact on the global economy has not been seen before in modern times.

The human tragedy of the pandemic is enormous. Almost 400,000 deaths and close to 6 million cases have been recorded worldwide as at the end of May 2020. In some countries, the spread has been more or less contained and lockdown eased; in others, especially those with inadequate health systems and governance, the spread and deaths will continue. In many societies, even under quarantine and lockdown, blind spots of congestion are potentially present and risks remain of second and third waves of infection.

The pandemic is the most damaging economic event since the Great Depression. In its April 2020 World Economic Outlook, the International Monetary Fund (IMF) predicts a baseline fall of 3 per cent in global incomes in 2020. Growth, it says, may rebound to 5.8 per cent in 2021 but it also warns of more dire outcomes. China's GDP dropped 6.8 per cent in the first quarter of 2020 on the previous year, Japan's dropped 3.4 per cent and the United States' fell 4.8 per cent. Europe's GDP is forecast to fall 7.8 per cent this year. It is unclear how long the dramatic slump in world output will continue. In the global financial crisis in 2008, the global economy shrank by a mere 0.1 per cent, 3.3 per cent in advanced economies, offset by 2.8 per cent positive growth in the emerging world. Absent decisive action now, the loss of employment, human capital and structural damage that are wrought by the pandemic mean that

recovery will take much longer. Long-term joblessness is a serious danger, more so than in other downturns. Asia will have to act fast to limit the negative impact on growth this year and beyond.

The IMF's and other predictions of a very sharp (V-shaped) recovery in the latter part of 2020 and in 2021 assume a quick resumption to business as usual given the limited damage to capital stock and the job retention schemes put in place by a number of governments. That is unrealistic unless consumer and business confidence can be restored by governments quickly and unless the measures put in place in response to the crisis that prevent the movement of people, close down vast swathes of people-focussed economic activity and restrict trade can be safely reversed. Short-term, inward-looking, nationalistic policy settings will frustrate global recovery for all.

Prolonged crisis without international cooperation

Without international cooperation and coordination, the world is facing a prolonged health crisis and lasting economic stagnation on a scale not seen since the Great Depression.

International cooperation is essential to getting health supplies, diagnostics and equipment to where they are needed and ensuring their fair and equitable distribution. It will speed the development of treatments and an effective vaccine — hopefully more quickly than has ever been possible before. It is essential to establishing international health regulations and protocols that will allow the world to gradually open up again to international travel.

Without international cooperation and coordination, the world is facing a prolonged health crisis and lasting economic stagnation

The history of the Great Depression and experience with the global financial crisis tells us that, absent international cooperation, recovery will be uncertain and prolonged. The unintended international consequences of nationally driven economic policy responses will likely lead to recurrent financial and economic shocks and long-term loss of potential income. Two key policy lessons from the Great Depression were that central bank inaction and protectionist trade policies deepened and extended stagnation.

Asian economies central to recovery

Asian economies will be central to recovery from the COVID-19 crisis because of the weight and potential they have in the world economy. Struck down by the virus first, they are now positioned to restart their economies sooner. Asia has the opportunity to lead the exit from the COVID-19 crisis and be a vital driver of the global economic recovery.

Traditionally the world has looked to the United States to lead global economic recovery, on account of the size of its economy, its freedom of policy action given the international role of the US dollar and its long-established tradition of leadership in global economic diplomacy. The Federal Reserve System has provided significant US dollar liquidity through swap arrangements with other central banks, but these arrangements have not been extended to all Asian nations, and US leadership in global multilateral institutions is now less forthcoming and more transactional.

Asia must play a central role in recovery from this crisis, because of its large share of global output, its deep integration into global economic activity and its capacity for an early exit. Asia—defined as the Association of South-East Asian Nations Plus Six (ASEAN+6) group—accounted for over 40 per cent of global GDP valued at market prices in 2019 and is now the world's biggest region in terms of purchasing power parity. The ASEAN+6 group is the natural choice for an Asian initiative on the COVID-19 crisis, incorporating six Group of Twenty (G20) members and anchored in the ASEAN arrangements. Although more diverse than North America or Europe, on some measures

centred on global value chains and their role in lifting regional growth East Asia is more economically integrated than Europe. It has substantial human, organisational and financial resources, and effective platforms of dialogue that can be catalysed to drive action on the COVID-19 crisis.

COVID-19 calls for a multilateralism that is formed out of coalitions of the capable and the willing, and no longer from conventional architectures of top-down leadership. Being part of this multilateral coordination, when doing so really matters, will be a fresh opportunity to help raise levels of trust across all nations thus engaged, and help allay worries from historical patterns of missteps and mistakes.

Struck down by the virus first, Asian economies are now positioned to start their economies sooner

Asia has the greatest incentive to reverse the accelerating momentum to protectionism and the breakdown of global cooperation by rebuilding trust, strengthening governance and updating global rules. Because of their dense populations and limited resource endowments, the economies of East Asia are more dependent on the international economy and global supply chains than economies elsewhere in the world. The World Bank estimated that the average trade to GDP ratio for all East Asia and the Pacific was 57 per cent in 2017, double that of the United States. East Asia's economic and political security crucially depends on open trade and commerce.

Closed economies will face slower recoveries. International economic cooperation will be vital to managing the crisis and to supporting the recovery through trade, a faster reopening of business supply chains and lower investment costs. Economic integration is central to Asia's economic and political security and a core strategic objective is to preserve an open global economy and the global, multilateral cooperative institutions and arrangements that underpin it.

There is no simple solution to the social and economic damage done by the pandemic. Different countries are in different stages in the crisis and their circumstances vary markedly as they employ different strategies to find a balance between measures to safeguard public health, economic survival and recovery, and social equilibrium. But a universal scenario is that social distancing policies have decimated whole sectors of national economies and an extended lockdown on international movement threatens recovery. Urgent national action to arrest the pandemic needs to be combined with proactive regional and global coordination on public health, food security, financial and trade policies that is mindful of these national social circumstances.

The immediate priorities in national responses to the pandemic were to delay the spread of the virus and control outbreaks by controlling the movement of people and flow of essential medical and other supplies. Domestic economic and social measures in the form of income support, fiscal and financial expansion and strengthening social safety nets were needed to preserve jobs and the welfare of the people. These measures have brought temporary reprieve but they have raised questions about sovereignty and globalisation. The disruption of supply chains, challenges in repaying or refinancing external debt, the dive in export earnings and plummeting investment, if not answered, will leave policy settings that impact seriously on recovery and growth.

Global crisis calls for global action

The global nature of this health and economic crisis calls for faster and better coordination among governments rather than each economy trying to go it alone, and demonstrates the importance and the value of multilateral cooperation. Governments in Asia can share important insights into the impact of the pandemic on the domestic economy, including economic growth and the macro-economy, employment, and food and energy markets. Multilateral coordination on financial policy can help lift the capacity of developed and emerging economies to execute fiscal and monetary policy to alleviate negative impacts on the lives of people and busi-

nesses. This can be done globally through the IMF, through regional arrangements and development banks and bilaterally via currency swap line agreements.

Promoting international solidarity based on trust and sharing as a basis for collective action to deal with all dimensions of the crisis is central to success. Asian economies can contribute through a compact to rebuild trust, strengthen governance and update global rules. International organisations must play a central role in monitoring and assessing the impact of the crisis on trade, investment and global value chains. Joint commitments at the regional and multilateral level will ensure different national measures are transparent, proportionate and temporary, and are removed when no longer justified, based on the evidence and data not economic exigencies or political pressure.

Mutually agreed guiding principles will help constrain the actions of Asian nations to ensure that responses to the crisis do not reinforce or entrench existing inequalities. Asian nations can adopt the World Bank Group's COVID-19 response priorities of poverty alleviation, gender equality and environmental sustainability. A pressing issue for coordination is the treatment of migrant workers. Government-to-government collaboration is necessary to resolve cross-border issues like migration and the access of migrants to healthcare and social protection.

2. SPECIFIC POLICY PRIORITIES

Asian countries must deal with the international health policy and economic policy challenges of exit from the crisis simultaneously; failure to do so has caused, and will continue to cause, more social disruption, more deaths and more economic hardship.

Differences in country circumstances and the different stages of health and economic recovery increase the payoffs from experience sharing, cooperation and coordination. This will help avoid unintended consequences from national policy interventions.

International medical and scientific coopera-

tion through multiple channels including the WHO, which enabled speedy understanding of the nature and epidemiology of the disease, is vital to an effective response to it. The incentive to build on that experience and invest in it is important to the management of future pandemics and a common object in future cooperation. The incentive to cooperate in fast-tracking development of a COVID-19 vaccine and treatments is global.

Health Policy

Priorities in international cooperation on health policy are:

- A substantial commitment to funding and empowering international and regional health agencies to manage and monitor the ongoing response to the crisis, especially in developing economies;
- Keeping open trade in medical equipment and supplies, sharing diagnostic tests, vaccines and technology, and regional cooperation in managing COVID-19 outbreaks; and
- The establishment of a task force to collaborate on protocols for health certification of international travel both before and after universal vaccination becomes possible.
- Commitment to timely and open sharing of data and information to support an early warning system for disease outbreaks with epidemic and pandemic potential.

COVID-19 will require a global effort in cooperation, collaboration and coordination, even if those now seem in short supply.

Threats to the funding of the WHO are not consistent with global interest in insulating the world against inevitable outbreaks of communicable disease and future pandemics. Scientific inquiry and analysis is an essential global public good, and should be uncontaminated by blame germinated in the heat of the national politics of dealing with

the pandemic. Countries in Asia have interest in committing to maintaining the work of the WHO and expanding its capacity to monitor and manage the spread of communicable disease, after careful review of the experience with the COVID-19 crisis.

Asian countries' collective commitment of funding to WHO's COVID Response Fund would be a first step. Asian nations should support arrangements to ensure equitable access to pandemic countermeasures by funding the COVID-19 Tools (ACT) Accelerator, an alliance of health partners from international institutions such as the WHO and the World Bank, private sector, and health partnerships for vaccine development such as the Coalition for Epidemic Preparedness Innovations (CEPI), and the Vaccine Alliance (GAVI).

Asian countries also have direct interest in building regional capacities for scientific and medical research and exchange to complement global efforts. This can be achieved by expanding ASEAN+3's commitment to a COVID-19 ASEAN Response Fund to include ASEAN+6 partner countries. Asian countries should commit to closer cooperation between animal health and human health sectors in the future. Asian nations should revive a 2016 agreement made by ASEAN establishing the ASEAN Coordinating Centre for Animal Health and Zoonoses (ACCAHZ). The ACCAHZ has the potential to provide a framework of cooperation for the eradication of animal diseases and zoonoses, improve food safety and security, and provide the interface between animal and human health in the ASEAN region.

Medical supply shortages inevitably be-devilled management of the initial wave of fatal infections in every country and recommended parochial responses that restricted trade in medical supplies and equipment and getting them to where they were most needed. Still the phasing of transmission and its timing across countries is the source of important gains from cooperation, through boosting trade and medical assistance. The Asia Pacific Economic Cooperation's (APEC) Supply Chain Security Toolkit can be used in conjunction with the WHO's guidance to develop national and regional plans for

improving the quality and resilience of the medical equipment supply chain. It is a comprehensive program designed to address vulnerability in the entire supply chain and life cycle of medical products.

To fast-track the resumption of international commerce, educational exchanges, scientific collaboration and tourism critical to both regional development and understanding, a graduated system of protocols of health certification for travel will need to be put in place quickly. Governments in the region can lead the world through collaborating in the development and implementation of such protocols with the WHO.

Economic Policy

Asia faces a perfect economic storm. Most recessions are caused by a demand shock (think 9/11), a supply shock (think of the first oil price increase) or a financial shock (think Lehman Brothers). COVID-19 is delivering all three. Each type of shock demands a different policy response. Fiscal stimulus during a supply-shock boosts inflation and little else. Supply-side reforms do little if businesses have no customers, and neither demand nor supply-side measures are effective without a functioning financial system.

Regional economic cooperation will make domestic challenges easier to solve

Experience needs to be pooled and support mobilised for managing the fiscal dimensions of social and economic lockdown strategies in different countries.

Sharing information, data and experience will be vital to understanding the economic nature of the shock and the best policy response. The pandemic is still evolving and uncertain. Countries can use ASEAN+ frameworks, APEC and the G20 to learn from each other about the impact of the pandemic on growth, the macroeconomy, labour markets, financial markets, food markets, energy markets, intergenerational inequality,

different sectors (education, manufacturing, tourism) and the balance sheets of governments, banks, corporates and households. They can learn from each other about the best policy responses and how to tailor fiscal, monetary and structural policies. They can learn strategies to manage the consequences of necessary macroeconomic policy actions, including moral hazard, asset price bubbles, increased debt, regional financial spillovers and issues around distribution and inequality.

Domestically, economies need to immediately strengthen crisis-management frameworks. Ensuring policymakers and institutions have the legal tools and protections necessary to respond quickly and effectively will be vital. Having clear bankruptcy and resolution processes will reduce the ultimate cost of any sharp financial shocks. Now is the time to use fiscal and monetary buffers to avoid the long-term consequences of recession. Governments must reallocate their budgets from low-urgency activities to health-care spending on COVID-19 and social safety nets. Promoting transparency in institutions will build trust among the public and investors, reduce risks and volatility and improve the functioning of markets.

Fiscal policy dimensions

Regional economic cooperation will make domestic challenges easier to solve. Coordination gives demand-side measures like fiscal stimulus a bigger bang-for-your-buck. It makes supply-side measures like structural reforms and opening-up supply chains more effective. It helps minimise financial risks, mitigate financial shocks and prevent their contagion. A common approach to reform gives political cover and enhances regional consistency. Regional economic coordination should focus on two areas: stabilisation and recovery. Stabilising economies and financial systems and repairing structural damage to supply chains are preconditions to implementing the necessary reforms to build the economic recovery.

Countries need macroeconomic policy space and financial stability if they are to combat the crisis. Many emerging Asian economy governments face a difficult trade-

off between supporting their economies and healthcare systems while minimising financial risks. Governments have borrowed internationally to finance vital healthcare spending, fiscal stimulus, income supports and development programs. Emerging economies hold US\$5.8 trillion in dollar-denominated debt. But such borrowing creates financial risks that are being exacerbated by COVID-19. Collapsing exchange rates have seen foreign debts increase while collapsing trade, tourism and commodity prices have seen foreign currency incomes fall. Rising bond yields have increased borrowing costs, and the sudden stop in global capital flows makes refinancing existing debt almost impossible. The consequences of this trade-off are too much financial risk and too little fiscal support.

International financial safety net

Central banks and finance ministries need to be charged with the urgent task of developing regional financial safety nets adequate to provide the necessary external funding and introduce new financial mechanisms to cover funding shortfalls. Analyses from the G20 Eminent Persons Group, the IMF, the Bank of England and the Brookings Institution have highlighted the inadequacies of the global financial safety net in managing large shocks.

Coordination can reduce regional financial risks while ensuring countries have adequate resources to fight COVID-19. Countries have shared incentives. COVID-19 will continue to worsen unless there are adequate resources to fight it. Economies will remain closed for longer and the ultimate cost of the pandemic to all countries will be higher. Financial risks will affect the whole region. A surge of financial crises has already engulfed Ecuador, Zambia and Argentina. Turkey and South Africa are vulnerable, and Brazil, Russia and Mexico have seen substantial currency depreciation. Indonesia is the front line of defence against financial contagion in Asia.

Bilaterally, currency swap lines between central banks and loans between finance ministries should be used to fill the gaps left by inadequate global and regional safety nets. Many emerging Asian economies have been left out of the Federal Reserve System's

currency swap network and are politically unable to go to the IMF. Asian economies which do have access to US swap lines and have deep, widely used currencies—including Australia and Japan—should extend their swap line networks to include Asian countries at risk. This will reassure markets and provide temporary foreign exchange to refinance debts. Credit risk from these measures is negligible and a failure to provide adequate liquidity today requires more costly interventions tomorrow. Where central banks are hesitant to extend currency swap arrangements, finance ministries should create stand-by facilities that can be accessed by countries in the region or amend central bank mandates to give them the flexibility they need to respond to the shock.

The region's central banks should expand bilateral currency swap arrangement to create a more robust regional financial safety net. Globally they should support a new issuance of the IMF's Special Drawing Rights (SDRs) and explore ways in which the existing pool of SDRs can be better deployed to ease external liquidity constraints. The standstill on official debt service agreed to by G20 members could also be of help to the least-developed nations of the region and would demonstrate willingness to participate in global burden-sharing.

Regionally, development banks should proactively expand and create more limited-conditionality liquidity facilities at the same as improving regional financing mechanisms, expand the availability of precautionary lending and increase surveillance activities. Regional surveillance will be vital to identifying risks early and understanding their systemic implications. Unlike the facilities in development banks, the Chiang Mai Initiative Multilateralization (CMIM) remains untested and is not yet fully operational. The ASEAN+3 Macroeconomic Research Office will play a critical role in bolstering regional surveillance, operationalising the CMIM and better coordinating the CMIM with the IMF. Addressing these risks will require liquidity facilities that countries can access quickly and easily on a precautionary basis. The Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB)

should review their procedures to encourage fiscal support for health programs with light conditionality and simplified bidding and procurement. Ensuring adequate trade and development financing will help governments free up other resources to better respond to the pandemic.

Globally, Asian IMF members should support a substantial allocation of the IMF's Special Drawing Rights (SDRs) combined with the creation of new limited-conditionality precautionary lending facilities, despite the present cautions of India and Japan. They should also explore ways in which the existing pool of SDRs can be better deployed to ease external liquidity constraints. A new issuance of Special Drawing Rights will provide vital foreign exchange during times of financial stress while greater access to precautionary financing will reassure markets and provide greater financial resources with less IMF-stigma. Asian G20 countries should push for a renewal of bilateral loans to the IMF and, in the longer-term, push for increased quota shares of emerging economies, while preserving the veto power of the United States to ensure political feasibility.

Coordination can reduce regional financial risks while ensuring countries have adequate resources to fight COVID-19

Given the inadequacy of the global safety net revealed by the present crisis, and the massive inefficiency of self-insurance through build up of international reserves, Asian members of the G-20 should use their presence in the G20 Finance track to revisit the 2018 report of the Eminent Persons Group on the international safety net and monetary reform. These issues can then be taken forward by the Italian, Indian and Indonesian presidencies, combined with an immediate push for a major new issuance of Special Drawing Rights.

Debt transparency

Asian countries must improve transparency of foreign debt arrangements in vulnerable emerging economies. Policymakers in borrowing countries need reliable debt information to make informed borrowing decisions; creditors, donors, analysts and rating agencies need transparency to assess sovereign creditworthiness, to appropriately price debt instruments and to coordinate with other donors and creditors, including commercial creditors, on equitable refinancing arrangements; and citizens need greater transparency to hold their governments accountable for the environmental and social risks involved in investment projects.

Asian nations must support initiatives to improve the capacity of emerging economies to manage debt vulnerability, such as the IMF-World Bank Debt Sustainability Framework for Low-Income Countries (LIC DSF). They can also work with China in international (IMF and World Bank, G20) and regional settings (ASEAN and APEC) to improve the transparency of emerging economies' debt obligations for BRI investment projects. The pandemic presents an opportunity for Chinese creditors and policymakers to coordinate with creditors' clubs (for example, through the Paris and London Clubs) to establish shared international norms around investment financing. Cooperative co-financing arrangements for BRI projects could improve China's domestic financial stability and offer political cover by distributing financial risk across multiple creditors.

Easing supply-side constraints through structural reform

Supply-side constraints need to be removed in product and capital markets and structural reforms implemented to accelerate recovery and lift growth potential.

Structural reforms should build off the innovations forced by COVID-19. The pandemic has accelerated adjustments in many sectors, particularly digital transformation, changing work patterns and shifting the environmental footprint of economic activities. These changes are sources of economic dynamism, greater productivity and economic growth

in their own right. There is an opportunity to set out a positive and proactive agenda for taking advantage of the changes already realised. Many of these changes relate to domestic market practice and can enhance productivity and competition in different sectors.

Labour market reform, government budget repair, social safety net expansion and reform of healthcare systems will be needed to sustain recovery and manage the next crisis. The aftermath of the pandemic will see new work arrangements, distressed assets, large budget deficits, accumulated corporate and household debt and severely weakened health systems globally. Inequality in societies will grow significantly and policies that were previously unthinkable will be needed for recovery. It is an opportunity to cement reforms that make economies more resilient, flexible and equitable.

Reform that is coordinated with other countries will have more chance at succeeding. The commitment to keep markets open in partner countries will facilitate reforms at home. Staggered recoveries provide learning opportunities and lessons for others. Some East Asian economies have been able to contain the health crisis earlier than the rest of the world but face an external environment of more closed markets and a substantially locked down global economy. Structural reform in these countries can be matched with demand-side stimulus to drive much needed growth, providing markets and a source of growth for other countries as they lift lockdowns.

Setting the foundations for long-term sustainable growth will benefit from coordination in structural reform. International cooperation and coordination can facilitate the sequencing and enhance the positive spillovers from structural reform. Coordination gives countries new ideas and provides political cover for countries to be more ambitious. Asian economies can help shape the APEC and G20 agendas to identify these areas of common interest and ask each country to commit to one or two practical reforms in each area. Sustainable infrastructure, the digital economy and strengthening the resilience of supply chains stand out as priorities.

Enhancing supply chain resilience and allowing market-based solutions

COVID-19 is only the latest (albeit the most extensive) in a string of recent shocks to global supply chains (in 2009 H1N1 reduced GDPs around the world by between 0.5 and 1.5 per cent; the 2010 Iceland Volcano was a US\$1.7 billion hit to airlines; and Japan's tsunami in 2011 decimated production in the Asian car industry), a succession of events that has already incentivised businesses and governments to manage risk by building resilience into supply chains. Supply chains of goods unrestricted by emergency lockdown measures (such as medical and protective equipment and some food exports) have proven largely resilient, agile and flexible, and existing systems have helped many countries to maintain imports during shutdowns and the global crisis.

Asia can initiate a proactive agenda for governance of digital infrastructure that includes regulatory coherence, privacy standards and data sharing.

Nations in Asia must coordinate efforts to keep trade open and campaign against the intuition that protectionism and onshoring increases supply chain resilience. Stockpiling and onshoring of production must be limited to essential medical and protective equipment during acute shortages. A significant policy shift to onshoring would bring with it a concentration of risks and significant costs that make supply chains more vulnerable to shocks. Diversifying supply across the global system where there are differences in climate, technology, costs and endowments, makes supply chains more resilient. Decisions to locate or relocate production should be driven by private companies that already diversify and mitigate risk. China will continue to be at the centre of Asian supply chains for the reasons that made it the 'factory of the world', and regional and plurilateral cooperation in standards and regulation can reduce

supply chain vulnerability.

Comprehensive supply chain resilience requires a multilayered approach. To reduce supply chain vulnerability governments must commit to avoiding tariffs and export controls—ensuring free trade in goods and services—and facilitate the digital infrastructure that helps manage supply chain risk. Openness to foreign direct investment will help businesses diversify risk. International and regional banks need to allocate more capital to small- and medium-sized enterprises (SMEs) while also supporting programs designed to upskill the labour force in these firms. Developing digital infrastructure and creating international regulatory coherence in digital trade protocols will enhance visibility across supply chains beyond immediate tier one suppliers and help identify vulnerabilities. Regional data privacy standards, tax and other incentives to share data will encourage the use of digital supply networks.

APEC's Supply Chain Security Toolkit is an example of a comprehensive program designed to address vulnerability in the entire supply chain and life cycle of medical products. The program focuses on developing—and implementing through training programs—processes, procedures, and tools directed at enhancing global medical product quality and supply chain security. This toolkit can be used in conjunction with the WHO's guidance on national planning for preventing, detecting, and responding to actions, activities, and behaviours that result in substandard and falsified medical products.

Digital transformation

The pandemic has accelerated adjustment in many sectors, particularly changes in work patterns and a shift to business models that leverage digital infrastructure for production, supply chain management and the delivery of goods and services. Digital technologies have played a critical role through big data, artificial intelligence, and modelling, in the pandemic response, conducting mass monitoring, contact tracing, and integrating databases (for example, health information with immigration data) and even in the equitable rationing of face masks.

This has placed in stark relief the importance of robust digital connectivity to promote economic participation and drive inclusive growth. This includes both physical infrastructure assets and regulatory regimes that enable society to maximise the benefits of digital connectivity. Only 53 per cent of the world's population is connected to the Internet. As more of daily life moves online, existing disparities in internet access are set to exacerbate the digital divide between urban and rural areas as well as between the poor and the wealthy. This holds true both within and between Asian economies.

Governments in Asia can work together to embrace the acceleration of digital transformation under COVID-19 as a source of dynamism, greater opportunities for participation, higher productivity and economic growth in the region. Digital transformation also offers an opportunity to revamp the provision of government services. Collective action in Asia will be critical if governments wish to take advantage of and imbue collective trust in the changes that have already been unleashed.

The pandemic also presents Asia with both the opportunity and the incentives to set out a positive and proactive agenda for collective governance of digital infrastructure. Investment in digital infrastructure is an important target for economic stimulus during economic recovery, but the impact of such investment depends on large-scale regional adoption and interoperability of these technologies and shared protocols for data privacy and sovereignty.

Digital transformation can be harnessed as a driver of economic recovery and social development in Asia only if it is more effectively governed through multilateral agreements. These should include cybersecurity guidelines and assistance with 'cloud procurement' and 'cloud first' policies. Building trust in domestic and cross-border data flows with policies that address concerns over privacy, consumer protection, and security will also be critical. Current restrictions to cross-border data flows hamper the operation of these tools, delay the pandemic response and raise costs for business. These restrictions are usually imposed in pursuit of a range of reg-

ulatory goals, in particular privacy, security, competition (which covers restrictions aimed at helping domestic industries), internet access and control, financial regulation and law enforcement.

APEC's digital policy framework and its links to the business community in Asia can be used to develop a coordinated agenda for digital infrastructure. It is important that China, as the biggest economy in Asia and a leader in digital technology and innovation, work with other countries in a regional setting to encourage regional integration and the development of the governance of digital infrastructure.

Immediate action to keep international trade and commerce open

The lessons are clear from the Great Depression: when countries retreated to closed markets and beggar-thy-neighbour protectionist policies, recessions turned into a global economic depression and delayed recovery. The rejection of protectionism at the London G20 Summit in April 2009 took the world back from the brink and the world showed it does not have to go down a protectionist route.

Cooperation to avoid protectionism is harder now than it was during the global financial crisis with a much deeper economic crisis, an entangled health crisis and global cooperation faltering long before the pandemic. Governments will face more protectionist pressure, and regional and international cooperation will be needed to keep markets from closing up.

Guaranteeing food and energy security through international markets

The risk of food shortages during the lockdowns and social distancing has led governments to restrict exports of rice and other staples. Food security comes from access to international markets. Export restrictions cause great uncertainty about access to food on the international market and lead other countries to reciprocate. National governments are focused on the most pressing domestic issues, but without purposeful collective action there will be no international market to freely buy from or sell to

during and after the crisis.

Strong, credible commitments to maintain food supply are needed from agricultural producing countries to ensure confidence in others that shortages can be met from the international market. Previous agreements and commitments come under threat during times of emergency and pandemic, so governments must jointly renew those commitments. The 1979 Agreement on the ASEAN Food Security Reserve and the 2011 ASEAN+3 Emergency Rice Reserve should be updated, re-committed to and expanded. Energy security can also be achieved through cooperation and coordination that alleviates shortages. The volatility in energy prices, with oil prices collapsing into negative territory, and uncertainty about continued shipping and freight, requires strong commitments to maintain supply internationally. For example, stockpiling of oil and energy should not exceed internationally agreed International Energy Agency volumes, and stimulus and assistance can be targeted at expanding the electricity network and incentivising the transition to clean energy.

A declaration to prevent unnecessary trade-restrictive measures on medical goods and other essential products is needed

In March, New Zealand and Singapore agreed to maintain tariff free trade of medical equipment and agricultural produce to maintain supply chains between the two countries and avoid shortages. That agreement was followed by a similar one between Japan and Singapore.

Other groups of countries in Asia have pledged to keep trade routes open. Australia, Brunei, Myanmar and New Zealand issued a joint statement in April to maintain air and sea freight, and in May, Australia, Canada, New Zealand, Singapore and South Korea agreed to guidelines for maintaining essential cross-border travel. These bilateral and plurilateral agreements can be expanded.

Maintaining international access to medical supplies and equipment

Many countries and businesses are diverting resources to produce masks, hand sanitisers, ventilators and other medical equipment to top up imports during a global shortage. Such measures should be notified to the WHO and remain in line with existing WTO rules. Restricting exports of that equipment to other countries after critical domestic needs have been met, as many are already doing, will cause avoidable shortages in other countries.

To facilitate access to medical goods at any time and stand ready to react under any sort of public health crisis, governments should develop a collective initiative to reduce or eliminate tariffs and non-tariff measures on medical goods and build on and consolidate bilateral initiatives. APEC, for example, has the track record to deliver on an initiative of this kind with the 2012 Environmental Goods Agreement, which included a voluntary commitment to reduce tariffs to 5 per cent or less in 54 environmental goods. The Information Technology Agreement in APEC is another earlier example, which was later ratified at the WTO. A declaration to prevent unnecessary trade-restrictive measures on medical goods and other essential products is needed globally, and that initiative can start in Asia.

Huge productive capacity must be mobilised for any vaccine, to produce enough and to deliver that to those in need globally. Asia has major productive capacity but will need to keep markets open to foreign investment and avoid export restrictions. Every nation will want to treat its people first, so agreements should be made prior to mass production, on maintaining openness to investment, supply chains for vital inputs, and to exports.

Immediate conclusion of the RCEP agreement

Collective Asian efforts will be large enough to help safeguard the international system. Immediate conclusion of the Regional Comprehensive Economic Partnership (RCEP) among the 15 ASEAN+6 members—ASEAN plus Australia, China, Japan, New Zealand

and South Korea, less India initially—will ensure food security, vastly improve energy security and keep markets open in East Asia. The commitment to liberalisation and trade reform in RCEP has the weight to make a difference in keeping the global trading system open.

The various arrangements and groupings in Asia and across the Pacific have gaps in membership and agendas, and they need to be deployed creatively and strategically to lock in openness, transparency and to build resilience. APEC will be important for forging consensus and mobilising groups of countries. Taiwan is a member and it links to economies across the Pacific but importantly India and some ASEAN members are not involved. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership grouping can mobilise like-minded countries but lacks weight without China, the United States, India, Indonesia, South Korea and others. These limitations do not need to impede progress.

The RCEP group needs to define a protocol of engagement with India which keeps open a path for eventual Indian membership and actively promotes cooperation with South Asia. That will help to keep markets open to Indian suppliers and ensure medical, food and energy supplies to India that help it manage the health and economic challenges it faces from the pandemic. As India is a potentially important producer of a vaccine and supplier of equipment, maintaining Indian openness to foreign investment and exports will be crucial in the global effort to fight the pandemic and sustain India's recovery.

Indonesian initiative in WTO reform

The WTO has been an effective backstop against the surge in protectionism. While it is out of date and not sufficiently fit for purpose for the interconnected and globalised economy of the 21st century, it will be a critical bulwark in avoiding dis-integration of the international economy and markets after the COVID-19 economic crisis. The core rules that govern goods trade and underpin the global trading system need to be preserved and protected. That will be made easier if serious progress can be made now with updat-

ing and expanding WTO rules to new areas of importance to international economic exchange today.

Preserving the WTO and its functions will require coalitions of the willing, strategic action and leading by example. The 20-member group that has replicated the WTO's dispute settlement appellate body includes China and other members in Asia and across the Pacific, but has some notable gaps in East Asia. The important dispute settlement function of the WTO can be protected by the partners in this initiative and Asia is a key theatre for action to expand their membership.

WTO reform has been on the G20 agenda since the Argentinian Presidency. While many G20 and WTO members have reform ideas for the global trading body, Indonesia has taken a lead role with its proposed reform framework of 2019. Indonesia is the largest country in ASEAN, is an important strategic actor in East Asia and is a leading developing country in the WTO.

Asian regional cooperation in dealing with all dimensions of the COVID-19 crisis must have global objectives and impact

Indonesia can lead a task force on reform of the WTO that builds on its 2019 initiative, and report to the G20 grouping. Indonesia and the taskforce will suggest ways forward for the WTO, so that it is relevant to members managing the crisis but also sets the broad strategic direction for reform and managing the frictions in the global trading system.

Asian initiatives in the G20

The G20 is the key economic forum for the leaders of the world's largest developed and emerging economies to discuss, engage and work through the shared economic challenges of the COVID-19 crisis. The G20's particular strength is that it is a political and

informal forum for leaders, supported by key economic meetings, especially of Finance Ministers and Central Bank Governors. The G20 has a representative global membership, some of which are members of sub-groupings like the largest advanced economies in the G7 and some of the largest emerging market economies (Brazil, Russia, India, China and South Africa) in the BRICS group. But the G20 is not merely a collection of sub-groups. The six G20 members from the Asian region—Australia, China, India, Indonesia, Japan and South Korea—have articulated the interests and views of the region without regionalisation within the G20.

Asia should work to ensure that countries are properly represented in the institutions under whose rules they operate and to which they make financial contributions. Asia's voice in international economic institutions is not commensurate with the size and importance of the region. For countries to work by internationally agreed norms and rules, and to work within existing international frameworks and institutions, they need to be represented and participate on a fair footing as shareholders and owners of those institutions in the decisions that they make.

This should be accompanied by significantly increased resources provided to the IMF and World Bank to deal with the current crisis, as part of these countries paying more for global economic stability. And it could be accompanied by additional steps for economic transparency by members, for example in the compilation of economic data, to support independent assessment and evaluation of members' economic policies and institutions. Asian interests in leadership of global institutions, alongside—not at the expense of—the United States and Europe can be articulated and demonstrated under the Saudi Arabian presidency in 2020, in 2021 under the Italian presidency and in 2022 under the Indian presidency. In 2023 Indonesia will be the G20 president and chair of ASEAN.

Asian initiatives should include regional cooperation on the trade, health and financial priorities that this paper recommends, framed and projected within the broader regional and global architecture.

3. REGIONAL FOLLOW-THROUGH AND ACTION

To give effect to this strategy, Asian economies should:

Convene a Leaders' Summit to commit to these health and economic measures and global cooperation on them with the United States and Europe, and with other regions

Building trust and functional action in Asia, by agreeing on the elements of the agenda, will be a big first step in addressing the crisis and limiting its impact on people across the world. An ASEAN+6 summit is a good place to start to commit to specific health and economic approaches.

The ASEAN+6 countries are already actively engaged on the trade and economic cooperation agenda. Indonesia is best placed to coordinate this initiative with ASEAN, and extend the work already begun among ASEAN, China, Japan and Korea. Engaging Australia, India and New Zealand beyond the ASEAN+3 group brings in two more G20 members, provides a platform to engage India and includes two more countries with early success at containing COVID-19. The group gives RCEP momentum and potentially provides a basis for its economic cooperation agenda. It can engage directly with the United States in the East Asian Summit (ASEAN+10) process.

Given its standing in the G20, role in ASEAN and its reputation for fair play, Indonesia's President is best placed to convene such a summit in conjunction with the ASEAN Chair. Whether held virtually or with appropriate social distancing protocols, it needs to be convened urgently and its result followed up successively through the East Asian Summit, APEC and global forums.

Use available cooperation institutions (including the multilateral financial institutions) and forums (such as APEC) and other groupings to cover gaps in membership, build trust and promote coherent and consistent agendas

Asian regional cooperation in dealing with all dimensions of the COVID-19 crisis must have global objectives and impact. The ASEAN+6 grouping has six G20 members (and APEC has nine). These regional, multilateral frameworks will increase capacity to contribute constructively to regional and global recovery, without the encumbrance of conflictual geo-politics.

The pandemic has exacerbated the already growing tension and strategic competition between the world's two largest powers, the United States and China. Because both countries are so big economically and each is a leader in digital technology and innovation, both the United States and China must play a key role in Asia's contribution to global economic recovery, repair and revival. The prospects for the global economy will be brighter if Asia's contribution is harnessed in a way that helps to facilitate US-China cooperation.

The commitment to liberalisation and trade reform in RCEP has the weight to make a difference in the global trading system

Multilateral processes are critical to prosecute the agenda here. Policy commitments by Asian economies have global objectives and require engagement in global and multilateral forums beyond the region. Multilateral processes are also based on principles of cooperation and openness that can help to de-fuse bilateral tension by bringing the perspective of others to bear on difficult bilateral problems. The collective interest of ASEAN+6 must be framed and pursued within the broader regional and global architecture, particularly APEC, the East Asian Summit, the ADB, the AIIB and the G20 and the multilateral institutions—the IMF, World Bank and WTO—because of the importance of Asia's links with the United States, Europe and globally and its core interests in proper working of the global system.

APEC, which includes the United States (but not India), is well placed to work through the global trade reform issues, to elaborate its regime to strengthen digital trade, and to forge commitment to principles for better decision making and governance that promote infrastructure investment. Groups of economies can take pathfinder approaches if there is no overall consensus about an approach or policy. There is a global shortage of infrastructure investment—regional infrastructure investment has stalled and re-starting it will be central to economic recovery.

Establish expert task forces comprising medical, economic and business experts to help shape action on each facet of the agenda

Assembling the necessary scientific, medical and professional expertise to assist progress with the implementation of health, social and economic policy strategies will be important to constructive cooperation at all levels. Expert task forces engaging health, economic and business experts from each country established by the ASEAN-led group will be vital to providing advice and setting out pathways for governments. Task forces experts can play an important role in engaging with the medical, business, labour and civil society groups in each country.

For example, public health cooperation could focus on sharing best practices and supply of medical equipment. These can be supported at the medical professional and private sec-

tor level. Collaboration among professionals needs to begin now to plan for countries' opening borders after effective domestic control of COVID-19. Participating governments can issue public health certification to their citizens, who can then travel under agreed quarantine guidelines to other participating countries. This program can be opened up to any country willing to comply with the necessary public health requirements.

In economic policy cooperation, too, governments will sensibly draw upon private and non-governmental expertise. This crisis is very different from the global financial crisis: this time round, financial institutions are in good shape, and especially the systemically important ones remain healthy. The ones that suffer greatly from sudden reduction and even halt of economic activities are the SMEs and the households. The experience of some governments of working in partnership with business and labour in helping to shape economic relief and reconstruction measures is important to share with others. The policy priority should shift from 'Wall Street' to the 'Main Street'. For many Asian countries, how effectively to support 'Main Street' is a new and major challenge where sharing policy experience and non-official expertise can help. At another level, the regional and global multilateral financial institutions, including the ADB, the AIIB, the NDB and the World Bank have important roles to play in helping participating governments with the expertise and agency to better respond to the pandemic.

