

VIEWS

Andrew Sheng and Xiao Geng

Outbreak exposes US economic flaws

There is nothing like a pandemic to expose systemic differences. For China and the United States, which were locked in an ideologically driven competition even before the novel coronavirus epidemic broke out, those differences are stark. But the two countries will still need to rethink their social contracts after the pandemic is contained.

To prevent the transmission of the virus, China and the US have implemented social-distancing measures, which — together with the unemployment they produce — have broken the cycle of earning and spending that sustains global growth. The International Monetary Fund estimates that world GDP will contract by 3 percent this year. China's GDP shrank by 6.8 percent in the first quarter of this year.

Yet the type of public health measures the two countries have pursued — and their outcomes — are sharply divergent. China's stringent lockdowns produced a dramatic decline in new cases, whereas the US' delayed and fragmented response allowed infections, and the death toll, to mount.

Growth models shaped response to outbreak

This divergence is often attributed to political differences: China's central planning allows for more resolute action. But this explanation misses the extent to which the US and Chinese growth models have shaped their responses — and the financial and economic effects.

In the US, decades of neoliberal policies have led to a dependence on debt-financed consumption. Americans saved little but borrowed a lot. And so did the US government, thanks to the "exorbitant privilege" afforded by the US dollar's position as the leading global reserve currency. As a result, fiscal and current-account deficits swelled.

Inflation, however, remained low, even when the US Federal Reserve pursued expansionary policies, largely because of the positive supply shocks produced by the integration of China and other developing countries into the global economy. The Fed is taking that route again during the pandemic, slashing interest rates and expanding its balance sheet by more than \$2.4 trillion in the past weeks to prevent a systemic liquidity shortage.

The US financial system has also built up excessive leverage, while becoming increasingly disconnected from the real economy. Wall Street companies trade among themselves, rather than serving Main Street, and corporations rely more on capital markets than on banks.

US uses less-efficient payment methods

Moreover, despite advancements in electronic payments, households and small businesses continue to operate mainly in less efficient cash, paper checks, and credit cards. And the US Treasury is delivering pandemic stimulus payments through direct deposits and mailed checks.

Technology platforms have capitalized on this debt-driven growth model, pushing endless consumption by users —



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through, say, targeted ads — with less concern for supporting those attempting to generate income online. The "gig economy" exemplifies this one-way dynamic: a platform such as Uber is optimized for sales and provides workers with the bare minimum of training and protection, while regulators take a hands-off approach.

It has long been clear that the US model is financially, environmentally, and — given skyrocketing inequality — socially unsustainable. But the coronavirus pandemic has shown that any disruption of the debt-consumption cycle threatens to trigger collapse almost immediately: as soon as incomes are interrupted, private financial institutions curtail credit fearing non-performing loans, while consumption plummets, depleting incomes

further. To stave off disaster, the Fed and Treasury must step in, shifting credit risks to the public sector balance sheet.

The Chinese model avoids many of these pitfalls. Apart from high savings, China has relied on exports and investment, rather than unsustainable levels of domestic consumption, to fuel growth. Also, innovative technology platforms — especially in financial technology — have linked the traditional economy with a broadly accessible digital ecosystem that encourages users both to consume and earn, thereby boosting the Chinese economy's structural and organizational resilience.

Tech platforms built inclusive networks

These are the results not of central planning, but of continuous experimentation on the ground and adaptation based on bottom-up feedback. It was tech platforms, not central planners, which developed inclusive networks that fostered innovation, created new markets and generated jobs. Regulators merely facilitated it.

The global public health crisis has underscored the benefits of this approach. Chinese "super app" ecosystems create sustainable, circular digital "earn-spend-pay" business models that merge business and consumer functions and are far more broad-based than Western models, which are still segmented by sectoral regulations. During the lockdown in China, Alibaba, Pinduoduo and other marketplaces became a lifeline for many small and micro business owners, keeping them connected to millions of

domestic and international consumers. Online logistics companies, such as JD.com, were also critical, as they ensured the delivery of essential goods throughout the lockdown.

Tencent's WeChat, a social media platform, enabled people to stay in touch with their families and friends during the lockdown, while allowing some creative individuals to earn incomes from blogs and vlogs. Payments were sent via WeChat Pay. WeChat also enabled the government to relay critical messages to the public, and facilitated the coordination of complex projects, such as the delivery of critical medical equipment and supplies. Tencent's Meeting app allowed schools to continue operating through online classrooms.

As lockdowns are eased, software installed in WeChat and Alipay, Alibaba's online payment platform, is being used to monitor residents' health and determine where they can go. This is possible because of these platforms' reach: one or both of these apps is already installed on nearly every smartphone in China.

Smartphones used in productive ways

So, on top of the hierarchical traditional banking system, China has developed a flat, adaptive system connecting 800 million domestic smartphones in productive ways. This is a crucial element of China's broader hybrid-circular savings-consumption-debt-income model, which is more resilient than the Western model of debt-financed consumption. Indeed, it is a major reason why China's financial sector did not confront severe liquidity shortages that warranted a drastic central bank response during the economy's lockdown.

As China's development model continues to evolve, it could become a fully circular system that fosters the creation of economic, social and natural capital, rather than simply consuming it. But success will depend on the development of a more inclusive post-pandemic social contract — a process that could easily be disrupted by the relentless ideological and geopolitical rivalry with the US.

Yet the US has its own social contract to update, especially by bolstering inclusiveness and resilience. As with China, the key will be to strike the right balance between large corporations and small businesses, individual privacy and big data, and short-term efficiency and long-term risk-management.

But, for that to happen, political grandstanding must give way to rational, informed, and inclusive exchanges. Judging by the US response to the coronavirus pandemic, that is far from guaranteed.

Andrew Sheng is a distinguished fellow at the Asia Global Institute of the University of Hong Kong and a member of the UNEP Advisory Council on Sustainable Finance. And Xiao Geng, president of the Hong Kong Institution for International Finance, is a professor at and director of the Research Institute of Maritime Silk-Road at Peking University HSBC Business School.

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Jusuf Wanandi

To beat the virus, we need to boost cooperation

There are many dimensions of the novel coronavirus challenge that are going to stay with us for some time. And the only way to meet this challenge is through international cooperation.

Take for instance the health dimension, which relates to not only the global public health crisis but also the grand effort to save as many lives as possible until researchers can find a cure or develop a vaccine for COVID-19, which could take a year at the least.

Many governments were taken by surprise by the novel coronavirus pandemic. But now that some of them have managed to largely contain the virus or flatten the curve, they can begin to help others. China, for example, has already been assisting other countries to fight the pandemic, for which it deserves praise.

In the context of ASEAN+3 (Association of Southeast Asian Nations plus China, Japan and the Republic of Korea), we see some real promises in this aspect, including the plan to establish a "Center on COVID-19" to help developing countries that, on their own, may not be able to overcome the challenge.

The second aspect relates to the need for economic assistance, particularly for developing countries. The economic impact of the pandemic has been severe, and people need food and medicine, and jobs. This is a serious problem for many developing countries, which can have consequences in the form of social instability and upheaval.

Most of the countries have been affected by the pandemic, including many in Africa and Latin America. But since many of these countries do not have adequate healthcare infrastructure, they need immediate assistance, in terms of not only medical supplies but also economic support, to prevent economic and social instability.

East Asia, in general, has been better off due to the resolute policies of the governments in the region, which points to an emerging reality. As such, the outcomes of the recent ASEAN+3 Summit, although mostly in promises, could form the basis of a new regional order.

The third aspect is related to the post-pandemic economic situation. True, the pandemic will be a game changer in many areas, including economic development. It will have a huge impact on the way we cooperate to revive the economy after the sharp downturn, including resuming normal global trade — especially amid intense US-China trade competition — and strengthening the healthcare system to better prepare for an epidemic outbreak in the future.

Which brings us to some vital questions: How can we get the industries and the service sector running again? How can we solve the financial and monetary problems, including the massive debt of many countries? How can we resolve big environment-related issues, such as energy?

The common answer to all these questions is more international cooperation.

As for the fight against the coronavirus outbreak, East and Southeast Asia have done better than other parts of the world, with countries such as Japan and the ROK, and Singapore and other ASEAN member states taking the problem head on.

In particular, China has done a very good job of containing the virus at home as well as supporting other countries — especially those from which it received aid and support before — in the fight against the virus.

Call it a show of China's soft power if you will. But China has been doing the same with regard to Belt and Road Initiative infrastructure construction projects in Eurasian and African countries. Which is something the United States has forgotten, or else it would not have accused the World Health Organization of holding back complete information on the outbreak and, in the process, protecting China.

Perhaps the developments indicate the beginning of a new era. Not everything will change in a short time, but things will certainly change in the long run. What is important now is whether we will allow these changes to occur peacefully, or create an atmosphere of hate and violence in a desperate effort to prevent such changes.

East Asia, in general, has been better off due to the resolute policies of the governments in the region, which points to an emerging reality. As such, the outcomes of the recent ASEAN+3 Summit, although mostly in promises, could form the basis of a new regional order.

The US-China relationship is very important, despite the pandemic dealing it another blow. And by accusing China of covering up facts in Wuhan, Washington is neither doing anyone any good nor can it hide its own failure to prevent the spread of the virus in the US.

*The author is vice-chair of Board of Trustees, Center for Strategic and International Studies Foundation.
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Eiichi Shindo

Toward a new post-pandemic world order

The world is facing a common threat, the threat of the novel coronavirus. The virus has almost paralyzed society and brought the global economy to a standstill. And while economists are predicting the economic impact of the novel coronavirus pandemic would be far more than that of the 2008 global financial crisis, historians have begun talking about the Justinian Plague in the 6th century and the Black Death in the 14th century, which many say started the decline of the Eastern Roman (or Byzantine) Empire. This period, the 14th and 15th centuries, has been brilliantly captured by Dutch historian Johan Huizinga in his seminal book, *The Autumn of the Middle Ages*.

So what do we need to do to defeat the virus, the common enemy of humankind?

To overcome a common enemy, we first need to build a common front. But instead of doing that, the White House is pointing the finger at Beijing, apparently to hide its own failure to control the spread of the virus in the United States.

Yet this is not the time to look for scapegoats but to establish a global alliance to fight the virus, and for that, we need to first devise a feasible strategy. Thanks to the coordination efforts of the

In fact, the "new normal" could be China, preferably in cooperation with Japan, the ROK and ASEAN member states, Singapore, Malaysia and Indonesia in particular, helping build a new Asia-wide cooperation network of cities, regions and enterprises.

Belt and Road Japan Research Center, we — a group of Japanese scholars and journalists — put forward three strategies that the world, especially the Asia-Pacific region, should follow to overcome the impact of the pandemic.

First, the global supply chains in the region should be restored, by "reconstructing" the digital socio-industrial network for regional cooperation and remolding advanced digital information technology.

In the Asia-Pacific, the three leading East Asian powers, China, Japan and the Republic of Korea, should begin building the common front and then help incor-

porate it into the Regional Comprehensive Economic Partnership framework, which also includes the 10 members of the Association of Southeast Asian Nations, and Australia and New Zealand.

Second, apart from the national level, policy coordination also needs to be established at major local and city government levels, including inter-city networking along the extended platforms of the Belt and Road. This inter-city network should focus on strengthening regional cooperation on medical science and healthcare, as well as on environmental protection and green economy.

Third, the focus should also be on socio-economic security, not just on national security. Traditional Western security policy focuses on forming alliances, running huge surveillance networks and building a powerful military to promote Western-style democracy. By contrast, the post-pandemic security policy should be based on partnerships aimed at promoting regional socio-economic cooperation on health, medical care, energy and environmental protection.

The hegemonic preponderance of powers should be replaced by cooperation among major powers. The win-lose strategic game against potential enemies

should give way to win-win multilateral socio-economic cooperation, particularly among countries in the same region.

History tells us that following the 1918 influenza pandemic, the world order began tilting from Britain toward the US.

And the fact that an Asian Development Bank report, issued on April 3, says the Asian region — comprising 34 countries and regions — will witness a V-shape recovery in national income, led by China whose GDP growth will increase from 2.3 percent in 2020 to 7.3 percent in 2021 shows which way the world order could move.

In fact, the "new normal" could be China, preferably in cooperation with Japan, the ROK and ASEAN member states, Singapore, Malaysia and Indonesia in particular, helping build a new Asia-wide cooperation network of cities, regions and enterprises.

As such, the post-pandemic world could see the emergence of a new world order.

*The author is professor emeritus at the Tsukuba National University, Japan, and director-general of the Belt and Road Japan Research Center.
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