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# ASIA'S COVID-19 RESPONSE IS ACCELERATING ITS — ECONOMIC 'CATCH-UP'

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# EXECUTIVE SUMMARY

## WESTERN-CENTRISM IS BEING CHALLENGED

- Throughout modern history there has been a Western-centric world view which has, over the last hundred years or so, centred on US economic primacy
- Western-centrism is currently being challenged. So far, there have been four large shocks during the 21st century serving to disrupt the status quo – China's integration into the world trading system, the financial crisis of 2008-09, the rise of digitisation and, now, the COVID-19 pandemic. Some of these shocks are driving an accelerated economic shift towards Asia

## ASIAN APPROACHES TO THE PANDEMIC HAVE BEEN MORE SUCCESSFUL

- There are glaring differences in approach between Western and Asian countries to the COVID-19 pandemic, with the latter experiencing far fewer cases and deaths
- While historical experience from recent similar pandemics such as SARS account for some of this difference, political and societal structures have played a part

## ECONOMIC SHOCK HAS BEEN LESS SEVERE IN ASIA

- The shock to Asian economies from COVID-19 has been generally less severe, and the cost of mitigating the shock far less expensive, than it has been for developed market economies
- Comparing four similarly sized (in GDP per capita terms) liberal democracies: South Korea and Taiwan with the UK and France, we see that the former two countries' fiscal deficits during the crisis have been considerably smaller than the latter two. Consequently, the UK and France will have to manage the debt repercussions of the pandemic for a much longer period to come
- Thanks to their success in managing the COVID-19 fallout, Asian economies look set to catch up to developed markets at an accelerated pace over the next five years
- Trade across Asia continues to deepen with the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). And, with the US and UK potential future joiners, the pact will become truly global in focus with Asia at its heart

## ASIAN SELF-DETERMINISM IS INCREASING WEALTH AND ECONOMIC RESILIENCE

- Asian economies have aggressively pursued economic self-determinism since the Asian financial crisis of 1997, with a number of regional initiatives established since then in support of this goal. This is resulting in greater wealth and economic and financial resilience for the region

# WESTERN-CENTRISM IS BEING CHALLENGED

A WESTERN-CENTRIC WORLD VIEW HAS PREDOMINATED FOR MUCH OF THE LAST 100 YEARS CENTRED ON US ECONOMIC PRIMACY. THIS IS BEING CHALLENGED FOLLOWING A NUMBER OF DISRUPTIVE SHOCKS OVER THE PAST TWO DECADES. NOW, THE COVID-19 PANDEMIC, IS FURTHER ACCELERATING AN ECONOMIC SHIFT TOWARDS ASIA

## A SHIFT AWAY FROM WESTERN-CENTRISM

### A historical focus on European ideals

'Western -centrism' is a worldview that is centred on Western civilisation and assumes a bias in its favour over non-Western worldviews. As Brohman (1995) put it succinctly, Western-centrism is essentially a "perpetuated intellectual dependence on a restricted group of prestigious Western academic institutions that determine the subject matter and methods of research"<sup>1</sup>. As the centre of economic power shifts evermore eastward, this approach is becoming exposed to increasing challenge from competing ideologies such as Sino-centrism. History has a habit of demonstrating how once entrenched viewpoints can come to be challenged or made obsolete, and Western-centrism is not immune to this.

Charles P. Kindleberger (1996) examined both how and why economic primacy has changed over time, in essence, how countries fall from positions of leadership<sup>2</sup>. He notes that "a national decline is relative to other national economies, not absolute, that the country in the lead at a given time gets overtaken by others in a 'catching-up' process that is inevitable as knowledge of new goods and new process spreads from one country to another ". This was written in 1996 mainly as a question about the role and dominance of the US, at a time, in the years following the ending of the Cold War, when US eminence was largely unchallenged. And while there is no doubt that the US has since continued to exert a dominant role in the world's economic and political framework, the rapid rise of China over the last two decades has arguably made Kindleberger's observation even more relevant today.

### COVID-19 has accelerated a shift in economic performance

Kindleberger goes on to say that "the process is thought not to apply to less developed or developing countries, but mainly to the developed ones that have what is called, for want of a better term, social capability. Thus, sociological considerations come into the

question along with more purely economic and political ones". There are two parts to this assertion. The first part, we might argue against, depending on whether we consider Asia to be developing or not while the second part, on sociological considerations, is less controversial in our opinion.

In a 2020 article, *The Economist* lists out what it sees as the three biggest economic shocks of the 21st century<sup>3</sup>. We have added a fourth, the COVID-19 pandemic, which has so far been considerably more disruptive than the global financial crisis in terms of both economic and societal impact.

- 1 The Integration of China into the world trading system
- 2 The financial crisis of 2008-09
- 3 The rise of the digital economy
- 4 The COVID-19 pandemic

Of these four shocks, we view the rise of the digital economy as one of the most significant sociological developments seen in decades. The invention of the internet at the end of the 20th century laid the foundations for the digital revolution. And while mobile computing and rapid technological advancement over the last decade have been the enablers, the COVID-19 pandemic has acted as an accelerant for the revolution. Although the trend towards ever-greater online consumerism has been in train for much of the last decade, a raft of COVID-19 public health measures – protracted lockdowns, quarantines, non-essential retail closures – have contributed towards a sharp rise in online commerce this past year. COVID-19 has, in effect, fast-forwarded the shift by 5 years or more. From an economic perspective, this sociological shift fundamentally resets the rate of relative economic performance between the countries and regions that Kindleberger alludes to.

In the section that follows, we examine these ideas in the context of the pandemic crisis to date.

<sup>1</sup> Brohman, J (1995) "Universalism, Eurocentrism and Ideological Bias in Development Studies: From Modernisation to Neoliberalism", *Third World Quarterly*, Vol 16, No.1. PP.121-140

<sup>2</sup> Kindleberger, C P (1996) "World Economic Primacy: 1500-1900", Oxford University Press

<sup>3</sup> Economist (2020), "The Peril and the Promise", <https://www.economist.com/special-report/2020/10/08/the-peril-and-the-promise>

## DIFFERENT APPROACHES TO THE PANDEMIC

### Asian economies have experienced far fewer cases and deaths

Table 1 looks at COVID-19 case and death rates for a cross-section of some of the largest developed market and Asian emerging market countries. There are some clear differences. Asian countries have largely experienced far fewer cases, and especially deaths, per one million of population than each of the UK, US and France. There are various reasons why this might be the case. One obvious reason is the recent experience that these countries gained from the SARS epidemic in 2003. This experience, lacking elsewhere, has ensured the governments of these Asian countries tackled COVID-19 on the front foot, being able to act rapidly and forcefully, with populations more aware of the risks and therefore more willing to cooperate. Asian countries' ability to restrict transmission of the virus (and learn how to live with it) has helped to limit the economic fallout and improve their relative economic performance.

### Political structure plays a part in differing responses to COVID-19

Perhaps for Asian countries it is precisely because of the density of their populations that they have an acute awareness of the cost of not taking decisive action. It is likely that a similar theme will play out regarding vaccines as part of any exit strategy. Much of the growth in the anti-vaccine movement in the Western world might be due to the actual success of vaccines over time, and that the memory of severe illness has faded in the mindset of subsequent generations.

While past experiences dealing with viral outbreaks has been beneficial, it's not the only factor driving Asia's lower caseloads and mortality rates. There is a reasonable debate about how both societal and political structures have influenced the extent and nature of national COVID-19 responses. While we are not seeking to make a judgement about the different types of political

structures, we make some observations about their effect on a country's capacity to deal with this pandemic, and illustrate how this might affect economic activity going forward.

Virus containment imposes some heavy requirements on social frameworks through strict quarantine, immediate track and trace, and strict adherence to public health guidelines. In some political structures, particularly those in Europe and the US, constraints on personal freedom are seen to be intolerable, or only tolerable for a period of time such that it does not stretch the social contract beyond compliance. China's success in dealing with the virus has relied heavily on rigorous surveillance and strict containment measures, some of which may be less easily implemented in some other Western democracies. However South Korea is also a democracy, and while such pervasive surveillance is not possible, digital monitoring of contacts is rigorous and managed by the police authorities. This has helped in virus containment and thus limited the economic fallout.

### Geographical quirks have also had an effect

There are other examples of democracies in the Pacific-rim region that have had similar containment successes. New Zealand and Australia, two countries that are traditionally more Western-oriented from a political framework perspective, have also been successful in containing the virus. While these countries have been successful in implementing some of the techniques used by their Asian neighbours, like track and trace and isolation, they have also arguably been helped by their geographical quirks as islands, physically disconnected from much of the world. In contrast, European Union countries have relatively fluid borders between the member states (including the UK until this year), with the EU founded on the principle of freedom of people movement. This has limited the extent to which European countries have been able to restrict large population flows between regions.

Table 1: A comparison of COVID-19 cases and deaths for a selection of Asian and European countries<sup>4</sup>

	Infected/Tested	Total		Per 1m of population	
		Cases	Deaths	Cases	Deaths
China	0.00	87,071	4,634	62	3
Taiwan	0.01	799	7	34	0
South Korea	0.02	61,769	917	1,193	18
Indonesia	0.12	743,198	22,138	2,757	82
Malaysia	0.04	113,010	471	3,425	14
Thailand	0.00	6,884	61	99	1
Singapore	0.01	58,599	29	10,156	5
Philippines	0.08	474,064	9,244	4,352	85
UK	0.05	2,496,214	73,622	37,116	1,095
France	0.09	2,677,666	64,759	41,199	996
US	0.09	19,968,087	345,737	60,508	1,048

<sup>4</sup>Source: Bloomberg, Macrobond, John Hopkins, as at December 2020.

## A COMPARISON OF ECONOMIC IMPACTS

### Asian country recessions have been less severe

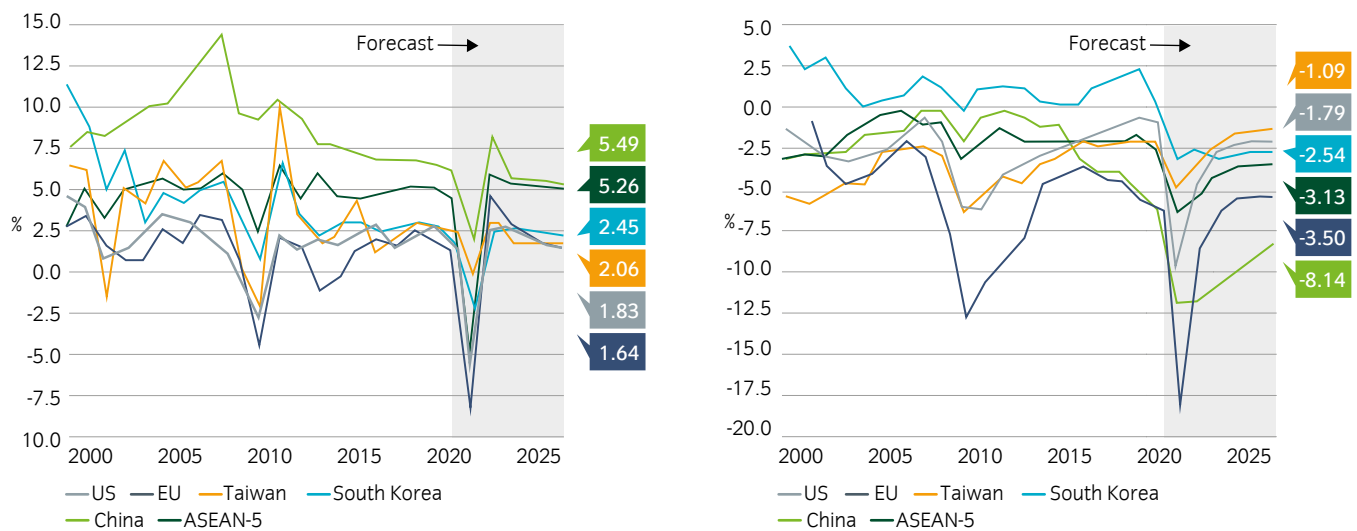
Asia's success in virus containment has had concomitant economic benefits. In terms of economic activity, the depth of economic shock has been far shallower in Asia versus the US and EU (Figure 1, LHS). Not only that, but the cost of mitigating that shock has been far less expensive than in developed market economies, with meaningful implications for the debt burdens that future generations will have to deal with as a result (Figure 1, RHS). As noted in our recent Global Macro publication **Debt and Growth: Mitigating the Long-Term Impact of COVID**<sup>5</sup>, higher debt-to-GDP levels have historically had a negative impact on future levels of economic growth. Furthermore, higher debt levels also restrict the flexibility of policymaking going forward and makes political choices more complex, which in turn increases political risk.

Although the situation remains very fluid, the critical initial response phase to the economic crisis is probably in the past. That said, a significant test remains as to what, and how successful, the exit strategy will be from that critical phase, especially as economies are more stretched and therefore more vulnerable to future shocks.

### Comparing the UK and France vs. South Korea and Taiwan

To further illustrate the performance divergence, we compare South Korea and Taiwan with two developed market countries that have a similar GDP per capita – France and the UK. In helping make the comparison more like-for-like, each of these four countries are multi-party democracies, and as such might find it more difficult to curtail the personal freedoms of their respective populations versus an authoritarian political model. Looking at Figure 2 (LHS), we can see that the estimated 2020 fiscal deficits of both France and the UK are significantly larger than for South Korea and Taiwan. The resultant future consolidation of these deficits will also likely take considerably longer to resolve. Indeed, we expect government debt levels for France and the UK to jump from what are already high levels to in excess of 100% of GDP and to remain elevated over the next five years. In contrast, while Taiwan's government debt has risen for 2020, we expect it to decline thereafter. And while South Korea's government debt looks set to rise steadily to 65% of GDP, this is from a relatively moderate base and should remain far below France and the UK by 2025. Furthermore, this rise is largely down to the Korean government's significant digital and green investment plans, which should spur future growth and innovation.

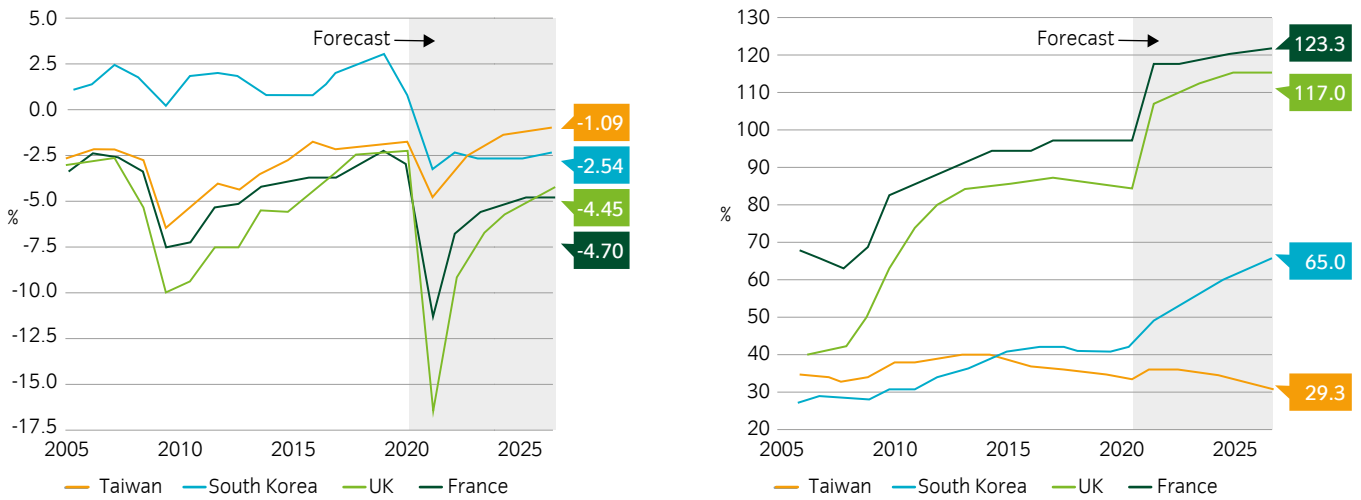
Figure 1: GDP estimates, constant prices, (change year on year, LHS)<sup>6</sup>; General Government net lending/borrowing (%GDP, RHS)<sup>6</sup>



<sup>5</sup> Available on request.

<sup>6</sup> Source: International Monetary Fund (IMF) as at 05 January 2021.

Figure 2: GDP estimates, constant prices, (change year on year, LHS)<sup>7</sup>, General Government net lending/borrowing (%GDP, RGH)<sup>7</sup>



**COVID 19 is accelerating long-term growth trends**

The above analysis demonstrates the effect of individual countries' COVID-19 response on the pace of underlying growth and debt trends, and as we saw, the difference in performance is quite stark. While wealth and standards of living have been growing more rapidly in China, South Korea, Taiwan and the ASEAN-5 economies<sup>8</sup> over the past number of decades, this recent performance through the pandemic will serve to accelerate these trends.

Figure 3: GDP per capita PPP (Purchasing Power Parity) rebased 1985=100 (International dollars, LHS)<sup>9</sup>; GDP per capita PPP current prices (International dollars, RHS)<sup>9</sup>

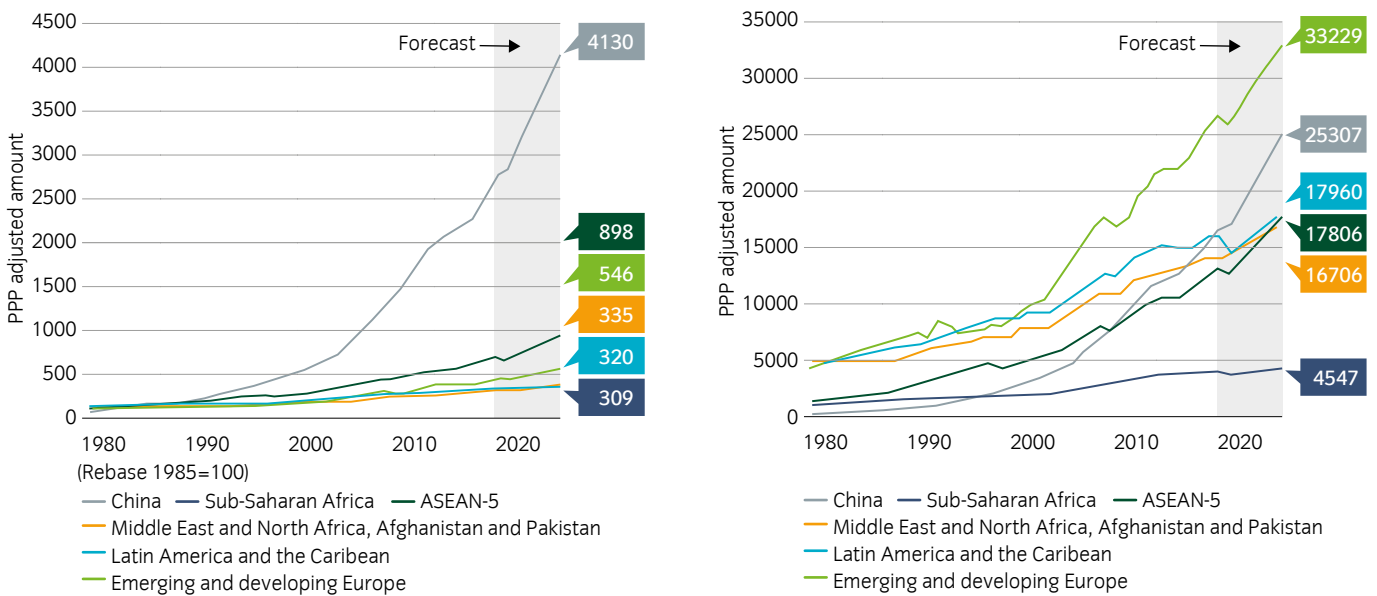
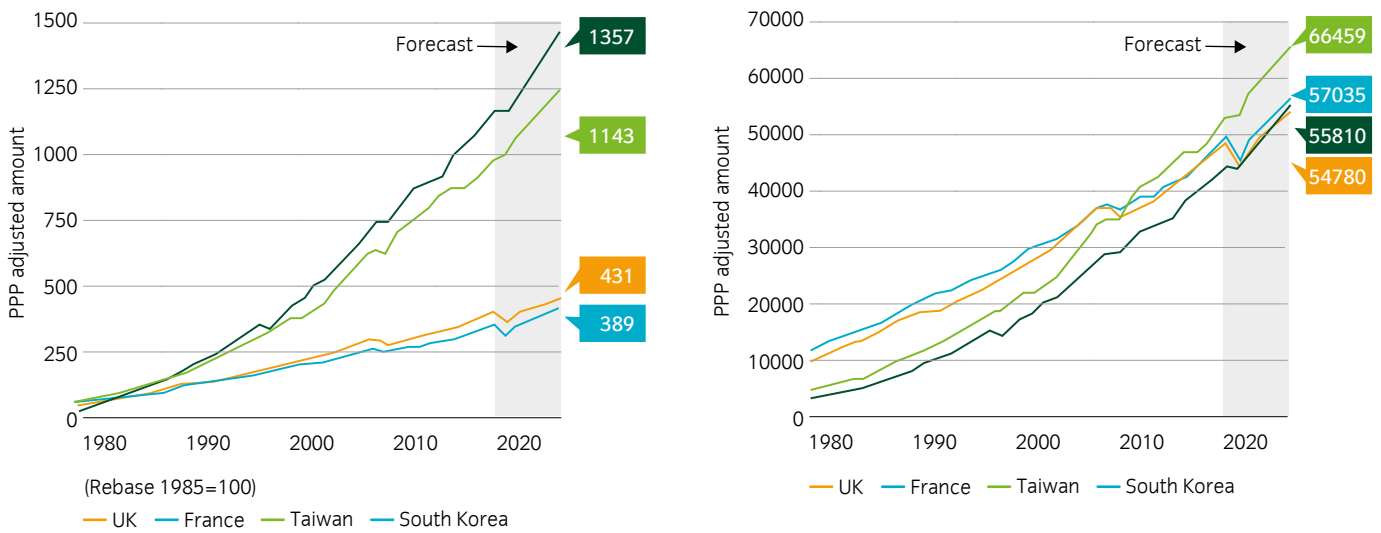


Figure 3, which shows long term per capita GDP data extending back over 40 years further illustrates these trends. Looking at the left chart, where GDP per capita is rebased to 100 in 1985, the ASEAN-5 economies, and most notably China, have dramatically outperformed their peers in terms of relative growth. On an absolute basis (right hand chart), while China and ASEAN-5 countries still lag other EM regions, the IMF forecasts GDP differentials to narrow further over the next five years. The story is similar at the individual country level (Figure 4). After starting the period considerably below the UK and France, South Korea and Taiwan have rapidly caught up. Today's GDP per capita levels South Korea (\$44,573) and Taiwan (\$53,274) are similar to those for France (\$49,798) and the UK (\$48,727). The IMF forecasts South Korea's GDP per capita on a PPP basis to surpass that of the UK by 2025, driven in part by the sharp contraction impacting the UK in 2020 which South Korea has not suffered.

<sup>7</sup> Source: International Monetary Fund (IMF) as at 4 January 2021.  
<sup>8</sup> ASEAN-5: This is a grouping of the five largest economies in Southeast Asia – Indonesia, the Philippines, Thailand, Malaysia and Singapore.  
<sup>9</sup> Source: International Monetary Fund (IMF) as at 23 December 2020.

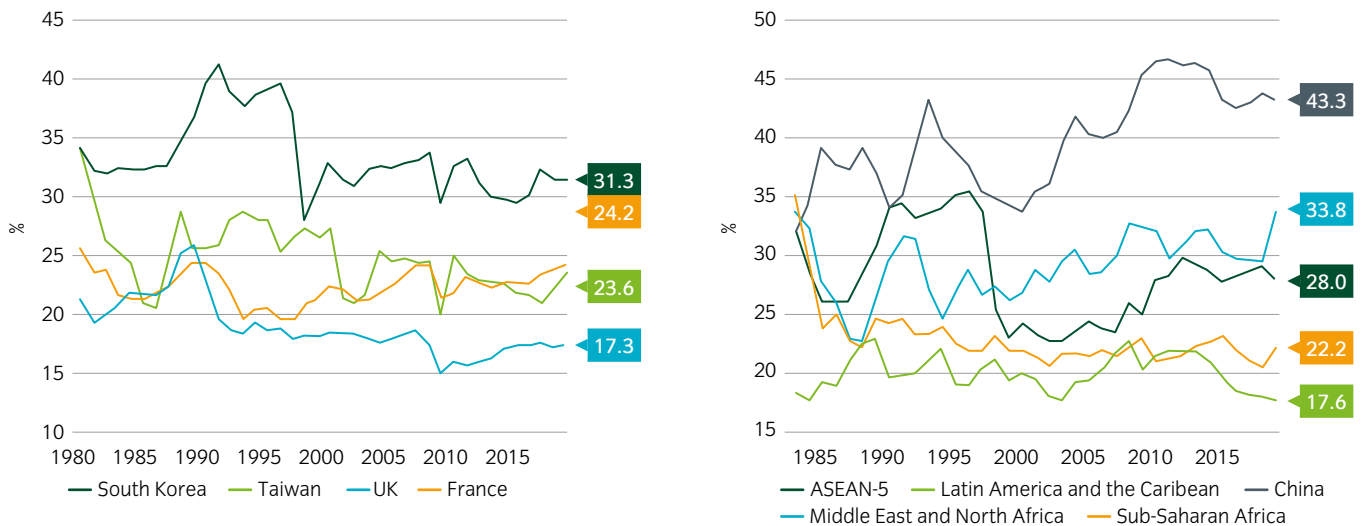
Figure 4: GDP per capita PPP rebased 1985=100 (Int. dollars, LHS)<sup>10</sup>; GDP per capita PPP current prices (Int. dollars, RHS)<sup>10</sup>



### Asia continues to benefit from strong trade and investment

In our Global Macro paper **Debt and Growth: Mitigating the Long-Term Impact of COVID**<sup>11</sup> we noted that the single most relevant driver of per capita GDP growth is global trade, with structural variables also having a significant impact. South Korea, Taiwan and the ASEAN-5 have all benefitted from the sharp increase in global trade, while also demonstrating moderate-to-high levels of investment as a percent of GDP. Trade across the region continues to deepen with the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, also known as TPP-11<sup>12</sup>) in 2018. While China, South Korea and Thailand are not current signatories, these countries have expressed a desire to join. With the US potentially considering reapplying under the Biden administration, and the UK having formally applied to join, this trade pact will become truly global in focus, with Asia at its heart.

Figure 5: Investment % of GDP<sup>13</sup>



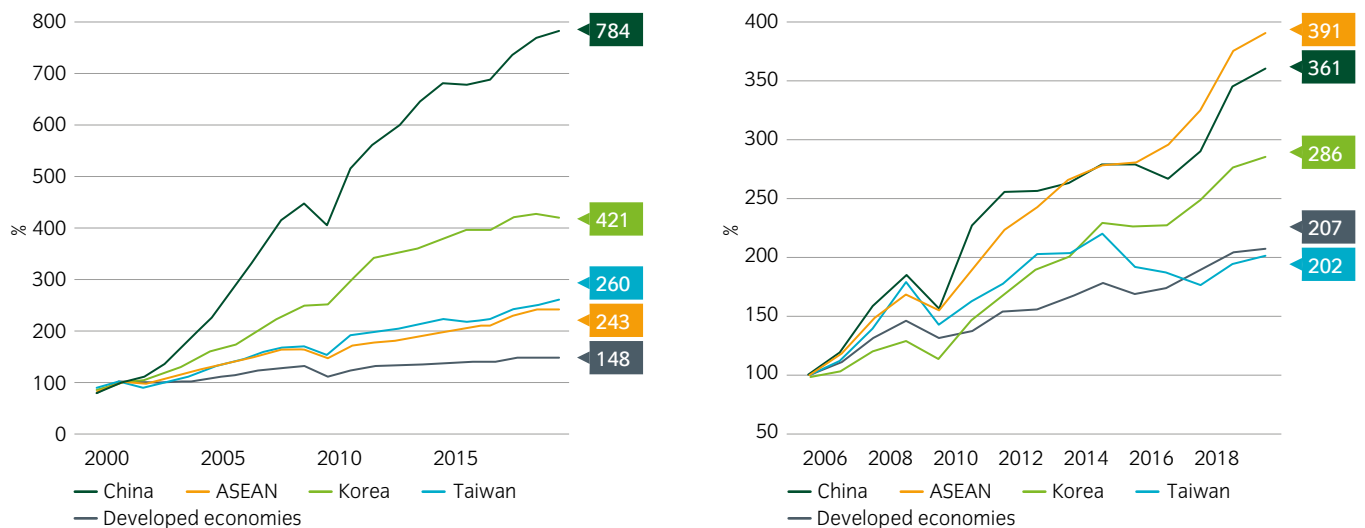
<sup>10</sup> Source: International Monetary Fund (IMF) as at 30 November 2020.

<sup>11</sup> Available on request.

<sup>12</sup> Current TPP-11 members: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

<sup>13</sup> Source: World Bank, Insight.

Figure 6: Merchandise Trade, Volume of Exports (LHS)<sup>14</sup>; Services Trade, Value of Exports (RHS)<sup>14</sup>



## ASIAN SELF-DETERMINISM IS INCREASING WEALTH AND ECONOMIC RESILIENCE

### From Asian crisis to Asian success

The 1997 Asian financial crisis (and subsequent 1998 financial crisis) was an important milestone for Asian economies and political goals. The conditions for the crisis (fixed exchange rates, reliance on short-term external debt, asset bubbles stoked by an overheating economy, and the prescribed harsh solutions from the IMF) created a political trauma in the region which informs policymaking to this day. This crisis generated a determination to never again be 'subjected to' the IMF's bitter medicine. Thanks to a relatively rapid rebound of domestic demand, structural reform, orthodox central banking, more flexible exchange rates, and, of course, a benign macro environment, the countries at the heart of the Asian financial crisis have become economic success stories. It is still debated amongst economists as to whether Malaysia, which eschewed an IMF programme but implemented reforms and capital controls, recovered more quickly or more robustly than those countries which took the Fund's money and advice.

It is worth noting that the IMF's orthodoxy regarding how economies should respond to an economic crisis has evolved since the 1990s. Capital controls are now favoured under certain circumstances, particularly when coupled with structural reforms. Policies to protect the poorest sections of society are now part of most, if not all, IMF programmes. With regard to fiscal support, the IMF made headlines recently when it said that countries should not switch too rapidly towards austerity given the economic impact of COVID-19. Quite an ideological shift, but one that shows evolution.

### Many initiatives established to promote Asian self-determinism

Since the Asian crisis a number of initiatives have been established to promote a higher degree of Asian collective self-determinism. The Chiang Mai Initiative Multilateralization is probably the best known of these initiatives. A network of regional swap lines and emergency liquidity arrangements, this initiative was originally founded in the aftermath of the Asian financial crisis. It has since evolved through several iterations. Economic self-determinism is not just linked to levels of wealth but also to increased resilience, with less reliance on the US dollar and Western-focused multilateral financial institutions and increased support from regional credit institutions that are not so Western-oriented. This resilience is also brought about by the funding anchor created through the development of domestic pension funds, and a strong local investor base.

## CONCLUSION

COVID-19 has been an accelerant to the longer-term trends evolving in the global economy, one of the most important being the rise of the digital economy. When we think about economic or financial exceptionalism over the next 20 years then it may be quite different from the last 20. Perhaps the West's COVID-19 response is a policy mis-step, an aberration from trend, but without some rebalancing of political and economic priorities, it is likely that Asia not only challenges the idea of US/European-centrism but exhibits a momentum that may challenge primacy in the time ahead.

<sup>14</sup> Source: United Nations Conference on Trade and Development (UNCTAD), Insight.



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