

## SuMi TRUST Monthly Commentary

April 2020

### Countermeasures against Corona and the World after Corona

#### ○ The relentless New Coronavirus

As of 12th April, there have been 1.74 million cases of the coronavirus and over 100,000 deaths globally. And no one knows when it will all end.

Looking at the number of deaths by country, for every 100,000 people, Italy and Spain have recorded over 30 deaths, Belgium has had about 29 deaths, France 21, the Netherlands and the UK have had 15 each, Switzerland 10, the US has seen 6 people die, Iran 5 and Germany has had about 3 deaths per 100,000. Japan has recorded 7,399 cases and 137 deaths. Its death rate per 100,000 is at 0.08. Japan's numbers are low by global standards but it has not been able to stop the spread of the contagion.

#### ○ Prime Minister Abe declares a State of Emergency

Under these circumstances, on 7th April, PM Abe declared a state of emergency for 7 prefectures including Tokyo (valid until 6th May). Although the proclamation is softer than that of Europe or the US, it allows prefectural governors to restrict travel and the use of facilities as well as the cancellation of events. In addition, PM Abe requested that "work be conducted from home in principle, and for companies to enforce a policy of having at least 70% of its workforce work from home". Most companies in Tokyo have abided by this request and have ordered its employees to work from home.

#### ○ The Japanese Government announces Emergency Economic Measures

To counter the negative impact on the economy, the Japanese government has announced simultaneously with the State of Emergency, an unprecedented super large emergency economic measure on the scale of JPY 108 trillion (equal to 20% of nominal GDP, or approx. USD 1 trillion) and fiscal expenditures of JPY 39.5 trillion (approx. USD 370 billion). This is the largest economic measure since the Global Financial Crisis in 2008 when the Japanese government announced a JPY 56.8 trillion (approx. USD 530 billion) package and JPY 15.4 trillion (approx. USD 140 billion) in fiscal expenditures.

The current economic measures will consist of (1) an "emergency support phase" to ensure employment, funding, support for SME's with succession issues, and support for the low income class, (2) a "V-shaped recovery phase" which boosts both consumption in battered industries such as tourism, land transport and restaurants, and investments for the future that include digitalization and remotization. As a first step in the "emergency support phase", government financial institutions will offer zero interest, unsecured loans to SME's whose sales have fallen sharply. Local governments and private financial institutions will also offer similar loans. Funding programs by public and private financial institutions are being offered to large corporations as well. It has been reported that airlines such as JAL and ANA as well as temporary staffing companies such as Recruit are in negotiations with banks. In addition, benefit schemes for SME's and sole proprietorships that have suffered a sharp fall in sales, are now in place. SME's can receive up to JPY 2 million and sole proprietorships may receive up to JPY 1 million. Whilst it is important to maintain fiscal discipline, when you consider the economic and social crisis we are in, a large scale fiscal expenditure program is necessary.



## ○After Corona

The corona crisis will come to an end when a majority of the human beings become immune to the virus, or when a vaccine is developed. But the impact of this calamity requires our society to change, and while it may be premature, we must begin to prepare for the world after corona.

One area we must reexamine is the excessive slimming or trimming (cost cutting) of resources.

The coronavirus included, we have experienced recent disasters which were only supposed to happen “once in a decade” or “once in a century”. Each time, we hear cries of help due to the lack of resources, including manpower, during the restoration and reconstruction phase.

Whilst the declining population and aging society are part of the reason, today’s public institutions and private corporations have been unprepared for emergencies after having trimmed their human resources to the bones. The current corona crisis has demonstrated that the lack of staff has been an impediment to a speedy response at medical facilities. And the reason why fewer PCR tests have been conducted in Japan compared to other nations is due to insufficient facilities. In Japan, there is said to be fewer than one hundred regional health institutions that conduct the test. This is the result of cost cutting by local municipalities due to budget constraints. In the private sector, corporations have globalized their supply chains, lowered their cost base and raised efficiency in the pursuit for lower prices. But this has resulted in a vulnerable mechanism which shuts down the supply chain in unforeseen events and accidents.

The unexpected has become the norm today. After corona, perhaps we should lay emphasis on preserving an excess supply of resources which include human capital, goods (things) and funds (money)

Whilst critics may argue against it, central banks should also create “reserves” by raising rates ahead of a rate cut. The same logic should be applied to governments and corporations.

Japan has launched various fiscal measures since the Bubble burst in 1990. What were initially temporary measures (such as special tax cuts and timed measures) then have since become permanent and have weakened our tax structure. Whilst it is necessary to conduct large scale fiscal measures in times of crises, it is also important to switch gears to rebuild, embolden and improve public finances after each crisis.

It is difficult to be agile and conduct large scale measures if your finances are stretched. When calm is restored after corona, we must prepare for future contingencies by exercising a strictly disciplined fiscal policy.

Going forward, we must pursue efficient organization management using IT so that we can have peace of mind after a crisis. In Japan, we continue to witness old-fashioned organizational management practices at some old-fashioned entities such as banks and governments. Through the current corona crisis, we have discovered numerous issues and cracks within these organizations. For example, in the public sector, whilst Taiwan was able to evade confusion by issuing 3 masks per individual per week using his/her health insurance card number, Japanese was unable to conduct similar operations using a unique identifier such as My Number due to technical issues and the lack of widespread use. And in the private sector, because many companies had cut back in their IT budgets, they were unprepared for remote working. Thus today, many employees in Tokyo are forced to go to the office risking their lives in this state of emergency.

Prime Minister Abe has stated that he will boost investments for the future that include digitalization and remotization, in his second phase of economic measures, or the V-shaped recovery phase.

The current crisis has brought to fore numerous issues that Japan faces including the problem of labor shortage stemming from a low birthrate and aging population. As a matter of utmost urgency, both governments and corporations must take necessary measures to prepare for the next “unexpected crisis” and create a structure that is able to cope, and react swiftly and flexibly to such events.

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