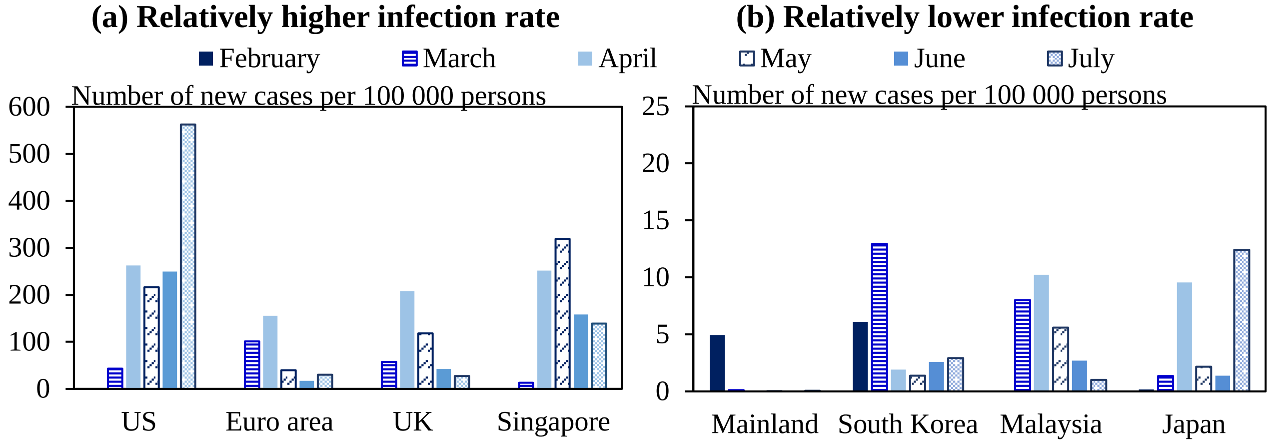
Box 2.1

Reopening of major economies amid the COVID-19 pandemic

The COVID-19 pandemic has hit the global economy like no other crisis in the past century. The large scale lockdowns and social distancing measures imposed, first by the Mainland in late January and then by many governments in March, severely disrupted production activities and global supply chains, and also led to sharp deceleration or even shuttering of economic activities worldwide. Yet, the process of reopening in major economies has already begun, with the Mainland leading the way by the end of the first quarter and the US, Europe, and other major economies in Asia following suit as their circumstances have allowed. These developments, together with the swift introduction of massive response measures by governments and central banks to support citizens and enterprises affected by the pandemic (see **Box 2.1** in the *First Quarter Economic Report 2020*), have led to a turnaround in business sentiment from the deep lows seen in April.

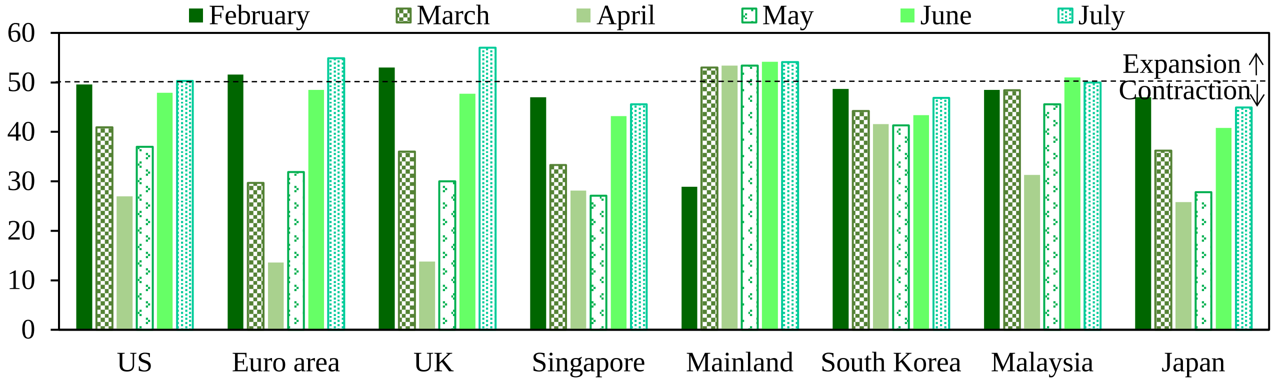
Chart 1 depicts the movements of new COVID-19 cases per 100 000 persons in selected economies in recent months, hence shedding some light on the evolution of the pandemic. Specifically, the number of new cases peaked in the Mainland in February, followed by South Korea in March, Europe and Malaysia in April, and then Singapore in May. Of particular note are the renewed increases in new cases in a number of major economies since reopening. For instance, those in the US and Japan surged to new highs in July. As for sentiment, ***Chart 2*** shows that PMIs in many economies began to improve at the first sign of reductions in new cases, with some returning to expansionary territory.

Chart 1: Number of new COVID-19 cases per 100 000 population in selected economies (February - July 2020)



Sources: National Health Commission of the People's Republic of China, Department of Health and Social Care of the UK and the World Health Organization.

Chart 2: Composite PMIs* of selected economies (February - July 2020)



Note: (*) Manufacturing for South Korea and Malaysia.
Sources: National Bureau of Statistics of China and IHS Markit.

Box 2.1 (Cont'd)

With neither a vaccine nor effective treatment yet available, the near-term global economic outlook is still vulnerable to the spread of COVID-19. Policymakers need to strike a balance between the benefits of a quick and large-scale resumption of economic activities and the potential risk of occasional outbreak that may trigger a return to lockdowns. On balance, the recovery of the global economy may be slow and bumpy, with geopolitical tensions and evolving China-US relations casting further shadows. In June, the IMF forecast a 4.9% contraction for the global economy in 2020 and added that the outlook hinges much on the development of the pandemic.

Thanks to the extensive epidemic prevention measures undertaken by the authorities in late January, the **Mainland** successfully contained the spread of COVID-19 at a relatively early stage. Most factories and workplaces have resumed full operations entering the second quarter of 2020, while shops and restaurants have also reopened. A health code system has been in place to facilitate movements of people within the Mainland. With that said, the authorities have been staying vigilant against a possible recurrence of the epidemic. Externally, the Mainland remains closed to most foreigners in order to mitigate risks from imported cases of infection. Airlines, hotels and tourist sites are also subject to various capacity restrictions. Targeted epidemic controls can be readily imposed at designated areas should there be any local flare-ups.

The solid recovery of the Mainland economy following its reopening is reflected in the recent improvement of various economic indicators. In the second quarter of 2020, the Mainland economy staged a sharp rebound to grow by 3.2% year-on-year, having recorded its largest ever contraction of 6.8% in the first quarter. The industrial sector performed notably better with real growth of 4.4%, indicating the positive impact of production resumption. Fixed asset investment likewise picked up, and retail sales saw a visibly narrower decline relative to the first quarter.

In the **United States**, all fifty states reopened at various paces and scales following President Trump's announcement on reopening by phases in late April. To facilitate the process, state governments released safety guidelines for industries and individuals such as limiting building occupancy and requiring employees to wear facemasks. By May, the vast majority of states had lifted "shelter-in-place" and "stay-at-home" orders, though strict social distancing requirements remained in effect; some businesses were also allowed to reopen. By sector, manufacturing firms were among the first to reopen. Restaurants, retail stores, hairdressers and entertainment venues such as theatres and stadiums resumed operation in the majority of states by June under certain sanitation and social distancing protocols. Other key sectors such as agriculture and livestock, food packing, logistics and public transport also reopened under certain guidelines. However, the number of new COVID-19 cases bounced back as the reopening progressed, with the single day count surpassing April's high in late June and remaining elevated through July. In response, some states paused or returned to previous restrictions. For instance, bars were closed down again in Texas and parts of California while New Jersey held back from resuming indoor dining. Externally, travel restrictions remain in place and the closure of the US-Canadian border has been extended to mid-August.

Reflecting these developments, a number of economic indicators recovered from extreme lows in April. Having plunged by 19.9% in April, retail sales in the US saw a visibly narrower year-on-year decline of 5.6% in May and returned to modest growth of 1.1% in June. Industrial production likewise bottomed out in April, though it remained 10.8% lower in June as compared to a year earlier. On the labour market, the unemployment rate eased from 14.7% in April to 13.3% in May and further to 11.1% in June, thanks to the addition of some 7.5 million non-farm jobs in the latter two months. Nevertheless, advance estimates indicated that the US economy shrank sharply by 9.5% year-on-year in the second quarter, the largest fall for a single quarter on record.

Box 2.1 (Cont'd)

In Europe, on 10 March, Italy was the first to impose a nationwide lockdown. As the pandemic intensified across Europe, other economies followed suit with travel bans, social-distancing measures and other restrictions to curb the spread of the disease.

As the epidemic became more contained in April, Europe started to plan for reopening. To facilitate a coordinated exit strategy and prepare ground for comprehensive recovery, the European Commission (EC) issued a "Joint European Roadmap towards lifting COVID-19 containment measures" on 15 April 2020. The Roadmap called for a gradual, phased restart in economic activities, and for general restrictive measures to be progressively replaced by targeted ones. In accordance with the EC's recommendations, Germany introduced an "emergency brake" mechanism to reinstate restrictions in case of a new surge, and France implemented a geographical system where stricter rules apply in regions where the virus is highly active.

Germany was able to restart some of its economic activities after less than a month, while Italy, France, and the UK started to unwind their lockdown measures from early May. Shops and factories were typically among the first to reopen, followed by restaurants, bars and hairdressers, and other entertainment venues such as cinemas. By mid-June, most restrictions had been lifted (though some were reinstated to contain regional outbreaks), including those on cross-border travel between EU member states. Some EU member states started lifting travel restrictions for selected economies outside the bloc starting from July.

Economic sentiment for the euro area has improved substantially since reopening. The composite Markit PMI improved notably in May from its record low in April, and returned to the expansionary zone by July (see ***Chart 2***). Industrial production and retail sales also gradually recovered.

For other major economies in Asia, the epidemic had diverse developments and thus varying approaches to reopening were adopted. In Singapore where a relatively high infection rate was seen, a strict lockdown was implemented in early April. Later on, economic activities that did not pose a high risk of transmission were permitted to resume from 2 June. Restrictions were further lifted with shops reopened and dining in at restaurants allowed since 19 June. South Korea did not impose a widespread lockdown or restrict movements of the public, but imposed stringent social distancing rules alongside aggressive testing and contact tracing to contain the virus. The nationwide social distancing rules were lifted in early May, but had to be re-imposed in certain areas after a surge in new cases. Malaysia implemented a movement control order in mid-March, which was relaxed in phases in May and June. In Japan, a state of emergency was declared in April to encourage people to avoid unnecessary trips and non-essential businesses to close, but was lifted in May as signs of infection slowed.

The latest indicators in these Asian economies remained meagre. Manufacturing PMIs showed signs of bottoming out in May and June, but industrial production and exports were still weak. Retail sales generally recovered more visibly in June, but unemployment rates stayed elevated.

Conclusion

While lockdown and social distancing measures are necessary to save lives at the peak of the pandemic, these measures have come with high social and economic costs and inevitably affected the livelihoods of many. Apart from rolling out massive support measures to counter the adverse impacts of the pandemic, governments have successively taken steps to reopen the economies according to their own circumstances. The renewed surge in new infection cases in some economies since June suggests that amid the lingering threat of COVID-19 on a global scale, governments around the world have to stay vigilant in relaxing various restrictive measures, and always be prepared to re-tighten their grips as and when necessary. Against this backdrop, it will take time for a sustained global economic recovery to take hold.