

# Japan's Special Way through the Corona Crisis and towards a „New Normal“

Fujitsu Market Intelligence

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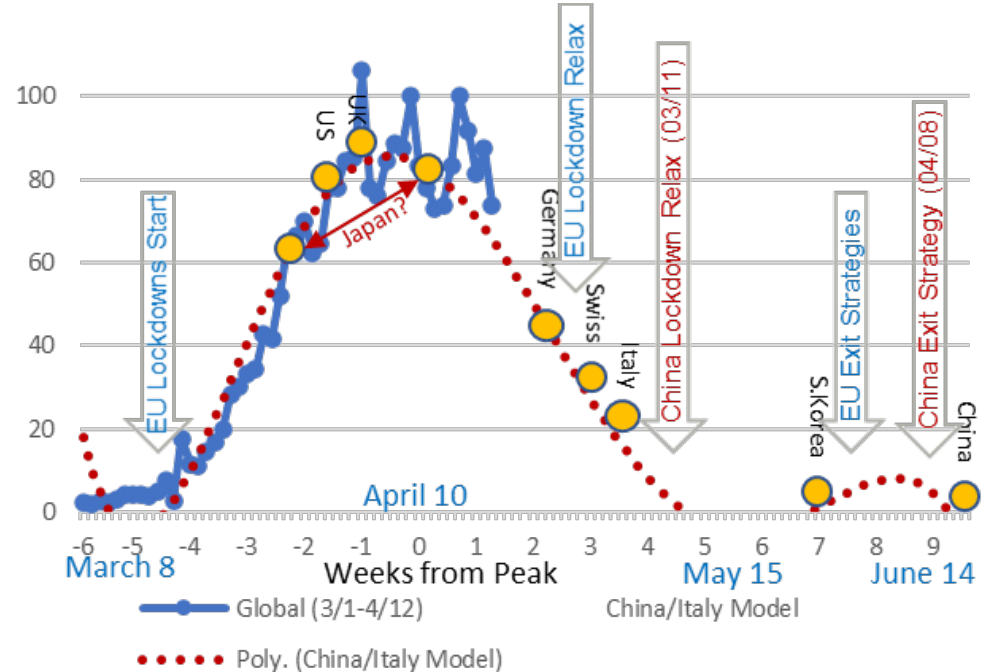
# Timing of “Lockdowns” and “Exit Strategies”

- After the start of “lockdown” policies, it takes about 5 weeks to get beyond the peak of new cases.
- As new Covid-19 infections fall, risks become part of a “new normal,” exit demands increase.
- Government committees evaluate risks and costs, recommend stepwise “exit regulations.”
- Many governments start to relax lockdowns 3 weeks after the peak, earlier than in China.
- Exit regulations are based on social distancing, sector regulation (industry first), age groups (young first), regions (less affected first).
- Exit planning (in June) tries to balance economic necessities, research results, and local capabilities with little regard for the needs of individual companies.

**“Exit regulations,” starting in May, create a complex business environment. “Exit strategies” towards a “new” normal start in September. Challenges for companies remain.**

Source: Johns Hopkins University, Covid-19 Dashboard; Fujitsu MI Analytics. Note: Data for global new infections. Model based on the two “forerunner” countries China and Italy. April 10 = 100 for global infections (Feb 4 for China, and March 27 for Italy).

## Number of new Covid-19 cases (Global; Peak: 04/10 = 100)

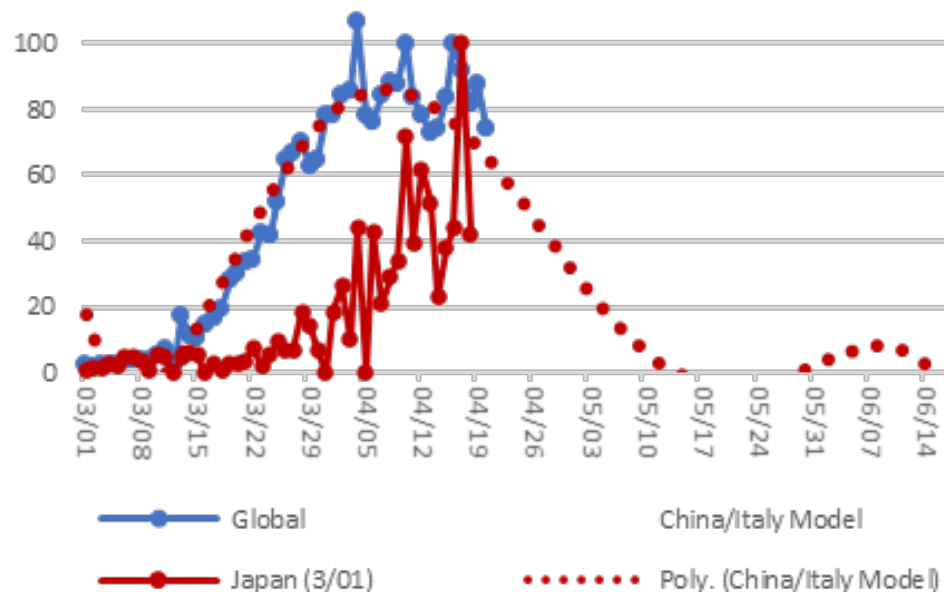


# Japan's way to "flatten the curve" of new infections

- Japan (and Taiwan, S.Korea), opted for early, voluntary social distancing regulation to "flatten the curve."
- By avoiding strict lockdowns, economic costs potentially remain lower and the way into a restricted "new normal" becomes smoother.
- If soft lockdowns are ineffective, however, they run the risk of frustrating, continuous tightening.
- To avoid hospital overloading, the government restricted Covid-19 testing to patients with significant symptoms. Despite criticism, positive cases among tested remained close to international averages of about 10% and casualty rates low.  
(JP Cases/Deaths: 12,368 / 328; Swiss: 28,496 / 1,549)
- In Tokyo, however, positive test rates have recently jumped (39%), requiring stricter policies for control.

- **If Japan's social distancing regulations prove successful, they will converge with other countries "lockdown relaxation" and "new normal" policies.**

## New Covid-19 cases (Global & Japan / 03.01-04.20)

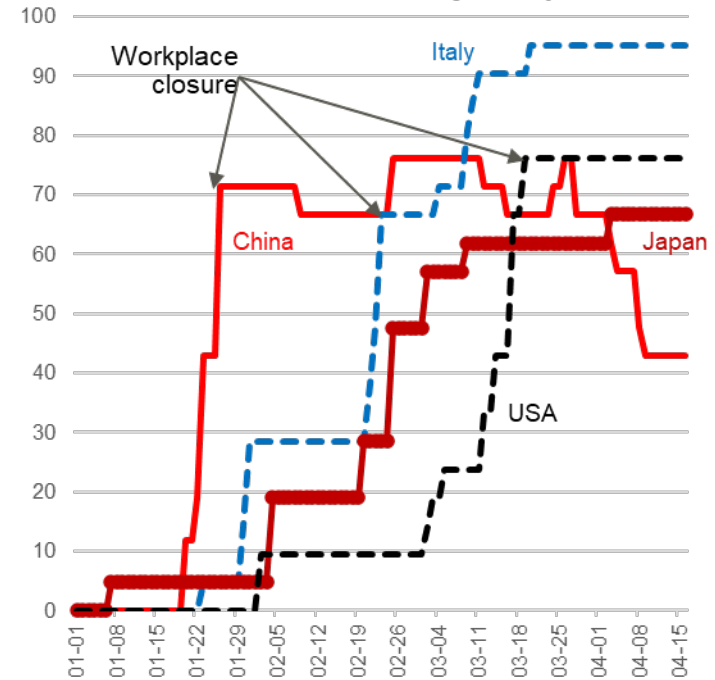


Source: Johns Hopkins University, Covid-19 Dashboard; Fujitsu MI Analytics. Note: Data for global new infections. Model based on the two "forerunner" countries China and Italy. April 10 = 100 for global infections (Feb 4 for China, and March 27 for Italy).

# Lockdowns vs. Social Distancing: How much is necessary?

- China was the forerunner of strict lockdown policies. The policies have been regionally differentiated and successful. Policies became effective on Feb 8, and “exit regulations” started on April 8.
- Italy followed comparatively early, but with less strict policies. After infections spread from hotspots in Northern Italy, the country has been effectively locked-down from mid-March.
- The US followed late but introduced strict lockdown policies fast.
- **Japan focused on a regionally segregated social distancing regime with school closures, recommendations for remote work and self-quarantine. Mandatory workplace closures could be avoided.**

## Oxford University Government Response Stringency Index

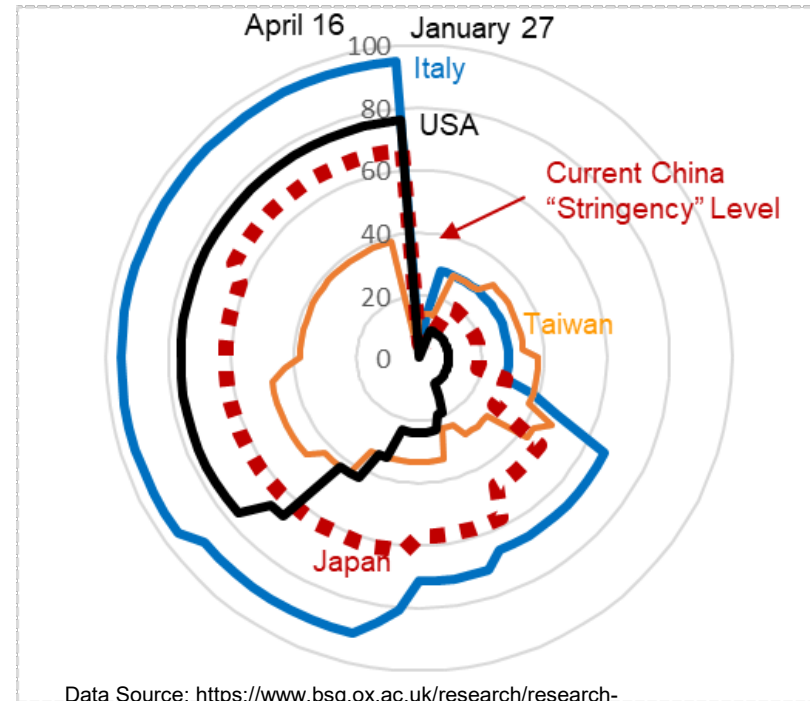


Data Source: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>

# Lockdowns vs. Social Distancing: How much is necessary?

- In Taiwan, early social distancing and effective hotspot control with flexible tracking and strict self-quarantine effectively introduced a “new normal” from the start.
- Japan’s later start of a tight social distancing regime might require elevated restriction levels for longer.
- **Social distancing regimes, as practiced in Taiwan and in Japan, can be sufficient if infection hotspots can be locally controlled.**
- **Effective hotspot control requires comprehensive local testing and tracing.**

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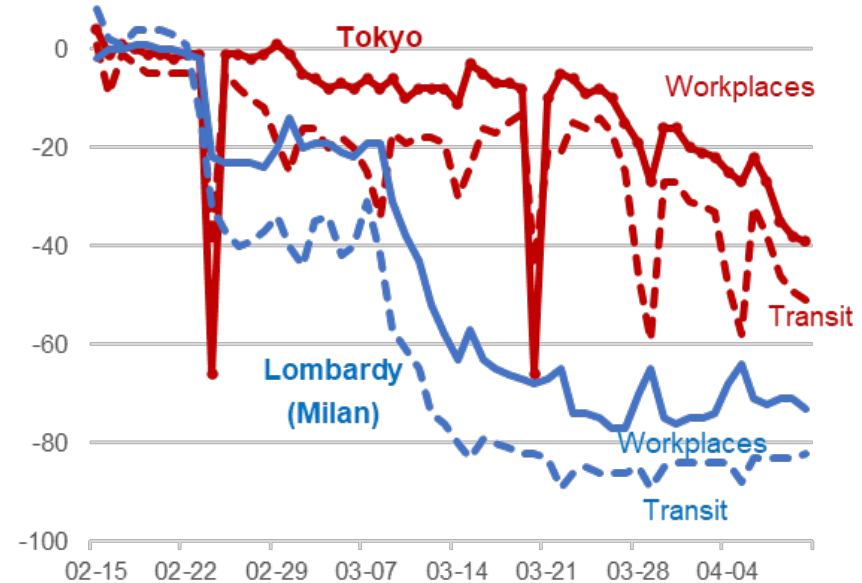


Data Source: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>

# Lockdowns vs. Social Distancing: Effectiveness

- Mobility reports show that only strict lockdowns bring activity levels down to (temporarily necessary) -80%. In Italy (Lombardy/Milan), strict social distancing recommendations until March 8 were not sufficient. Severe, mandatory lockdowns of workplaces and self-quarantine followed.
- Effective long-term social distancing regimes become the key to “exit strategies,” however.
- In Tokyo, social distancing recommendations had a mild, but initially sufficient, impact on people movement until mid-March (-20% public transit, -8% workplace). After a long, sunny spring weekend with many outings, infections jumped and a “national emergency” with stricter recommendations for restaurant closures, work at home and self quarantine became necessary.
- **Lockdowns become necessary when local infection hotspots cannot be controlled. Effective social distancing regimes with local testing & tracing that reduce baseline traffic between -40% and -20% might be sufficient in the “new normal.”**

## Google Community Mobility Report

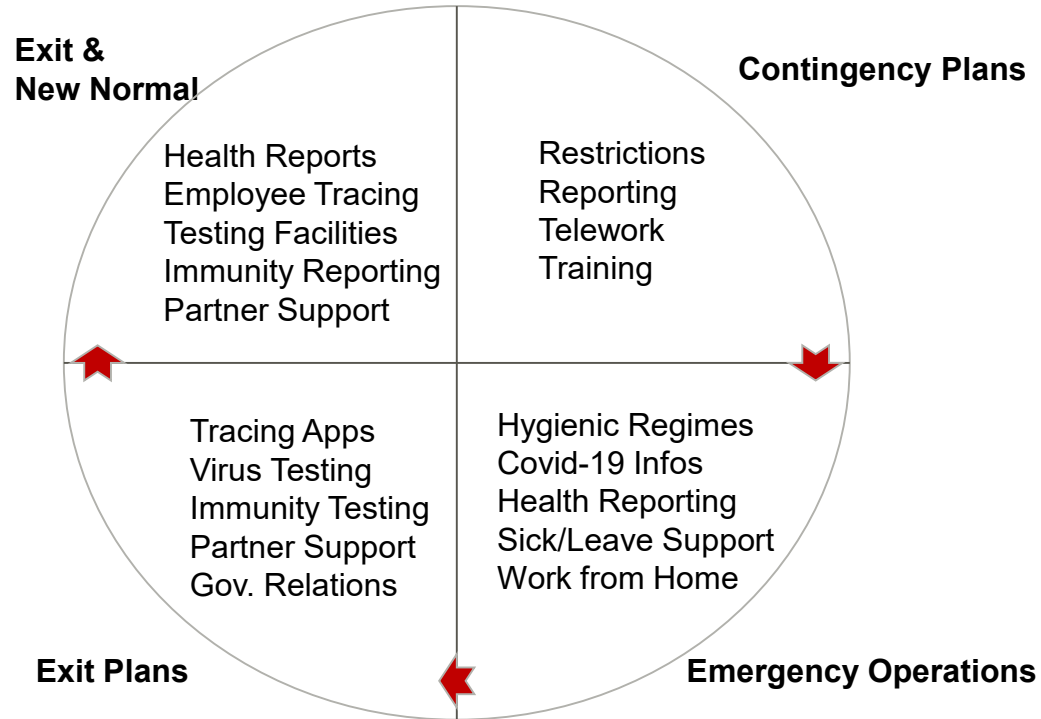


Data Source: Google (Maps) Community Mobility Reports;  
<https://www.google.com/covid19/mobility/>

- Exit strategies will result in complex burdens: they become based on high hygienic standards and effective social distancing, restrictions become differentiated by sectors and locations.
- In the “new normal,” local infection hotspots must be contained immediately. To achieve this, policies will have to rely on effective “testing and tracing.” Since whole-population Covid-19 tests will remain illusive, infection tracing needs to identify risk groups for testing.
- Tracing apps can help governments to investigate people movements and identify hotspots. Singapore’s “TraceTogether” has proven to be useful. The EU’s Pepp-PT (Pan European Privacy Protecting Proximity Tracing) project tries to add better privacy, and Japan’s government supports a Japan-specific app. As a basis, Apple & Google are adding interoperable Bluetooth-based contact scanning protocols and APIs to their smartphone OS’ in May.
- ICT-based public testing and tracing regimes face challenges: privacy concerns limit individual case identification, and effective mass-tracing requires an uptake of 60%, which could not even be achieved in Singapore. Massive local testing capacities are necessary to immediately support notified persons.
- **Government supported ITC-based tracing and testing can become a useful tool but will hardly become effective anytime soon.**

# Corporate Exit Strategies: ICT-based Testing and Tracing **FUJITSU**

- At the corporate level, ICT-based testing and tracing apps become useful information tools that help to protect employees and operations. Since fast and cheap Covid-19 testing kits are becoming available now, companies can cooperate with local health authorities to implement them and solve local infection hotspots.
- To prepare the “new normal,” companies can proceed in four steps. 1) Continuously refine contingency plans. 2) During emergency operations, prepare new hygienic regimes and information sharing. 3) Exit plans focus on “new normal” operations that support tracing and testing capabilities. 4) “New normal” operations help employees with effective tracing and self-quarantine, support partners with information sharing, and build testing capacities in cooperation with local doctors and governments.
- **Companies can implement effective “new normal” testing and tracing operations in cooperation with their employees, partners and local governments.**





# The economic impact on major economies

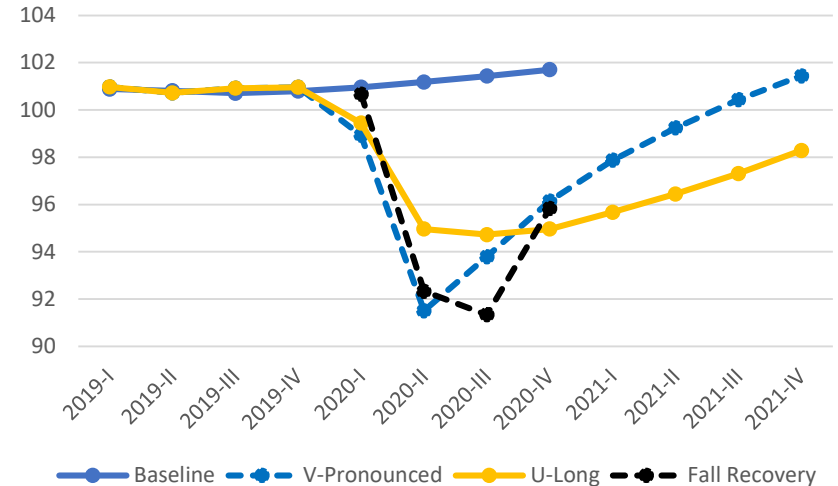
- The “war” on Covid-19 confronts economies with an unprecedented combination of demand-side (“shutdown”) and supply-side (“disruption”) shocks.
- In March-April, consumption drops by about -30%. It hits travel, hospitality, entertainment, personal services, car & furniture sales brutally, and disrupts retail. GDP falls up to -8%. Each additional month of shutdown further reduces GDP by -2%.
- In April-June, demand finds new ways, but supply chains become disrupted, unemployment and bankruptcies increase.
- Pandemic simulations expect lower growth of -6% GDP in 2020 for major economies.
- Emerging country shocks follow, but resilient health policies in Asia (Japan, Korea, China) help to support a gradual global recovery.

## • IMF Forecast 2020/21:

**US: -5.9% / +4.7%, Euro: -7.5% / +4.7%, JP: -5.2% / +3.0%**

• **Emerging Asia: -1% / +8.5%,**

## Povid-19 Scenarios – GDP Level



- Do not expect a fast (China-type) “V-Shaped” recovery, slower “fall recoveries” and U-shaped recoveries are more likely.
- Prepare for corporate “exit strategies” early (testing & tracing).
- Expect a “new normal” of cash strapped customers with high IT demand.

Note: Estimates are based on consumption accounting and pandemic simulations by the German Council of Economic Experts for Germany; “Fall Recovery” is a Conference Board simulation for the US economy. Academic pandemic simulations: Barro et. al. (2020); McKibbin and Fernando (2020). Source: German Council of Economic Experts (2020) – Corona Virus Pandemic; Conference Board (2020) – Covid-19 Scenarios.

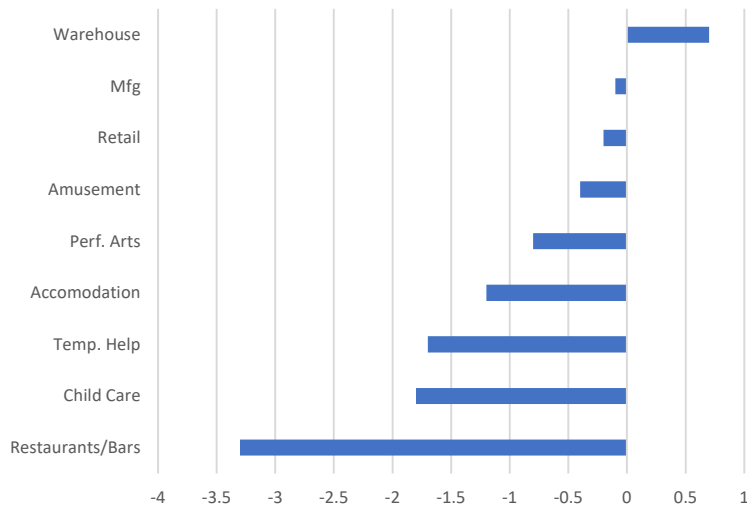
# Strong Demand Shock but Resilient Supply Chains



The flexible US economy shows the brutal demand shock in its unemployment data. As expected, restaurants, domestic help, and hotels were hit the worst. Asia's supply chains, on the other hand, give reason for hope. Consumer services and transport were hit as well, and software & services could not escape slump, but manufacturing & technology remained more resilient than expected.

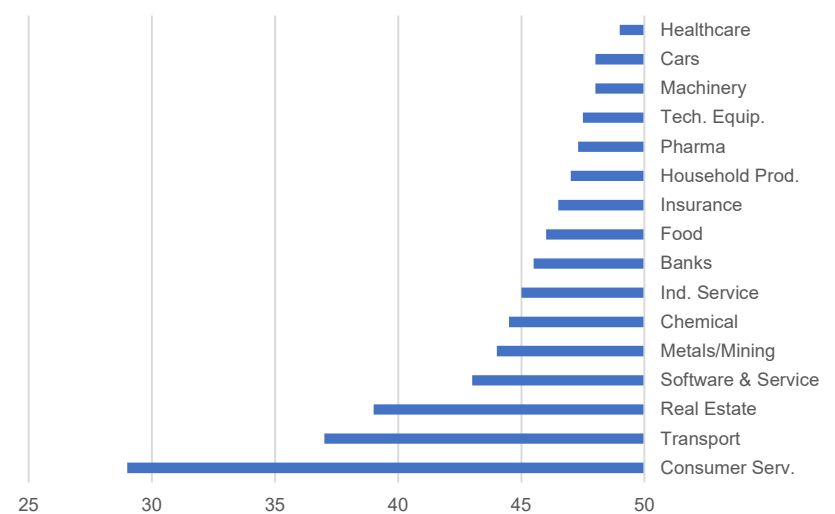
**While consumption is hurting, supply chains remain resilient if lockdowns can be relaxed from May.**

### US job losses (% Feb. to March)



Data Source: Conference Board; <https://www.conference-board.org/topics/natural-disasters-pandemics>

### Asia Purchasing Manager Index (<50 decline in March)



Source: HIS Markit Asia Sector PMI; <https://www.markiteconomics.com/Public/Home/PressRelease/eb64f239616246da899f340b3253ab03>

# Long-term Economic Impact

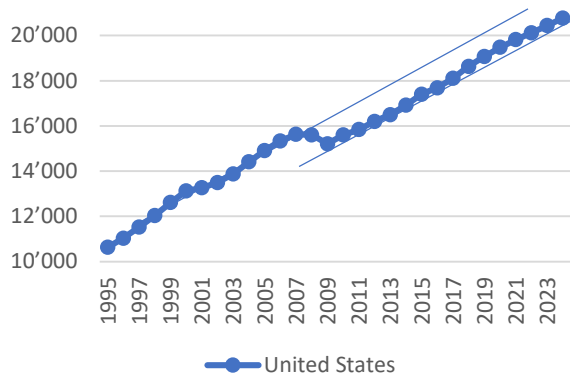


## Recalling the impact of the 2008 global financial crisis

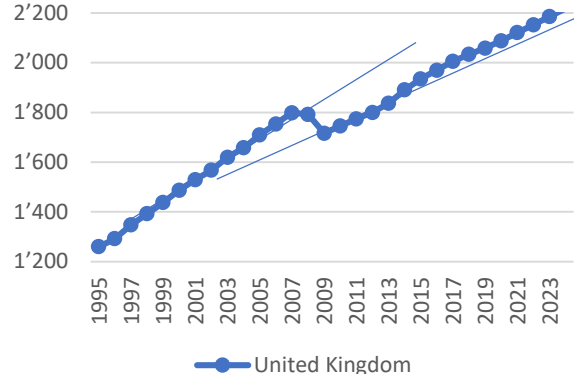
- In 2008, the world suffered its greatest shock: demand implosion, supply chain disruption, unprecedented government bail outs.
- The US did not recover the initial set back, but transformed and digitalized. Workers migrated into major cities. Retail moved from malls to digital platforms (Amazon). The auto industry became disrupted by Tesla.
- The EU banking industry was bailed out but never recovered. The UK lost its financial engine, growth slowed permanently.
- Japan's economy recovered to its former growth path but became dependent on central bank liquidity.
- The “new normal” was marked by disinflation, low interest rates, retreating globalization, deficit spending, but also strong growth of efficient digital services and an innovative digital platform economy.

**A reinforcement of 2008 post-crisis trends should be expected. Managing a necessary “digital transformation” well will be key.**

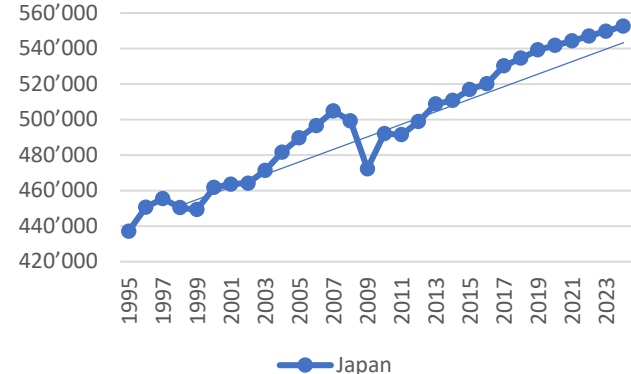
### US – Transformation



### UK – Lost Engine



### JP – Deficit Spending




## **What to expect:**

- Expect a reinforcement of 2008 crisis trends.
- During the crisis, “cash is king.” Demand drops across the board, even including necessary IT spending (except communication services).
- During the summer, companies return to work with partially quarantined workforces; government deficit spending becomes stretched; Asia recovers earlier but not strong enough to pull global growth; emerging countries follow the developed world into Covid-19 crisis. Global growth recovers only in 2021.
- IT services play a key-role: By mixing telework with employee health tests and tracing, companies become operational. Customers have no budgets but strong demand. Platform provider and IT services become “utilities” – helping customers to survive during 2020, gradually scaling business in 2021, facing more government regulation in the future.

## **What to do:**

- “Exit planning” for a “new normal” becomes key. Companies need to move beyond ongoing contingency plans as soon as possible.
- After strict lockdowns end in most countries in May, Japan’s social distancing regulations will converge with other countries “new normal” regulations. “New normal” operations can be built on Taiwan’s and Japan’s experiences.
- Companies innovate by implementing effective “new normal” testing and tracing operations in cooperation with their employees, partners and local governments.



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