

## Asia in 2020

### *The COVID-19 Pandemic and the US-China Trade War*

#### ABSTRACT

The biggest stories of the year 2020 were the COVID-19 pandemic and a trade dispute between the United States and China. The pandemic significantly damaged the Asian economies. The US-China trade war halted after a phase one trade deal and the pandemic, but the future is unclear.

**KEYWORDS:** COVID-19 pandemic, economic loss, US-China trade war

#### THE COVID-19 PANDEMIC

The biggest story of the year 2020 was the outbreak of COVID-19 (Coronavirus Disease 2019), which started at the end of the previous year and became a worldwide pandemic in 2020. The first infection cases were detected in Wuhan, Hubei Province and reported to the World Health Organization by the WHO China Country Office on December 31<sup>st</sup>, 2019. Symptoms were similar to pneumonia including fever, cough, breathing difficulties, nasal congestion, sore throat, fatigue, and headache, but the etiology was unknown. Later, scientists discovered that the causative agent was a novel coronavirus, later named Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) (Global Health Network 2020).

In any pandemic, the initial response by local authorities is critical because the spread of the disease can be contained by aggressive policy response measures, such as lockdowns, travel bans, and/or isolation. However, the initial response by the Wuhan city government was critically inappropriate. Instead of sharing all the disease-related information with relevant authorities

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and outside medical experts as well as employing appropriate response measures, the Wuhan city government and Hubei provincial officials downplayed the risk and seriousness of the disease. Political meetings and mass gatherings in the region continued without restrictions. As the number of infection cases increased, the Chinese central government sent an investigation team in January 2020. Yet, city officials did not disclose all of the relevant information to the investigators. They even hid the fact that the virus had spread to medical professionals and first responders. Because of the information censorship, medical experts outside of Wuhan did not completely understand what was occurring (World Health Organization 2020).<sup>1</sup>

Why did local authorities respond in this way? The reason stems from the way the Chinese government system typically works: government officials downplay the importance of an issue to avoid blame from higher authorities. Due to the lack of transparency in handling of the disease by local authorities at the beginning of the outbreak, the opportunity to contain the spread of the virus early on was missed.

The central government also ignored early warnings by the Center for Contagious Disease Control (CCDC). CCDC recommended that central officials employ responsive measures because the new virus might spread through air, given that it is a respiratory disease. However, the central government disregarded the recommendation because of the forthcoming Chinese or lunar New Year period, the biggest holiday season in China. As a result, millions of people left the city to celebrate the holiday season, and some carried the novel coronavirus with them. Realizing the seriousness of the virus, the Chinese central government shut down the borders of the city on January 23, 2020, right before Chinese New Year's Day, but it was too late. Infection cases appeared all over China. The Chinese government's failure to employ a proper response at the early stage, isolating the region, eventually spawned the worldwide pandemic.

The virus quickly spread to other Asian countries and across the globe. In Asia, countries like Taiwan, Mongolia, Bhutan, Cambodia, and Vietnam were relatively successful in containing the virus. The numbers of infections and deaths there were smaller than in other countries in Asia. By contrast, India, Indonesia, Bangladesh, the Philippines, Pakistan, and Nepal suffered

1. Wuhan's mayor claimed that he reported the seriousness of the disease to the central government shortly after infections started but central authorities ignored it.

from high numbers of infections and deaths. India in particular had by far the most infection cases and deaths in Asia. As of November 12, 2020, the number of COVID-19 infection cases in Asian countries totaled 16,657,753. Among them, 293,540 people died.

To deal with the virus, governments in Asian countries employed responsive measures such as international travel bans, lockdowns of the society, mandating the wearing of facial coverings in public places, social distancing, infection testing, contact tracing, self-isolation, and so on. These responses were effective, and the spread was controlled for a while. But they had significantly crippling effects on the economies. Thus, governments gradually lifted the restrictions to return to normal economic activities. As the weather grew cold toward year-end, however, infection cases and deaths were rising again. Still, by November 2020 most governments were not considering additional lockdowns due to dampening effects on the economy.<sup>2</sup>

The severity of the pandemic in each country may depend on various factors such as leadership quality, available policy instruments, and cultural orientation. Quick and agile response comes from good leadership. Available policy response measures and institutional public health infrastructure both depend on countries' economic wealth. Public response to the government's lead is influenced by the dominant culture in the society (An and Tang 2020). Therefore, I provide data for the number of infection cases, infections per million population, deaths, GDP per capita, and the level of democracy in Table 1.

Countries that enjoy economic wealth are likely to have a better public healthcare system, meaning proper policy response is more likely. Democratic countries are likely to respond better because leaders are elected: failure to deal with public health issues would likely be critical in a subsequent election. Moreover, epidemics of a contagious disease can substantially harm the economy, a critical element in elections. Thus, in principle, leaders in democracies will use every possible measure to minimize the damage. In contrast to these expectations, there seems to be no pattern of relationship among these variables in Asia. The number of infection cases or deaths has no statistically meaningful relationship with economic wealth measured by GDP per capita or with government

2. Each government's response is succinctly described on the website of United Nations Economic and Social Commission for Asia and the Pacific (<https://www.unescap.org/resources/asia-pacific-countries-COVID-19-policy-responses>).

TABLE I. COVID-19 Individual Country Statistics as of November 12, 2020

<i>Nation</i>	<i>Confirmed</i>	<i>Per Million</i>	<i>Death</i>	<i>GDP per capita, 2019</i>	<i>Democracy Level</i>
India	8,723,270	3,494	293,540	2,104	9
Indonesia	452,291	1,674	14,933	4,135	9
Bangladesh	427,198	2,585	6,140	1,855	-6
Philippines	402,820	3,658	11,233	3,485	8
Pakistan	349,992	1,573	7,055	1,284	7
Nepal	204,242	6,965	1,189	1,071	7
Japan	111,711	884	1,851	40,246	10
China	86,299	60	4,634	10,261	-7
Myanmar	65,598	1,203	1,508	1,407	8
Singapore	58,102	9,903	28	65,233	-2
Malaysia	43,791	1,347	303	11,414	7
South Korea	27,942	545	487	31,762	8
Sri Lanka	15,723	733	48	3,853	6
Hong Kong	5,431	722	108	48,755	-
Thailand	3,852	55	60	7,808	-3
Vietnam	1,253	13	35	2,715	-7
Taiwan	589	25	7	25,873	10
Mongolia	406	123	-	4,295	10
Bhutan	364	-	-	1,643	7
Cambodia	301	18	-	3,243	-4

## NOTES:

1. Unit of GDP per capita is US current dollars

2. Data for the number of infections and death are from <<https://ncov2019.live/data/asia>>

3. Data for GDP per capita except Taiwan are from World Bank <<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?view=chart>>

4. Data for GDP per capita for Taiwan are from <<https://www.ceicdata.com/en/indicator/taiwan/forecast-nominal-gdp-per-capita#:text=Taiwan's%20Nominal%20GDP%20Per%20Capita,35%2C305.235%20USD%20in%20Dec%202025>>

5. Data for democracy level are from Polity 5 <<http://www.systemicpeace.org/inscrdata.html>>

types measured by democracy level scores in Asian countries. Leadership quality in democratic countries is not better than that of other types of governments, at least with regard to handling the COVID-19 pandemic. None of the correlation coefficients between these variables using the data in Table I are greater than 0.22. The only high correlation coefficient (0.99) was between the number of infection cases and deaths, which was expected.

Notably, amid the pandemic in Asia, some governments provided international assistance to Southeast Asian countries. For example, the Chinese government sent medical equipment including surgical masks and test kits to Southeast Asian countries, the so-called “mask-diplomacy.” Although the US and European countries suspected China’s political motives for the largesse—and criticized the poor quality of the equipment—Southeast Asian countries welcomed the assistance because they were in dire need. Singapore also provided test kits to its neighbor countries, “Test-kit Diplomacy.” In addition, South Korea, Japan, and Taiwan provided medical assistance to Southeast Asian countries (Center for Strategic and International Studies 2020).

The COVID-19 pandemic has had a significant impact on Asian economies. Lockdowns and travel bans halted global manufacturing chains, resulting in sharp contractions in economic output. Given China’s role in Asian and global supply chains, travel restrictions in China had substantially dampening effects on manufacturing and trade in countries dependent on China’s supply for manufacturing goods. These countries include Cambodia, Vietnam, Malaysia, Thailand, South Korea, Taiwan, the Philippines, and Indonesia. Even the countries that are not part of the manufacturing chain relying on China still suffered from considerable economic downturn. As a result, most nations in Asia are expected to record negative growth in 2020 (Oxford Economics 2020).

Moreover, governments had to pour in their resources to testing and treatment of patients to contain the virus. To ease financial difficulties of households and private businesses, governments also provided stimulus packages. Government aid packages as a percentage of GDP share for China totaled 1.3%, Hong Kong 10%, South Korea 7.4%, Taiwan 1.9%, Singapore 12%, Malaysia 17.2%, Indonesia 2.6%, Thailand 11.4%, and the Philippines 1.3% (Oxford Economics 2020). The influx of cash through the fiscal stimulus eased the shock of economic downturn. Most economies are showing some signs of recovery. Yet, it is largely uncertain what the economic outlook will be in 2021. It will depend on how long fighting the virus will last, when the vaccines will be widely available to the public, and what the cost will be. The International Monetary Fund (IMF) expects that most Asian countries will experience negative growth in 2020 but will bounce back in 2021. Economic growth rates in 2019 and estimated growth rates for 2020 and 2021 by the IMF are provided in Table 2.

TABLE 2. Economic Growth in Asia (2019–2021)

<i>Country</i>	2019	2020	2021 ( <i>projected</i> )
Asia	4.6	-2.2	6.9
<u>Advanced Economies</u>			
Japan	0.7	-5.3	2.3
Hong Kong	-1.2	-7.5	3.7
South Korea	2.0	-1.9	2.9
Taiwan	2.7	0.0	3.2
Singapore	0.7	-6.0	5.0
<u>Emerging Markets and Developing Economies</u>			
Bangladesh	8.2	3.8	4.4
Cambodia	7.0	-2.8	6.8
China	6.9	1.9	8.2
India	4.2	-10.3	8.8
Indonesia	5.0	-1.5	6.1
Malaysia	4.3	-6.0	7.8
Myanmar	6.5	2.0	5.7
Mongolia	5.1	-2.0	6.1
Nepal	7.1	0.0	2.5
Philippines	6.0	-8.3	7.4
Sri Lanka	2.3	-4.6	5.3
Thailand	2.4	-7.1	4.0
Vietnam	7.0	1.6	6.7

SOURCE: Adapted from Ostry (2020)

## TRADE WAR BETWEEN THE UNITED STATES AND CHINA

The US economy is the largest in the world, followed by China's. But many economists forecast that China will surpass the US in terms of GDP size in the near future. These two economies are significant trade partners, reaching totals of \$634.8 billion in 2019. However, the US has perennially experienced trade deficits with China. In 2019, the US trade deficit amounted to \$308.8 billion. A year before, it was \$309 billion (US Trade Representative 2020). US President Donald Trump believes that the deficit stems from China's unfair trade practices. These are: intellectual property theft, enforcing technology transfer from US enterprises to Chinese firms, non-tariff trade barriers

to American companies to limit access to the Chinese market, Chinese government subsidies to Chinese companies to make them internationally more competitive, and manipulation of the Chinese yuan to depress its exchange value for price advantage in international markets. Beginning with his initial presidential campaign in 2016, Trump pledged to reduce the US trade deficit with China.

To this end, on July 6, 2018 the Trump administration imposed a 25% tariff on imported goods from China worth \$34 billion, followed by a series of additional tariffs in 2018 and 2019. China disagrees with the US claim and believes that the US move is an effort to curb China's rise as a global power. As the US government persisted in its trade policies toward China, the Chinese government reciprocated by imposing tariffs on imports from the US. The trade war escalated and peaked at the end of 2019 with the US imposing additional tariffs on \$360 billion worth of Chinese products, while China imposed tariffs on \$110 billion worth of imports from the US. In total, the US imposed tariffs on \$550 billion worth of Chinese goods, and China levied tariffs on \$185 billion worth of US products.

Since the trade war undermines both economies, Washington and Beijing have held a series of negotiations. In December 2019, the two governments reached an agreement on a phase one trade deal, signed on January 15, 2020, which became effective one month later. The phase one trade deal includes China's additional purchase of \$200 billion worth of US products over the next two years. These include \$77 billion worth of manufacturing goods, \$52 billion of energy products, \$32 billion of agricultural produce, and \$38 billion of US services including banking and financial services and tourism. China also agreed to eliminate non-tariff trade barriers to US exports of meat products, seafood, dairy products, and animal food.

With the deal, both governments suspended the planned additional tariffs on each other's products. In February 2020, China also slashed by half tariffs imposed on \$75 billion of US products in 2019. In May 2020, China exempted tariffs on 79 US products including ores, chemicals, and medical products, and permitted imports of barley and blueberries from the US. On July 16, China purchased 1.76 million tons of US corn, the largest recorded single-day corn purchase.

The phase one trade deal submerged the bilateral trade war. Yet, a more important reason for the change was the COVID-19 pandemic, which snarled both economies. The remaining question is whether China is able or willing

to fully implement the phase one trade deal. Chinese officials repeatedly pledged that they would honor the agreement and make purchases as agreed. In fact, China did make some purchases, and US monthly trade deficits with China shrank after the phase one trade deal was signed. For example, the US deficit in January 2020 was \$26 billion, but it declined to \$16 billion in February and \$12 billion in March. Starting in April, however, the trade deficit began to rise again and returned to the pre-phase one level. From May to September, the average US monthly trade deficit with China was approximately \$30 billion, similar to the 2019 level (United States Census Bureau 2020). According to a report by the Peterson Institute of International Economics, by July 2020, China had made only 45% of the purchases committed. In summary, it is uncertain whether China will fully implement its commitment given the impact of the COVID-19 pandemic on the Chinese economy (South China Morning Post 2020).

Furthermore, when the phase one trade deal was signed, the Trump administration wanted to begin negotiations on a phase two deal to discuss Chinese governmental subsidies to support certain industries. Due to the pandemic, however, negotiations were halted. Beijing asked Washington to reduce the additionally imposed tariffs on Chinese products during the trade war, considering the economic impact of the pandemic. However, the Trump administration refused to do so. Thus, it is uncertain when the trade war will end.

To make matters worse, the Regional Comprehensive Economic Partnership (RCEP) was signed on November 15, 2020. RCEP is a free-trade agreement in the Asia-Pacific region that includes China, Japan, South Korea, Australia, New Zealand and the 10 ASEAN member states (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam). These 15 countries account for approximately 30% of world population and global GDP. It is the largest trade bloc in the world.

The benefits of RCEP for China are not likely to exceed the damage caused by the trade war. That said, it is a symbolic victory for China in the global trade arena, given the recent US disinterest in multilateralism. Moreover, RCEP is considered to be a China-led multilateral trade bloc, a counterpart to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP was initially a US-led regional trade bloc, but the Trump administration withdrew in 2017. With the signing of the

RCEP, China showed its leadership in multilateral trade compared to the US. RCEP will also benefit China by further integrating the Chinese economy with other Asian economies and by increasing China's national income through trade expansion. Given China's bolstered position, dealing with the trade war with China and handling the CPTPP will be a significant test for incoming US President Joe Biden in terms of global and Asia-Pacific regional leadership roles.

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