

April 29, 2020

Leadership in a Time of Crisis: Member Dialogue

The Asia Business Council held its first members' call on April 28 to share insights from COVID-19 and discuss how to move forward. Members agreed that the overall agility of the response in many Asian countries stood as a testament to quick action on the part of governments and corporations alike. This offers lessons for future crises, particularly for the business community.

Asia Business Council Chairman Lim Boon Heng described new private-public partnerships to distribute masks and source much-needed hospital beds, and a Japanese member discussed how private industry is retooling to manufacture hand sanitizers. A Taiwanese member described the agile mobilization of a national pandemic response center and the harnessing of telecoms capabilities to send out public health SMS messages.

Many challenges remain. The economic outlook is far from certain, and concerns about fragile supply chains and heightened political tensions loom large. A Hong Kong member discussed the possibility that China may turn inward if external demand for Chinese exports stays low or Sino-U.S. tensions worsen. China-blaming may become a common tactic among governments disinclined to own up to their policy failures. That, or internal pressures, could push a Chinese leadership to flex muscles against Taiwan and Hong Kong, with unpredictable consequences for the region.

Asia's overall response stands in sharp contrast to the many stumbles in the U.S. and Europe. Despite some bright spots in the U.S.—collaborative research between universities and pharmaceutical companies, and effective leadership on the state and local level—the anti-globalist stance of the Trump administration means the world is not seeing the kind of effective global collaboration that occurred during previous pandemics. The U.S. federal government's lack of swift, coherent mobilization has left individual states on their own and the population at risk, while the president turns to fearmongering and xenophobia.

Members underscored the importance of working together through the recovery. A vaccine is crucial, as are therapeutic medications. China and U.S. medical researchers are collaborating on these challenges, despite strategic tensions, but formalized knowledge-sharing could support their efforts. So, too, could multilateral co-operation at the national level. As economies open up, countries need supplies and systems to guard against new outbreaks.

Ultimately, the world must restart international travel, entice people back into leisure activities, and put supply chains back into action to get the economic gears turning. Here governments and the private sector face some of the most difficult challenges. They must earn the trust of wary publics, who will demand proof that these activities are safe. And they must learn to operate in a new normal where old notions of supply-chain resilience may not be enough.

Below, please find summary notes from selected participants.

**Council Chairman Lim Boon Heng
Chairman, Temasek Holdings (Private) Ltd.**

Something we have learned in Singapore over the years is that when the country faces a crisis, it should be leadership by example. If leaders make sacrifices, that gives them the moral authority to take needed actions and makes it easier for everyone to accept the difficult times that may come.

In that spirit, in February, after two of Temasek's portfolio companies started to see a sharp fall in sales and revenue, executives of the companies opted to take voluntary wage cuts for themselves.

Temasek's senior management also opted to take a similar pay cut, and Temasek matched dollar for dollar the wage cuts and donations made by the directors. These funds were set aside for public health resilience initiatives in response to infectious diseases. The company's board also decided to donate part of the management fees to this fund. All in all, S\$20 million was raised for this effort.

Government ministers and the management of several other leading companies in Singapore also took similar pay cuts.

Temasek put together a team of staff who volunteered to develop initiatives for the COVID-19 response. They carried out community education on the need for good personal hygiene and distributed hand sanitizer to all households and

all foreign workers in Singapore, as well as to the nearby Indonesian islands of Batam and Bintan.

The company also decided to set up a S\$500 million fund for community efforts, which is soon to be increased. This fund will focus on three areas. The first is meeting the demand for testing by setting up biosafety labs and swab booths and converting vehicles to transport patients. There is potential for this to be shared with countries in the region.

The second initiative is providing temporary housing for recovering patients and migrant workers. We have converted facilities belonging to our investee companies to house quarantined persons and infected persons with mild symptoms. The beds came from Indonesia. We had given the hand sanitizers and asked whether they had beds we could buy. The response was immediate—and I am told the supplier charged at cost because this is a humanitarian effort.

The third area of focus is securing the supply of personal protective equipment (PPEs) and ventilators. These efforts are leveraging contacts in the investee companies and other relationships built up over the years. We are also considering setting up local production of basic ICU-grade ventilators.

When we had the first cases of COVID-19, we had a limited stock of surgical masks and the government decided to conserve them for medical personnel. Temasek supported a ground-up movement on sewing cloth masks. Re-usable cloth masks have now been distributed to all foreign workers.

The American company 3M manufactures N95 masks in Singapore, but as a matter of principle, Singapore does not sequester their production for domestic use. We have now set up production lines for surgical masks and N95 masks and could be self-sufficient on masks soon. We expect to share with our neighbors.

As the coronavirus continues to ravage the world, there will continue to be a shortage of PPE and N95 masks, so we are studying safe ways of decontaminating used PPE and N95 masks. We will share these methods.

Taiwan Member

Taiwan is doing relatively well, we have had no lockdown because the government acted fast thanks to the hard lessons learned from SARS, and corporations played an active role in enabling contact tracing and public communications. While the economy has been hit hard, there have been new opportunities in e-commerce and insurance.

The government set up a central epidemic command center and banned flights from Wuhan all in late January. Contact tracing was also crucial to the epidemic response. The government worked with telecom companies to track the movement of suspected cases and sent instant messages to people who may have come into contact with infected individuals.

We have not had mask shortages as Taiwan is the largest producer of N95 masks, and the government moved to nationalize mask production and ration masks. A team of engineers from machinery companies which used to be competitors was instantly assembled to build new production lines. Capacity of surgical masks has increased from 4 million a day to 17 million now. They also worked with citizen hackers to create apps with maps to show where masks were available.

The economy was hit very badly, particularly the tourism industry. The occupancy rate at our small boutique hotel, which was at 90 percent around the end of last year, is now at 15 percent. The government is subsidizing 40 percent of the payroll in the tourism industry for three months.

As a bank, we speeded up corporate emergency lending to small and medium enterprises (SMEs). The government has guaranteed 100 percent of payroll loans. Of course, we also instituted strict monitoring of employees' health. Of our workforce of 6,000, about 1,500 can now work from home. But many of those 6,000 are in the bank branches and cannot work from home.

Our telecom arm, along with four other major telcos, assisted with quarantine tracking and acted as a platform for citizens to contact Taiwan's epidemic command center. We also sent out policy announcement SMS messages warning people not to go to congested locations, for example. Data use has been up 20 percent on our mobile and fixed network.

The crisis has been an opportunity for our insurance company arm to be innovative. It launched the first insurance product to cover isolation expenses. This was a huge success and made up almost all of the losses incurred on travel insurance. Our online shop also benefitted with sales up almost 40 percent in the first quarter, and we helped offline retailers digitize and move their sales online.

On the political side, this pandemic is pushing us away from China. The mistrust of China is so high among the young people. I'm worried about cross-strait relations after the pandemic.

Taiwan's strength is manufacturing, which has thrived on the global supply chain. With that now broken, simply to diversify manufacturing locations may not be a solution. We have to find a way to maintain that strength.

Hong Kong Member

Booming international stock markets belie serious economic risks, and China will have to make difficult political choices as it faces a coming international backlash.

The Hong Kong capital market is the strongest we have seen in some time. The exchange business is usually booming in times of trouble because people are using it to exchange risk or get out of positions or just trade volatility.

But there are major risks on the horizon. Wall Street seems to be on a different path and living in a different universe. They seem to be projecting that we will be back to normal quickly, so the market has been unusually strong. But I think the growing consensus is that this is largely driven by America and even Europeans responding to this and trying to socialize all the losses and privatize all the gains. We don't know how sustainable this is and whether we're going to see an ugly end to that rally that will further sap confidence. In our view this is going to end badly.

Like Taiwan, Hong Kong did quite well in handling COVID-19. As much as a lot of people don't like our government, we have to give them credit for handling this well. Our political opposition seems to be on a suicide mission. If protestors come back, China will get more directly involved and the political downside will be potentially serious.

Across the world, public health and economic goals are in direct conflict. But unfortunately, the choice is either you take a gamble on life or you take a gamble on economic recovery.

For China, the choice is between economic recovery or western political backlash. I think China is taking extremely seriously the possibility that it will become a target of that backlash. Because almost every major state failed in their response to the crisis, ultimately everyone will be looking for someone to blame, and China is the easiest target.

The worst-case scenario for China is back to isolation, back to 40 years ago, albeit much bigger and richer. What does that mean for ordinary people? Probably not a lot. They are not the biggest beneficiary of globalization, similar to the U.S. Most of the private sector employment is servicing domestic markets anyway.

The Chinese elite will be worse off because their net worth will shrink, but they will survive. The political establishment—the Party and Mr. Xi—will be worse off because they need to complete the political consolidation in progress in order for Mr. Xi to have a third term. Even though today there is no organized political opposition in China, the Chinese leaders are always paranoid. The challenge in the housing sector is not really over yet, and the hardship is just beginning. This could force the people around him to engage in distraction tactics, and that could mean Hong Kong and Taiwan become political pawns. If the political consolidation is not supported by health or economic progress, then it will rely on nationalism. It's time for us to watch out for trouble.

China Member

China is cautiously entering the recovery phase, but global collaboration is needed to restart international travel, potentially on a city-to-city or country-to-country basis at first.

The virus progressed in three stages for us. The first was the outbreak and the lockdown. We received millions of phone calls each day from customers wanting to delay and cancel trips they had booked.

In the second stage, we launched a \$200 million relief fund for these customers. China was fighting alone during this time because the international CEOs were so far from China. Many were not willing to give us a blank check to allow customers to get a free refund.

Now we're in the third phase, which is the recovery of the domestic travel industry. We have seen about 50 percent recovery already. We are eagerly waiting for the National People's Congress meeting which we hope will take place at the end of next month. Hopefully, the restrictions on flights into Beijing will be loosened after that.

By the end of this year, we hope to see 80-100 percent recovery in the domestic market. Thankfully, China's domestic market is very big and can stand alone. We are doing a lot of pre-sales right now because occupancy rates are still low. We are able to tell travelers, if you prepay, you will get a very good deal.

The next step is to reach out to the areas that have very good control of the virus so that we can open up partially, even if it's just among the first-tier cities. The demand is there. We need to find a way that we can allow certain people to travel within mainland China, and then we can open up further to places like Taiwan, Macau, Japan, and Korea. If we have a strong Asia, we can reach out

to the world. The Asia Business Council can provide strong leadership in the next phase of recovery.

Japan Member

We have seen a lack of global cooperation as countries adopt an “every man for himself” mentality, but there are bright spots, including the opportunity to partner with e-commerce companies.

Unfortunately, no effective medicine has been identified yet for the late stages of infection, but tests in Japan have led to valuable observations on early- and mid-stage infection. Tamiflu is very effective when used in the early stages of the disease with a fever under 38 degrees. Avigan, a generic drug, is effective for mid-stage cases with a fever of around 38 degrees.

Why don't we share this type of information globally? The global collaboration is shut down, in a sense, because each country thinks of its interest only.

Another issue is supply availability. We don't have sufficient stock of Avigan, for example. There is a shortage of certain ingredients in Japan. We rely on key ingredients from certain countries. We've started to produce some of the key ingredients of Avigan, but it's not enough. However, it's being produced in China with enough capacity for 2 million people. We have to exchange this kind of information more frequently.

Also, countries have to deal with the issue of medical security, such as the supply of ventilators, gloves and masks. But I believe the Asian community will find a solution to how we can work together in future pandemics with mutual trust.

The pace of infection growth in Japan has been more or less smoothing out, largely because of the thorough public health education. The death toll is also going down dramatically. Still, we need to remain careful because social distancing is not practiced well in Japan. I am unsure if the state of emergency will be lifted on May 6.

In terms of the consumption landscape in the beverage industry, gross margins have decreased. People seem to be drinking more alcohol at home and I believe this may be a sign of stress. I don't think this will continue. The spirits industry is also contributing to relief efforts by producing hand sanitizers to donate to facilities such as hospitals and other first responders.

E-commerce is also playing a huge role. Amazon, Tencent, and Alibaba are dominating the market.