

# CLIENT ALERT

## International Economic Responses to COVID-19

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The outbreak of COVID-19 has unleashed a furious pace of economic policymaking worldwide as governments seek to protect their economies from collapse, secure needed supplies, and shore up supply chains to meet the needs of their people. This wave of emergency stimulus measures, combined with ongoing lockdowns, is reshaping the business and regulatory landscape in many markets, creating opportunities and risks for global companies. The Crowell & Moring + C&M International team is working with clients on relief and stimulus measures across countries and industries. Here are some key developments:

While most governments have prioritized immediate support for workers to protect livelihoods, many stimulus packages have included a mix of lending programs and tax relief measures. While some of these policies apply broadly, others have been targeted towards specific entities (e.g. small businesses) or heavily affected sectors such as airlines. Beyond providing immediate financial relief for workers and companies, these emergency packages have also served as vehicles for wider ranging public sector investments and regulatory changes in areas such as healthcare, infrastructure, financial regulation, and intellectual property.

Many governments have already indicated that these emergency measures are only the first wave in what is expected to be a series of major policy actions to support their economies in the coming months. As policymakers shift from emergency responses toward crafting recovery and pro-growth stimulus measures, broader areas of public policy and spending in areas as diverse as health, research and development, infrastructure, sustainability, workforce training, and financial stability will be up for discussion. As the costs of combatting COVID-19 mount and tax revenues diminish, many governments may also feel compelled to look for additional revenues, potentially through taxation in new areas such as the digital economy, to support their budgets and economic recoveries. Actions now and in the coming months could reshape the economic and regulatory policy landscape for the next decade.

Business leaders can navigate this evolving landscape and position their companies to weather the current crisis by:

1. Ensuring your business, workers and customers are aware and making use of any tax relief, financing or other applicable benefits included in recent stimulus packages, as well as ensuring compliance with new and shifting regulatory requirements.
2. Proactively communicating with policymakers in major global markets and in international financial institutions to shape future economic stimulus measures to support your business, employees and markets during the COVID-19 crisis and recovery. Many governments are in crisis mode and will be looking to the private sector for ideas and advice on how best to protect jobs, revert to growth and lay the groundwork for more resilient economies and health systems.
3. Ensuring you are engaged in shaping policy responses taken at the local, national, and international level. Ongoing and future economic packages will include regulatory changes or tax measures that have significant business implications. The current crisis is creating an extremely fluid policy landscape that could create opportunities but also risks for businesses that are not paying attention and engaged in the policy debate.

Nearly every government worldwide has taken emergency actions and is considering further policy measures to support their workers and economies. Our teams of consultants and lawyers in Asia, Europe and North America are working with global companies to identify how their organizations can best leverage recent regulatory and legislative changes to protect cash flow and navigate the current crisis. Key policy developments in major economies to date include:

### Asia-Pacific

- **Australia:** Since mid-March Australia has successively announced economic relief packages worth 17.6 billion Australian dollars (\$10.7 billion USD), 66 billion Australian dollars (\$40.2 billion USD) and most recently 130 billion Australian dollars (\$79.2 billion USD), which will subsidize employers to support the wages of up to 6 million workers. State governments have also announced their own economic packages, including tax relief for businesses, infrastructure investment and targeted support to affected sectors.
- **China:** Since the outbreak of COVID-19, China has led the way in adopting a series of tax breaks and incentives at central, provincial and local levels to temporarily reduce burdens on enterprises and support a resumption in production (See *Multinational Companies May Benefit From Chinese Stimulus Programs*). Reports indicate that Chinese policymakers are now exploring significant additional measures to stimulate the economy, including boosting investment in “new infrastructure” such as 5G, data centers and smart cities.
- **Japan:** Prime Minister Shinzo Abe announced a proposed stimulus package amounting to nearly \$1 trillion USD on April 6, or about 20% of Japan’s GDP. The package is expected to include direct payouts to households and an array of support for firms such as preferential financing and grace periods for taxes and social security fees. Some politicians have also called for Japan to lower its consumption tax, which increased to 10% in late 2019 for most goods and services.
- **Singapore:** A third stimulus package worth \$3.6 billion USD was announced on April 6 following two earlier measures worth about \$33 billion USD in March and \$4.4 billion USD in February. The latest package includes an enhancement in the Jobs Support Scheme (a wage subsidy program), a temporary waiver and rebate of the Foreign Worker levy, and the announcement of a new bill to defer certain rent and loan payments to encourage landlords to pass on an earlier tax rebate of up to 100% for non-residential properties. Previous measures included a 3 month deferment of income tax payments for companies and broader measures on issues such as supporting workforce training and improving food security.
- **South Korea:** Like a number of other markets, Korea has begun to announce a series of piecemeal stimulus measures in recent weeks rather than a single comprehensive package. Key provisions have included emergency financial support for low income individuals, SMEs, and medical institutions, in addition to subsidies in areas such as child care.

### Europe

- **France:** France announced an initial stimulus package in mid-March worth 45 billion euros (\$49 billion USD). The majority of the package is allocated to deferred social security contributions and corporate taxes. French officials also announced that they will provide loan guarantees up to 300 billion euros (\$324 billion USD) in total and that they stand ready to take other necessary measures, including equity stakes, to protect large French companies during the crisis.
- **Germany:** Lawmakers in Germany advanced an ambitious package worth up to 750 billion euros (\$810 billion USD) in late March. This includes several hundred billion in loans and loan guarantees for affected companies and 100 billion

(\$108 billion USD) for the KfW development bank to take equity stakes in companies as a means of preventing foreign takeovers and averting bankruptcies. The government has noted that this represents a first step and it could consider further measures as the crisis unfolds.

- **United Kingdom:** Initially, the UK announced a stimulus package of 30 billion pounds (\$37 billion USD) to invest in public services and support for vulnerable people and businesses. The UK then announced a second package worth 330 billion pounds (\$406 billion USD); this package created a program that for three months covers 80% of monthly wages for furloughed workers. It also includes 20 billion pounds (\$25 billion USD) in business rates support and grant funding for businesses suffering liquidity issues. The UK is also permitting businesses to defer VAT payments due between March 20 and June 30 until March 31, 2021.

## Americas

- **Canada:** Canada finalized a stimulus package worth \$75 billion USD on March 25. In addition to direct support for individuals and wage subsidies to small businesses, the package provides temporary flexibilities for transactions undertaken by the Business Development Bank of Canada and Export Development Canada to enhance financial support for Canadian businesses. The package also makes a number of regulatory changes, including authorizing the Ministry of Finance to increase the current deposit insurance limit and temporarily empowering the government to override patents to respond to public health emergencies. Canada has signaled that this is just the first in a series of relief efforts.
- **Brazil:** Brazil announced a stimulus package worth nearly 150 billion reals, or around \$30 billion USD. In addition to bringing forward social assistance payments and deferring certain company taxes, Brazil's Economy Ministry has indicated that 83.4 billion reals, or around 16 billion USD, will be allocated toward the most vulnerable Brazilians, while 59.4 billion reals, or around \$11 billion USD, will be allocated toward helping businesses stay afloat.

## International Financial Institutions

In addition to national level responses, international financial institutions and multilateral development banks have stepped up to offer financing to their member governments and the private sector. As governments shift to economic recovery and seek to rebuild their overwhelmed healthcare systems and shuttered private sectors, they are likely to lean even more heavily on these organizations for policy advice on fiscal and structural reform across all sectors of the economy as well as financial support. The private sector can play an important role in partnering with these and other international organizations to support global responses and recovery efforts.

- In addition to its traditional lending arrangements and technical assistance, the **International Monetary Fund** is making available up to \$50 billion USD in lending under its rapid-disbursing emergency financing facilities for low income and emerging markets, with this amount set to potentially double to \$100 billion USD. Already at least 85 member countries have requested emergency assistance, constituting the largest number of simultaneous requests for assistance in the IMF's history. If the aftermath of the 2008 global financial crisis serves as a guide, the IMF is likely to remain deeply involved in national level economic policymaking in the years to come as countries pivot from emergency financing to long-term conditional lending programs in support of economic recovery.
- The **World Bank** has announced up to \$14 billion USD in financing commitments to strengthen health systems and support economies to respond to COVID-19, and has said it is prepared to provide up to \$160 billion USD over the

coming 15 months. The private sector arm of the Bank, the International Financial Corporation, will prioritize support in key sectors relevant to pandemic response including medical equipment and pharmaceuticals, as well as heavily affected sectors such as tourism and manufacturing.

- Regional development banks including the **Inter-American Development Bank (IDB)** and **Asian Development Bank (ADB)** are also taking action to support efforts within their geographical remits. The IDB announced up to \$12 billion USD in financing with a focus on public health responses, social safety nets, protecting economic productivity and employment, and supporting economies in designing their fiscal responses. The ADB has announced a new \$6.5 billion USD package of available funds and since February has been active in supporting various projects related to disease prevention and detection, procuring personal protective equipment and supporting pharmaceutical supply chains.

In the coming days we and our colleagues will be exploring additional ways in which the COVID-19 crisis is reshaping global public policy and regulatory responses, as well as diving into specific legislative measures in key markets that could affect business operations. We would be happy to discuss these developments further as you confront and navigate these fast moving economic and regulatory developments as they affect your business, employees and markets.

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