

# PERSPECTIVE

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## **Economics of Lockdown: Insights on Building Back Better in Post-Pandemic Philippines**

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### **EXECUTIVE SUMMARY**

- The COVID-19 pandemic is hitting the Philippines hard. Public health system weaknesses are constraining efforts to “flatten the curves” of pandemic cases and of the economic and social costs of the extended lockdown restrictions.
- Improving access to the public health insurance system, particularly for the poor and indigent, has been one of the key reform goals of the Duterte administration.
- Taiwan’s successful pandemic response highlights the benefits of a universal health insurance system with very low user costs. South Korea’s effective pandemic response highlights the benefits of strong, trusted relations between private healthcare providers and the government.
- In the pandemic recovery phase, the Philippine government should enhance affordable access to healthcare and revisit the public-private balance in healthcare provision.
- Health services have been identified as a sunrise industry for the Philippine economy. Health reforms in response to the current pandemic, if properly designed, can act as a driver of broader economic development. It can also send a signal to investors that the Philippines will be much more resilient to future health shocks.

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## **INTRODUCTION**

COVID-19 originated in China with the first reported cases in December 2019, and then spread across well over 200 countries, territories and areas in less than four months. In the Philippines, the first confirmed case was on January 30, 2020 (involving a 38-year-old Chinese national from Wuhan), and the first recorded COVID-19 related death outside China was in Metro Manila on 2 February 2020.<sup>1</sup> COVID-19 cases in the Philippines shot up to over 35,000 confirmed cases, and over 1,200 deaths in a span of less than five months since that first case.<sup>2</sup>

Unfortunately, it appears that the Philippines is still stuck in the long first wave of infections. Metro Manila and Metro Cebu, the two largest urban agglomerations in the country, have endured long periods of severe social lockdown put in place to limit the spread of the coronavirus in and from these pandemic epi-centres. COVID-19 and the resulting lockdown measures have plunged the Philippine economy into its first recession in two decades. The government estimates that the lockdown of Northern Luzon alone could have cost up to PhP24 billion a day in output losses.<sup>3</sup>

The global pandemic has re-emphasized the importance for open developing economies like the Philippines of inclusive social safety nets and a strong public healthcare system. Citing a recent report by the International Labour Organization, a recent Lancet Editorial notes that:

“2.7 billion people—81% of the world's workforce—had been affected by lockdown measures. 61% of workers are from the informal sector, 90% of whom are in low-income and middle-income countries, and social protection measures are often inadequate, with a lack of access to health-care support and economic protections. Informal and migrant workers are likely to fall through the cracks and ensuring their safety must be a priority.”<sup>4</sup>

In addition to its obvious usefulness for vast numbers of citizens who may literally fall into poverty from catastrophic health spending, strong and inclusive social safety nets and healthcare systems also anchor most countries' resilience strategy, particularly against health shocks like COVID-19.<sup>5</sup> As shown in the Philippine and Indonesian pandemic responses, contagion control becomes more difficult in countries with weak healthcare systems, and is often delayed, allowing the health crisis to fester and generate much higher social and economic costs.<sup>6</sup>

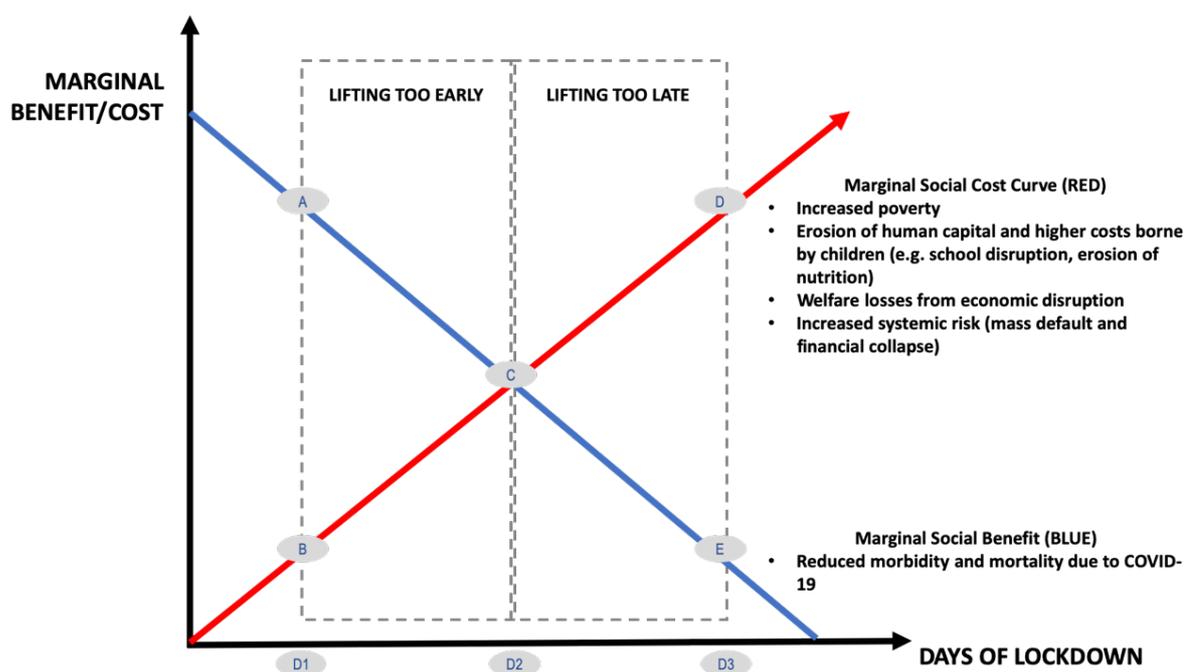
## **LOCKDOWN TRADE-OFFS FRAMEWORK**

The graphic framework below illustrates how policymakers responding to COVID-19 face difficult trade-offs in lockdown decisions when cost-benefit balances change quickly and information is far from perfect. The marginal social costs of lockdown are likely to increase over time due to mounting social and economic side-effects (e.g. increased job losses, higher risk of systemic collapse due to multiple bankruptcies, cumulative efficiency losses, erosion of human capital, deepening multidimensional poverty and deprivation, etc), while the

marginal social benefits of lockdown (e.g. diminished mortality and morbidity, reduced risk of overwhelmed healthcare systems) may start to diminish as COVID-19 infections are better contained.

Figure 1 illustrates the “economics of lockdown”, and clarifies how it is possible in social welfare terms to lift a lockdown too early, as well as too late. This framework is purely illustrative as there are myriad factors that shape social welfare. Nevertheless, it offers a useful framework for policymakers to understand how to build more resilient societies and economies.

**Figure 1. Theoretical Optimum Lockdown Scenario**



Source: Author’s elaboration.

In the figure, the number of lockdown days **D1** represents a premature lifting since the marginal benefit **A** is still larger than the marginal cost **B** of the lockdown. The number of lockdown days **D3** represents a late lifting as by then the marginal cost **D** is larger than the marginal benefit **E**. Optimal lockdown is represented by the number of lockdown days **D2** and where marginal benefit is equal to the marginal cost of lockdown at point **C**.

The slope of each curve depends on the systems in place. With more effective test, trace and treat programmes and “surge-component” capacities built into healthcare and crisis response systems, the marginal social benefit curve is likely to be steeper (allowing a country to reach the optimum point with less lockdown days). More responsive and inclusive social protection, unemployment insurance, and more crisis-resilient education systems (e.g. readiness for hybrid online learning) could also help flatten the marginal social cost curve, buying the country more time since additional lockdown days will have lower marginal social costs, *ceteris paribus*. Conceptually, this allows us to think about strengthening systems to “build back better”. As shown by the current pandemic, countries

without these systems require harsher coping strategies and policies (i.e. more lockdown days) with higher implied social costs.

Policymakers need a significant amount of information to ascertain point **C** and the optimal number of days **D2**. Hence, effective systems for data capture and information flows from government to citizens (and back) also become critically important investments for stronger crisis resilience in the future. Yet even if the information were to be available, policymakers still face the difficult choice of weighing the trade-offs, along with their deep redistributive implications across society.

In practice, a deep store of social capital and public trust in the State will be necessary to better navigate these policy choices and their social impacts. Countries will need to find ways to invest in this strong trust-building too, likely underpinned by institutional reforms and robust systems such as those that protect citizens' privacy of information, combat disinformation, as well as roll out broad information campaigns to assure the public that inclusive social protection and healthcare systems will help mitigate crisis impact.

## **NORTHEAST ASIAN RESPONSE SUCCESSES**

Emerging best practices in crisis response, notably from countries like Taiwan and South Korea, point to the critically important role of robust and inclusive social protection and healthcare systems—ingredients for reducing the optimal length of lockdown and the risk, size and duration of a second wave. Taiwan has a top-ranked health insurance system with very low patient co-payment requirements and 100% coverage of the entire population. South Korea turned to strong public-private partnerships in their test-trace-treat strategy which has been forged out of earlier lessons learnt from combatting SARS and MERS.

Both countries have healthcare systems that were equipped to “surge” in their capabilities to handle much larger patient loads along with more costly requirements for mitigating contagion. When COVID-19 struck, this helped make the downward slope of the marginal social benefit curve in the above framework steeper. These countries' confidence in their respective systems allowed their sitting governments to apply less draconian quarantine policies, which is in turn paying off in less economic disruption and a flatter marginal cost curve in the framework above.<sup>7</sup> Using an economic lens, countries that manage this send a powerful signal to investors that future health shocks will not be as disruptive, given the strong alignment of robust health and social protection systems, social cohesion and public-private partnership.

These emerging lessons from the crisis outline a possible “build back better” strategy that can inform the Philippines' crisis recovery plan now under discussion. More crisis resilient systems—which include but are not limited to inclusive social safety nets, universal healthcare, crisis-resilient health and economic ecosystems—combined with good governance and strong trust in the public sector are some of the main ingredients for more effective crisis response and crisis resilience. Strengthening these systems allows for less painful crisis response and coping strategies. They will also help reduce the risk, spread, and duration of a second wave of infections.

**BUILDING BACK BETTER: A HEALTH-ANCHORED INCLUSIVE RECOVERY**

There now appears to be growing recognition that countries cannot simply go ‘back to normal’ after this pandemic because what was ‘normal’ was part of what exacerbated the crisis in the first place and extended the length of the optimal lockdown period discussed above.<sup>8</sup> Issues here include insufficient and non-inclusive healthcare and social protection, combined with a growing level of inequality that, in part, reflected itself in densely populated urban slums that are vulnerable to contagion and easily affected heavily by quarantines and lockdowns. The Philippines’ COVID-19 response has highlighted how the deep divides between the healthcare-haves and have-nots, and the technology-haves and have-nots (for online education and work-from-home vs “no work no pay” daily wage earning) made the crisis trade-offs even more acute.

Along these lines, at least two issues are critical for the Philippines’ health system. First, some 60-70% of hospitals are in the private sector, so a rapid re-alignment of the health system to increase absorptive capacity to meet very costly COVID-19 contagion control requires some form of public-private partnership. This is probably a more effective arrangement compared to a temporary government take-over of some private hospitals, if policymakers would like to encourage private sector investments in crisis response capabilities. This re-alignment through public-private partnership could form the backbone of the ‘surge component’ that will be necessary during the pandemic.

Second, access to healthcare needs to be universal, in order to minimize the possibility of weak health-seeking behaviour among poor and low-income communities, which could open risks for contagion. Presently around 50% of health financing in the Philippines is drawn from out-of-pocket expenditures. And so even as health insurance is available for indigents, and poor and low-income households, uptake is weak given the high out-of-pocket costs which continue to deter them from seeking healthcare.

The Philippines’ Universal Health Care Law (Republic Act 11223) signed into law in March 2019 is an initial step to begin to rebalance the health system in the country. It includes automatic enrolment of all citizens in the newly created National Health Insurance Program, cross subsidies for poor and low-income Filipinos, financial infusion from sin taxes (which have been badly affected by the pandemic lockdown) and a province- and city-wide focus on building health systems.<sup>9</sup> Building back better means that building on these reforms should cohere with efforts to strengthen the national health system against health shocks like COVID-19.

Moving forward, among the key areas for policy focus under the “new normal”, strengthening and building a more crisis-resilient and inclusive healthcare system is probably the most critical investment for both the medium and long term:

1. It is still consistent with immediate crisis response and recovery objectives of ensuring that the health system (particularly public and private hospitals) are also able to recover following the challenges brought about by COVID-19 which not

only include higher risks faced by health front-liners, but also the two-pronged pressure of higher costs combined with dramatically lower revenues.

There have already been early indications of strong financial stress faced by many Philippine hospitals, such that some of them have already resorted to budget cuts, lay-offs, and closure of some services. On 30 May 2020, two days before the partial lifting of the Metro Manila lockdown, the Private Hospitals Association of the Philippines, Inc (PHAPi) reported that up to half of its over 700 member hospitals were on the verge of bankruptcy due to the high costs of treating COVID-19 and the non-release of payments by PhilHealth (the country's national insurance corporation).<sup>10</sup>

2. The gradual easing of lockdown and quarantine, and the subsequent economic recovery period should be underpinned by test, trace and treat capabilities in the healthcare system, designed to prevent a relapse, or a w-shaped recovery.

This will require a variety of adjustments, including changes in individuals' behaviour emphasizing personal discipline and responsibility such as wearing masks and getting tested and self-isolating if they develop symptoms, retooling by businesses to observe gradual easing of social distancing and quarantine rules, and strong partnerships across central and local governments as well as business, civil society and local communities.

3. A strong healthcare system underpinning the recovery and providing a credible assurance of coverage for all citizens, and diminished relapse risk will also be critical in backstopping the psychology of recovery. Simply put, a strong healthcare system can help bring back stronger confidence in recovery. Otherwise the recovery will likely be more timid and uncertain if many consumers and investors continue to fear a relapse due to a lack of trust in crisis response capabilities.<sup>11</sup>
4. Finally, the Philippines' healthcare system offers strong investment and growth opportunities as a driver of economic growth (e.g. medical tourism has been identified as a sunrise industry),<sup>12</sup> and as a lynchpin of stronger readiness against future health shocks.

## **LOOKING FORWARD**

Crises offer important windows of opportunity for deep re-thinking and systems reform. Drawing on international good practices in COVID-19 response, the Philippines' healthcare system can be further strengthened through important innovations and reforms. For instance, ICT systems and innovative apps for tele-medicine could be used to share and manage information in collaboration with the central and local governments, and across public and private hospitals, testing centres, and other healthcare units.

Prior to a crisis, one could set up emergency coordination mechanisms to rapidly re-arrange and re-align the local health system to achieve 'surge capabilities' anchored on strong

public-private partnerships. Policymakers could also pursue integrative health crisis planning and investments in both institutions and skills development to strengthen resilience against future health shocks. And perhaps most importantly, reforms and investments could enhance affordable healthcare, minimizing out-of-pocket expenses notably for poor and low-income citizens and more effectively managing costs through inclusive social insurance and an efficient public-private balance in healthcare provision.<sup>13</sup>

Emerging lessons from the COVID-19 experience suggest that stronger and more inclusive systems for healthcare and social protection build upon and reflect the level of social cohesion in countries. It is unsurprising that those same countries tend to have a deep well of social capital and public trust in the crisis responses of the State, in turn making these countries much more effective in crisis response.

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<sup>1</sup> “First novel coronavirus death outside of China recorded in PH – WHO official”, *ABS-CBN News*, 2 February 2020, <https://news.abs-cbn.com/news/02/02/20/ph-records-first-death-due-to-new-coronavirus>

<sup>2</sup> Data as of 25 June 2020. See COVID-19 Tracker, Department of Health, Philippines <https://www.doh.gov.ph/covid19tracker>.

<sup>3</sup> “45 day lockdown cost Philippines 1.1 trillion”, *BusinessWorld*, 22 May 2020, <https://www.bworldonline.com/45-day-lockdown-cost-philippines-p1-1t/>

<sup>4</sup> “The plight of essential workers during the COVID-19 pandemic”, *The Lancet*, 23 May 2020, [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(20\)31200-9/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(20)31200-9/fulltext)

<sup>5</sup> Clay et al analyses US data on access to health insurance during a crisis and finds evidence of a clear link with diminished infant mortality, Kaen Clay et al “The value of health insurance during a crisis: the effects of Medicaid implementation on pandemic influenza mortality”, *NBER Working Paper No. 27120*, May 2020, <https://www.nber.org/papers/w27120>

<sup>6</sup> Kalipso Chalkidou and Carleigh Krubiner, “What COVID-19 should teach us about smart health spending in developing countries”, *Center for Global Development*, 5 March 2020, <https://www.cgdev.org/blog/what-covid-19-should-teach-us-about-smart-health-spending-developing-countries>

<sup>7</sup> See Myoung-Hee Kim, “How South Korea stopped COVID-19 early,” *Project Syndicate*, 27 April 2020, <https://www.project-syndicate.org/commentary/how-south-korea-stopped-covid19-early-by-myoung-hee-kim-2020-04?barrier=accesspaylog>; and Derek Thompson, “What is behind South Korea’s COVID-19 exceptionalism?”, *The Atlantic*, 6 May 2020, <https://www.theatlantic.com/ideas/archive/2020/05/whats-south-koreas-secret/611215/>

<sup>8</sup> Sara Pantuliano, “Covid-19: ‘we won’t get back to normal because normal was the problem’”, *ODI*, 1 April 2020, <https://www.odi.org/blogs/16815-covid-19-we-won-t-get-back-normal-because-normal-was-problem>

<sup>9</sup> “EXPLAINER : Universal Health Care Law and what it means to PH development”, National Economic Development Authority, Philippines, <http://www.neda.gov.ph/explainer-universal-health-care-law-and-what-it-means-to-ph-development/>

<sup>10</sup> Laurd Menhard B. Salen, “UST Hospital retrenches workers, cites losses, P180M owned by PhilHealth”, *The Varsitarian*, 3 May 2020, <https://varsitarian.net/news/20200503/ust-hospital-retrenches-workers-cites-losses-p180m-owed-by-philhealth> and “Hundreds of private hospitals in PH may go bankrupt due to coronavirus pandemic”, *ABS-CBN News*, 21 May 2020, <https://news.abs-cbn.com/video/business/05/21/20/hundreds-of-private-hospitals-in-ph-may-go-bankrupt-due-to-coronavirus-pandemic?fbclid=IwAR1vDsuxyvDH7CSaxGX6CCtSpfUeRt58or7c6rickQf4Jx4R4w0RXAJJrw>.

<sup>11</sup> Victor Andre C. Manhit, “Rebuilding business and consumer confidence towards the new normal”, *BusinessWorld*, 5 May 2020, <https://www.bworldonline.com/rebuilding-consumer-and-business-confidence-towards-the-new-normal/>

<sup>12</sup> Oscar F Picazo, “Medical tourism in the Philippines: market profile, benchmarking exercise, and S.W.O.T. analysis”, *PIDS Discussion Paper Series No. 2013-45*, September 2013, <https://dirp4.pids.gov.ph/ris/dps/pidsdps1345.pdf> and E. Ziemba (2015), “Healthcare Services for Medical Travel and Wellness Tourism Industry Roadmap.” Presentation for the Industry Roadmap and AEC Gameplan, 12 November 2015, Naga City, <http://industry.gov.ph/wp-content/uploads/2016/08/Healthcare-Services-Industry-Roadmap-by-Ms.-Joy-Josette-Lachica-BOI-Sectoral-Champion.pdf>.

<sup>13</sup> Kenneth Hartigan-Go et al, “Financing public-private partnership in health for inclusive recovery from COVID-19 and stronger resilience to future health shocks”, *SSRN*, 11 May 2020, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3597287](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3597287)

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