Japan's Contribution to the Act-A Program:
Reaffirming Japan's Global Leadership

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Executive summary

- Eurasia Group's analysis suggests that leaving low- and lower-middle-income countries, or LLMICs (see appendix for full country list), to fend for themselves amid the Covid-19 pandemic will cause significant economic damage that puts at risk decades of economic progress.
- The Access to Covid-19 Tools Accelerator (Act-A) program is the only "end-to-end," complete global solution across tests, treatments, and vaccines for tackling the pandemic. The world needs strong leadership and international cooperation to make this program a success. The Act-A program needs $38 billion, of which $28.2 billion is still currently outstanding.
- Rapid, widespread, and equitable vaccination, tests, and treatments will save countless lives in LLMICs, allowing policymakers' focus to return to the core development goals of raising living standards, empowering women, and marginalized communities, and strengthening institutions.
- As Japan undergoes a leadership transition, the Act-A program offers the opportunity to reaffirm its global role by demonstrating Japan's commitment to Universal Health Coverage and Human Security.
- To date, Japan has pledged $229 million to the vaccination pillar of Act-A through the Gavi Covax Advance Market Commitment (AMC), which will help to ensure that eligible LLMICs' vaccination needs are met. Given Asian LLMICs' deep ties to the Japanese economy, this assistance will more than pay for itself in economic gains for Japan.
- The benefits are estimated to be in the range of 496 billion yen ($4.6 billion) in 2020-21 and 1.4 trillion yen ($12.5 billion) over the next five years, with key exposures in tourism and manufacturing. To maximize these benefits, Japan should continue to prioritize the program as part of its global health agenda.

Introduction

Over the past decade, Japan has emerged as a global leader in multilateral trade agreements and taken on a greater role in ensuring economic stability worldwide. Tokyo's multilateral approach to governance has gone well beyond trade, however, as Japan has sought to address the importance of public health—for instance, by promoting Universal Health Coverage and Global Human Security—as part of its development efforts. With international engagement and cooperation as key priorities for Japan, supporting LLMICs should be at the center of these efforts. The Act-A program provides Japan's government an opportunity to reaffirm these goals by taking a leadership position in the only truly multilateral plan to make sure no country is left behind.

What is Act-A?
Act-A is the only end-to-end global solution that aims for equitable access, building on its public health expertise and offering risk mitigation for the investment made. It achieves this through four focal points: 1) vaccine risk pooling, to increase each country's chances of having access to the "winning candidate"; 2) limiting operational risk by bringing together the best global expertise across fields; 3) providing an end-to-end solution across tests, treatments, and vaccines; and 4) focusing on equitable access to ensure that Covid-19 tools will be delivered in the most efficient way to those who need them the most, restarting all economies and protecting international mobility, trade, and economic activity.

This report explores the reasons why continuing to support Act-A and encouraging other countries to do so is the right course of action. Act-A and Covax-AMC will be beneficial for Japan from both a geopolitical and an economic perspective. The analysis suggests that there is a clear self-interested case for Japan's continued generosity: supporting LLMICs through contributions to Act-A would not only help reduce the incidence and severity of Covid-19, but it would also underscore Japan's global reach and more than pay for itself through improved economic outcomes in Japan's trade partners. The following sections focus on three main themes associated with Japan's contribution:

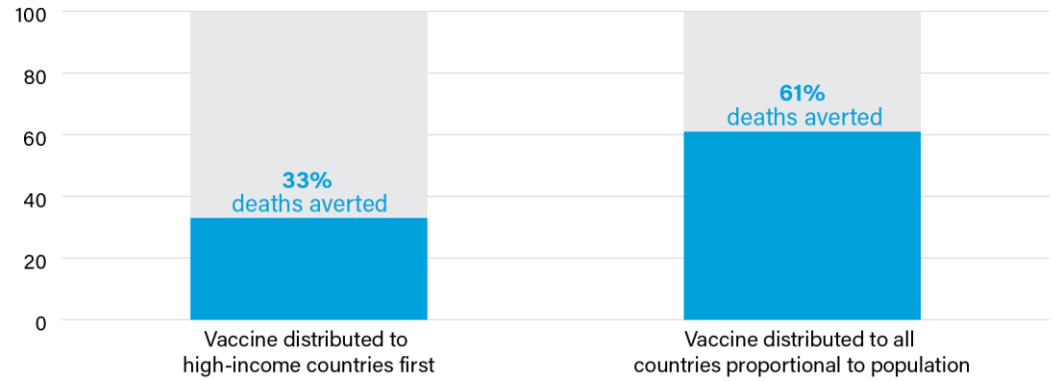
- Saving lives through a multilateral approach
- The need for Japan's continued global leadership
- The economic benefits to Japan of better LLMIC health outcomes

Saving lives through a multilateral approach

The Covid-19 pandemic has sent shockwaves around the world, and LLMICs are in a particularly difficult position. Poorer countries have been hit hard by shocks to external demand and supply; many are also suffering severe domestic disruptions from restrictive measures meant to contain the spread of the virus. At the same time, limited financial resources and weak institutions constrain the capacity of many LLMIC governments to support their economies through fiscal stimulus. Some countries entered the crisis in an already vulnerable position, with high public debt levels and limited healthcare capacity to match the response of high-income countries.

Epidemiological modeling suggests that an equitable approach to distributing the Covid-19 vaccine could significantly reduce the number of deaths from the pandemic. Northeastern University's Laboratory for the Modeling of Biological and Socio-technical Systems has run counterfactual scenarios examining what would have happened if a vaccine had been available starting in mid-March 2020. In the first scenario, approximately 50 high-income countries received the first 2 billion doses (out of 3 billion) of an 80% effective vaccine. In the other scenario, all countries received 3 billion doses proportional to their populations. This exercise showed that equitable distribution would avert 61% of deaths from Covid-19, compared to just 33% of deaths averted with distribution to high-income countries first. This equates to tens of thousands of lives that could be saved with support for Act-A from Japan and other developed nations.

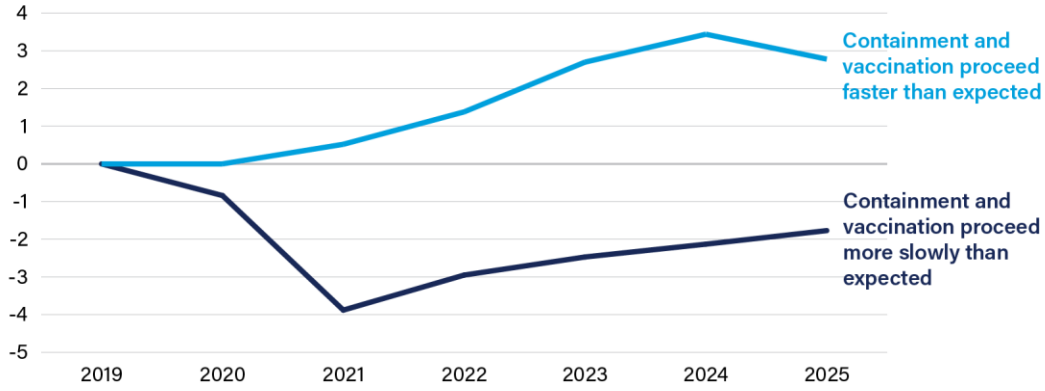
Modeled percentage of deaths (compared to no vaccine)*



*Bill & Melinda Gates Foundation, 2020 Goalkeeper's Report
Source:

The economic challenges associated with Covid-19 raise the real possibility of negating decades of poverty reduction and other improvements, effectively canceling the return on development investments already made by Japan and other G-20 countries. In its latest forecasts, the IMF projects low-income economies to contract by 1.2% in real terms in 2020, followed by a 4.9% rebound in 2021. However, the IMF acknowledges that emerging markets' trajectories could diverge sharply from its baseline forecasts depending on epidemiological developments. A best-case scenario, which would be more likely if a vaccine were distributed fairly, could see emerging-market real GDP climb to 0.5% above the Fund's base case by the end of 2021. Conversely, a slower and less effective response to Covid-19 could pull developing countries' real GDP down by nearly 4% from the IMF's baseline (please see graph highlighting the divergence from the IMF baseline forecast in each scenario). The difference in outcomes between best- and worst-case scenarios is a gaping 4.5% over two years, or the equivalent of billions of dollars, driven largely by differences in virus outcomes.

Emerging markets real GDP, difference to baseline forecast by scenario (%)



Note: Forecasts for emerging markets, not low and lower middle-income countries specifically
Source: IMF Global Economic Update.

While many states are focusing on ending outbreaks at home, Covid-19 cannot be fully beaten domestically unless no country is left behind. This is particularly salient for Japan, as it plans to host the Olympic Games next summer, with the risk of a successful domestic virus response being thwarted by foreign visitors bringing Covid-19 back into the country. As such, equitable vaccine distribution is key to reducing its spread globally and minimizing risks to Japan, with a full return to normal not possible until the virus is contained and then eradicated around the world. Equitable vaccine distribution will help prevent the worst-case outcomes, saving thousands of lives, while also helping to alleviate a bleak economic outlook. This could avert long-lasting economic scarring inflicted by the pandemic's fallout.

The need for Japan's leadership

Japan has the opportunity to lead other countries in joining the Act-A program's multilateral efforts during a period of geopolitical uncertainty. Tensions between China and the United States, the world's two largest economies, are distorting global trade and output and creating systemic damage to multilateral institutions. In addition, managing Russia and China's geopolitical ambitions have proven increasingly challenging, as the United States' retreat from global leadership has shaken confidence in the rules-based international system.

Japan is the world's third-largest economy and an important leader in the Asia-Pacific region. It is uniquely positioned to lead by promoting health and economic prosperity worldwide, especially for its key partners in Asia. Japan has a fundamental interest in supporting growth, security, and a rules-based order in the Indo-Pacific, a region that encompasses both developed and developing economies. However, the Indo-Pacific's balance of power is currently under threat as other countries seek to enhance their economic and political influence. Contributing to the Act-A program will not only help to foster prosperity in the region, but it will also demonstrate a commitment to cooperation with countries that share Japan's strategic interests and values.

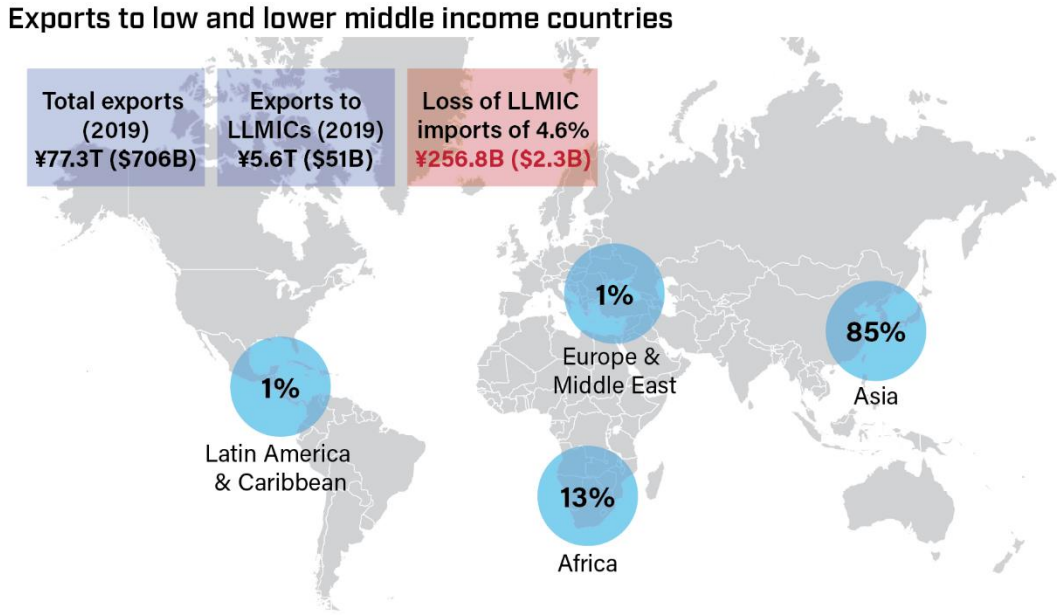
Global health is an important priority for Japan, and in recent years Japan has greatly increased its presence in the global health space. Japan made an early commitment to the Covax-AMC initiative, as the second country to join the effort and the first among the G7. During its G-20 presidency, Japan made global health governance, especially reform of the World Health Organization (WHO), one of its central objectives. Japan's main domestic focus has been devising the most effective response possible to Covid-19, given the vulnerability of its rapidly aging population and its limited capacity to develop and manufacture vaccines. Without global cooperation, it will be tremendously difficult for Japan to overcome challenges related to the pandemic. Ensuring a reliable supply of vaccine doses, resuming overseas travel and trade, and successfully hosting the 2021 Olympic Games will all require a collective effort to end Covid-19.

Countries that have successfully curbed their outbreaks cannot return to normal because of the need for restrictions on travel and other behaviors, as well as disruption through channels such as trade, investment, and supply chains. For Japan, taking a global approach is the best way to reduce risk abroad and at home. Japan's new leadership can signal its commitment to the previous administration's priorities to contain the pandemic. Prime Minister Yoshihide Suga's UNGA speech

emphasized that Japan's "guiding principle … to overcome pandemics must be 'leaving no one behind.'" The Act-A program is the right avenue to fulfill this promise, with added geopolitical importance given the current vacuum in terms of global leadership.

Economic benefits to Japan

The Japanese economy has substantial links to Covax-AMC-eligible LLMICs – especially those in Asia – through tourism flows, manufacturing exports, and financial investments abroad. While LLMICs are not the largest trade partners for the country overall, these nations still import billions of dollars of Japan's goods and services each year and generate considerable tourism spending in Japan. Limited access to a vaccine for LLMICs would mean dampened external demand and continued travel restrictions, threatening Japan's recovery.



Note: World Bank – World Integrated Trade Solution data. Reporting countries: South Korea, Japan, Germany, France, UK, Canada
Source: Eurasia Group

The majority of Japan's exports to LLMICs go to Asian countries, with Vietnam, India, and the Philippines each importing over 1 trillion yen in merchandise from Japan. Over 13% of Japanese exports go to African countries, of which Liberia is Japan's top trade partner, followed by Egypt and Kenya. Because of these economic links alone, it is in Japan's interest to provide maximum support to the LLMICs' recovery, given the drastic improvement in growth prospects that could be unlocked by equitable vaccine distribution.

Japan's exports to Covax-AMC-eligible LLMICs totaled 5.6 trillion yen in 2019. Just a 4.6% cumulative reduction in imports by these countries in 2020-21—as implied by the latest IMF forecasts, in a downside scenario in which vaccination efforts stall—would equate to a reduction in Japan's export earnings of over 256.8 billion yen ($2.4 billion). This sum is much larger than Japan's $229 million contributions to Covax-AMC, making it economically worthwhile to support LLMICs through Act-A purely from the perspective of export growth.

Excluding China, which absorbs about 20% of Japan's manufacturing exports, the top LLMIC markets for Japanese manufacturers include Vietnam (2.3%), Mexico (1.7%), the Philippines (1.5%), and India (1.5%). Southeast Asia is an important region for Japan, and continued cooperation and contributions will ensure that Japanese trade with the region continues to grow for years to come.

Japan's economic value at risk by sector

	International exposure (¥B)	Of which, derived from LLMICs	Covax-AMC eligible LLMIC exposure (¥B)	Economic losses (¥B, 2020-21)	Economic losses (¥B, 2020-25)
Tourism	5,131.3	6.5%	334.3	115.3	274.2
Olympics	Calculated separately			43.7	43.7
Education	378.2	34.3%	129.9	42.0	72.6
Manufacturing	66,383.5	9.6%	6,382.2	292.7	959.6
Financial services	1,498.5	1.3%	19.6	0.9	2.9
IT	731.4	4.3%	31.4	1.4	4.7
Total				**496.0**	**1,357.8**

Source: Eurasia Group

Tourism: International tourists spend over 5.13 trillion yen during their visits to Japan each year, providing a significant boost to the economy. Travel restrictions are the key challenge for the industry, with foreign arrivals down by 99% year on year. While the largest sources of visitors are Japan's neighbors (Chinese and South Korean tourists make up 26% and 24% of annual visitors, respectively), about 6.5% of foreign tourists come from LLMICs.

2021 Tokyo Olympic Games at risk

Visitors from LLMICs make up about 7% of Japan's international tourists on average. If the 2021 Olympic Games are held in a scenario without equitable vaccine distribution, we estimate that Japan could lose up to 43.7 billion yen ($413.8 million) in LLMIC tourism spending and foregone ticket revenues. This estimate includes both the loss of tourism spending from LLMICs due to a complete travel ban, as well as a reduction in Olympics attendees as a result of enhanced safety measures, which we assume would reduce stadium capacity by 50%.

Past global sporting events in Japan – such as the 1998 Olympic Games and the 2002 FIFA World Cup – increased inbound tourism arrivals in the month before the event by 9.9% year on year on average; however, the residual effects of holding major events such as the Olympics have also been found to boost tourism revenues for years after the event.

Travel demand will be dampened in any scenario, but the risk of significant restrictions on countries with continued outbreaks could have an outsize effect. Two of Japan's largest airlines, Japan Airlines and All Nippon Airways, have significant routes to LLMICs in Asia, including India, the Philippines, and Vietnam. 13% of Japan Airlines' international revenue was earned from routes to MENA. Overall, we estimate that about 115.3 billion yen in Covax-AMC-eligible LLMIC tourism spending could be lost in 2020-21 in the absence of widespread vaccination, excluding losses related to the Olympics. By 2025, the sum could rise to 274.2 billion yen cumulatively.

Education: Over 34% of Japan's foreign students, or about 78,000, come directly from LLMICs. Education has been sharply disrupted by Covid-19, which has forced classes to move online and left some foreign students unable or unwilling to attend. The sector makes up just under 4% of Japan's GDP, and foreign students spend close to 378 billion yen annually on tuition and living costs, with students from LLMICs contributing 129.9 billion. Accounting for travel restrictions and the possibility of online classes, we estimate Japan could lose close to ¥42 billion in LLMIC student spending in 2020-21 in a downside scenario and 72.7 billion yen cumulatively over the next five years.

Manufacturing: The Japanese manufacturing sector is also exposed to Covax-AMC-eligible LLMICs, which collectively purchase about 10% of its exports, valued at 6.4 trillion yen each year. The sector is particularly sensitive, as it accounts for about 20% of Japanese GDP and 17% of employment. Japan's automotive sector alone produces about 20% of Japanese exports in value terms. Honda, one of Japan's largest auto manufacturers, reported that 28% of its Fiscal Year 2020 revenue was derived from markets in South America, Africa, and the Middle East. In addition, Sony, Japan's leading manufacturer of consumer electronics, earned 14% of its revenue in the Asia-Pacific region and 6.7% of its revenue in Latin America. A scenario in which limited vaccine access in LLMICS continues to disrupt supply chains and depress demand could lead to losses of 292.7 billion yen in 2020-21 and 959.6 billion yen in 2020-25.

Financial services: Prior to Covid-19, Japan exported about 19.6 billion yen in financial services to Covax-AMC-eligible LLMICs. While the US and the UK are the main trade partners for financial services, some of Japan's largest financial firms have sizable revenue exposure to developing economies. In addition to major middle-income emerging markets, such as China, Russia, and Thailand, Japanese firms have cultivated significant business in Asian LLMICs, such as Vietnam, which imported 3 billion yen in financial services in 2018. For instance, Mitsubishi UFJ Financial Group has made substantial investments in Vietnam, Thailand, Indonesia, and the Philippines, and roughly one-third of Mizuho's banking services income is now derived from outside of Japan. In a dire economic and public health outcome for the LLMICs, Japan's financial sector could stand to lose 900 million yen in export receipts in 2020-21 due to this exposure. Losses could rise to 2.9 billion yen by 2025.

Information technology and communications: Japan exported 731.4 billion yen in ICT services in 2019, with 31.4 billion yen going to LLMICs. Reduced import growth brought on by a lack of vaccine access will put about 1.4 billion yen at risk in 2020-21. By 2025, total export losses could rise to 4.7 billion yen. The effects of the pandemic will affect the supply of raw materials and disrupt the electronics value chain, leading to upward price pressures on some critical inputs. Pandemic-related disruptions in LLMICs will also be significant for Japanese companies. For Hitachi, Covid-19 impacts are estimated to cause over 1 trillion yen in losses in the Fiscal Year 2020. 15% of Hitachi's revenue was earned in non-Chinese Asian Markets. Nippon Telegraph & Telephone (NTT), Japan's leading telecom and mobile company, also has considerable exposure to LLMIC markets, with its earnings in Latin America amounting to 106 billion yen last year.

Conclusion

From an economic standpoint, the Act-A program enables a holistic economic response that requires only a very small addition to Japan's domestic economic stimulus spending. The Act-A program also offers the opportunity to continue Japan's global health leadership and could meaningfully alter the course of the pandemic in LLMICs. While pressure will be high to vaccinate Japan's aging population first, Act-A provides the government of Prime Minister Suga with an opportunity to reaffirm Japan's international commitments and make a strong start in global leadership.

Japan's contribution to date of $229 million to the Act-A Covax-AMC program will provide a collective gain to many countries, including to Japan itself. Japan may help avert close to 28% of Covid-related deaths according to modeled projections; it could assist in boosting real GDP by 3-4%in LLMICs in 2020-21; and, it could receive roughly 1.4 trillion yen ($12.5 billion) in economic benefits in 2020-25. The Act-A program allows Japan to showcase its leadership and shepherd the international community toward a collective, multilateral effort to end the pandemic.

Appendix: Methodology for economic analysis

Economic analysis is based on the expected negative effects of sustained outbreaks in LLMICs implied by the difference between the downside and baseline scenarios of the IMF's October 2020 World Economic Outlook forecasts. The impact on each of the key affected sectors was calculated differently, with a focus on the impact of travel bans, lost export purchasing power, and—in the case of net energy exporters—affected global commodity prices.

In each case, the sector was assessed in terms of its contribution to the economy, as well as its exposure to global markets. Sector exposures were divided by the contribution provided by LLMICs to arrive at a total "LLMIC exposure" figure for the sector. This figure was then run through a baseline and downside scenario to calculate possible economic losses under better and worse virus scenarios in LLMICs.

The approach is summarized in the table below:

Travel bans	**Export purchasing power**	**Global commodity prices**
Lost spending in-country due to travel restrictions	*Lost in-country revenue due to lower exports*	*Lost in-country revenue due to reduced global prices*
Spending from international travelers	Manufacturing/services exports	Commodity outputs
Share of spending from LLMICs	% to LLMICs	Possible price change from lost LLMIC demand
		Possible reduction in exports to LLMICs owing to weaker demand
Product: exposure	**Product:** exposure	**Product**: exposure
Scenario 1: LLMIC travelers restricted	Scenario 1: worse trade growth outcome	Scenario 1: worse commodity price outcome; weaker demand
Scenario 2: travel largely normal	Scenario 2: better trade growth outcome	Scenario 2: better commodity price outcome; better demand
Delta: value at risk	**Delta**: value at risk	**Delta**: value at risk
Applied to: Tourism	**Applied to:** ICT, FS	**Applied to:** Energy

LLMIC country list

For the purposes of this analysis, LLMICs are defined as the low- and lower-middle-income countries that are eligible to access the Covid-19 vaccine through Gavi's AMC. This initiative aims to secure doses of vaccine for poorer countries through the Covax Facility, a mechanism to provide participating countries with access to the world's largest and most diverse Covid-19 vaccine portfolio.

Covax-AMC-eligible countries include all economies with GNI per capita under $4,000, in addition to other World Bank International Development Association (IDA)-eligible economies. The list includes the following **92 states**:

- **Low income:** Afghanistan, Benin, Burkina Faso, Burundi, the Central African Republic, Chad, the Republic of Congo, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, North Korea, Rwanda, Sierra Leone, Somalia, South Sudan, Syria, Tajikistan, Tanzania, Togo, Uganda, and Yemen
- **Lower middle income:** Angola, Algeria, Bangladesh, Bhutan, Bolivia, Cabo Verde, Cambodia, Cameroon, Comoros, the Democratic Republic of Congo, Cote d'Ivoire, Djibouti, Egypt, El Salvador, Eswatini, Ghana, Honduras, India, Indonesia, Kenya, Kiribati, Kyrgyzstan, Laos, Lesotho, Mauritania, Micronesia, Moldova, Mongolia, Morocco, Myanmar, Nicaragua, Nigeria, Pakistan, Papua New Guinea, the Philippines, Sao Tome and Principe, Senegal, the Solomon Islands, Sri Lanka, Sudan, Timor-Leste, Tunisia, Ukraine, Uzbekistan, Vanuatu, Vietnam, the West Bank and Gaza, Zambia, and Zimbabwe
- **Additional IDA eligible:** Dominica, Fiji, Grenada, Guyana, Kosovo, the Maldives, the Marshall Islands, Samoa, St. Lucia, St. Vincent and the Grenadines, Tonga, and Tuvalu

Appendix sources

Eurasia Group analysis leveraged numerous sources to compile the necessary data and assumptions underlying the report and its economic calculations.

Primary sources:

- IMF World Economic Outlook, October 2020
- Bank of Japan balance of payments statistics
- Statistics Bureau of Japan economic statistics
- Japan National Tourism Organization travel statistics
- UNCTAD and WTO merchandise and services trade statistics
- WHO Universal Health Coverage indicators
- Japan Study Support
- QS Survey: How Covid-19 is affecting prospective international students across subject areas
- World Integrated Trade Database
- International Air Transport Association, Outlook for Air Travel over the next five years
- IMF Covid-19 Policy Tracker
- Bill & Melinda Gates Foundation, 2020 Goalkeepers Report

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