

China Briefing

Asia and the Virus



Executive summary

- *China's response to COVID-19 provides several lessons on how to manage the following waves of infections and recover the economy.*
- *China's success came from its ability to isolate specific areas, and their cooperation with the private sector: specifically, tech giants Alibaba and Tencent.*
- *Asian countries' responses have few similarities; the different nature of their health systems drive their likely economic responses.*

Asia and the Virus

We write often about Intelligent Investing. Silverhorn is founded on the principle of searching for the most efficient allocation of capital. This comes in many forms; now, we are thinking about how capital is being allocated to address the COVID-19 crisis.

Deploying capital efficiently is as much a matter of timing as of information. There is a cycle to a pandemic, a flow from identification to treatment to recovery. And so the question with where we are in the cycle now is what is the most efficient use of resources. The better capital is deployed, the faster normal life can return. Resource allocation involves not only treating people effectively, but also making sure that everyone can afford care, that there are enough facilities and resources for the cases that require more advanced treatment, and finally keeping everyone supplied and workers healthy enough to deliver care.

Part of a successful response is in knowing which phase of the pandemic you are in at any given time. It is also figuring out how much of the virus you can choose to live with, or not and how to treat it. All of this looks different depending on context, and indeed, what works best for me here on Hong Kong Island may fail 20 miles across the border at more sprawling Shenzhen.

Herein lies a tragedy of COVID-19: it was assayed extraordinarily rapidly, faster than anyone could have ever expected. Normally, identifying and quantifying an illness allows you to devise treatments to stop its spread quickly. But COVID-19 has spread far further than we might have initially feared. And so the impact has been much greater than any epidemic since the 1919 Spanish Flu Epidemic. Countries have not known how to respond, not known how to resume normal life, and not known how best to sustain their economy and society.

COVID-19 has a few distinct characteristics. A respiratory illness, it

attacks and kills mainly those in their later years of life, as opposed to the usual “smile curve” type of illness that affects both children and the elderly. It is deadly, particularly among those who have co-morbidities (other conditions at the same time). Its many strains change nature quickly. This means that treatment is perhaps the most difficult thing. COVID-19 kills through overwhelming hospitals: the afflicted require significant periods of ventilation, recovery is difficult, and COVID-19 also regularly strikes the very hospital staff that are meant to be caring for the unwell. Shortages of beds, personnel, ventilators, and treatment options take their toll. Fears of catching the virus leads many to flock to hospitals to be tested, placing them directly in harm’s way.

While there is no one good way to deal with COVID-19, there are a range of lessons that can be learnt. Specifically, we need to examine how China treated COVID-19, as it was the country which initially had the most information about the virus and how to deal with it.

Lessons from the COVID-19 Catastrophe

The first lesson that we will take from COVID-19 is that China’s system of laboratory medicine has improved in leaps and bounds. Despite only seeing a handful of cases, China swiftly identified COVID-19, assaying the virus within a week of sending out central investigators, and sharing the information with overseas collaborators. This is a vast improvement on SARS, and on recent Swine Flu outbreaks.

The second lesson is that China’s public health communication and central-local government coordination need to improve. Local governments censored several doctors who posted public warnings about the illness, failing in particular to describe the likelihood of COVID-19 being passed from human to human, and thus underestimating how contagious COVID-19 would turn out to be. Catastrophically, for two weeks there was no public information passed out in Wuhan, the epicentre of what was then still just an epidemic. The local Wuhan government also failed to stockpile or develop sufficient test kits to tell who was infected or not.

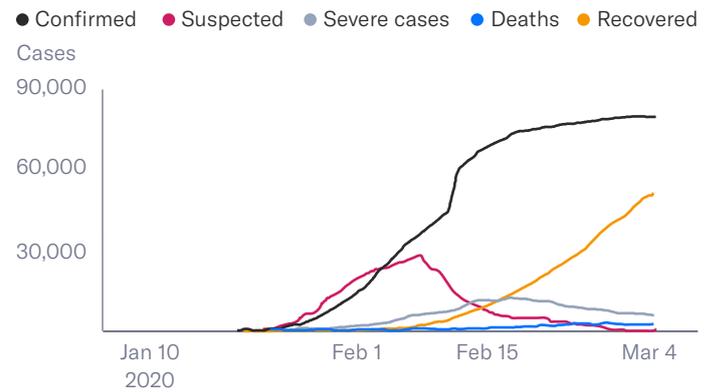
The third lesson is that when China makes something a national priority, it throws enormous resources at the problem. China’s leader Xi Jinping declared “war” on the virus on 20 January. Two days later, he shut down the entire city of Wuhan, of some 11 million people, in what was then the largest quarantine seen in centuries. Vast amounts of resources poured into Wuhan, building emergency hospitals, transferring thousands of military medical staff and other doctors from around the country into the area, including 11,000 intensive care doctors and nurses.



China builds makeshift hospitals at the Wuhan epicentre within weeks. Image credits: South China Morning Post

The final lesson is that China brought in a playbook, and distributed

it nationally. Wuhan was swamped, submerged by patients. Hospitals were so overwhelmed that intensive care unit beds were freed up only when occupants died. Many others died without making it to a hospital bed. So from 27 January onwards, China’s focus was on finding better methods of treatment. It was estimated that 1,400 teams of epidemiologists, each consisting of at least five people, were sent to Hubei to trace various contacts. Having lost too many health workers early in the epidemic, they forced them to rotate, to work around the clock for a week or so, and then self-isolate in hotels (many tried various retroviral medications, based on China’s experience with SARS in 2003). Doctors improved their triage techniques: more test kits arrived, different diagnosis methods were allowed. On 4 February, China made these lessons learnt available to the world, publishing its treatment protocols online and summarising early trials.



Coronavirus cases in China during the early months of the epidemic. Source: Health commissions of China, Hubei and Wuhan

Above all, society was able to shift to a war-time style economy. 90 million Party members became health administrators. Various sectors were transformed into quarantine centres, and anyone even suspected of contact with the virus was sequestered. A step-up, step-down system whereby access to hospitals was controlled, and people were screened before being allowed to go to hospitals.

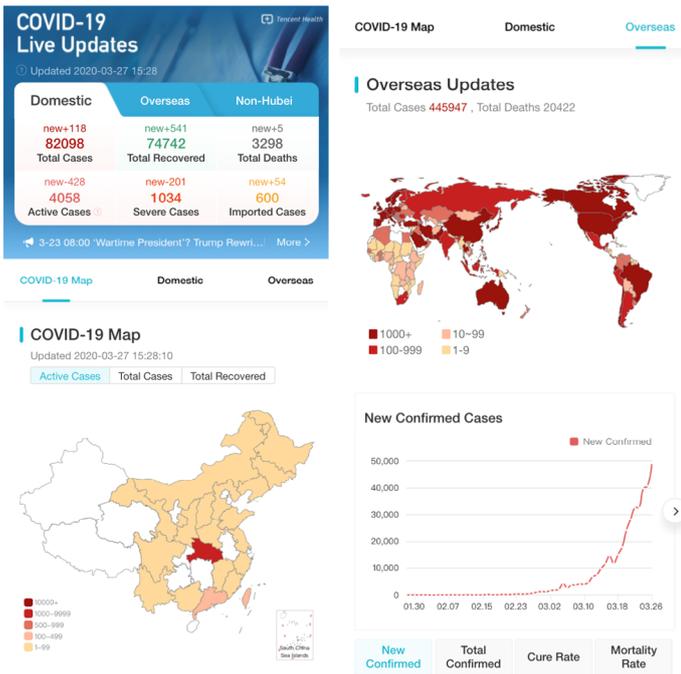
All of this allowed China one great advantage: it was able to open up its domestic economy quickly, and much of the country is back at work. Manufacturing is returning. Consumption remains soft for blue-collar workers, many of whom are struggling to find work; but, with a 3.2% increase in GDP in the second quarter of 2020, it is clear that a good response to COVID also leads to a quick economic recovery.

What next ?

China’s system of public health care is like a donut: thick at both ends and hollow in the middle. For very simple care, in an emergency, it relies on the Communist Party. Even today every local government has a “Patriotic Health Committee”, a remnant of the health care system being created during the Korean War, and this gives China wave upon wave of free labour which can provide simple drugs, check temperatures, enforce cordons sanitaire and keep people at home. But there are still problems with the number of doctors and with the cost of treatment. In the crisis, China got around this by importing everyone to Wuhan, including thousands of military doctors. It knows that in this it was fortunate that the disease did not spread to other big cities. The average Chinese city has 1/9th the number of beds it would need to treat a similar sized outbreak.

How is China trying to fill its gaps? It uses the private sector. Specifically, it uses Tencent and, to a lesser extent, Alibaba — the two Chinese tech giants and the only organisations that can provide a national architecture. All screening, quarantine, return to work and

other programs have run through WeChat. Tencent is the operating system of Chinese life.



Tencent Health provided open source tools on GitHub to tackle COVID-19. Image credits: Tencent

The reason for this is simple: fragmentation. Local governments must compete with each other, and each issue their own rules. So during COVID-19, after Xi declared a war on the virus, provinces and municipalities issued their own war plans straight away. These rules were tightened a week later, when it became clear that the epidemic had reached crisis.

Keeping this fragmentation allows far more flexibility. It means that the centre can quickly lock down any city it wishes and also measure everyone's performance on their health metrics vis-à-vis each other. But it creates a nightmare for getting something done nationwide. Every hospital, every bureaux can apply their own rules. So Tencent, and to a lesser extent Alibaba, will be the backbone of all national service provision. That is because they are the only bodies that can act nationally following the same rules.

Lessons for Asia

It is this flexibility that characterises much of the other success stories in Asia. Vietnam can follow a Chinese model, as it has a similar system of government, has used many of the same methods as China and has a similar method of care to China. Hospitals are managed by the Ministry of Health down to the commune level, and primary health is done by simple health workers in villages. In 2008, it created a gatekeeper system using its health insurance scheme to avoid China's problem of everyone flooding to the hospital to be treated.



Health workers tend to patients in an isolated intensive care unit in Wuhan. Image credits: Associated Press

Vietnam shut its borders very late. But it screens all new arrivals, citizen or not, at the port of entry. Should one have a fever, they are sent to hospital. As of mid-March, it also introduced mandatory quarantine camps, nearly half of which are run by the military. As of writing, these measures allowed Vietnam to keep its economy open far more than the rest of Asia, and indeed, it boasts a 1.8% GDP growth rate for the first half of 2020.

South Korea has a strong health care system. It has a lot of CT scanners, which makes it easier to diagnose the virus, and double the OECD average number of hospital beds per person. Moreover, South Korea started its response to the virus very early. South Korea had been hit hard by the MERS coronavirus, which killed dozens of citizens in 2015, and created a strong central disease control body, a center dedicated to handling infectious diseases, which began work on identifying the virus before there was even a confirmed case.

Public health measures were also enacted. Mask exports were banned. Schools and many workplaces were closed until early April. Television broadcasts, subway station announcements and smartphone alerts provide endless reminders to wear face masks, pointers on social distancing and the day's transmission data. With large-scale screening, early treatment and quarantine measures can be carried out in a timely way. As with China, South Korea rapidly developed its own COVID-19 treatment protocols. Taking lessons from Wuhan, step-up and step-down care became the focus: hotels and company dormitories were reserved as makeshift wards and quarantine sites to put mild and suspected patients under centralised observation, rather than allowing them back into the community. All of this has meant that Korea has had few new cases (new infections have been steady at around 100 per day) and very few deaths since the initial appearance of the virus.

One thing that these countries have in common with China is that they all use a step-up, step-down method of stopping the virus. In an ideal world, as Columbia University epidemiologist Wafaa El-Sadr said, "you don't need to have a complete shutdown. What you need is very focused intervention". That is built on what your health system is good at. Japan's response to COVID-19, for example, was driven by their deep expertise in viral pneumonia and surplus number of beds for lung patient treatment (Japan has far more hospital beds than any other member of the OECD), giving them more of a buffer to reopen society.

The other thing that the Asian success stories share with China is that their strong response to COVID-19 meant that they did not have to massively overstretch their fiscal resources. The greatest worry for us remains India and Indonesia, which lacks both the ability to isolate, track, trace and treat and also the structure that allows a rapid return to economic life.

Glossary of terms

A

AI	Artificial Intelligence
APAC	Asia Pacific
API	Application Programming Interface
APJ	Asia Pacific and Japan
APR	Annual Percentage Rate
ARPU	Average Revenue Per User
ARPPU	Average Revenue Per Paying User
ARR	Annual Recurring Revenue
ASEAN	Association of Southeast Asian Nations
AUM	Assets Under Management

B

B2B	Business to Business
B2C	Business to Consumer
BOD	Board of Directors
BVI	British Virgin Islands

C

C2C	Consumer to Consumer
CAGR	Compound Annual Growth Rate
CLA	Convertible Loan Agreement
CV	Curriculum Vitae

D

DAU	Daily Active Users
DACH	Deutschland, Austria & Switzerland
DD	Due Diligence
DMP	Data Management Platform
DPI	Distributions to Paid in Capital

E

EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ECB	European Central Bank
ELN	Equity Linked Notes
ESOP	Employee Stock Ownership Plan
EU	European Union

F

FAV	Fair Appraisal Value
FY	Financial Year

G

GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GMV	Gross Merchandise Volume
GP	General Partner
GWP	Gross Written Premium

H

HIBOR	Hong Kong Interbank Offered Rate
HKMA	Hong Kong Monetary Authority
HoH	Half on Half
HR	Human Resources
HY	High Yield

I

IFRS	International Financial Reporting Standards
IG	Investment Grade
IPO	Initial Public Offering
IRR	Internal Rate of Return
IT	Information Technology
ITD	Inception to Date

J

JACI	J.P. Morgan Asia Credit Index Core
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K

KPI	Key Performance Indicator
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L

LP	Limited Partner
LTM	Last Twelve Months
LTV	Loan to Value Ratio

M

M&A	Merger and Acquisition
MAU	Monthly Active Users
MHE	Mid to High End
MOIC	Multiple on Invested Capital
MoM	Month on Month
MRR	Monthly Recurring Revenue
MSCI	Morgan Stanley Capital International
MSME	Micro, Small and Medium Enterprise
MTD	Month to Date

N

NAV	Net Asset Value
NPV	Net Present Value

O

O2O	Online to Offline
OEM	Original Equipment Manufacturer

P

P&C	Property and Casualty
P2P	Peer to Peer
PaaS	Platform as a Service
PARx	Portfolio at Risk more than x days
PMS	Property Management System

Q

QoQ	Quarter on Quarter
QTD	Quarter to Date

R

R&D	Research & Development
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S

SaaS	Software as a Service
SAFE	Simple Agreement for Future Equity
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
SI	Since Inception
SME	Small to Medium Enterprise
SOE	State-owned Enterprise
SPC	Segregated Portfolio Company
SPV	Special Purpose Vehicle

T

TER	Total Expense Ratio
TTV	Total Transaction Value

U

UCITs	Undertakings for Collective Investment in Transferable Securities
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V

VIE	Variable Interest Entity
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W

X

Y

YTD	Year to Date
YTM	Yield to Maturity
YoY	Year on Year

Z

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