



## Special Review: COVID-19 in East Asia: Impacts and Response<sup>#</sup>

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### Abstract

While COVID-19 continues to be a health emergency, it is quickly turning into an economic crisis in most East Asian countries. Measures introduced to contain the pandemic are having wide-ranging economic effects; disrupting tourism and travel, supply chains and labour supply, and feeding into lower economic growth. Rolling recessions producing sharp rises in unemployment and poverty seem inevitable. Although the main responses will be national, both ASEAN and ASEAN+3 should be able to play a bigger role, especially absent global leadership. The impact of economic stimulus measures will be enhanced nationally if they are regionally coordinated. As countries start to ease lockdowns, coordination will be required to minimise risks of recurrence, and to speed up the economic recovery.

**Keywords:** COVID-19, ASEAN, ASEAN+3, economic impacts, regional coordination.

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## 1. Introduction

The COVID-19 pandemic is first and foremost a human tragedy. Five months after the first apparent case was identified on 29 December 2019 in Wuhan in China, about 6.5 million infections and almost 400,000 deaths have been reported worldwide. These numbers continue to increase daily. In the Association of Southeast Asian (ASEAN) countries, there are almost 100,000 infections and 3,000 deaths, as well as about 200,000 infections and 9,000 deaths in ASEAN+3 (the ten member countries plus China, Japan and South Korea; hereafter referred to as East Asia).<sup>1</sup>

There is great variation in both infection and mortality rates, and in response measures across East Asia. China, the original epicentre, has the highest number of deaths, followed by Indonesia, the Philippines and Japan. While all countries have restricted international movement, domestic activity has been curtailed to varying degrees. Malaysia, the Philippines, Singapore and Thailand have extended their lockdowns several times, but have started to ease restrictions. South Korea was the first to ease its lockdown, followed by Vietnam, but South Korea has reintroduced more stringent social distancing measures following a second wave of infections. Japan and Indonesia have resisted imposing lockdowns and employed selective social distancing measures instead, as have several of the Mekong countries.

The measures introduced to deal with the pandemic could save lives but are having wide-ranging economic effects and inducing economic contagion.

The IMF (2020a) predicts that world output will contract by 3 percent this year, with growth in most ASEAN countries either flat or negative (see **Table 1**). There is significant variation in projected growth across ASEAN this year, however, ranging from -6.7 percent in Thailand to 2.7 percent in Vietnam. In contrast, the ADB (2020) is less pessimistic, projecting growth in Thailand at -4.8 percent and Vietnam at 4.8 percent. The IMF sees the ASEAN group *contracting* by about 1 percent this year, while the ADB sees it *expanding* by about the same rate.

This variation in rates across countries, as well as between forecasters, suggests two things. Greater focus is needed on the transmission mechanisms of the economic contagion and in critically assessing the economic impacts. This will enable a more informed appreciation of the assessments, and a better understanding of the underlying processes to gauge the impacts of an uncertain and evolving shock.

ASEAN and ASEAN+3 have been slow to respond to the pandemic. But they have been strenuously ramping up their efforts. But more needs to be done, and quickly. There are many things they can do immediately, employing their machinery to increase consultation and cooperation to limit contagion – both medical and economic – and beggar-thy-neighbour policies. But in some areas, turning rhetoric into action will necessitate large-scale funding, requiring the Plus Three countries to contribute at a time when they are themselves struggling. Since global efforts have been found wanting, a regional response is more important than ever, to complement national actions.

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<sup>1</sup> These estimates are derived from Worldometer (2020).

Table 1: Economic Growth Rates (%) in East Asia, 2019-2021

	IMF-WEO			ADB-ADO		
	Actual	Forecast	Forecast	Actual	Forecast	Forecast
	2019	2020	2021	2019	2020	2021
<b>ASEAN</b>	Column1	Column2	Column3	Column4	Column5	Column6
Brunei				3.9	2.0	3.0
Cambodia				7.1	2.3	5.7
Indonesia	5.0	0.5	8.2	5.0	2.5	5.0
Lao PDR				5.0	3.5	6.0
Malaysia	4.0	-1.7	9.0	4.3	0.5	5.5
Myanmar				6.8	4.2	6.8
Philippines	5.9	0.6	7.6	5.9	2.0	6.5
Singapore	0.7	-3.5	3.0	0.7	0.2	2.0
Thailand	2.4	-6.7	6.1	2.4	-4.8	2.5
Vietnam	7.0	2.7	7.0	7.0	4.8	6.8
ASEAN-5 (a)	4.8	-0.6	7.8			
ASEAN (b)				4.4	1.0	4.7
<b>Plus Three</b>						
China	6.1	1.2	9.2	6.1	2.3	7.3
Japan	0.7	-5.2	3.0			
South Korea	2.0	-1.2	3.4	2.0	1.3	2.3

Notes:

(a) Includes Indonesia, Malaysia, Philippines, Thailand and Vietnam.

(b) Includes the ten ASEAN member countries and Timor-Leste.

Sources: IMF (2020a); ADB (2020).

This paper is organised in 5 sections. Section 2 examines the mechanisms through which curtailment measures are transmitted to the macroeconomy. Section 2.1 canvasses the issues we should be aware of in assessing the different assessments, in order to better understand the findings. Since global leadership has been found wanting, Section 3 considers the role the region can play to responding to the crisis. Since ASEAN+3 was born out of a crisis, and designed to avert or respond to future crises, the special role that it can play is considered in Section 4. A final section concludes.

## 2. Economic Transmission Mechanisms

There are direct and indirect channels emanating from internal and external sources that affect demand and supply – this is how the effects of the measures designed to curtail the spread of the pandemic are transmitted to the domestic economy.

To begin with, it is worth noting that the effects of COVID-19 are hitting ASEAN economies at a time when other risk factors, such as a global growth slowdown, were already rising.

COVID-19 is disrupting tourism and travel, supply chains and labour supply. Uncertainty is driving negative sentiment. This all affects trade, investment and output, which in turn affects growth. Tourism and business travel, as well as related industries, especially airlines and hotels, were the first to be affected. But they are unlikely to be the first to have restrictions eased.

WTO (2020) projects world merchandise trade to plummet by 13-32% in 2020, with exports from Asia in sectors with complex value chains among the hardest hit. The supply disruptions emanating mostly from China will reverberate throughout the value

chain and disrupt production. Since China is the regional hub and accounts for 12 per cent of global trade in parts and components, the cost of this disruption in the short run will be high.

The negative effects of quarantine arrangements on labour supply could also be high depending on duration and sector. Manufacturing has been hit harder than service industries, where telecommuting and other technological aids limit the fall in productivity.

All these disruptions will lead to sharp declines in domestic demand, and their impact on economic growth will further propagate these disruptions. This compounding effect can magnify and extend effects into the long run.

The highest economic cost could come from the so-called intangibles. The effects of negative sentiment about growth and general uncertainty — which is already affecting financial markets — will feed into reduced investment, consumption and growth beyond the short run.

Rolling recessions around the world now appear inevitable, despite the stimulus measures being contemplated.<sup>2</sup> The contraction is not only likely to be greater than the Global Financial Crisis of 2008, an economic depression is not off-the cards. Even in a best-case scenario, there will be sharp increases in unemployment and poverty.<sup>3</sup> Some degree of decoupling from China, and de-globalisation in general, may also be a permanent reminder of this pandemic.

Among ASEAN countries, Singapore, Malaysia, Thailand and Vietnam are heavily integrated into regional supply chains and will be the most affected by a reduction in demand for the goods produced within them. Indonesia and the Philippines have been increasing supply chain engagement and will also not be immune. Japan and Korea are significant investors in the supply chain in ASEAN, while China is both an assembly hub for the supply chain and an increasingly important investor in it in the ASEAN region.

Given time, supply-side adjustments will alter trade and investment patterns. There could be a further shortening of supply chains, with the pandemic providing added impetus for near-shoring or reshoring. Within the region, the main adjustment will involve relocating certain activities along the supply chain from China to ASEAN countries. Although the pandemic will disrupt the relocation phase, ASEAN countries can benefit from the new investments, mitigating overall negative impacts. Vietnam and Malaysia could be major beneficiaries.<sup>4</sup>

The three top tourist destinations in Asia are China, Japan and Thailand. Tourism-related receipts contributed almost \$400 billion to the economy of ASEAN in 2019.<sup>5</sup> Thailand and Malaysia will be the most affected in ASEAN countries by the drop-off in tourist arrivals. Although intra-ASEAN tourism flows have been growing, spearheaded by Malaysia, the three main sources of tourist arrivals are China, Korea and Japan. In short, East Asia is not only heavily dependent on tourism flows, but is also an important source for such flows in the region.

<sup>2</sup> For a regularly updated tracker of stimulus and other measures being undertaken by governments, see IMF (2020b).

<sup>3</sup> For a discussion on the social consequences of the curtailment measures, and how they are affecting the poor, see Brown *et al.* (2020) and Menon (2020b); (2020c).

<sup>4</sup> In this regard, the pandemic is likely to provide further impetus to the relocation that was triggered by the US-China trade war (see Menon, 2019; Nicita, 2019).

<sup>5</sup> For a breakdown of these data and related details, see Moore (2019).

Cambodia and Laos receive most of their investment and aid from China, and a marked growth slowdown in China will affect them the most. A slowdown in the Plus Three countries will affect investment flows in the region as a whole.

The Philippines and Mekong countries have large overseas foreign worker populations and restrictions on their movement or employment prospects as COVID-19 spreads will affect both sending and receiving countries.

Brunei and Malaysia are net oil exporters and the price war indirectly induced by the pandemic will hit them hard. Others will benefit from lower oil prices, as will the struggling transport sector.

### **2.1 Assessing the Assessments**

In measuring the impacts of COVID-19, it is important to separate its marginal impact from observed outcomes. This is important because the remedy may vary depending on the cause of the disruption. This requires an analytical framework that can measure deviations from a baseline scenario that incorporates pre-existing trends. A model-based analysis, rather than casual empiricism, is required to reduce the problem. In addition, what is explicitly modelled and what is assumed, and what those assumptions are, need to be considered in understanding differences in projections.

Even before the outbreak, risks of a global growth slowdown were rising. The restructuring of regional supply chains had started, driven initially by rising wages in China and accelerated by the US-China trade war. While COVID-19 may further hasten the pace and extent of the restructuring, it is only partly responsible for what may happen. It would be misleading to attribute all of the current disruptions to COVID-19. Had the trade war not preceded it, COVID-19 may have resulted in greater disruption to supply chains.

Any assessment of impacts must recognise that the spread of COVID-19 is unpredictable, and so too the response by governments. It is difficult to estimate the impacts of a shock that is uncertain in itself. This reiterates the need for rigorous modelling and scenario analyses. The current trend points to risks rising, often accelerating, as with previous epidemics. This uncertainty underscores the need for caution in assessing, and regular recalibration in producing assessments.

## **3. Absent Global Leadership, Can the Region Step Up?**

The massive negative economic effects require governments to respond with support measures to ameliorate the impacts on businesses and households. Although the main response will occur at the national level, Covid-19 is a global health problem best addressed through a coordinated multilateral response. But this has yet to happen. The G7 could not even release a communique because President Trump insisted on using “Wuhan virus” instead of coronavirus. The G20 communique appeared “big on rhetoric, but short on substance”, unlike its response to the Global Financial Crisis.<sup>6</sup> Since global efforts have been limited, a regional response is more important than ever to complement national actions. Furthermore, while variation in infection rates across countries underscores the primacy of national responses, it also increases the potential benefits from regional coordination.

ASEAN’s first response was to convene a Special ASEAN-China Foreign Ministers’ Meeting in Vientiane on 20 February, where both sides agreed to strengthen

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<sup>6</sup> The lack of global leadership during this pandemic has been frequently noted, including by the EAF Editorial board (2020).

cooperation to fight the disease without specifying any concrete actions. It took four more weeks before the ASEAN Senior Health Officials met, agreeing on the need to involve the Plus Three countries, as with previous epidemics. A Special Meeting of the ASEAN+3 Health Ministers should be convened immediately to draft specific actions, as they did quite successfully with H1N1 in 2009.<sup>7</sup> The virtual Summit of leaders on 14 April which created a Covid-19 Response Fund – without additional funding – and a regional reserve of essential medical supplies further increases the urgency for the health ministers to meet to operationalise matters.

The role of consultation and cooperation should not be downplayed. When Malaysia implemented its lockdown in March, the measure had direct and immediate impacts on the livelihoods of 300,000 of its residents employed in Singapore. To minimise the disruption, Singapore hastily arranged temporary domicile to accommodate affected Malaysian workers in Singapore. This has raised economic and social costs for employers and employees. Had there been earlier consultation prior to the unilateral action, measures could have been pursued to reduce such costs, or to share them more equitably. As an honest broker, ASEAN is well placed to deal with bilateral issues such as these, to maximise collective welfare rather than often narrow, if not misguided national interests.

It is estimated that the majority of the seven million migrant workers in and from ASEAN are undocumented.<sup>8</sup> As illegal workers, they are denied any kind of social protection. Apart from the risk this poses to their health, it threatens the curtailment measures of host countries. If the aged and immune-compromised are the most at risk of succumbing to the virus, then the undocumented migrant workers are the most vulnerable, to both infection and spread, as they are often as ‘invisible’ as the virus itself. The surge in infections in Singapore amongst foreign workers in crowded dormitories raises concerns that undetected outbreaks could be occurring elsewhere in ASEAN, amongst documented and undocumented migrant workers living under similar conditions. The ASEAN Parliamentarians for Human Rights (2020) have called on ASEAN to address these issues urgently, but ASEAN has remained characteristically silent.

#### **4. ASEAN+3 was Created to Avert or Respond to Crises**

The Plus Three have more than their experience and expertise to share, having been at the epicentre. They also have the appropriate financial firepower, if tangible actions are to accompany pronouncements. ASEAN has very limited resources, not least because its richest members are small and there is limited appetite to surrender sovereignty to a supranational body. If actions require funding, the ASEAN+3 must be involved.

ASEAN+3 was created to respond to the Asian Financial Crisis and is therefore well-equipped to deal with emergencies such as this one. The ASEAN Surveillance Process was established as a regional surveillance mechanism to complement the surveillance mechanism of the International Monetary Fund (IMF) and the national surveillance process of each country. As a peer review mechanism, it can be employed to ensure that the health crisis does not become an economic crisis.

Should an economic or financial crisis erupt, however, the Chiang Mai Initiative Multilateralization (CMIM) - the ASEAN+3 financial safety net - is available. The

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<sup>7</sup> This was widely recognised in press reports, as highlighted by ASEAN (2009).

<sup>8</sup> Given their nature, there are no official statistics on undocumented workers, although various surveys have been done to try and estimate the numbers in ASEAN. See Thuzar (2018).

CMIM is the regional financial insurance scheme designed to provide emergency liquidity support in the event of a crisis. Its secretariat is the ASEAN+3 Macroeconomic Research Office (AMRO) located in Singapore, which also coordinates and contributes to the regional economic surveillance effort. As a series of promises rather than a fund, however, the CMIM has never been used.<sup>9</sup> But again, the regional effort could complement rather than substitute for national (and first line of defence, foreign reserves) and global (the lender of last resort, IMF) efforts.

An emergency ASEAN+3 Finance Ministers Meeting should be called to reassess risks and vulnerabilities, and to coordinate actions, both pre-emptive and remedial. Coordinated monetary and fiscal responses will increase their impact nationally, and reduce free-riding. Divergent national policies, even if they are all in the same direction of monetary or fiscal easing, can add to financial market volatility. Coordination would limit exchange rate instability, which may result in competitive devaluations and other beggar-thy-neighbour attempts, as well as destabilise inflation expectations.

And when we finally control its spread, the exit strategies of countries from lockdowns should also be coordinated to the extent possible in order to minimise the risk of recurrence, and to speed up the economic recovery. For instance, for members of ASEAN or ASEAN+3 that feel comfortable with the conditions in other countries, a quarantine-free travel corridor between pairs or more of these member countries could be set up (as being considered between Australia and New Zealand). To avoid duplication of quarantine requirements, and to facilitate tourism and intra-regional flows, quarantine periods in participating countries could be mutually recognised. Fast-tracking of customs procedure for essential items such as food and medical supplies, and accelerated efforts to restart logistics networks across air, sea and land freight could also be pursued.

## 5. Conclusion

COVID-19 is a human tragedy exacting a huge toll in terms of human life. Measures introduced to deal with the pandemic could save lives but are having wide-ranging economic effects and inducing economic contagion in East Asia. The disease is disrupting tourism and travel, supply chains and labour supply. The uncertainty over the evolution of the pandemic and the measures required to contain it is driving negative sentiment. This will affect trade, investment and output, which in turn will affect growth, setting in train a vicious cycle. The end result is likely to be rolling recessions, or even a depression, producing sharp rises in unemployment of capital and labour, and poverty.

The massive negative economic effects will mainly require a national response, but both ASEAN and ASEAN+3 could play a bigger role, especially since global leadership has been weak. ASEAN has well-oiled machinery that can facilitate consultation and cooperation, while ASEAN+3 will need to be involved if concrete actions require large-scale funding, as they have in the past. Apart from minimising free-riding, the impact of stimulus measures will be enhanced nationally if they are regionally coordinated. And as countries start to ease curtailment measures to contain the economic crisis, coordination will again be important to help prevent a second wave of the health crisis, and to accelerate economic recovery.

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<sup>9</sup> Although financial safety nets in Asia have come a long way since the Asian Financial Crisis of 1997–98, difficulties in operationalising them in order to provide a workable alternative to the IMF remain. For more details, see Hill and Menon (2014).

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