

PERSPECTIVE

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COVID-19 Economic Recovery: ASEAN's Mixed Pattern

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A speedy rollout of mass vaccination campaigns provides the best chance of winning the race against community spread as well as the emergence of ever more resistant strains. Here, a civil servant receives a dose of a COVID-19 coronavirus vaccine in Depok, West Java, in Indonesia on March 4, 2021. Photo: Adek Berry, AFP.

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EXECUTIVE SUMMARY

- Sustained revival of economic activities in ASEAN requires successful containment of COVID-19 within and outside the region. Half of the ASEAN members have contained the pandemic, but not Indonesia and The Philippines, while Myanmar, Malaysia and Thailand are dealing with new waves of infection.
- Economic growth in ASEAN countries appears to have bottomed out during the second quarter of 2020, although the shape of the recovery will vary between countries.
- For countries that have controlled local transmission of the virus, a V-shaped recovery looks likely. For the others, the possibility of a delayed or W-shaped recovery increases the longer reintroduced containment measures stay in place.
- The emergence of new variants that may be more transmissible, virulent or resistant to vaccines adds new uncertainty to regional and global recovery prospects, and hastens the need for an expeditious vaccine rollout.

INTRODUCTION

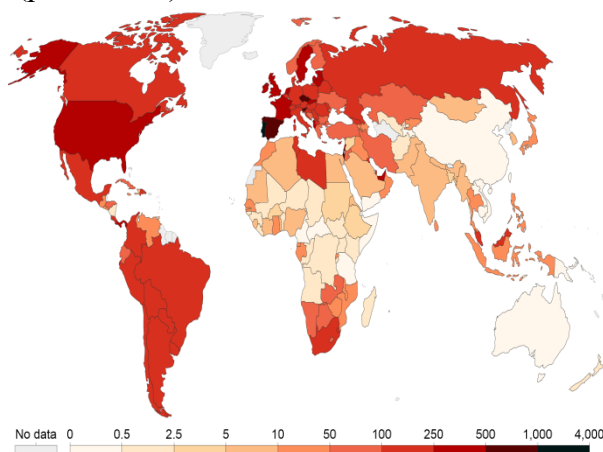
The COVID-19 pandemic has had major social and economic effects across the world. Lockdowns and infections affect domestic economies via supply and demand channels. On the supply side, they reduce labour supply and productivity, while business closures and social distancing also cause supply disruptions. On the demand side, layoffs, loss of income and worsened economic prospects reduce household consumption and firms’ investment. The uncertainty over the path, duration, and impact of the pandemic could result in a vicious cycle where reduced business and consumer confidence in turn increases job losses. This article examines the economic impact of the pandemic on the ASEAN countries, tracing its trajectory through the downturn, and the expected recovery path in 2020-2021.

CONTAINING COVID-19 IN ASEAN AND THE WORLD

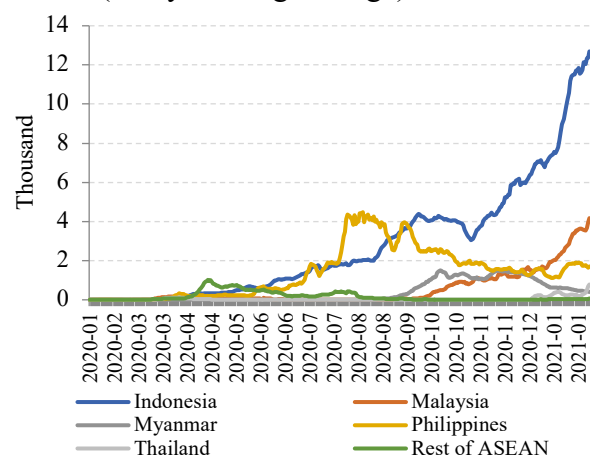
Sustained recovery of economic activities in ASEAN requires a successful containment of COVID-19. Krueger (2020) and others have argued that until community transmission of the virus is controlled, economic recovery will be uncertain and attempts at returning to pre-COVID-19 levels of normality may not be sustainable. However, several major economies and some ASEAN countries have been struggling to contain community spread of COVID-19. The United States, India, the United Kingdom, France, Germany and Japan are still facing high numbers of daily COVID-19 infections and deaths (Figure 1a). As of 30 January 2021, these countries had reported 46.5 million infections and 838,380 deaths, which accounted for 46 percent of global infections and 38 percent of global deaths, respectively.

Figure 1: The COVID-19 outbreak in Southeast Asia and in the rest of the world

a. Total confirmed cases (per million)



b. New confirmed cases (7-day moving average)



Note: Last data point is January 30, 2021. The rest of ASEAN includes Brunei, Cambodia, Laos, Singapore, and Vietnam.

Source: Authors’ computation using data from European Centre for Disease Prevention and Control (ECDC) and Our World in Data, <https://ourworldindata.org/covid-cases>.

The emergence of several more transmissible COVID-19 variants could further increase the number of infections and deaths. These include a variant called B.1.1.7 in the UK, another

called 1.135 in South Africa and the P.1 in Brazil (Hernandez and Toy, 2021). In fact, there is growing concern that most recent surges around the world could be due to new variants, some still unidentified (Menon, 2021). The uncertain and unpredictable nature of the pandemic was confirmed when infection rates suddenly began to decline in many countries including the US and UK in February 2021; the reasons for it or its sustainability remain unclear.

The pandemic has so far been managed relatively well in half of the member countries of ASEAN. Indonesia and The Philippines struggled to contain community spread almost from the start, while Myanmar and Malaysia, and more recently Thailand, are now trying to contain new waves of infection (Figure 1b). The average number of daily infections in The Philippines has declined from about 4,135 cases in August 2020 to 1,648 cases in January 2021. The average number of daily infections in countries that have controlled community transmission – Brunei, Cambodia, Laos, Singapore and Vietnam – has also shown a downward trend, dropping from 170 cases to 44 cases over the same period. In contrast, the average number of daily infections in Indonesia has increased from 2,123 cases to 10,771 cases over the same period. The resurgence of infections in Malaysia and Myanmar since September 2020 is also concerning; in January 2021, Malaysia had the highest number of infections in ASEAN per million population.

ECONOMIC IMPACT AND GOVERNMENT RESPONSE

The measures introduced to deal with the pandemic save lives but are having wide-ranging negative economic effects and inducing economic contagion. In their most recent projections released in January 2021, the IMF sees world output contracting by 3.5 percent in 2020, up from a contraction of 3.8 projected in October 2020 (Table 1). Growth in 2020 in the original five ASEAN member countries is projected to be negative, with the newer members expected to post positive but low growth except for Cambodia. The Philippines is expected to be the worst hit, contracting by 9.6 percent, followed by Thailand at -6.6 percent, and then Singapore and Malaysia, both expected to contract by about 6 percent. Indonesia is only expected to contract by 1.9 percent; this is due partly to the fact that it did not institute a general lockdown. Of the countries that implemented a general lockdown, Vietnam was the first to lift curbs, and the IMF projects that its economy grew by 1.6 percent in 2020.

Like the IMF, the ADB has also had to revise its forecasts several times, reflecting the uncertainty surrounding both the evolution of the pandemic and how governments are responding to it. The ADB has been generally less pessimistic than the IMF in its forecasts for growth in 2020 (Table 1). Both IMF (2021) and ADB (2020) expect that the ASEAN economy will contract by about 4 percent in 2020, but rebound strongly in 2021 by about 6 percent. These projections imply a V-shaped recovery for most countries, although the situation in countries contending with new waves of infection is less clear.

These forecasts take into account the stimulus packages that governments introduced to mitigate the economic impacts of the pandemic and measures introduced to contain its spread. The difference between the gross and net effects of the pandemic is depicted in Figure 2, and reflects the type and size of stimulus measures used. The size of the stimulus varies greatly across countries, and tends to be highest in the richer countries, as Figure 3a demonstrates (see also Lee *et al.*, 2020). In Singapore and Malaysia, this has amounted to around a quarter of GDP, while it is almost non-existent in poorer countries such as Laos and Myanmar. When these amounts are normalised for population size (Figure 3b), the cross-country differences are

more pronounced, with Singapore clearly standing out at almost US\$9,000 per capita. Brunei comes in second at around US\$700, while the difference between Malaysia and Thailand narrows significantly, with both now around US\$650.

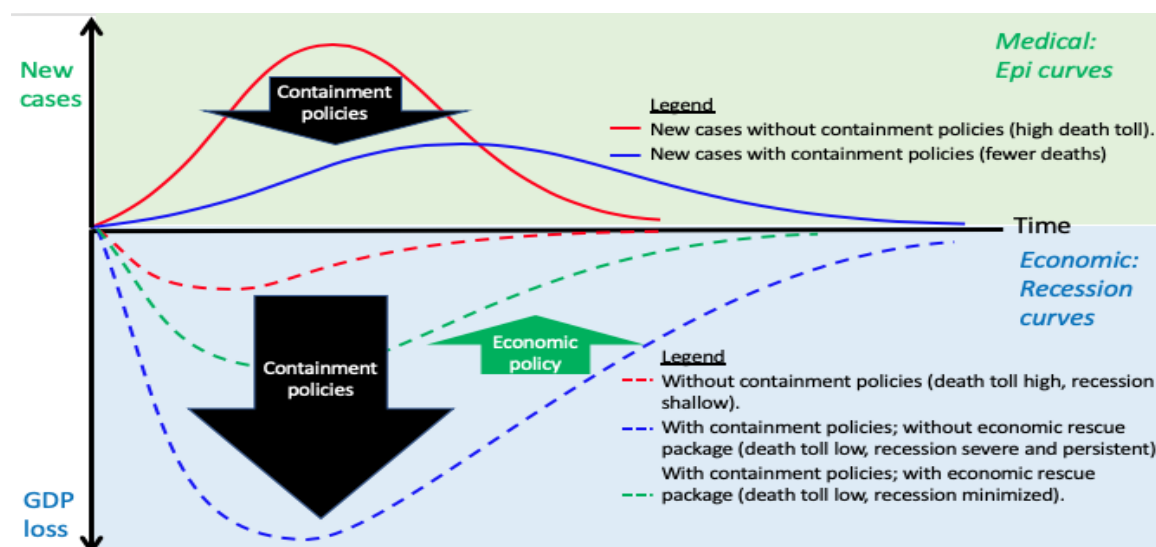
Table 1: IMF and ADB Forecasts of GDP Growth for ASEAN, 2020 and 2021

Country	Actual 2019	IMF Oct 2020		IMF Jan 2021		ADB Sept 2020	
		Forecast		Forecast		Forecast	
		2020	2021	2020	2021	2020	2021
Brunei	3.9	0.1	3.2	na	na	1.4	5.0
Cambodia	7.1	-2.8	6.8	na	na	-4.0	5.9
Indonesia	5.0	-1.5	6.1	-1.9	4.8	-1.0	5.3
Laos	5.0	0.2	4.8	na	na	-2.5	4.5
Malaysia	4.3	-6.0	7.8	-5.8	7.0	-5.0	6.5
Myanmar	6.8	2.0	5.7	na	na	1.8	6.0
Philippines	5.9	-8.3	7.4	-9.6	6.6	-7.3	6.5
Singapore	0.7	-6.0	5.0	na	na	-6.2	4.5
Thailand	2.4	-7.1	4.0	-6.6	2.7	-8.0	4.5
Vietnam	7.0	1.6	6.7	na	na	1.8	6.3
ASEAN (a)	4.4	-3.4	6.2	-3.7	5.2	-3.8	5.5

Notes: (a) The IMF definition of ASEAN reported here includes Indonesia, Malaysia, Philippines, Thailand and Vietnam, whereas the ADB definition includes all 10 members plus Timor-Leste.

Sources: IMF (2020; 2021); ADB (2020).

Figure 2: COVID-19 Infection and Recession Curves: The Impact of Containment and Stimulus Policies

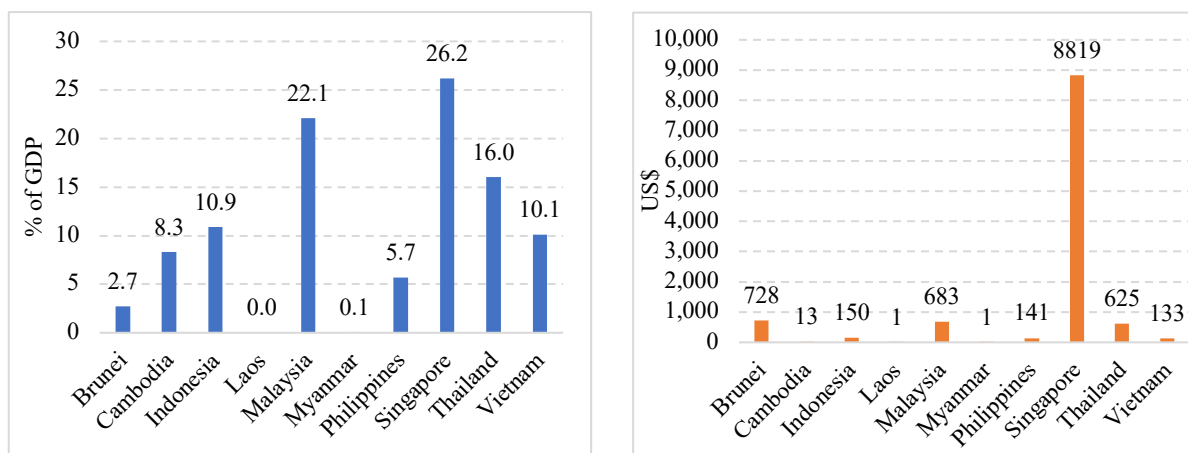


Source: Baldwin (2020).

Figure 3: Size of Stimulus Programmes in ASEAN

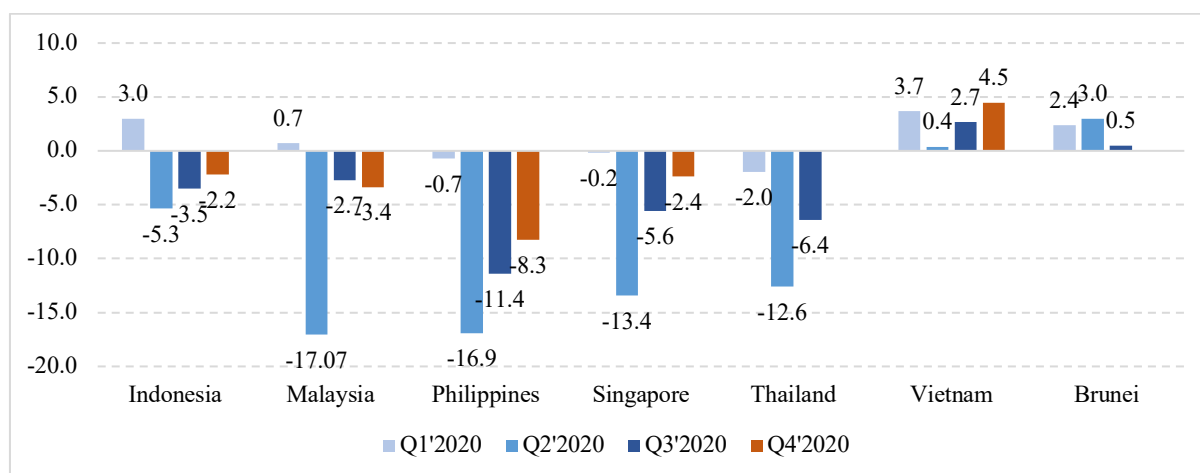
a. Percent of GDP

b. Per capita (US\$)



Source: Lee et al. (2020).

Figure 4: Quarterly Real GDP Growth, ASEAN-5, Vietnam, Brunei (% , year on year), 2020



Source: National statistical bureaus and agencies of respective ASEAN countries.

Apart from the forecasts, actual GDP growth figures are available for the first three and sometimes all four quarters of 2020 for the five original ASEAN member countries, Brunei and Vietnam (Figure 4). These numbers allow us to map the trajectory of intra-year economic performance, and to assess whether countries have bottomed-out in terms of the fall in their GDP.

TRACING THE TRAJECTORY OF RECOVERY

Economic growth for most ASEAN countries appears to have bottomed out during the second quarter of 2020, and recovery appears to be underway in the third quarter. This is true for both the countries that could not avoid a technical recession (the original ASEAN five members) or those with forecast of negative annual growth (Cambodia). It is also true for the countries with

positive quarterly growth so far (Brunei and Vietnam) or forecast positive annual growth (Laos and Myanmar). More high frequency data such as trade flows, which are usually available on a monthly basis, suggest that the bottom may have been reached in or around May 2020 for most countries.

For countries that have controlled community transmission of the virus, a V-shaped recovery with the trough bottoming out in the second quarter with a strong rebound thereafter, currently appears to be the most likely outcome. For countries still struggling to contain community spread, the shape of recovery is more difficult to predict, since much depends on how long the containment measures are in place. The possibility of a delayed or W-shaped recovery gains likelihood the longer the reintroduced containment measures are in place.

In the remainder of this section, we try to map the trajectory of growth during the year and assess the outlook going forward for each ASEAN country. We begin with the countries that could not avoid a recession, and then consider those that have.

Recovery from recession

Given the huge size of its stimulus, combined with relaxation of social distancing measures after controlling community transmission, Singapore reported a slower year-on-year decline of 5.6 percent in the third quarter, compared to the 13.3 percent decline in the previous quarter. This improvement continued into the fourth quarter, when the contraction declined further to 2.4 percent, much lower than the advance estimate of 3.6 percent. With the revision to the fourth quarter number, Singapore's growth contraction for 2020 is estimated at 5.4 percent, lower than forecast by the IMF or ADB.

Indonesia is the least badly affected of all the countries that have gone through a recession this year, most likely due to the fact that they did not implement a hard or prolonged lockdown. The economy contracted by 3.5 percent in the third quarter, even lower than its second quarter contraction of 5.3 percent, which was the lowest among the original five ASEAN members. This trend extended to the fourth quarter, when the contraction narrowed to 2.2 percent. This is despite the tightening of some social distancing measures to try to control ongoing community transmission, without a general lockdown. This latest number further consolidates Indonesia's position as the economically least affected of the original five ASEAN members. Nevertheless, the recovery remains fragile as long as community transmission remains a problem.

After reporting positive year-on-year growth of 0.73 percent in the first quarter, Malaysia's second quarter contraction of 17.1 percent was the highest amongst the ASEAN countries. The third quarter contraction was much lower at 2.7 percent, however, following strong quarter-on-quarter growth of 18.2 percent. This strong rebound from the depths of the second quarter contraction suggests that Malaysia was recovering strongly, aided by significant government stimulus measures. The reintroduction of containment measures following a new wave of infections in the third quarter dampened the recovery, however. A higher fourth quarter contraction of 3.4 percent indicates early signs of a W-shaped growth pattern. With infection still on the rise in January 2021, a lot will depend on how much longer the containment measures remain in place, and how the political situation develops when the state of emergency expires on 1 August 2021.

There are no quarterly GDP estimates available for Cambodia (or Laos and Myanmar) to assist in mapping the pattern of growth during the year. The IMF expects that Cambodia's GDP will contract by 2.8 percent in 2020, while the ADB expects an even larger contraction of 4 percent. Both expect the economy to rebound strongly in 2021, with the IMF projecting 6.8 percent growth, the third highest in ASEAN.

Thailand's year-on-year contraction of 1.97 percent in the first quarter was the largest in ASEAN, and this contraction continued in the second quarter with a 12.16 drop. Third quarter growth fell by 6.4 percent, much less than market expectations, suggesting that Thailand is also on a recovery path. A new wave of infections in the fourth quarter reintroduced containment measures in many parts of the country, leading analysts to predict that the economy will contract by around 5.5 percent in the fourth quarter. Thailand is the most heavily reliant on travel and tourism in ASEAN, and as long as borders remain closed, its recovery is likely to be weaker than it needs to be (Menon, 2020a). Thailand is also dealing with social unrest that may affect political stability, and further dampen confidence and therewith, investment.

The Philippines contracted by 11.5 percent in the third quarter, lower than the 16.9 percent contraction in the second quarter, as a result of 8 percent quarter-on-quarter growth. Although the decline may have bottomed out in the second quarter, the double-digit contraction was higher than market expectations. Although the fourth quarter contraction was lower at 8.5 percent, it confirmed forecasts that the Philippines was the worst hit economy in ASEAN in 2020. Continuing difficulties in managing the pandemic, including problems with improving testing and tracing, suggests that the recovery will be drawn out and fragile (Menon 2020b).

Recovery from slowdown

Vietnam has not only avoided a recession, it did not experience a single quarter of negative growth in 2020. While the second quarter saw year-on-year growth slow from 3.68 percent in the first quarter to 0.39 percent, third quarter growth rebounded strongly to reach 2.6 percent, and then stronger still to 4.6 percent in the fourth quarter, indicating that it may surpass the IMF's annual growth forecast of 1.6 percent. Apart from having managed several new waves of infections expeditiously, Vietnam's positive growth is aided by significant inflows of foreign direct investment as a result of the restructuring of global supply chains following the US-China trade war.

Like Vietnam, Brunei has avoided negative growth so far, after posting year-on-year growth of 2.4 percent in the first quarter, and 2.8 percent in the second. Third quarter growth fell sharply to 0.5 percent, however. Depending on how it fares in the fourth quarter, the IMF forecast of 0.1 percent growth for 2020 may be too pessimistic, and the ADB forecast of 1.4 percent or the ASEAN+3 Macroeconomic Research Office (AMRO, 2020) projection of 1.6 percent may come closer to the mark.

Laos and Myanmar do not report quarterly GDP estimates, and therefore tracking the trajectory of recovery is difficult, but both countries are expected to avoid a recession this year, based on annual forecasts.

The IMF expects Myanmar to be the fastest growing economy in ASEAN in 2020, with 2 percent growth. This forecast may not fully reflect the new wave of infections that Myanmar is currently struggling to control, however. The military coup that took place in February 2021

may have a major negative effect on the economy depending on how long it lasts, and how the international community reacts, especially with regards to whether economic sanctions are imposed, and what form these will take.

Laos is expected to post positive growth of 0.2 percent this year, according to the IMF’s latest projections. The ADB, however, is projecting a contraction of 2.5 percent. Its debt position, made more precarious by the pandemic, raises concerns over the resilience of its recovery, going forward.

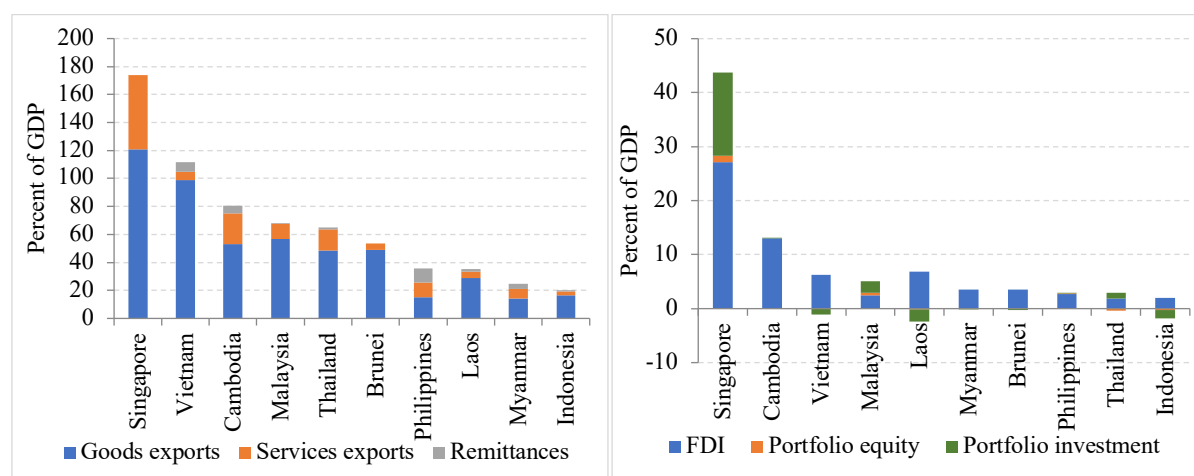
Risks to economic recovery

All ASEAN members are quite heavily dependent on the rest of the world through trade, investments and other linkages. Once community transmission is contained and lockdowns eased, economic recovery in ASEAN would be greatly facilitated by recovery of the global economy. The IMF (2021) projects a sharp recovery in world GDP in 2021, rising by 5.5 percent. Major economies such as China, US and EU are projected to grow by 8.1 percent, 5.1 percent and 4.2 percent, respectively, in 2021. The recovery of these economies is expected to boost exports and imports of goods and services in the region.

Figure 5: Exposure of ASEAN to the Global Economy

a. Exposure to trade and remittances

b. Capital flow exposure



Note: FDI = Foreign direct investment. The data is averaged over 2017-2019.

Source: Authors’ calculation using data from the World Bank’s online database ‘World Development Indicators’, available at <https://databank.worldbank.org/source/world-development-indicators>.

ASEAN economies are exposed to the regional and global economy through flows of goods, services, labour, and capital (Figure 5). Singapore, Vietnam, Cambodia, Malaysia, Thailand and Brunei stand out in terms of the high share of exports of goods and services in the GDP. They are more likely to be affected by a sluggish recovery in global demand and trade. The Philippines, Vietnam, Cambodia and Myanmar rely quite heavily on remittances, to the tune of 9.7 percent, 6.6 percent, 5.8 percent and 3.5 percent of GDP, respectively.

CONCLUSION

All ASEAN economies have been severely affected by the lockdown measures introduced to contain the COVID-19 pandemic, but some more so than others. The bottom for the slowdown in economic growth appears to have been reached sometime during the second quarter of 2020, but the turnaround has been uneven across ASEAN countries. For countries that have managed to control community transmission of the virus, a V-shaped recovery looks likely. These include Brunei, Cambodia, Laos, Singapore and Vietnam. For the others, the possibility of a delayed or W-shaped recovery gains in likelihood the longer the reintroduced containment measures are in place. The Philippine economy has been the worst hit, followed by Malaysia, Thailand, Indonesia and Myanmar.

The emergence of new variants of the virus that may be more transmissible and virulent, and resistant to the new vaccines to boot, narrows recovery prospects for the region as well as the world. A speedy rollout of mass vaccination campaigns provides the best chance of winning the race against community spread as well as the emergence of ever more resistant strains.

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