

Resuming Growth in ASEAN Post-COVID: Opportunities and Challenges

Kirida Bhaopichitr

Director, Economic Intelligence Service, Thailand Development Research Institute (TDRI)

Synopsis

- Almost two years after the COVID-19 pandemic hit the global economy, signs of recovery are emerging in many ASEAN economies, driven by domestic consumption and exports.
- In 2022, high prices, supply disruptions, weaker currencies, and interest rate hikes may decelerate ASEAN's recovery.
- Beyond the pandemic, digitalization, de-carbonization and green development, an aging society, technology wars between the US and China, and inequality are expected to accelerate. These could present both opportunities and challenges for ASEAN economies.

Almost two years after the COVID-19 pandemic affected the global economy, signs of recovery are emerging in many ASEAN economies (see Table 1). Economic recovery is being driven by the reopening of economic activities in these countries, as a higher share of the population in each ASEAN country is vaccinated. Most ASEAN countries had vaccinated more than half of their population as of the end of 2021. Vaccination, along with a greater availability of ATK testing, has allowed domestic economic activities to resume and helped raise domestic spending. On the external front, the recovery of ASEAN's key export markets, namely the United States (US), China, the European Union (EU), and Japan, helped boost exports (see Table 2). By 2022, it is expected that the economies of most ASEAN countries, except Thailand, will recover to their pre-COVID values.

Table 1: ASEAN GDP Growth (%)

	2020	2021F	2022F
ASEAN	-3.4	2.4	5.5
Thailand	-6.1	1.0	4.5
Indonesia	-2.1	3.2	5.9
Malaysia	-5.6	3.5	6.0
Philippines	-9.6	3.2	6.3
Singapore	-5.4	6.0	3.2
Brunei	1.1	2.0	2.6
Cambodia	-3.1	1.9	5.7
Laos	-0.4	2.1	4.2
Myanmar	3.2	-17.9	-0.1
Vietnam	2.9	3.8	6.6

Source: IMF World Economic Outlook (October 2021) F= Forecast

Table 2: ASEAN Export Growth (%)

	2020	2021F	2022F
Thailand	-5.9	19.9	5.7
Indonesia	-3.3	8.9	5.7
Malaysia	-2.1	8.5	1.6
Philippines	-12.8	11.5	13.5
Singapore	0.4	5.7	4.9
Brunei	11.7	23.5	10.8
Cambodia	19.7	-6.5	10.7
Laos	1.4	-19.0	5.2
Myanmar	3.0	-19.9	5.3
Vietnam	8.5	-0.3	10.2

Source: IMF World Economic Outlook (October 2021) F= Forecast

Foreign direct investments to ASEAN, especially relocation from China, have continued through the pandemic. Higher wages in China, US–China trade and tech wars, the outbreak of COVID in China, recent energy shortages in the country, and the government’s policies to closely monitor and regulate the private sector have prompted both Chinese and non-Chinese firms to diversify production from China. Since 2018, ASEAN has been the main destination for relocations from China, particularly manufacturing for exports. Vietnam has been the largest recipient of relocation, followed by Thailand. Manufacturing production relocation to Vietnam ranges from low-tech and labor-intensive products to high-tech, capital-intensive products. Meanwhile, relocation to Thailand is in high-tech and green industries such as automotive and parts, electrical vehicles, cloud data centers, and high-tech electrical appliances and electronics. This trend is expected to subsist post-COVID, as firms continue to diversify from China.

Tourism to ASEAN, however, may take a few more years to recover to its pre-COVID levels. Chinese tourists, who accounted for the majority of international tourists to ASEAN before the pandemic, will likely be allowed to leave China freely at the end of this year at the earliest, as China strictly adheres to its zero-COVID policy. New strains of COVID-19 outbreaks will continue to discourage international tourists from other countries. Fewer flights and new travel requirements may make travel more expensive. ASEAN economies that rely heavily on international tourism receipts will continue to be heavily impacted. These include Cambodia, Thailand, and Vietnam, where international tourism receipts accounted for more than 10 percent of their gross domestic product (GDP) in 2019.

In 2022, high prices, supply disruptions, weaker currencies, and interest rate hikes may slow ASEAN’s recovery. Global prices have risen expeditiously following a recovery in global demand, while supply disruptions persist triggered by the pandemic. Freight rates from ASEAN to the US and the EU are expected to remain twice that of their pre-COVID levels with shortages in ships and containers, as they require more transit time in the major ports of the US and EU. Higher freight costs have reduced the margins of ASEAN exporters. Energy prices were also higher than pre-COVID levels. The US Energy Information Administration estimates that Brent oil prices will average US\$75 per barrel in 2022 compared to US\$65 per barrel in

2019. Energy shortages in China and the Chinese government's policies to reduce production with high carbon emissions are limiting outputs from China, thus raising their prices.

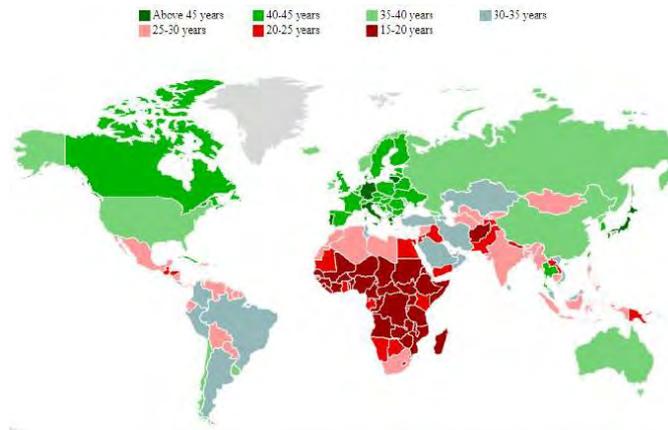
The weakening of most ASEAN currencies in 2022 and rising interest trends will raise costs for ASEAN. The US dollar has been strengthening since mid-2021 as the US Federal Reserve (FED) plans to reduce and end its quantitative easing measures by mid-2022. Consequently, ASEAN currencies have weakened against the US dollar in 2021 and will continue to weaken further by 2022. A weaker currency implies higher import prices in local currencies. Moreover, the FED will likely start hiking its policy rate by the second half of 2022, thus triggering a rise in global interest rates. By 2023, most, if not all ASEAN countries would have likely raised their interest rates as well.

Beyond the pandemic, trends of digitalization, de-carbonization and green development, an aging society, technology wars between the US and China, and inequality will accelerate. These could present both opportunities and challenges for ASEAN economies. The adoption of digital technologies has rapidly increased in both the business and public sectors in the ASEAN. These have also promoted other related activities. For example, the rapid expansion of e-commerce has led to a rapid growth in delivery, packaging, and logistics warehouse services. Cyber-security and cloud services have also grown with greater digitalization. However, the digital divide remains in most ASEAN countries in which poorer and older populations are unable to access digital services.

The trends of de-carbonization and green development are rising post-COVID. Developed countries, especially the EU, are driving this trend. As one of its measures, the EU will begin levying a carbon tax on imports by 2023. This could impact ASEAN's exports to the EU unless the production process and export products emit lower carbon. This would require a change in the energy mix (e.g., more renewable energy), in the production process (e.g., adoption of a circular economy), and the types of products (e.g., more bio-based products). Most ASEAN countries are rich in natural resources and biodiversity, which gives them the advantage of producing renewable energy as well as bio-based products.

Most developed nations have entered aging or silver societies, and so have a few countries in the ASEAN (see Figure 1). The US, Western Europe, Japan, and China are witnessing a growth in the aging population, with more than one-fifth of their population aged over 60. In ASEAN, Singapore and Thailand are aging societies. This presents both challenges and opportunities for ASEAN economies. While a declining labor force and greater social welfare, including public healthcare expenditures, are challenges for future growth, particularly for middle-income, developing countries such as Thailand, the market for seniors' products is huge, ranging from healthcare products and services to smart devices. ASEAN countries, with their vast biodiversity and potential in bio-based products, could serve the rising global demand for healthy foods, vitamins, medicines, and medical tourism.

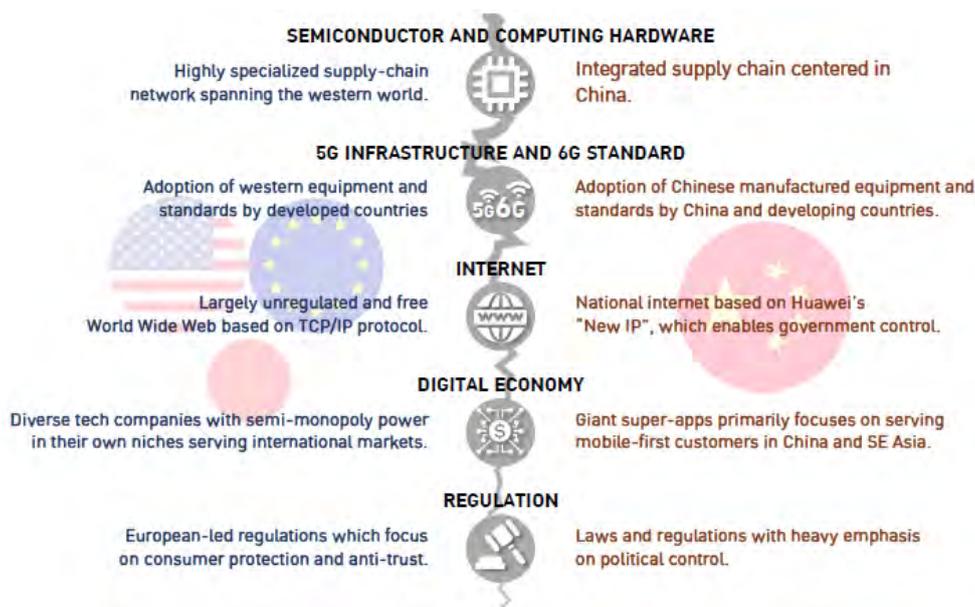
Figure 1: Median Age by Country (2020)



Source: The UN, World Population Prospects (2019) and The World Factbook (2020)

The US–China trade and technology tensions will likely last into the foreseeable future. The US continues to be threatened by China’s rapid technological advancements and will likely impose more barriers to trade and investments with China, especially for high-tech products such as advanced semi-conductors and other platform services. Although this has prompted the relocation of firms from China to ASEAN countries, as discussed above, the tech tensions that will likely result in the split of world technology into two camps—China versus the US, Japan, and the EU—will impact ASEAN countries as users of the technology (see Figure 2). ASEAN countries may eventually need to adopt both systems to be able to transact with both camps. This would lead to higher costs of communications and for conducting international business in the future. Moreover, the differing rules and regulations of the two camps around data privacy and big tech firms will also pose compliance challenges for ASEAN countries in conducting business with both sides.

Figure 2: Two Global Technology Camps



Source: Thailand Development Research Institute. 2021

Lastly, inequality is expected to rise in most developing countries post-pandemic. Low-income households have been affected by the pandemic to a greater extent than high-income households, as they have a much lower access to digital technologies owing to unaffordability or the lack of devices or Internet connection. In many cases, their jobs, such as cleaning, driving, or security services, cannot be performed digitally. This not only places them at a higher risk of contracting COVID-19, but in many cases also reduces their income as companies that move to work-from-home cut work hours for those jobs. Access to online education or telemedicine during the pandemic has also been limited to low-income households, thus widening the inequality in receiving public services as well. These will have long-term impacts on job prospects for low-income households, thus contributing to the widening inequality post-COVID in most ASEAN countries.