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The Effects of COVID-19 on Emerging Economies in Asia and Public Policies to Support the Economy

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Abstract

2020 has seen the world facing a new pandemic – the COVID-19 pandemic (caused by the coronavirus), originating in the Chinese province of Wuhan. With unprecedented contagion rates, COVID-19 has spread out rapidly and brought about the enforcement of measures meant to prevent the virus from spreading – social distancing or quarantine – that resulted in certain branches of industry coming to a halt and a domino effect in the economies of impacted countries.

The article focuses on analysing the way the emerging economies in Asia were impacted by the COVID-19 pandemic, the initial response of the countries in the region in general and ASEAN economies in particular, as well as public policies implemented in response to the pandemic. The starting point of research was set at the moment in time when the World Health Organization declared the COVID-19 epidemic a global pandemic; the article proceeds to examine the way countries in the region reacted, to identify the economic sectors that were hit the worst, the effects of the breakdown of supply chains and the way the estimates on the impact of the medical crisis on the economies in the region have changed over time.

As far as public policies implemented as a response to the pandemic are concerned, the text highlights the first steps taken by authorities in order to protect the population's health and to allow economic activity to continue, by analysing available data, in the context where the evolution of the medical crisis has been difficult to assess, and the predictions on the impact of the coronavirus on the economies in the area have been repeatedly revised as the crisis escalated, the predictions of international organizations included.

Keywords: COVID-19, emerging economies, Macroeconomic Policy, Asian Growth, Economic Development.

JEL classification: E02, F63, F62, F40, H12

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1. Introduction

Over time, mankind has had to face several pandemics, with the Spanish flu (caused by the H1N1 influenza virus) in the early 20th century (1918-1919) deemed to be the most severe pandemic in recent history. Estimates place the number of people infected with the Spanish flu at circa 500 million – that is, one third of the world's population at the time – and the number of deaths rose to more than 50 million. "The Asian flu" (H2N2), first reported in Singapore, in early 1957, caused 1.1 million deaths worldwide, and the A-H3N2 flu virus, first reported in the US in 1968, is still circulating nowadays, as a seasonal flu virus.

2020 has seen the world facing a new pandemic – the coronavirus (COVID-19) pandemic, originating in the Wuhan province in China. Initially thought to be a type of pneumonia or just a new form of flu, COVID-19 was then declared a global pandemic by the World Health Organization on March 11.

2. Problem Statement

The paper focuses on analysing the way the emerging economies in Asia were impacted by the COVID-19 pandemic, the initial response of the countries in the region in general and the ASEAN economies in particular, and the public policies implemented in response to the pandemic.

The starting point of research was set at the moment in time when the World Health Organization declared the COVID-19 epidemic a global pandemic; the paper examines the way the countries in the region reacted, the economic sectors that were hit the worst, the effects of the breakdown of supply chains and the way the estimates on the impact of the medical crisis on the economies in the region were revised.

3. Aims of the research

As far as the public policies enacted in response to the pandemic are concerned, the article identifies the first set of measures taken by authorities in order to protect the population's health and to ensure continued economic activity, by means of an analysis of available data, in the context where the evolution of the medical crisis has been difficult to estimate, and the predictions on the impact of the coronavirus on the economies in the region have been repeatedly revised as the crisis escalated, including the predictions formulated by international organizations.

4. Research Methods

A qualitative analysis of the response to the COVID-19 pandemic was used in order to highlight the reactions of national authorities and the way decisions were coordinated across the region.

Macroeconomic indicators have been taken into consideration; databases and official reports have been used as well, such as those reports issued by the Asian Development Bank (ADB), the International Monetary Fund (IMF), the World

Bank (WB), the Organization for Economic Cooperation and Development (OECD), the World Tourism and Travel Council (WTTC), the World Trade Organization (WTO) and data from national authorities – Finance Ministries and tourism supervisory authorities, among others.

5. Findings

With unprecedented contagion rates, COVID-19 propagated rapidly and brought about the enforcement of measures meant to prevent the virus from spreading – such as social distancing or quarantine – that led to certain branches of industry coming to a halt, with subsequent chain effects in the economies of the impacted countries.

In the first quarter of this year, the global equity market lost close to US$ 27 trillion in stock-market capitalization (the market value of the companies floated on stock markets) (Guda, 2020). Unlike previous financial crises, this time a "shutdown" effect occurred. The prevention measures meant to slow down the dissemination of the virus led to the partial or complete shutdown of certain ventures and to people resorting to sheltering in isolation, or, in other words, to a halt in economic activity, meaning the movement of the factors of production, including the workforce, internal and international specialization and uninterrupted production chains.

While a short time after the outbreak of the pandemic in China, the initial predictions estimated a short-term and limited impact on the global economy, the exponential propagation of the virus from one hotbed to other regions, including Europe, the US as well as the ASEAN countries, brought about a revision of growth forecasts.

Initially, the IMF predicted the impact of COVID-19 on the global economy would be a mere 0.1 percentage points, and it estimated economic growth in 2020 would amount to 3.2%; later on, on March 4 (IMF, 2020), the IMF revised its estimates to a level below the 2.9% economic growth rate of 2019, and on March 23 it announced a recession. In addition, the OECD, in its March 2 report assessing the impact of the COVID-19 outbreak (OECD, 2020), predicted a 0.5 percentage point drop from the initial prediction of 2.9% growth rate for the global economy in 2020, to 2.4%, or a drop to 1.5% in case of a prolonged global outbreak.

In a report published on March 6, the Asian Development Bank estimated the global impact of the pandemic at US$ 2 trillion to US$ 4 trillion; then, on May 15, the ADB released an assessment of the costs caused by COVID-19, ranging from US$ 5.8 trillion to US$ 8.8 trillion, which is the equivalent of 6.4% to 9.7% of the global GDP (ADB, 2020).

In ASEAN countries (ASEAN - the Association of Southeast Asian Nations: Brunei Darussalam, Cambodia, the Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam), the pandemic has brought about an immediate disruption in economic activity across the entire region, an immediately apparent decline of tourism, a halt in air travel and a drop in consumer and corporate confidence, as several countries enforced travel restrictions, shelter in place or quarantine, in the case of people coming in from countries impacted by COVID-19, so as to keep the virus from spreading.

China is ASEAN's biggest trade partner and investor. In 2018, China accounted for 17.1% of ASEAN's total trade and for 6.5% of ASEAN's total direct investments. ASEAN's supply chains are heavily integrated with China's production sector, and the region's tourism sector benefits from the heavy inflow of Chinese tourists. In addition to China, the other countries impacted by contagion to a significant extent, the US and the Eurozone, are, in turn, some of the ASEAN's biggest trade and investment partners, and ASEAN member countries themselves are directly impacted by the outbreak. The World Trade Organization estimated a drop of global trade of 13% to 32% in 2020, higher than the decline brought about by the global financial crisis (WTO, 2020).

At the time of the COVID-19 outbreak in Wuhan, the main concern of the countries in South-East Asia was the possible impact on supply chains, as a result of the temporary shutdown of the factories in the Hubei province, because of the blockages. Hubei is an important industrial hub, particularly for machine and electronics manufacturing. When production came to a halt, it created deficiencies in the delivery of components, which brought about a decline in operations throughout the supply chains, including those located abroad. This impacted entities that were integrated into supply chains, including the ASEAN member countries.

As the virus was rapidly spreading in China, most countries in South-East Asia placed restrictions on travel to and from China, a restriction that was later on expanded to include other impacted countries, such as Japan and Korea, by cancelling flights and even closing down borders. In other words, there was an immediate and direct impact on travel and tourism. Japan and Korea were some of the biggest sources of tourists for ASEAN, and, as the scope of the travel restrictions expanded, it led to mass cancellation of hotel bookings in the tourism industry, impacting companies and employees. Then the first cases in the ASEAN member countries were reported, which further impacted tourism in the region, as fear of contagion drove tourists away. Therefore, the initial incentives implemented by countries in South-East Asia concerned tourism and the related sectors. Impacted hotel operators, restaurants and airlines, as well as small enterprises, were offered tax cuts and/or emergency loans, and employees were supported with various subsidies or even money.

Other additional measures to alleviate the impact of COVID-19 were implemented as well, to varying degrees – authorities decreed the enforcement of social distancing, the temporary closing down of schools, offices and non-essential enterprises, lockdown and quarantine. The economic impact escalated afterwards, as discontinued production, discontinued commercial operations and the large-scale travel restrictions led to losses for companies and the loss of means of living and income for the employees.

At the beginning of the COVID-19 epidemic, many countries did not anticipate the economic impact and underestimated the costs caused by the virus. The IMF initially declared that the impact would be limited, probably around 0.1% of their 3.3% growth estimate for the global economy for 2020. More than a month after the initial statement, the IMF announced a serious revision for the worse of its growth forecasts for 2020. The Asian Development Bank, by way of its growth predictions in the Asian Development Outlook report in April, indicated the extent of the impact of COVID-19, in terms of the difference between the new estimates the predictions made last year, before the outbreak. The ADB revised its forecast for developing countries in Asia for the worse by 3.0 percentage points to 2.2%, and the forecast for ASEAN countries by 3.7 percentage points to 1.0%. The Asian Development Bank encompasses Developing Asia member countries: Afghanistan; Armenia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; the Cook islands; the Federated States of Micronesia; Georgia; India; Indonesia; Fiji; Hong Kong, China; Kazakhstan; Kiribati; the Kyrgyz Republic; the People's Democratic Republic of Laos; Malaysia; the Maldives; the Marshall islands; Mongolia; Myanmar; Nauru; Nepal; Niue; Pakistan; Palau; Papua New Guinee; the People's Republic of China, the Philippines; the Republic of Korea; Samoa; Singapore; the Solomon islands; Sri Lanka; Taipei, China; Tajikistan; Thailand; East Timor; Tonga; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; Viet Nam.

Table 1. Estimated global and regional impact of the COVID-19 outbreak, under different scenarios

	Shorter containment, smaller demand shocks		Longer containment, larger demand shocks	
	% of GDP	Losses $ billion	% of GDP	Losses $ billion
World	-2,3	2,013	-4,8	4090,8
People's Republic of China	-4,6	628	-5,1	691,6
Developing Asia excluding the PRC	-1	93,3	-2,2	200,1
Rest of the world	-2	1291,6	-5,1	3199,1

Source: ADB estimates

The economic growth predictions for the ASEAN member countries have been revised for the worse (Table 2). For instance, before the outbreak of the epidemic, Indonesia expected a 5.3% increase in 2020; by April, the estimate was revised downwards to 0.4% - 2.3%. In a similar manner, the official target for growth in the Philippines in 2020 had been set at 6.5% - 7.5%. The impact of COVID-19 was initially limited, and the target was left unchanged. Nevertheless, by March 19, the economic growth forecast was lowered to -0.6% - 4.3%, taking into consideration the impact on the transport sector and tourism, exports, remittances from workers abroad, consumer spending and the effects of the lockdown (NEDA, 2020). In early February, Thailand and Singapore had revised their predictions to take into account the evolution of tourism - Thailand, down from 2.7%-3.7%, to 1.5%-2.5%, and Singapore down from 0.5%-2/5%, to between -0.5% and -1.5 %. On March 26, Singapore announced its worst-case scenario, predicting a 4.0% drop of the GDP.

Table 2. GDP growth forecasts for 2020 ASEAN

Country	Initial Forecast		Revised Forecast	
Brunei Darussalam	1.5%	Sep 2019	2.0%	3 Apr 2020
Cambodia	6.8%	Sep 2019	2.3%	3 Apr 2020
Indonesia	5.3%	Official target, Aug 2019	4.7% to 5.0% -0.4% to 2.3%	4 Mar 2020 1 Apr 2020
Lao PDR	6.2%	Sep 2019	3.5%	3 Apr 2020
Malaysia	4.8%	Official target	3.2% to 4.2% -2.0% to 0.5%	Feb 2020 3 Apr 2020
Myanmar	6.8%	Sep 2019	4.2%	3 Apr 2020
Philippines	6.5% to 7.5%	Official target	5.5% to 6.5% (if outbreak lasts until June) -0.6% to 4.3%	Mar 2020 19 Mar 2020
Singapore	0.5% to 2.5%	Nov 2019	-0.5% to 1.5% -4% to -1%	17 Feb 2020 26 Mar 2020
Thailand	2.7% to 3.7%	Nov 2019	1.5% to 2.5%	17 Feb 2020
Viet Nam	6.8%		6.27% if contained in Q1; 6.09% if contained in Q2 5.96%	5 Feb 2020 13 Feb 2020

Source: NEDA

The breakdowns in supply chains, the travel restrictions and the blockages have had ample consequences. Many companies downsized or even shut down operations for a while, and financial markets in the US, Europe and Asia were impacted by the coronavirus.

The effect of the COVID-19 pandemic on the financial system will depend, on the one hand, on how much the virus would spread across the world, and its effect on economic activity, and, on the other hand, on the response to the shock, in terms of fiscal and monetary policies and regulatory measures meant to prevent the weakening of the banking system.

In the US, the Dow Jones Industrial Average lost 2,999 points (12.9%), closing at 20,188.52, with March 16 seeing the second most serious drop in a single day, in percentage points, after the "Black Monday" in 1987. In addition, the stock markets in Europe, Asia and Latin America registered steep drops (CNBC, 2020).

The macroeconomic indicators reveal that the ASEAN member countries currently register public debt and budget deficit levels that limit the steps meant to support economies (Table 3).

Table 3. ASEAN macroeconomic indicators, 2018

Indicator	Inflation	Broad money	Current account balance	Fiscal balance	External debt stocks	External debt stocks, short term	Reserves
Unit	%	% of GDP	% of GDP	% of GDP	% of GDP	% of total external debt	% of external debt
Brunei Darussalam	0.2	81.6	7.9	-3.6	(na)	(na)	(na)
Cambodia	2.5	100.7	-11.3	-0.8	62.3	15.4	90.5
Indonesia	3.2	38.8	-3.0	-1.8	35.5	14.3	32.6
Lao PDR	2.0	52.3	-12.0	-4.4	86.1	2.6	6.3

Indicator	Inflation	Broad money	Current account balance	Fiscal balance	External debt stocks	External debt stocks, short term	Reserves
Malaysia	0.9	125.2	2.1	-3.6	62.4	43.3	45.4
Myanmar	6.9	52.6	-4.2	-2.6	19.3	5.9	37.8
Philippines	5.3	78.1	-2.6	-1.6	23.0	20.4	100.5
Singapore	0.4	122.7	17.9	3.6	411.8	74.8	19.5
Thailand	1.1	123.2	6.4	-0.2	33.5	35.6	121.5
Vietnam	3.5	158.1	2.4	-4.4	44.8	18.1	51.3

Source: adapted from ASEAN Policy Brief (2020)

As far as the financial sector is concerned, ASEAN member countries have taken several measures in order to boost lending – operations on the open market, cutting down banks' minimal mandatory reserves, credit facilities and refinancing policies. In addition, financial institutions have lowered loan interest rates and offered additional credit to companies in the industries impacted by the COVID-19 pandemic, as well as to the producers of critical medical supplies and equipment. At the same time, banks implemented various schemes to allow the postponement of loan repayments for both SME and retail customers.

6. Conclusions

The COVID-19 pandemic has directed attention to the interconnection of various countries brought about by globalization and to the accompanying risks and vulnerabilities. The breakdown of supply chain in a certain region impacts other regions as well and may even lead to the redirection of trade and investments to other regions, in an attempt to cut back the risk of a halt of production as a result of the respective breakdowns. In addition, the world's biggest economies – the US, China, the EU – are the main economies to rely on demand and supply shocks and they are the ASEAN's main trade partners, as well, accounting for half (50.3%) of the ASEAN's total trade in goods (US - 9.31%, China - 17.12%, the EU - 10.20%). In turn, the other trade partners of the region, such as Japan (8.20%), Korea (5,72%) and Hong Kong (4,19%), were impacted as well.

The disruptions in trade influence the economy of the region, but the impact depends on the structure of the national economies. One source of resilience for the ASEAN countries might be a diversified commercial structure, where trade is diversified to include a wide range of products, rather than concentrated on a few sectors, which would lessen the impact.

In addition to trade, the most severely impacted industry was tourism. According to the World Travel and Tourism Council, the travel and tourism industry accounted for 330 million jobs worldwide, by 2019, and it contributed 10.3% of the global GDP (US$ 8.9 trillion). The organization estimates the impact of COVID-19 on the industry would be five times more severe than the impact of the 2008 financial crisis and that it would cause a 2.9 percentage points rise in global unemployment rates (100.8 million jobs lost because of the coronavirus) (WTTC, 2020).

Travel restrictions have been enforced on a large scale, including in South-East Asia, and they deeply impacted the tourism industry. Travel and tourism had accounted for 12.6% of the ASEAN economy in 2018. Among the ASEAN countries, Cambodia, the Philippines and Thailand are the most vulnerable – they are the countries where tourism has the biggest contribution to GDP revenue (Cambodia - 32.8%, the Philippines - 24.7%, Thailand - 21.6, Lao – 12%, Malaysia – 13,3%, Singapore -10%. Source: World Travel and Tourism Council).

As far as public policies implemented in response to the pandemic are concerned, governments and central banks across the world have prepared packages of monetary and fiscal measures in order to support the healthcare sector and economic activity and to support companies and individuals during periods of isolation or travel restrictions. In the region, the ASEAN countries introduced various packages of economic incentives in February, in order to alleviate the effects of the COVID-19 pandemic. The common measures consist in fiscal incentives for impacted companies, particularly for SMEs and companies in the sectors most seriously hit – subsidies, cash funds, discounted electricity bills and others, for households and employees, including additional incentives for people in the healthcare sector, postponement of tax payment, postponement of loan payments, tax exemptions or tax cuts.

Some of the ASEAN countries introduced distinct measures targeting key sectors of the economy. For instance, Brunei allowed the postponement of contributions to pension funds, while Malaysia allowed the payment of diminished pension contributions. Singapore suspended the payment of student loans and students' tuition fees. At the same time, in Vietnam, several banks (including the country's four biggest banks -Vietcombank, Vietinbank, BIDV and Agribank) have created a lending package, with special terms and low interest rates, worth a total VND 285 billion (US$ 12.3 billion) for companies in need of support.

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