HEALTH OR BUSINESS?
THE TRADE-OFF BETWEEN COVID-19 CONTAINMENT AND ECONOMIC GROWTH IN THE ASEAN REGION

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Ma Ma Lwin is a talented Myanmar entrepreneur. With her gentle manners and her 'light version' of Myanmar dishes, intercepting the Western tastes of a growing group of expats willing to experience the local food, she has transformed an abandoned rooftop in a Muslim district near downtown Yangon into a successful restaurant. In early 2020, it was time for her to scale up. With the money she had earned, she opened a new restaurant in the heart of the old city, paying advance rent for the whole year. But as Yangon enters its ninth month of lockdown, and expats have left the country *en masse*, Ma Ma Lwin is now nearly broke.

2020 will be remembered as an *annus horribilis* by many. Strict and prolonged containment measures against the COVID-19 pandemic are hampering the future of millions of jobs, enterprises and value chains.

Globally, containment measures and how they are applied are the very pendulum that is shaping and shaking the markets. Southeast Asia's economy is one of the hardest hit. But to what extent do pandemic waves and health systems and policies relate to the economics of a country? In this article we examine why and how differently this epochal crisis is impacting on ASEAN members.

The bubble chart below combines data that describe the severity of the pandemic using GDP levels drawn from the Center for Strategic and International Studies, World Bank and the Asian Development Bank's projections for 2020. The further to the right the bubble is, the worse the economic forecast. The size and height of the bubbles are determined by the severity of the pandemic, namely the number of cases and tests per million of each country.
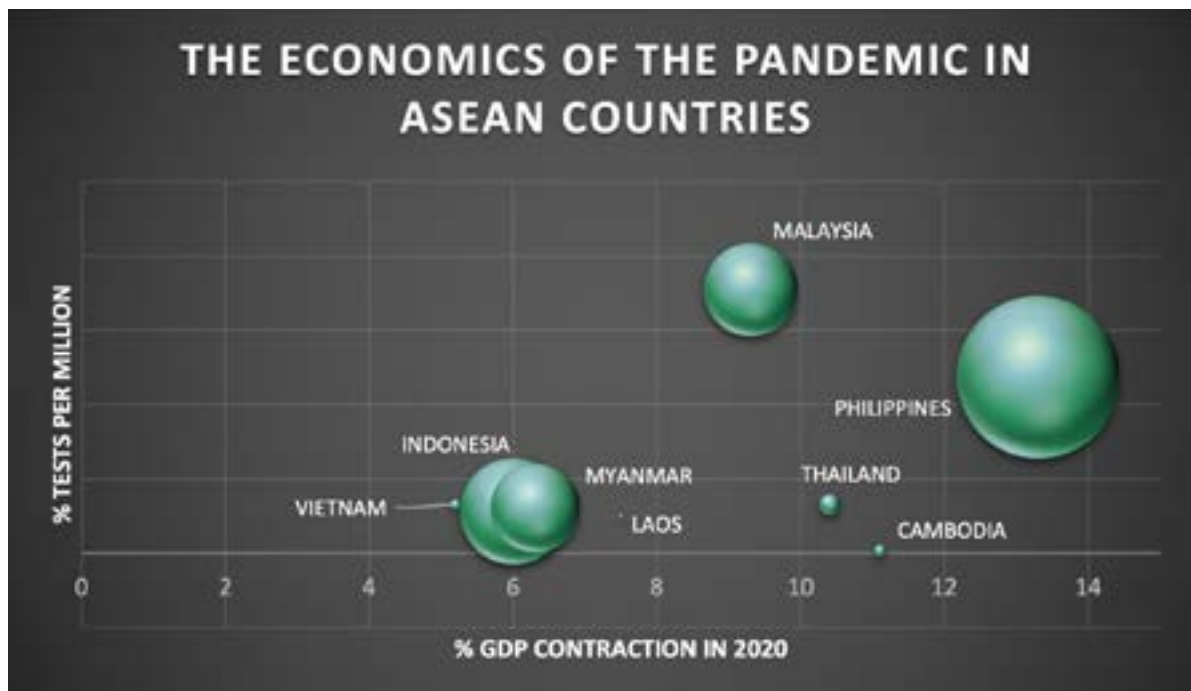

Chart elaborated by the author collating data from CSIS, the World Bank and the Asian Development Bank.

The chart shows that there is no clear relation between outbreaks and economic trends, which means that the degree of intensity of the pandemic in a certain country does not tell us much about its economic performance. While the Philippines presents the highest number of cases by far, and also the worst economic outlook in the region, at the same time the forecasted contraction of Thai GDP by 10% does not appear to match the fact that Thailand has been virtually spared by the pandemic. The Thai economy is suffering like the economies of countries with higher numbers of infected people, such as neighbouring Malaysia, where the virus has been particularly widespread. Vietnam is also experiencing economic difficulties, and its estimated GDP contraction is around 6% this year, in line with Indonesia and Myanmar. But looking at the percentages of confirmed cases and deaths, Vietnam reports the smallest numbers among the ASEAN group apart from Laos, while Indonesia and Myanmar are experiencing serious surges in rates of infection. Again, Laos and Cambodia, both virtually untouched by the virus, present significantly different economic forecasts, with Cambodia's being far worse than Laos's.

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Because of its unique conditions and socio-economic system, Singapore was excluded from this exercise. One of the first countries to apply a tight circuit-breaker set of restrictions, the hyper-efficient city-state managed to test most of its population and isolated more than 1% of its 5.8 million citizens. However, while the virus is for the moment under control, Singapore's economy could not avoid a contraction of 7%.

So which are the variables that combine to make the economic outlook of the ASEAN group so diverse? And how do they link with the pandemic? The range of restriction schemes such as stay-at-home orders, business activity suspension, curfews and travel restrictions adopted by ASEAN governments play a significant role, but they cannot explain the whole picture. After collating the available data on some of the key economic sectors of these economies, such as exports, tourism, remittances and the informal economy, we can make some assumptions about the factors that are in fact shaping the current economy and the recovery curve.

Containment measures and their impact

Travel restrictions were among the first containment measures and the most disruptive, given their immediate and severe consequences. The International Air Transport Association (IATA) predicted that 2020 traffic would drop by 66%, and Southeast Asia was not spared by this economic cyclone. After months of agony, Thai Airways, a too-big-to-fail, semi-state-owned company,[1] entered its bankruptcy reorganization in September. One of the fastest-growing low-cost airlines, the so-called 'Ryanair of Malaysia', Air Asia, has recently sought help from its government after losing millions and pulling out of Japan, one of its most lucrative markets. Along with the halt on production, travel restrictions have also contributed to an abrupt fall in global energy consumption. This led to another huge blow for Malaysia, but also for Indonesia, a top petroleum gas exporter. In 2019, fuel was responsible for 21% of total exports in Indonesia, and 14% in Malaysia. It is difficult to foresee how the sector could make a full recovery before production resumes and air traffic is restored.

[1] According to recent sources, more than 40% of Thai Airways is owned by Thailand's Ministry of Finance.

Tourism, considered the world's third-largest export category after fuels and chemicals, has been a booming and pivotal sector for many ASEAN members, namely Thailand, Malaysia and Vietnam. Smart and forward-looking government policies secured solid growth in the industry over the last decade. With around 40 million yearly arrivals,[2] who make up almost a third of the tourists in the ASEAN region, Thailand led this astonishing trend, becoming a top world tourism destination. In 2019, tourism represented one fifth of Thai GDP, with massive ramifications for income-generating activities directly dependent on numbers of arrivals. Since 2010, the number of people seeking medical treatment in Thailand has risen from 1 million to 4 million yearly.[3] Medical tourism has been a lucrative niche and a key investment sector, with an extended interplay of stakeholders, including universities, those working in R&D in pharmaceuticals and treatments, and manufacturers of medical instruments.

[2] World Tourism Organization (UNWTO) and International Monetary Fund (IMF), July 2019.

[3] ASEAN Investment Report 2019: FDI in Services: Focus on Health Care, 2019. ASEAN/United Nations Conference on Trade and Development (UNCTAD).

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In neighboring Malaysia, revenue from tourism for 2019 totaled around USD 20 billion, with 26.1 million arrivals,[4] but there was also outstanding growth in internal tourism. The national tourism strategy of Vietnam has been particularly successful in increasing foreign arrivals in a very short time. The Vietnamese Ministry of Culture, Sport and Tourism declared that 2019 was a great year, with 18 million arrivals and revenue of USD 20 billion, doubling the figures from five years earlier. The pandemic has caused most of the success stories behind these numbers to evaporate, shaving off years of work and investment. Governments are now focusing their attention on internal tourism, a partial solution that could scarcely replace foreign tourism in terms of revenue.

Cash from migrant workers is another consistent and often vital source of income for ASEAN households. In the Philippines, remittances from overseas used to account for around USD 30 billion, or 9% of the country's GDP. Due to the mass return of workers, this figure has shrunk by up to 40%.[5] Moreover, in most cases repatriated workers are unemployed and represent a further burden for their families, who are already struggling due to the lost remittances. With USD 17 and USD 11.6 billion respectively in 2019, Vietnamese and Indonesian households are also expected to face some abrupt income cuts this year. As global travel restrictions are still in force and production has not recovered, it is difficult to predict if and when workers will be able to return to their jobs abroad and continue to support their families with hard currency.

[5] **Asis, Maruja M.B.,** *Repatriating Filipino migrant workers in the time of the pandemic,* **2020. UN Migration.**

Data on informal employment are usually scarce and approximate, but according to some recent studies conducted by the International Labour Organization (ILO),[6] the ASEAN region does not excel. A weak performance in regular jobs translates not only into meagre revenues for the state's coffers, but also into fragmented social security nets for workers and their families in cases of disease or unemployment. Excluding Singapore, the ASEAN region records extremely high percentages of informality: Cambodia and Laos are the worst countries in this respect, with 93% and 83% respectively. Also, in Indonesia and Myanmar nearly 80% of jobs appear to be informal. Social protection packages are typically not designed for the millions of informal workers employed in micro- and small enterprises, whose fragile fabric constitutes the backbone of these economies.

Unknown unknowns: difficult scenarios and potential opportunities

Obtaining reliable predictions for the future of the ASEAN region is becoming an extremely complex task, as, now more than ever before, the economy of each country depends on internal politics and relies on the waves of global markets. A series of what Donald Rumsfeld would have called the 'unknown unknowns', or events we ignored we did not know, have hit and keep hitting every aspect of the global economy. Particularly vulnerable seem to be resource- and trade-dependent countries such as Indonesia and Malaysia, but also countries with a combination of low export diversification and strong dependence on remittances, such as the Philippines, and those that rely on specific sectors such as garments (Cambodia) and foreign tourism (Thailand).

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On the positive side, countries that have seen a solid growth in value-added agriculture in recent years, such as Indonesia, Myanmar and Vietnam (300%, 200% and 450% respectively since 1997), seem to be more resilient to external shocks. In Myanmar, for instance, border trade of fruit such as watermelons and bananas to the east (China), and of beans and pulses to the west (India) went down in June/July, but flexible safety measures have helped these exports to recover in recent months. In addition, the rice trade, which remains Myanmar's core business, has not been significantly affected by the pandemic. Moreover, agricultural mechanization policies are expected to translate into increased addition of value for Myanmar's agrifood sector in the coming years. A similar increase in demand for high-value added agricultural products has been recorded in Indonesia, where a surge in agricultural machinery imports is expected. In Vietnam, recently approved preferential tariffs are making the market more attractive for EU member countries. Another factor to consider is that labour costs are still significantly lower than those of China, while workers' skill levels are increasing. This is helping industrial production and exports to shift from cheap garments towards higher-value products such as tech components.

Generally speaking, predictions for the region for 2021 suggest an extremely positive year, as long as the pandemic is controlled. However, in the current unique scenario in which ASEAN governments are not (yet) acting in a coordinated way, while their economies and markets remain closely intertwined, it is the interplay of diverse containment measures, restrictions and economic stimulus packages that will determine the future of the region.

THE AUTHOR

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