

# Economic and social effects of the pandemic

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The COVID-19 pandemic is threatening lives around the world, and the measures to contain it are badly affecting economies and livelihoods. The various countries in Southeast Asia are using a multitude of coping strategies, some more effective than others, while grappling with the socio-economic costs of the pandemic.



In these short articles, we bring you concise and diverse insights into the economic and social effects of the pandemic from a macro and micro level. We have an overview of the impact on ASEAN economies by economist Jayan Menon, and the Indonesian government's struggles to contain the outbreak while balancing economic needs by economist Siwage Dhama Negara. For Malaysia, environmental anthropologist Serina Rahman provides a micro-level

perspective of how pandemic mitigation measures have affected the poor. Finally, political scientist Nyi Nyi Kyaw considers the nature of panic and vigilantism that has emerged in pandemic Myanmar.

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## How is COVID-19 affecting the ASEAN economy?

Jayant Menon

The COVID-19 pandemic is first and foremost a human tragedy. By early May 2020, about 3.5 million infections and 250,000 deaths had been reported worldwide, and about 35,000 infections and 1,600 deaths in ASEAN. Measures introduced to deal with the pandemic could save lives but are having wide-ranging economic effects and inducing economic contagion.

The IMF predicts that world output will contract by 3 per cent this year, with growth in most ASEAN countries either flat or negative. There is, however, significant variation in projected growth across ASEAN this year, ranging from -6.7 per cent in Thailand to 2.7 per cent in Vietnam. In contrast, the Asian Development Board (ADB) is less pessimistic, projecting growth in Thailand at -4.8 per cent and Vietnam at 4.8 per cent. The IMF sees the ASEAN group contracting by about 1 per cent this year, while the ADB sees it growing by about the

same. 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 critiquing how assessments of the economic impacts are made. This will enable a more informed evaluation of the assessments, as the numbers keep changing, and a better understanding of the underlying processes to gauge the impacts of an uncertain and evolving shock.

### Economic transmission mechanisms

The effects of COVID-19 are hitting ASEAN economies at a time when other risk factors, such as a global growth slowdown, were already taking place. 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.<sup>1</sup> And the conditions are worsening as more countries go into shutdown.

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 the disruption in the short run will be high.<sup>2</sup> The negative effects of quarantine arrangements on labour supply could also be high depending on duration and sector.<sup>3</sup> 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 short-run 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>4</sup> The contraction is not only likely to be greater than the Global Financial Crisis of 2008,

an economic depression is on the cards. Even in a best case scenario, there will be sharp increases in unemployment and poverty. Some degree of decoupling from China, or de-globalisation in general, may also be a permanent reminder of this pandemic.

Among ASEAN countries, Singapore, Malaysia and Thailand are heavily integrated in 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 not be immune either. Vietnam is the only new ASEAN member integrated into supply chains with China and is already suffering severe supply disruptions. Given time, supply-side adjustments will alter trade and investment patterns. 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>5</sup>

Tourism contributed almost \$400 billion to the ASEAN economy in 2019.<sup>6</sup> Thailand and Malaysia will be most affected in ASEAN by the drop-off in tourist arrivals. Although intra-ASEAN tourism flows have been growing, spearheaded by Malaysia, the main sources of tourist arrivals are the 'Plus Three countries' – China, Korea and Japan – and all are contracting severely.