

# 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.



## Indonesia faces tremendous challenges in its handling of the public health emergency

Siwage Dharma Negara

Indonesia recorded its first instance of COVID-19 – two cases of infection – on 2 March. Slightly more than a month later, on 13 April, President Joko 'Jokowi' Widodo declared COVID-19 a national disaster. That day, the number of COVID-19 cases had jumped to over 4,500 with almost 400 fatalities. On 5 May, Indonesia reported a total of 11,587 COVID-19 cases with 864 deaths. As of writing, the country has the highest number of COVID-19 fatalities in South-east Asia, with a death rate of around 8 per cent of total confirmed cases. Many commentators believe that the figures are significantly underreported as the official data does not include deaths of patients suspected to have had coronavirus, but who were not tested. In fact, with only 200 tests per 1 million people, Indonesia has the lowest testing rate in the region. The Indonesian Doctors Association (IDI) has projected that the death toll from COVID-19 is likely to be double the official figure.

### Line of command

This reveals the country's extreme lack of hard and soft health infrastructure to deal with the COVID-19 crisis. The lack of reliable data and information is a huge challenge for the government. Initially, the government's response to the crisis was very slow due to a lack of information, and its unpreparedness. This was exacerbated by an underestimation of the magnitude of the epidemic. Like many other governments, it does not have a coherent institutional response. Overall, we see a lack of clarity in protocols in responding to the epidemic, such as the line of command, in other words, who is in charge of doing what. The result is a series of blunders in the country's handling of the epidemic. Nevertheless, we also see the government learning from and fixing its previous mistakes. After declaring a public health emergency on 31 March, Jokowi instructed the implementation of stricter large-scale social and physical distancing measures within the community. Jokowi has also asked

the regional heads to coordinate their policies with the central and local governments. He specifically instructed the regional government not to implement a lockdown policy without coordinating with the central government.

It is noteworthy that Jokowi has resisted the demand to lock-down the country, citing concern about the serious social and economic implications of such a measure. While several countries have done so, lockdown is viewed as problematic in an economy with a large informal sector like Indonesia. Based on data from the Central Statistics Agency, of 126.5 million people working in Indonesia, 71 million (56 per cent) work in the informal sector. Many of these people cannot afford to stay at home as they live on a day-to-day basis, for example, ojek (motorcycle taxi) drivers, street cart operators, and informal carpark attendants. However, as the number of infected people and fatalities increases, the government is forced to take stricter measures to control people's movement.

On 21 April, Jokowi announced the government's decision to forbid Idul Fitri mudik to curb the spread of COVID-19 ahead of Ramadan. Traditionally, during Ramadan, some 20 million people from Greater Jakarta, the epicenter of the COVID-19 outbreak in Indonesia, travel to their hometowns to celebrate Idul Fitri. If enforced effectively, this travel ban will avoid further spread of COVID-19 on Java, an island of 141 million people, where many regions have far worse healthcare systems than Jakarta. To keep people from traveling back to their hometown, the government needs to prepare social assistance to support their incomes. In view of this, Jokowi has announced various social safety-net programmes to help the poor and most vulnerable groups. This includes expanding the cash transfer programme through the *Program Keluarga Harapan* [Family Hope Programme] by providing cash transfers to support around 10 million poor families. Besides, the government will also expand the food card programme [*kartu sembako*] to help around 20 million to get their food staples.

To help the informal workers, laid-off workers, and people who work in small-micro businesses that have been affected by the pandemic, the government has implemented a new pre-employment card programme in April. It aims to support around 5.6 million jobseekers in the form of training for up to six months. Also, the government has decided to provide free electricity for 24 million low-income households and to give a 50 per cent discount on tariffs for 7 million middle-income households for the next three months. Overall, the government has budgeted an additional IDR 405 trillion (USD 25 billion), about 16 per cent of the total national budget for 2020, to respond to the COVID-19 outbreak. A quarter of the allocated budget is for financing various social protection programmes described above. An additional fund of IDR 75 trillion (USD 4.6 billion) will be allocated to the health budget. About IDR 70 trillion (USD 4.3 billion) is allocated to support SMEs and small-scale credit holders. The government has also set up an IDR 25 trillion (USD 1.5 billion) contingency fund to anticipate an increase in demand for basic staples.

### Going forward

The government needs to accelerate mass testing and conduct more aggressive tracing. This is particularly important as many people have left Jakarta, the epicenter of the pandemic to travel to other cities. In late March, it was reported that around 14,000 people from the greater Jakarta area travelled to West Java, Central Java, Yogyakarta, and East Java, ignoring the government's appeal to stay put. Looking ahead, there are at least three big challenges for the government to overcome. First, it needs to quickly and effectively roll out the social safety-net programmes simultaneously. It needs a credible targeting mechanism supported by accurate data of the beneficiaries, such as informal workers and daily workers who are entitled to get financial supports.

Alas, the data remains fragmented and often unavailable. It is a challenge to collect information on the most affected groups, such as petty traders, factory workers, construction workers, cleaners, daily workers, and ride-hailing drivers. The next issue to tackle is how to distribute the support to these affected people. According to the Financial Service Authority (OJK), 51 per cent of the adult population does not have a bank account. Second, within a decentralized system, the challenge

is often about the complex coordination between the central government and local government, and between different local governments. Jokowi has asked the regional heads to coordinate their policies with the central and local governments. Several regional heads, such as Tegal, in Central Java, and Tasikmalaya, in West Java, have taken the initiative to lockdown their respective cities from 30 March until 31 July without consulting the central government. On this issue, Jokowi has warned that all policies in the regions must comply with national regulations. Nevertheless, it remains to be seen if regional heads will do so.

Third, the capacity of the state and regional institutions to carry out the programmes is mixed if not lacking. The country lacks a good governance and monitoring system for implementing social-assistance programmes. The risk of corruption or cooptation remains high and needs close monitoring with the help of civil society. There is a need to minimize the risk of elite-capture as it is common that social programmes are used by regional heads for their political interests. The authorities, especially the police, need to ensure public order and security. They cannot rule out the potential risk of social unrest if people who are losing their jobs do not obtain the social assistance promised by the government.

Finally, the government's capacity to provide social safety nets for the poor and the vulnerable group is limited. As such, public participation and support are critical. We have seen rising community efforts to promote social solidarity and help the poor and the vulnerable. As of 31 March, the national COVID-19 special taskforce reported having received financial contributions of around 80 billion rupiah from the public to support government assistance programmes. There are also other community or religious organizations, as well as individuals, contributing separately through other channels. Moreover, around 15,000 higher-education students from all over the country have been volunteering to support government mitigation programmes. The capacity and resilience of Indonesia's government and society, like in many other countries, are being severely tested. We can only hope that Indonesia will pull through this uncertain and difficult time.

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Above: Philippines, April 2020. Image Asian Development Bank on Flickr, Creative Commons licence.

Cambodia and Laos receive most of their investment and aid from China, and a marked growth slowdown in China will affect them the most. A slowdown in the Plus Three countries will affect investment flows in the region as a whole.<sup>7</sup> The Philippines and Mekong countries have large overseas foreign worker populations and restrictions on their movement or employment prospects as borders close will affect sending and receiving countries. Brunei and Malaysia are net oil exporters and the price war indirectly induced by the pandemic will hit them hard. Others will benefit from lower oil prices, as will the struggling transport sector.

### Assessing the assessments

In measuring the impacts of COVID-19, it is important to separate its marginal impact from observed outcomes. This is important because the remedy may vary depending on the cause of the disruption. This requires an analytical framework that can measure deviations from a baseline scenario that incorporates pre-existing trends. A model-based analysis, rather than casual empiricism, is required to reduce the problem. In addition, what is explicitly modelled and what is assumed, and what those assumptions are, need to be considered in understanding differences in projections.

Even before the outbreak, risks of a global growth slowdown were rising. The restructuring of regional supply chains had started, driven initially by rising wages in

China and accelerated by the US-China trade war.<sup>8</sup> While COVID-19 may further hasten the pace and extent of the restructuring, it is only partly responsible for what may happen. It would be misleading to attribute all of the current disruption to COVID-19. Had the trade war not preceded it, COVID-19 may have resulted in greater disruption to supply chains. Any assessment of impacts must recognise that the spread of COVID-19 is unpredictable, and so too the response by governments. It is difficult to estimate the impacts of a shock that is uncertain in itself. This reiterates the need for rigorous modelling and scenario analyses.<sup>9</sup> The current trend points to risks rising, often accelerating, as with previous epidemics. This uncertainty underscores the need for caution in assessing, and regular recalibration in producing assessments.

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### Notes

- <https://tinyurl.com/EAF04032020>
- <https://tinyurl.com/wts2019ch8>
- <https://tinyurl.com/IDEp01brief10>
- <https://tinyurl.com/EAF23042020>
- <https://tinyurl.com/MBIboost>
- <https://tinyurl.com/statista2010-2019>
- <https://tinyurl.com/EAF13032020>
- <https://tinyurl.com/EAF09102019>
- <https://tinyurl.com/stockheadcovid>