ASEAN *Policy Brief*

April 2020

Economic Impact of COVID-19 Outbreak on ASEAN

Key Points

- The COVID-19 pandemic has disrupted economic activities and upended lives, tapering growth prospects around the world.
- Across the region, the AMS have rolled out various measures to counter the impact of the pandemic. Stimulus measures included, among others, tax breaks, subsidies including targeted support and cash assistance, and moratoriums on loan payments and pension contributions. Central banks also lowered interest rates, reduced reserve requirements, and purchased government bonds.
- The pandemic may lead to long-term and considerable economic implications. To restore confidence and revive the economy, ASEAN should consider the following policy recommendations: i) mobilise all available macro, financial, and structural policy tool; ii) preserve the economy's productive capacity; iii) keep the supply chains going; iv) leverage on technologies and digital trade; v) strengthen social safety nets; vi) scale up regional pandemic response; and vi) redouble the resolve to advance regional integration.

Introduction

Since the World Health Organization (WHO) finally declared the COVID-19 outbreak as a global pandemic on 11 March 2020, lives have been upended and economic activities disrupted around the world.

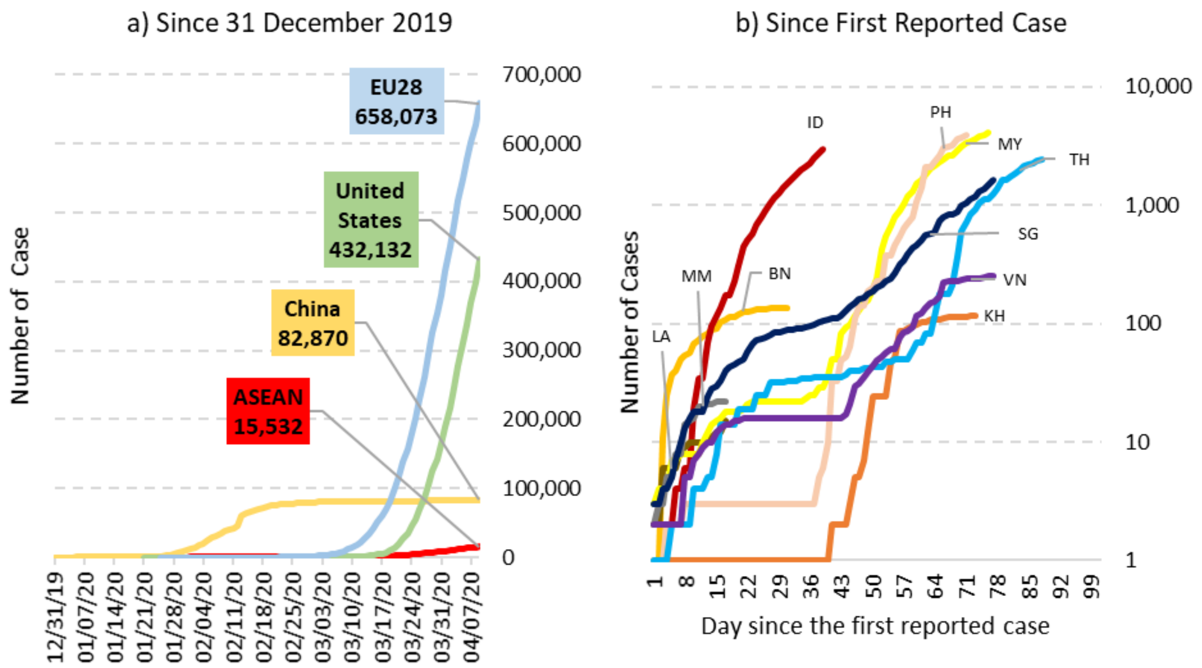
As of 9 April 2020, the COVID-19 outbreak, which originated in Wuhan, Hubei Province, China, has reached 203 countries, affecting 1,476,819 persons, with 87,816 deaths (84,477 of which are outside China). In ASEAN, the numbers too are rising, with more than 15,532 confirmed cases and more than 529 deaths reported by 9 April.

All ten AMS have confirmed cases and the number of expected infections is feared to increase manifolds in the coming days (Figure 1). Without a doubt, the coronavirus will have a negative impact on ASEAN's economy and that of the rest of the world in 2020.

Key sectors have been affected, particularly travel and tourism, and retail and other services sectors; business operations hence supply chains disrupted; employment and livelihood put at risk; while consumer confidence has declined. The COVID-19 outbreak has diminished prospects of an economic recovery from a broad global slowdown last year. While initial pronouncements estimated a brief and limited impact on the global economy, the exponential spread of the outbreak to other regions including Europe, US, and also ASEAN, set off the tapering of growth prospects.

This policy brief is a product of the Analysis and Monitoring on Finance and Socio-Economic Issues Division of the ASEAN Integration Monitoring Directorate at the ASEAN Secretariat. The views and opinions expressed in this article do not necessarily reflect those of ASEAN or the ASEAN Member States.

Figure 1. Confirmed cases of COVID-19, as of 9 April 2020



Source: Our World in Data as of 9 April 2020.
Note: BN: Brunei Darussalam, KH: Cambodia, ID: Indonesia, LA: Lao PDR, MY: Malaysia, MM: Myanmar, PH: Philippines. SG: Singapore, TH: Thailand, VN: Viet Nam

The IMF earlier had downplayed the impact, expecting only a 0.1 percentage point (ppt) cut to 3.2%; later, on 4 March, it revised its outlook to a rate lower than the global growth of 2.9%[1] in 2019, before declaring on 23 March that the global economy will face a recession. In its assessment report[2] on the impact of the COVID-19 outbreak published in 2 March, the OECD predicted a reduction of 0.5 ppt from the original forecast of 2.9% global growth for 2020, to 2.4%, or a near halving to 1.5% in case of a prolonged global outbreak.

The Asian Development Bank (ADB) recently released its Asian Development Outlook 2020, and in light of the COVID-19 outbreak, it forecasted a 2.2% growth for Developing Asia, and a 1.0% growth for Southeast Asia, on the back of China's economy losing speed (Table 1). Compared to the forecasts made in December 2019, these lower forecasts give an indication of the extent of the repercussions from the outbreak.[3] Under the assumption that the pandemic is contained this year and has no serious ripple effects on financial systems, a recovery is viable next year and Developing Asia could grow by 6.2%.

[1] IMF (4 March), *IMF makes available USD50 billion to help address coronavirus*, https://www.imf.org/en/News/Articles/2020/03/04/sp030420-imf-makes-available-50-billion-to-help-address-coronavirus
[2] OECD (2 March 2020), *Coronavirus: The world economy at risk*, OECD Interim Economic Assessment, https://www.oecd.org/economic-outlook/
[3] ADB also released a report on the effects of the COVID-19 pandemic in Asian countries on 6 March, *The economic impact of the COVID-19 outbreak on Developing Asia*, ADB Brief no. 128.

Table 1. Growth projections for Developing Asia for 2020, in %

Economy	2019		2020f		2021f
	as of December (f)	as of April (p)	as of December (f)	as of April (f)	as of April (f)
Developing Asia	5.2	5.2	5.2	2.2	6.2
Developing Asia excluding NIEs	5.7	5.7	5.7	2.4	6.7
China	6.1	6.1	5.8	2.3	7.3
Southeast Asia (incl. Timor-Leste)	4.4	4.4	4.7	1.0	4.7

Note: p – preliminary, f- forecast; NIE are Newly Industrialized Economies – Hong Kong, Korea, Singapore, and Taiwan. December forecast refer to projections in the ADO Supplement in December 2019 Forecast in December 2019 for Southeast Asia does not include Timor-Leste.
Source: Asian Development Bank Asian Development Outlook 2020 (3 April)

China is ASEAN's biggest external trade partner and investor. In 2018, it had a share of 17.1% to ASEAN's total trade, and contributed 6.5% to ASEAN's total FDI inflows. ASEAN's supply chains are heavily integrated with China's manufacturing sector, and the AMS' tourism sector benefits from the large influx of Chinese tourists. Apart from China, the other countries significantly affected by the outbreak, US and the Euro Area, are also among ASEAN's largest trade and investment partners, and the AMS themselves are also directly affected by the outbreak. The WTO has estimated that world trade is expected to fall by between 13% and 32% in 2020, exceeding the decline brought on by the Global Financial Crisis[4]. Thus, the overall impact on ASEAN would likely be broad and deep, albeit the impact could vary across the region.

Economic Impact of the Pandemic in ASEAN

In ASEAN, the pandemic has so far brought immediate disruptions in economic activities across the region, as evident in the decline in tourism flows, disruption in air travels, and weakening in consumer and business confidence, as several countries imposed lockdowns, community quarantines, stay-at-home orders, temporary business closures, and travel restrictions or prohibitions to contain the virus.

At the onset of the COVID-19 outbreak in Wuhan, the primary concern among AMS was the possible impact on supply chains because of the temporary closure of factories in the Hubei province due to lockdowns. Hubei is a major industrial hub, particularly for machineries and electronics[5]. When production there went on a standstill, it created shortages in supply of parts, which caused operations along the supply chains including those abroad, to reduce operations. This affected those integrated in the supply chains, including the AMS.

As virus spread rapidly in China, most AMS restricted travel from/to China, which was then expanded to other affected countries such as Japan and Korea, by cancelling flight connections and tightening or even closing border crossings. The immediate and direct impact was thus on travel and tourism. These East Asian economies were

[4] WTO (8 April 2020), *Trade set to plunge as COVID-19 pandemic upends global economy*, https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
[5] See http://hubei.chinadaily.com.cn/gov/2012-02/13/content_14592524.htm

among the largest sources of tourists to ASEAN, and as travel restrictions further expanded they led to mass cancellation of bookings within the tourism industry, affecting businesses and workers. Early cases in the AMS also surfaced, further affecting tourism in the region as fear of contagion turned away tourists. Accordingly, initial stimulus measures rolled out by the AMS targeted those in the tourism and allied industries. Affected hotels, restaurants, airlines, and also small businesses, were granted tax breaks and/or emergency loans; workers were provided subsidies/cash assistance.

Additional mitigating measures were also implemented in varying degrees - social distancing; temporary closure of schools, offices, and non-essential businesses; lockdowns; and quarantines have been imposed. The economic impact likewise intensified as the stoppage in production, disruptions in business operations, and widespread restrictions on the movement of people resulted in losses for businesses and loss of livelihood and income for workers.

Revisions on growth outlook

At the start of the COVID-19 outbreak, many countries did not anticipate the subsequent aftermath, and underestimated the outcome. The IMF initially stated that the impact would be limited, likely around 0.1 ppt off their 3.3% 2020 growth forecast for the global economy. More than a month after the initial statement, the IMF announced deep cuts in its growth forecasts for 2020[6]. ADB, through the growth projections in its latest ADO report, gave an indication of the magnitude of the impact, evident in the difference between the new numbers and the forecasts made last year prior to the outbreak. ADB reduced its forecast for Developing Asia by 3.0 ppts to 2.2%, and for ASEAN by 3.7 ppts to 1.0%.

Likewise, growth forecasts for the AMS have been revised downwards (Table 2). For example, Indonesia projected a 5.3% growth in 2020 prior to the outbreak; by 1 April, the forecast has been reduced to 0.4% to 2.3%. Likewise, Philippines' official growth target was 6.5% to 7.5% growth in 2020. The impact of COVID-19 was initially limited and the target was retained. However, by 19 March, the growth projection was reduced to -0.6% to 4.3%, taking into account the impact on transport and tourism, exports, remittances, consumption, and the broader effect of the lockdown[7]. Earlier in February, Thailand and Singapore already revised their respective forecasts due to the slump in tourism – Thailand, from 2.7% to 3.7%, to 1.5% to 2.5%, and Singapore from 0.5% to 2.5%, to -0.5% to 1.5%. On 26 March Singapore further announced that it is looking at a worst case scenario of its GDP shrinking by 4.0%.

[6] The actual figures will be in the forthcoming IMF World Economic Outlook 2020, for release on 14 April 2020.
[7] See the report of the National Economic and Development Authority (19 March 2020) on *Addressing the Social and Economic Impact of the COVID-19 Pandemic*, www.neda.gov.ph

Table 2. AMS GDP growth forecasts for 2020

Country	Initial Forecast		Revised Forecast		Source
Brunei Darussalam	1.5%	Sep 2019	2.0%[a]	3 Apr 2020	ADB
Cambodia	6.8%	Sep 2019	2.3%	3 Apr 2020	ADB
Indonesia	5.3%	Official target, Aug 2019	4.7% to 5.0%	4 Mar 2020	Ministry of Finance
			-0.4% to 2.3%	1 Apr 2020	
Lao PDR	6.2%	Sep 2019	3.5%	3 Apr 2020	ADB
Malaysia	4.8%	Official target	3.2% to 4.2%	Feb 2020	Ministry of Finance
			-2.0% to 0.5%	3 Apr 2020	Bank Negara Malaysia
Myanmar	6.8%	Sep 2019	4.2%	3 Apr 2020	ADB
Philippines	6.5% to 7.5%	Official target	5.5% to 6.5% (if outbreak lasts until June)	Mar 2020	NEDA
			-0.6% to 4.3%	19 Mar 2020	
Singapore	0.5% to 2.5%	Nov 2019	-0.5% to 1.5%	17 Feb 2020	Ministry of Trade and Industry
			-4% to -1%	26 Mar 2020	
Thailand	2.7% to 3.7%	Nov 2019	1.5% to 2.5%	17 Feb 2020	National Economic and Social Development Board
Viet Nam	6.8%		6.27% if contained in Q1; 6.09% if contained in Q2	5 Feb 2020	Ministry of Planning and Investment
			5.96%	13 Feb 2020	

Note: [a] Brunei's growth outlook for 2020 has been revised upwards in anticipation of increased exports of oil and petroleum as new refineries start operations this year. (ADO 2020)

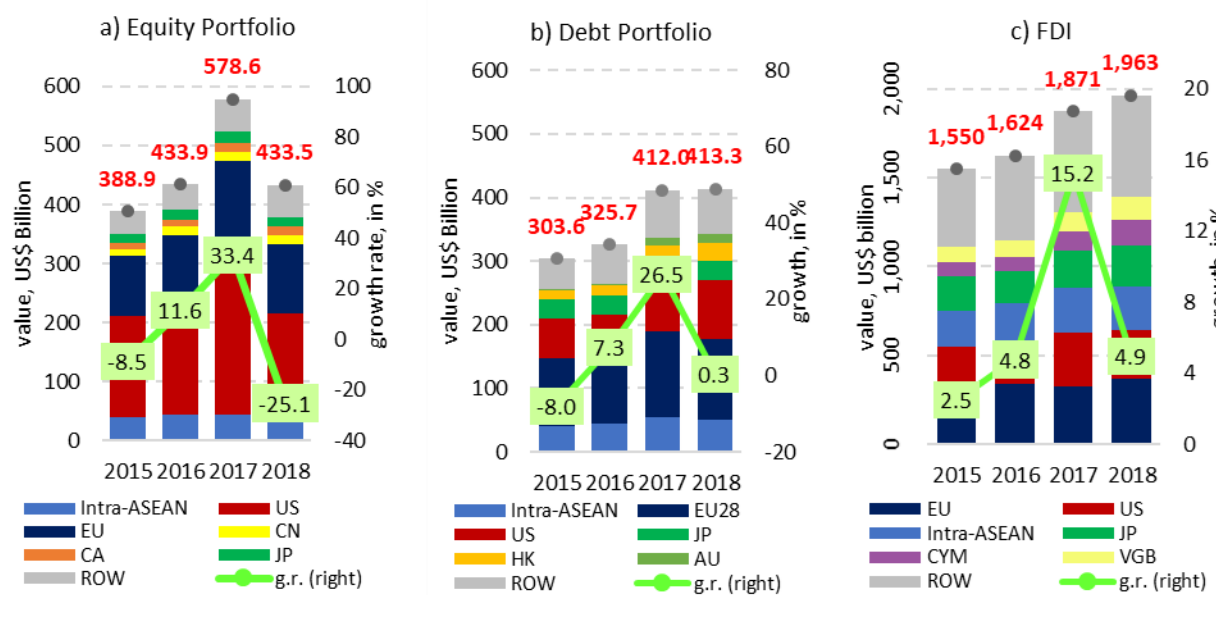
Financial market disruptions

The supply chain disruptions, travel restrictions, and lockdowns have had extensive consequences. Many businesses reduced or temporarily closed operations, raising uncertainties and concerns on corporate and household debt defaults. Additionally, financial markets from the US to Asia and also Europe are volatile as investors are concerned that the virus is creating a global economic and financial crisis in ways not seen since the global financial crisis. The effect of the COVID-19 pandemic on the financial system will depend on i) how much further the virus will spread across the globe and its effect on economic activity, ii) fiscal and monetary policy responses to the shock, and iii) regulatory measures to avoid from possible banking system fragility.

Within ASEAN, even before the outbreak, foreign investments already moderated, caused by heightened risks from trade tensions. In 2018, foreign equity portfolio stock in ASEAN dropped by 25.1% as major investors US and EU partly pulled out.[8] Figure 2 illustrates that the US had the largest portfolio equity holdings in ASEAN (38.4% of the total), followed by EU (27.1%), and ASEAN came third with 11.4%. These same investors controlled 65.2% of the total portfolio debt investment stock: EU with 30.6%, US with 22.2% and ASEAN with 12.3%. Debt portfolio stock was stagnant in 2018, posting a mere 0.3% growth; while FDI stock rose by 4.9% in 2018, vis-a-vis 15.2% in 2017[9]. Again, the main FDI investors were EU with 18.7%, US (14.1%), and ASEAN (12.2%) of total ASEAN's FDI stocks.

[8] IMF Coordinated Portfolio Investment Survey (March 2020)
[9] IMF Coordinated Direct Investment Survey (March 2020)

Figure 2. Stocks of portfolio and direct investments in ASEAN by source, in USD billion



Note: CYM – Cayman Islands; MUS – Mauritius; VGB – British Virgin Islands; ROW – Rest of the World; CDIS data may not tally with IIP data due to discrepancies in reporting of IMF member countries (CDIS Manual, p 6).
Source: Computations by the ASEAN Secretariat using IMF Consolidated Portfolio Investment Survey (CPIS) database and IMF Consolidated Direct Investment Survey (CDIS).

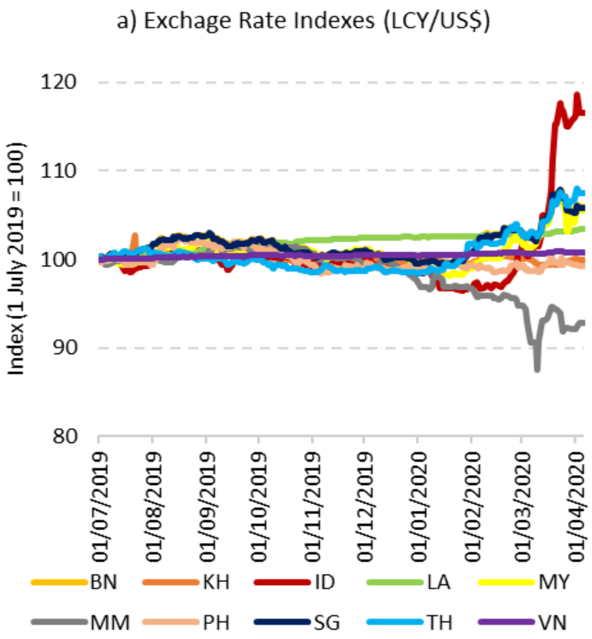
As infectious cases continued to rise around the world, the risk of an abrupt tightening of global financing conditions also heightened. In early January, there was a short-lived upbeat trend in stock markets across globe, which quickly reversed, followed by a plunge before stabilising towards the end of March.

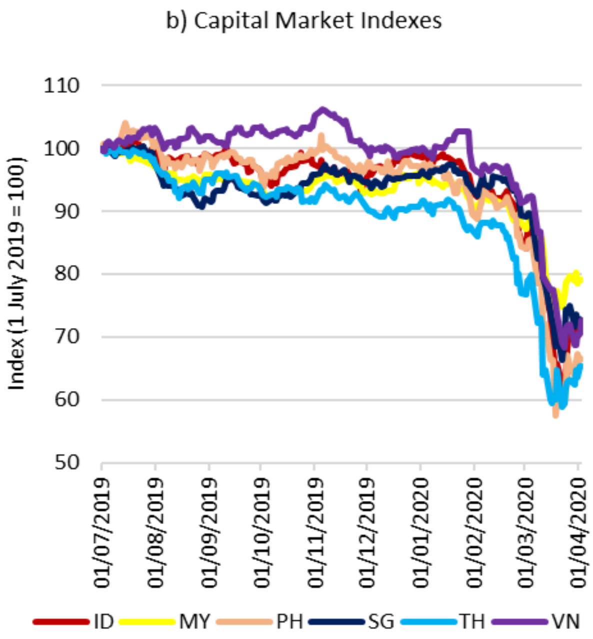
In the US, the Dow Jones Industrial Average shed 2,999 points, or 12.9%, to close at 20,188.52 on 16 March, marking its second worst percentage loss in a day in history behind the "Black Monday" crash in 1987.[10] Similarly, stock markets in Europe, Asia, and Latin America all experienced sharp declines.

In ASEAN, the uncertainties brought about by the pandemic also triggered a swift outflow of capital, causing a dive in the markets and a rapid depreciation of the exchange rates across the region (Figure 3). Around a fourth of the stock market values in Indonesia, Philippines, Thailand, and Viet Nam were wiped out. The largest drop was in Viet Nam, where the index fell by 29.3% from 936.6 at the end of January to 662.5 by the end of March. In comparison, the downswing was relatively contained in Malaysia, where the descent was limited to 11.8% (from 1513.1 in end-January to 1350.9 in end-March). Moreover, key currencies in the region, specifically the Thai Baht, Indonesian Rupiah, and Singapore Dollar, considerably depreciated. The largest depreciation was seen in the Indonesian Rupiah (IDR), which went from IDR13,662 per USD in end-January to IDR 16,367 in end-March, a 19.8% increase.

[10] CNBC, https://www.cnbc.com/2020/03/15/traders-await-futures-open-after-fed-cuts-rates-launches-easing-program.html

Figure 3. Stock market index and exchange rates in ASEAN





Sources: CEIC (April 2020)

A look at the AMS' macroeconomic fundamentals in 2018 shows that many AMS have sizable debts (more than 30%) in proportion to their GDPs, backed by varying foreign exchange reserves (Table 3). Should the exchange rate depreciations continue, this could lead to higher debt payments, risking debt sustainability. Indebtedness also comes with the risk of deleveraging as foreign investors seek safer assets, while the risk of credit rating downgrades could raise borrowing costs. Nonetheless, subdued inflation, ample liquidity, and broadly healthy current account balances provide back-up support to the macroeconomy.

Table 3. Macroeconomic indicators by AMS, 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
BN	0.2	81.6	7.9	-3.6	(na)	(na)	(na)
KH	2.5	100.7	-11.3	-0.8	62.3	15.4	90.5
ID	3.2	38.8	-3.0	-1.8	35.5	14.3	32.6
LA	2.0	52.3	-12.0	-4.4	86.1	2.6	6.3
MY	0.9	125.2	2.1	-3.6	62.4	43.3	45.4
MM	6.9	52.6	-4.2	-2.6	19.3	5.9	37.8
PH	5.3	78.1	-2.6	-1.6	23.0	20.4	100.5
SG	0.4	122.7	17.9	3.6	411.8	74.8	19.5
TH	1.1	123.2	6.4	-0.2	33.5	35.6	121.5
VN	3.5	158.1	2.4	-4.4	44.8	18.1	51.3

Source: ASEAN Secretariat, IMF WEO, World Bank WDI; World Bank Quarterly External Debt Statistics (QEDS) for Singapore and Malaysia debt and reserves data

Fiscal deficits in most AMS also limit the extent of stimulus measures that governments can use to address the crisis. Some AMS have let go of fiscal deficit targets and increased borrowings to finance spending to fight the COVID-19 outbreak, to allocate budget for the health sector, and to cushion the impact on the economy and society. Borrowings could again raise the issue of debt sustainability and exchange rate risks, especially if the government taps foreign credit lines or capital markets. In addition, the outbreak-led economic lockdowns have led to a fall in oil prices, which may further add to the financial burden of oil-exporting AMS.

On the financial side, the AMS have taken several measures to ease market credit through conventional policy instruments, including open market operations, reserve requirement ratios, loan facilities, and refinancing and rediscount policies. AMS financial institutions have also cut the loan rate and provided additional credit to virus-related manufacturers and essential sectors, as well as producers of critical medical products. For SMEs, the commercial banks were required to roll over debt contingencies, adjust personal loan repayment arrangements for housing mortgages and credit cards, and delay repayment periods.

Supply chain and market disruption

The outbreak has drawn attention to the interconnectedness among countries that globalisation has brought, and the consequent risks and vulnerabilities. Disruptions in one area of global supply chains affect other areas, and may even result to the diversion of trade and investments to other regions in a bid to soften the risk of production stoppage arising from these disruptions. On top of this, the largest economies in the world, i.e. US, China, EU, are the main ones reeling from the supply and demand shocks. These economies are also ASEAN's main trading partners, capturing half (50.3%) of ASEAN's total trade in goods (Table 4); while ASEAN's other main trading partners such as Japan, Korea, and Hong Kong, China, are also affected.

Beyond the direct disruptions caused by travel and mobility restrictions, interruptions in normal business operations, and the contraction in demand, breaks in supply chain connectivity may also be caused by measures introduced by governments, either to mitigate the spread of the pandemic or due to fear of supply shortages e.g. of medical and food supplies for the domestic market. In this challenging situation, it is imperative to keep the flow of essential supplies going, including medical supplies and food and agricultural produce[11], in a way that is consistent with the needs of the citizens, as well as protects the workers involved in the supply chains. This is important not only to protect both the producers and consumers, but also to ensure the livelihood of the infected and other vulnerable groups. Such efforts include continuing the operations of and access to critical infrastructure such as ports, cargo handling, and others necessary for the smooth flow of logistics, notwithstanding the lockdown imposed in

[11] ASEAN is a net exporter of food and beverages, albeit at the AMS level it varies. Brunei, Cambodia, and Philippines are net importers while the rest are net exporters. Singapore, notwithstanding its status as a trade hub, also relies heavily on food imports for domestic consumption.

many countries and regions. At the ground level, expanding food assistance and social protection programs allow people to stay home, especially those who cannot afford to lose their income; while providing collection centers, warehousing, or linkage to e-commerce, among others, supports smallholder farmers[12]. It is important to remember that the crisis is not about food shortage; but rather of logistics.

Table 4. ASEAN trade in goods with major partners, 2018

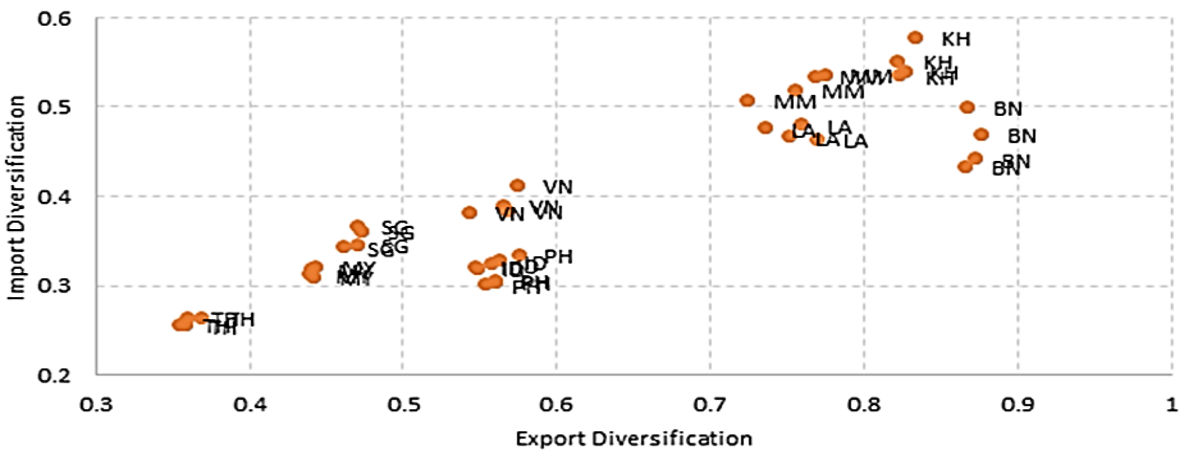
	Trade, in USD billion			Share to ASEAN total, in %		
	Total Trade	Export	Import	Total Trade	Export	Import
ASEAN Total	**2,825.3**	**1,436.4**	**1,388.8**	**100.00**	**100.00**	**100.00**
Intra-ASEAN	650.7	346.5	304.3	23.03	24.12	21.91
China	483.8	199.0	284.8	17.12	13.85	20.51
EU	288.2	160.9	127.3	10.20	11.20	9.17
US	263.0	160.3	102.7	9.31	11.16	7.40
Japan	231.7	114.8	116.9	8.20	7.99	8.42
Korea	161.5	60.5	101.0	5.72	4.21	7.27
Hong Kong, China	118.3	100.2	18.1	4.19	6.98	1.30
Chinese Taipei	117.4	39.7	77.6	4.15	2.77	5.59
India	81.1	50.7	30.3	2.87	3.53	2.18
Australia	66.2	39.2	27.0	2.34	2.73	1.94

Source: ASEAN Statistics (2020)

While the overall impact of these trade disruptions would be damaging to the regional economy, the adverse impact would likely depend on the structure of domestic markets. One source of resilience for the AMS would be a diversified trade structure, wherein trade is diffused across a range of products, rather than concentrated on only a few, to minimise the impact on overall trade.

Based on data shown in Figure 4, in general, AMS imports tend to be more diversified than exports, which means that there is more variety in the types of products imported than those exported. Bigger economies also have more diversified structures in both imports and exports compared to the smaller AMS.

Figure 4. Export and import diversification in ASEAN, 2015-2018



Note: 0 – perfect diversification
Source: UNCTADstats

[12] Food and Agriculture Organization (29 March 2020), *COVID-19 and the risk to food supply chains: how to respond?*

A closer look at the most vulnerable sectors

As governments impose community measures to stem the pandemic, particular attention should be given to the vulnerable groups that are most affected by the "lockdowns" or other forms of movement restrictions, e.g. informal or daily-wage workers, workers in affected industries, the urban poor, the elderlies, among others, for whom the switch to digitally enabled work-from-home is simply impractical or out of reach. Micro, small, and medium enterprises (MSMEs) are also at risk considering their limited resources to wait out the pandemic. Aside from ensuring the effectiveness of policy responses to the pandemic, governments have the public responsibility to help those most affected particularly in absence of coverage of social protection. Managing communications with the public is vital to promptly inform and reassure the public, in order to maintain peace and stability and also sustain public trust of the government's communication and ability to overcome the pandemic, maintain business and public confidence, curb panic buying and other behaviors that would add unnecessary inflationary pressures and food security concerns.

While the developments in the health sector at times appear overwhelming, the broader impact is on households due to the widespread loss of employment, e.g. from small businesses that cannot afford to retain employees, or informal workers in temporary jobs, gig economy workers, and from the services sector, especially travel, tourism, retail and other services. Excluding public services (civil service), 43.8% of ASEAN's workforce or 126.9 million people, are employed in the services sectors (Table 5). Singapore has the highest percentage of employees in services (65.7%), followed by Malaysia (56.6%), and Brunei (56.5%). However, in terms of absolute number, Indonesia has the largest number of workforce in the services sector with 57.5 million, followed by Viet Nam with 19.4 million, and Philippines with 16.3 million.

Table 5. ASEAN employment in 2018, in millions

Country	AFF	Manufacturing	Construction	WRT, RH	TSC	FIREBS	Public Services	Others	Total
Brunei Darussalam	0.002	0.008	0.021	0.042	0.010	0.018	0.078	0.023	0.2
Cambodia	3.9	0.9	0.4	1.2	0.3	0.029	0.2	-	7.0
Indonesia	35.7	18.3	8.3	30.7	6.3	3.9	12.6	8.3	124.0
Lao PDR	2.5	0.1	0.1	0.2	0.028	0.012	0.2	0.3	3.5
Malaysia	1.6	2.5	1.3	4.0	0.9	1.6	2.3	0.6	14.8
Myanmar	10.7	2.4	1.4	3.7	1.1	0.1	1.4	-	20.7
Philippines	9.4	3.6	3.9	7.8	3.6	0.8	-	0.2	29.4
Singapore	-	0.2	0.1	0.5	0.3	0.5	0.5	0.022	2.2
Thailand	12.2	6.3	2.1	9.1	1.5	1.1	0.6	1.3	34.0
Viet Nam	20.5	9.7	4.3	10.1	2.1	1.3	4.7	1.6	54.2
ASEAN	**96.4**	**44.0**	**21.8**	**67.3**	**16.2**	**9.3**	**22.7**	**12.4**	**290.0**

Notes: AFF – Agriculture, Fisheries & Forestry; WRTRH – Wholesale & Retail Trade, Restaurant & Hotels; TSC –Transportation, Storage & Communication; FIREBS – Finance, Insurance, Real Estate & Business Services; Others – Mining & Quarrying, Electricity, Gas & Water, Unknown. Recent data for Cambodia and Lao PDR are not available, hence the figures are from 2012 and 2015, respectively.
Source: ASEAN Secretariat Yearbook (2019)

Apart from trade, the most affected ASEAN industry is travel and tourism. Travel restrictions have been widely imposed, including within the region, grounding the tourism industry. Notably, travel and tourism contributed 12.6% to ASEAN's economy in 2018. Among the AMS, Cambodia, Philippines, and Thailand are the most vulnerable – they have the largest shares of GDP, employment, and export revenues, from tourism (Table 6).

Table 6. Contribution of travel and tourism to ASEAN economy in 2018, by AMS

Country	Share to GDP (in real terms)		Jobs generated		Visitor spending (in real terms)	
	in %	in USD bn	In '000s	Share to total employment, %	in USD bn per 1 mn visitor	Share to total exports, %
Brunei Darussalam	6.7	0.9	17.0	8.1	0.2	3.5
Cambodia	32.8	8.0	2,911.6	31.6	4.6	30.3
Indonesia	6.0	62.6	12,966.4	10.3	15.5	6.8
Lao PDR	12.0	2.2	347.0	10.5	0.7	12.5
Malaysia	13.3	47.2	1766.7	11.9	19.7	7.9
Myanmar	6.8	5.0	1,351.8	5.9	2.3	20.0
Philippines	24.7	81.5	10,943.7	26.4	8.8	8.4
Singapore	10.0	34.5	325.0	8.8	19.9	3.2
Thailand	21.6	109.5	5,990.6	15.9	70.1	20.8
Viet Nam	9.2	22.4	4,029.4	7.4	10.0	3.9

Source: World Travel and Tourism Council (https://www.wttc.org/)
Note: All values are based on constant 2018 prices and exchange rates.

ASEAN's Policy Responses to COVID-19

In terms of policy response to the pandemic, governments and central banks around the world have scrambled to ease monetary policies to support the health sector and economic activity and assemble stimulus packages to sustain businesses and individuals during lockdown or movement restrictions periods. Within the region, the AMS have introduced various economic stimulus packages since February, to mitigate the effects of the COVID-19 outbreak. Common measures are tax incentives/breaks for affected businesses, particularly the MSMEs and those in the most hard-hit sector; subsidies such as cash assistance, discounts on electricity bills, etc. to households and workers, including additional incentives for those in the healthcare sector; deferred tax or loan payments; exemptions from or lower government fees and charges. Central banks have also lowered policy rates and reserve requirements, and bought government securities/bonds.

Some AMS have introduced distinct measures targeting key sectors of society. For example, Brunei allowed the deferment of contributions to the trust/pension funds, while Malaysia allowed reduced pension contributions. Singapore suspended student loans and charges. Meanwhile, in Viet Nam, the banking sector created a credit package worth VND285 trillion (USD12.3 billion) for businesses[13].

[13] https://www.theasset.com/archive/39909/vietnam-banks-to-offer-us123-billion-coronavirus-support-package

At the regional level, given the early impact on tourism, the ASEAN National Tourism Organisations on 13 February issued a Joint Media Statement to advise on the precautionary measures and the situation in each AMS14. On 10 March, ASEAN Economic Ministers issued a statement on Strengthening ASEAN's Economic Resilience in Response to the Outbreak of COVID-19[15], in which they reaffirmed commitment to maintain ASEAN's open economic and integration policies and resolved to take collective action to mitigate the impact of the COVID-19 outbreak including by keeping markets open, strengthening information sharing and coordination, and working closely with industry stakeholders. Discussions and coordination continued across affected economic sectors, focusing on maintaining macroeconomic and financial stability, along with ensuring continued flows of essential supplies such as food and medical supplies in the immediate term. Moving forward, the region also need to work together for a collective recovery after the pandemic-led slowdown, taking a complete look at their economic resilience in the face of similar shocks in future.

Beyond its internal coordination, ASEAN has also been discussing with its partners on cooperation to counter the COVID-19 pandemic. Specifically on financial cooperation, the ASEAN+3[16] countries have been working on strengthening the Chiang Mai Initiative Multilateralization (CMIM), a multicurrency swap arrangement established to provide short-term liquidity to members in times of need, to ensure its operational readiness. A Special ASEAN Finance and Central Bank Deputies Meeting + 3 (AFCDM+3) was held through videoconferencing last 3 April, where the Deputies exchanged views on the policy measures undertaken to mitigate the economic impact of the outbreak, and also agreed to strengthen coordination at the regional level.

International financial institutions have also pledged to support the countries affected by the COVID-19 outbreak. The IMF pledged to increase lending capacity for members to USD1 trillion, and to work on debt relief for low-income countries through the Catastrophe Containment and Relief Trust (CCRT)[17], while World Bank has made available USD160 billion for long-term financing over the next 15 months[18]. ADB also announced a USD6.5 billion package for support to the COVID-19 crisis response [19]. So far, ADB has approved grants for the Philippines and Indonesia, and has offered support for Viet Nam. The Philippines launched a USD5 million Rapid Emergency Supplies Provision Project, a provisional food assistance for vulnerable households and workers in Luzon. On the other hand, Indonesia's availed a USD3 million grant to purchase essential medical equipment and supplies for COVID-19 response, such as ventilators and personal protective equipment.

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[14] See https://asean.org/storage/2020/02/FINAL-Statement-ASEAN-Tourism-Crisis-Communications-Team-ATCCT-11Feb2020.pdf

[15] https://asean.org/storage/2020/03/AEMR-26-Statement-on-COVID-19-FINAL-10.03.2020.docx.pdf

[16] ASEAN+3 refers to ASEAN, China, Japan, and Korea.

[17] IMF (4 March 2020), *Opening Remarks by IMF Managing Director Kristalina Georgieva at Joint Press Conference with World Bank Group President David Malpass on the Coronavirus Response,* https://www.imf.org/en/News/Articles/2020/03/04/sp030420-imf-makes-available-50-billion-to-help-address-coronavirus

[18] World Bank (updated 2 April 2020), *How the World Bank Group is helping countries with COVID-19 (coronavirus)*, https://www.worldbank.org/en/news/factsheet/2020/02/11/how-the-world-bank-group-is-helping-countries-with-covid-19-coronavirus

[19] ADB (18 March 2020), https://www.adb.org/news/adb-announces-6-5-billion-initial-response-covid-19-pandemic

Policy Recommendations

The current COVID-19 pandemic has led to over a million of confirmed cases and tens of thousands of fatalities worldwide. In addition to the disease's mortality and public health effects, it may lead to significant and lasting economic implications, including productivity losses, supply chain disruptions, labor dislocation, and potential financial pressure on businesses and households. The global economy is already on the verge of a global recession and it may be worse than the global financial crisis in 2008/09. Therefore, there is a need for AMS to take extra measures to mitigate the impact of COVID-19 pandemic, while restoring confidence, preserving financial stability, and reviving growth. The policy recommendations are as follows.

a) **Mobilising all available macro, financial, and structural policy tools**: The economic consequences of COVID-19 pandemic are impacting the region with unprecedented speed and severity. COVID-19 pandemic has a clear supply effects: quarantines, restrictions on travel and mobility, factory closures, and supply chain disruptions. While, the effects on demand are more difficult to gauge, but it is critical from an economic policy point of view to find out the initial impacts and how to deal with demand shocks (i.e. a sharp decline in many manufacturing and service sector activities) through monetary, financial and fiscal tools as well as structural and social policies. Hence, AMS should do whatever it takes and to use all available policy tools followed by targeted support to cushion economic impact and social damage of COVID-19 pandemic.

b) **Preserving the economy's productive capacity:** Policymakers must prepare the economy to be ready to restart with a minimal shortfall in productivity when the containment period loosens. The most important measure is postponing all debt obligations to prevent firms from going bust during the crisis. This will preserve the physical capital of the economy allowing it to be utilised when the crisis is over. Preserving productive capacity development could help AMS to diversity production and export bases, thereby reducing vulnerability and continue to foster an open and competitive market environment. AMS should continue to monitor the pandemic's impact on employment and undertaking immediate and vigorous measures to protect workers, businesses, especially MSMEs and the sectors most affected; and protect the vulnerable through adequate social measures.

c) **Keeping the supply chains going**: A protracted pandemic crisis could quickly put a strain on the supply chains including food supply chains, a complex web of interactions involving farmers, agricultural inputs, processing plants, shipping, retailers and more, as well as supply chains of essential medical supplies to ensure the flow of vital medical supplies, critical agricultural products. Any constraints to trade, including bureaucratic hurdles and taxation policy options should be reviewed in order to link producers to markets and consumers. Countries must strike a balance between the need to keep production going and the need to protect the population including consumers as well as workers in the supply chains. Hence, AMS should review trade and taxation policy options and their likely impacts to create a favourable environment to continue flows of essential supplies

d) **Leveraging on technologies and digital trade:** The growing need for remote interactions to overcome movement restrictions amid the coronavirus pandemic has highlighted a need to leverage technologies and digital trade. The shift to digital platform has helped to mitigate the productivity loss in the economy, current and future, as learning and work are facilitated remotely. Moreover, social networks could be a major beneficiary, while e-commerce is likely to grow as consumers shun physical stores and crowded gathering places and could further bolster use of omni-channel commerce. With all the benefits presented by digital platforms, two things are becoming urgent: the need to address digital divide across and within AMS, and the urgency of raising awareness of and capabilities in cybersecurity.

e) **Strengthening the social safety nets:** Social safety nets (SSNs) are critical to reducing poverty because they support inclusive growth and provide resources to the most vulnerable in society in particular in time of crisis. Vulnerable workers are most likely to lose their jobs if they miss work. In the current scenario, their nature of job makes them least able to work remotely to avoid contracting the virus. They are also least likely to have savings to survive "lockdowns" and any economic downturn. Under such circumstances, safety nets, especially cash transfers, paid leaves, and health insurance, can provide quick financial support to overcome basic needs of vulnerable and poor segments of the society. In the longer term, each AMS and even ASEAN collectively may need to look at ways to further strengthen their social protection for better preparedness for future crises.

f) **Scaling-up regional pandemic responses:** Pandemic outbreak such as COVID-19 will continue to occur, but where and how severe the next pandemic will be, no one can predict. The COVID-19 experience highlighted the need for the region to have a holistic and comprehensive response mechanism to the outbreak of a pandemic, going beyond the health sector response and taking into account the expansive implications of a pandemic, including on the economy and livelihood of the people. Such response mechanism will need to be community-wide, cross-sectoral and cross-pillar to address the multi-dimensional impact of a pandemic while taking into account the different governmental and socio-conomic structures among Member States. On the economic front, such a response mechanism will need to address both the immediate fundamentals e.g. macroeconomic and financial stability, supply chain connectivity, while also minimising any long term impact on productivity by enhancing preparedness to rebuild the economy in the aftermath of the pandemic. In the fight against current and future pandemics, national and regional efforts need to be complemented by and strengthened with international cooperation. Thus, AMS and health authorities must throw every possible resource into protecting and upgrading the healthcare sector.

g) **Redoubling the resolve to advance regional integration:** The COVID-19 pandemic crisis highlights that such a shock has little regard to national borders given the interconnectedness and interlinkages of our economies and society. The solution to strengthening national resilience against such crisis is not to turn inward.

On the contrary, strengthening regional collective resilience will be integral to containment efforts and to safeguarding socio-economic stability, employment and livelihoods. Most of the earlier recommendations can be pursued by a cohesive integrated response and strengthening existing regional cooperation mechanisms. Nevertheless, the effectiveness will depend on the degree of political commitment and a well-coordinated implementation on the ground.

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