ASEAN+3 Growth Strategy in the Pandemic’s Wake

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Outline

01 Has COVID-19 damaged ASEAN+3’s output potential?
02 Will the pandemic brighten or dim the potential of services as an engine of ASEAN+3 growth?
03 What will the pandemic do to the ASEAN+3 manufacturing-for-export strategy?
1: Has COVID-19 damaged ASEAN+3’s output potential?
The longer the pandemic stretches out, the higher the likelihood of scarring

Sources: National authorities via Haver Analytics; and AMRO staff estimates and projections.
Scarring of the labor supply will be felt most strongly in the region’s aging economies.

**ASEAN+3: Fertility Rates** (Per woman)

**ASEAN+3: Labor Force Participation Rate**
(Percent; Percent year-on-year)

**Selected ASEAN+3: Foreign Workers**
(Percent of labor force)

Sources: World Development Indicators, World Bank; United Nations Population Fund (estimates); and AMRO staff calculations.

Sources: National authorities via Haver analytics; and AMRO staff calculations.

Sources: National authorities via Haver Analytics; Statistics Korea; and AMRO staff calculations.
The unprecedented disruption to education due to the pandemic has likely eroded future human capital and labor productivity.

### ASEAN+3: School Closures and Remote Learning Modalities
(16 February 2020–31 December 2021, number of days)

### ASEAN+3: Learning Losses due to COVID-19
(Percent decline in learning-adjusted years of schooling versus 2020 baseline)


Source: Human Capital Index, World Bank; and Asian Development Bank.
Scarring of the capital stock will affect the region’s emerging market and developing economies with large infrastructure gaps.

Selected ASEAN+3: PPP Investment Commitments
(Billions of US dollars)

ASEAN+3: Infrastructure Competitiveness, 2019
(0 = lowest; 100 = highest)

Sources: Private Participation in Infrastructure, World Bank; International Monetary Fund Investment and Capital Stock Database (ICSD); and AMRO staff estimates.

Sources: World Economic Forum, Global Competitiveness Report 2019; and AMRO staff calculations.
Investment and productivity could suffer due to debt overhang when pandemic support is withdrawn, or due to zombie firms if pandemic support is prolonged.

Selected ASEAN+3: Actual and Projected Debt-at-Risk
(Percent of GDP, end of period)

Selected ASEAN+3: Corporate Bankruptcies, 2017–21
(Thousands of companies)


Source: National authorities; and Tokyo Shoko Research.
2: Will the pandemic brighten or dim the potential of services as an engine of ASEAN+3 growth?
Recovery of travel and tourism will hinge on building traveler confidence, starting at the domestic level.

**ASEAN+3: Inbound Tourist Arrivals by Source Country**
(Millions of tourist arrivals; percent year-on-year)

**China: Chinese Tourists’ Intent to Travel Post-Pandemic**
(Percent of respondents by age group)

Sources: ASEANstats; National authorities; United Nations World Tourism Organization; and AMRO staff calculations.

Businesses should capitalize on the strong uptake of e-commerce, especially as users have become accustomed to using digital services.

**ASEAN-6: Gross Merchandise Value of Digital Economy Sectors**
(Billions of US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>E-commerce</th>
<th>Transport &amp; food</th>
<th>Online travel</th>
<th>Online media</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>99</td>
<td>44</td>
<td>16</td>
<td>5</td>
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<td>2020</td>
<td>117</td>
<td>63</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>2021</td>
<td>174</td>
<td>81</td>
<td>29</td>
<td>14</td>
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<tr>
<td>2025</td>
<td>363</td>
<td>167</td>
<td>61</td>
<td>41</td>
</tr>
</tbody>
</table>


**ASEAN-6: New Consumers in 2020 Who Continued Using Digital Services in 2021**
(Percent of consumers surveyed)

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beauty</td>
<td>98</td>
<td>96</td>
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<tr>
<td>Groceries</td>
<td>97</td>
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<tr>
<td>Apparel</td>
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<td>Video</td>
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<td>92</td>
</tr>
<tr>
<td>Ride-hailing</td>
<td></td>
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</tr>
</tbody>
</table>

Supportive regulatory frameworks will unlock the potential of digital banking and telemedicine as growth drivers

ASEAN-6: Likely Usage of Digital Financial Services in the Next 1–2 Years
(Percent of digital merchants surveyed)

ASEAN-6: Value and Number of Total Healthtech Deals
(Billions of US dollars)

The region would need to constantly upgrade and innovate to develop modern services exports as a pillar of growth

Selected ASEAN+3: Exports of Modern and Traditional Services, 2016‒20
(Average percent share of total services exports)

Selected ASEAN+3: Quarterly Exports of Services
(Percent year-on-year)

Source: National authorities via Haver Analytics; and AMRO staff calculations.

Source: National authorities via Haver Analytics.
3: What will the pandemic do to the ASEAN+3 manufacturing-for-export strategy?
With the pandemic’s disruption to supply chains, reshoring and nearshoring intentions and activities have gained some traction globally.

- **More than 1,300 US companies** likely re-shored operations last year.
- **25% of EU manufacturing respondents in China** to onshore supply chains.
- **Top Japanese apparel makers** to onshore more production capacity over next 3–5 years.
- **Some European fashion brands** shifting production out of Southeast Asia.
- **26 Korean firms** reshored in 2021, an all-time high.
- **90% of global firms surveyed** last year intend to pursue some degree of regionalization in the next 3 years.

Source: AMRO staff compilation from various surveys and media reports.

Note: Boundaries, colors, and other information shown on the above map do not imply any judgment on the part of AMRO concerning the legal status of any territory or the endorsement or acceptance of such boundaries.
RCEP holds promise for promoting supply chains in the ASEAN+3 region through harmonized and more accommodating rules of origin provisions

Tariff reductions
Eliminates tariffs on more than 90 percent of goods traded over a 20-year period

Accommodating rules of origin
Gives firms more flexibility to source inputs from the bloc, while benefiting from low tariffs

Labor mobility
Temporary cross-border labor flow for services, other business activities

Consolidated rulebook
Single set of rules for greater consistency in trade and customs practices, leading to greater efficiency

Services trade liberalization
Additional liberalization of services sectors, including those related to supply chains

E-commerce and digital trade
Offers more provisions relating to e-commerce, aimed at increasing the level of trust and confidence of users

Source: AMRO staff.
Key takeaways

• Some extent of scarring is unavoidable
  • Scarring of the labor supply in aging economies
  • Scarring of the capital stock in economies with narrow fiscal space and high debt
  • Scarring of productivity from extended school closures and zombie firms
• Travel and tourism will take time to recover
• E-commerce and digitally supplied services have the potential to become future growth drivers
• The pandemic has brought home the importance of strengthening intra-regional links
Thank you.