

Foreword

“You don’t make the timeline, the virus makes the timeline.” This was the statement that Dr. Anthony Fauci, Director of the US National Institute of Allergy and Infectious Diseases, gave in response to a question about when lockdowns could be lifted and the economy reopened. This statement also aptly sums up the ASEAN+3’s struggle against the COVID-19 virus in the last two years. Ever since the COVID-19 outbreak in early 2020, the region’s economies have been waging a war against the virus for control of their economies while saving lives. Initially, the strategy was to impose a national lockdown or strict social distancing measures to prevent the virus from spreading, which turned out to be quite effective but was also quite devastating to the economy and not sustainable over a long period of time. Moreover, the virus began mutating into more infectious variants and became even more tenacious and difficult to contain. Since early 2021, with the development of effective COVID-19 vaccines, the strategy has shifted to a combination of ramping up the vaccination rate to protect the population and adopting more targeted containment measures to minimize the impact on the economy. Unfortunately, the vaccination was initially slow to roll out, and the region had to retighten containment measures quite sharply in mid-year when the Delta wave swept through the region and disrupted the nascent economic recovery.

Now, as we move through 2022, it appears as though the region may finally have gained some ground in its long battle against the virus and we can now look forward to a fuller opening-up and a strong economic recovery. Even so, the cost in the last two years has been heavy both in terms of suffering and lives lost and the loss in jobs and income. Although a small risk remains that the virus may surprise us with a new variant that is more resistant to vaccines, we pray that going forward, we are now the ones who set the timeline.

Our AREO report this year is therefore devoted mainly to assessing the damage caused by the pandemic to the region’s economies over the past two years, and growth prospects in the coming two years and over the medium to long term. Obviously, the prospects will vary from economy to economy depending on several factors, including their economic structure, the extent and depth of scarring, the size of financial and fiscal support, and the available policy space.

As we prepare to go to press, however, the Russia-Ukraine conflict has erupted and threatens to upend the regional outlook. It is a *déjà vu* moment, harking back to the same time two years ago when the COVID-19 outbreak became a pandemic and we had to scramble to review our forecasts before going to print. Like two years ago, our preliminary assessment is that the impact of the new shock on the region would be small. However, having been blindsided by the virus again and again in the last two years, we are more mindful of uncertainties and appreciate that a prolonged conflict could be potentially more disruptive and significant.

Chapter 1 of the AREO report will assess the short-term outlook of the region, taking into account the scarring inflicted by the pandemic on member economies while keeping a wary eye on the spillovers from the Russia-Ukraine crisis. The assessment is made more challenging by the lack of reliable data on the extent and depth of scarring in key sectors of the economy that are masked by the support measures taken to mitigate the impact of the containment. The chapter also reviews the risks and vulnerabilities facing the region and assesses the policy support needed to sustain the recovery. A key challenge facing many economies this year is to normalize their policy stance by unwinding or tapering the stimulus measures adopted in the past two years to support the economy, without jeopardizing the recovery.

Chapter 2 of the AREO report is normally devoted to studying the structural challenges facing the region. In the past few AREOs, we have been reviewing the growth strategy of the region—how it has evolved from final processing of consumer goods for export in the early days of industrialization to today’s highly complex and integrated regional production networks supplying a wide range of products and services for both export and domestic consumption. The pandemic, however, has caused major disruptions in regional production and prompted many countries to question the wisdom of relying on global supply chains for critical products. It also exacerbated geopolitical tensions and led many experts to pronounce the end of globalization and the need for economies to be more self-sufficient.

We have therefore decided to take a step back and ask ourselves whether our previous assessment of the region's strong economic prospects is still valid. How bad are the scarring effects? Have the massive fiscal deficits during the pandemic used up all the fiscal space so that the region is no longer able to invest in the essential infrastructure needed to support growth? Will the "flight to digital" boost productivity and raise potential growth? Or will the region lose its dynamism and be destined to grow at a mediocre pace? Will the 21st century still be the Asian Century? These are some of the questions that we seek to address in the thematic chapter. Based on our analysis, the economic fundamentals of the region remain strong, and with the right policies and strategies the region should be able to bounce back and realize its ambition of making the 21st century the Asian Century.

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