

Executive summary

As shockwaves from the COVID-19 pandemic disrupt economies around the world, growth rates in Emerging Asia are expected to contract in 2020 before rebounding in 2021. The OECD's *Economic Outlook for Southeast Asia, China and India 2020 – Update* describes the impact of the crisis on the economies of the region. In addition to the near-term regional economic outlook, it presents policy priorities for coping with the crisis, with a focus on digitalisation, tourism, healthcare and regional co-operation. It also examines the need to boost education quality in Emerging Asia.

Economic outlook for 2020 and 2021

Gross domestic product (GDP) in 2020 is expected to decline by 2.9% on average in Emerging Asia and by 2.8% in ASEAN-10. Growth rates are projected to return to levels similar to those seen previously in 2021, by 6.8% in Emerging Asia and by 5.6% in ASEAN. With an estimated GDP decline of 6.7% in 2020, Thailand is expected to be the worst affected economy in Emerging Asia. Viet Nam will outperform its ASEAN-5 counterparts, posting a positive GDP growth for 2020 and the strongest growth in 2021. The CLM countries – Cambodia, Lao People's Democratic Republic (hereafter “Lao PDR”) and Myanmar – have also been negatively impacted and Cambodia's GDP growth will turn negative in 2020. In China and India, economic output is expected to contract for the first time in decades before returning to a positive growth trajectory in 2021.

While financial markets in the region have proved resilient, the risk of capital flow volatility is broadening, as are risks to banking sector profitability and solvency. Countries where banks are worse positioned to support firms and households, such as India and to some extent Lao PDR, Myanmar and Viet Nam, are arguably more susceptible to shocks. The corporate sector is facing unprecedented pressure as a consequence of measures implemented to curb the spread of the virus. In all countries, unemployment levels and corporate bankruptcies are a major concern.

Governments in Emerging Asia have adopted fiscal stimulus policies of unprecedented proportions, and policy makers have ramped up monetary accommodation. The crisis and associated recovery programmes will push the fiscal limits of many economies into uncharted territory. Although most Emerging Asian countries entered the crisis with relatively sound fiscal positions, the sheer spending requirements to help the real economy regain its pre-pandemic health will put these fiscal buffers to the test. With Emerging Asia highly susceptible to natural disasters such as storms and flooding, particularly in the second half of the year, many governments in the region will be hard-pressed to manage the increase in their initially planned fiscal deficit ratios.

Policy priorities in response to COVID-19

The COVID-19 crisis will lead to lasting transformations and should benefit firms that enable online and technology-based services. The use of online services for virtual meetings and teaching increased sharply during the outbreak, with similar trends in e-commerce and e-banking. The crisis also illustrated the growth potential of online health sites and applications. While digital transformation is occurring rapidly in China, India, Indonesia and Singapore, other Southeast Asian economies are facing difficulties during the crisis, especially those with insufficient IT infrastructure and Internet availability.

Travel and tourism were among the sectors worst impacted by COVID-19 in Emerging Asia. Travel restrictions were imposed in all countries in the region. Several ASEAN countries implemented fiscal packages to support workers in travel and tourism, while others have sought to stimulate domestic tourism to keep tourism-related businesses operating and workers employed. Co-ordination among tourism officials, health officials and local authorities at domestic tourist destinations is primordial in the trade-off between resuming activity and safeguarding public health. Appropriate strategies will also need to be crafted for the safe resumption of international travel flows.

The COVID-19 crisis has shown that ASEAN countries need to improve the state of their healthcare systems. Every ASEAN country has fewer hospital resources per capita than the OECD average, in terms of both personnel and physical infrastructure. At the same time, public awareness about best practices during a pandemic may be rather low across parts of Emerging Asia. Targeted policies could be envisaged on several fronts, including the development of tracing methods, the use of education to promote better hygiene and an increase in medical personnel and healthcare facilities. International co-operation is proving crucial in the effort to develop a vaccine, and countries in Emerging Asia are assisting each other through donations of supplies to control the spread of the virus.

Since the first COVID-19 cases were reported in January, ASEAN leaders and their counterparts in China, Japan and Korea have stepped up efforts to provide a collective response. These initiatives have included information sharing, co-ordination in responding to public health challenges, and economic measures such as keeping ASEAN markets open for trade and investment or strengthening supply-chain resilience and sustainability. The scope of region-wide initiatives could still be expanded. Going forward, countries will need to ensure that public health and financial responses to both the current emergency and future outbreaks are effectively co-ordinated.

Boosting education quality

The spread of COVID-19 has left learners across the globe out of school, even if temporarily. While learning has continued in one way or another, the consequences of the school closures have been particularly damaging for vulnerable students. Although the full consequences of the school closures cannot yet be evaluated, the results of the Programme for International Student Assessment (PISA) 2018 can provide a valuable reference point for education systems.

While acknowledging progress in some areas, the 2018 PISA exercise also revealed challenges in education systems in Emerging Asia. These shortcomings could be addressed through targeted policies aimed at improving access to education, allocating resources more equitably among schools, addressing gender imbalances in student participation and creating a positive learning environment.



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