



Chapter 2.

# ASEAN+3 Growth Strategy in the Pandemic's Wake

# Highlights

- COVID-19 has been a major disruptor—as well as a catalyst for change. The evolving virus and the policies implemented to contain it have exacted a heavy toll on economic activity and populations in the ASEAN+3 region. At the same time, the pandemic has precipitated changes in business operations, technology adoption, social norms, and consumer behavior that are likely to endure long after the crisis ends.
- What does this mean for the ASEAN+3's established growth strategy of moving up the technological value chain, developing services as a second driver of growth, and leveraging digital technology to meet the region's burgeoning consumer demand? Will the pandemic jeopardize the hitherto remarkable upward trajectory of regional incomes by leaving scars on member economies' output potential?
- Some extent of scarring is unavoidable—although it will take various forms in different economies, and some economies will be more affected than others. Scarring of the labor supply will be felt most strongly in the region's aging economies: birth rates have fallen (further); labor force participation rates have declined; and prolonged border closures could discourage future immigration. Scarring of the capital stock will affect the region's emerging and developing economies, as rebuilding of fiscal buffers and high debt-service burdens could constrain investments in infrastructure, especially those needed for digitalization. And scarring of productivity will have an impact across the region, as extended school closures and unemployment durations have eroded human capital, and prolonged policy support could delay the reallocation of resources needed for economies to adjust to the post-pandemic new normal.
- The pandemic has dealt a blow to some services but has provided a boost to others. Travel and tourism, in particular, have borne the brunt of lockdowns and containment measures, and their (likely slow) recovery will hinge on success in adapting to the significant changes to travel preferences and behavior introduced by COVID-19, such as a greater emphasis on hygiene and contactless interactions. On the bright side, digitally supplied services, including e-commerce, digital financial services, telehealth, and modern services, have thrived during the pandemic and have strong potential as future growth drivers.
- Crippling supply chain disruptions over the past year have thrown into question existing global value chain (GVC) paradigms and the relevance of the region's manufacturing-for-export strategy. But notwithstanding increasing interest in near- and reshoring production to protect critical supply chains, COVID-19 has not diminished ASEAN+3 economies' fundamental advantages as GVC locations. The newly implemented Regional Comprehensive Economic Partnership provides an additional boost for supply chains to be located in the region.
- Looking ahead, ASEAN+3 economies must prioritize building resilient systems, characterized by scalable healthcare systems, continuous training and upgrading, constant innovation, competitive business environments, and sustainable fiscal positions. Closer intraregional cooperation—in areas of supply chain security, interconnectivity, cross-border flows, and digital integration—will further expand the region's opportunities to secure post-pandemic growth, minimize scarring, and prepare for future shocks.