

Foreword

It is said that, “God works in mysterious ways.” Never has this saying been more apt than in the past year. The year 2020 had started on an optimistic note with the signing of the Phase One trade deal between the United States and China, the two economic superpowers, but the optimism was soon dashed by the COVID-19 pandemic, which first broke out in Wuhan, China, and soon spread like wildfire across the globe, devastating economies along the way.

The ASEAN+3 region was not spared the devastation, although the losses and damages vary from economy to economy, with most suffering their worst economic contraction in decades. China, the first country to be hit by the pandemic, took decisive and forceful measures to contain the virus, initially locking down Hubei province and imposing strict mobility measures in the first wave of the outbreak. While the suffering was immense and the economic cost huge, with growth plunging 7 percent in the first quarter, the measures worked and the economy rebounded very strongly, with growth back to pre-pandemic rates by year-end. Strict social distancing measures were also taken by all the economies in the region and for a while, these efforts were similarly effective in containing the virus, with zero or very low caseloads in most, a sharp contrast to the situation in Europe and the United States, where the infection rates reached epic levels and the hospitals were overwhelmed.

However, the relief from the success in containing the virus was short-lived for most economies in the region, as the virus proved to be more cunning and tenacious than expected. No sooner were the containment measures eased than the virus came roaring back, spreading even more rapidly than before and forcing the authorities to retighten the containment measures. In all, there have been up to four major waves of infection in the region, each worse than the one before, with several economies still struggling to contain the latest wave.

Needless to say, regional governments took swift and decisive measures to save lives and support their economies during the lockdowns. The economic stimulus packages were unprecedented in size and scope, comprising massive income support and liquidity injections to ensure that households, businesses and banks would be able to survive the collapse in incomes during the lockdowns. Fortunately, the regional economies had strengthened their macroeconomic fundamentals and built up significant policy buffers during the past two decades and thus were relatively well positioned when the pandemic hit. As a result, they were able to afford the large stimulus packages, although the size of the packages varies from economy to economy depending on the size of the shocks and their available policy space.

As in the previous year, 2021, is starting on an optimistic and hopeful note, buoyed by the development of several vaccines, which have proven to be effective against the virus. The challenge in the coming year is to roll out the vaccines as quickly and efficiently as possible so that the bulk of the world’s population can be vaccinated. Only then will countries be able to achieve herd immunity and containment measures be fully removed without fear of further waves of infection. Here in the ASEAN+3 region, most governments have purchased vaccines for their populations and are ready to roll them out. However, the challenge lies in ensuring that sufficient quantities of the vaccines are secured and the vaccines are distributed and administered smoothly and efficiently to the populations.

Another major challenge facing authorities in the region is exiting smoothly from the large stimulus policies without triggering a cliff effect. They need to recalibrate the measures and phase out the stimuli in such a way that their economies continue to recover and gain momentum, and transit smoothly to the post-pandemic “new normal.”

If there is one bright spot from the physical lockdowns, it is the speed with which individuals and businesses have leveraged digital technology to continue with their lives and livelihoods. The pandemic has accelerated the shift to the digital economy and policymakers must make the necessary changes to policies and invest in supporting infrastructure to facilitate the continuing transformation of their economies. The challenge for many emerging economies will be to mobilize the funding to build the necessary infrastructure, given that their policy space has shrunk as a result of the stimulus packages.

As in previous editions of the AREO, the thematic chapter in this edition continues the discussion on the structural challenges facing the region. The pandemic, by causing massive supply disruptions around the world, has reignited the debate over the future of globalization and global value chains (GVCs), with some arguing for onshoring or reshoring of the supply chains to enhance their resilience. At the same time, contrary to our expectations at the beginning of last year, the tensions between the United States and China have heightened and expanded from trade to technology, raising concerns that global technology may become bifurcated, with adverse ramifications for the global economy. This thematic chapter therefore conducts an in-depth review of the factors that are likely to affect the reconfiguration of GVCs and the bifurcation of technology, and assess their implications for the region.

The past year has been trying for most countries. Within the span of a few months, the COVID-19 virus had spread across the world, respecting no national boundaries, and brought hardship, pain, and suffering to many. In so doing, the pandemic has reminded us of our common destiny, that we live in one interconnected world, wherein no one country is safe until all countries are safe. The pandemic is therefore a wakeup call for us to pull together to face our common challenges and respect nature if we are to survive on this small planet.

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