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Research Briefing | ASEAN

A synchronized recovery to take root

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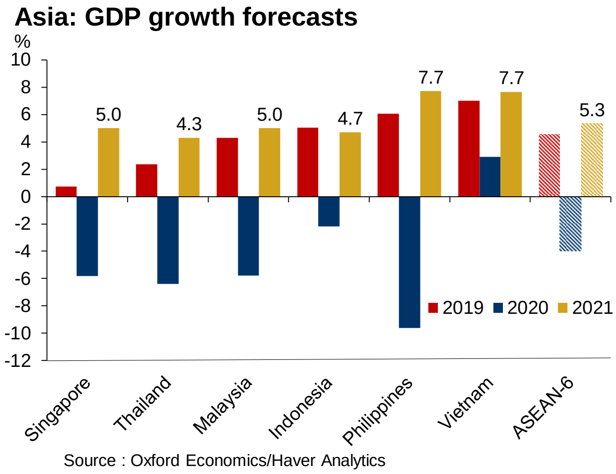
- **We forecast average ASEAN-6 GDP to rise 5.3% this year, led by Vietnam, with most economies returning to pre-coronavirus GDP levels in H2 2021. But sequential growth in the short-term is likely to be bumpy, particularly for Thailand, Indonesia, and Malaysia where restrictions have been reintroduced.**
- **We expect a more synchronised recovery in H2 2021 as the regional rollout of vaccines allows for sustained easing in restrictions and the recovery in global trade broadens. With interest rates likely to remain at record lows, we expect government spending to shift from financial support toward infrastructure, which will support the recovery in activity and employment.**
- **An upside scenario based on faster vaccine rollout could see ASEAN-6 average GDP increase by nearly 10% in 2021. But in a scenario with slower vaccine rollout and a surge of infections, the regional recovery would be delayed to 2022.**

Economic growth has picked up from the sharp falls in Q2 2020, but the recovery across the ASEAN-6 economies has been uneven. Varying success in containing infections, the extent of policy stimulus, and countries' export composition have created winners and laggards. Vietnam has been a clear winner, as its successful containment of infections has led to faster normalisation in activity, with GDP already back above pre-Covid-19 levels. However, Thailand and the Philippines have lagged. Travel restrictions have weighed on the recovery in Thailand, despite its earlier success in controlling infections, while prolonged lockdowns have weighed on activity in the Philippines.

We expect divergence in growth across the region to persist over the short-term. Authorities in Indonesia, Thailand, and Malaysia have reinstated mobility restrictions

Figure 1: ASEAN-6 GDP set to rebound to 5.3% this year after contracting by an estimated 4% in 2020



We expect a solid rebound in growth this year across the region. Vietnam and the Philippines are set to outpace the rest, although in the case of the Philippines this reflects low base effects after last year's sharp contraction.

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(**Figure 2**) due to rising infection rates. But we do not believe these restrictions will be as disruptive as last year. The latest measures are more targeted, and both essential and non-essential businesses can operate in some capacity. In Malaysia, the manufacturing, construction, commodity, and export-related sectors can operate at up to 70% of capacity, compared to only key essential businesses during last year's lockdown. That said, we do expect Malaysia to dip back into recession in Q1 (**Figure 3**).

Vaccine roll out to see more restrictions eased

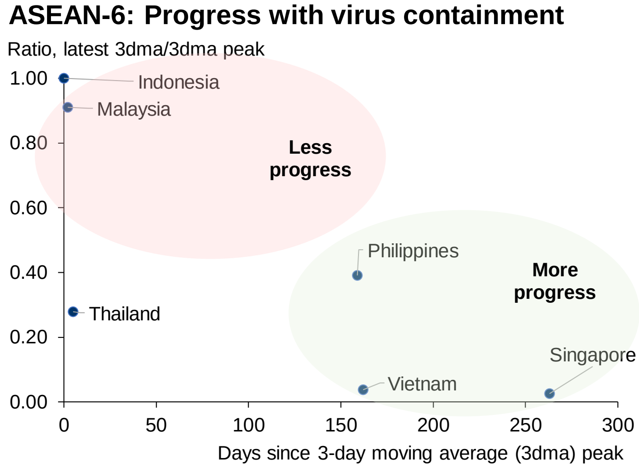
We expect restrictions will ease once again from February/March and activity will bounce back strongly in these affected economies. Thereafter, recovery in regional economies should move to a firmer footing. This is dependent on the rollout of coronavirus vaccines across ASEAN-6 countries, and our assumption that social distancing measures will ease as vaccinations become more widespread. One exception is Vietnam, where GDP is already back above pre-pandemic levels, making the vaccine less of a game changer.

We expect Singapore to be the first among the ASEAN-6 economies to reach herd immunity, based on current procurement plans, with around 87% of the population set to be vaccinated by the end of 2021. Indonesia has been proactive in sourcing vaccinations, but we believe that the rollout will take longer than the authorities' current plan of vaccinating two-thirds of its population within 12-15 months **(Figure 4)**, given its logistical challenges.

Although we expect the pace of inoculation to vary across the ASEAN-6 region, we believe that once it is widely available, and the risks of a sharp flare up in infections are reduced, we will see a sustained relaxation in social distancing measures. We even expect restrictions to ease in the Philippines, despite the expectation that only 35% of its population will be vaccinated by the end of the year, as it experienced one of the strictest and more prolonged lockdowns in the region.

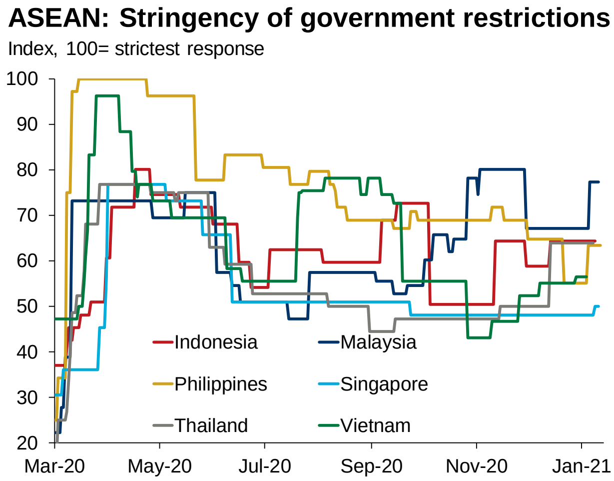
The start of vaccinations should buoy consumer and business confidence across the region, spurring an improvement in service sector activity, including 'social

Figure 2: Some are facing a new surge in infections



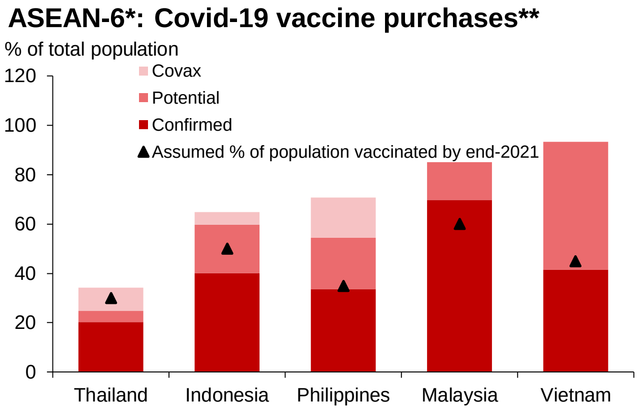
Source : Oxford Economics/OWID/National Sources

Figure 3: Malaysia set to dip back into recession amid tighter restrictions



Source : Oxford University/Blavatnik

Figure 4: By end-2021 we estimate that between 30% and 87% of populations will be inoculated



Source: Oxford Economics/Duke Global Health Innovation Center
* No hard data published for Singapore, but vaccination has started and the government plans to deploy vaccines for all adult population by end-2021.
** Assumes two doses for all.

spending' and domestic tourism. But we expect tourism-related sectors will be the last to recover as border controls remain in place (**Figure 5**).

Manufacturing sector recovery to remain key

Technology and pandemic-related demand have led the recovery in global trade since the lows of May. This has benefited high-tech exporters, such as Singapore and Malaysia, as well as manufacturing hubs, such as Vietnam and Thailand. But other industries, notably the commodity and automobile sectors, have struggled.

We expect electronic exporters to continue to benefit in 2021 as the upturn in the technology cycle goes beyond the 'stay at home' demand and reflects a longer-term shift towards digitalisation. However, we look for the recovery in manufacturing and trade to broaden beyond the tech sector over 2021, amid a strong 8.1% rise in world trade volumes this year. We forecast oil demand to pick up, along with a further increase in manufacturing activity. This will support energy exporters such as Indonesia and Malaysia.

After lagging many in the region, we expect the recovery in manufacturing and goods exports in Thailand and the Philippines to pick up pace over 2021 (**Figure 6**). In Thailand, we project automobile production, which accounted for 14.3% of goods exports in 2019, to return to pre-coronavirus levels by Q3 2021 as supply constraints that have affected global automobile production dissipate. In the Philippines, we expect an easing of restrictions after last year's prolonged lockdown to underpin a catch-up in the pace of normalisation of activity.

Macropolicies to remain supportive

The ongoing normalisation of economic conditions should reduce the need for further monetary and fiscal stimulus this year. After a series of rate cuts in 2020, regional central banks have less policy space than before. This is particularly the case in Thailand, where the policy rate stands at 0.5%. A deterioration of fiscal positions in 2020 has reduced countries' leeway to spend, except in Singapore and Vietnam.

That said, we expect macroeconomic policies to remain supportive of the recovery and we do not look for any sharp unwinding in support this year. On top of benign inflationary pressures, favourable external balances, a weak USD, and low US rates, we expect policy rates to remain at record

Figure 5: International travel not to return to pre-Covid levels until 2024

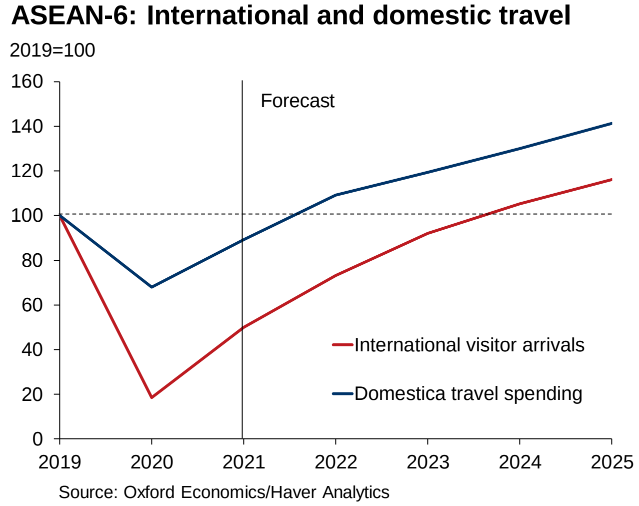


Figure 6: Industrial recovery set to become more broadbased

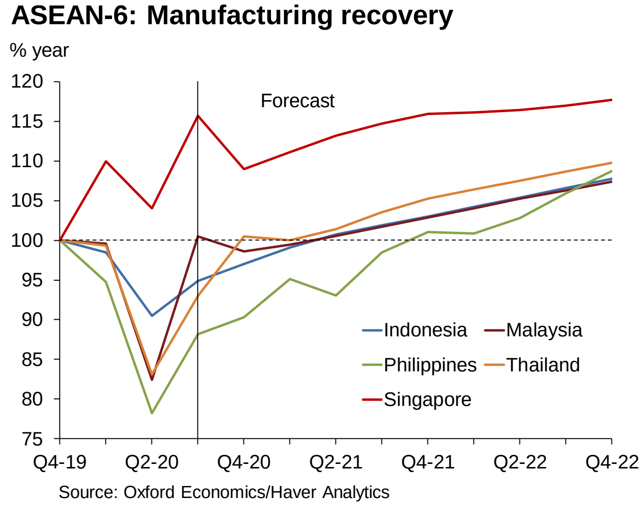
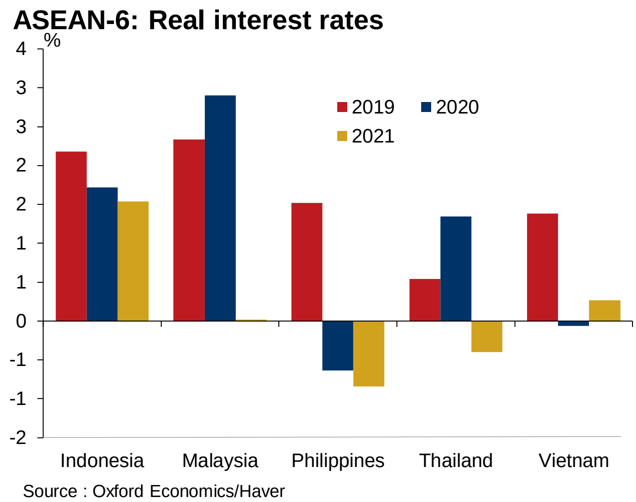


Figure 7: Real interest rates to stay negative or lower than in 2020.



lows well into 2022 (**Figure 7**). We see monetary policy makers continuing to rely on unconventional tools to ensure credit conditions remain loose. We expect both the Philippines and Indonesia to continue their QE-like programmes. However, we do expect Bank Indonesia to gradually scale back its debt monetisation once financial conditions normalise.

On the fiscal front, we see an increased emphasis on infrastructure spending. Some of the emergency support that was introduced to support households and businesses through the worst of the pandemic should be phased out. Indonesia, Malaysia, Thailand, and the Philippines have already released their 2021 budgets. Spending is set to rise by between 2% in Malaysia and 10% in the Philippines, and infrastructure plans are projected to account for between 14% to 25% of spending versus 8% to 15% last year. In the case of the Philippines, Thailand, and Indonesia, this is in part due to delays in fiscal disbursements last year.

Infrastructure spending tends to have a higher multiplier effect on growth than tax cuts and cash transfers, so we expect the restart of infrastructure projects to help to boost the construction sector, business investment, and to create more jobs. After falling by an estimated 10.3% in 2020, we forecast total construction work done to rise in total by 12.2% this year (**Figure 8**).

Covid-19 still the key risk for 2021

Our outlook is not without risks. Based on our latest Global Scenario report, if the vaccine rollout proves faster than we expect and allows for a quicker removal of restrictions, average ASEAN-6 GDP growth would increase by 9.6% this year. The gains will be felt most by those countries that are still struggling with the pandemic, notably Indonesia and the Philippines (**Figure 9**). For those countries which already have the pandemic under control, such as Vietnam, the gains are less. But a slower-than-expected vaccine rollout and a renewed upsurge in infections could see the recent trade recovery delayed into 2022.

Despite our strong growth projections for this year, we believe that a return to the pre-pandemic "trend growth" will take longer. We also think there will be some lasting economic scars due to the pandemic, including a slow labour market recovery with the risk of some permanent job losses and lower capital accumulation. We will discuss this in an upcoming research brief.

Figure 8: An increased emphasis on infrastructure investmetn to boost construction

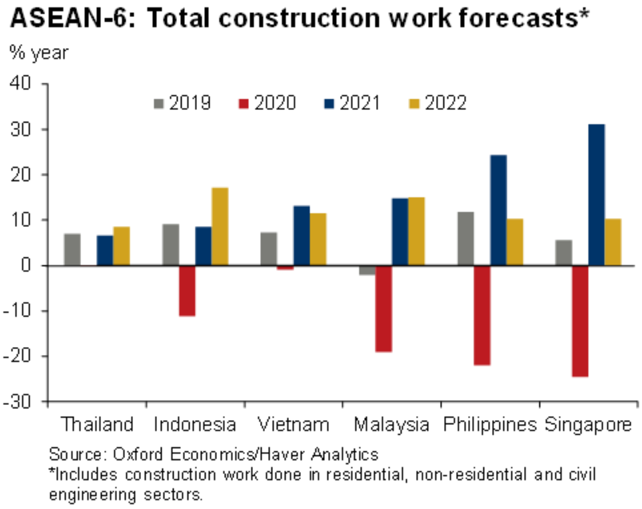


Figure 9: Delayed vaccine rollout and rising infections could see GDP growth flat this year