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*Global Health Security:
COVID-19 & Its Impacts*

Managing Economic Fallout: ASEAN+3's Incomplete Effort

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SYNOPSIS

ASEAN and its East Asian partners in the ASEAN+3 have been handling the economic impact of COVID-19 on the region commendably. However, there are missing policy pieces essential to effectively sustain regional supply chains and augment economic resilience.

COMMENTARY

EAST ASIAN countries have suffered from the spread of COVID-19. At the time of this writing, the numbers of confirmed cases and fatalities exceeded 345,000 and 12,500 respectively. Their economies are not spared either. The ASEAN+3 Macroeconomic Office (AMRO) that represents the ASEAN 10 as well as China, Japan and South Korea estimated that most regional economies will experience a negative growth this year. The International Monetary Fund (IMF) predicted that East Asia's 2020 GDP to be - 0.2 percent.

The virus situation has yet to abate as some nations such as Japan, South Korea, and Vietnam are facing a new wave of contagion. Against this backdrop, the ASEAN+3 governments have made a laudable effort not only to cope with the adverse impacts of the virus but also prepare the region to better weather the subsequent waves. To this end, the Special ASEAN+3 Summit on COVID-19 was convened virtually in April 2020.

Commendable Follow-Up Moves

According to their Joint Statement, the Leaders discussed ways to enhance cooperation on managing the effects of the virus. They also tasked their foreign ministers to function as the main coordinating body “to monitor the implementation of the commitments and agreements”.

In June, their economic ministers gathered online and pledged to transform “the Leaders’ directive into concrete actions”. For instance, they agreed to uphold the open economic system to strengthen the resiliency and sustainability of regional supply chains.

They also agreed to refrain from taking unnecessary measures that may affect the smooth flow of essential goods such as food, commodities, medicines and medical supplies in the region. In addition, the governments undertook to exchange data on the production and trade of essential medical supplies to support the initiative towards developing regional stockpiling of such goods.

The other promises include supporting essential international labour movements, leveraging on technology and e-commerce to help micro, small and medium enterprises (MSMEs), and encouraging the sharing of best practices in managing the undesired consequences of the virus on economies.

Necessary But Missing Parts

The follow-up work by the ASEAN+3 Economic Ministers deserves commendation. For one thing, it indicated that East Asian countries are working together to bolster regional economic resilience and sustain transnational supply chains. However, there exist some missing pieces necessary to achieve these objectives.

First, concerning essential medical goods, a pledge to exchange production and trade information is a step in the right direction. Nevertheless, the ASEAN+3 governments should share the data on the consumption of these goods. Adding the “demand side” information into the picture would not only allow companies to better gauge the market conditions and plan ahead, but also boost the region’s responsiveness to the virus-afflicted landscape.

To elaborate, the data would allow firms to know better which medical products are over- and under-supplied, and thus reallocate their resources to produce items that are in demand to fill the orders in the markets.

Second, the Joint Statement indicated that the ASEAN+3 authorities did not emphasise collaboration in the investment area as much as in the trade one. For example, the word “investment” appeared only twice in the text while the term “trade” was referred to 11 times. This is a mistake. Cross-border investment is an essential but often ignored part of transnational production networks.

In other words, it is usually the case that money or investment goes first into the country to set up production facilities, and then trade (characterised by the supply chains) emerges and grows. Thus, if governments are serious about sustaining the regional production networks and augmenting regional economic resiliency, they must work together to enhance international investment flows.

Need for Policy Adjustment

Finally, while the Joint Statement alluded to the future prospects of collaborating on investment promotion among the ASEAN+3 countries, such a move is inadequate to boost international investment and economic resiliency. This is because it neglects the other two aspects of investment – liberalisation and protection.

For instance, governments need to work together to liberalise investment by lowering or eliminating foreign investment restrictions. Moreover, the authorities must coin or amend domestic rules to better protect foreign investment in the region. Without doing so, foreign entities may not have high confidence in putting their monies into national economies, stunting regional investment flows and supply chain resiliency.

Admittedly, implementing these elements above may be daunting. Doing so requires policy adjustments which have domestic political implications. For example, lifting barriers on foreign investment may render some local companies less competitive in the international markets, leading to shutdowns and layoffs.

These consequences can increase the unpopularity of some regimes and trigger election losses. Yet, no single government can manage the adverse effects of this crisis alone. Hence, international cooperation is needed more than ever, even if accompanied by some domestic costs.

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