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## **ASEAN's Economic Priorities Post-COVID-19**

*By Barry Desker*

### **SYNOPSIS**

*ASEAN's recent snubbing of Myanmar's junta is a necessary display of the limits to the group's patience in diplomacy. As the ASEAN Leaders convene for their latest summit virtually this week, top on their agenda will now be rescuing the ASEAN economies post-COVID-19.*

### **COMMENTARY**

PUBLIC ATTENTION at today's virtual ASEAN Summit will focus on Myanmar and on the identity of its non-political representative. Myanmar's foreign ministry rejected the ASEAN foreign ministers' decision to exclude coup leader Min Aung Hlaing. It has highlighted the principle of non-interference and stated that "Myanmar will not be in a position to accept any outcome of the discussions and decisions which are...contrary to the provisions, objectives and cherished principles of the ASEAN Charter."

Ironically, the ASEAN foreign ministers acted because the ASEAN Charter adopted in 2007 includes a provision on "adherence to the rule of law, good governance, the principles of democracy and constitutional government" as well as "respect for fundamental freedoms, [and] the promotion and protection of human rights". This was an advance on ASEAN's position since its founding in 1967 when the focus was on non-intervention and non-interference.

### **COVID-19 & ASEAN's Economic Agenda**

However, while the political drama will hold centre stage, the economic outcomes of the Summit are likely to have greater impact on the region. Behind the scenes, there has been considerable attention by ASEAN economic ministers on the region's response to the COVID-19 pandemic, its effects on ASEAN economic growth, and

measures which could be taken at the regional level to restore ASEAN's growth trajectory.

The COVID-19 pandemic has had a devastating effect on ASEAN economies. The region responded well to the initial spread of the virus in 2020, avoiding the huge loss of life seen in the United States and elsewhere, by effective lockdowns, mask wearing and general adherence to initiatives of governments in the region. Indonesia and the Philippines were the worst affected in 2020.

However, the spread of the Delta variant in 2021 triggered a sharp increase in fatalities and infections, partly caused by the slowness in procuring vaccines. Political infighting in Malaysia, including the holding of the Sabah state election at the height of the pandemic, led to a spike in Malaysian infections.

In the aftermath of the Myanmar coup in February 2021, and growing domestic resistance, there has been a surge of fatalities and infections in the country, especially as the junta has prioritised vaccines for its allies and supporters.

Nevertheless, as the percentage of vaccinated persons rapidly increases, governments in the region are moving from dealing with the pandemic to a growing realisation that COVID-19 is now endemic in the region. The message from policy makers is that we are entering a new normal where we must learn to co-exist with the virus. Strategies targeting zero infections are no longer feasible.

### **COVID-19's Impact: Three Key Shifts**

On the positive side, ASEAN states have maintained their relative importance in global trade. Myanmar is the exception, with the World Bank expecting its economy to contract by 18 per cent in 2021, because of the adverse impact of the February 2021 military coup and the continuing pandemic.

ASEAN states have demonstrated economic resilience, despite the adverse impact of the spike in Delta variant COVID-19 cases. However, current high commodity prices, with the ongoing weakness in trade in services, will result in future downside risks.

Beyond addressing the immediate challenges arising from the pandemic, ASEAN economies must be forward-looking and need to develop longer term resilience. The ASEAN economic ministers have focused on three key shifts in the global economy that the COVID-19 pandemic has brought about or accelerated.

First, the pandemic has underscored the importance of maintaining global trade connectivity. The sudden imposition of lockdowns disrupted global supply chains. One consequence is that end users such as retailers are more likely to move away from 'just in time' manufacturing and reliance on a few manufacturing hubs.

Time-sensitive clothing retailers are likely to order apparel and clothing from manufacturers nearer to their outlets instead of relying on Vietnam or Bangladesh.

On the other hand, from the perspective of supply chain connectivity, ASEAN has been making significant strides especially through the Hanoi Plan of Action aimed at

strengthening ASEAN economic cooperation and supply chain connectivity in response to the pandemic. In addition to the previous list of medical-related products, the list has recently been expanded to include over 100 agriculture products.

This will reduce barriers to the flows of medical-related and agriculture products in the region. These measures will assist firms operating in the region which rapidly restructure their supply chains in response to COVID-19 shocks. Such firms are more likely to perform well and overcome current challenges.

### **Rising Protectionism & Accelerated Digitalisation**

One negative aspect is that the pandemic saw an increase in protectionist sentiments in the region. Renewed attention should now be focused on reducing Non-Tariff Measures (NTMs) for essential goods. The Summit will endorse the Non-Tariff Measures (NTM) Cost Effectiveness Toolkit (NTM Toolkit). The Toolkit aims to address NTMs through promoting good regulatory practices.

Besides promoting trade in goods, ASEAN also needs to pay attention to services and investment flows. The Summit will adopt the ASEAN Investment Facilitation Framework (AIFF) agreed earlier this year. The next step will be to implement and operationalise the AIFF.

ASEAN's challenge is to reduce the continuing high levels of protectionism in services. Entry into force of the ASEAN Trade in Services Agreement (ATISA) will create a more transparent, stable and predictable environment for regional trade in services; provides businesses with the widest preferential services access into ASEAN markets; and sets the stage for further services integration in ASEAN.

Second, the pandemic has accelerated digitalisation globally. The establishment of 'work from home' routines have emphasised digital connectivity. There is growing awareness of the need for a cohesive and comprehensive regional digital transformation strategy.

Such a strategy could incorporate the use of digital technologies such as track and trace technology, big data and blockchain. With our young and tech-savvy population, the ASEAN region holds tremendous potential for digitalisation.

The ASEAN Leaders will issue a statement on Advancing Digital Transformation in ASEAN, which affirms ASEAN's commitment to strengthen regional digital integration and transformation towards becoming a leading digital community.

In September 2021, the ASEAN Economic Ministers endorsed the Bandar Seri Begawan Roadmap outlining an ASEAN digital transformation agenda for ASEAN's economic integration and the integration of the regional digital economy. ASEAN will embark on a study for a Digital Economy Framework Agreement (DEFA) by 2023 and commence negotiations by 2025.

### **Sustainability: ASEAN Framework for a Circular Economy**

Third, sustainability is a global trend that has come rapidly to the fore. ASEAN

economic policy makers are developing the ASEAN Framework for a Circular Economy, which outlines ASEAN's commitment to sustainable development. The Framework sets out a pathway towards resource efficiency, economic resilience, and sustainable growth in the region.

The Economic Research Institute for ASEAN and East Asia (ERIA) has proposed that initiatives under the framework:

- could include regional circular value chains that facilitate trade and investment for specialised low carbon products and services; should consider the distinct bio-economic potentials and transition characteristics of each country while pursuing the region's long-term sustainable development goals;
- consider broader economic, sectoral, and social implications for inclusivity, such as micro, small and medium enterprises, employment, and well-being;
- evaluate institutional capability and financial mechanism in support of the circular transition;
- and promote ASEAN-wide cooperation in knowledge sharing, technology transfer, and capacity building.

In undertaking this task, it will be important that ASEAN takes practical and tangible steps with clear timelines, as well as identifies trade-offs and overall funding implications. Some examples include green financing, carbon markets, renewable energy investment.

### **Positioning for Future Growth**

The above strategy is aimed at positioning the region for future growth and resilience. The approach appears to be one of promoting regional economic integration so that the entire ASEAN region will be seen as a single production base and investment destination. These developments will be sustained by the creation of a digital and sustainable regional community.

The risk is that the gap between the more advanced economies of Indonesia, Malaysia, the Philippines, Singapore and Thailand, plus Vietnam and Brunei, and its least developed member economies Cambodia, Laos and Myanmar, is likely to increase, as these economies fall further behind even if their pace of growth improves.

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