

Headwinds to the outlook for economic growth in ASEAN-5

Since the outbreak of the pandemic, the majority of countries in emerging Asia had been able to overcome its effects better than the rest of the world in 2020 thanks to effective social distancing, contact tracing and border control measures. Nevertheless, due to a slow start and progress of the vaccination roll out, this region was more vulnerable to new virus variants in 2021.

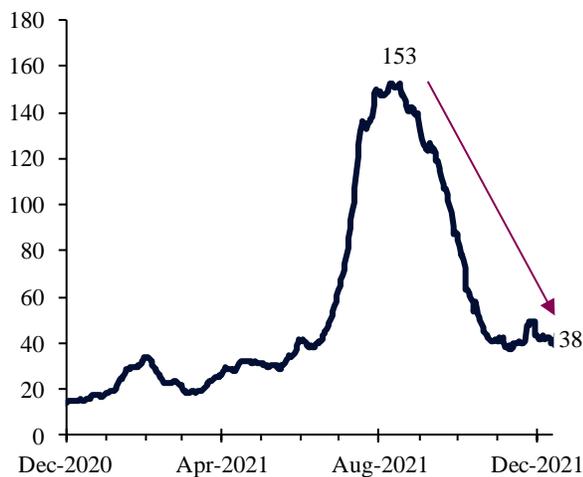
After the development of effective vaccines in late 2020 the pace of vaccination was remarkably rapid in advanced economies (AE), while the vaccine rollout was much slower in Asia. This, together with less monetary and fiscal policy space to stimulate their economies, caused headwinds to economic growth in ASEAN-5 countries to build during 2021. The Association of Southeast Asian Nations Five (ASEAN-5) includes Indonesia, Malaysia, Thailand, the Philippines and Vietnam, representing the major emerging economies in Southeast Asia.

The emergence of the Delta variant, caused a surge in new cases of Covid-19 within the ASEAN-5 countries. Fortunately, this forced ASEAN-5 countries to significantly ramp-up their vaccination campaigns. This, combined with lockdown measures and social distancing has reduced new cases in ASEAN-5 countries from a peak of 153 per million people in August to less than 40 now (Chart 1).

This analysis delves into three headwinds for the outlook for economic growth in ASEAN-5 countries: the emergence of the new Omicron variant, spillover from the slowdown in China and persistent supply chain constraints.

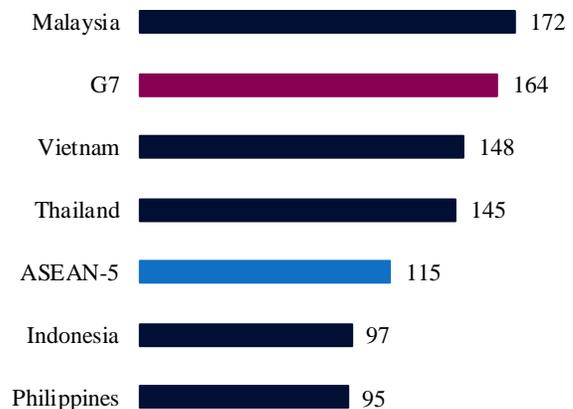
First, the number of new cases is likely to rise, given the low vaccination levels in some countries and the emergence of the new Omicron variant. Despite ASEAN-5 countries making significant progress with vaccination campaigns since July 2021, the region has administered far fewer vaccines than G7 countries (Chart 2). Indeed, since the identification of the new Omicron variant at the end of last month, all ASEAN-5 countries have reintroduced stricter social distancing measures and tightened international entry requirements. Measures in Indonesia and the Philippines have been tightened by more than Malaysia and Thailand, likely because they have lower levels of vaccination (Chart 2). A resurgence in new cases would act as a headwind to economic growth in ASEAN-5. Countries may need to maintain stricter social distancing measures and/or tightened international entry requirements for longer. We anticipate countries with low vaccination rates, such as Indonesia and the Philippines to be more vulnerable to the most recent Covid-19 headwind.

Chart 1: ASEAN-5 new cases of Covid-19
 (7-day moving average per million people)



Sources: Our World in Data as of 26 December 2021, QNB analysis

Chart 2: Vaccine doses
 (per 100 people)



Sources: Our World in Data as of 26 December 2021, QNB analysis

Second, the slowdown in the Chinese economy is spilling over to ASEAN-5 countries as reduced exports to China negatively affect the region's economy. Despite loosening monetary policy recently, Chinese economic growth is still cooling after the withdrawal of fiscal stimulus by the Chinese authorities in late 2020 and early 2021. The deleveraging of major property developers also contributes to the economic slowdown. This results in weak demand in China for imports from ASEAN-5 countries. The exports in Malaysia and Vietnam are most affected, as these two countries export more to China than their peers do, relative to the size of their economies. Exports from Malaysia and Vietnam to China account for 11% and 14% of GDP respectively, compared with only 3-6% in the other three ASEAN-5 countries.

Third, persistent supply constraints are a headwind for growth in the manufacturing sector, which is an important sector for ASEAN-5 countries. Long

delivery times, labour shortages in factories and factory closures contribute to persistent bottlenecks in the region. Despite the beginning of a gradual recovery in global supply chains, this disruption to ASEAN-5 industrial activity will act as a headwind to the wider economy. This will result in lower investment and consumption via reduced profits and wages.

All in all, headwinds from the likely increase in new cases caused by the Omicron variant, spillover from slowdown in the Chinese economy and persistent supply constraints are clouding the outlook for growth in ASEAN-5 countries. As a result, we expect growth in these economies to be slower than forecast by the International Monetary Fund in their October World Economic Outlook (2.9% in 2021 and 5.8% in 2022).

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