Executive summary

The growth slowdown in 2020 caused by the COVID-19 pandemic will significantly affect Emerging Asia. Uncertainty surrounding the economic outlook is remarkably high and ultimately depends on each country’s ability to manage the spread of the virus and on continuous policy support. The OECD’s Economic Outlook for Southeast Asia, China and India 2021: Reallocating Resources for Digitalisation first summarises key macroeconomic developments and provides the near-term regional economic outlook for 2021 (Chapter 1). The Outlook goes on to examine the importance of reallocating resources for digitalisation, in the health and education sectors in particular, providing suggestions to address barriers that hinder further adoption of digital tools (Chapter 2). It also reviews Industry 4.0 progress and highlights the need to strengthen cyber resilience.

Recovery in Emerging Asia faces significant challenges through 2021

Economic output is unlikely to return to pre-pandemic levels across most Emerging Asian economies in 2021. Average ASEAN real GDP growth in 2021 is forecasted at 5.1%, following an anticipated contraction of 3.4% in 2020. In Emerging Asia – ASEAN-10, China and India – real GDP will increase by 7.4% on average in 2021, after decreasing by 1.7% in 2020. However, the outlook varies greatly among countries depending on factors such as the length and severity of restrictions and lockdowns, differing initial conditions and economic structures, and government capacity to support households and businesses. India is anticipated to be the worst affected Emerging Asian economy with an estimated GDP decline of 9.9%, while Viet Nam will post the strongest growth rate in 2020 (+2.6%). Within ASEAN, the Philippines is projected to experience the sharpest GDP contraction in 2020 (-9.0%). Cambodia’s 2020 growth rate (-2.9%) is expected to be the weakest among the CLM countries – Cambodia, Lao PDR and Myanmar. China is set to post positive annual growth for 2020 (1.8%).

Lingering health concerns and government restrictions have weakened consumer spending. A balance sheet recession, in which households and firms pay down debt rather than spending or investing, represents a further risk. This risk is greatest in countries with highly indebted non-financial corporate sectors and fiscally constrained governments. Subdued global growth has also weakened the external sector’s contribution to growth in the region. Nearly all countries are expected to experience a deterioration of their current account balance, with the sharpest corrections in countries highly dependent on tourism and exports. Intra-ASEAN exports contracted year-on-year during the first three quarters of 2020. ASEAN exports elsewhere mostly benefited from the rebound in China. Lockdowns and restrictions have led to more significant job losses than in past recessions. Finally, risks to the inflation outlook are broadly balanced, as the pandemic-induced downturn has left its mark on both global and domestic factors underpinning price developments.

Many obstacles threaten the economic recovery. Until an effective vaccine against COVID-19 is widely available, viral transmission will continue to put considerable pressure on health care systems. It will also prevent a timely withdrawal of social restrictions and a return to normal economic conditions. Policy makers need to enhance their pandemic management strategies continuously throughout this period, guaranteeing efficient storage and equitable distribution of vaccines.

Governments in the region will have much less capability to ramp up countercyclical policy if recovery momentum falters. After broad-based monetary policy easing during 2020, real interest rates are historically low. With less room for monetary manoeuvre, policy makers across some Emerging Asian countries turned to unconventional policy during 2020. It is likely that the focus will change from further rate cuts to improving...
monetary policy transmission. Several alternative policy options could be considered to facilitate this. One is a monetary policy regime shift in the form of average inflation targeting, or using the natural rate of interest as a supplementary reference of monetary policy. In addition, a tiered rate of interest system could render low interest rates more sustainable for the banking sector.

Moreover, a raft of support measures in 2020 has stretched budget deficits, constraining governments’ capacity to engage in further fiscal expansion. For many governments, the key focus in 2021 will be stabilising budget deficits, debt burdens and, in some cases, debt servicing costs. External funding risks will remain the overriding concern for many liquidity-strained governments. With narrower fiscal space, policy makers should devote their attention to improving fiscal multipliers to achieve the dual objective of supporting the economy while restoring fiscal rectitude.

Reallocate resources for digitalisation in health, education and Industry 4.0 in response to COVID-19

Digital health was already an emerging policy priority in the region before COVID-19, and the pandemic has intensified its importance. Various initiatives are necessary to ensure the continuity of telemedicine as a viable alternative to traditional health care. With the digital health industry expanding its services during the pandemic, policy makers need to establish a clear legal framework for data protection that governs the collection, storage, processing and sharing of patients’ data. Moreover, simplifying reimbursement rules and expanding their coverage could accelerate telemedicine adoption and ensure its financial sustainability. In addition, policy makers need to overcome several technical and infrastructure barriers to the development and wider adoption of telemedicine, as well as upskilling health professionals in digital technologies. Finally, public authorities should guarantee the equitable distribution of digital health benefits by ensuring equal access to reliable, affordable and easy-to-use equipment.

The pandemic and subsequent government responses have disrupted or transformed the education of billions of students around the globe. The sudden need to adapt to a digital environment has been challenging for schools, teachers and parents alike. Despite much progress, a considerable amount of work remains to be done, including expanding information and communication technology (ICT) infrastructure and access to the Internet and digital devices, to ensure equal access to online education. Many instructors and teachers may need to upgrade their digital skills, and colleges and universities must strive to maintain quality in a remote setting. Moreover, the latter may need to collaborate with the government to support students whose economic situation has changed. Besides, as the pandemic disrupts industries such as travel, tourism and hospitality, causing job loss, there is a significant demand to upskill and reskill adult workers. While lifelong learning programmes and the technical and vocational education and training (TVET) sector could provide this support, they must first adapt to the digital age.

Finally, the COVID-19 pandemic is providing a key impetus for the acceleration of the fourth industrial revolution. Industry 4.0 technologies have allowed firms to stay responsive to market needs. Several countries in Emerging Asia have taken decisive steps to support digitalisation during the pandemic. The most common measure has been to provide firms with incentives to encourage the adoption of e-commerce and the digitalisation of operations and trade channels. While the region faces common challenges in adopting Industry 4.0 technology, country-specific challenges prevail, as each country is at different level of readiness, with different economic structures. Greater regional co-operation is necessary to respond to cyber threats and to strengthen cyber resilience in the region.