

Asia & Pacific economies are projected to rebound from COVID-19

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While the world is struggling to exit from the coronavirus crisis, the region Asia & Pacific is a notorious exception: many countries in the region have stopped the COVID-19 pandemic after the first wave, and they quickly returned on a path of growth in the second half of 2020 – a rare accomplishment. The OECD projects that the region's recovery will continue in 2021 and 2022 (Table 1).

Table 1: Strong growth projected in Asia & Pacific
(Real GDP growth, % year-on-year)

| | 2020 | 2021 | 2022 |
|---------------------------|-------------|------------|------------|
| Australia | -3.8 | 3.2 | 3.1 |
| China | 1.8 | 8.0 | 4.9 |
| India* | -9.9 | 7.9 | 4.8 |
| Indonesia | -2.4 | 4.0 | 5.1 |
| Japan | -5.3 | 2.3 | 1.5 |
| Korea | -1.1 | 2.8 | 3.4 |
| New Zealand | -4.8 | 2.7 | 2.6 |
| Dynamic Asia** | -4.6 | 4.3 | 4.6 |
| Asia & Pacific | -1.5 | 5.9 | 4.1 |
| Rest of world | -5.7 | 3.2 | 3.4 |
| World | -4.2 | 4.2 | 3.7 |

* Fiscal year starting in April.

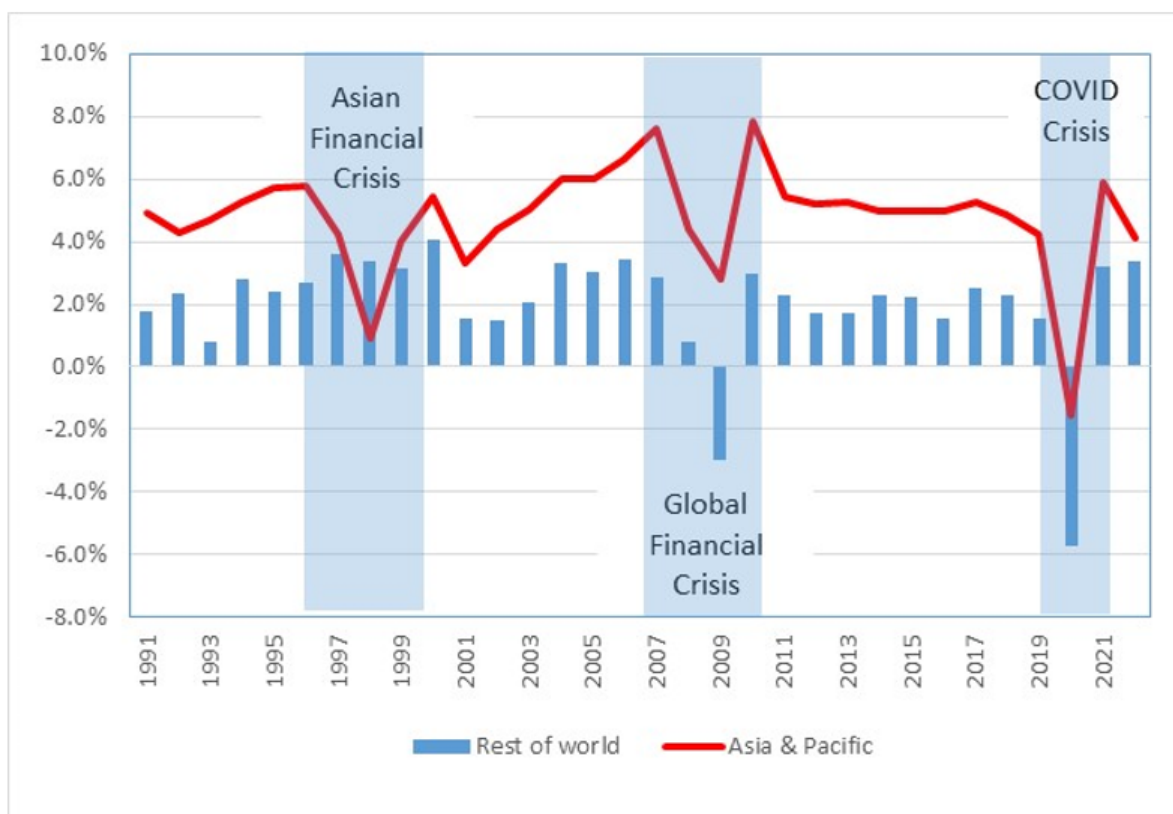
** Dynamic Asia includes Chinese Taipei, Hong Kong, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Source: *OECD Economic Outlook*, December 2020.

The region's current resilience is in sharp contrast with the late 1990s, when the Asian Financial Crisis hit it very hard (Figure 1). Governments in the region drew lessons from this experience and were better prepared when the Global Financial Crisis arrived. They were also ready when the coronavirus struck: fiscal space was available, monetary policies were

sound, exchange rates were flexible, foreign exchange reserves abundant, bank well capitalised, external indebtedness was low – and health systems had been re-organised.

Figure 1 – The economic performance of Asia & Pacific has improved
(Annual GDP growth in %)



Source: *OECD Economic Outlook*, December 2020.

Strong resilience in the face of crises contributes to long-term growth, especially in poor and emerging countries, as shown by a literature launched by Easterly et al. (1993). Thanks in large part to their growing resilience, the 15 countries and territories of Asia & Pacific doubled their share in world GDP from 19% in the early 1990s to 34% currently. The region has become an economic powerhouse and most likely will gain further ground. The Regional Comprehensive Economic Partnership (RCEP) recently signed will provide another boost to long-term growth, as discussed in the recent OECD Economic Survey of Thailand.

Of course, not all countries of the region have the same resilience. To throw light on this disparity, we use a

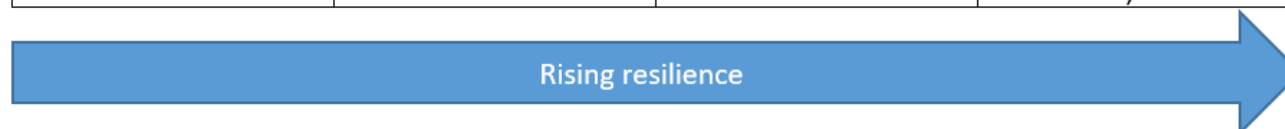
hierarchical cluster analysis (Ward linkage), a statistical procedure that identifies homogenous groups of observations without making a difference between dependant and independent variables. We identify four groups of countries with common factors for each of the three crises. To group the region's economies, we use the following indicators: 1) the depth of recession, 2) the speed of recovery, and 3) the post-recession scarring of growth. The first two indicators provide a contemporary measure of resilience when faced with a shock, while the third indicator is an ex-post measure of resilience. For the current crisis, we use the number of COVID-19 deaths as a proxy of ex-post resilience, in line with empirical findings that the spread of the coronavirus has damaged economic activity due a combination of government-imposed lockdowns and self-imposed lockdowns (Golsbee and Syverson, 2020).

Our cluster analysis reveals some diversity within the region. The resilience of individual economies has changed rapidly – in both directions (Table 2). Some key findings are:

- Australia has shown great resilience during the first two crises, but fell into a recession with the coronavirus.
- While China and India were resilient in the face of the first two crises, they have lost some ground with the COVID-19 pandemic, especially India.
- Korea and Thailand have seen their resilience improve after each crisis.
- Vietnam has consistently been the most resilient economy in the region.

Table 2 – Many Asian & Pacific economies are resilient in the face of shocks, though not all

| Asian Financial Crisis (1997-99) | | | |
|---------------------------------------|--|------------------------------|------------------------------|
| Sharp recession, slow exit & scarring | Recession, rapid exit & scarring | Mild recession & rapid exit | Muted impact of crisis |
| IDN, THA | HKG, KOR, MYS, SGP | JPN, NZL, PHL | AUS, CHN, IND, MNG, TWN, VNM |
| Global Financial Crisis (2008-09) | | | |
| Sharp recession & slow exit | Sharp Recession, rapid exit & scarring | Recession & rapid exit | Muted impact of crisis |
| JPN | HKG, SGP, TWN | KOR, MNG, MYS, NZL, PHL, THA | AUS, CHN, IDN, IND, VNM |
| COVID-19 Crisis (2020-21) | | | |
| Sharp recession, slow exit & scarring | Recession, slow exit & scarring | Recession, slow exit | Recession, swift exit |
| IDN, IND, PHL | AUS | CHN, HKG, JPN, MYS, TWN | KOR, MNG, NZL SGP, THA, VNM |



Source: OECD estimates using a hierarchical cluster analysis procedure (Ward linkage).

Despite this diversity, the region displays overall a strong resilience and is placed to recover rapidly from the COVID-19 crisis, assuming that the pandemic is brought under control and that the large population can be vaccinated soon. If this happens, Asia & Pacific will confirm its new position as a global powerhouse. The return to economic growth should be an opportunity to address socioeconomic problems inherent in several countries, notably high informality and inequality, and make headways on a path of decarbonisation.

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