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## COVID-19 AND THE ASIA-PACIFIC Economic and Strategic Implications of the Pandemic



**Ian Kemish AM** is a former senior Australian diplomat with a strong overall focus on the Asia-Pacific. His 26-year Government career included service as Head of the Prime Minister's International Division (2004-06), Ambassador to Germany and Switzerland (2006-09), and High Commissioner to Papua New Guinea (2010-12). He was awarded membership of the Order of Australia (AM) for his leadership of Australia's response to the 2002 Bali bombings. In 2013 Ambassador Kemish joined ExxonMobil as Executive Director, Asia Pacific Government Relations and in 2016 he was appointed to the Executive Committee of Newcrest Mining

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The Asia-Pacific takes in some of the world's largest democracies as well as autocratic China. It encompasses disciplined East Asian economies and the fragile, isolated states of the South Pacific. Given its great political and economic diversity, it was to be expected that the regional experience of COVID-19 would vary considerably. The lasting economic and strategic impact of the pandemic will also be uneven, and the details are not yet clear, but some emerging patterns can be discerned.

The speed and effectiveness of individual governments' virus controls will determine the eventual duration of national shutdowns, and thus factor heavily in each economy's ability to rebound. Economies such as China, Taiwan, the Republic of Korea, Vietnam, Australia and New Zealand appear to have their "first waves" under control and are already confident enough to have relaxed restrictions and started getting people back to work. But we can be less confident about the path forward for three of the region's giants - Japan, India and Indonesia.

As in Europe and North America, the highly developed countries of the region have delivered massive economic stimulus packages to protect incomes, support employment and maintain momentum. This has not been an option for the many developing economies of the Asia-Pacific, with little-to-no fiscal firepower to draw on, and for whom additional debt carries great inflationary risk. Many will require bailouts from the IMF and other hard-pressed donors just to stay afloat. China has been neither able nor prepared to resort to the kind of deficit spending that

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marked its leadership of the regional response to the global financial crisis more than ten years ago.

A '90 per cent economy' is the best China can hope for over the next twelve months. A quick recovery from this slump will require regional supply chains and markets to rebound quickly. India, which had been shaping up as the second pillar of substantial regional growth, will now only post a 1.9 per cent increase this year according to the World Bank. Indonesia and Japan face declines of 4.6 and 5.6 percent respectively. The broader regional growth outlook is also grim. The Bank forecasts that leaving China aside, growth in developing East Asia and the Pacific will fall from 4.7 percent in 2019 to 1.3 percent in 2020 – and only if governments contain the pandemic and implement 'sizeable fiscal and monetary support'. Otherwise, regional growth may be minus 2.9 per cent.

Some sectors are especially vulnerable, as are the countries that depend on them. A likely long-term tourism downturn will hurt several South-East Asian and Pacific Island countries. The Philippines and other economies reliant on overseas workers' remittances will sustain lasting damage. Commodity exporters, particularly of oil and gas, face real difficulties.

While year-on-year growth of up to 8.5 percent can be hoped for in 2021, this just reflects how bad things are going to be this year. And substantial humanitarian damage will have been done. Under the World Bank's better case scenario, 24 million fewer people will escape poverty across the region in 2020 because of the pandemic. In its more negative scenario, poverty will increase by 11 million people.

COVID-19 also has the potential to change the strategic balance in the region.

The pandemic has dealt a blow to China's belt and road initiative (BRI). Projects have ground to a halt, workforces have demobilised, and participating countries will struggle to finance existing debt burdens. China is dealing with a wave of urgent requests for relief from BRI participants, who won't see involvement in the BRI forward plan as a priority after the crisis. Chinese banks have said they can't just forgive debts outright. China may seek to extract strategic advantage from hard-pressed debtors. But President Xi's signature initiative has been damaged, and this may retard China's overall strategic momentum.

Before the pandemic the regional security environment had seen growing tension between China and the United States, contributing to unease about the behaviour of both. The crisis has impaired trust in Beijing and Washington further in many countries. Neither side has played a useful leadership role, and tensions between them have undermined the World Health Organisation's effectiveness.

Australia's Lowy Institute reports that perceptions of China were at all-time lows prior to the pandemic in countries such as Australia, Japan, Indonesia, India and South Korea. Suggestions that Beijing suppressed information about COVID-19, and its bullying responses to questions about the origin and initial handling of the virus, won't help. Trust in America as a regional stabilising force had also declined under the Trump administration, and the crisis has strengthened perceptions that the current US government has no interest in this role. Calls have grown for nations to be more self-reliant in their strategic posture and invest more in defence. This is even true in Australia, where the US alliance has been the cornerstone of national defence policy since the second world war.

Meanwhile China's economic travails are shaking several regional exporting countries out of their complacency and have sparked renewed interest in trade diversification. For Australians, who have benefited considerably from Chinese demand for their primary products, the crisis has highlighted their exposure to shifts in China's fortunes – and its behaviour. Threats from Beijing indicate a preparedness to spurn products from countries that do not toe the line. The Australian wool and meat industries, for example, are asking themselves how sensible it is that such a high proportion of their exports go to China.

It's here that there may be a small silver lining to the coronavirus cloud. Policymakers might be led to a fundamental rethink about their 'natural' linkages, and to question whether they should put all their economic and strategic eggs in either Beijing's or Washington's basket. This could prompt a renewed push by the region's liberal democracies for deeper partnerships with like-minded governments – within the region and without. Among others, a post-Brexit United Kingdom might be well-positioned for a new opportunity: to redevelop economic and security ties with a region whose fortunes are key to global stability and prosperity.

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+44 (0) 7950 944 010

[tracey.stewart@ambassadorllp.com](mailto:tracey.stewart@ambassadorllp.com)

[www.ambassadorllp.com](http://www.ambassadorllp.com)