

Teneo Insights

Discussion on the Impact of COVID-19 on South Asia and Southeast Asia

A discussion between Aditi Phadnis, Chris Lauwerys and Bob Herrera-Lim.

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1. Why South Asia and Southeast Asia are especially significant to consider in evaluating the health and economic impact of COVID-19?

- The two regions are home to many megacities (four of the top ten largest) and some of the most populated countries.
- The region is home to some of the fastest-growing economies in the world such as Bangladesh, India and Indonesia.
- There are increasing number of consumers from the two regions as populations grow along with disposable incomes.
- Both regions are also critical players in the globalized supply chains of many industries accounting for much of the world's production, which has been disrupted by COVID-19's outbreak.

2. How governments in both regions have responded to the pandemic and public expectations?

- Southeast Asia is not monolithic. GDPs range from very low to very high. Capabilities differ across countries:
 - i. Singapore, Vietnam and Malaysia have been effective in deploying various tools to deal with the outbreak and in signalling the impact for businesses and to the economy
 - ii. Thailand and Cambodia sit closer to the middle of the spectrum in terms of handling of the outbreak. Cambodia has implemented an influenza reporting system while Thailand has a strong pharmaceutical sector

- iii. Myanmar, Indonesia and the Philippines are still catching up in terms of ability to test and trace cases as well as in their efforts to take care of the vulnerable.
- It is a major challenge for governments in general to manage what has essentially been a fluid situation, with a pandemic that people are only just beginning to understand: what it does, how infectious it is, how best to keep it under control, etc.
 - A challenge for governments is in developing and executing an exit strategy that will simultaneously facilitate trade and labor flows in the future.
 - Governments will also have to reckon with social and political discontent if they do not effectively help those who are most affected economically by the pandemic:
 - i. Population density of slums in Indonesia, the potential of widespread infections in these slums
 - ii. Refugee camps in Bangladesh
 - Surveillance is crucial in mitigating the spread of COVID-19 and Vietnam's capabilities in this area.
 - How do societies understand and view risk? It is the first pandemic for most people. People's willingness to tolerate risk will change vis-a-vis economic pain. In time, people will question whether the approaches of their governments in relation to dealing with COVID-19 had been overboard or underwhelming.



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3. How mitigation measures are working in India and potential scenarios?

- India was one of the first countries to impose a lockdown and announce the shutting of airports.
- The Government has taken great care to ensure that the virus wasn't imported.
- Cases were very low initially relative to the population.
- But a Muslim event in Delhi with visitors from across the world caused the biggest spike in the country.
- Containment has worked effectively in some areas such as Rajasthan, where there are 815 cases as of 13 April.

4. Considering the situation in Southeast Asia, what are problems for migration, labor, and the movement of goods and services in the months ahead, with the development of the COVID-19 outbreak at different stages?

- There is potential for a two-speed recovery: some countries where the curve is flattening (e.g. South Korea) and others where the number of cases is increasing considerably.
- Southeast Asia already an inherently complex region with different labor and customs rules. This complexity will only grow until a vaccine is developed and society has an idea on how to deal with the spread of COVID-19.
- How comfortable countries might be with emerging from lockdowns and reopening of doors to visitors could depend on the capabilities of their surveillance systems to execute contact tracing and testing. Countries like Singapore and Japan might be better equipped to open up.
- For countries like Indonesia and the Philippines, the effectiveness of contact tracing is still dubious. These countries have several hundred islands where testing isn't pervasive yet.
- As the standards of testing and contact tracing differ across countries, this raises issues of trust for visitors coming from other countries if societies open up again without a vaccine. Unless there's a shared system of testing and tracking, which would raise issues of privacy. What would governments require

of foreign citizens in terms of health and travel records? This will be a challenge for the next 6-12 months.

- Even within countries, there'll be issues within provincial and sub-provincial lines e.g. differing stances of provincial governments with federal government towards restrictions.
- Issues over the coming 2-3 weeks are likely to be more local and intra-country.

5. Where impact has been felt in the Indian economy?

- GDP growth unlikely to be anything more than 1.4% to 1.6%, down 6%.
- Manufacturing, where migrant labor constitutes around 100 million people in the country's workforce, has been hard hit. Automotive manufacturers such as Suzuki, Ford, Hyundai, and Honda have declared shutdowns because of a lack of labor due to the lockdown.
- People are questioning why the government did not anticipate issues related to the return of migrant labor and make in-situ arrangements for these people to stay where they work.
- In trade, India is doing marginally better. In areas such as textile, gems and jewelry, India is well-positioned to recapture the market once things return to a degree of normality.
- Manufacturing remains a challenge, as countries such as Bangladesh and Vietnam are continuing operations and usurping India's share of the market.
- India's tea exports are going to be badly hit. There are reports that Darjeeling tea is affected because there are no people to pick the leaves in the first flushing phase and growers are fighting to pick during the second flush phase. Similarly, for coffee. It would, however, be a short-term impact, as these are commodities are peculiar to India.
- What people are worried about are parts for semiconductor chips and IT hardware. Production facilities are closed, and orders are being cancelled.
- China's industry is restarting to meet demand from Germany and other places.

6. Indian government's measures to mitigate the impact of COVID-19 include:

- Initial measures were “quite socialist”, as the government needed to protect the layperson. Measures including cash grants and food (both subsidized and free).
- Later, the Government announced a fiscal stimulus of around \$1.7 trillion. Stimulus meant that reverse repo rates and repo rates were reduced, so banks could free up cash for loans. Moratorium on paying off monthly housing loans and credit loans.
- Government could yet announce another stimulus package, targeted at SMEs as well as mom-and-pop stores, which are crucial to keep supply chains alive.

7. Economic and commercial impact on supply chains includes:

- First challenge: There are various layers to a supply chain and companies have to know where each layer is located. With supply chains moving away and diversifying from China, visibility has become less pronounced. Assessing supply chain risk, especially below the first degree, is still a difficult task for many enterprises.
- Two different worlds might emerge after this: the US, China and Europe might recover but Southeast Asia may prove to be a viral reservoir.
- Second challenge: concentration risk e.g. business outsourcing centers in Philippines and probably India as well. Call centers in the Philippines went down as calls dwindled in the US. Business Process Outsourcing (BPO) operators would have to consider bearing the higher costs of relocating elsewhere.
- India's market share in many industries is being taken over by China, something that worries the government.
- An extension of the lockdown in India would severely compromise supply chains in the country although, however, the pharmaceutical industry is providing a lifeline for Indian exports.

8. Where the challenges lie for India?

- Testing, tracking and contact tracing, especially given the size of the country.
- In rural areas, low infection rate and relatively higher confidence that COVID-19 won't break out in these areas.
- Testing is expensive. Cheapest way to test is still too costly for the ordinary Indian. No free testing unless you can prove you have the virus but how do you prove unless you have been tested?
- The reopening of factories is contingent on their use of thermal scanners. But many of these factories have already collapsed.

9. How has the US's COVID-19 response affected the calculation and calibration of Southeast Asian countries in terms of their relationships both with the US and China?

- It is not binary: neither the US or China is winning in growing its influence on the world and the region.
- The US is focused on its own problems. Not acting in a way that's fostering regional or global cooperation. This contrasts with the US response after the 2006 tsunami (by deploying a strong US presence in the region). The current lack of cooperation hurts the US.
- China's early handling of the outbreak presented challenges. China's willingness (or lack thereof) to be transparent will weigh on Southeast Asia.
- On the whole, the US has been hurt more.
- Challenges for Southeast Asia: how do countries protect their national interests in light of a lack of strong leadership from both powers and a lack of trust in them?
- Nationalism and self-interest will amplify within the region. ASEAN countries will have to balance that with the imperative for regional cooperation. Singapore and Vietnam are “natural candidates” to coordinate a regional response to COVID-19, judging by their relative success so far. ASEAN will need a political mandate to go beyond its “usual work.”



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