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## A CRITICAL ANALYSIS OF IMPACT OF COVID 19 ON TRADE OF SOUTHEAST ASIAN ECONOMIES

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### ABSTRACT

The spread of the SARS-CoV-2 led to an unprecedented economic shock which turned into a global economic downturn. The pandemic had an immediate and adverse effect on trade globally. The impact of covid 19 on trade globally was prominent in Q1 2020, when almost all economies experienced negative trends, these trends were observed because to control the spread of the virus, the world had to depend on non pharmaceutical interventions as a community mitigation strategy due to the non availability of effective pharmaceutical interventions like vaccines. Initially when the virus spread in China, the supply chain of ASEAN countries were disrupted and demand froze which limited the flows of trade. Further, as the virus spread from China to Southeast Asia, there was an immediate interruption in economic activities in the region due to the measures that had to be taken to contain the spread of the virus. This paper aims to study the impact of Covid 19 on trade of Southeast Asian economies ( ASEAN countries )

Keywords: International Trade, Exports, ASEAN, Covid 19

JEL classification : F02, F10

### INTRODUCTION

The spread of the SARS-CoV-2 led to an unprecedented economic shock which turned into a global economic downturn. The pandemic had an immediate and adverse effect on trade globally. The impact of covid 19 on trade globally was prominent in Q1 2020, when almost all economies experienced negative trends, these trends were observed because to control the spread of the virus, the world had to depend on non pharmaceutical interventions as a community mitigation strategy due to the non availability of effective pharmaceutical interventions like vaccines. These interventions were used to achieve social distancing with stringent methods like imposing lockdowns and restrictions, international travel controls, closing of educational institutes and workplaces etc to prevent the spread of the virus. These interventions had an adverse effect on mercantile trade as they restricted mobility of people as well as goods and services. This caused a lot of changes in the structure and working of the society in general. As people were now confined to one place, various sectors and industries like hospitality and tourism had to shut down leading to a decrease in demand for various goods. Strict lockdowns also made shopping for goods difficult which led to a decrease in consumption and also impacted mobility of people in general which led to a decline in labour supply, thereby impacting the production of goods. Nations also imposed restrictions on exports. International travel was also restricted and strict border control policies which included restrictions of imports were adopted to prevent the spread of the virus which affected trade as these policies led to an increase in trade costs due to inadequate air cargo.

ASEAN stands for Association of SouthEast Asian nations, the association aims to accelerate the pace of growth and development ( economically, socially and culturally ), promote peace, stability, collaboration and cooperation and provide assistance among the member nations. The association has ten members

Brunei  
 Cambodia  
 Indonesia  
 Laos  
 Malaysia  
 Myanmar  
 The Philippines  
 Singapore  
 Thailand  
 Vietnam.

Initially when the virus spread in China, the supply chain of ASEAN countries were disrupted and demand froze which limited the flows of trade. Further, as the virus spread from China to ASEAN countries, there was an immediate interruption in economic activities in the region due to the measures that had to be taken to contain the spread of the virus. The pandemic affected the trade in Southeast Asian countries in the following ways:

1. ASEAN members have a large number of trade partners with whom they have struck numerous independent free trade agreements in an attempt to diversify their portfolio. Pre-pandemic, this diversified portfolio provided a buffer to the economies in the case of economic downturns in specific regions but as the pandemic struck, the prospects of growth of these economies also halted which led to a global economic downturn directly impacting the trade flows from ASEAN members. Some of the FTA are the ASEAN-Australia-New Zealand Free Trade Area, ASEAN-China FTA, ASEAN-India FTA etc
2. Travel restrictions and lockdowns caused a sharp decrease in energy consumption globally which led to a decrease in demand of fuels and other sources of energy, thereby causing oil prices to drop heavily as Starting from March 2020, the global oil market have suffered economic shocks, both from the demand side as well as supply side. This impacted economies whose major chunks of exports come from fuels, oil and other sources of energy. 3 out of 10 ASEAN members depend on exports of fuels, oil and other sources of energy. In Indonesia, coal and oil exports make up ¼ of the total exports and 16% of exporting commodities of Malaysia are oil and gas. The worst hit among the ASEAN members though is Brunei where crude oil and natural gas make up more than 90% of the exports.
3. Decrease in domestic demand globally has had a multiplier effect on ASEAN members as 60% of Gross Domestic Product of these countries is represented by consumption. For example, in Cambodia cloth, footwear and travel commodities saw a minimal increase in their export ( 7.5 % ), in the months of January, February and March of the year 2020, there was a decline of 17.7% in comparison to the same months of the preceding year. The reason for this decline, according to the World Bank, was the contraction of the exports of these goods to the European Union, which saw a fall for the 1st time since the GFC by 0.5%. Though not all countries were negatively affected due to a lack of demand, Indonesia saw a trade surplus of 2.09 billion dollars in the month of May of the year 2020, increasing it's total trade surplus to 4.31 billion dollars. This was mainly driven by a decrease in imports and was not due to a rise in exports. In the first five months of the year 2020, the decrease in the commodities imported by Indonesia was 15.55% yoy and there was also a decrease in the commodities exported by 5.96% yoy
4. Covid 19 disrupted global value chains. "According to Policy Brief: The Impact of Covid 19 on South East Asia" 40 percent of the region's exports relied on global value chains as they had strong linkages to various nodes and hence became susceptible to supply chain risks as the virus spread.

## REVIEW OF LITERATURE

As noted by Prachi Aggarwal and Mulenga Chonzi Mulenga in "IMPACT OF COVID-19 ON INTERNATIONAL TRADE: LESSONS FOR AFRICAN LDCs", SARS- COV-2 has been pronounced "public health emergency of international concern" by the WHO. This worldwide pandemic has prompted inefficient distribution of goods and services in most nations and a decrease in worldwide monetary development prospects. It represents a danger to trade and the advances made in it's liberalization and is more dangerous than the financial crisis of 2008 for international trade as it has disrupted both, demand and supply impacting international value chains thereby impacting both consumers and producers. It has impacted trade dependent LDCs profoundly because of their reliance on exports from other countries, while many nations have kept trade open in order to minimize the adverse effects of the pandemic on certain vulnerable groups, most nations adopted inward looking measures which banned exports and restricted imports, provided subsidies on manufacturing of goods which were earlier exported as a means to be self reliant, these measures pose dangers to the least developed African countries, some measures that can be taken up to minimize the impact and facilitate trade can be formation of Green Lanes for essential goods, revamping the customs procedure, reduction in cost of internet and similar resources, support MSMEs and develop businesses thereby improving regional value chains and finding sustainable alternatives.

Dr Yogambigai Rajamoorthy pointed out in “ Impact of Coronavirus outbreak on Malaysian Trade” that In malaysia, there has been an upward trend in exports of electronic products and LPG and an upward trend in imports of agricultural commodities and machinery in the first month of the year 2020 thus signifying improvement, the major exporter being a fellow ASEAN nation Singapore but imports and exports of wholesale and retail products are expected to have a decline thus trade in Malaysia has been unequally impacted by the pandemic in different sectors and it should focus on reducing imports more than reducing the volume of goods that it exports.

“ Investment trends monitor” a report by UNCTAD analyses the potential of the RCEP agreement for boosting the investments and lead to a sustainable recovery from the pandemic. The report finds that RCEP is one of the largest trade and investment pacts, and would increase FDI significantly. It finds that the provisions in RCEP consolidate the standing market access which is due to several bi lateral agreements.RCEP accounts for sixteen percent of FDI and twenty four percent of flows globally. The report also identifies challenges that RCEP might face, key challenge for RCEP relates to following through on the efforts done for integration of the economies when geopolitical or other tensions arise. The main opportunity identified in the report relates to the diversity within the agreement members, which would provide complementary advantages because of location and lift the prospects in investment. ASEAN and intra regional investments are one of the most crucial players in the RCEP agreement.

## OBJECTIVE

1. To analyse the impact of covid 19 on trade of ASEAN countries
2. To compare the impact of covid 19 on ASEAN to other trading blocs
3. To find out the measures and policies adopted by ASEAN to mitigate the impact of COVID 19

## RESEARCH METHODOLOGY

The research uses secondary data that is being sourced by Unctadstats.org and world bank. Comparisons have been drawn using pictorial methods of representation like bar graphs and trend lines

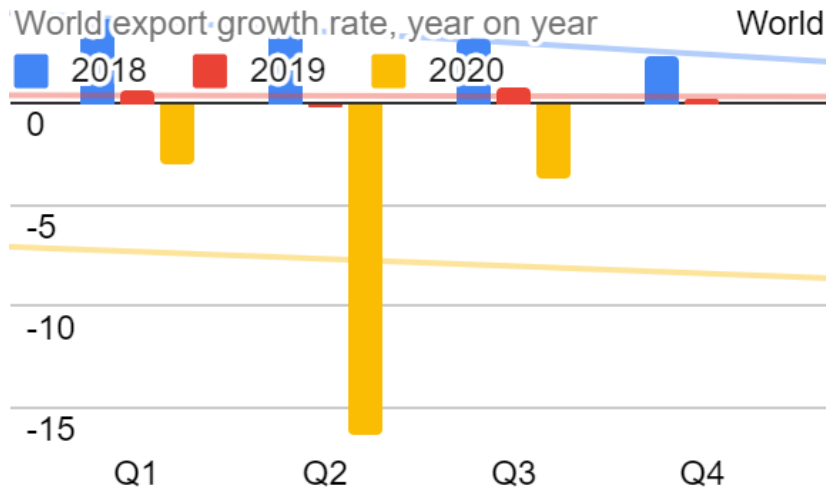
## DATA ANALYSIS

### IMPACT OF COVID 19 ON WORLD TRADE

According to the World Trade Organisation, there was already a 0.1% decrease in the volume of merchandise trade at the initial stages of the pandemic in the year 2019 when trade tensions started to emerge and economic growth started to slow down ( global gdp growth slowed down to 2.3% during that time, declining a whole 0.6% from the previous year ). Merchandise exports fell by 3% during that time, attaining a value of 18.89 trillion US dollars.

World export growth rate, year on year

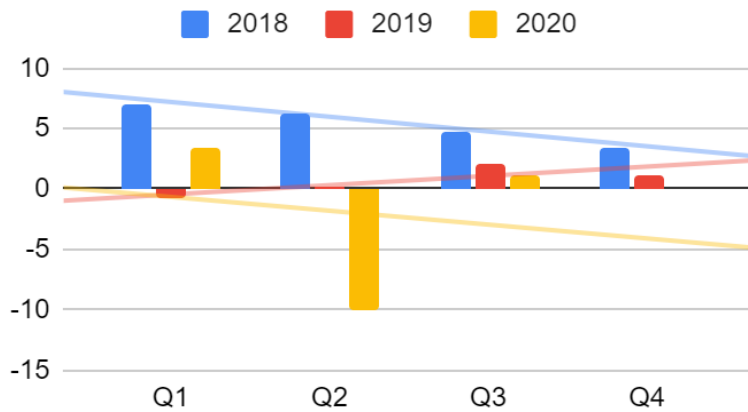
	2018	2019	2020
Q1	4.136692	0.617919	-2.94472
Q2	3.421772	-0.19938	-16.3971
Q3	3.11544	0.836297	-3.65832
Q4	2.382215	0.219782	



Export growth of ASEAN countries, year on year

	2018	2019	2020
Q1	7.047396	-0.66931	3.492874
Q2	6.199829	0.104813	-10.0931
Q3	4.805404	2.170297	1.198046
Q4	3.437978	1.203147	-

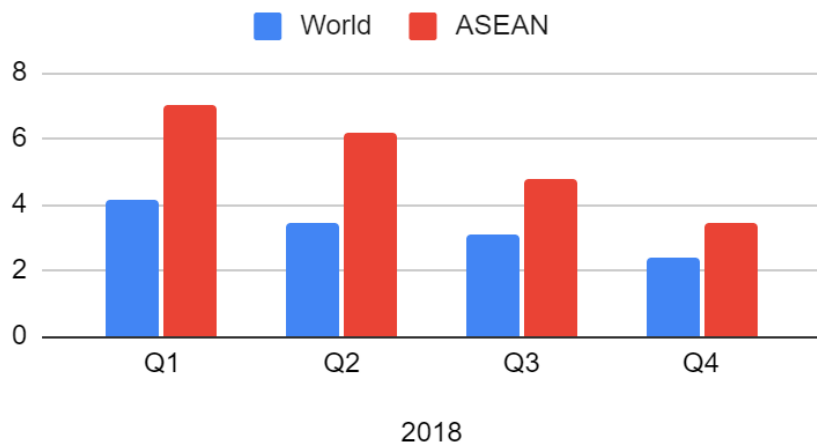
Export growth of ASEAN countries, year on year



Comparison between ASEAN and World

	World	ASEAN
Q1	4.136692	7.047396
Q2	3.421772	6.199829
Q3	3.11544	4.805404
Q4	2.382215	3.437978

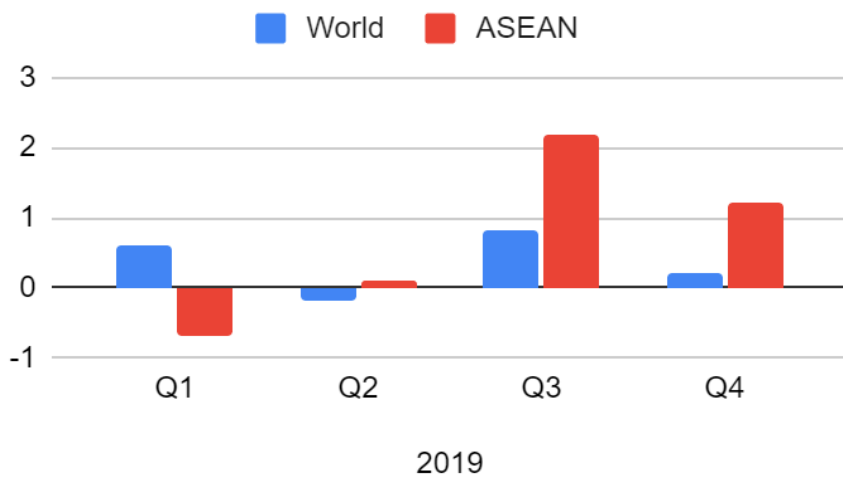
## Export growth rate, year on year, 2018



Pre pandemic the growth rate ( year on year ) of exports of ASEAN was more than the global export growth rate ( year on year )  
2019

	World	ASEAN
Q1	0.617919	-0.66931
Q2	-0.19938	0.104813
Q3	0.836297	2.170297
Q4	0.219782	1.203147

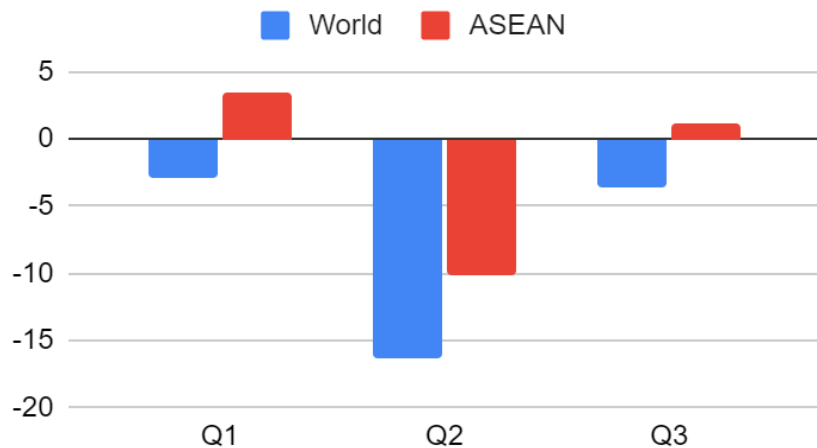
Export growth rate, year on year, 2019



On the onset of the pandemic, while the global export growth rate ( year on year ) saw an increase, ASEAN exports decreased in Q1 but were quick to recover in Q2, Q3 and Q4 and performed better than global exports.

2020	World	ASEAN
Q1	-2.94472	3.492874
Q2	-16.3971	-10.0931
Q3	-3.65832	1.198046

Export growth rate, year on year, 2020

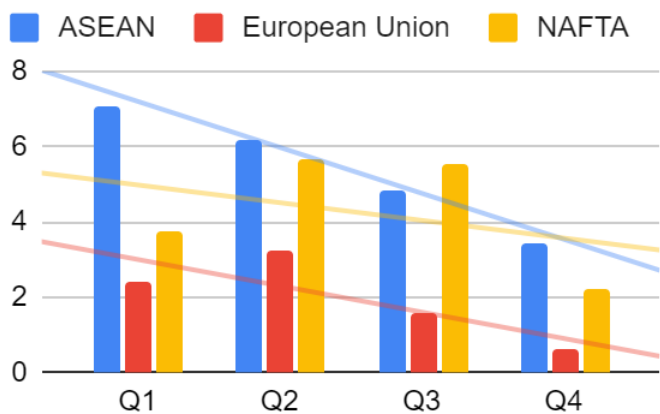


During the pandemic as it can be referred from the graphs and tables. ASEAN exports have been more resilient to the pandemic when compared to global exports.

Comparison between ASEAN, EU and NAFTA

Export growth rate, year on year, 2018

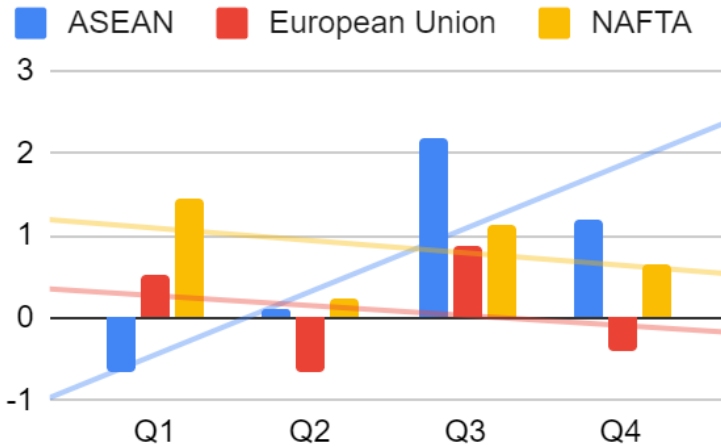
2018	ASEAN	European Union	NAFTA
Q1	7.047396	2.388464	3.741778
Q2	6.199829	3.239985	5.640517
Q3	4.805404	1.571723	5.511043
Q4	3.437978	0.610998	2.215853



Pre pandemic, as it can be inferred from the trend lines, ASEAN had a higher export growth rate ( year on year ) in comparison to EU and NAFTA

Export growth rate, year on year, 2019

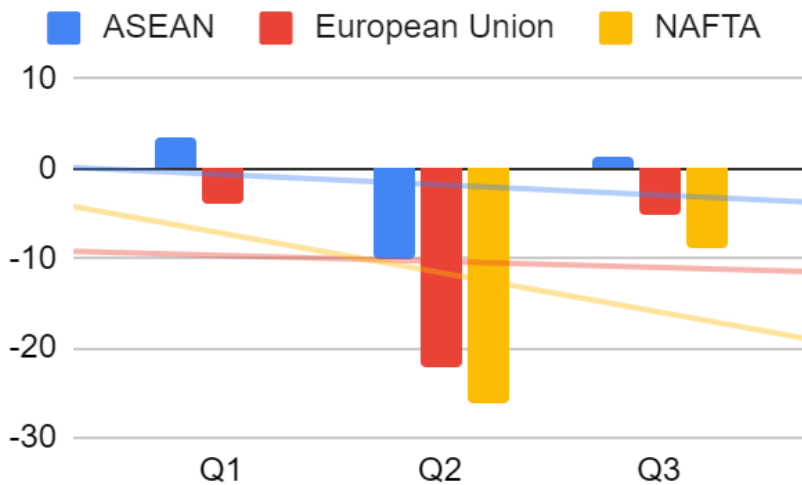
2019	ASEAN	European Union	NAFTA
Q1	-0.66931	0.521131	1.456316
Q2	0.104813	-0.64995	0.231528
Q3	2.170297	0.880399	1.119135
Q4	1.203147	-0.39085	0.659018



At the onset of the pandemic, ASEAN saw negative trends in export growth while EU and NAFTA saw positive trends

Export growth rate, year on year, 2020

2020	ASEAN	European Union	NAFTA
Q1	3.492874	-3.84775	0.038094
Q2	-10.0931	-22.0073	-26.0459
Q3	1.198046	-5.18781	-8.75381



ASEAN performed better than European Union in 2020, especially the first quarter as there were extended lockdown measures taken in the Union to control the spread of the virus which restricted trade. Infact, ASEAN surpassed the Union to become China's largest trading partner. The main contribution to the export numbers especially in Q1 2020, were because of trade in integrated circuits with China. Imports from ASEAN to China of integrated circuits were valued to be USD 14.9 billion in Q1 2020, an increase of 25% from 2019. This was due to increase in tensions globally because of the ongoing trade war between the United States of America and China, as ASEAN countries have lower wage structures



which attracted companies involved in the production of integrated circuits, mainly from Japan and South Korea to set up production units of integrated circuits. Malaysia, Vietnam and Thailand emerged as the most favourable for setting up the production units, thereby catering to the demand of China

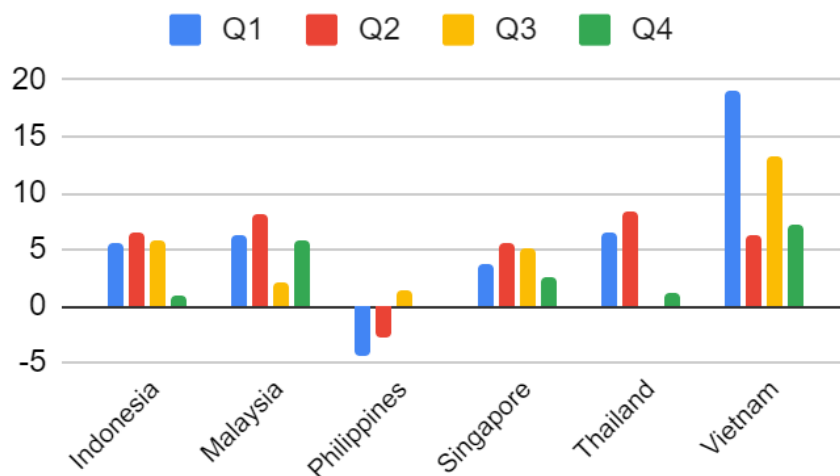
.It had a six percent increase in trade with China and made up 15 percent of trade volume of China. The main contributors among ASEAN to ASEAN- China trade were Vietnam and Indonesia, with increased integration of supply chains in both the countries, their imports increased by 24% ( for Vietnam ) and 13% ( for Indonesia ) when taken on year on year terms to China

#### INTRA ASEAN COMPARISON

Export growth rate, year on year, 2018

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
2018						
Q1	5.686645	6.379276	-4.33665	3.691596	6.492409	19.13681
Q2	6.431024	8.177172	-2.74353	5.663544	8.46627	6.232826
Q3	5.831651	2.143798	1.299118	5.176715	0.105695	13.18747
Q4	0.867287	5.902446	-0.04898	2.462362	1.077033	7.143337

Export growth rate, year on year, 2018



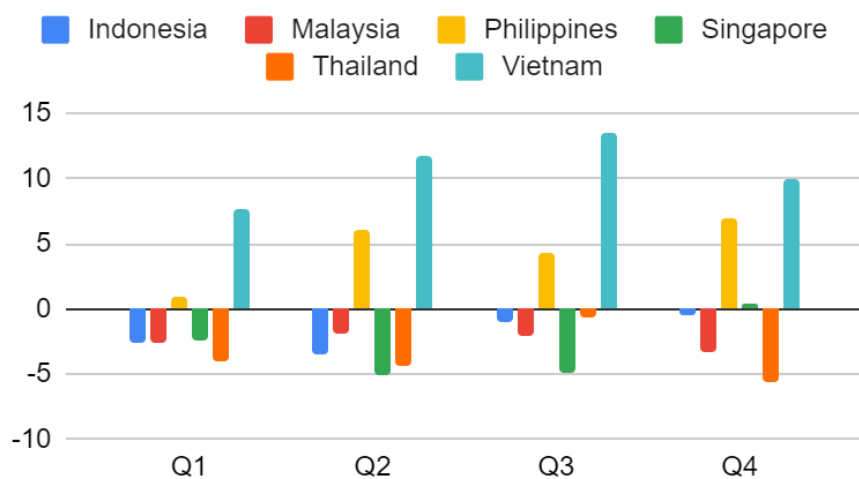
Pre pandemic, Vietnam saw the highest export growth rate, year on year when compared to other ASEAN nations

Export growth rate, year on year, 2019

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
2019						
Q1	-2.52037	-2.59928	0.946057	-2.40914	-4.09391	7.645382
Q2	-3.41343	-1.82798	6.085131	-5.00095	-4.34849	11.75047
Q3	-1.08817	-2.06709	4.264665	-4.86627	-0.6516	13.46364
Q4	-0.51686	-3.37909	6.940406	0.392599	-5.59417	9.934708



Export growth rate, year on year, 2019

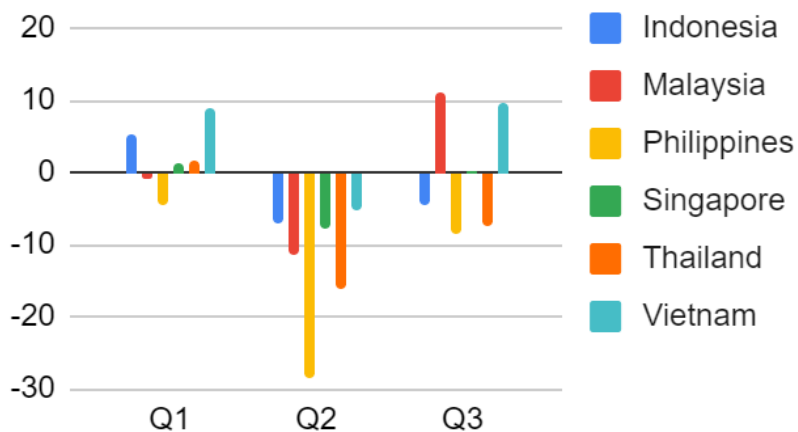


During the onset of the pandemic, Vietnam and Philippines had a positive export growth rate ( year on year ) during the whole of 2019, while other ASEAN saw negative trends with Singapore recovering in Q4 of 2019 and witnessing a positive export growth rate

Export growth rate, year on year, 2020

2020	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Q1	5.411754	-0.87687	-4.36062	1.346258	1.811237	9.007178
Q2	-6.95624	-11.302	-28.5666	-7.64999	-16.067	-5.15237
Q3	-4.5444	10.91636	-8.47934	0.273427	-7.55473	9.697341

Export growth rate, year on year, 2020



In 2020, apart from Philippines and Malaysia, ASEAN nations saw a positive export growth rate, year on year in Q1, in the next quarter export growth rate of ASEAN countries plummeted in Q2 of 2020, despite recovery in Q3, only Malaysia and Vietnam witnessed positive export growth rate.

As it can be inferred from the charts and tables, the exports from Vietnam have had the most impressive recovery among ASEAN member states. Vietnam is an export based economy. And has benefitted from the reorganisation of supply chains globally due to the pandemic. Vietnamese exports also benefitted greatly from the US- China trade war which led to more demand for Vietnamese exports and it also signed 2 Free Trade Agreements during the year 2019-2020. In the year 2020, estimates suggest that the country's exports amounted to two hundred and eighty one billion dollars, amounting to an increase of six point five percent. Vietnamese trade surplus also rose from ten point eight seven billion dollars in the year 2019 to nineteen point one billion dollars in the year 2020

Vietnamese exports were able to recover quickly because of the following reasons:

As soon as the news of the virus being spread to China came out, the country started to mobilise to prevent the spread of the virus using television advertisements, posters etc. The outbreaks of covid 19 in the country were rapidly isolated, which kept the death rate in Vietnam very low, because of these factors Vietnam could open up its economy There was a rise of thirteen percent in google mobility indicators from the month of April to the month of May, due to this there was a rise of five percent in Vietnamese exports in the initial four months of the year 2020

Policies and measures adopted by ASEAN during the pandemic to facilitate trade

ASEAN members in an attempt to mitigate the impact of pandemic early on, relying on regional and international cooperation, issued a statement on "Strengthening ASEAN's Economic Resilience in Response to the Outbreak of Covid 19" in the month of March 2020 which was followed by "Declaration of Special ASEAN Summit on Covid 19" in the month of April 2020, in which there was a commitment to keep open markets to facilitate trade by increasing cooperation between the members of ASEAN as well as their partners which was proceeded by "Ha Noi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the Covid 19 Pandemic" adopted in the month of June 2020. It is a mandate to implement "ASEAN Economic Ministers' Statement on Strengthening ASEAN's Economic Resilience in Response to the Outbreak of COVID-19" which also explores a temporary structure for the preservation of the connectivity of supply chain during the pandemic. The mandate shows that ASEAN is determined to work with its members in identifying and addressing disruptions in trade and its ramifications relating to the supply of essential commodities in the region. These efforts are being made to make supply chains more resilient and less vulnerable and also to mitigate the impact of restrictions and lockdowns imposed during the pandemic. There are no obligations under the international law due to this mandate.

The main areas under the plan of action are as follows

#### 1. Cooperation

Under this, member states will work on ensuring flow of essential commodities that are necessary to combat the pandemic and would also work on facilitating information in a timely manner about measures related to imports and exports of such commodities. They would also undertake risk mitigation efforts for the prevention of spread of the virus. They would refrain from imposing unneeded non tariff barriers on essential commodities. The member nations would also be prompt in informing the other members of any changes in trade related measures through the secretariat which includes the prohibition, restriction or removal of trade measures relating to essential commodities. They would also inform the member nations in case of any surplus production and would exchange information crucial to the tackling of the pandemic including business consultation and collaborations. Another crucial factor which would strengthen cooperation is the facilitation of flowing and transit of essential commodities by the member nation for other ASEAN countries through land, air or sea. This would include transit, transshipment and compliance on standards relating to safety and quality of the essential commodities.

#### 2. Strengthening the connectivity of supply chains

There has been an exposure of the flaws in the supply chains of Southeast Asian economies due to the pandemic. Hence, the mandate has long term efforts that would strengthen the supply chains in the region by collaborating with external partners to make the supply chains more resilient and sustainable by promoting the local currency that would lead to the enhancement of trade and FDI in ASEAN which would decrease its vulnerabilities to shocks that arise out of similar situations such as the pandemic. Leveraging technology to create a mechanism to share information at the regional level which would lead to better coordination during challenges and situations similar to the pandemic. Encouraging information exchange on most efficient practices on new technologies that can be adopted to facilitate trade in on online platforms and building on trade facilitating programs that already exist which would increase regional resilience.

## RCEP: Regional Comprehensive Economic Partnership

It is a multilateral regional agreement, signed on the 15th of November in the year 2020. It extends and deepens free trade between member countries of ASEAN and ASEAN's 5 trade partners, including ASEAN's plus three which comprise China, Japan and South Korea and 2 other nations, which are Australia and New Zealand. ASEAN had a lot of preferential arrangements of trade which made it complex, RCEP simplifies those arrangements as well as deepens the ties of the member nations with partner nations.

The agreement establishes an economic partnership that facilitates regional trade and investments which is modernised, comprehensive, and benefits the partners mutually thereby contributing to economic growth and development globally. RCEP will work along WTO, supporting openness and inclusiveness in the trading system. It aims to complement the World Trade Organisation and build a deeper network of regional value chains, another aim of RCEP is boosting constructive competition between members leading to long term economic growth. The agreement is significant economically too, RCEP members make up twenty nine percent of GDP globally which amounts to twenty five point eight trillion dollars and it also makes up approximately twenty nine percent of the population of the world which amounts to two point three billion people. RCEP would make the largest Free Trade Agreement in terms of Gross Domestic Product. RCEP member nations currently comprise twenty five percent of trade globally which amounts to twelve point seven billion dollars.

RCEP would lead to an increase in intra regional trade whose pace of increase would be faster than other countries and trading blocs globally. The regional value chain would be significant.

Three key drivers in the partnership which would lead to an increase in trade of ASEAN economies and lead to their growth

1. Comprehensive Coverage of the Partnership
2. Increase in market size
3. Strong Economic Linkage

RCEP, ASEAN and Covid 19

The pandemic disrupted the supply chains which has led to the recognition of a diversified approach in trade globally. Due to this, countries adopted a China plus one strategy which would provide strength to their capacity domestically by setting up production lines and identification of suppliers in nations apart from China. The agreement makes it easy for those nations to set up production lines and factories in South east asian countries and export with ease with all fourteen members of RCEP. The agreement also provides incentives to members in addressing already there barriers to investments that would increase competition citing the example of ratification of Omnibus bill by Indonesia. These measures make engaging in business with ASEAN countries easier and flexible. Myanmar would also benefit greatly if it capitalises on RCEP in growing its manufacturing

## CONCLUSION

ASEAN exports have been more resilient to the pandemic when compared to the world. Intra ASEAN the exports from Vietnam have had the most impressive recovery among ASEAN member states. In the year 2020, estimates suggest that the country's exports amounted to two hundred and eighty one billion dollars, amounting to an increase of six point five percent. Vietnamese trade surplus also rose from ten point eight seven billion dollars in the year 2019 to nineteen point one billion dollars in the year 2020

Vietnamese exports were able to recover quickly because of the following reasons:

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