Key Messages:

- The Association of Southeast Asian Nations (ASEAN) Member States and India have shown vigorous private dynamism in their ability to recover from the coronavirus disease (COVID-19) pandemic downturn and advance to a growth path in this mixed environment of positives and negatives.
- The labour market should be flexible enough so that firms may employ the necessary workers and use the COVID-19 shock to improve their businesses.
- Promoting firms to invest in digital technology to enhance supply chain resilience is necessary to maintain and increase regional industrial competitiveness during and after the COVID-19 pandemic.
- Human resources development, in particular strengthening digital skills, is critical. Governments should provide firms, particularly small and medium-sized enterprises, with technical and financial assistance to enhance employees’ digital skills through education and training.

Economic Policies to take Advantage of the Vigorous Private Dynamism in AMS and India during the COVID-19 Crisis

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The coronavirus disease (COVID-19) pandemic has created unprecedented difficulties for the economies of the Association of Southeast Asian Nations (ASEAN) Member States (AMS) and India. It has provided three types of shocks – negative supply shocks, negative demand shocks, and positive demand shocks – to the AMS and Indian economies. In this mixed environment of positives and negatives, AMS and India have shown vigorous private dynamism in their ability to recover from the COVID-19 pandemic downturn and advance to a growth path. To take advantage of private dynamics, firstly, the labour market should be flexible enough so that firms may employ the necessary workers and use the COVID-19 shock to improve their businesses. Secondly, encouraging firms to invest in digital technology to enhance supply chain resilience is necessary in order to maintain and increase regional industrial competitiveness during and after the COVID-19 pandemic. Lastly, human resources development, in particular strengthening digital skills, is critical. Governments should provide firms, particularly small and medium-sized enterprises, with technical and financial assistance to enhance employees’ digital skills through education and training.

COVID-19 Causes Negative Supply Shocks, Negative Demand Shocks, and Positive Demand Shocks

The coronavirus disease (COVID-19) pandemic has created unprecedented difficulties for the economies of the Association of Southeast Asian Nations (ASEAN) Member States (AMS) and India. Lockdown measures, including the shutdown of businesses and work-from-home orders, have hindered the movement of goods and services in the region and have compelled firms to change their management methods. Furthermore, uncertainty over the time frame of the end of the pandemic has impacted economic activities in the AMS and India. The influence of COVID-19 on the region is significant, AMS and India’s growth rates in 2020 fell to −3.3% and −8.0%, respectively (IMF, 2021). In 2020, AMS experienced the lowest growth rate since the Asian financial crisis of 1997–1998.
COVID-19 has provided positive as well as negative impacts on the AMS and India. At the beginning of the COVID-19 pandemic – when the disease was only spreading in China – COVID-19 mainly impacted manufacturing industries in the AMS and India as negative supply shocks. The lockdown measures executed by the Chinese government stopped trade in goods across the Chinese border. Studies have shown that international production networks in East Asia, including the AMS and India, were resilient to these relatively short-lived negative supply shocks (e.g. Ando, 2021; Hayakawa and Mukunoki, 2021).

As the disease spread globally, the AMS and India experienced both negative and positive demand shocks. Negative demand shocks suppressed total demand by increasing unemployment and decreasing income due to COVID-19 containment measures. Positive demand shocks impacted the medical sector in the treatment of COVID-19 patients and the information and communication technology (ICT) industry in adapting to work-from-home requirements (De et al., 2020). As such, the COVID-19 pandemic has provided these three types of shocks to the AMS and India’s regional economies.

**ASEAN and India Have Shown Vigorous Private Dynamism in the COVID-19 Crisis**

From November 2020 to February 2021, the Economic Research Institute for ASEAN and East Asia (ERIA) conducted an extensive questionnaire survey (ERIA survey) over the internet, involving 1,789 firms with effective responses – including local businesses, large and small and medium-sized enterprises, and multinational firms from all 11 countries. Based on the ERIA survey, Oikawa et al. (2021) showed that AMS and India have displayed vigorous private dynamism in their ability to recover from the COVID-19 pandemic downturn and advance to a growth path in this mixed environment of positives and negatives.

As shown in Figure 1, firms’ sales growth rates in 2020 were distributed widely from positive to negative. In other words, even during the COVID-19 pandemic, a significant number of firms in the AMS and India have taken advantage of growth opportunities. Further, Oikawa et al. (2021) pointed out that firms which are adaptive to the COVID-19 shocks regarding arranging their supply chains in a timely fashion were more likely to perform well and have a better outlook, including the prospect of hiring more employees in the next few years.

In fact, many firms in the AMS and India responded quickly to the COVID-19 shock and reconstructed their supply chains to a non-negligible degree. Furthermore, many of the changes implemented in supply chains are unlikely to return to pre-COVID-19 arrangements. Figure 2 indicates that more than two-thirds of the firms have reconstructed or plan to reconstruct their customer relationships; and more than half of the firms have changed or planned to change their supplier relationships. In addition, about 47% of firms have changed or planned to change their production location. Figure 3 shows that more than 40% of the firms changing customer or supplier relationships and production locations have done or will do so by a degree of 10%–29%. Further, about 20% of firms reconstructing supply chains have done or will do so by a degree of 30%–99%.

**Figure 1. Distribution of Sales Growth Rates in 2020 (%, annual)**

![Figure 1](image-url)

Source: Oikawa et al. (2021).
Figure 2. Firms’ Supply Chain Adjustment Plan (%)

Source: Oikawa et al. (2021); authors’ calculation.

Figure 3. Degree of Change in Firms’ Supply Chains (%)

Note: The degree of change in supply chains is measured at the value of the changes relative to the total transaction or production. The percentages in the figure are the ratios of the number of respondents that chose each questionnaire option to the total respondents, less the firms that selected ‘no plan’. Source: Oikawa et al. (2021); authors’ calculation.
Figure 4. Time Scope of Changes in Firms’ Supply Chains (%)

Note: The percentages in the figure are the ratio of the number of respondents that chose each questionnaire option to the total respondents, less the firms that selected ‘no plan’.
Source: Oikawa et al. (2021); authors’ calculation.

Figure 4 shows that the firms reviewing supply chains in the medium or long term comprised the largest proportion – more than 40% – of the firms rearranging supply chains during and after COVID-19.

Attention to Digitalisation and SMEs is Needed

As mentioned above, the AMS and Indian economies have shown their resilience and adaptation to the unprecedented shocks. Still, the ERIA survey indicates that the economies face challenges in terms of digitalisation and small and medium-sized enterprises (SMEs). Figure 5 shows that the least selected supply chain measure in the wake of the COVID-19 outbreak was supply chain digitalisation. This is somewhat disappointing because supply chain digitalisation should have been an accelerator of digital transformation in the regional economy. The manufacturing sector has always been highly technology-intensive with extensive use of the Internet of Things and robotics across the various parts of the manufacturing line and innovation a constant driver of the manufacturing processes. Moreover, for both manufacturing and services industries, the manner in which firms digitalise their supply chain operations determines their industry level of supply chain resilience (Belhadi et al., 2021).

SMEs also need to be cared for when we consider economic policies in the region. Oikawa et al. (2021) found that SMEs’ relationships with customers are less resilient to the COVID-19 shocks than those of large firms. They also argued that the smaller a firm, the less likely it is to implement supply chain digitalisation. Therefore, SMEs are likely to have difficulty undertaking measures that are important to increase firms’ productivity and resilience to disruption.

Economic Policies to Take Advantage of Vigorous Private Dynamism in AMS and India

What economic policies do we need to guide the AMS and India to a solid growth path by taking advantage of vigorous private dynamism? Firstly, the labour market should be flexible enough so that firms may employ the necessary workers and use the COVID-19 shock to improve their businesses. Even during the first year of the COVID-19 outbreak, about half of the firms in AMS and India saw positive growth rates in sales, converting the crisis into an opportunity to expand their businesses. Furthermore, many of the firms anticipate hiring additional employees in the next few years. As Barrero et al. (2020) claimed, the COVID-19 shocks have entailed job creation as well as job destruction. To help the economies of the AMS and India recover as smoothly as possible, governments should encourage the reallocation
of labour from shrinking sectors or firms to expanding sectors or firms. To this end, governments may support or give incentives to firms to hire new workers or may help workers upskill or reskill.

Secondly, to maintain and increase regional industrial competitiveness during and after the COVID-19 pandemic, it is necessary to promote supply chain resilience. Information on the economic effects of the COVID-19 pandemic is still very incomplete, as the situation is continuously evolving on the ground. However, selected survey results show that firms that were able to alter the share of trade with customers and suppliers in a timely fashion across borders, as well as restructure production shares worldwide, had better business success – even during the first year of the COVID-19 pandemic. Supply chain resilience levels in the manufacturing and services industries are determined by how firms digitalise their supply chain operations (Belhadi et al., 2021). Hence, governments should encourage firms to invest in digital technology to enhance supply chains in the AMS and India. To encourage firms’ digitalisation, special consideration to SMEs should be accorded by governments as they are more vulnerable to the COVID-19 shocks and only a few of them are able to implement digitalisation measures in response to the COVID-19 pandemic. Additionally, to promote supply chain resilience, governments should enhance their laws and regulations to use or adapt digital technology in facilitating trade (e.g. single window and use of electronic documents for cross-border trade).

Thirdly, human resources development is critical. Strengthening digital skills is particularly vital as only a small number of businesses have implemented digitalisation efforts in response to COVID-19. According to JETRO (2021), most firms reported a lack of human resources familiar with digital technology within the firm being the cause for their digitalisation challenges. In this context, governments should provide firms, particularly SMEs, with technical and financial assistance to enhance employees’ digital skills through education and training.

Even when faced with this devastating pandemic, the ERIA survey underlines the dynamism of businesses in the AMS and India. Digital technology is seen to be pervasive and at the heart of the changes in consumer behaviour and consumption, and in modes of consumption. Therefore, to ensure survival, businesses need to have a hard rethink about digitalisation and implement changes fast. This is not only a message to governments but to all businesses in AMS and India. Entrepreneurship and diligent workforces have always been at the heart of the region’s rapid and inclusive economic progress. The region must become more innovative to move ahead. The COVID-19 offers the region an opportunity to enter a new era of economic development.
References


