Asia slides back towards lockdown

One of the key takeaways from our recent "What went wrong in India?" note was that this could easily happen elsewhere in Asia. With Taiwan and Singapore increasing restriction measures, and Japan extending its regional states of emergency - this could be playing out as we had feared...

Vaccine

Source: Shutterstock

The numbers of daily cases in Asia are still extremely low

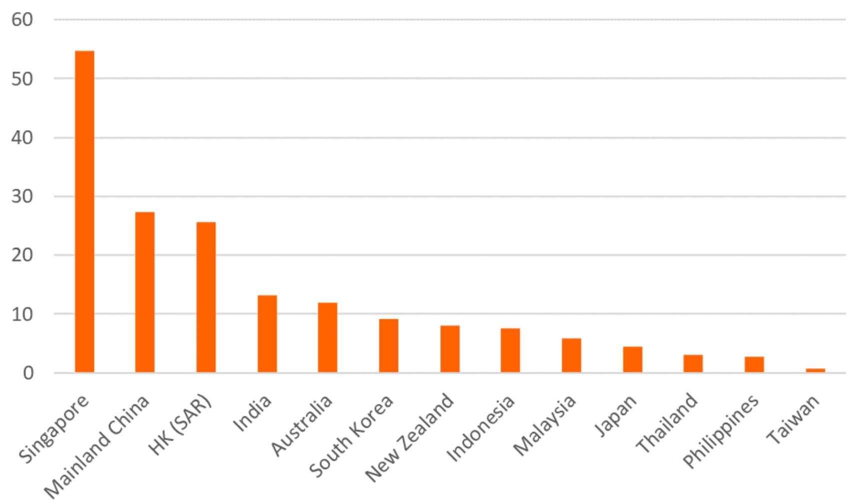
To those viewing the situation from Europe or the US, the handful of new community cases in Taiwan and Singapore may seem like a weak basis for ramping up social distancing measures and movement restrictions. But Asia can't be viewed in quite the same light as countries in these other parts of the world.

Firstly, unlike the US, UK and increasingly Europe after its slow start, most countries in Asia have made little progress in vaccinating their populations. Singapore is in better shape than most, with about 55 vaccinations per 100 population. But it has focussed on fully vaccinating the more vulnerable groups, so its numbers represent a large proportion of fully vaccinated people and a smaller proportion of the population with at least one vaccination than comparable countries in Europe. Taiwan, in contrast, has barely vaccinated anyone, for a variety of reasons, some of which relate to political tensions with Mainland China. Japan, which is also struggling with daily Covid-19 cases close to its previous daily highs, is also lagging well behind international norms in terms of vaccination.

Secondly, Asia has a very low political tolerance for Covid-19, compared to most places in the West. Where a few thousand daily cases in the UK may represent a cause for optimism and re-opening the economy, a far smaller proportionate number of daily cases in Asian countries will lead governments to clamp down harder on transmission. Look at the extended lockdowns in the Philippines for example. This may represent previous experience with diseases such as SARS. It may just reflect a different perspective. For Europe, the central objective seems to have been to prevent the health services from becoming overwhelmed. In some countries in Asia-Pacific, including Australia and New Zealand, a more ambitious objective seems to be being employed.

Thirdly, as we saw from India, the lead time taken to move from a relatively manageable number of daily cases to medical and economic catastrophe is about a month. The emerging evidence on the B.1.617 variants is that they are indeed more transmissible, even if no more deadly on average, though they do seem to hit younger members of the population more too, throwing up new issues for social distancing for this vector group. In short, if the numbers are going up, even if they are still low, you don't have much time to nip this in the bud before you could be dealing with an India-like situation.

Asia-Pacific vaccinations per 100 population



Source: Our World in Data

Outlook for the economy

It is early days yet, and the impact on the economies of the region will depend in large part on how successful the measures now being rolled out end up being. Successful, and governments will be able to withdraw restrictions earlier, enabling economic rebound to return. Ineffective, or just too slow, and we are likely to see restrictions tightened and extended. At this stage, all we can say is that our current forecasts for 2021 GDP growth for Singapore (4.9%), Taiwan (also 4.9%), and Japan (3.5%) are under more downside than upside revision risk.

And these economies are not alone. Indeed, Malaysia was already operating under new Movement Control Orders (MCOs) amidst rising cases. Thailand also imposed new restrictions at the end of April to try to curb rising daily cases. And Indonesia is still operating under a partial lockdown, as is the Philippines, where we anticipate official GDP projections being scaled back this week.

We wrote recently that Korea's impressive recovery so far this year is also at risk from rising cases and tighter movement control restrictions, and we are holding back on further upgrades to our 2021 GDP forecast (currently 3.6% for 2021) as we evaluate how it is holding up against the latest regional wave.

Were China to show more community cases, then we would have more of a regional demand issue to deal with and would require broader downgrades, irrespective of local conditions. So far, that hasn't happened. But although China is making vaccine progress, with a population of 1.3bn, and some questions about the effectiveness of local vaccines compared with some of the others being rolled out globally, any sense of calm could be misplaced.

In short, and subject to a big caveat about new more transmissible and more vaccine-resistant variants, while some parts of the world seem to be making good progress towards fully vaccinated populations and re-opened economies, Asia, lagging well behind the vaccination race, may see its return to normality delayed weighing on its GDP growth prospects this year.

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