Singapore Institute of International Affairs

From Crisis to Endemic: Stumbling or Pressing Ahead?

ASEAN Special Report
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Contents

Authorship

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Introduction: Looking Beyond the Surge

This Special Report by the Singapore Institute of International Affairs (SIIA) examines how key Association of Southeast Asian Nations (ASEAN) economies are coping with the COVID-19 pandemic alongside key economic and political challenges. Together, these economies – Indonesia, Vietnam, Malaysia, and Thailand – represent over 70 per cent of overall ASEAN gross domestic product (GDP).[1] This report builds on and updates the SIIA's earlier report published in August 2020 that considered the first year of COVID-19 in which most of ASEAN fared quite well.

In the period of April to August 2021 however, all countries in the region suffered in terms of human and economic costs due to the more infectious Delta variant. Millions of cases and many fatalities have been reported across Southeast Asia. In terms of the economy, growth rates for all of ASEAN have also been cut, with the Asian Development Bank (ADB) revising GDP growth estimates for ASEAN downwards from 4 per cent to 3.1 per cent.[2]

In response, governments in ASEAN each implemented stringent measures that impacted and limited social and economic activities. Often with only short notice, this contributed to a climate of unpredictability, which affected business confidence. These restrictions staunched the worst consequences from the pandemic but did not offer long term solutions that could achieve a better balance with the economy and social freedoms.

To this end, ramping up vaccinations has been essential. However, obtaining adequate supplies and then inoculating a sufficient proportion of the population will take time, especially in countries with larger populations and in more remote communities. There is no easy or ready solution. In recent months, the pace of vaccinations has shown progress, and signs are emerging that the worst may be over, and that governments should rethink the equilibrium between health and livelihoods. This means reopening the economy and the resumption of businesses, relaxing social restrictions, and gradually opening borders under carefully considered conditions.

Analysts are optimistic that this will bode well for the region's recovery. As a further sign of emerging confidence, KPMG's 2021 CEO Outlook Survey found that 92 per cent of Singapore's Chief Executive Officers (CEOs) surveyed expressed confidence in Singapore's growth outlook, up from 80 per cent in 2020.[3] Going forward, individuals and businesses hope for more stability. There are also hopes that the region can build back not only stronger, but better.

Still, the transition to a "new normal" will not be without hurdles and the situation differs from one country to the other. The recent surge in caseloads has also intensified voices of increasing social and political disaffection. This is especially so in Thailand and Malaysia, where political differences that predate the pandemic have sharpened.

It is in this context that this report seeks to survey the situation across four key ASEAN economies. In this report, we will first present an overview and key trends. These are:

1. Sizing and Surviving the Surge;
2. Moving to an Endemic Strategy;
3. Expectations for Growth, Trade and Manufacturing;
4. Tourism and Border Reopening;
5. Enabling the Digital Economy;
6. Upgrading and Transformation Efforts; and
7. Political Stability.

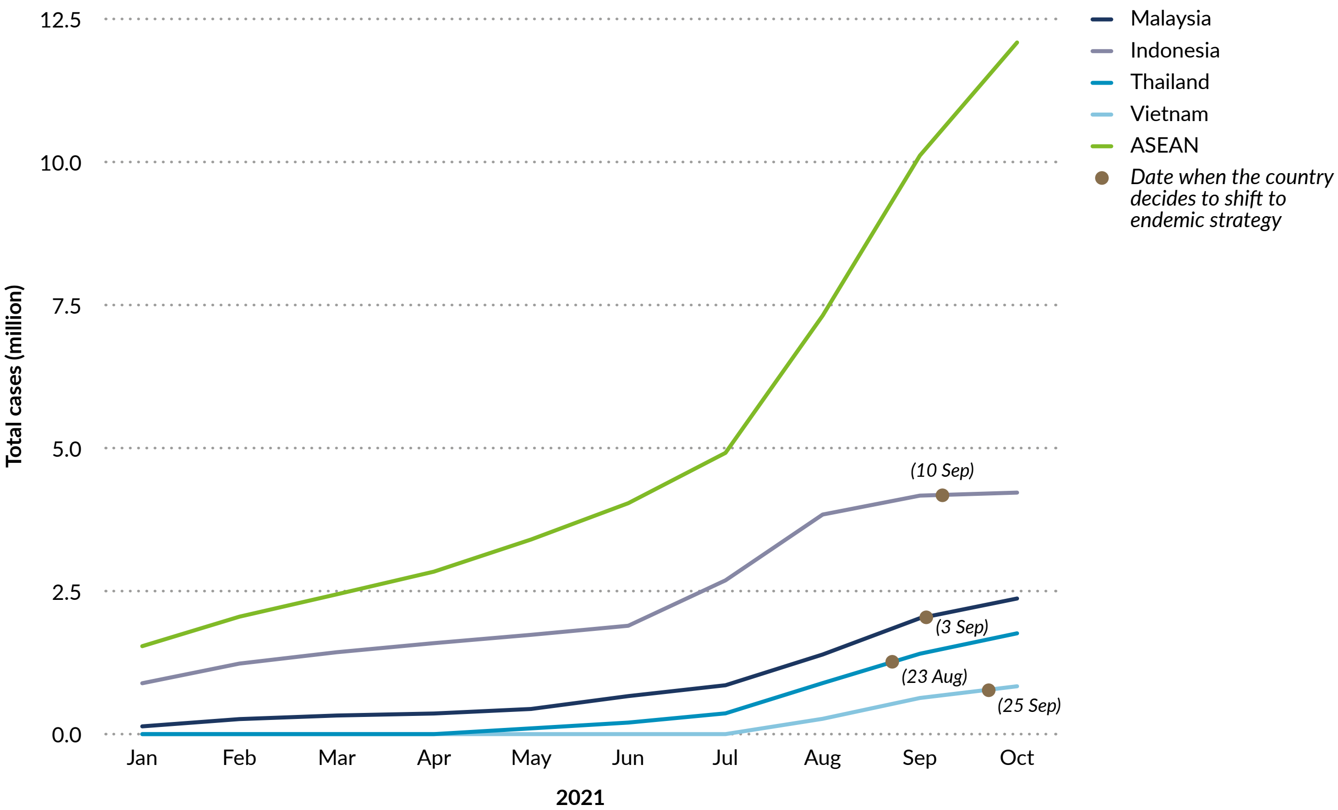
This will be followed by brief analyses of each country covered in this report. Our analyses will seek to evaluate developments not only in the responses to the surge in pandemic cases, but also the consequent economic impacts as well as questions of political stability and leadership. In this, we will begin with Indonesia as the largest economy of the region; Vietnam as the most promising; followed by Malaysia and Thailand as two larger and more open economies that are approaching middle-income status. In reviewing each country, we will offer not only a survey of the events and responses in 2021, but our views about the key considerations looking ahead.

The report in conclusion will try to signpost what lies ahead, despite considerable uncertainties, both in terms of risks and opportunities. We believe there remains reason for a degree of optimism about the region that belies the recent headlines about the surge suffered in 2021. Some countries are trending to a relatively positive situation, putting in place plans towards economic growth with a continued measure of political stability. While not all have said so explicitly, ASEAN governments are moving to treat the virus as endemic. As vaccinations progressively roll out and economies start to reopen, there are real reasons to anticipate the prospect of a broader recovery in the months ahead. Risks do remain but opportunities in the coming months will increase. The path ahead will not be without stumbles, but some will persist to press positively ahead and succeed.

1. Overview and Key Trends

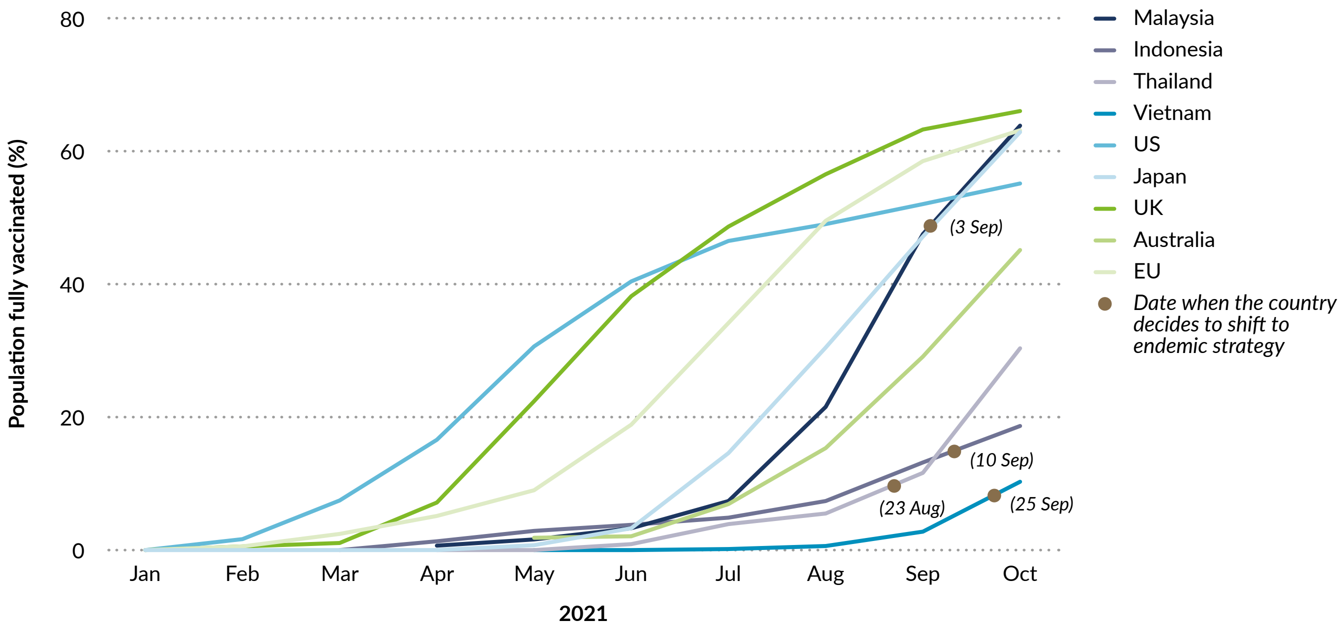
1.1 Sizing and Surviving the Surge

In the period from May to September 2021, countries in the region faced surges in COVID-19 cases from the more infectious Delta variant. Indonesia, the largest member of ASEAN in terms of economic size and population, had more than four million confirmed cases and over 140,000 deaths according to official government statistics as of 30 September 2021.[4] Even Vietnam, which had been exemplary in handling the earlier waves of COVID-19, has been severely hit by the pernicious Delta variant. As with many parts of the world, ASEAN has suffered this year in both human costs and economic terms, in sharp contrast to the relatively good record in 2020.



Source: https://www.worldometers.info/coronavirus/

The current situation has exposed the problems with low vaccination rollouts amongst these countries. As the surge began in July, the vaccination rate in Indonesia, for example, was approximately 11 per cent, and in Vietnam only approximately 3.5 per cent.[5] These rates were low compared to the West due to shortages of available vaccines, limited capabilities to effectively distribute and administer the vaccines, and, to some degree, vaccine hesitancy.



Source: https://ourworldindata.org/coronavirus

Despite these obstacles and delays, vaccination rates in these ASEAN countries are now rising. In Malaysia, for example, over 90 per cent of adults have received at least one vaccine dose and plans to reopen the economy and perhaps even to international travel are being considered.[6] Though they face the challenge of inoculating much larger populations, Indonesia, Vietnam, and Thailand are also responding by finding supplies and ramping up their vaccination schedules. ASEAN countries seem to be on the right track and are expected to make progress in the months ahead. As vaccination rates improve, the numbers of mortalities and those severely infected may be expected to moderate, even if the number of cases will continue to be higher than before.

1.2 Moving to an Endemic Strategy

Against the backdrop of increasing vaccination levels, there is a clear shift in the region for governments to exit from "zero-COVID" policies to treat COVID-19 as endemic. Singapore, which this report does not cover, was the first in ASEAN to achieve high vaccination levels, given its small population size, and from June 2021 declared a rethink to treat the virus as endemic. The country has since moved, with considerable caution to stabilise the situation, and is gradually loosening up travel restrictions, including travel lanes with selected countries. Neighbours in ASEAN have also moved forward with similar plans. From September 2021, Malaysia, Indonesia, and Thailand have announced plans to learn to live with the virus and to reopen sectors of their economy and, with restrictions, borders.

This is not done callously. While health concerns remain a priority, the governments of the region face a delicate balance between lives and livelihoods. The plight of the lower to middle income working population, especially those working in the informal sector, is increasing pressure to reopen. Businesses are raising concerns over their long-term planning. Governments' finances have been stretched by earlier stimulus packages. They can ill afford the consequences of further economy-crippling restrictions and indeed need to try to return to trajectories that stimulate growth, trade and investment, jobs, and consumption. Lockdowns and economic doldrums have also sparked social tensions and political protest.

Governments are moving ahead to formulate ways to live with the virus; examples include sequestering workers, imposing micro-lockdowns, and only allowing those vaccinated to enter restaurants, malls, places of worship, cinemas, and offices. Reporting daily caseloads has also been rendered less important than reporting on their severity. For example, in Malaysia, the Ministry of Health has started to publish intensive care unit bed occupancy rate by state, in a bid to use this as a barometer to measure the severity of the virus. There remain concerns about whether the health systems in each of these countries can cope. But there are hopes that with an "endemic strategy", the return to some semblance of normalcy and the resumption of businesses can help the region's economic recovery pick up pace.

1.3 Expectations for Growth, Trade and Manufacturing

Due to the Delta variant and the initial slow pace of vaccine rollouts, ASEAN economic recovery in 2021 will be slower than had been earlier projected. Indeed, as caseloads increased, ASEAN's manufacturing sector declined for three consecutive months in the period from June to August 2021.[7] At the same time, unemployment rose to unprecedented levels.

The options for ASEAN governments to boost growth while maintaining stricter restrictions on movement were limited. Most ASEAN governments face constraints in terms of fiscal policy and government stimulus, given rising public debt. In terms of monetary policy too, there are also limits given signs of inflation, especially in essentials and, more broadly, as signals grew that the United States (US) Federal Reserve would shift away from the low interest rate policies that had shored up many economic activities in the depths of the pandemic.

Consequently, many ASEAN countries show a strong dependence on external demand – which has returned to relative strength as compared to 2020. Rising commodity prices, such as for crude palm oil, have helped raise government revenues. Global supply chains that connect to these ASEAN countries have also picked up to meet the rise in demand from Western markets. Some sectors have even experienced shortages, such as for chips used in the automotive industry, and there have been urgent efforts to restart economic activity and manufacturing in ASEAN to meet those shortages.

Overall, foreign investors continue to show interest in ASEAN. A survey commissioned by Standard Chartered in July 2021, focusing on the US-ASEAN Corridor, which targeted senior executives at 40 US companies revealed that US corporates expect robust business growth in the region over the next 12 months, with 93 per cent of respondents expecting an increase in revenue and 86 per cent anticipating an expansion in production.[8] Investment numbers are indeed set to recover, judging by approvals of new projects across the region that can create more employment opportunities. Many expect that the economy will be able to recover from the trough of 2021 and grow more quickly in the months ahead.

1.4 Tourism and Border Reopening

One sector much in need of policies for reopening is tourism.

Thailand is one of the first countries to charge ahead with the launch of the Phuket Sandbox programme on 1 July. This allowed international visitors into Phuket without quarantine, while prioritising vaccinations for those working in the tourism sector and others living in Phuket, ahead of other cities and provinces across the country. The Phuket pilot did not achieve full success in terms of the numbers of international travellers and revenue, but the experiment has sparked interest and similar efforts are expected to begin in late 2021.

On 1 November, Thailand reopened to visitors from more than 60 countries without the need for quarantine, under certain conditions such as requiring visitors to download a phone application that will track their whereabouts, and more. Similarly, from 14 October, Indonesia moved to allow tourists from 19 nations to visit Bali and the Riau Islands and they can travel to other parts of the country after a three-day quarantine period.

In Malaysia, the first steps announced were focused on domestic tourism. The leisure island of Langkawi was reopened for domestic tourism on 16 September 2021 without the need for quarantine and under a pilot project, there are plans to open Langkawi to foreign travellers from 15 November.

Country	Notable Border Reopening Plans (end-2021)
Indonesia	• Under certain conditions, fully vaccinated travellers from 19 countries allowed to visit Bali and Riau Islands and can travel to other parts of the country after serving a three-day quarantine.
Vietnam	• Beginning in November, fully vaccinated travellers or those who have recovered from COVID-19 can visit five destinations in Vietnam i.e. Phu Quoc island, Da Nang, Quang Nam Province, Khanh Hoa Province and Quang Ninh Province. While no quarantine is mandated, masking and a self-administered rapid antigen test on the first day of entry will be required.
Malaysia	• Interstate travel allowed for fully vaccinated individuals. • Foreign travellers are still disallowed to enter Malaysia for leisure. • However, under a pilot project, from 15 November, Malaysia will allow foreign travellers from all countries to visit Langkawi under certain conditions.
Thailand	• From 1 November, fully vaccinated travellers from more than 60 countries can enter Thailand without quarantine under certain conditions. • Travellers from countries not within the list of countries can still enter Thailand through sandbox schemes in 17 Blue Zone provinces under certain conditions. • Unvaccinated travellers may also enter Thailand but must serve a 10-day quarantine at quarantine facilities.

The region's current emphasis of the tourism sector has been on tourists and international travellers, especially those from more developed countries. However, the reopening of borders for travellers from other ASEAN neighbours, and for other business reasons, is also expected to follow. Discussion of an ASEAN vaccination passport has resumed, and intra-ASEAN movements look set to increase in 2022. Notably, Indonesian President Jokowi called for expedited efforts for an ASEAN travel corridor during the ASEAN Summit held in October 2021. Still, harmonising standards and processes will take time and detailed work. Increasing intra-ASEAN movement for business, professionals, and other essential needs will be key to reactivating work in the region as an integrated production base and single market and assist cross border investment and supply chains.

1.5 Enabling the Digital Economy

While many sectors have been negatively hit by the pandemic and restrictions, others have gained momentum; none more so than the digital economy. Responses to the circumstances have hastened the adoption of digital technology across the ASEAN region. From utilising technology for contact tracing efforts to purchasing goods primarily online and embracing remote work using technology, digitalisation has permeated every domain of life and across a broad spectrum of companies and consumers. According to a report by Facebook and Bain & Co, 350 million digital consumers or 80 per cent of consumers in ASEAN, are expected to have adopted digital technology by the end of 2021.[9]

However, obstacles exist, including the lack of investments in digital infrastructure and unequal access. This has contributed to a widening digital gap within the region. Recognising the importance of digitalisation in the region's recovery, ASEAN leaders have agreed to negotiate the ASEAN Digital Economy Framework Agreement by 2025. This was further emphasised during the ASEAN Summit held in October 2021, where the region's leaders noted the imperative of digital transformation to boost the economy and improve society in the post-pandemic era. During the summit, ASEAN leaders also reemphasised their commitment to promote quality, accessibility, and affordability of digital connectivity in ASEAN and the implementation of the broader ASEAN Digital Masterplan 2025. In addition, the summit also saw the adoption of the ASEAN Leaders' Statement on Advancing Digital Transformation in ASEAN, which called for "strengthened regional digital integration and transformation to enhance the region's competitiveness, and turn the current pandemic crisis into an opportunity through digital transformation". These efforts are crucial to build a foundation for ASEAN's future economy, secure cross-border data flows, align digital rules and standards, and move towards a single and interoperable bloc.

The efforts are not only at the ASEAN level, but even more integrally, extend to the strategies within each ASEAN country. Even before the pandemic, these key ASEAN economies had unveiled plans to develop the digital economy and these ambitions have been reinforced.

1.6 Upgrading and Transformation Efforts

The urgency to ramp up international trade, commerce and manufacturing and move ahead with the digital economy intersects with a broader effort in these ASEAN economies: to upgrade their position in global supply chains, increase competitiveness, and move up the value chain as middle and upper-middle-income countries. In tandem with digitalisation, these efforts were growing before the pandemic and some countries are now explicitly increasing their commitment to such goals.

Perhaps the clearest case of this is Singapore, where the high-level Emerging Stronger Taskforce was convened, co-chaired by a government minister and a leading corporate CEO, to report on strategies to position the country to shift and grow as the pandemic receded. Vietnam, which has been a major recipient of foreign investment, also rolled out incentives to ensure that higher-valued industries would be anchored in the country. In Thailand, progress in terms of digitalisation and infrastructure has been emphasised. For Indonesia, efforts to help companies grow and link to global supply chains have been driving policies for smaller and medium enterprises. There have also been efforts to upskill and train its large and young workforce.

There are reasons to anticipate that these efforts will increase. A cross-cutting concern that is emerging will be whether this growth can be reconciled with climate commitments and sustainability. At the ASEAN Summit in October 2021, ASEAN leaders reaffirmed their commitment to the United Nations Framework Convention on Climate Change and the Paris Agreement, acknowledging the mutually beneficial economic opportunities as the region gears up towards decarbonisation and sustainability. This will be an increasing demand not only domestically, but especially where there are connections to supply chains, investors, and consumers in Western developed markets or from major Asian economies like Japan, South Korea, and China, which are also increasing their efforts to move towards carbon neutrality.

1.7 Political Stability

The pandemic has placed considerable social and political stresses on the ASEAN countries surveyed, and the surge in cases over the last months has increased those pressures. Several political crises have arisen in recent months, with mass street protests, even despite the pandemic restrictions. This has been most apparent and violent in Myanmar, following the coup on 1 February 2021. The situation in Myanmar is of major concern not only in political terms but also in terms of the concurrent danger that the unrest and turmoil will add to the already difficult pandemic situation. However, while the crisis in Myanmar is acknowledged as critical, it is an exceptional case because of the internal conflict following the coup and will not be covered in this report.

For the countries analysed here, the more common symptom is some degree of political protest and anti-government sentiment that has intensified or come about because of the surge in caseloads this year. Some countries have reported a drop in confidence in their leadership and there have been occasions of finger-pointing with slower than expected vaccine rollouts. Malaysia and Thailand are, in our view, potentially more challenging situations. In both, intense and divisive political contestation between incumbent governments and opposition was on the rise even before the pandemic lockdowns of 2020. Confidence in the government was further shaken as a result of the surge this year, and voices of dissent have intensified, often in favour of replacing the government for their alleged poor handling of the pandemic.

2. ASEAN-wide Efforts

ASEAN as a group has continued to add to efforts to address the pandemic. The work of the 2020 Special Summit and ministerial meetings agreed on information sharing efforts to increase intra-ASEAN cooperation on the pandemic. The ASEAN Comprehensive Recovery Framework (ACRF) and its Implementation Plan was adopted at the 37th ASEAN summit in November 2020. Its goal as a "whole of community" exit strategy for ASEAN from the COVID-19 crisis helped to address direct short-term priorities of COVID-19 such as reopening and recovery, as well as the long-term considerations of resilience, such as sustainability.

Regional Initiatives: COVID-19 Response and Recovery

Source: ASEAN Secretariat

In 2021, these regional initiatives continued, even as the surge numbers increased. The ASEAN BioDiaspora Virtual Centre provided regular updates through the COVID-19 Risk Assessment Report. In August this year, ASEAN ministers announced that the COVID-19 ASEAN Response Fund had pledged contributions of US$20.8 million.[10] Discussions to ease restrictions and open borders through the ASEAN Travel Corridor Arrangement Framework have been ongoing and emphasised again at the ASEAN Summit in October 2021 and can lay a useful foundation for action in the year ahead. We expect that ASEAN-wide efforts will be ramped up as countries move to endemic strategies and seek to reconnect while continuing to increase vaccination rates and keep their health systems viable. However, in 2021, national governments remained the primary actors responsible for pandemic response. As such, while ASEAN as a group remains significant, the next section of our report considers these country-level efforts in closer detail.

3. Indonesia

3.1 COVID-19 Situation and Endemic Policies

a) **Timeline of Infections and Reopening:** Indonesia recorded its first COVID-19 infections in March 2020, with cases exceeding 1,500 in the first month.[11] This prompted President Joko Widodo (Jokowi) to declare a public health emergency and enforce large scale social distancing (PPKM). By November 2020, the pandemic seemed under control. However, from January 2021, the daily caseload surged, and grew to an average of 10,000 cases a day.[12] In mid-May, there were signs of a respite. But with Ramadan and other festivities, infection numbers soon started to surge again, this time involving the spread of the highly infectious Delta variant. In July 2021, daily cases exceeded 40,000 and Indonesia emerged as the epicentre of the pandemic in Asia.[13] In response, lockdown measures were re-imposed by the government. This helped reduce daily cases significantly, to an average of 2,000 cases daily by mid-September.[14]

Like several other ASEAN countries, the Indonesian government announced hopes to shift away from a target of "zero COVID" and embrace an "endemic" approach. Since late August 2021, the government said it will be developing guidelines to "coexist with COVID-19".[15] Concrete plans are pending at the time this report was prepared.

b) **Vaccination Strategy:** Many recognised that vaccinations were necessary but would be an immense challenge for Indonesia, due to its huge population and logistical challenges to reach more isolated communities. The national vaccination programme started in January 2021, prioritising healthcare workers. By July, the elderly, public officials, and front-line workers were given access to the vaccines. The government commendably invested significant resources in providing free vaccinations and to speed up the roll-out efforts. As of the end of August, the Indonesian government was able to add capacity to administer an average of 1.2 million doses daily.[16] However, with its large population, the per capita vaccination rate remains low, with only 17.9 per cent of the population fully vaccinated at the end of September.[17]

Furthermore, the government's vaccination programmes are reliant on the Sinovac vaccine, which has limited efficacy against more contagious variants of the virus. To supplement this, the administration of President Jokowi has allowed private inoculation programmes, some of which offer AstraZeneca and Sinopharm vaccines.

3.2 Economic Outlook and Opportunities

a) **Reviving Economic Growth:** Indonesia's economy shrank 2.07 per cent in 2020, its first contraction since 1998.[18] For 2021, the economic woes deepened with the pandemic surge, with some reports of a low point of 5 per cent contraction. The International Monetary Fund (IMF) lowered its forecast for Indonesia's 2021 GDP growth by 0.4 per cent to 3.9 per cent in July.[19] Similarly, Indonesia's government revised its GDP growth forecast from around 4.5 to 5.3 per cent to between 3.7 and 4.5 per cent. Unemployment grew, reaching some 7 per cent in mid-2021. To support the poor, the government has increased the social safety net for Indonesians by 20 per cent, while healthcare expenditure has been upped by nearly 19 per cent.[20] While massive government stimulus packages have resulted in a budget deficit of 6.09 per cent of its GDP in 2020,[21] the government said it would return the deficit to within the legal limit of 3 per cent by 2023.[22]

b) **Manufacturing Picks Up:** Indonesia's manufacturing activity picked up in the first half of 2021, signalling a recovery of factory activity.[23] Manufacturing increased by 33.5 per cent year-on-year to US$81 billion from January to June 2021 as compared to the same period in 2020.[24] Notably, the manufacturing industry contributed 78.8 per cent of the country's total exports.[25] With low labour costs and a young population, Indonesia can capitalise on manufacturing trends. In June 2020, President Jokowi announced that seven foreign companies had confirmed plans to relocate production facilities, mostly from China.[26] Seventeen more companies representing a total potential investment of US$37 billion are also looking to open facilities.[27] Although foreign investors are sometimes wary of entering Indonesia due to excessive red tape, expectations improved following the Omnibus Law on Job Creation ("Omnibus Law") which supports the country's ambitions to move up the value chain.

c) **Infrastructure Prioritised:** With the pandemic, the government has prioritised infrastructure to try to spur economic recovery. The largest allocation in the 2021 budget has gone towards infrastructure and new initiatives have also been announced, including the issuance of Sukuk (sharia-compliant bonds) worth US$1.96 billion to finance 870 development projects.[28] In addition, despite the tourism slump, the government hopes to improve accessibility between tourist destinations, such as an airport expansion near Lake Toba in North Sumatra. As pre-existing regulations allow the government to finance only 30 per cent of these projects, attracting private sector investments will be necessary to move ahead. In its selection of foreign investment partners, how Indonesia will manage the geopolitical implications of such partnerships and garner local support and acceptance will bear watching.

d) **Digitalisation and Rising E-commerce Landscape:** The digital economy is especially promising in Indonesia, with its large population. Internet penetration rose from 64.8 to 73.7 per cent from 2018 to the second quarter of 2020.[29] A report from Indonesia's Ministry of Finance and the ADB suggests that technological transformations could add US$2.8 trillion to the economy by 2040.[30] According to another report by Bain & Co, Temasek, and Google, Indonesia's digital economy is poised by 2025 to reach a gross merchandise value of roughly US$125 billion – the largest part of ASEAN's potential of about US$300 billion.[31]

   To capitalise on this, Indonesia must improve its information technology (IT) infrastructure. According to the Speedtest Global Index, Indonesia was placed 114 out of 138 countries in terms of broadband speed as of July 2020.[32] Relative to ASEAN, Indonesia continues to lag in 5G technology to fully support the wide and deep penetration of the internet with quicker mobility capabilities. There are also questions about policies and regulations that could impact the growth of this sector negatively. In August 2020, a 10 per cent value-added tax (VAT) was also imposed on 16 foreign digital companies, including tech giants like Facebook, Amazon, and Netflix. Underdeveloped digital infrastructure and increasing protectionism prevent Indonesia from reaching its full potential in the digital economy.

e) **Reform and Transformation:** Integral to future growth in Indonesia will not only be the rollout of vaccinations but economic reform. The effort under President Jokowi is focused on the Omnibus Law which seeks to streamline overlapping business regulations to attract more foreign investment and boost the economy. Even with the pandemic, the Jokowi government has continued with its efforts to reform and has cleared obstacles for foreign investors. These policies will help transform Indonesia's economy from the existing, resource-based economy, and connect small and medium-sized enterprises (SMEs) – the backbone of Indonesia's economy – to global supply chains.

The Omnibus Law effects changes to labour regulations and several other areas that have been left near sacrosanct for many years and even decades, and there has been significant pushback against such reforms. Among ordinary Indonesians, a considerable percentage perceive the bill as harmful to the interests of the mass of working people, and only beneficial to the elites.[33] Facing growing sentiment and opposition, the Jokowi administration has acted swiftly and in a range of ways, including by deploying cyber-surveillance and cyber-troops to regain control of the online discourse and convincing Indonesians that the law would benefit citizens.

3.3 Political Outlook

a) **Jokowi's Approval Rating:** The Indonesian President has been remarkably popular. But surveys show a decline in his public approval rating, as evident from the hashtag #BapakPresidenMenyerahlah (#MrPresidentJustGiveUp) trending online. President Jokowi's popularity was steadily high in March 2020 soaring above 70 per cent, but in April this year, dipped to 64 per cent and eventually plunged to 59 per cent in August, according to a survey by Indikator Politik.[34] One reason is the perception that his administration has botched the management of the pandemic, especially with the 2021 surge. Notably, the government has been criticised for its belated public health measures, lacklustre testing and contact tracing efforts, as well as initial delays in vaccination programmes. President Jokowi had also received major pushback against the implementation of PPKM. Business owners and elites, even those close to the President, felt these were of limited effectiveness in combatting the pandemic while imposing large business and economic costs.

b) **Lack of Effective Opposition:** While the level of popular support for President Jokowi has declined, it may not be fatal to stability and the administration's ability to move ahead. This is partly due to the lack of real opposition. Even before the pandemic, the President had developed a coalition government that was extremely broad, including even his former rival in the presidential elections. Three former opposition parties defected to the governing coalition, drawing flak from political observers in what they described as the government's attempt of espousing the "divide-and-conquer" strategy to suppress opposition forces.[35] This continued into 2021 when the top aide to the President, Moeldoko was appointed the chairman of the Democratic Party.

There are effectively only two parties left outside the governing coalition: the Democratic Party or Partai Demokrasi (PD) and the Prosperous Justice Party or Partai Keadilan Sejahtera (PKS). The coalition of Jokowi now controls over 74 per cent of the parliamentary seats. In this regard, there are clear power blocks to help shore up political stability, despite the concerns of the pandemic surge as well as some opposition and protests to reform efforts. With global demand driving the resumption of manufacturing and export of resources, growth is expected and may well consolidate the position of President Jokowi and see his popular level of support rise again.

3.4 Key Considerations Looking Forward

a) **Reviving Tourism:** From 14 October, foreign travellers from 19 countries have been allowed into Bali and Riau Islands from 14 October and can travel to other parts of Indonesia after a three-day quarantine period. The plan was initiated following the sharp decline in daily cases nationwide in September. Despite the improving COVID-19 situation in Indonesia, the government maintains a cautious and gradual approach by planning to only admit tourists from low-risk countries. Health Minister, Budi Gunadi Sadikin said that the government's progressive reopening of borders would hinge on the country's vaccination rates and more reopening can be expected when at least 70 per cent of the target population have received the first dose of the vaccine. As of end-October 2021, the number stands at slightly more than 40 per cent.

   Besides banking on the reopening of borders, the government has also announced plans to revive domestic tourism. In May, the government said it would be sending 8,000 Jakarta-based civil servants to stay in Nusa Dua under a "Work from Bali" initiative.[36] This is in hopes of kick-starting economic recovery in Bali. While concerns of introducing new variants and restrictions on international travel still exist, locals have expressed the need to prioritise their livelihoods. In 2020, Bali's GDP shrank by 9.3 per cent, becoming the worst-hit province in the country.[37] It bears watching if the island can successfully open to tourists in time to come, given disruptions from the Delta variant in the current wave.

b) **External Demand and Perceptions:** The prospects for Indonesia will be strengthened with rising global demand, both in manufacturing and in key natural resources. Given this, and Sino-American competition leading to the search for non-China alternatives, Indonesia can actively seek foreign investment to support its economy to grow. However, perceptions will need to be managed to be transparent and yet to avoid again being labelled as the pandemic "epicentre". Assurances are needed about the government's ability to deal with the surge and reopening. On top of this, the planned reforms of labour and other key regulations, as set out in the Omnibus Law, need to be delivered, together with progress to build and upgrade infrastructure. This creates considerable expectations for the Jokowi administration not only for 2022 but towards and beyond 2024, when the current President leaves office.

c) **Jokowi's Successor:** Questions of who will succeed President Jokowi in the 2024 elections abound. Given the constitutional term limit, President Jokowi is unable to stand for re-elections. In the past, the ability of the incumbent president to deliver on reform and implement policies declined as elections approached. This is especially if the incumbent leader appears unable to effectively help appoint and back his successor.

   At present, many names have been put forward for the next elections. Some are within the cabinet and seen as closer to the President. Others are more independent from his influence, or even may be seen as opposed to him. These include Defence Minister Prabowo Subianto, who ran against Jokowi in the previous two elections; Jakarta governor Anies Baswedan; and Puan Maharani, daughter of former President Megawati Sukarnoputri. Political jockeying for the top position ahead of the 2024 Presidential elections is likely to start in the coming months. Many expect the next months to be a critical window for the Jokowi administration not only to get past the surge of 2021 and restart the economy but to deliver on economic policy reform and attract foreign investment. It would then be better placed to influence the selection of candidates for the next president and seal a legacy for the current administration.

4. Vietnam

4.1 COVID-19 Situation and Endemic Policies

a) **Timeline of Infections:** In 2020, Vietnam was held up as a model for its ability to curb the initial COVID-19 outbreak, with discipline and social support for strong measures, resulting in low, near-zero numbers. This has changed in 2021. Since 27 April, driven by the Delta variant, the country has experienced a surge of cases. Most cases began in the north, with prominent clusters in the industrial parks of Bac Giang and Bac Ninh, and a spreading impact to Da Nang, in the middle of the country. By late June, the situation in these industrial clusters came under control. But by then, the contagion had already spread across the country's biggest and busiest centres. By end May, Ho Chi Minh City in the south witnessed a spike in cases, and this key commercial hub became the country's COVID-19 epicentre.

In response, authorities resorted to measures that proved successful in 2020. These included social distancing rules and targeted lockdowns, enforced by the military. A policy titled 'Directive 15' suspended social events, banned gatherings, and required social distancing in public places.[38] People could only leave the house for emergencies or essential work and authorities even resorted to food distribution to limit movements. Yet despite the extensive and long "hard" lockdowns, the situation could not return to the previous low levels of infection.

b) **Vaccination Strategy:** A key challenge for Vietnam is the low vaccination rate among its people. Rather than procuring foreign vaccines, the government bet on developing national vaccines, with Nanocovax the front-runner. These remain in development and are under clinical trials[39] and therefore could not assist as the delta variant spread. As of 7 June 2021, near the time the surge began, only 0.04 per cent of Vietnamese were vaccinated. Nor were there sufficient vaccinations on hand. Vietnam has since stepped-up efforts to secure vaccines through a multipronged approach – tapping on the COVID-19 Vaccines Global Access (COVAX) scheme, donations and commercial contracts. President Nguyen Xuan Phuc made an appeal at the United Nations General Assembly (UNGA) for donations of COVID-19 vaccines as well as the need to prioritise the equitable distribution of vaccines.

As of 22 September 2021, 7 per cent of Vietnam's 98 million population had been fully vaccinated, with the country receiving 45 million COVID-19 vaccine doses so far.[40] A US$1.1 billion fund was set up in June to help cover the cost of Vietnam's vaccination programme.[41] At one point the government even appealed to businesses and individuals to volunteer donations.[42] Authorities have also encouraged larger private corporations to support vaccination of their workers, so as to prevent further disruption of production; several foreign conglomerates have responded, including Samsung, Toyota Motor and Foxconn.

c) **Endemic Reopening Plan:** Despite the ongoing effort to ramp up vaccinations, the strict lockdowns eased by the start of the last quarter of 2021. Higher vaccination rates in the country's capital allowed Hanoi to ease restrictions in late September, while the lockdown was lifted in Ho Chi Minh City at the start of October. Looking ahead, the Health Ministry is tasked to return to 'new normalcy' in 2022. Guidelines on easing restrictions and restoring activities will be provided to reopen the economy step by step in a controlled manner. Just as the lockdowns have been targeted, authorities have stated the need for localities to develop appropriate plans when loosening restrictions. Prime Minister Pham Minh Chinh has said it was impossible to control the pandemic completely and the country needs to "adapt and have suitable ways to respond to the situation"[43] by using vaccines and drugs in its long-term strategy.

4.2 Economic Outlook and Opportunities

a) **Growth Lowered:** Vietnam's economy had been comparatively strong in 2020, ending up with a record total of US$19.1 billion in trade surplus[44] and with positive GDP growth, at 2.9 per cent.[45] In the electronics sector, exports reached a record US$96 billion in 2020, accounting for a third of Vietnam's total exports.[46] The country began the year with the highest levels of optimism, projecting growth at 6.5 per cent. But prospects have been dimmed by the surge. By September, the Minister of Planning and Investment announced that GDP growth forecasts were lowered to 3.5-4.0 per cent for this year.[47] ADB forecasts were in agreement and were down 3.8 per cent.[48] Much of this was the economic cost of the extensive lockdowns, disrupting not only local consumption but also impacting the manufacturing and supply chain activities to export markets.

b) **Supply Chain Disruptions and Resilience:** The pandemic impacts were especially felt by manufacturers of garments and electronics. Adidas and Nike are facing hurdles in production as two big footwear suppliers – Taiwan's Pou Chen and South Korea's Changshin - were forced to halt operations due to the pandemic. Innovative efforts were made to keep manufacturing facilities operational. Factory sleepovers were initiated to try and contain the spread of the virus, with workers segregated into two shifts. Companies like Samsung brought in more workers to live in dormitories to try and cope with the restrictions. Even so, factories still operated with a reduced workforce and struggled to keep up production levels. At the macro-level, however, the Vietnamese economy showed considerable resilience. Even amidst the 2021 pandemic situation, trade numbers have remained strong with Vietnam's total trade value of goods up 33.5 per cent year-on-year in the first five months of 2021.[49] This is supported by strong economic recoveries in major markets, especially the US and China.

c) **FDI for the Future:** The challenges and impacts experienced by businesses operations and supply chains in 2021 could impact the future. Some foreign companies are already looking for immediate and alternative manufacturing destinations to try to cope with expected peak demand for the year-end. As early as mid-August, a survey by the American Chamber of Commerce in Vietnam found that 20 per cent of American companies had shifted part of their production out of the country.[50] Major tech suppliers such as Apple and Samsung have similar plans to diversify beyond Vietnam, after factories located in the industrial parks were closed. Nevertheless, economists forecast Vietnam should still attract some US$30 billion in foreign direct investment (FDI) this year, or a 2 per cent rise, year on year.[51] Vietnam's Investment Law, passed in January 2021 to cut business regulations, has likely contributed to attracting foreign investment; some US$9.55 billion had been injected into 804 newly licenced projects, up 13.2 per cent year-on-year.[52]

d) **Reform and Transformation:** Vietnam is still seen as an attractive destination and the problems of 2021 do not mean that foreign investors will turn away, volte-face. But the country had been the largest beneficiary from the shift of supply chains away from China and, unless the pandemic can be better addressed, more diversifications may seem warranted. This is linked to Vietnam's policies for manufacturing and technology, where the government has emphasised moving up the value chain, with various policies and incentives, especially for the electronics sector. The country has also continued to press ahead in digital transformation. Vietnam's National Party Congress has set a target for the digital economy to make up 30 per cent of GDP by 2030, compared to the current 8.2 per cent of GDP.[53]

e) **Domestic Consumption:** While focused on the export sector, another source of growth would be the country's domestic consumption, with its large population and emerging middle class, and the successful 2020 containment of the pandemic within the country. However, such hopes have been sharply punctured by the lockdowns of 2021. This has had a disproportionate negative impact on areas that depend on domestic consumption, and on SMEs and workers in the private sector. Moreover, the Vietnamese government has not provided the larger sums of social support that others in the region have – due to its limited coffers. Unemployment support is limited, lasting only a few months when the lockdown and its effects go on for much longer. Applications for financial support are assessed on a case-by-case basis, and often the public sector is given priority, leaving small businesses and the private sector in the lurch.

f) **Attempts to Restart Tourism:** Vietnam's tourism authorities attempted to move towards a tourism sandbox programme but so far, their efforts have been delayed. Foreign arrivals to Vietnam dropped to 3.8 million last year, from 18 million in 2019. A six-month trial plan to reopen the resort island of Phu Quoc to foreign tourists in October 2021 was pushed back until November. The goal to fully vaccinate all residents on the island has been thwarted due to the limited supply of vaccines. Yet, the country hopes to open up in three phases, starting from five tourist destinations in November, additional locations in January, and then a full reopening where no specific timeline has been set yet.

4.3 Political Outlook

a) **Political Transition Vietnam Style:** The Communist Party of Vietnam (CPV) works under a system of "four pillars" in which the Party Secretary-General, President, Prime Minister (PM), and Chair of the Vietnam National Assembly share power and responsibility. The PM is usually the most active and visible, especially to the business and foreign investor communities, but many commentators also underscore the importance of the Secretary-General behind the scenes. At the start of 2021, these appointments were renewed for the next five years by internal Party elections. Of particular note was the re-election of General Secretary, a position generally limited to a maximum of two five-year terms, and with an age limit of 65. Exceptions were made however with Nguyen Phu Trong's election for an unprecedented third term, and some have anticipated that he will continue to exert the major influence on key issues. Former Prime Minister Nguyen Xuan Phuc, reputed for driving strong economic policies, became the new president, but the other key positions will be held by figures who are less well-known outside the party. Hanoi's Communist Party chief Vuong Dinh Hue was elected Chair of the Vietnam National Assembly, while Pham Minh Chinh was chosen to be PM. Previously Pham was associated with security and intelligence agencies.

b) **Immediate Tests:** Incoming PM Pham Minh Chinh is driving pandemic containment efforts as the head of the National Steering Committee for COVID-19 Prevention and Control. More broadly, PM Pham has promised to largely keep key policies in place, continuing with anti-corruption measures, economic reforms, developing the digital economy, and improving conditions for industries and businesses.[54] It remains to be seen however how he will cope with the pandemic at this new stage as well as efforts to strengthen the economy after a 2021 performance that will be poor relative to expectations. At the time of this report, while the general policies to reopen have been emerging, details remain less clear; the American, European Union (EU) and South Korean chambers of commerce in Vietnam, as well as the US-ASEAN Business Council, have written to PM Pham asking for certainty in reopening plans.[55] The politics will be stable under the CPV. But the relative support and success of the different officeholders in the four pillars remain in question. So does the ability of the authorities to manage and improve the situation and move forward strongly and quickly.

c) **Sino-American Competition:** Beyond the domestic agenda, leadership in Vietnam will face pressures from the tensions between China and the US. The stated policy is to engage both sides and not to choose between them. Notably, however, ties with the US in recent years have grown, both in its economy and in political and security relationships. Indicative of this was the visit by US Vice President Kamala Harris to Hanoi, as part of her first visit to Asia and ASEAN (the only other country she visited was Singapore). With China, there are further complications. The two countries have competing claims to the parts of the South China Sea and yet maintain strong ties especially through their ruling Communist parties and share a long border with many flows of trade and people.

4.4 Key Considerations Looking Forward

a) **Business Concerns and Supply Chain Risks:** Prior to the COVID-19 outbreak, Vietnam was perhaps the most attractive China+1 destination, benefitting from foreign investor interest amid tense Sino-US relations. This was enhanced by the way that the pandemic was suppressed in 2020. But conversely, with the surge this year, questions have emerged about how securely Vietnam can maintain its position in the global supply chain. As noted, the lockdowns used to dampen the spread have hindered the resumption of factory activity and impacted workers and domestic consumption. Details for plans to better manage the pandemic situation and to spur recovery in 2022 will be critically evaluated by foreign investors who may be considering diversifying beyond Vietnam.

b) **Geopolitics in the Mix:** Vaccine diplomacy will have a stronger pull as Vietnam struggles to increase vaccination rates. The Sino-American tussle was seen in August 2021 with US Vice President Kamala Harris en route to Vietnam to announce a donation of 1 million doses, which was matched with China's pledge of 2 million vaccine doses.[56] The South China Sea will remain a point of contention, especially as Washington seeks to boost its presence in the Indo-Pacific. Vice President Harris had called on Vietnam to stand with the US against China's "bullying" to which Chinese Foreign Minister Wang Yi in a visit soon after said Vietnam needs to watch out for outside interference.[57] Although the refrain from Vietnam will likely be not to choose between the two great powers, Hanoi's recovery efforts and political direction will include geopolitical considerations.

5. Malaysia

5.1 COVID-19 Situation and Endemic Policies

a) **Timeline of Infections and Delta Surge:** Malaysia confirmed its first cases of COVID-19 in January 2020 and reports of local transmissions soon emerged. By mid-March 2020, a surge of cases in Kuala Lumpur resulted in the country entering a Movement Control Order (MCO). Cases continued to rise, and after a period of relaxation, the government ordered a second nationwide MCO. Starting from January 2021, a State of Emergency was ordered to last till 1 August 2021 – totalling more than seven months of lockdowns and heavier restrictions. While MCO 2.0 initially helped bring down daily case numbers, this was short-lived; infection numbers rose again in April 2021, during Ramadan with increased social interactions. By May, Malaysia had detected its first case of the more contagious Delta variant and the government reimposed the nationwide MCO.

Criticism grew about the government's confusing directives and indecision, and its u-turn back to enhanced restrictions after allowing exceptions, which impacted the effectiveness of the MCO. From July 2021 onwards, infection cases surged exponentially and in August, cases were at an all-time record high surpassing 20,000 people. The total number of COVID-19 infections has passed two million, with over twenty thousand deaths recorded. While case numbers are now no longer increasing exponentially, improvement to date has been non-linear and levels remain high.

b) **Vaccination Strategy:** Malaysia kicked off its mass inoculation exercise in February 2021 with the first batch of Pfizer BioNTech vaccines. Its vaccination programme prioritised healthcare workers under phase 1 and the elderly and those with chronic diseases under phase 2. Malaysia has been reliant on three main vaccine types: Pfizer BioNTech/Cominarty, AstraZeneca and Sinovac, with the latter being phased out due to efficacy issues. While the programme suffered delays, the government now appears on track to inoculate 80 per cent of its population by the end of 2021, or February 2022 at the latest. As of mid-September 2021, 78.2 per cent of Malaysia's adult population has received both doses of the COVID-19 vaccine, with 93.1 per cent having received at least one dose.[58] The government has also started administering booster shots to high-risk individuals such as frontline staff and the elderly at the end of September 2021. This creates a relatively good basis for the reopening of the economy.

c) **Endemic Reopening Plan:** The Malaysian government has announced that it would treat COVID-19 as an endemic disease from the end of October 2021, tied to the rising vaccination levels. Most sectors, including domestic tourism, are expected to fully reopen. Consistent with an endemic approach, the government will de-emphasise the total number of cases and instead focus on the number of people afflicted with serious illness and hospitalised. Regular testing, a mask mandate and home quarantine will be key measures taken by the government as Malaysia pursues an endemic strategy. There are similarities with the approach that is evolving in Singapore.

5.2 Economic Outlook and Opportunities

a) **An Undeclared Economic Crisis:** At the start of 2021, the Malaysian government forecasts were highly optimistic, predicting 6 to 7.5 per cent growth year-on-year.[59] This did not materialise. Indeed, the extended on-off lockdown measures and surge in cases were sharp hits. In August, Malaysia's central bank downgraded its 2021 growth forecast from 3 to 4 per cent,[60] the sharpest downgrade amongst key ASEAN economies.[61] It is estimated that more than 300,000 people have lost their jobs in the retail industry and 30 per cent of shops have shuttered permanently.[62] The economic distress culminated in the #BenderaPutih or the "White Flag" movement, where financially struggling Malaysians hung white flags outside their homes to signal that they needed financial help.[63]

A total of US$127.7 billion of economic stimulus had been promised since the onset of the pandemic.[64] This includes four stimulus packages announced last year and three stimulus packages released this year. The government is expecting a fiscal deficit of 6.5 per cent and 7 per cent in 2021, higher than initial estimates of 5.4 per cent.[65] To cope with the economic impact of the pandemic, Malaysia's cabinet is proposing to raise the government's statutory debt ceiling to 65 per cent of the country's GDP and add another US$10.8 billion to its COVID-19 fund.[66] Despite the size of these measures, there was little effect in stimulating the economy and the protective effects on many sectors of the economy and among the poor and lower middle class were not apparent.

b) **Plans to Revive the Economy:** Under the Muhyiddin administration, the government announced the National Recovery Plan (NRP) in late August 2021 as a roadmap for the country to exit the pandemic. The plan has four broad phases, which would see the reopening of sectors and loosening of social restriction rules based on vaccination rates in individual states. Despite the change in leadership, much of this may remain under the administration of new PM Ismail Sabri; the NRP has been adopted and Muhyiddin will now serve to lead the National Recovery Council. However, Ismail Sabri cautioned that the NRP was "not fixed and is a dynamic plan".[67] The government unveiled the 2022 national budget, the largest ever, in October. The Sabri government plans to spend US$80.06 billion, focused on cash relief schemes for households, boosting the healthcare sector, aid for businesses and the tourism sector as well as sustainable initiatives such as developing the local electric vehicle industry, to revive the economy.[68]

c) **Reform and Transformation:** Even prior to the pandemic, there was a general lack of a comprehensive approach towards reform. Except for some clusters, such as Penang for electronics, many sectors are not globally competitive. Malaysia's economy is largely reliant on its resource sectors and there is a danger that Malaysia will be stuck in the middle-income trap. While the Sabri government has unveiled the 12th Malaysia Plan, a five-year development plan, critics have argued that the plan does not address urgent reforms required to spur Malaysia's economy such as revitalising SMEs and reforming government-linked corporations (GLCs).[69] Instead, the plan looks to increase Bumiputera's equity in non-Bumiputera firms which might impact Malaysia's investment climate. The continuous politicking and succession of short-term leaderships further affect Malaysia's reform efforts.

5.3 Political Outlook

a) **Change in Prime Minister:** Malaysian politics has witnessed an increasing schism between the United Malays National Organisation (UMNO)-led coalition that has ruled the country since its independence, and a new coalition of diverse opposition, the Pakatan Harapan (PH). The PH upended Malaysian political history by winning the 2018 elections. But thereafter further schisms arose within that led to a splinter group of MPs supporting Muhyiddin Yassin of the Bersatu Party to take over as Prime Minister, with support even from UMNO as part of an all-Malay coalition. PM Muhyiddin came into office as the pandemic first hit Malaysia and his administration struggled to prove that it commanded a working majority in Parliament and also in relations even with UMNO, which held more seats in Parliament. As the surge of cases grew, more questions surfaced concerning public support. In August 2021, political instability led to his resignation. Subsequently, there was clear contestation among several candidates vying for the premiership by appealing to different factions.[70]

The month-long political in-fighting ended when then-Deputy Prime Minister Ismail Sabri of UMNO garnered enough support, albeit only by four more seats than required. This has returned UMNO to the leadership of government even as the Bersatu party of former PM Muhyiddin continues as a junior partner of the ruling coalition. Many analysts believe that the new government will continue to be fragile, given its slim majority in Parliament and the underlying political contestation. PM Ismail Sabri, while supported by political factions, has not galvanised popular support. A sign of this came days before his appointment, with an online petition against his ascension garnering over 333,000 signatories. One reason for this is that many Malaysians believe Ismail Sabri to be unfit to lead, based on his tenure as Deputy Prime Minister, when he instituted confusing and conflicting health protocols.[71] Moreover, the new cabinet line-up has largely remained the same, with four senior ministers and the finance minister being retained. Amidst heavy criticism towards Sabri's recycling of the previously failed cabinet, it appears that cabinet selection reflects the careful balancing needed to appease tensions within the coalition that comprises of UMNO, Bersatu and other parties and factions within them.

b) **Bipartisan Cooperation:** However, a positive development emerged in September 2021, with a Memorandum of Understanding between the government and the PH opposition coalition. Rather than the opposition trying to sway votes towards regaining power, the main objectives of this unprecedented MOU were to effectively manage the COVID-19 crisis and to spur economic recovery by creating a conducive investment climate. The government has also promised reforms to limit the tenure of the Prime Minister to ten years, providing equal funding for MPs on both sides of the aisle - government or opposition – and enacting an anti-hopping bill so that MPs cannot switch allegiances easily. Yet while appearing to be a positive development, the durability of this unique government-opposition MOU remains to be seen. Critics have pointed out that although the bipartisan deal sounds promising, this would mean that the government's powers would be left unchecked with effectively zero or little opposition. Moreover, if the government fails to manage the pandemic well and revive the economy, the opposition would also risk bearing the brunt of the failure due to the agreement. So too does the question of oversight to ensure equity and effectiveness in government spending and measures. If the PH opposition is seen to be ineffective, this might cast doubts over their chances of winning the next election, tentatively set to be in 2023.

c) **Public Sentiment:** Amidst the surge and the in-fighting among political factions, public sentiment has been negatively impacted. According to a survey by Merdeka Centre, 64 per cent of the respondents believe the country is headed in the wrong direction, which is double the level in June 2020.[72] The same survey suggests 61 per cent of the participants polled were dissatisfied with the government's handling of the pandemic, a drastic turnabout from 2020 when an overwhelming 93 per cent of respondents said they were satisfied. With public impatience growing, PM Ismail Sabri faces an immense and urgent agenda to effect political and economic reforms as well as flatten the COVID-19 curve, all while keeping the different factions on side.

5.4 Key Considerations Looking Forward

a) **Stability of Government:** The current government has done relatively well by expediting the vaccination programme, and a further decline in cases in the coming months is expected. Moreover, following the political in-fighting, it is expected that most will prefer a period of stability, even if only temporary, and there are some who will welcome back UMNO as an experienced political force that is less likely to "rock the boat".[73] Additionally, some in the cabinet do enjoy a good level of public approval; for example, the appointment of Khairy Jamaluddin as Health Minister has also been well-received by most Malaysians as his past performance in overseeing vaccination efforts was commendable. If the Sabri government can be effective in handling the pandemic and reopen the economy, this will effectively remove two of the sharpest thorns of complaint. If that is done, and the MOU agreement continues between the opposition and government, political instability should decline.

   The new PM has also sought to accommodate those within his own coalition, for example by appointing ousted PM Muhyiddin Yassin as the chairman of the country's National Recovery Council. However, the problem lies in the lack of synergy between the disparate figures. PM Ismail Sabri will need to manage the dynamics between the many and different individuals and factions which are often opposed to one another.

b) **Wavering Business Optimism:** In this period, confidence in Malaysia's economy has wavered, and quite understandably so. The 2020 FDI figures coming into Malaysia recorded were down 54.8 per cent, at a net inflow of RM14.6 billion (US$3.52 billion).[74] Much of this is thought to be due to the Delta variant, inconsistent messaging from the government and incoherent enforcement of the standard operating procedure (SOP) across agencies. Nonetheless, Malaysia is still showing signs of economic resilience. In June 2021, S&P Global Ratings affirmed Malaysia's "A-" long-term and "A-2" short-term sovereign credit ratings. It has also affirmed its 'A' long-term and 'A-1' short-term local currency ratings on the country.[75] There is also still a chance for the manufacturing sector to revive by capitalising on the post-pandemic global surge in demand for electronics.

   There are also longer-term and structural issues for the country. In March, the World Bank reported that Malaysia will likely cross the high-income country threshold by 2025 from an upper-middle-income economy and would require structural reforms to attract investment.[76] One example of this, highlighted by the World Bank, is the country's inclusiveness to increase women's participation in the workforce, which remains low compared to its peers.

6. Thailand

6.1 COVID-19 Situation and Endemic Policies

a) **Suffering the Surge:** Thailand was initially doing well in containing COVID-19 but this changed with more infectious variants. From April 2021, infections that started from entertainment venues in Bangkok spread quickly countrywide. This peaked in August with an average of more than 20,000 cases daily.[77] More than 1.5 million infections and 15,000 deaths were reported for 2021 at the time of this report, 99 per cent of which occurred after April.[78] From September, however, there have been more hopeful signs, with daily caseloads and deaths declining and an increasing number of recovering patients.

b) **Vaccination Pace and Novel Strategies:** The impact was more acute because Thailand faced a shortage of vaccines at the initial stages. This can be attributed to delays in the domestically manufactured AstraZeneca vaccine. This is still being ramped up, but Thailand's vaccination programme has picked up pace. As of 25 September, more than 44.45 per cent of Thailand's population have received at least one shot of the vaccine and 23.9 per cent of the population have been fully vaccinated – totalling more than 16.6 million people.[79] Vaccination capabilities are expected to improve further, and the government predicts it will vaccinate 70 per cent of the population against COVID-19 by the end of 2021.[80]

   Thailand's vaccinations began by using the Sinovac vaccine but concerns over its efficacy against the Delta variant surfaced when more than vaccinated 600 healthcare workers were nevertheless infected.[81] This prompted the government's decision to administer a second dose of AstraZeneca after a first dose of Sinovac and, while some authorities question this practice, Thai officials claim that the new regimen is safe, rolling it out to some 1.5 million people.[82] In another innovation to stretch supplies, booster shots were administered under the skin, instead of injecting them into muscles, as one vaccine dose can be used for five intradermal injections.

c) **Endemic Policies:** With the surge in cases caused by the Delta variant, Thailand saw a tightening of restrictions in July 2021, including work-from-home orders, closure of shopping malls, curfews imposed on restaurants, markets, convenience stores and public transit, amongst others. However, with vaccinations ramped up in August, Thailand announced a shift in strategy to "live with COVID-19".[83] This decision was largely driven by economic needs. From 1 September, Thailand eased COVID-19 restrictions countrywide, allowing for larger gatherings, more dine-in flexibility, and inter-provincial travel. The extent of relaxations depends on whether a particular state or province has been classified as higher or lower risk. The country will now focus on containing infections to a level that the public-health system is able to cope with and look to increase the efficiency and effectiveness of contact tracing. Despite this, the government has extended its nationwide State of Emergency, which has been in place since March 2020, until 30 November 2021. In part, analysts suggest that this was also because of the political tensions and protests (see below).

6.2 Economic Outlook and Opportunities

a) **Growth Expected with Reopening:** Thailand suffered a 6.1 per cent economic contraction last year, with tourism and tourism-related businesses hit especially hard. For 2021, the government forecasts the economy will grow by only 0.7 to 1.2 per cent as the surge in cases has affected consumption and tourism numbers. What sustained the economy were strong non-agricultural output and exports, as global demand recovered beyond expectations.[84] In May, the National Economic and Social Development Council said it expects exports to rise 10.3 per cent this year, up from an earlier forecast of 5.8 per cent.[85]

With restrictions easing, the economy should again pick up pace in the third and fourth quarters, with consumption numbers already showing improvements, alongside ongoing government spending and support for households and businesses.[86] Investment numbers lend further optimism, with foreign investment applications expected to reach 600 billion baht (US$18.12 billion) this year, a five-year high.[87] In mid-September 2021, the ceiling of the public debt-to-GDP ratio was raised from 60 to 70 per cent, allowing for more social support schemes for rural communities and further borrowing to boost economic multipliers such as an existing co-payment scheme, loan guarantee scheme, and other relief subsidies.[88]

b) **Prioritising Infrastructure:** Thailand will accelerate infrastructure construction, especially in the Eastern Economic Corridor (EEC), with aims to boost connectivity, attract investments, create jobs, and recover from the pandemic. There is hope that investors' interests will increase if there is progress in the country's transport routes and key infrastructure. Last year, the EEC office also announced plans to consider increasing its investment targets to capture emerging opportunities such as new trade agreements, interest in 5G, policy changes in the new US administration and the promotion of green industries.[89] In addition, the government is also expected to pursue the Southern Economic Corridor and North-eastern Economic Corridor developments. The public-private partnership model remains Thailand's primary method of financing infrastructure. New players such as CP Group, BTS Group and others are expanding to enter the infrastructure market, and more competition is expected in future.[90]

c) **Reform and Transformation:** With plans for Thailand 4.0 announced at the start of the Prayuth administration, Thailand hopes to boost its overall competitiveness by moving away from heavy industries towards a value-based economy driven by innovation, technology, and creativity. Indeed, it has made progress on this front. To make internet access more equitable for its citizens, the government launched the Village Broadband Internet scheme in 2017, expanding high-speed internet network throughout the nation. At present, all Thailand's 74,987 villages have access to high-speed internet networks, which allow users to access the government's e-services on healthcare, e-business, and e-banking applications.[91] Earlier this year, the government also designated the internet as part of the country's basic infrastructure and pledged to lower the cost of internet services to enable lower-income groups to have access.

At the business level, the central bank and the Ministry of Finance launched a peer-to-peer lending platform in early 2020, aimed at strengthening start-ups and the small and medium-sized enterprise sector.[92] Going forward, Thailand's plans to become ASEAN's digital hub indeed bears watching, and its ambitions will be supported by Huawei Technologies (Thailand) Co., Ltd. which has committed to help Thailand develop its digital economy and become ASEAN's digital hub.[93]

6.3 Political Outlook

a) **Anti-Government Sentiments Still High:** Thailand seems less assured in terms of its political situation. In 2020, pro-democracy protests attended by tens of thousands and led by youths took centre stage, fuelled by anger over the dissolution of the popular pro-democracy Future Forward Party, impacts of the pandemic and a lack of human rights. By December 2020, however, things quieted as protest turnout declined considerably and the protest leaders declared "rest".[94] In 2021, the public protest movement has not returned in strong numbers, but Thailand's democracy movement returned to the streets of Bangkok on 24 June 2021. The protests are ongoing with several key demands unmet, including calling for the resignation of Prime Minister Prayuth. There is an anti-government, anti-elite sentiment that is driving protests and even if not mobilised in the streets, discontent remains at a higher plateau than before. Political disaffection has grown following the country's most severe pandemic wave and large-scale protests may restart as restrictions ease.

It remains to be seen how the Prayuth administration responds. In earlier protests, authorities exercised restraint, but measures were then stepped-up, with the government arresting dozens of protesters. Legal actions under Section 112 of the Thai Criminal Code for lèse-majesté offences remain in use. In January 2021, a retired civil servant was sentenced to a record jail term of 43 years and six months for sharing an audio clip deemed critical of the monarchy. With protests intensifying and becoming increasingly violent, the government has started to adopt a "zero tolerance" policy against dissidents, with more than 600 people facing charges for their connection with the protests. Police have been searching CCTV footage for more students to charge, instilling fear in those attending protests.

b) **Divide and Pacify:** There is a view that the elites are adopting a strategy of "divide and pacify" to dilute protests. Some have noted that the ex-wife of former PM Thaksin Shinawatra was granted a royal audience in September 2020. While this was said to recognise her charity work, it is speculated that the Palace was seeking to prevent the Reds from joining fully with the youth protesters. Speculations increased after the Administrative Court acquitted PM Yingluck Shinawatra over her controversial rice subsidy programme in April. Her acquittal partly appeased the Red Shirts. Indeed, less unity will cause the movement to lose momentum. The Reds have centred their grievances on the military-backed government and are reluctant to push for reform of the monarchy, unlike the youths. The use of violence and profanities by younger protesters have also alienated more conservative and older Thais.

c) **Fragmentation of Leadership:** PM Prayuth continues to rely on the support of the Phalang Pracharat Party (PPP) and a coalition that was tenuously pulled together with a relatively small majority. Some see signs that this support might fracture, following the no-confidence vote held on 4 September 2021, with implications for Thai politics. Although Prayuth survived the vote along with five of his ministers, he narrowly escaped a plot of "political assassination" reportedly masterminded by PPP Secretary-General, Captain Thammanat Prompao, with the aim to nominate the current DPM Prawit to take over the premiership and gain key portfolios in the new cabinet.[95]

However, several of the PPP ministers defected and alerted the PM, who was able to respond and assert that he continued to enjoy the King's confidence. The plot to take over lost steam with DPM Prawit publicly stating Prayuth that he did not want to be the premier and pleading ignorance to the scheme. After surviving the vote, Prayuth sacked the instigators from his cabinet. Nonetheless, the attempted revolt has clearly exposed vulnerabilities and growing splinters in the PPP and a possible parting of ways between PM Prayuth and DPM Prawit. Internal politicking may well intensify as some anticipate that general elections may be called in 2022, or early 2023 at the latest. This internal politicking adds to the pressures of having to address the pandemic, reviving the economy and dealing with the opposition and public protests. Add to this the stress of flooding and impacts on the farming and rural communities.[96] Some expect PM Prayuth's leadership to weaken further. If there are missteps on the pandemic and the economic reopening, the current administration may not survive long.

6.4 Key Considerations Looking Forward

a) **Restarting Tourism:** Tourism accounted for about a fifth of Thailand's GDP before the pandemic and the sector was severely impacted in 2020. Moreover, it did not recover in 2021. The total number of tourists for the year is now projected to be just 150,000 foreign tourists, far short of an earlier forecast of 3.2 million.[97] The severity of this drop in numbers can be seen when looking at pre-pandemic numbers, with nearly 40 million foreign visitors in 2019.[98] Thailand's once bustling tourism industry has been decimated, impacting not only the larger hotel and other tourism-related businesses, but the broadest cross-section of small and micro-businesses and lower-wage workers.

It is against this backdrop that the government made urgent efforts to experiment with the "Phuket Sandbox" in July 2021 where fully vaccinated international tourists would not need to serve quarantine upon arrival in Phuket. The relative success of the pilot scheme has seen the government further loosen border restrictions. On 1 November 2021, Thailand began reopening borders to fully vaccinated foreign tourists from more than 60 countries without the need for quarantine under certain conditions such as testing, insurance coverage and downloading a phone application that will track their whereabouts as they tour the country. As of 1 November, almost 45 per cent of Thailand's population has been fully vaccinated and it is estimated that by the end of the month, the number would rise to 60 per cent.[99]

The overall direction and imperative to reopen is clear and urgent. Clearly, the Thai government is strategising to bring back tourists, but analysts say it will likely take four to five years before tourism would see a return to pre-pandemic levels.[100] There is also considerable apprehension and pushback to the plans to reopen among segments of society, including amongst the upper middle class and some of the elite. Besides health concerns, these segments may depend less so directly on tourism revenues. There are also some who do not have confidence in the Prayuth administration to implement the reopening strategy effectively and safely. In a recent poll conducted by the Suan Dusit Rajabhat University, more than a thousand respondents were asked what they thought about plans to reopen the country to fully vaccinated foreign tourists from 1 November, but approximately 60 per cent rejected the plan, saying that it was not the right time to reopen.[101]

b) **Managing Dissent:** The current wave of protests in Thailand differs from the protests in past years. Elements among current protesters dare to directly question the monarchy and appeal to a younger and more urban demography. The current situation may shift even more when the nationwide State of Emergency, in place since March 2020, is expected to be lifted by end 2021.

On top of public protests, which capture attention, much of the dissent has moved onto digital platforms, which are now key tools to raise political awareness, crowdfund, mobilise, and sustain the movement. The mobile app Clubhouse has gained especial popularity despite the Thai government having warned users that they may face legal consequences for misusing the app. More than a million people or 1.5 per cent of Thailand's population have also joined a Facebook group called "Migrate" to discuss ways to leave the country.[102] Support for the Prayuth Government is in decline and political pressures on his administration are expected to continue. The economic impact of the pandemic is widespread and unless growth prospects meet expectations, resentment will intensify and spread beyond the hardcore opponents and political opposition to the wider society.

Conclusion

The pandemic in 2021 has taken a severe toll on the ASEAN countries surveyed in this report, with millions infected and many fatalities. While the worst of the surge appears to have passed, recovery will depend on pandemic management and especially the pace and efficacy of vaccinations (alongside risks of new variants emerging). Notably, Brunei, the incumbent ASEAN Chair, highlighted during the ASEAN Summit in October 2021 that upholding multilateralism, focusing on post-pandemic recovery and vaccine procurement will remain key themes for the region going forward. As this report shows, the four ASEAN governments are moving ahead to reopen their economies and to treat the virus as endemic, even if not all have said so explicitly.

They may not be fully prepared, not least with vaccination efforts ongoing, and the path ahead will be difficult. But reopening is essential. This is not only because of the limits to government support, but also because otherwise, there would be too much to lose for businesses and workers. Conversely, with reopening, there can be much to gain for the overall economy. As noted in this report, considerable potential gains arise not only from the domestic sources of growth of these countries and the region but are also partly driven by the increase in global demand and supply chains that run through ASEAN. In addition, there is a silver lining from the US-China competition that brings special interest to invest and work with ASEAN and its member states.

Yet even though reopening can assist economic prospects, there will be concerns and potential pushback. Health considerations remain and there are foreseeable scenarios where reopening may increase the virus spread, resulting in more severe cases and deaths among the unvaccinated. This is especially since vaccination levels remain low in some countries and communities. There is also the question of efficacy for some of the vaccines currently in use, especially in relation to the Delta variant. There is reason therefore to fear that cases will increase as the economy reopens, and health systems may be strained or even overwhelmed. Among the countries surveyed in this report, only Indonesia and Malaysia have suffered that scale of impact in 2021. While Thailand and especially Vietnam have been spared thus far, their populations are unlikely to have developed natural immunity and thus may not be well prepared for the risks of reopening.

These health risks relate to other risks concerning social and political stability as well. Such dangers were already emergent in Thailand and Malaysia, as pre-existing political schisms were further stressed by the handling of the pandemic. Social anger also grew in Indonesia, although to a smaller extent, as the political sentiments remain largely stable under President Jokowi despite the country suffering some of the worst pandemic impacts in both health and the economy. Perhaps the least politically turbulent amongst the countries covered in this report is Vietnam, with its strong sense of nationalism, as well as the recent change over in political leadership shoring up unity in the face of the challenges.

Even as these four countries move to endemic strategies, together with Singapore and others, reopening at a regional level too will not prove easy. For example, harmonising standards and procedures to make the ASEAN travel corridor a reality will take time and work. Yet, that step will be critical in restarting intra-ASEAN connectivity, and facilitating the flows of goods, services, and people. Pre-pandemic, the region recorded the world's largest flows of people across borders. This included not only tourists, but also workers – be they short-term or longer-term workers, documented or undocumented. More broadly, reopening borders will be essential to the future of the ASEAN Community for economic integration, anchoring supply chains for ASEAN to be a single production base, people to people exchanges and in many other dimensions.

As vaccinations progressively roll out and economies start to reopen, there are real reasons to anticipate the region's recovery in the months ahead. The prospects of ASEAN's key economies matter not only to their own citizens but to the region and to Singapore as a hub, partner, and investor. As such, reading this report together with the SIIA's report on Singapore's growth strategy titled "New Horizons: Global and Regional Strategies for Singapore's Future" (published in September 2021) will be beneficial. A deeper appreciation of the development priorities and capabilities of our neighbours is critical to understanding Singapore's function as a hub, as ASEAN seeks to recover from the pandemic and the surge of 2021. There are areas for synergies and partnerships, which are vital for recovery, and these opportunities as well as risks will grow in the months ahead.

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