

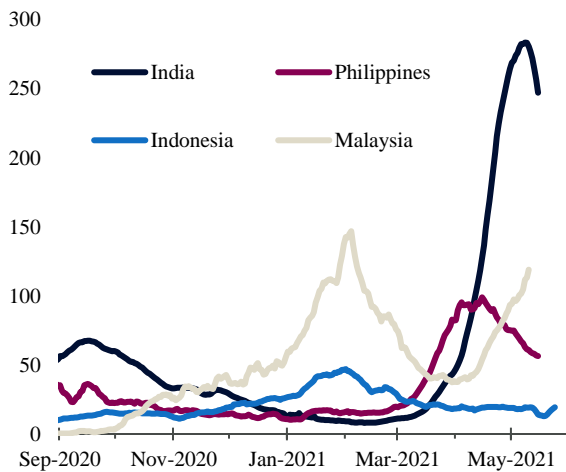
New Covid-19 variants are challenging the economic recovery in Asia

The global economy appears to be experiencing a strong recovery from the peak impact of Covid-19 in 2020. The IMF is even [forecasting a recovery that would see global GDP grow by 6% in 2021](#). The global recovery has, so far, been [led by the US and China](#) with European growth lagging behind. Nevertheless, approaches to [managing the pandemic](#) and providing policy support vary considerably across countries.

While last year Asia was leading the world in effectively managing the pandemic, this picture has been turned on its head by a surge in Covid-19 cases caused by new, more infectious “variants of concern”.

This week we unpack the underlying reasons for this turn-around by considering: the surge in new Covid-19 cases; key sectors driving growth (tourism and manufacturing); and progress with vaccination campaigns.

Daily new confirmed Covid-19 cases in Asia
 (Per million people)



Sources: IIF and QNB analysis

Last year, Asian countries managed to keep the number of new Covid-19 cases very low, focusing on contact tracing and rapidly imposing localised lockdowns. This allowed them to avoid imposing as stringent national lockdowns for as long as it was necessary in Europe and the US. Unfortunately, Asia is now experiencing some of the strongest surges in new Covid-19 cases globally (Chart 1). A new, more

infectious variant of Covid-19, first discovered in India, is at the heart of the new outbreak in Asia. This created a domino effect with the new variant making its way into Malaysia and then also into Thailand, causing a dramatic increase in the number of infections. Having gone 99 days without a single case of community transmission in 2020, new cases in Thailand have recently increased to over 9,000 per day. Even Singapore and Taiwan have experience a surge in cases from virtually zero at the start of the year. Both countries were among the first to ban foreigners and impose strict quarantine measures. However, complacency with regards to contracting tracing and monitoring of people in quarantine have allowed new variants into the community. In contrast, the situation in the Philippines and Indonesia has improved due to long periods of lockdowns in the capital and outlying regions.

There are trade-offs involved in the details of lockdowns as authorities are reluctant to impose full lockdowns, preferring to keep key industries open. However, comprehensive lockdowns have been shown to be more effective at reducing infections. Therefore, there is a risk that a partial approach to lockdowns will be less effective and they will need to be maintained for longer.

The services sector (including tourism, recreation, hospitality and leisure) will still suffer most from the new restrictions. Continued bans on tourist arrivals and will further delay the recovery of the hospitality and tourism sectors. In addition, the re-introduction of social distancing restrictions, including the closing of schools, bars and restaurants will contain domestic spending on services.

In contrast, the manufacturing sector is insulated from most restrictions as factories are expected to remain open. Export orientated economies are currently benefiting from strong global demand. More specifically, strong demand for electronics continues to support economic activity and is likely to continue for a few more months as the backlog of orders is worked through. However, we expect demand for consumer goods (such as electronic items and other household items) to soften in Europe and the US as restrictions on economic activity are

removed. Therefore, countries which have benefited from strong external demand for consumer goods will likely find that this growth driver fades towards the end of the year.

The surge in Covid-19 cases and new restrictions have weakened the outlook across Asian economies, but a successful vaccination rollout would be a game changer. Unfortunately, progress so far has been slow. Only China, Hong Kong and Singapore have vaccinated more than 10% of their populations and some countries have not yet vaccinated more than 1%. Effective vaccines offer a way out of the crisis. The slow rollout raises doubts about how quickly Asia can vaccinate a sufficient proportion of its population to avoid another surge of cases and restrictions later this year.

Countries most dependent on tourism have been economically hardest hit by new variants of Covid-19. In addition, the current strength of external demand for consumer goods that has been boosting exports is likely to fade as consumption rebalances towards domestic services in the US and Europe. Therefore, the economic outlook in Asia will depend critically on the pace of vaccination during the remaining months of 2021 and likely also 2022.

QNB Economics Team:**[James Mason*](#)**Senior Economist
+974-4453-4643

* Corresponding author

[Luiz Pinto](#)Economist
+974-4453-4642

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