

In this market note, Sue Trinh, Senior Macro Strategist, Manulife Investment Management, examines the immediate impact of COVID-19 on markets in Southeast Asia. She also assesses the potential longer-term effects of the outbreak on the region’s economies. Particular attention is paid to GDP growth in Indonesia, India, and the Philippines.

## Southeast Asia: vulnerable for now, but resilient over the longer term

The COVID-19 outbreak is affecting Asian economies through many direct and indirect channels. In summary:

### Direct channels

- A decline in tourism revenue
- Weaker consumer demand for local services
- A decrease in business cashflow
- The negative effect of tighter labour mobility on the supply chain

### Indirect channels

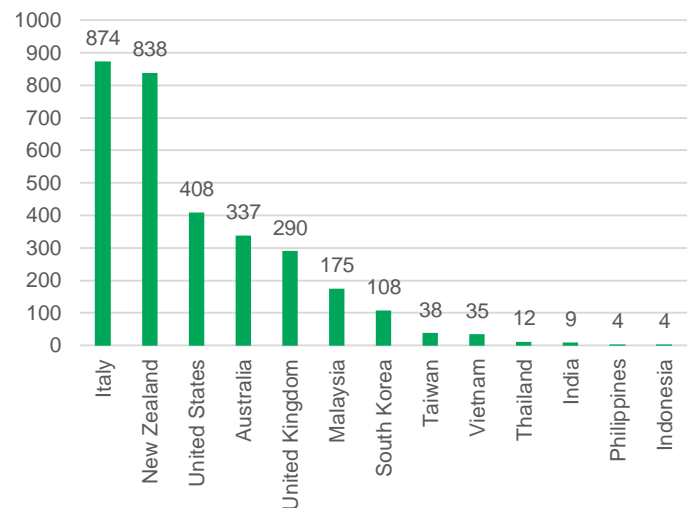
- Dwindling Chinese demand
- Supply-chain bottlenecks and a drop off in production that is being driven by a shortage of parts and components – particularly in economies that are heavily dependent on Chinese imports
- Less demand from the rest of the world, as the outbreak spreads to other markets
- Limited access to credit given financial-market volatility

As with most things in markets, any investment thesis depends on the investment horizon.

**In the short term, the market may turn its attention to those economies that could become the next COVID-19 hot spots. Worryingly, there have been rapid increases in the confirmed cases reported in Indonesia, India and the Philippines – these are the region’s more populous economies with a more significant share of its low-**

income households, thinner social-security nets and weaker health infrastructure. These markets have also recorded a higher proportion of deaths, which suggests that the actual number of virus-related infections could be greater than reported due to their lower testing capacity (a function of health infrastructure).

Chart 1: Tests per million people

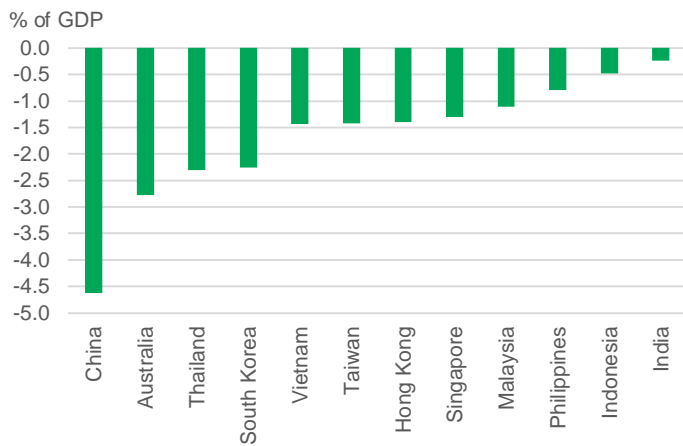


Source: National Sources, Manulife Investment Management, as of 8 April, 2020.

**If we look at the longer-term picture, many independent issues have been exacerbated by COVID-19.** For instance, a protectionist push is now accelerating across the world, the US dollar is much stronger, and oil-price volatility is creating deflationary pressures, which has implications for credit markets and financial stability. Therefore, rather than a mechanical application of *first in, first out*, we need a more holistic approach when assessing the potential longer-term economic impact in the region.

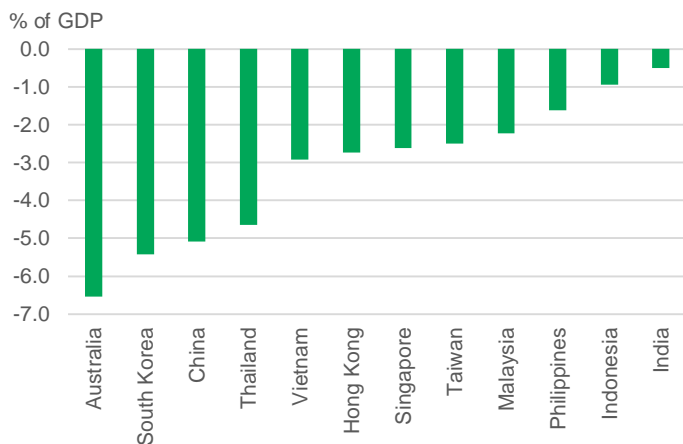
Such a view would take into consideration the quality of health infrastructure, testing capacity and fiscal wherewithal of an economy, along with its ability to pivot supply chains and grow domestic demand. Credit and liquidity risk exposures will also be pertinent. While Indonesia, India, and the Philippines may face the near-term risk of local outbreaks, their economies are among the most insulated from a longer-term growth perspective. Indeed, the Asian Development Bank's recent scenario analysis (chart 2 & 3) indicates that these markets are likely to experience the lowest impact on GDP growth, regardless of timescale.

**Chart 2: Short containment scenario, hit to total GDP**



Source: ADB, Manulife Investment Management, as of 8 April, 2020.

**Chart 3: Long containment scenario impact on GDP**



Source: ADB, Manulife Investment Management, as of 8 April, 2020.

## Conclusion

Near-term newsflow may be negative, particularly as these markets deal with domestic outbreaks. However, the impact of the COVID-19 must also be viewed in a longer-term context. To this end, we believe Southeast Asia should emerge from the pandemic with resiliency.

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