Managing Globalization and Regional Integration Post-COVID-19

The COVID-19 pandemic tested the resilience of health and economic systems worldwide.

Since it was first reported in December 2019, the coronavirus disease (COVID-19) infected more than 100 million, with more than 2.2 million lives lost (Figure 1.1). Across regions, Europe and North America were hardest hit. Asia initially had the highest number of confirmed cases but was overtaken by other regions in March 2020.1 As of 4 February 2021, Asia reported 15.8 million confirmed cases.

The virus spread rapidly across the globe, shutting down or affecting almost all spheres of human activity—from travel to education, business, and work, along with social and family life. The pandemic also tested national health systems around the world, straining even the most advanced hospital systems in France, Italy, Germany, and the United States (US), among others.

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1 Asia refers to the 49 members of the Asian Development Bank (ADB) within Asia and the Pacific, which includes Japan and Oceania (Australia and New Zealand) in addition to the 46 developing Asian economies.
The devastating impact of COVID-19 forced many regional, national, and subnational authorities to implement stringent border controls, lockdowns, and community quarantines to contain the spread of the virus. In Asia, the Oxford COVID-19 Government Response Stringency Index for government response to the pandemic fluctuated from around 20 index points in February, to a high of 76 in April, then falling to 50 index points in October and November before rising in mid-December to 53 index points (Figure 1.2).

Unsurprisingly, the pandemic plunged the world into its deepest recession since the end of the Second World War. In 2020, the global economy was expected to contract by 3.5%, 6.3 percentage points lower than the 2.8% growth in 2019. The International Labour Organization estimated that about 73.7% of workers globally were affected by mobility restrictions as of May 2020, and the Asian Development Bank (ADB) estimated 242 million job losses and foregone wage income of $1.8 trillion (Park et al. 2020).

The pandemic further tested existing relationships among nations around the world.

Before COVID-19, globalization in trade, investment, finance, and migration was facing headwinds, spurred by geopolitical tensions over trade between the US and the People’s Republic of China (PRC), the United Kingdom (UK) “Brexit” vote, along with rising polarization and social inequality. Globalization had been viewed by some countries as a source of insecurity—opening local economies to unwanted migrants, creating unfair competition, contributing to rising inequality, and destabilizing peace, order, and culture. Skeptics said that globalization was also partly responsible for financial cycles that could destabilize capital flows and threaten macroeconomic stability. These negative public perceptions were reinforced by stagnating wages and limited growth in job opportunities.

Thus, it was unsurprising to see that—as global trade and health systems teetered under the COVID-19 strain—the tendency to prioritize self-interest strengthened the questioning of globalization itself. Will it wither and fall? Will it be replaced by stronger regional arrangements? Or will it drift toward a stronger emphasis on sovereignty and nationhood?

The pandemic severely disrupted Asia’s cross-border flows and activities.

Border closures, lockdowns, quarantines, and other means to control the virus spread disrupted supply chains and weakened demand, resulting in an overall decline in global trade. Intraregional trade within Asia declined during the first half of 2020, with Central and South Asia subregions reporting large contractions in intraregional trade (Figure 1.3). In South Asia, intraregional trade fell sharply in April as economies entered strict lockdowns. The gradual recovery of global and intraregional trade in the second half of the year reflected the measured reopening of economies and weak demand.
Asian economies declined by over 10% year-on-year (y-o-y) in the first quarter of 2020, with Bangladesh, the PRC, Indonesia, Kazakhstan, and Mongolia dropping by more than 20% (Figure 1.4). The decline in Asia’s FDI reflected the region’s vulnerability to supply chain disruptions and growing uncertainties on business conditions. Although FDI inflows captured through balance of payments data stalled, firm-level cross-border investment data in the second quarter of 2020 showed early signs of recovery through higher mergers and acquisitions.

Foreign portfolio financial flows reversed in March 2020 as global investor sentiment deteriorated, uncertainties mounted, and liquidity conditions tightened at the height of the COVID-19 outbreak. Nonresident portfolio outflows to the region amounted to $20 billion, mostly equity outflows (Figure 1.5). This coincided with a steep fall in equity prices in March. But monetary, financial, and fiscal support measures were swiftly implemented globally, resulting to an easing of financial conditions and a recovery of asset prices by June 2020, leading to the resumption of nonresident portfolio debt inflows by June 2020. Yet, for some economies in the region, equity prices in the second half of 2020 (H2 2020) were nowhere near their values at the start of year, and the risks of tightening liquidity conditions and corporate insolvencies loomed large toward the end of the year.

Cross-border investments also contracted in 2020 as multinational enterprises postponed or canceled their planned or ongoing investment projects amid the uncertain prospects of economic recovery, duration of the pandemic, and earnings. Foreign direct investments (FDI) to selected Asian economies declined by over 10% year-on-year (y-o-y) in the first quarter of 2020, with Bangladesh, the PRC, Indonesia, Kazakhstan, and Mongolia dropping by more than 20% (Figure 1.4). The decline in Asia’s FDI reflected the region’s vulnerability to supply chain disruptions and growing uncertainties on business conditions. Although FDI inflows captured through balance of payments data stalled, firm-level cross-border investment data in the second quarter of 2020 showed early signs of recovery through higher mergers and acquisitions.

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**Figure 1.3: Intraregional Trade Value Growth—Asia**

(%, y-o-y)

- Central Asia
- East Asia
- Southeast Asia
- The Pacific and Oceania

y-o-y = year on year.


**Figure 1.4: Foreign Direct Investments—Selected Economies**

FDI = foreign direct investment. y-o-y = year on year.

Note: Sample includes Bangladesh; Cambodia; Hong Kong, China; India; Indonesia; Kazakhstan; Mongolia; Nepal; the People’s Republic of China; the Philippines; the Republic of Korea; Taipei, China; and Thailand.

Source: ADB calculations using national source data accessed through CEIC.

**Figure 1.5: Nonresident Portfolio Flows—Emerging Asia**

($ billion)

International travel ground to a halt in the second quarter of 2020 as 217 destinations, including those in Asia, implemented total or partial border closures, flight suspensions, travel restrictions, and other measures to contain the spread of COVID-19 (Figure 1.6). In Asia, tourist and visitor arrivals in April completely stopped in India, Maldives, Singapore, Sri Lanka, and Thailand, while arrivals fell to a trickle in Cambodia; Hong Kong, China; the Republic of Korea; Taipei, China; and Viet Nam. By H2 2020, travel restrictions were gradually eased. As of 1 November 2020, 152 destinations had eased COVID-19-related travel restrictions, while 59 destinations kept their borders completely closed to international tourism. In Asia, 27 destinations maintained total border closures, while 22 destinations, including 5 small island developing countries, had partial border closures or specific travel restrictions.

Remittance flows to Asia also plunged amid the pandemic, with the drop most severe during the strict lockdown phase in April 2020 (Figure 1.7). For the first half of 2020 (H1 2020), remittances fell by 30% in Kazakhstan, 13% in the Kyrgyz Republic, 17% in Armenia, and 9% in Sri Lanka. While some migrant workers increased their remittances to families in extremely difficult situations back home, the prevailing weak economic situation in host economies also contributed to the sharp decline in remittance inflows. In some economies, this reversed in June as lockdowns began to be lifted in destinations that allowed migrants to remit their accumulated money from previous months—usually over the counter or through money transfers. Some governments in the region also introduced policies to incentivize transfers by reducing compliance checks, restrictions, and transaction fees; as well as undertaking an aggressive promotion campaign to migrants to prop up remittances.

Figure 1.7: Remittances to Selected Countries in Asia, January–November 2020 (% change)

Note: Numbers refer to the year-to-date percent changes (base year 2019) in remittance inflows to selected Asian economies.


Restraints on cross-border activities and weak demand weakened the region’s economic prospects in 2020, with developing Asia likely to contract in 2020 for the first time in 6 decades.

Most economies contracted in H1 2020 due to the strict containment measures that disrupted supply and slowed consumption. The US economy contracted by 4.3% and the euro area by 9.0%. Most economies in Asia also contracted during the period. Based on national data released as of December 2020, the PRC economy shrunk by 1.6%, Indonesia by 1.3%, the Republic of Korea by 0.7%, and the Philippines by 9.3%.
Prospects for a swift and robust recovery waned in H2 2020 as the number of COVID-19 cases continued to rise. Concerns over recurrent “waves” of infections, particularly during the winter season in the northern hemisphere, and reinstating localized lockdowns while slowly reviving economies weighed down growth outlook. Moreover, new virus strain in Europe raised fears of sustained high infection rates in the coming months. Nonetheless, there were signs of an upturn in business and consumer confidence and cross-border transactions, including trade and investment, although still lower than pre-pandemic levels. More importantly, news on the high efficacy of candidate vaccines supported the prospects of sustained economic recovery in 2021.

ADB’s Asian Development Outlook Supplement December 2020 projected that developing Asia’s output would contract by 0.4% in 2020 (Figure 1.8)—a significant downward revision from the 2.2% growth forecast in the Asian Development Outlook April 2020 issue. More than two-thirds of the economies in developing Asia are expected to post negative growth rates in 2020, while the rest will grow weakly. Actual GDP growth rates for 2020 indicate that the PRC and Viet Nam grew slowly by 2.3% and 2.9%, respectively; while the Republic of Korea contracted slightly by 1.0%.

The COVID-19 pandemic also bared the risks of globalization and global supply chains.

As the COVID-19 pandemic evolved, concerns over the future of global supply chains emerged. A few days after the PRC lockdown of the city of Wuhan on 23 January 2019—later expanded to neighboring cities and provinces—several multinational enterprises in Asia and elsewhere reported that they had to suspend production due to the lack of intermediate inputs produced in the PRC. Around 17% of the PRC’s total exports in 2018 were intermediate products used by foreign manufacturers outside the country to produce final goods—such as auto parts, electronic components, and other final goods. The PRC’s exports of intermediate goods to South Asia and East Asia and the Pacific accounted for 36% and 18% of its total exports compared with North America, and Europe and Central Asia, which were only 8% and 14%, respectively. These highlight the importance of the PRC in keeping the global supply chains going, as well as the economic interdependence among Asian economies.

The pandemic also exposed several risks to global supply chains—such as the geographic concentration of production and overstretched supply chains of critical goods like medical supplies, and intermediate products, particularly active pharmaceutical ingredients and food ingredients. For instance, generic drug manufacturers in India could not produce medicines without active pharmaceutical ingredients from the PRC. In addition, the concentration of production led to shortages of critical items, particularly of personal protective equipment, sanitizers, and face masks. These demonstrated the drawbacks of “just-in-time” production or of holding significantly fewer inventories—as they could lead to production stoppages once cross-border controls are in place.

These risks to global supply chains highlight the advantages of keeping the production of critical products and supplies within (back-shoring) or close (near-shoring) to one’s borders; and they strengthen the arguments for reshoring. Before COVID-19, reshoring had been a growing phenomenon motivated by product quality issues, alignment of corporate priorities and values, and flexibility and security of...
work legislation (Barbieri, Boffelli, and Elia 2020). The pandemic acted as a trigger for company decisions on reshoring production—due to the risk exposure and policy interventions affecting operational continuity and supporting post-crisis manufacturing growth. The future of reshoring will depend on firm-level decisions as well as how supply chains reorganize, which will require more time for preparation.

Yet, globalization will unlikely reverse its course although it may take different shapes.

Asia’s value chain linkages with the global economy remain crucial for the region’s own supply chain and continued prosperity. While global value chains and FDI will adjust in response to the pandemic, globalization will unlikely reverse course in the region in the near term. Moreover, Asia holds the key to reshaping the global trade and investment landscape, reflecting its greater influence on the post-pandemic trade regimes. The signing of the Regional Comprehensive Economic Partnership (RCEP) among 15 members on 15 November 2020 signifies the region’s commitment to pursuing open and inclusive trade and investment regimes and reflects its growing influence in the global multilateral trading system beyond the COVID-19 pandemic.²

Developing Asia has benefited greatly from globalization and will most likely continue its economic and trade relations with the rest of the world. In fact, the region’s export-driven growth strategy and openness to FDI provided jobs and lifted millions out of poverty. In East Asia, poverty dropped from 33% to 2% of the population in 2 decades as trade openness grew by 7% of total output. In South Asia, poverty declined from 35% to 15% of the population as trade openness increased by 14% of total output (Figure 1.9). These two subregions account for Asia’s largest population share.

² Members include ASEAN (Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam), three East Asian economies (Japan, the People’s Republic of China, and the Republic of Korea), and Oceania economies (Australia and New Zealand).

and wages. More importantly, it was a key contributor to productivity growth—as multifactor productivity increased due to innovations (Stephenson 2020).

Rapid technological progress will strengthen global connectivity.

While global trade and commerce decelerated due to rising uncertainty and weak global growth, digital connectivity worldwide is progressing at high speed. Rapid progress in infrastructure and transactional technology is creating faster and cheaper connections worldwide. Cross-border data flows grew 45 times between 2005 and 2014. From 2005 to 2017, the amount of cross-border bandwidth use grew 148 times larger. These increased digital connections raised world GDP by 10% over what it would have been in a world without cross-border flows (McKinsey Global Institute 2016).

Asia’s digital connections to the world have also increased. From 2010 to 2019, internet bandwidth from Asia to Europe increased 40 times; the US and Canada 12 times; the Middle East 31 times; and Asia 33 times. These rapid increases in bandwidth have contributed to widespread internet use, with an accompanying surge in data flows related to e-commerce and other digital platform activities.

About half of global trade in services depends on access to cross-border data flows (Stephenson 2020). This includes digitally enabled knowledge-intensive services, software, and technologies that help connect firms and consumers through digital platforms and internet services, communications and transportation networks, cloud computing and storage, artificial intelligence, machine learning, and social media. It is likely that these connections will increase further as technological progress continues.

That said, there are also several challenges related to data-intensive businesses. Digital platforms have become powerful business entities due to their first mover advantage and strong network effects. Their virtual presence often “in the cloud” allows them to skirt regulations and taxation. They are also able to employ underutilized assets and a workforce often with little employment or social protection (see Chapter 8: Making Digital Platforms Work for Asia and the Pacific).

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4 Based on Telegeography data. See Table 6.2 in Chapter 6. Asia-Pacific Regional Cooperation and Integration Index: Regional Integration Moving Ahead as Measured by Integration Index for more details.
The pandemic presents an opportunity for greater global and regional cooperation.

Although early government actions—such as border controls and controls on the trade of essential commodities at the onset of the pandemic were inevitable, there is now a growing realization that only a collective and coordinated effort can meet the challenges of coping with the current and future pandemics. For one, global efforts to keep supply chains open for medical equipment, medicines, and food supplies, and mobilize resources complemented national efforts to contain and suppress infections. Global and regional cooperation also remain vital to address future pandemics by collaborating on the development, production, and dissemination of vaccines and treatments; and aiding economies in dealing with harmful socioeconomic impacts. More importantly, a range of global and regional initiatives have also been used to fight the pandemic.

For example, on 15 April 2020, the Group of Twenty (G20) finance ministers and central bank governors unveiled a global action plan to fight COVID-19. The comprehensive plan covered health, economic, and financial responses (Table 1.1). There were several critical recommendations:

- Ensure that all elements of the health-care response are fully funded, enhance collaboration, and increase funding to support accelerated research and development for diagnostics, therapeutics, and vaccines.

- Support the vulnerable and maintain conditions for a strong recovery by lifting restrictions as soon as it is safe and provide support to minimize the impact and social damage.

The plan also outlined actions to provide international financial support to help countries combat COVID-19:

- Deliver the International Monetary Fund (IMF) support package and apply tools from regional financial arrangements.

- Swiftly implement support from the World Bank and regional development banks.

- Provide debt service suspension to the poorest economies.

- Ensure efficiency and operational coordination to optimize resource use.

- Welcome actions taken by central banks to support financial stability, including the deployment and expansion of bilateral swap lines and the introduction of repo facilities for sovereign debt.

In addition, various regional initiatives were proposed (Table 1.2):

- On 10 March 2020, the Association of Southeast Asian Nations (ASEAN) economic ministers agreed to collectively work toward mitigating the impact of COVID-19. Some of the key actions included keeping the ASEAN market open for trade and investment; leveraging technologies and digital trade to allow businesses to continue operating amid the outbreak; enhancing ASEAN’s economic cooperation with external and development partners to strengthen supply chains; and building on existing trade facilitation platforms such as the ASEAN Single Window to promote supply chain connectivity.5

- Subregional initiatives—such as the Central Asia Regional Economic and Integration Cooperation (CAREC) Program, the Greater Mekong Subregion (GMS) Program, and the South Asia Subregional Economic Cooperation (SASEC)—have proposed regional cooperation and integration (RCI) efforts to support the hardest-hit sectors (health, tourism, and trade) (See Chapter 7: Updates on Subregional Cooperation Initiatives for details). Subregional health cooperation was strengthened to boost regional health security, improve access to health services, and develop a health workforce. Specific examples of action plans to boost tourism include, among others, the promotion of domestic and inter-subregional “travel bubbles,”

joint tourism promotion and marketing strategies, and enhanced use of digital technologies. To facilitate trade during and after COVID-19, CAREC will update its strategic plan to support trade expansion and diversification projects while ensuring safer trade and increased resilience. The GMS Program will utilize electronic customs clearance and invest in cross-border infrastructure to include health screening on top of the current plans of improving customs and immigration security. SASEC also plans to leverage “smart” approaches (for example, automation) to minimize disruptions in the supply chains of essential goods.

Aside from their vital role in addressing COVID-19, global and regional initiatives and cooperation can help shape the post-pandemic world. Global cooperation is thus crucial in reorganizing and sustaining global and regional value chains to secure sustained and inclusive economic growth. Regional cooperation can also help embrace looming opportunities from the potential dispersion of production networks, shortening supply chains, and redirecting trade and investment. For instance, although the decision for reshoring production depends on a single firm, supply chain reorganization is a joint decision among various suppliers and enterprises (Barbieri, Boffelli, and Elia 2020). As it is difficult to attract an entire supply chain within one single economy, there is scope for regional cooperation in near-shoring initiatives. Both can gain advantage through post-pandemic collective action.

Global cooperation can help build a safer world, but regional support is also needed.

Now more than ever, the global economy faces multiple transnational challenges, including regional connectivity issues, trade frictions, financial contagion, pandemics, natural hazards, climate change, and geopolitical conflicts. These events are becoming more frequent with deeper economic impact. Unilateral approaches will not suffice with these issues better addressed using a cooperative approach.

Table 1.2: Areas of Subregional Cooperation Efforts to Promote Recovery Post-COVID-19

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<thead>
<tr>
<th>Areas</th>
<th>ASEAN</th>
<th>CAREC</th>
<th>GMS</th>
<th>SASEC</th>
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<tbody>
<tr>
<td>Health</td>
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<td>Trade and trade facilitation</td>
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<td>Tourism</td>
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<td>Gender/Women empowerment</td>
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<td>Agriculture and food security</td>
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<td>Climate change and environmental sustainability</td>
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</tbody>
</table>

ASEAN = Association of Southeast Asian Nations, CAREC = Central Asia Regional Economic Cooperation, COVID-19 = coronavirus disease, GMS = Greater Mekong Subregion, SASEC = South Asia Subregional Economic Cooperation.

Sources: ADB (Central and West Department, South Asia Department, Southeast Asia Department); and ASEAN Secretariat. 2020. ASEAN Leaders Vision Statement on a Cohesive and Responsive ASEAN: Rising Above Challenges and Sustaining Growth. 26 June. https://asean.org/storage/2020/06/Final-ASEAN-Leaders-Vision-Statement-on-a-Cohesive-and-Responsive-ASEAN-final.pdf.

Table 1.1: G20 Action Plan in Response to the COVID-19 Pandemic

<table>
<thead>
<tr>
<th>Areas</th>
<th>Description</th>
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<tbody>
<tr>
<td>Health response</td>
<td>• Ensure that health-care responses are fully funded and enhance collaboration to support accelerated research and development for diagnostics, therapeutics, and vaccines</td>
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<tr>
<td>Economic and financial response</td>
<td>• Support the vulnerable and provide support to minimize the impact and social damage</td>
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</tbody>
</table>
| Returning to strong, sustainable, balanced, and inclusive growth once containment measures are lifted | • Share the latest information and country experiences on COVID-19 containment measures  
• Task international organizations to support members in developing standardized data, analysis, and sharing  
• Support workers through active labor market, training, and reskilling policies to minimize the loss of human and organizational capital  
• Re-double efforts to promote quality infrastructure investment and accelerate efforts to mobilize private sources of infrastructure financing |
| International support to countries in need | • Deliver a comprehensive International Monetary Fund support package and use available tools from regional financial arrangements  
• Implement swiftly the support proposed by the World Bank and regional development banks  
• Provide debt service suspension for the poorest economies  
• Ensure efficiency and operational coordination to optimize the use of resources  
• Welcome the actions taken by central banks to support financial stability |

COVID-19 = coronavirus disease.

In addition, collective regional and global action is needed to address cross-border drug trafficking, money laundering and terrorism, and human slavery, which tend to become more brazen during times of economic crisis.

One key concern about the negative impact of globalization has to do with rising inequality, as higher wage premiums are accorded skilled labor. It is thus essential to strengthen investment in education and skills development and enhance financial inclusion to improve people’s access to economic opportunities, particularly for unskilled and informal workers. Improving education and training quality—especially for technical and vocational education—is also critical. Leveraging on digital technology to enhance productivity in agriculture, fishery, and services can also benefit low-income households. For advanced economies, strengthening the middle-class welfare system will help spread the benefits of globalization more broadly across society.

Compensatory benefits and social assistance are also important to ensure that vulnerable members of society can access the financial resources to deal with and adjust to some of the economic challenges that accompany globalization. Flexible labor market policies that foster labor mobility can also be helpful while strengthening social protection, and skills training programs are crucial to support displaced workers between jobs and help them retrain and move on to other gainful employment.

Promoting better governance standards could also help spread the benefits of globalization more widely. By promoting greater accountability and efficiency, good governance saves resources and improves government service delivery to the poor. Similarly, greater transparency and accountability minimizes leakages and improves targeting for social protection programs, thus making the redistribution of benefits more effective. Greater participation and consensus building also ensures that everyone is consulted and considered when making decisions that will affect the greater good.
References


