

Policymakers' corner

ENSURING SUPPLY CHAIN CONNECTIVITY AND RESILIENCY IN THE POST-PANDEMIC RECOVERY: THE CASE OF ASEAN

Satvinder Singh

Email: satvinder.singh@asean.org

The integration of ASEAN into the global, and especially regional, supply chains has been a major driver of economic growth, job creation and industrialization in the region. Given the adverse impact of the COVID-19 pandemic, and the ongoing conflict in Eastern Europe, restoring supply chain connectivity and its resilience is of paramount importance to the Association. Apart from being agile, responsive and adaptive in this evolving environment, the strengthening of internal coordination to keep markets open and active engagement, in the spirit of open regionalism and multilateralism, with external partners is critical to ensure supply chains connectivity and resilience in the region.

Keywords: supply chain connectivity and resiliency, post-COVID-19 pandemic economic recovery, ASEAN.

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I. INTRODUCTION

The growing importance of global and regional supply chains has fundamentally changed the way trade and economic activities are organized. Through a sophisticated network of manufacturing, logistics, transportation and communication, which enable products to move across borders, global and regional supply chains have become key to delivering prosperity to many countries worldwide, including the countries in the Asia-Pacific region.

Embeddedness in global and regional supply chains means that countries are vulnerable to external shocks, such as the Covid-19 pandemic that hit the global economy since early 2020. While loosening import restrictions of goods in high demand, such as medicines, medical supplies and food, many countries around the world have introduced export restrictions to prioritize meeting domestic demand, leading to supply and demand disruptions that have wreaked havoc on the global economy (Chandra, Mujahid, and Mahyassari, 2021).

The pandemic, however, is only one of the latest disruptions that has uncovered the fragility of global supply chains. The conflict in Eastern Europe, which began in February 2022, is another challenge that has put the fragile recovery of global trade at risk. In response to the war, many countries around the world have imposed trade barriers to protect supplies of food and commodities (Swanson, 2022). While most of these measures are temporary and are intended mainly to reduce the immediate impacts of the shocks, the risks to long-term growth are also high should these temporary trade policy changes become permanent trade barriers.

Given this relatively negative prospect, it is without doubt that ensuring supply chain connectivity is of prime importance in efforts to recover from the crisis, and to rebuild the economies better and stronger. This article is intended to share some of the interventions and efforts by Association of Southeast Asian Nations (ASEAN) throughout the pandemic and during the current transition to endemic existence living with COVID, with particular focus on ensuring supply chain connectivity and resilience.

II. ENSURING SUPPLY CHAIN CONNECTIVITY DURING THE COVID-19 PANDEMIC

Over the past decade, ASEAN has been increasingly integrated into global, and especially regional supply chains. This has become a major driver of growth and job creation, catalysing industrialization in the region. Prior to the Covid-19 pandemic, or in 2019, ASEAN trade reached \$2.8 trillion, or 7.3 per cent of global trade, an

increase from \$0.0 trillion, or 6.5 per cent of global trade in 2010. ASEAN is also highly connected to global value chains with raw materials and intermediate goods constituting 7.5 per cent and 19.8 per cent of its total exports and 11.2 per cent and 25.0 per cent of total imports in 2019, respectively (World Bank, 2022). The economic impact of COVID-19, however, has been devastating to ASEAN. During the first year of the pandemic, or in 2020, the Association's trade declined by 5.3 per cent, foreign direct investment (FDI) fell by 29.7 per cent, while the region's economy, collectively contracted by 3.3 per cent year-on-year (ASEANStats, 2022).

ASEAN realized early the importance of regional and international cooperation and keeping markets open to mitigate the impact of the pandemic. At the very early start of the pandemic just before the announcement by the World Health Organisation (WHO) of COVID-19 as a pandemic on 11 March 2020, the ASEAN Economic Ministers issued a statement on strengthening the Association's economic resilience in response to the outbreak of COVID-19 the day before,¹ reaffirming its commitment to maintain an open economy and to move forward in its integration agenda. Similarly, the ASEAN Ministers on Agriculture and Forestry, on 15 April 2020, issued a joint statement, which underscores an agreement to, among others, minimize disruptions in regional food supply chains, ensure that markets and trade lines remain open, and refrain from imposing new export control, restrictions and prohibitions, tariff and non-tariff barriers.²

The resolve of ASEAN to keep its market open was further demonstrated through the Declaration of the Special ASEAN Summit on COVID-19 on 14 April 2020, in which ASEAN leaders committed to keep markets open for trade and investment, and enhance cooperation among ASEAN member States, as well as with its external partners. To operationalize the aforementioned commitments, the Special ASEAN Economic Ministers Meeting on COVID-19 Responses, held on 4 June 2020, adopted the Ha Noi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic. Through the Ha Noi Plan of Action, ASEAN agreed to ensure the smooth flow of essential goods by, among others, refraining from imposing unnecessary non-tariff measures during the pandemic, prompt information-sharing on export prohibition or restrictions, and

¹ Further details concerning the Minister's statement on the strengthening ASEAN's economic resilience in response to the outbreak of COVID-19 is available on the official website of the ASEAN secretariat at <https://asean.org/storage/2020/03/AEMR-26-Statement-on-COVID-19-FINAL-10.03.2020.docx.pdf>.

² Further information concerning the joint statement of the ASEAN minister on agriculture and Finance in response to the outbreak of the COVID-19 is available in the official website of the ASEAN Secretariat at <https://asean.org/storage/2020/04/STATEMENT-OF-ASEAN-MINISTERS-ON-AGRICULTURE-AND-FORESTRY-ON-COVID-19-FINAL-00000002.pdf>.

strengthening supply chain connectivity, including taking proactive action in enabling effective trade facilitation and building on existing trade facilitating platforms to ensure the unimpeded flow of goods and services in supply chains.

In addition, ASEAN Economic Ministers signed the Memorandum of Understanding on the Implementation of the Non-Tariff Measures on Essential Goods in which ASEAN member States committed to refrain from imposing restrictive trade measures on 152 essential goods and supplies, except for public health emergencies. The list was expanded to 257 items in 2021, consisting of medical goods, such as vaccines, test kits and equipment medicines, medical supplies and equipment, food, and agricultural products. Plans are in place to further expand the list to cover more products to enhance access to essential goods.

The private sector in ASEAN has also played a key role in developing an appropriate response to the pandemic. Throughout the pandemic, the ASEAN Business Advisory Council and its Joint Business Council members³ have been active in providing policy recommendations to ASEAN to, for example, ensure uninterrupted production and supply chains of essential food and beverages and medical supplies and equipment. These proposals have, in turn, been taken into consideration in the response of ASEAN to the pandemic.

III. RECOVERY PATH FOR ASEAN: TOWARDS A MORE RESILIENCE SUPPLY CHAIN

As the world is shifting into the endemic phase of the new normal, the economy of ASEAN is on the right track for recovery. Effective roll-out of vaccination programmes across the region has enabled ASEAN member States to reopen, which has accelerated economic activities and supported recovery.⁴ ASEAN also has continued to work towards fully reopening the region for tourism and travel, with all of the member States meeting a goal to fully reopen by the second half of 2022.

Supply chain connectivity plays an important role in the Association's recovery path.

³ Members of ASEAN Business Advisory Council ASEAN-BAC's Joint Business Councils are Australia-ASEAN Business Council, Australia-ASEAN Chamber of Commerce, Canada-ASEAN Business Council, China-ASEAN Business Council, East Asia Business Council, EU-ASEAN Business Council, ASEAN-India Business Council, ASEAN-Japan Business Council, ASEAN-New Zealand Business Council, Russia-ASEAN Business Council, UK-ASEAN Business Council, US-ASEAN Business Council, and the Roscongress Foundation. Further information concerning the ASEAN-BAC Joint Business Council is available on its official website at <https://www.asean-bac.org/partners/platinum>.

⁴ By the end of June 2022, full dose vaccination rate in ASEAN reached nearly 70 per cent, while at least 28.5 per cent of the population has received booster shots (ASEAN BioDiaspora Virtual Center, 2022).

Trade expanded by 25.1 per cent to \$3.3 trillion in 2021, surpassing pre-pandemic levels. Investment was also robust, growing by 28.5 per cent year-on-year to reach \$176.0 billion in 2021. Consequently, the economy of ASEAN bounced back and expanded by 3.0 per cent in 2021 (ASEANStats, 2022). Optimism has continued into 2022 and 2023, growth is projected at 5.0 per cent and 5.2 per cent, respectively (ADB, 2022).

Strengthening supply chain connectivity through trade and investment facilitation

To move towards more resilient supply chains, and the elimination of almost all tariff lines, the region is focusing on trade and investment facilitation. Addressing non-tariff barriers remains the region's priority, but attention has also turned to the digitalization of the Association's trade facilitation initiatives, such as the ASEAN-wide Self Certification,⁵ ASEAN Customs Transit System,⁶ and the ASEAN Single Window,⁷ to ensure unimpeded flows of goods and services.

As far as investment is concerned, ASEAN adopted the ASEAN Investment Facilitation Framework in 2020, which provides a comprehensive and distinct list of investment facilitation principles and initiatives for member States to uphold and implement, with a goal to attract and retain investments for the region's economic recovery. Through this Framework, ASEAN aims to improve the investment and business climate, and to make it easier for investors in all sectors of the economy to invest and conduct their day-to-day business operations, which will eventually contribute towards the strengthening of supply chain connectivity in the region and beyond.

Trade and investment facilitation also features prominently in the ASEAN Free Trade Agreements and other economic engagements with its dialogue partners. In the context of trade facilitation, the Regional Comprehensive Economic Partnership

⁵ Launched in 2020, the ASEAN-wide Self Certification scheme helps simplify export formalities, thereby reducing exporters' workload, administrative burdens, and costs. It allows exporters who have demonstrated their competence to comply with ATIGA rules or origin requirements, or "certified exporters", to self-certify the origin status of their goods to be eligible for ATIGA tariff preferences.

⁶ A computerized customs transit management system implemented in 2020, the initiative supports operators to move goods across borders without paying the required duties and taxes otherwise due when goods enter or leave a country, which helps simplify transit procedure and cut the cost to carry goods across customs territories outside normal import and export customs regimes.

⁷ The ASEAN Single Window is a regional electronic platform, which promotes the use of electronic exchange of cross-border trade-related documents among ASEAN member States, the initiative helps expedite cargo clearance and reducing paperwork. Having been fully operationalized in 2019, the initiative has been further upgraded through the live exchange of ATIGA e-Form D among six ASEAN member States (Cambodia, the Lao People's Democratic Republic, Malaysia, Singapore, Thailand, and Viet Nam); The remaining member States are expected to join in 2022.

(RCEP), the largest free trade agreement in the world, which entered into force in January 2022,⁸ obliges its Parties on, among other issues, export and import transparency and prompt customs clearance. In addition, ASEAN is also putting its best efforts to link its single window with the national single windows of some of its key trade partners, such as China, Japan, the Republic of Korea, and the United States of America.

The foreign trade agreements of ASEAN have also been consistently improving disciplines on transparency and domestic regulations to facilitate trade in services. This has also culminated in RCEP, which covers the most advanced obligations that ASEAN has to date to expedited processes in authorizing service suppliers to supply their services. Similarly, investment facilitation also features in investment chapters of the ASEAN free trade agreements with China; India; Japan; and Hong Kong, China, as well as with RCEP. In general, these free trade agreements call for Parties to (1) create the necessary environment for all forms of investment; (2) simplify investment procedures; (3) promote the dissemination of investment-related information; and (4) establish one-stop investment centres to provide assistance to investors.

Given the increased importance of trade and investment facilitation to ASEAN, efforts are being taken to coordinate better the negotiation of related provisions in relevant ASEAN agreements, such as the ASEAN Trade in services Agreement (ATISA), the ASEAN Comprehensive Investment Agreement (ACIA), and the ongoing upgrading of the ASEAN Trade in Goods Agreement (ATIGA), a landmark of the ASEAN internal free trade agreement, as well as those in the context of the ASEAN external free trade agreements.

It is also important to underscore that while ensuring supply chain connectivity is imperative to recover from the pandemic, the region also needs to be resilient from any potential crisis and sustainable in the long term. The current dynamics in the global economy are indicative of the fact that recovery cannot be taken for granted. Disruptions in global supply chains due to the conflict in Eastern Europe, for example, has led to price volatilities in global markets, especially for energy and food products. The persistent inflationary pressures could erode consumers' purchasing ability and affect industrial production. The latter is further compounded by the climate crisis and the changing geopolitical landscape, which may once again put enormous strains on the global economy and undermine economic recovery. Accordingly, despite the importance of addressing the current crisis, efforts towards facilitating trade and investment need to be continuously enhanced and deepened in the long term, including through leveraging opportunities brought about by the Fourth Industrialization and digitalization.

⁸ Further details regarding RCEP are available in its official website at <https://rcepsec.org/>.

Other initiatives to strengthen supply chain connectivity

Securing supply chains, however, is not only about ensuring the continuity of logistics and distribution. It also requires efforts throughout the whole process, from sourcing to production and consumption. To that end, ASEAN is actively engaging its industry players to ensure business continuity and tackle behind-the-border barriers that impede supply chain connectivity in the region.

Beyond trade and investment facilitation, the initiatives of ASEAN in other sectors that contribute to strengthening the region's supply chain connectivity are also progressing well. In the area of finance, for instance, the implementation of the policy guidelines for the ASEAN Payment policy framework for cross-border real-time retail payments and the guideline on the ASEAN Local Currency Settlement Framework will help advance the promotion of regional payment connectivity and further strengthen supply chain connectivity.

Providing support to micro-, small-, and medium-sized enterprises (MSMEs) is also high on the ASEAN agenda, given the key role played by MSMEs in instilling confidence in the market. MSMEs have also been the backbone of the ASEAN economy for many years and account for a large part of it, ranging from 97 per cent to almost 100 per cent of all establishments (ASEAN Secretariat, 2020). Facilitating their access to markets and information, such as through the use of digital technologies and cross-border trade, will bring about new areas of competitiveness and create opportunities, which would be beneficial for the regions' efforts to build back better in the post-pandemic recovery and beyond. RCEP, for example, is the first ASEAN free trade agreement that includes a chapter on SMEs. It also introduces e-commerce and trade facilitation provisions that would enable MSMEs to take advantage of low-cost e-commerce platforms.

ASEAN is also committed to improve its overall competitiveness and the region's connectivity through good regulatory practices and critical infrastructure development, while keeping in sight the long-term goal of sustainability.

In the area of sustainability, in particular, the goal of ASEAN for efficient use of materials and energy has been translated through the adoption of the Framework for Circular Economy for the ASEAN Economic Community in 2021, while similar sustainability objectives have been incorporated into other areas relevant to the strengthening of supply chain connectivity, such as the development of the COVID-19 Recovery Guidelines for Resilient and Sustainable International Road Freight Transport Connectivity in the area of transport cooperation, ASEAN Taxonomy on Sustainable Finance in the finance sector and various capacity building initiatives to help ASEAN transition towards a low-carbon economy.

IV. CONCLUSION

Given the adverse impact of the pandemic on cross-border trade and supply chains, restoring supply chain connectivity and ensuring its resilience is key for the ASEAN post-pandemic recovery. Nowhere has this been more crucial than in ASEAN where production networks and trade integration have played an important role in the region's growth over the years. Accordingly, supply chain connectivity will continue to remain critical as ASEAN tries to recover and build resilience from the crisis.

The experience of ASEAN indicates the need to be agile, responsive, and adaptive in this evolving environment, so as to be able to withstand any challenges presented by the global economy, which remains fragile and volatile. It also underscores the importance of international cooperation in keeping markets open and ensuring the free flows of goods and services. Indeed, apart from strengthening coordination internally, ASEAN, in the spirit of open regionalism and multilateralism, also pursues active engagement with external partners. As has been shown in the context of ASEAN time and time again, the more we work together, the brighter our future will be.

NOTE ON CONTRIBUTOR

Satvinder Singh is the Deputy Secretary-General for ASEAN Economic Community for 2021-2024. Prior to this, he spent over 27 years holding various strategic global management positions across the region, and was instrumental in strengthening Singapore's role as Asia's trading hub and digitalisation efforts amidst the COVID-19 pandemic.

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