

The Delta wave has peaked in Emerging Asia, but headwinds remain

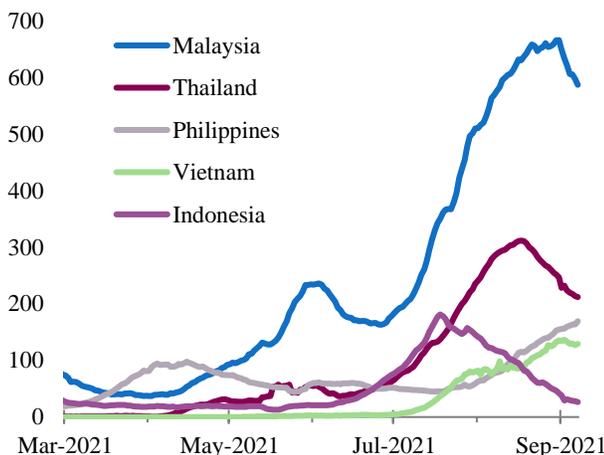
Introduction: After weathering the initial storm caused by Covid-19 in 2020, Emerging Asia is the region that has, so far, been hit hardest by the surge in infections caused by the Delta variant.

Last year, many Asian countries pursued zero-Covid strategies, using rapidly imposed local lockdowns, effective contact tracing and restrictions on international travel to keep community transmission near zero. This allowed most Asian economies to continue to grow, posting some of the strongest GDP numbers in the world for 2020.

However, 2021 is a different story as the Delta variant has rapidly spread around the world. Vaccination campaigns in Asia have been delayed by a number of factors: success at managing the virus last year; vaccine hesitancy; and vaccine supply constraints. In addition, Delta is much more infectious than the original Covid-19 virus, which has helped it get past Emerging Asia’s defences. The result has been a surge in new infections that is only now beginning to abate.

This week we take stock of the pandemic in Emerging Asia by looking at the number of **new cases** of Covid-19 infection, the status of **restrictions** and progress with **vaccination**. We then consider the implications for the regional and global economic outlook.

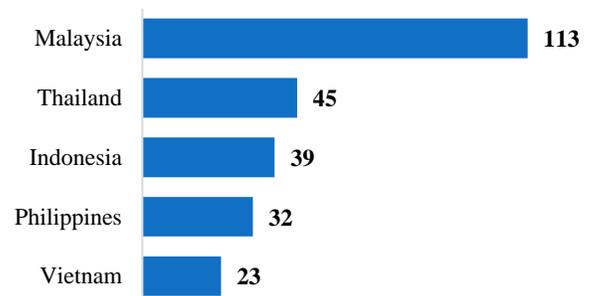
Chart 1: New cases of Covid-19
 (7-day moving average per million people)



Sources: National Sources via Our World in Data, QNB analysis

First, the number of **new cases** of Covid-19 infections has peaked and is now falling in Emerging Asia (Chart 1). New cases have come down sharply in Indonesia to around a third of their peak, whilst case numbers in Malaysia and Thailand appear to have also begun to decline. An exception is that case numbers in the Philippines are still rising.

Chart 2: Levels of vaccination
 (Total vaccinations per hundred people)



Sources: National Sources via Our World in Data, QNB analysis

Second, a number of countries have successfully accelerated their **vaccination** campaigns (Chart 2). That has certainly helped to slow the spread of the Delta variant. However, with less than half of the population vaccinated in many countries, continued progress is necessary to enable a full reopening. Having a high proportion of the population vaccinated has been shown to significantly reduce severe illness and deaths from Covid-19. Indeed, it is arguably a pre-condition to avoid overloading healthcare systems as economies re-open.

Third, thanks to progress with vaccination and stable or falling case numbers, some governments are now beginning to reduce lockdown **restrictions** and reopen their economies. Malaysia has started a cautious rollback of restrictions and Indonesia has begun to reopen malls, restaurants and mosques in the past few weeks. Following Singapore, Thailand is shifting its approach towards “learning to live with the virus”, with plans to ease restrictions during September and open the whole country to vaccinated tourists from October. However, there is a risk that restrictions may need to be re-imposed in the future in some countries that still have a low level of vaccination.

Conclusion: With the number of **new cases** still high and **vaccination** levels low in some Asian countries, the relaxation of lockdown **restrictions** will remain cautious and continue to constrain domestic demand. Combined with the fading support from external demand for manufactured goods, and the drag of China's slowdown, this adds up to some persistent headwinds for economic activity in Emerging Asia.

Much has been written in the past decade about the shift of economic mass east to Asia and we expect this trend to continue in the medium-to-longer term. However, the Delta variant has become a major headwind for Asia this year, and we expect this to drag to last into next year. These headwinds in Asia matter for the global outlook because, with the US recovery past its peak, Europe is the only major economic block where we expect a robust recovery to continue into next year.

QNB Economics Team:

[James Mason](#) *
Senior Economist
+974-4453-4643

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

[Mingjie Tang](#)
Economist
+974-4453-4736

* Corresponding author

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