

# Could the next normal emerge from Asia?

The coronavirus pandemic is reshaping the global economy. Asia, the first part of the world affected by the crisis, is leading the way out of it.

*by Oliver Tonby and Jonathan Woetzel*



**It is now clear that COVID-19** has presented the global economy with an unprecedented challenge. In the United States and Europe, efforts to control the virus through lockdowns are likely to lead to the largest decline in economic activity since the Great Depression in the US and Europe.<sup>1</sup> And while safeguarding human lives is imperative, the toll on human livelihoods will also undoubtedly be significant.

Asian nations, like others, are focused on this dual mission. In these early stages, it is difficult to quantify the economic impact. McKinsey simulations suggest that in some likely scenarios, real global GDP may decline by 4.9 percent to 6.2 percent from the fourth quarter of 2019 to the second quarter of 2020.<sup>2</sup> The World Bank's latest report paints a bleak picture: under a worst-case scenario, East Asian economies would contract by 0.5 percent, China's projected growth would slow to 0.1 percent, and 11 million people across the region would be forced into poverty.<sup>3</sup>

It's important to remember that this, above all, is a humanitarian challenge. Asia is home to 60 percent of the world's population—and to around 35 percent of the world's poorest people, according to 2019 World Bank data.<sup>4</sup> Pandemics hit the most vulnerable hardest. Asia's emerging areas, particularly India and the nations of Southeast Asia, face unprecedented risks.

Yet as a region, Asia has come through crises before and emerged stronger from them. We have reason to believe it can do so again. In a postpandemic world, can Asia's nations and companies play a major role in defining the next normal?

### **Asia's resilience to disruption**

In 2018, McKinsey Global Institute research on developing economies around the world singled out 18 long-term and recent outperformers. Asia figures prominently on the list, with all seven of the

economies that achieved or exceeded 3.5 percent real annual per capita GDP growth for the entire 50-year period of the study: mainland China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, and Thailand. Even countries hit hard by the 1997 Asian financial crisis returned to positive per capita GDP growth within a year or two. Having absorbed their lesson, they were better prepared for the 2008 global financial crisis.

In an increasingly volatile world, Asian companies have demonstrated dynamism, speed, and agility, which have all contributed to the region's macroeconomic stability. Asian companies have to be resilient: they operate in highly dynamic, fast-growing markets, against the same backdrop of digital disruption and rapidly evolving consumer demands that every organization currently faces. Today, 43 percent of the world's largest companies (by revenue) have their headquarters in Asia. The region's well-diversified, horizontally integrated conglomerates can pivot quickly in times of crisis.

The COVID-19 outbreak began in Asia—but so have early indications of containment, new protocols, and the resumption of economic activity. Although the risk of another outbreak remains, economic-activity indicators in China indicate that urban activities are returning to pre-outbreak levels. Traffic congestion and residential-property sales are close to where they stood in early January 2020, and air pollution and coal consumption have returned to 74 and 85 percent, respectively, of their levels on January 1.<sup>5</sup> A recent McKinsey survey of 2,500 Chinese consumers indicates “cautious optimism”—a gradual regaining of confidence, which should increase spending.<sup>6</sup> At this moment, strong public-health responses in China, Singapore, and South Korea appear to have been successful. Significant evidence indicates that the curve of cumulative confirmed COVID-19 patients in Asia is becoming flatter (exhibit).

<sup>1</sup> Kevin Buehler, Ezra Greenberg, Arvind Govindarajan, Martin Hirt, Susan Lund, and Sven Smit, “Safeguarding our lives and our livelihoods: The imperative of our time, March 2020, McKinsey.com.

<sup>2</sup> Ibid.

<sup>3</sup> “East Asia and Pacific: Countries must act now to mitigate economic shock of COVID-19,” World Bank, March 30, 2020, worldbank.org.

<sup>4</sup> “Year in review: 2019 in 14 charts,” World Bank, December 20, 2019, worldbank.org.

<sup>5</sup> Matt Craven, Linda Liu, Mihir Mysore, Shubham Singhal, Sven Smit, and Matt Wilson, “COVID-19: Implications for business,” March 2020, McKinsey.com.

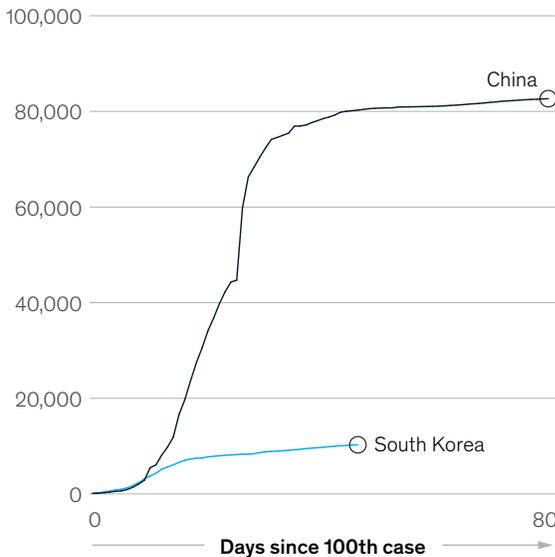
<sup>6</sup> Johnny Ho, Daniel Hui, Aimee Kim, and Yuanyuan Zhang, “Cautiously optimistic: Chinese consumer behavior post-COVID-19,” March 2020, McKinsey.com.

Exhibit

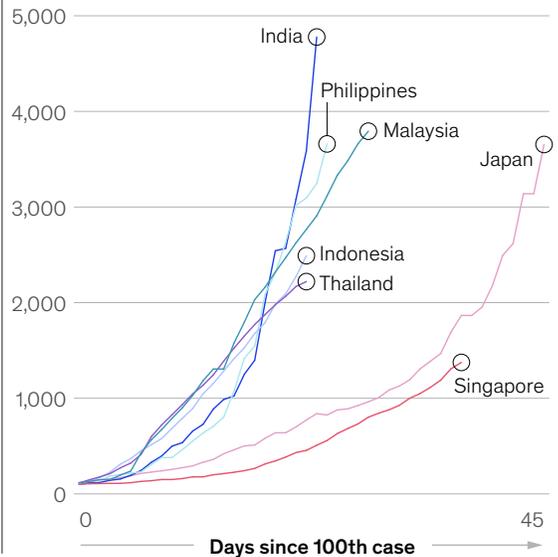
## In Asia, the curve of COVID-19 cases has started to flatten.

Cumulative number of COVID-19 cases in Asia as of April 7, 2020, not exhaustive

China and South Korea



Other Asian countries



Source: WHO

Southeast Asia and India are still bracing for the full impact, and a resurgence of the virus remains a possibility. Nonetheless, it's time to ask if the next normal could be emerging in Asia.

businesses will have to reimagine themselves and prepare for reform. As companies in the region do so, they may be the world's first to shape the next normal. What will that look like? Here are four dimensions that could define it.

### What will shape the next normal?

A shock of this magnitude will change business, society, and the global economic order in many ways. Contactless commerce, for example, could become the permanent norm for consumers as enforced behavioral change becomes an everyday habit. Supply chains may be reconfigured to remove vulnerabilities that have been exposed by the pandemic. Across all aspects of business performance, the crisis will reveal both weaknesses and opportunities to improve.

As our colleagues wrote recently, this “black swan” event will first test the resolve and resilience of all businesses. Some will become more productive and better able to deliver for customers. As Asia’s corporate sector continues to mature and push ahead with digital innovation, we expect that Asia’s

### 1. Rethinking social contracts

In times of crisis, the state plays an essential role in protecting people and prioritizing a nation's resources for the response. People and businesses must adapt to change very quickly. This power shift transforms the implicit, long-held expectations of the roles that individuals and institutions play in society. Concerns about digital and personal privacy, which continue to vary widely across the world, may yield, in some societies, to the usefulness of surveillance and medical data to monitor outbreak clusters. In Hong Kong, phone apps track movement to enforce quarantines. Mainland China’s national health-code system records who is safe to be exempted from them.<sup>7</sup>

Meanwhile, collaboration has increased not only between the public and private sectors but also across the private sector itself. Governments are

<sup>7</sup> “The state in the time of covid-19,” *Economist*, March 26, 2020, economist.com.

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trying levers to sustain consumer and business confidence. Companies take greater responsibility for keeping people employed or for redeploying labor when possible.

In Australia, the supermarket leader Woolworths is working with Qantas to provide up to 20,000 new jobs for airline employees laid off during the grounding of the airline industry, as well as other retail and hospitality workers.<sup>8</sup> Woolworths has also been given the go-ahead to coordinate its supply chain efforts with its biggest rivals, Coles and Aldi, to ensure a fair distribution of fresh food and other groceries and household essentials to Australian consumers.<sup>9</sup>

In Singapore, the leading consumer bank DBS offered complimentary insurance coverage and home-loan-payment relief for employees in affected industries as well as support packages for small and midsize enterprises. The bank's free insurance policy for COVID-19 hospital cash recorded more than 52,000 sign-ups a day at its peak.<sup>10</sup> Special services such as online consultations with doctors and online video lessons for children have proved popular.

## 2. Defining the future of work and consumption

The crisis has created an imperative to escalate the adoption of new technology across all aspects of life, from e-commerce to remote working and learning tools. In China, the adoption of Alibaba's DingTalk, WeChat Work, and Tencent

Meeting to connect physically distanced teams and friends has increased rapidly. DingTalk had to add 20,000 cloud servers to support the traffic.<sup>11</sup> China's Ministry of Education deployed a national cloud-based classroom platform to support remote learning for 50 million students simultaneously. Digital consumption has taken off as well. In South Korea, the online retailer Coupang shipped a record high 3.3 million items on January 28, and SSG.com's food-delivery sales rose by 98 percent.<sup>12</sup> Sales of the delivery business of China's Meituan soared by 400 percent during the outbreak.

Many brands increased their online promotions during the crisis to capture demand. In China, Tsingtao recruited more than 40,000 employees and consumers as "Tsingtao social distributors," who promote products on their own social networks. Tsingtao's WeChat store sales subsequently surged by a factor of three. In a recent virtual roundtable, many executives based in China shared their expectation that consumers will now move, even faster than expected, to digital and e-commerce.<sup>13</sup>

These new practices will probably become a permanent fixture of the next normal, raising interesting questions for organizations. How far can they flex their operations without losing productivity? Could they scale up their commercial or retail footprints in the next normal?

<sup>8</sup> Sharon Masige, "Woolworths is hiring 20,000 more workers, offering mostly casual, temporary positions to retail and airline staff who have lost their jobs," *Business Insider Australia*, March 27, 2020, [businessinsider.com.au](https://www.businessinsider.com.au).

<sup>9</sup> "Coles and Woolworths collaborate to guarantee grocery supply," *Food and Beverage Industry News*, March 27, 2020, [foodmag.com.au](https://www.foodmag.com.au).

<sup>10</sup> Jacob Dahl, Vito Giudici, Sameer Kumar, Vishal Patwari, and Gabriele Vigo, "Lessons from Asian banks on their coronavirus response," March 2020, [McKinsey.com](https://www.mckinsey.com).

<sup>11</sup> Guannan Lu, "Lessons from enterprise collaboration experiments in China in the wake of COVID-19," Forrester Research, March 12, 2020, [go.forrester.com](https://www.forrester.com).

<sup>12</sup> Young Bae, "Covid-19 changes consumption patterns in Korea," *Retail in Asia*, March 2020, [retailinasia.com](https://www.retailinasia.com).

<sup>13</sup> Xin Huang, Alex Sawaya, and Daniel Zipser, "How China's consumer companies managed through the COVID-19 crisis: A virtual roundtable," March 2020, [McKinsey.com](https://www.mckinsey.com).

### 3. Mobilizing resources at speed and scale

Governments have had to implement policies quickly. The ability to direct resources to healthcare systems has been paramount: within weeks, China mobilized tens of thousands of doctors and added tens of thousands of hospital beds to help Wuhan.<sup>14</sup> It also released 1 trillion renminbi (around \$142 billion)—1 percent of GDP—to build public infrastructure and redeployed the labor affected by the demand destruction that the containment measures caused.<sup>15</sup>

Rather than focusing on lockdowns, South Korea emphasized a test, track, and isolate model: widespread testing and monitoring to reduce the risk of transmission. To leverage data, other Asian governments have also invested in the digital ecosystem, mapping clusters and controlling transmission through apps such as Singapore's TraceTogether, South Korea's Corona 100m, and India's chatbot, MyGov Corona Helpdesk. Governments around the world have also implemented other extraordinary fiscal and monetary measures. Australia just announced a 130 billion Australian dollars (around \$80 billion) wage subsidy, part of a total stimulus package equal to 16.4 percent of GDP.<sup>16</sup> Singapore provided two stimulus packages of \$38 billion in all—11 percent of GDP.<sup>17</sup>

Asia has a proven ability to mobilize grassroots resources from the bottom up, as well as the top down. During the Asian financial crisis, for example, South Korea's sense of national unity spurred its citizens to collect and donate household gold, such as jewelry and medals, to pay the country's foreign debt. In just two months, more than \$2.2 billion was collected.<sup>18</sup>

### 4. From globalization to regionalization

The current crisis has shown that the world's dependence on global supply chains is a weak link, especially for commodities with a concentration around what now seem to be vulnerable nodes. China, for example, accounts for about 50 to 70 percent of global demand for copper, iron ore, metallurgical coal, and nickel.

We could see a massive restructuring of supply chains: production and sourcing may move closer to end users, and companies could localize or regionalize their supply chains. This change is likely to become especially prominent in Asia, where a growing middle class creates its own demand for production. Intraregional trade, which has already driven Asian trade for the past decade, accounts for almost as much of the total in Asia as in Europe.<sup>19</sup>

Going forward, companies may accelerate their supply-chain transition from China to other parts of Asia.<sup>20</sup> According to a 2019 AmCham survey, about 17 percent of companies have considered or actively relocated their supply chains away from China. In some sectors, such as textiles, this has already been happening, and the supply-side impact of the coronavirus could accelerate this change.<sup>21</sup> Japan's automakers and South Korea's electronics players have indicated that they may accelerate the diversification of the manufacturing footprint beyond China.<sup>22</sup>

Meanwhile, regional collaboration is already under way in response to the spread of the coronavirus; economies in South Asia, for instance, are sharing best practices and

<sup>14</sup> "CGTN: How China mobilizes whole country to contain coronavirus disease 2019 (COVID-19)," Business Wire, February 28, 2020, [businesswire.com](https://www.businesswire.com).

<sup>15</sup> Nick Leung, Gordon Orr, and Jonathan Woetzel, "The state of the Chinese economy," March 2020, [McKinsey.com](https://www.mckinsey.com).

<sup>16</sup> Michelle Grattan, "\$1,500 a fortnight Job Keeper wage subsidy in massive \$130 billion program," *Conversation US*, March 30, 2020, [theconversation.com](https://www.theconversation.com).

<sup>17</sup> Yen Nee Lee, "Singapore plans a massive \$33.2 billion package to tide its economy through the coronavirus outbreak," CBNC, March 26, 2020, [cnn.com](https://www.cnn.com).

<sup>18</sup> Frank Holmes, "How gold rode to the rescue of South Korea," *Forbes*, September 27, 2016, [forbes.com](https://www.forbes.com).

<sup>19</sup> "The future of Asia: Asian flows and networks are defining the next phase of globalization," McKinsey Global Institute, September 2019, [McKinsey.com](https://www.mckinsey.com).

<sup>20</sup> "China and the world: Inside the dynamics of a changing relationship," McKinsey Global Institute, July 2019, [McKinsey.com](https://www.mckinsey.com).

<sup>21</sup> *Ibid.*

<sup>22</sup> Ovais Subhani, "Epidemic may speed up supply chain move from China to Asean," *Straits Times*, February 22, 2020, [straitstimes.com](https://www.straitstimes.com).

protocols.<sup>23</sup> In the past, Asian responses to crises also brought about a similar kind of coordination—for example, China stepped up as a regional aid donor after the Aceh tsunami.

Regional collaboration within the Association of Southeast Asian Nations (ASEAN) is also evident in efforts to deal with increasing pressure from Southeast Asia's rapid urbanization, which led to the launch of the ASEAN Smart Cities Network (ASCN) in 2018. ASCN aims to facilitate cooperation on the development of smart cities, to catalyze projects between the public and private sectors, and to secure funding and support from ASEAN's external partners.<sup>24</sup>

## **The future global story starts in Asia**

In 2019, we observed that the Future of Asia is now, and we still anticipate a strong long-term growth trajectory in the region. By 2040, Asia is expected to represent 40 percent of global consumption and 52 percent of GDP.<sup>25</sup> We may look back on this pandemic as the tipping point when the Asian Century truly began.

This is certainly the year that will challenge every assumption we held in the past. Structural change will inevitably follow a major world shock like this. The decisions leaders make today will not only influence how quickly organizations and nations emerge from the current crisis but also define how they adapt to the next normal.

**Oliver Tonby** is a senior partner in McKinsey's Singapore office, and **Jonathan Woetzel** is a senior partner in the Shanghai office.

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<sup>23</sup> *End poverty in South Asia*, "South Asia shows new spirit of collaboration to fight COVID-19 (coronavirus) pandemic," blog entry by Cecile Fruman and Mandakini Kaul, March 31, 2020, [blogs.worldbank.org](https://blogs.worldbank.org).

<sup>24</sup> ASEAN Smart Cities Network, Association of Southeast Asian Nations, [asean.org](https://asean.org).

<sup>25</sup> "The future of Asia: Asian flows and networks are defining the next phase of globalization," McKinsey Global Institute, September 2019, [McKinsey.com](https://www.mckinsey.com).