

EXECUTIVE SUMMARY

The COVID-19 pandemic has exposed chronic development fault lines in Asia and the Pacific, taking a heavy toll on the social and economic well-being of the region's people. Slow regional progress in implementing the transformative 2030 Agenda for Sustainable Development has done little to reduce wide gaps in social services, digital access and green development, and that has exacerbated the vulnerability to such shocks.

The pandemic caused unprecedented socioeconomic disruptions in Asia and the Pacific. Working-hour losses totalled the equivalent of 140 million full-time jobs in 2020, while prolonged school closures severely affected education. Taken together, these distortions are likely to have considerable adverse effects on human capital accumulation and productivity. The poor and vulnerable groups were disproportionately affected, resulting in a surge in poverty and a widening of inequality gaps. ESCAP estimates that an additional 89 million people in the region could have been pushed back into extreme poverty at the \$1.90 per day threshold, erasing years of progress in poverty reduction.

The haphazard and less-than-adequate response by Governments to such a shock highlights the urgency to rethink economic policymaking, which has so far been focused primarily on economic growth, neglecting critical investments in people and in building resilience. To this end, the *Survey for 2021* takes stock of the socioeconomic fallout from the current pandemic and looks at past economic and non-economic shocks that have inflicted damage on the region's sustainable development prospects in order to draw lessons on how to *build forward better* during the post-pandemic recovery. It presents the contours of policy packages that are needed in this regard and analyses the impact of implementing them across the economic, social and environmental dimensions of sustainable development.

Uncertain turnaround after an unprecedented recession

Developing countries in Asia and the Pacific registered their weakest economic performance since at least 1990, with an estimated 1.0 per cent output contraction in 2020, although this is somewhat better than the 1.8 per cent contraction expected earlier. A relatively quick turnaround in East and North-East Asia and parts of South-East Asia, supported by more effective pandemic control, swift recovery of domestic production and strong merchandise export performance, are the main reasons for this revised assessment. However, prolonged COVID-19 outbreaks, pre-pandemic economic challenges and structural vulnerabilities, including considerable exposure to contact-intensive and informal sectors, contributed to the slower and uneven recovery in other parts of the region. Parallel shocks of an oil price crash in early 2020 and natural disasters further exacerbated the recession in oil-exporting economies in the region and disaster-affected countries, especially in the Pacific subregion. While the Asia-Pacific region's least developed countries as a whole maintained positive economic growth in 2020, greater employment vulnerability, lower income levels, thinner fiscal buffers and inadequate social security coverage resulted in considerable development setbacks for them.

The *Survey for 2021* is cautiously optimistic on the economic outlook for 2021/22. Developing Asia-Pacific economies are forecast to grow by 5.9 per cent in 2021 and 5.0 per cent in 2022. However, for

most countries, the rebound will not be enough to compensate for the output loss in 2020. Moreover, there are **considerable uncertainties and downside risks**. The pandemic remains far from being fully contained in Asia and the Pacific, with the emergence of new hotspots and the reintroduction of stringent lockdowns in several countries. The rollout of COVID-19 vaccines is subject to multiple challenges and will be highly uneven across countries, with most developing countries expecting to achieve effective protection only by 2022. A “K-shaped recovery” is likely, with poorer countries and more vulnerable groups being marginalized in the post-pandemic recovery and transition period.

A confluence of macroeconomic risks and trade tensions also weigh on the economic outlook.

The fiscal response to the pandemic alongside excessive financial leveraging and subdued long-term productivity could jeopardize fiscal sustainability and add to the risk of future stagflation. At the same time, ongoing trade frictions and the process of “tech-decoupling” pose challenges to export prospects and regional value chains.

Near-term macroeconomic policies need to prioritize pandemic control and back an inclusive recovery.

A focus on inclusiveness would support more synchronized COVID-19 vaccination across countries, saving huge potential economic and human costs by shortening the pandemic threat to all. An inclusive recovery would also mitigate the risk of post-pandemic inequality and social unrest, and better support the recovery of aggregate demand. Policy continuity in fiscal and monetary support to consolidate the recovery and lay down a solid foundation for future development is essential. In view of the reduced fiscal space, an effort to strengthen policy quality and development synergies is required for greater developmental payoffs. In addition, Asia and the Pacific should harness regional cooperation and economic integration to better navigate post-pandemic uncertainties and respond to ongoing challenges in global trade and value chains.

Understanding resilience: lessons from past crises and recoveries

The Asia-Pacific region faces a complex risk landscape, or “risk-scape”. The far-reaching effects of the COVID-19 pandemic are a reminder that policymakers can no longer work in silos to separately consider “economic” and “non-economic” shocks and outcomes. Health emergencies and climate disasters are also economic risks, while financial crises and trade shocks can reverse hard-won gains on the social and environmental fronts. This calls for a more comprehensive approach to building resilience in line with the ambitions of the 2030 Agenda for Sustainable Development.

Drawing lessons from the region’s past crises and recoveries, the Survey for 2021 finds that all adverse shocks result in permanent losses across the three dimensions of sustainable development.

For instance, following a financial crisis, investment collapsed by nearly 20 per cent in the first year and failed to return to the pre-crisis level even after five years. Similarly, the unemployment rate and income Gini coefficient increased considerably following such epidemics as SARS, H1N1 and MERS, possibly due to uncertainty and reallocation effects in the labour market as well as unequal access to health care. Environmental performance, as measured by a composite index, also deteriorated in the wake of adverse shocks, undoing up to five years of progress. Natural disasters could generate waste and pollution, while economic shocks could prompt businesses and households to cut down spending on energy efficiency measures.

Given such dire implications of shocks, a key question is: to what extent can policy choices reduce setbacks and long-term scars? **Based on the region's own experience, the Survey for 2021 finds that economic policy choices and external financing options can determine the shape of recovery.** For instance, Asia-Pacific countries were more resilient to the 2008 global financial crisis because they responded with countercyclical fiscal and monetary stimulus instead of adopting abrupt fiscal consolidation and interest hikes as had happened during the 1997 Asian financial crisis. Similarly, remittances and official aid played a crucial cushioning role and helped avoid sharp increases in extreme poverty in the wake of natural disasters and terms-of-trade shocks.

Furthermore, the Survey for 2021 finds that pre-existing vulnerabilities can amplify shocks and make recoveries more difficult. In the wake of epidemics/pandemics and trade shocks, countries that had low health and social protection expenditures and widespread vulnerable employment faced larger setbacks in economic growth, poverty, inequality and human capital. Natural disasters had a more devastating impact on countries with low-quality infrastructure and less diversified economies. Without good roads and telecommunications, disaster relief could be delayed and economic disruptions prolonged. Less diversified economies may also find it challenging to adapt to shocks in the medium term.

Over time, the development trajectories of countries could diverge not only because of the varying risks they face but also because of how they manage such risks. Given that adverse shocks affect economic, social and environmental outcomes, progress on implementing the entire 2030 Agenda for Sustainable Development could be at risk. The Survey for 2021 finds that, on average, a financial crisis lowers GDP per capita by less than 1 per cent in countries that respond aggressively to shocks and have low pre-existing vulnerabilities compared with more than 3 per cent in other countries. An epidemic sets back educational outcomes by half a year in the former countries compared with a year and a half in the latter. A natural disaster sets back environmental performance by less than a year in the former countries compared with more than six years in the latter.

In the light of these findings, **the Survey for 2021 makes three recommendations with regard to dealing with a variety of economic and non-economic shocks.** First, *countries should respond aggressively to adverse shocks in order to minimize the reversal of hard-won gains.* To safeguard sustainable development in times of crisis, countries should opt for a strong and swift response rather than end up with "too little, too late". Second, *risk management should become part and parcel of development planning and policymaking.* Policymakers should assess how persistent and cross-cutting are the likely impacts of shocks and identify pre-crisis and post-crisis measures that will enhance resilience. Third, *international assistance should be strengthened towards least developed countries that suffer from a significant "resilience gap".* Developed countries need to fulfill their commitments on ODA and climate finance, which would go a long way in scaling up long-term investments and addressing these countries' vulnerability to external shocks.

Policy package to build resilience: ensure universal access to health care and social protection, close the digital divide and strengthen climate and energy actions

The COVID-19 pandemic triggered an unprecedented fiscal response, with \$4.3 trillion (12.8 per cent of 2019 GDP) being spent in Asia and the Pacific (\$1.8 trillion – 6.6 per cent of 2019 GDP, excluding Australia, Japan and New Zealand). Still, the initial optimism that such spending could help make economies resilient, inclusive and greener has been largely belied. For example, only a handful of the measures to restore economic growth momentum have supported gender equality, and a large part of the spending encourages more production and consumption of fossil fuels without green commitments. In sum, there remains considerable room for Asia and the Pacific to build forward towards a better future.

In going forward, countries should prioritize a better alignment of the COVID-19 recovery packages with the 2030 Agenda. The *Survey for 2021* proposes an illustrative policy package that seeks to ensure universal access to health care and social protection, close the digital divide and strengthen climate and energy actions. **It estimates that this “building forward better” package could reduce the number of poor people in the region by almost 180 million and cut carbon emissions by about 30 per cent in the long run. Importantly, the package does not necessarily add much fiscal burden if it is accompanied by bold policy actions**, such as ending fuel subsidies and introducing a carbon tax. Yet, public debt sustainability could be at risk for some less developed Asia-Pacific countries, which need to increase their spending by as much as 24 per cent of GDP per year in order to deliver such a package.

Financing the “building forward better” package: exploring the potential of various options

The *Survey for 2021* examines selected policy options to meet immediate and medium-term financing needs. These include debt service suspensions, debt swaps for development, sovereign bond financing, public debt management, emergency financing mechanisms and sustainable investing by public institutional investors. Although some progress has been made, there remains large potential for less developed Asia-Pacific countries to leverage these policy options. Among others, they should engage more actively in dialogues with official and multilateral creditors to benefit from debt service suspensions. Under the right conditions, offshore sovereign bonds and diaspora bonds can also be viewed as low-hanging fruit for several countries. At the same time, renewed interest in debt swaps for development could bring about significant debt relief impacts if, based on past lessons, the scale and design of these agreements are enhanced. To benefit from these opportunities, developing Asia-Pacific economies need to make their debt management and reporting more transparent in order to reaffirm their commitments to meet debt obligations.

As the available policy options are vast and diverse, Governments of countries in the Asia-Pacific region need to focus on the options that leverage their strengths and are implementable given their institutional capacity. Sole actions by Governments, however, are unlikely to be adequate. To *build forward better together*, multilateral cooperation not only matters but also is essential. The full potential of fiscal and financing policies discussed in the *Survey for 2021* can be realized only when different Asia-Pacific countries and their international development partners work closely together as creditors and debtors, investors and investees, and guarantors and beneficiaries. More broadly, the private sector, including asset owners and managers, financial institutions and corporations, needs to step up its contributions to achieve more resilient, equal and green development.

Powering through the pandemic: policymaking must not lose sight of building resilience

The COVID-19 pandemic is a crisis like no other. Yet, it offers opportunities like no other. Being forced to adjust, the Asia-Pacific region has seen lives, workplaces and habits being transformed in fundamental ways. People are risking their lives on behalf of others, and there has been a reduction in air pollution and greenhouse gas emissions. It is high time that the Asia-Pacific region begins investing in laying the foundations of resilient well-being of people and the planet.

The transition towards more resilient and sustainable economies should become an integral pillar in the post-pandemic economic recovery phase, following a differentiated strategy across countries. It is understandable that the initial policy responses to the pandemic were focused on mitigating its immediate harmful impacts, but building up defense against future shocks would require more forward-looking policies. In particular, countries better resourced and more prepared to reap the economic synergies from climate actions should be the champions and lead by example.

A spirit of multilateralism and collaboration is also essential. For pandemic control, Asia and the Pacific is ideally positioned for regional cooperation to complement the global effort to ensure more even progress across countries in COVID-19 vaccination programmes. Further regional alliances, such as the Regional Comprehensive Economic Partnership free trade agreement, could also open new economic opportunities and strengthen the region's resilience to external shocks.