Towards post-COVID-19 resilient economies

Economic and Social Survey of Asia and the Pacific 2021

Macroeconomic Policy and Financing for Development Division

30 March 2021
Main messages

• The socio-economic impact of the COVID-19 pandemic was amplified due to lack of resilience and investments in people and the planet.

• Continuity in policy support is a must and recovery policy packages should focus on building resilience and investing in the 2030 Agenda.

• To deal with various economic and non-economic shocks, a more integrated risk management approach to planning and policymaking is needed.

• We propose a "Building Forward Better" policy package that calls for investments in social services, digital access and green development.

• To implement such a policy package, countries would need to build fiscal space and explore a range of financing options.
The present: COVID-19 is a stark reminder that health emergencies cause not only social damage but also entail economic risks.
Asia-Pacific region experienced its **worst economic performance in recent history**...

GDP growth (%) in developing Asia and the Pacific

- 2016: 5.7%
- 2017: 5.9%
- 2018: 5.3%
- 2019: 4.2%
- 2020: -1.0%
- 2021: (est)
- 2022: (est)
... with **significant socio-economic costs.**

**Equivalent number of full-time jobs lost in 2020**
(millions of jobs, 48 hours/week)

<table>
<thead>
<tr>
<th>Region</th>
<th>Jobs Lost (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>140</td>
</tr>
<tr>
<td>East Asia</td>
<td>35</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>24</td>
</tr>
<tr>
<td>South Asia</td>
<td>80</td>
</tr>
<tr>
<td>Pacific</td>
<td>1</td>
</tr>
</tbody>
</table>

**Post-Pandemic increase in poverty**
(Asia-Pacific, millions of persons)

- **$1.90 per day**
  - Asia-Pacific: 140
  - East Asia: 35
  - South-East Asia: 24
  - South Asia: 80
  - Pacific: 1

- **$3.20 per day**
  - Asia-Pacific: 158
  - East Asia: 35
  - South-East Asia: 24
  - South Asia: 80
  - Pacific: 1

- **$5.50 per day**
  - Asia-Pacific: 172
  - East Asia: 35
  - South-East Asia: 24
  - South Asia: 80
  - Pacific: 1

Source: ESCAP based on ILO (2021) and WB data
Given considerable uncertainty, economic outlook is cautiously optimistic for 2021-22

GDP growth (%) in developing Asia and the Pacific
Some aspects of the COVID-19 impact are temporary

Vaccine rollouts have begun

Fiscal and monetary policies are expected to remain accommodative

Strong export & regional value chains

Major economies worldwide are gradually recovering

Such optimism is supported by multiple factors…
...but risks are tilted to the downside...

- Slow progress & uncertainties in vaccination
- Trade in services (international tourism) remains subdued
- Debt distress is on the rise
- Long-lasting impacts on productivity
- Capital flow uncertainties & risk of stagflation
- Lingering trade tensions
…with expected permanent losses in output...

Economic output trend in Asia-Pacific developing countries (trillion US$)

Cumulative output loss 2020-22: $2.6 trillion

Source: ESCAP estimation
...and a likely “K-shaped” recovery in the region
Near-term policy priorities

- Put pandemic control first
- Prioritize inclusiveness for a robust recovery
- Ensure continuity in fiscal & monetary support
The past: Learning from Past Crises and Recoveries to Build Resilience
Asia-Pacific faces a **wide risk landscape**...

**Asia-Pacific Risk Landscape**

- 1960s-1970s
- 1980s-1990s
- 2000-present

**Selected Countries**

- Philippines
- Viet Nam
- Iran, Islamic Republic of
- Fiji
- Bangladesh
- Turkey
- Indonesia
- China
- Tajikistan
- Mongolia

**Number of adverse events**

- Financial crises
- Terms-of-trade shocks
- Natural disasters
- Pandemics
- Systemic banking crises
- Sovereign debt crises
- Currency crises
- Climate-related disasters
- Geophysical disasters
- Pandemics
...where adverse shocks leave long-term scars.

**Investment slowdown** from financial crises

**Increased inequality** from pandemics

**Environmental damage** from natural disasters
However, **policy choices can reduce such setback!**

<table>
<thead>
<tr>
<th>Economic policies</th>
<th>Structural factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal policy</td>
<td>Health and social protection system</td>
</tr>
<tr>
<td>Monetary and financial measures</td>
<td>Infrastructure quality</td>
</tr>
<tr>
<td>Reserves and exchange rate regime</td>
<td>Economic diversification</td>
</tr>
<tr>
<td>External financing</td>
<td>Governance and institutions</td>
</tr>
</tbody>
</table>
Pandemics have a more severe economic and social impact...
... in countries with pre-existing **structural vulnerabilities**
Lesson learned – 1: **Respond strongly & swiftly to shocks to safeguard sustainable development**

Potential boost to sustainable development from resilience-enhancing policies

![Bar charts showing potential boost to GDP per capita, Human capital, and Environmental performance](chart.png)
Lesson learned – 2: Integrate risk management into national development planning and policymaking

Crisis preparation and coping strategies

- Early warning system
- Financial regulation
- Climate-resilient infrastructure
- Insurance
- Adaptive social protection
- Deploying fiscal space
- Remittances and ODA
Lesson learned – 3: Strengthen the resilience of least developed and other vulnerable countries
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The Future: Build Forward Better to enhance the resilience of people and the planet
**SDG Progress in Asia and the Pacific has been lagging...**

<table>
<thead>
<tr>
<th>SDG No.</th>
<th>Target 2030</th>
<th>2000</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No poverty</td>
<td></td>
<td></td>
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<tr>
<td>2</td>
<td>Zero hunger</td>
<td></td>
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<td>3</td>
<td>Good health and well-being</td>
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<td>4</td>
<td>Quality education</td>
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<tr>
<td>5</td>
<td>Gender equality</td>
<td></td>
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<tr>
<td>6</td>
<td>Clean water and sanitation</td>
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<tr>
<td>7</td>
<td>Affordable and clean energy</td>
<td></td>
<td></td>
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<tr>
<td>8</td>
<td>Decent work and economic growth</td>
<td></td>
<td></td>
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<tr>
<td>9</td>
<td>Industry, innovation and infrastructure</td>
<td></td>
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<tr>
<td>10</td>
<td>Reduced inequalities</td>
<td></td>
<td></td>
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<tr>
<td>11</td>
<td>Sustainable cities and communities</td>
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<tr>
<td>12</td>
<td>Responsible consumption and production</td>
<td></td>
<td></td>
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<tr>
<td>13</td>
<td>Climate action</td>
<td></td>
<td></td>
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<tr>
<td>14</td>
<td>Life below water</td>
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<td></td>
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<tr>
<td>15</td>
<td>Life on land</td>
<td></td>
<td></td>
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<tr>
<td>16</td>
<td>Peace, justice and strong institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Partnership for the goals</td>
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</tbody>
</table>
… and the recovery packages leave room to integrate social and environmental issues

Most recovery policies are not gender-sensitive:

- Fiscal support for businesses: 11%
- Social Protection: 14%
- Labour market: 9%

Most public fund commitments neglect green energies:

- Clean unconditional: 3%
- Clean conditional: 27%
- Fossil: 51%
- Other energy: 19%

Note: Data shows shares of 10 countries covered by the energypolicytracker
We propose a “Building Forward Better” policy package...
…which brings social & environmental benefits…
…which brings **social & environmental benefits**…
... but with more pressure on public debt
...but with more **pressure on public debt**, especially in Asia-Pacific LDCs
Which fiscal and financing policies can help?
Policy options to address fiscal and financing challenges in less developed countries

- Actively engage in debt relief initiatives
- Make debt swaps for development meaningful
- Explore diaspora bonds, offshore public bonds
- Incorporate catastrophic risks into fiscal planning
Policy options to address fiscal and financing challenges in emerging economies

- Grant debt restructuring
- Ensure medium-term debt management strategies
- Explore more catastrophe insurances + bonds
- Ease investment rules for pension + sovereign wealth funds
UN System’s support to member States to deal with debt & financing challenges

- UN SG is leading global efforts to help address fiscal challenges emerging in the aftermath of COVID-19.

- The recent policy brief outlines policy recommendation around three areas, addressing:
  1. immediate liquidity constraints;
  2. debt overhangs and creating space for investment in crisis response, the SDGs, and climate action;
  3. the reform of the international debt architecture.
Key takeaways

• Despite a cautiously optimistic outlook, there is a risk of a K-shaped recovery – policymakers should prioritize inclusiveness for a robust recovery.

• Policymakers should assess the wider risk landscape and focus on “reducing setbacks” as well as “accelerating progress” on sustainable development.

• COVID-19 presents an opportunity to build forward better – recovery policy packages should adequately focus on social services, digital access, and climate action.