Economic and Social Survey of Asia and the Pacific 2021

Towards post-COVID-19 resilient economies

Pacific Policy Dialogue

4 May 2021
Main messages

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

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

• Dealing with various economic and non-economic shocks requires an integrated risk management approach to planning and policymaking.

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

• To implement the BFB 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.
PIDS experienced its worst economic performance in recent history...

GDP growth (%)
… with significant socio-economic costs

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Pre-pandemic</th>
<th>Post-pandemic Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.9-per-day</td>
<td>342</td>
<td>418</td>
</tr>
<tr>
<td>$3.2-per-day</td>
<td></td>
<td></td>
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<tr>
<td>$5.5-per-day</td>
<td>349</td>
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Given considerable uncertainty, economic outlook is cautiously optimistic for 2021-22
Near-term optimism is supported by multiple factors...

- 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
...but risks are tilted to the downside...

- Slow progress & uncertainties in vaccination
- 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 PIDS**
(billions US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
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<tr>
<td>Cumulative output loss 2020-22: $11 billion</td>
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Source: ESCAP estimation
Forecasted 2022 economic output as a share of 'potential' 2022 output

- Fiji
- Samoa
- Marshall Islands
- Tonga
- Palau
- Vanuatu
- Marshall Islands (Federated States of)
- Tuvalu
- Solomon Islands
- Kiribati
- Papua New Guinea
- Nauru
- Pacific island developing economies
- Developing ESCAP economies

(Bar chart showing the economic output forecast as a share of potential output for each country listed.)
...and a likely “K-shaped” recovery in Asia-Pacific
The Past: Learning from Past Crises and Recoveries to Build Resilience
Climate-related disasters are prominent in the PIDS risk landscape
Adverse shocks leave long-term scars on the economy, society and the environment.
However, **policy choices can reduce such setback!**

### Economic policies
- Fiscal policy
- Monetary and financial measures
- Reserves and exchange rate regime
- External financing

### Structural factors
- Health and social protection system
- Infrastructure quality
- Economic diversification
- Governance and institutions
Pandemics have a more severe economic and social impact...

**GDP per capita impact of pandemics**
- High public health spending

**Consumption impact of pandemics**
- Formal work arrangements

**Human capital impact of pandemics**
- High-quality infrastructure
... in countries with pre-existing structural vulnerabilities

- **GDP per capita** impact of pandemics
- **Consumption** impact of pandemics
- **Human capital** impact of pandemics

- High public health spending
- Low public health spending
- Formal work arrangements
- Widespread vulnerable employment
- High-quality infrastructure
- Low-quality infrastructure
Lesson learned – 1: **Respond strongly & swiftly** to shocks to safeguard sustainable development

Lesson learned – 2: **Integrate risk management** into national development planning and policymaking

Lesson learned – 3: **Strengthen the resilience** of LDCs, SIDS and other vulnerable countries
The Future: Build Forward Better to enhance the resilience of people and the planet
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**…

**Number of poor people**

**Carbon emissions**

**Gini coefficient**

**Air quality (PM2.5)**

**Ambitious Spending**
...which brings **social & environmental benefits**...
... but with more pressure on public debt
Which fiscal and financing policies can help?
Selected policy options to meet **financing needs**

- Engage in debt relief initiatives, including debt-for-climate swaps
- Explore diaspora bonds, offshore public bonds
- Enhance public debt management
- Explore more emergency financing mechanisms
- Ease investment rules for pension + sovereign wealth funds
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.