Economic and Social Survey of Asia and the Pacific 2021

Towards post-COVID-19 resilient economies

East and North-East Asia Policy Dialogue

19 April 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.

• 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 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.
Asia-Pacific region experienced its worst economic performance in recent history...

GDP growth (%) in developing Asia and the Pacific
... with significant socio-economic costs.

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

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

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
Less sharp GDP deceleration in **East and North-East Asia**…

GDP growth (%) in East and North-East Asia subregion

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6.1</td>
</tr>
<tr>
<td>2017</td>
<td>6.3</td>
</tr>
<tr>
<td>2018</td>
<td>6.0</td>
</tr>
<tr>
<td>2019</td>
<td>5.4</td>
</tr>
<tr>
<td>2020</td>
<td>1.6</td>
</tr>
<tr>
<td>2021</td>
<td>6.8</td>
</tr>
<tr>
<td>2022</td>
<td>5.4</td>
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</tbody>
</table>
...with smaller poverty increase in **East and North-East Asia**

Post-Pandemic increase in poverty (millions of persons)

- $1.9-per-day: 0.3
- $3.2-per-day: 2.8
- $5.5-per-day: 15.3

Economic and Social Commission for Asia and the Pacific
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
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
...but risks are tilted to the downside...
…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**

- Financial crises
- Terms-of-trade shocks
- Natural disasters
- Pandemics

**Selected Countries**

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

- Systemic banking crises
- Currency crises
- Sovereign debt 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!**

- **Adverse shocks**
  - Policy choices

<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

![Graphs showing impact of pandemics on GDP per capita, consumption, and human capital](image)
Lesson learned – 1: **Respond strongly & swiftly to shocks to safeguard sustainable development**

*Difference in 5-year cumulative impact between countries with and without supportive policies*

<table>
<thead>
<tr>
<th></th>
<th>GDP per capita</th>
<th>Human capital</th>
<th>Environmental performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial crises</td>
<td>6</td>
<td>1.5</td>
<td>3</td>
</tr>
<tr>
<td>Natural disasters</td>
<td>3</td>
<td>1.0</td>
<td>2</td>
</tr>
<tr>
<td>Epidemics</td>
<td>0</td>
<td>0.0</td>
<td>1</td>
</tr>
</tbody>
</table>
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
- Adaptive social protection
- Deploying fiscal space
- Remittances and ODA

Preparation for crisis vs. Coping with crisis
Lesson learned – 3: Strengthen the resilience of least developed 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…
... but with more **pressure on public debt**
...but with more **pressure on public debt**, especially in Asia-Pacific LDCs

![Graph showing government debt-to-GDP ratio (%)](image)

**Developing Asia-Pacific**

- Baseline
- BFB
- BFB and COVID-19

**Asia-Pacific LDCs**

- Baseline
- BFB
- BFB and COVID-19
Social and environmental benefits: **East and North-East Asia**

![Graphs showing changes in number of poor people, Gini coefficient, Carbon emissions, and Air quality (PM2.5).](image)

- **Number of poor people**
  - Ambitious Spending
  - Business-as-usual spending

- **Gini coefficient**

- **Carbon emissions**

- **Air quality (PM2.5)**

**Social and environmental benefits:**

**East and North-East Asia**
Public debt sustainability: East and North-East Asia

Government debt-to-GDP ratio (%)

BFB and COVID-19

BFB

Baseline

90
95
100
105
110

2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
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
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.
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