Towards post-COVID-19 resilient economies

Economic and Social Survey of Asia and the Pacific 2021

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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

- **5.7** 2016
- **5.9** 2017
- **5.3** 2018
- **4.2** 2019
- **-1.0** 2020
… 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
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

Previous trend
2020-2022 Forecast

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

**An inclusive recovery would deliver 3 benefits**

1. Shorten pandemic threat for all
2. Reduce risk of post-pandemic unrest
3. Most effectively support rebound in aggregate demand
The past: Learning from Past Crises and Recoveries to Build Resilience
Asia-Pacific faces a **wide risk landscape**...
...where adverse shocks leave long-term scars.
However, **policy choices can reduce such setback**!
Pandemics have a more severe economic and social impact...

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

- **GDP per capita**
  - Financial crises: 3.0
  - Natural disasters: 3.5
  - Epidemics: 6.0

- **Human capital**
  - Financial crises: 1.0
  - Natural disasters: 0.5
  - Epidemics: 1.5

- **Environmental performance**
  - Financial crises: 2.0
  - Natural disasters: 1.5
  - Epidemics: 1.0
Lesson learned – 2: Integrate risk management into national development planning and policymaking
Lesson learned – 3: Strengthen the resilience of least developed and other vulnerable countries
Lesson learned – 3: Strengthen the resilience of least developed and other vulnerable countries

- Sovereign Credit Rating Index
- Exchange Rate Flexibility Index
- Social protection spending (Percentage of GDP)
- Infrastructure Quality Index
- Economic Complexity Index

- Least developed countries
- Other developing countries
- OECD countries
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
SDG Progress in Asia and the Pacific has been **lagging**…

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

![Graph showing government debt-to-GDP ratio for Developing Asia-Pacific and Asia-Pacific LDCs over the years 2019 to 2030. The graph indicates an increasing trend in debt-to-GDP ratio for both regions, with a marked increase after 2020 due to BFB and COVID-19 impacts.](chart.png)
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.