Economic and Social Survey of Asia and the Pacific 2021

Towards post-COVID-19 resilient economies

Policy Dialogue with UNRCO Economists

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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

--- | --- | --- | --- | --- | --- | ---
5.7  | 5.9  | 5.3  | 4.2  |       |       |
… with significant socio-economic costs.

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

- Asia-Pacific: 140
- East Asia: 35
- South-East Asia: 24
- South Asia: 80
- Pacific: 1

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

- $1.90 per day: 89
- $3.20 per day: 158
- $5.50 per day: 172

Source: ESCAP based on ILO (2021) and WB data
Economic outlook is cautiously optimistic for 2021-22…

GDP growth (%) in developing Asia and the Pacific

- 2016: 5.7%
- 2017: 5.9%
- 2018: 5.3%
- 2019: 4.2%
- 2020: -1.0%
- 2021: 5.9%
- 2022: 5.0%
...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 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
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

Number of adverse events

0 | 5 | 10 | 15
...where adverse shocks leave long-term scars.

**Investment slowdown from financial crises**

**Increased inequality from pandemics**

**Environmental damage from natural disasters**
Pandemics have a more severe socioeconomic impact in countries with pre-existing structural vulnerabilities.
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*

- **GDP per capita**
  - Financial crises
  - Natural disasters
  - Epidemics

- **Human capital**
  - Financial crises
  - Natural disasters
  - Epidemics

- **Environmental performance**
  - Financial crises
  - Natural disasters
  - Epidemics
Lesson learned – 2: Integrate risk management into national development planning and policymaking

Crisis preparation and coping strategies

- Early warning system
- Climate-resilient infrastructure
- Financial regulation
- Insurance
- Adaptive social protection
- Deploying fiscal space
- Remittances and ODA
- Coping with crisis
- Preparing for crisis

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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
Public debt sustainability is vulnerable to slower-than-expected economic growth and fiscal contingent liabilities.
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
Much of public debt in less developed Asia-Pacific economies is owed to official lenders

Composition of external PPG debt by creditor

Participation in G20 Debt Service Suspension Initiative

<table>
<thead>
<tr>
<th>Participation in DSSI</th>
<th>Risk of overall debt distress</th>
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<tbody>
<tr>
<td>Yes</td>
<td>Not available&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>Fiji (13.3)</td>
<td>Myanmar (359.3)</td>
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<td>Pakistan (2,487.8)</td>
<td>Nepal (21.3)</td>
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<td>No</td>
<td>Mongolia (60.4)</td>
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<td>Cambodia (209.2)</td>
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<td>Timor-Leste (0.0)</td>
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<td>Uzbekistan (217.5)</td>
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Note: Numbers in the parentheses are potential DSSI savings during Jan-Jun 2021, where available ($ million).
<sup>a</sup> denotes countries not covered in debt sustainability analysis for low-income countries.
<sup>b</sup> denotes countries whose debt distress risk is based on external debt only.
Different types of shocks require different financing modalities

- Donor/international assistance
  - Catastrophe bond and swap
  - Indemnity-based insurance
  - Parametric insurance

- Insurance of public assets

- Contingent loans and credit lines

- Domestic and foreign borrowings
  - Tax increases

- Government’s reserves
  - Contingency fund
  - Budget reallocations

- Government’s regular budget

Phase of policies:
Relief → Recovery → Reconstruction & build forward better

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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
Clear definition of sustainable development would help mobilize more sustainable investing

Challenges in sustainable investing

- Lack of clear, agreed definitions of sustainable development
- Performance concerns
- Lack of transparency and reported data
- Difficulty in measuring and managing risk
- Cost

Assets under management in 2019

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<thead>
<tr>
<th>Country</th>
<th>Pension fund</th>
<th>Sovereign wealth fund</th>
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<td>Timor-Leste</td>
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<td>Australia</td>
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0 100 200 300 400 500 600 700 800 900
% of GDP

Percentage of survey respondents

- Global
- Asia-Pacific region
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.
Bringing ESCAP Macro Model to Asia-Pacific countries

• The model is well suited for countries that are:
  • Designing COVID-19 recovery packages that align with the SDGs
  • Preparing national medium-term development plans

• Ongoing ESCAP projects
  • Cambodia, Mongolia, Nepal, Pakistan, Samoa and Timor-Leste

• Expected outputs
  • Further elaborate the technicality of country models
  • Prepare country studies on the socioeconomic and environmental impacts of policy priorities
  • Capacity-building workshops to learn and discuss the models and country studies
ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2021

Towards post-COVID-19 resilient economies

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