Economic Policies for an Inclusive Recovery and Development

Economic and Social Survey of Asia and the Pacific 2022

Policy Dialogue
Philippine Institute for Development Studies
14th July 2022
The 2022 Survey was prepared at the turn of 2021/22.

At that time, the global geopolitical situation and economic projections were substantially different from the current ones.

However, the 2022 Survey has been focused on long-term trends shaping Asia-Pacific region. Therefore, most of the findings remain relevant, especially those referring to inequality and management of crisis situations.
Concerns about **persisting inequalities** have come to the fore in the aftermath of the COVID-19 pandemic ... macroeconomic policies need to address these concerns.

Despite a reasonably strong economic rebound from the pandemic, **people are left behind**... this calls for more attention to inclusive policies.

The **2022 Survey** goes beyond traditional macroeconomic thinking and provides new insights on how macroeconomic and structural policies can tackle inequality:
Economic performance and Outlook
– a nascent recovery and uncertain outlook
Asia-Pacific region experienced a strong economic rebound in 2021.

GDP growth (%) in developing Asia and the Pacific

Source: ESCAP estimates and projections.
Asia-Pacific region experienced a strong economic rebound in 2021

- Rebound supported by robust external demand

Source: ESCAP based on CEIC, CPB Netherlands Bureau for Economic Policy Analysis
Asia-Pacific region experienced a strong economic rebound in 2021

- Supported by robust external demand
- With manufacturing and industrial production responding accordingly

Source: Based on CEIC data and CPB Netherlands Bureau for Economic Policy Analysis
Yet, the **level of output is below the pre-pandemic path**...

- Rebound supported by robust external demand
- In turn, manufacturing and industrial production responded to strong external demand
- Still, the level of output is about **2% below** the pre-pandemic path

**Total output loss in 2020-2022 is $2 trillion**

Source: ESCAP estimates and projections.
...and recovery is still nascent and uneven between regions...
...and countries

Source: ESCAP estimates.
Inflation has been on a rising trend **surpassing targets** in many countries

- Rising global commodity prices
- Soaring food price index
- High shipping costs
- Currency depreciation
- Pandemic related expansionary fiscal and monetary response

Source: Based on CEIC data (accessed 4 March 2022).
Note: Inflation and core inflation are for the latest month available between December 2021 and February 2022.
Outlook is riddled with uncertainty

- Recovery expected at a more moderate pace in 2022 and 2023
- Full resumption influenced by availability of vaccines, stringency of restrictions, labour market recovery
- The Russia-Ukraine war has cast a shadow on recovery prospects
- Inflation, along with interest rates, is expected to remain elevated in the near term
- Risks of long-lasting scars and macroeconomic stability are rising

Source: ESCAP estimates and projections.
Why should we care about inequality?
The K-shaped recovery has brought the issue of inequality to the fore, with vulnerable sections disproportionately affected...
...and 85 million people have been pushed back into extreme poverty, making the issue all the more pertinent

Source: ESCAP estimates.
Addressing this gap and *building forward fairer* will require *coordinated government action.*
Policy Considerations

Video – summary of Survey 2022 messages

https://www.youtube.com/watch?v=Wtbde1wLd4I&ab_channel=UnitedNationsESCAP
Government’s role in reducing inequality
Fiscal policy matters...
Impact of seemingly same category fiscal policies varies greatly raising questions on effectiveness and targeting

Impact of fiscal policies on inequality, according to 1 per cent of GDP expenditure/revenue

Gini coefficient (0-100)

Fiscal spending can **tackle inequality ..... but impact varies**

Source: ESCAP estimates based on CEQ data.
However, **fiscal space** has dwindled, debt is up, and **consolidations are expected**.

**Fiscal indicators**

Asia-Pacific developing countries, as a percentage of GDP

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>Median debt-to-GDP</td>
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</tbody>
</table>

**Fiscal balance**

Asia-Pacific developing countries, as a percentage of GDP

<table>
<thead>
<tr>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>2016</td>
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<tr>
<td>2018</td>
</tr>
<tr>
<td>2020</td>
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<tr>
<td>2022†</td>
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<td>2024†</td>
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<tr>
<td>2026†</td>
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</tbody>
</table>

*Source: ESCAP estimates based on IMF data.*
**Consolidations are likely to increase inequalities and reduce output.**

**Inequality, Gini coefficient (0-100)**

**GDP per capita growth, percentage points**

Source: ESCAP estimates.
Hence, need to maintain expenditures in healthcare, education and social protection.

which are likely to get cut first....
...but matter the most for recovery and inequality reduction.
Level of spending on **healthcare** is already low...

Health expenditures remain much below world and high-income countries averages...

Current health expenditure, percentage of GDP.

Note: The Philippines, 4.1% in 2019


“Current health expenditure (% of GDP)”

*Source: World Bank data.*
same is the case with spending on education...

**Expenditure on education in Asia and the Pacific remains below the global target**

Spending on education in the Asia-Pacific region, percentage of GDP.

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
<tr>
<td>2011</td>
<td>3.2%</td>
<td>3.2%</td>
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<td>2012</td>
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<td>2020</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Note: The Philippines, 3.2% in 2019

via [World Bank, World Development Indicators, 2022.](https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS)

“Government expenditure on education, total (% of GDP)”

Source: ESCAP estimates based on IMF data.
... and **social protection** coverage remains low and varies across countries in the region

**Social protection coverage rates vary considerably across Asia-Pacific subregions**

Social protection coverage by at least one area in Asia and the Pacific, latest year available

**Source:** ESCAP and ILO, 2020
Policy recommendations – Bigger bang-for-the-buck

Health care
- Provide universal health coverage
- Reduce wasteful and inefficient spending
- Deploy digital health technologies

Education
- Strengthen early age education for all
- Eliminate socio-economic barriers at all levels of education
- Close the digital divide

Social protection
- Provide universal basic social protection
- Improve efficiency via digital technologies
Alongside targeted fiscal spending, revenues need to be increased as tax collection remains low in the region.

Source: OECD (2021a)
...due to **tax avoidance and informality**

**tax avoidance is high**

7.6 **per cent** of the tax revenue in the Asia-Pacific region was estimated to be lost due to misinvoicing in 2016.

**informality is ubiquitous**

68 **per cent** of workers being employed in informal economy across Asia-Pacific and **up to 90 per cent** in some countries like India.

Source: Kravchenko, 2018.
Policy recommendations – increase revenues

Pay fair share
- Ensure all individuals and companies comply with existing regulations
- Close loopholes
- Fight illicit financial flows

Expand tax base
- Formalize business activities
- Expand taxation of digital economy

Shift tax burden
- Take tax burden off from the lowest income households
- Make corporate and personal income taxes more progressive
Government’s role in reducing inequality

Addressing the root cause through structural policies...
Traditional hypothesis of Kuznets postulates an initial increase in inequality before a subsequent decline, following an inverted U-shape...
... but diversity in national pathways suggests **space for policies to have an impact**

Source: UN-ESCAP based on SWIID & WDI.
...but their equalizing impact is still highly limited in developing countries.

Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1 (accessed on 26 November 2021).
… which requires action on **three fronts** for more equal market outcomes

**Guide**

*Structural transformation towards a job-rich path*

- Mobilize support for **strategic sectors**
- Leverage public R&D investment
- Establish correct market signals for private sector technological choices

**Shape**

*Income-distribution outcomes of the market*

- **Strengthen labor’s position** in the job market
- **Empower labor** in corporate decision-making processes
- Prioritize equal access in education policies

**Manage**

*The socioeconomic disruptions of technological revolution*

- Preserve progresses made in **broad-based social protection** as a first line of defense
- Strengthen support for on-the-job training, lifelong learning and vocational education
- Keep technological changes at a more manageable pace
Role of Central Banking in Inclusive Development
Central banks should and can promote inclusive development
Central banks should and can promote inclusive development.
Promote inequality-mindful monetary policy

Inflation stability

Inequality-mindful monetary policy conduct

- **Communicate** the distributional impacts to the public
- **Consider income/wealth distribution** when making monetary policy decisions
Central banks **should and can** promote **inclusive development**

**Monetary Policy Conduct** → **Official Reserve Management** → **Currency Issuance** → **Financial Regulation**
Invest official reserves with social gains

Safety & liquidity

Reserve allocations with social gains

- Set up investment committee to make allocation decisions
- Use excess reserve as seed capital for local social projects
- Allocate part of asset purchases to social bonds
Central banks should and can promote inclusive development.
Foster financial inclusion through CBDC

Adequate cash in circulation

Central bank digital currency (CBDC) for financial inclusion

- Choose design features that help financial access
- Improve digital and financial literacy
- Identify associated risks and mitigation measures
Central banks should and can promote inclusive development.
Support innovative social-oriented financial instruments

Robust financial sector

Innovative, social-oriented financial instruments

- Increase understanding among market players
- Develop/harmonize taxonomies for pro-social financial instruments
- Grant financial support to cover high verification cost
Key Takeaways – Survey 2022

- Inclusion should be at the center of economic policies.
- Focus on efficiency and impact of fiscal policy.
- Expand domestic revenues, shifting the burden away from low-income households.
- Target market outcomes – promote job-rich transformation and empower the labor.
- Inclusive central banking is possible.
- Redesign monetary policy, reserve management, innovative finance, and digital currencies for inclusive development.
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Thank you!