Policy dialogue on Economic and Social Survey of Asia and the Pacific 2022

Economic Policies for an Inclusive Recovery and Development

Islamabad
25 August 2022
The macroeconomic backdrop

– economic deceleration and uncertainties has pushed inequality concerns to the spotlight
ESCAP tracked and discussed inclusive development in the past years
The COVID-pandemic again brought inclusive development to the front

Prioritize inclusiveness to prevent a K-shaped recovery

- Shorten pandemic threat for all
- Reduce risk of post-pandemic disruptive social unrest
- Provide a boost to the recovery in aggregate demand, given the higher propensity of consumption by the poor
2022 Survey further highlighted the **scarring effect** of COVID

The long-term scars may hurt disadvantaged groups further

- **Disruptions to labour markets**: erode workers’ skills and reduce their chances of returning to the workforce

- **Subdued capital investment**: weaker future growth & **less employment opportunities**

- **Learning deficits**: long-term consequences on learning and earning potentials
...the poverty impact of the pandemic may be more persistent than expected

Source: ESCAP estimates.

85 million
pushed into extreme poverty

Increase in poverty since the start of the pandemic

- $1.90
- $3.20
- $5.50

Millions of persons

85
156
160
A multi-pronged strategy & coordinated government actions are needed to *build forward fairer*
Fiscal policy is at the center for an inclusive recovery
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>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Median debt-to-GDP</th>
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<tbody>
<tr>
<td>2016</td>
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<td>2018</td>
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### Fiscal balance

**Asia-Pacific developing countries, as a percentage of GDP**

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f – forecasts, shaded

Source: ESCAP estimates based on IMF data.
However, consolidations are likely to increase inequalities and reduce output.

Inequality, Gini coefficient (0-100)

GDP per capita growth, percentage points

Source: ESCAP estimates.
It is therefore important to take into account the **varying impacts of fiscal policies**

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)

Source: ESCAP estimates based on CEQ data.
Public spending can **prioritize items with the greatest equalizing impact**, especially when they also boost labor productivity,

which tend to, but should **NOT** get cut first.
Spend smartly and get “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
Tax fairer for revenues and progressive effect

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
Central Banking also matters in inclusive development
Central banks should and can promote inclusive development.
Inequality-mindful monetary policy conduct

- Communicate the distributional impacts to the public
- Consider income/wealth distribution when making monetary policy decisions
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
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
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
Mobilize structural policies to address the root cause of inequality
Taxes and transfers play an important role in addressing the symptoms of inequality in advanced countries...

Source: ESCAP, based on the Standardized World Income Inequality Database (SWIID) 9.1 (accessed on 26 November 2021)
...but their equalizing impact is still highly limited in developing countries
These findings suggest that:

To build forward fairer, policy effort would also be needed to proactively shape structural and market forces that determine inequality levels and trends in the first place.

For fiscal policies, greater attention should be devoted to using taxes and spending to tilt such structural and market forces in favor of inclusive development.
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.
... 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
Inclusion should be at the center of post-pandemic recovery and long-term development policies.

Focus on efficiency and impact of fiscal policy, and avoid cuts in education, health and social protection spending in fiscal consolidations.

Expand domestic revenues, shifting the burden away from low-income households.

Redesign monetary policy, reserve management, innovative finance, and digital currencies for inclusive development.

Proactively shape market outcomes – promote job-rich transformation & empower the labor.
Thank you!