UN COVID-19 socio-economic recovery: UN Assessment and Responses

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Four main points

1) Projected economic and fiscal impacts of the pandemic are large.
2) Productive capacity and incomes must rise to return to higher living standards and sustainable fiscal policy.
3) The COVID-19 disruptions provide an opportunity to strengthen regional collaboration for higher incomes and revenue.
4) International fiscal reporting standards are no longer adequate—they do not capture the unprecedented fiscal and liquidity measures implemented by countries in response to the pandemic.
Economic impacts

Economic activity has declined sharply because of:

- Travel restrictions
- National lockdowns
- Suspension of production activities

The impacts of travel and labor mobility restrictions are most severe.
Economic recovery

... is projected to be slow in developing Pacific countries. Material wellbeing has fallen. Per capita GDP in countries with large tourism industries has declined more than in resource rich economies.
Fiscal deficits increase

The decline in economic activity reduces government revenue. Public expenditure is higher due to health and fiscal measures. Data are for general government and do not capture:

- (Some) measures implemented by central and development banks and provident funds
- Contingent liabilities unless they are budgeted for

October 2019 WEO
October 2020 WEO

IMF Pacific members
Developing IMF Pacific members

Developing IMF Pacific members: Resource rich *
Developing IMF Pacific members: Other **

* Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Papua New Guinea, Solomon Islands and Tuvalu
** Fiji, Palau, Samoa, Tonga and Vanuatu
International Monetary Fund, World Economic Outlook (WEO)
Government indebtedness rises

... because of more spending and less revenue in Australia and New Zealand.

... more spending and less revenue and a lower level of output in Fiji, Samoa and Vanuatu.

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International Monetary Fund, World Economic Outlook (WEO)
Going forward

Material wellbeing has fallen in developing Pacific countries. To return to higher living standards and sustainable fiscal policy, productive capacity and incomes must rise.

The large increase in government debt in Australia and New Zealand may reduce (growth in) funding in the region.

Regional collaboration helps overcome the region’s challenges of size and distance and make best use of natural endowments.

Collaborative partnerships are formed to (i) reduce costs, (ii) enhance competitive advantage, and (iii) transfer knowledge, experience and technology.
# Potential regional initiatives

## Raising government revenue:
- Commit to a broad base, low rate tax system
- Consider joint government procurement
- Safeguard and expand the vessel day scheme
- Establish a regional open registry for ships and yachts
- Form a strategic partnership for deep sea mining
- Develop a carbon credit scheme
- Support other climate change actions

## Raising and incomes:
- Strengthen financial skills
- Enhance labor mobility
- Transfer knowledge and experience
- Consider producer cooperatives
- Explore opportunities for seaweed farming
- Promote higher end tourism
- Lower costs of sending remittances
- Harmonize regulation and accounting standards
- Establish a credit bureau
- Facilitate foreign investment

## Economic stabilization:
- Enhance quality economic and fiscal data
- Reduce exchange rate risk of loans
- Coordinate a single manager for stabilization funds
- Widen regional insurance
- Support a code of conduct on responsible borrowing and lending
Costs matter

Costs are higher than in the rest of the world because of countries’ small size and large distances to markets.

Compliance costs and costs to assess creditworthiness are proportionately larger for small businesses than for large firms.

The cumulative effects of a reduction in costs, which may sound small mathematically, can be substantial.
Financial skills matter

Financial skills impact on people’s financial wellbeing. People need basic financial skills for budgeting, accessing credit, making savings and investment decisions. Businesses need people with financial skills. Financial development influences countries’ economic growth. A key determinant of people’s financial literacy is their and their teachers’ mathematics skills.

• Template school curriculum for mathematics
• Computer assisted learning
• Selection for labor mobility programs: Enrolment in adult learning
Vessel day scheme

The Parties to the Nauru Agreement (PNA) vessel day scheme (VDS) has significantly increased fishing revenue.

PNA countries now collect part of the above normal profits generated by the limited tuna resource previously captured by foreign vessels. Bilateral negotiations obtain less of the above normal profits than collective agreements.

The VDS provides secure economic benefits, which give an incentive to collaborate and to sustainably manage the tuna fisheries.

An erosion of the economic benefits of the VDS weakens incentives to collaborate.

Fishing joint ventures are risky with high failure rates.
Vessel day scheme

Selling vessel days to domestic vessels at below market prices lowers the economic benefits of the VDS, provides incentives for abuse and reduces pressures for domestic vessels to become productive.

To help combat illegal fishing, countries could formally declare their sea borders.

PNA expansion to a longline VDS and other countries would raise fishing revenues and restrict access to the high seas and illegal fishing.

Current PNA members could compensate new members for the positive benefits they would generate from restricting access to the high seas.
Broad based taxes

Regional commitment to broad taxes that apply to income and expenditure would reduce lobbying for tax incentives.

Foreign investors rarely invest in countries for tax reasons but because of location-specific factors (e.g. minerals, landscape, ocean life, access to consumers).

Tax incentives generally do not increase investment and output … … but transfer revenue to the treasury of foreign investors’ home country. They tend to benefit those with higher incomes and resources to tax plan. They can lead to a misallocation of resources.

The costs and benefits of tax incentives for tourism should be risk adjusted for the probability of pandemics and natural disasters.
Deep sea mining

A strategic regional partnership would best serve the Pacific people. Gaps in scientific knowledge and uncertainties regarding the potential environmental impact remain.

No country on its own will undertake the research needed to make socially optimal decisions about deep sea mining.

Mining is risky. Not all explorations are successful. Mining companies are often large multinational corporations that can absorb expected losses. A united Pacific will level the playing field.

Unanimous decision-making will lead to better outcomes because evidence and proposals will be more debated and more scrutinized.
Climate change measures

Forest area in Pacific countries is almost a third (7 percent excluding Australia and New Zealand) of the size of the Amazon rainforest.

A scheme for carbon credits (to be sold internationally) for eligible forest areas could be developed. If successful, it could possibly be expanded, e.g. seaweed and algae.

A comprehensive regional insurance scheme should be developed.

A Pacific climate action alliance could be established to:

• Seek compensation for the effects of climate change
• Advocate for a comprehensive approach combining educational, scientific, technological, regulatory, economic and social strategies.
Final comments

Suggested initiatives could be reviewed, consulted on and expanded. Those considered potentially feasible should be costed and prioritized. Potential barriers and constraints need to be identified and addressed. Coordination could be strengthened:

• Identify, evaluate, support and prioritize regional collaborations
• Advise and guide on key aspects of member countries’ national policies to help ensure they are consistent with regional objectives

Developing partner support should be aligned with regional priorities. Regional solidarity requires a common vision, alignment of policies and a focus on maximizing the wellbeing of the region.
### Potential regional initiatives

<table>
<thead>
<tr>
<th>Raising government revenue:</th>
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<th>Economic stabilization:</th>
</tr>
</thead>
<tbody>
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