COVID-19 and Inequality in East Asia and the Pacific

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Increasing poverty is a significant concern in the short-term.

In the developing EAP region outside of China, 25 million more people will be in poverty this year than had the pandemic not occurred.
COVID-19 is seeing inequality is increasing across multiple dimensions

Poorer households are more likely to:
• Have higher labour income losses
• Adopt harmful coping mechanisms
• Be more food insecure
• Be less likely to use and benefit from remote learning
Increasing inequality today can lead to increasing inequality tomorrow

**Income shocks among the poor have adverse long-term consequences**

- **Bad coping mechanisms**: distress sale of productive assets and increased debt, can hurt longer-term incomes
- **Food insecurity**: increases the risk of child malnutrition and stunting; can impede cognitive development and learning, and reduce adult productivity and earnings
- **Limited opportunities**: to engage in online or interactive learning, increasing risk of long-term human capital loss and so economic opportunity
Why does rising inequality matter?

Income inequality can be unfair when not everyone has the same initial opportunities in life

- Income inequality is not always a bad thing; it can provide rewards for those who work hard and take risks
- Inequality can be unfair, however, when it is due to factors beyond the control of individuals

High inequality can also lead to slower growth and poverty reduction, and increased conflict

- High levels of inequality may slow economic growth, while more equal countries may grow faster
- High inequality can also have social costs, which may exacerbate conflict
### What can be done to avoid a K-shaped recovery?

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- **Specific**: Policies to be country-specific, reflecting the timing and severity of the crisis as well as the different channels through which workers, households and firms are affected.
- **Temporal**: To avert rising inequality, some actions are needed in the short-term (when economic activity is still being repressed by health control measures), and others as sustained recovery starts taking hold.
- **Targeted**: Target vulnerable groups: e.g., women with children who may have perforce exited labor markets.
Greater progressive taxation and redirecting inequitable spending can play important roles in redressing inequality

- Most EAP countries still rely on indirect taxes for most of their revenues
  - More progressivity could be achieved through more use of direct taxes

- Improving the redistributive impacts of spending, including through the elimination of indirect subsidies, can also make a difference
  - Indonesia undertook significant fiscal reforms in 2015
  - Reduced heavy spending on regressive fuel subsidies
  - Redirected into infrastructure, social assistance, and health
  - Expansion in social assistance was well targeted, with most revenue going to the poorest 40 percent and significantly increasing the value of benefits received for the poorest households

Fiscal policy can be inclusive at no extra cost, or even save money
Education reform will help remedy the pandemic’s scars and strengthen human capital

- Safe reopening of schools
- Recover learning losses: adjusting curriculum, remedial support to struggling students
- Raising education quality and promoting equality of educational opportunity

Allow workers to seek job opportunities and protect them when they get them

- Remove labor market restrictions (e.g. Hukuo in China) so that workers can go to where the jobs are
- Strengthen worker protections (e.g. migrant workers in Malaysia) so that workers enjoy better quality jobs

Support industries and firms which create jobs

- Support labor-intensive sectors such as SMEs in the tourism industry
Addressing digital gaps can support other policy objectives
- Important for reducing gender disparities in the labor market
- Important for ensuring poorer children are not left behind at school

Greater financial inclusion among the poor also can support other policy objectives
- Promoting use of digital ID can help the poor more effectively access public services, especially social assistance
- Fintech solutions which work for the poor are particularly important for migrant workers

SP needs to protect during the pandemic and promote inclusive development in the longer term, learning lessons from the pandemic
- More agile and targeted with less coverage gaps
- Expand eligibility to need beyond current beneficiaries
- Effective delivery systems using digital technologies (e.g. Thailand)