KEYNOTE ADDRESS

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Event: Launch of the Economic and Social Survey of Asia and the Pacific 2024

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Venue: Foreign Correspondents' Club of Thailand (FCCT)

Dr. Armida Salsiah Alisjahbana, Under-Secretary-General and ESCAP Executive Secretary

Ladies and Gentlemen

A very good morning to you all

First of all, I would like to thank ESCAP for inviting me to share my thoughts on future policy challenges for the Asia-Pacific region.

As someone who has been involved in macroeconomic policy and public policy, I believe we are at a critical juncture. We need to seriously consider future policy directions, prioritization, and effectiveness because our economies and societies will have to grapple with global megatrends, and our operating environment will become increasingly challenging as we move forward.

Let me begin by focusing on four key words that I have always used to assess the economic conditions of a country and guide my thinking about policy priorities.

In my view, these four key words are fundamental for sustainable economic development, which we all hope for. The four key words are: Productivity, Inclusivity, Adaptability, and Immunity.

Looking back over the past few years, there have been many factors at play affecting Asia-Pacific economies across these four dimensions, especially the Covid-19 pandemic, geopolitical tensions, food price inflation, value chain disruptions, and climate change. These developments occurred against the backdrop of rapid technological advancements and shifts in demographic structures.

Allow me to share my views on how I see developments in the Asia-Pacific across these four dimensions since the Covid-19 pandemic. I will highlight key points as I may not have time to delve into details.

Productivity

Certainly, we have witnessed rapid advancements and the widespread deployment of digital technology in recent years. One sector that has experienced significant improvement is financial services. Digital payments have become the standard means of transactions in countries like China, India, Thailand, Cambodia, and others, benefiting both businesses and households. The emergence of virtual banks and digital lending has also enhanced access to finance.

The Covid-19 pandemic played a crucial role in expediting the adoption of digital technology. In addition to digital advancements, we have observed the adoption of modern technology across various sectors, including telemedicine, precision agriculture, renewable energy, and autonomous manufacturing. Modern technology holds significant potential to enhance productivity and improve the quality of life for people in the Asia-Pacific region.

However, while large firms and households at the top of society can afford and access modern technology to boost their productivity, the same cannot be said for average SMEs and low-income households in Asia-Pacific. The technology divide is widening between countries and within countries.

Another concern is the slow pace of productivity improvement in sectors vital to people's livelihoods, such as government services, state-owned enterprises, public education, agriculture, and traditional services like tourism. These sectors require reform and new investments to uplift their productivity.

Furthermore, it's essential not to overlook the significant learning loss that occurred during the Covid-19 pandemic. If not addressed promptly, it will have long-lasting implications for the productivity of students in this cohort.

Inclusivity

Unlike productivity, where we have seen mixed developments across sectors and countries, inclusivity has sharply deteriorated since the Covid-19 pandemic. Inequality in wealth, income, and opportunity has widened across the Asia-Pacific region.

SMEs were severely affected by the shrinking economic activities during the pandemic, with many of them going bankrupt. As the business risks of SMEs increased, their financing costs rose, while credit lines declined. In contrast, large firms were able to consolidate their market power, making it even more challenging for SMEs to compete post-pandemic. Moreover, large firms have better access to modern technology and finance.

Since SMEs are the primary sources of employment in many economies in the Asia-Pacific region, the business conditions of SMEs have direct implications for household income. Households at the bottom of society have also been affected by rising food and energy prices, with their wages significantly declining in real terms, while their debt service has increased, especially in economies with high household debts.

While buffet lines have returned at five-star hotels and resorts, it's important to recognize that people in many countries are facing a severe hunger crisis. People are starving, and children have become malnourished.

If we fail to address these structural problems in our economies and societies, we will continue to witness rising inequality, leading to increased social tension, cross-border migration, and intergenerational poverty.

Adaptability

We currently inhabit a world undergoing profound changes, encompassing climate change, the rebalancing of geopolitical power, demographic shifts, and AI transformation. Many of these structural changes pose significant long-term threats to economies and people in the Asia-Pacific region if we are unprepared.

To address these mega challenges, we often discuss mitigation measures. However, this alone is not sufficient; we must also focus on adaptation, which necessitates strategic long-term planning, alignment of incentive structures, adequate resources for new investments, and reforms to enhance the agility of our economies. Among other things, we need to reform our educational system, social safety nets, regulatory frameworks, energy subsidies, and the bloated public sector to reallocate resources for investments that will prepare our economies for the future.

In my view, most countries in Asia and the Pacific are lagging behind in adaptation, particularly concerning climate change. Furthermore, it is concerning that the post-Covid-

19 political agenda has shifted towards short-term populist policies to address the immediate needs of those severely affected by the pandemic. The momentum for reform has slowed precisely when far-reaching reform is necessary to improve adaptability.

Immunity

It is evident that immunity, especially financial immunity, has deteriorated in the Asia-Pacific region following the Covid-19 pandemic. Balance sheet strengths across all levels have been weakened.

At the government level, as we will hear more about shortly from the ESCAP *Survey*, many governments are experiencing financial distress with no visible exit strategy from their public debt situation. Their debt service obligations have increased due to rising global interest rates and credit risks, while expenditures have surged owing to subsidies and populist measures. Meanwhile, their income base remains sluggish due to slow economic growth and low tax buoyancy.

At the banking level, non-performing loans have surged, and the capital bases of banks in some economies have eroded. Banks' profitability has declined. In some economies, banks are heavily exposed to government bonds with lower credit rating, thereby facing higher credit and market risks.

Regarding companies, as mentioned earlier, many SMEs and even some large firms have gone bankrupt and required financial rehabilitation. Many of the remaining ones have significantly weaker balance sheets compared to pre-Covid-19 levels.

At the household level, household debts have escalated in many economies, with numerous households falling into a debt trap. The employment landscape for unskilled labor has been reshaped by technology, while cuts in public spending have curtailed access to social safety nets.

We can only hope that there will not be another major economic shock in the near future, and that we can expedite debt restructuring to enhance our financial immunity in time to confront future challenges.

In summary, it is concerning that Asia-Pacific economies, in general, have become less inclusive and less immune compared to the pre-Covid-19 era. Our adaptability may not be sufficient to cope with future mega changes, particularly climate change. While some Asia-

Pacific economies have seen improvements in productivity, these gains may be limited to specific sectors and benefit only privileged segments of society.

There is an urgent need for concerted efforts to enhance productivity, inclusivity, adaptability, and immunity across the region. It requires collective action and a commitment to addressing the structural challenges that impede progress in these areas.

Public policy implications

I would like to extend my congratulations to the ESCAP team for selecting the topic of "Boosting Affordable and Longer-Term Financing for Governments" for the 2024 *Survey*. Long-term affordable public financing will be essential and foundational for future public-sector investment and economic reforms that will facilitate the development of productivity, inclusivity, adaptability, and immunity in our economies.

We will soon hear more from the ESCAP team on strategies to enhance affordable and longer-term financing for governments. The *Survey* presents key recommendations and a policy prioritization framework.

However, while boosting affordable and longer-term public financing is necessary, it may not be sufficient to restore the financial strength and effectiveness of the public sector or adequately prepare us for future challenges.

Many countries in the Asia-Pacific region have either crossed or are on the verge of crossing tipping points concerning social, economic, and environmental challenges. Once these tipping points are crossed, reversing the trends or mitigating their adverse consequences becomes significantly more challenging and resource-intensive, as seen in cases such as climate change, aging populations, and corruption. It is imperative that we urgently promote public sector reform alongside other necessary reforms.

Public sector reform will be critical in improving productivity, inclusivity, adaptability, and immunity to ensure the resilience of Asia-Pacific economies and the sustainable enhancement of the quality of life for our people. I strongly hope that ESCAP will also provide guiding wisdom in this area.

Thank you very much for your kind attention.