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Can this time be different? Challenges and opportunities for Asia-Pacific economies in the aftermath of COVID-19

Asia and the Pacific is facing its worst economic contraction at least since the 1970s due to the COVID-19 pandemic. The consequent economic weakness is likely to set back the region's socio-economic progress and is predicted to push a significant number of people into unemployment and poverty while increasing inequality. Although slowdown in economic activities has provided some breathing space to the environment, such a benefit could turn out to be temporary. The region faces a difficult path to recovery, due to deepened existing vulnerabilities that include weak economic conditions and other exogenous shocks. These challenging times call for unprecedented relief and stimulus policies and offer an opportunity for countries to align their socio-economic policies with the 2030 Agenda to ensure a more inclusive, greener and more resilient future. Such policies include increasing investments in Sustainable Development Goals and strengthening governance to improve investment efficiency. Climate resilience should be built into investment projects. Regulatory changes could catalyze such efforts to "build forward better". Partnership with local, national and international stakeholders is critical for Governments to support this development transition.

I. COVID-19 AND ITS IMPACT: THE GOOD, THE BAD, AND THE UGLY

The pandemic shows no sign of abatement in Asia-Pacific…

Since the public learned of this virus in January 2020, over 4.2 million people have been infected while about 100,000 people have lost their lives in the region (as of end July). The total number of daily new cases is still on the rise, with more than 1,000 new cases reported per day in *Bangladesh*, *India, Indonesia*, *Islamic Republic of Iran*, *Kazakhstan*, the *Philippines*, and the *Russian Federation* (figure 1).

… with the Bad side: leading to an unprecedented economic slowdown

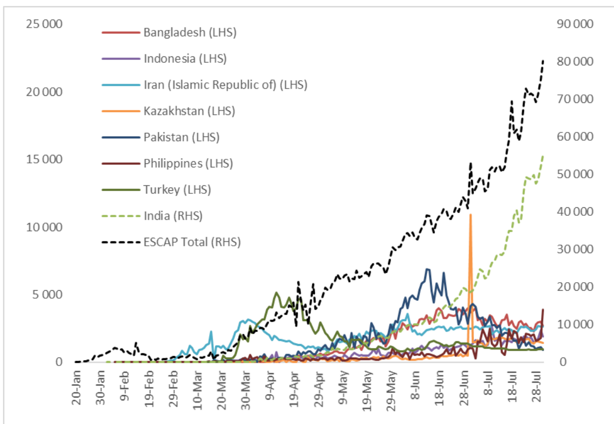
The COVID-19 pandemic and the consequent containment measures have indeed upended people's lives and wreaked havoc on economies and societies. As is common knowledge now, all countries rolled out a variety of containment measures, such as border control, travel bans, closure of public places and social distancing[1] starting in January 2020. While such measures have contributed to "flattening the curve" somewhat, they put the regional as well as global economy in an "*induced coma*" as economic growth in all economies has come to a screeching halt. The severity of the impact is beginning to become more visible in the economic data, suggesting a protracted economic slowdown.

The **Asia-Pacific region is expected to face its deepest economic slowdown since at least the 1970s** (figure 2a). ESCAP's latest forecasts suggest that the combined GDP of the developing Asia-Pacific economies could contract by 1.8 per cent in 2020 (figure 2b and appendix),[2] lower than the previous forecast for 2020[3] of an expansion of 3.7 per cent and actual expansion of 4.3 per cent in 2019. The actual economic contraction could be much worse as the COVID-19 situation is still unfolding and economic forecasts tend to be optimistic (figure 2c). Overall, the economic dip in 2020 is expected to be deeper than the one experienced during the 1997 Asian Financial Crisis (AFC) and the 2008 Global Financial Crisis (GFC), not least because the level of economic uncertainty is much higher now (figure 2d). Across the subregions, North and Central Asia is likely to face the largest contraction in GDP, as it has experienced a double whammy from both a slowdown in economic activities as well as an oil price crash.[4] East and North-East Asia is likely to be the only subregion to observe positive economic growth, thanks to expected faster economic recovery in China (figure 2b).

There is an across-the-board slowdown in economic activity. In the first quarter of 2020, almost all the countries (with available data) observed a slowdown in their headline GDP growth. Business investment declined drastically in the face of weaker demand, disruption in activities of value chains and uncertain future profits. Growth in household consumption slowed down due to suspended economic activities and possible income losses. Exports contracted due to disruptions in value chains, border closures and

Figure 1. COVID-19 is still spreading quickly in Asia and the Pacific…

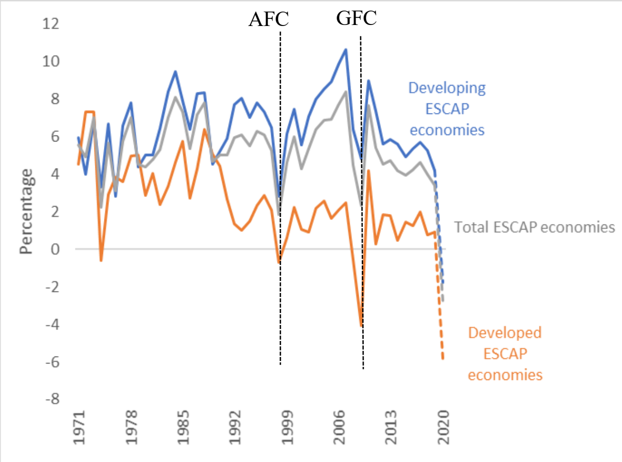
Number of daily new confirmed COVID-19 cases in Asia and the Pacific (as of end July)



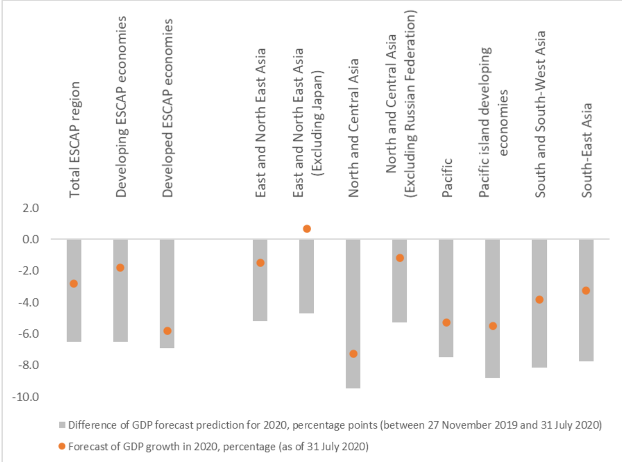
Source: CEIC (accessed on 2 August 2020).
Note: LHS = left-handed side axis; RHS = right-handed side axis.

Figure 2. …weighing on the economic performance…

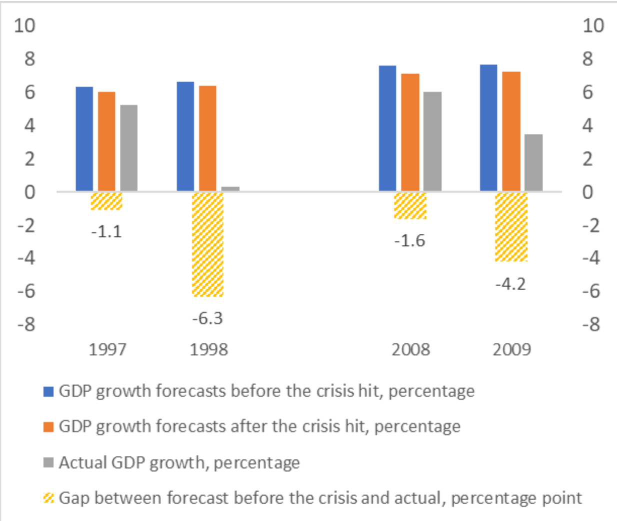
(a) GDP growth, 1971-2020 (forecast)



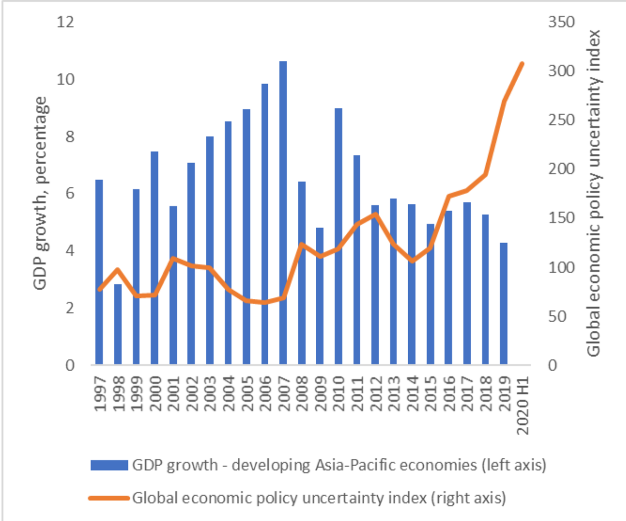
(b) Downgrade of GDP growth in 2020 for Asia and the Pacific



(c) Revision of GDP growth forecasts for developing Asia-Pacific countries when crises happened



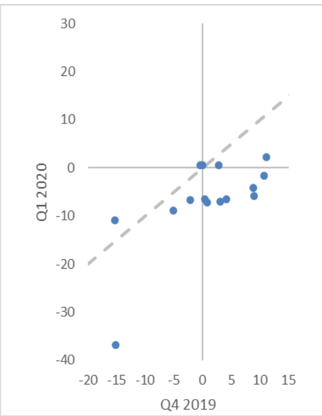
(d) GDP growth and economic uncertainty



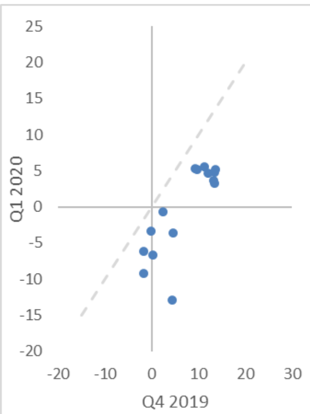
Source: Panel a-b: ESCAP; panel c: IMF Historical WEO Forecasts Database (accessed 31 July 2020); panel d: ESCAP and CEIC (accessed on 2 August 2020).

Figure 3. …as evident in economic performance in Q1 2020

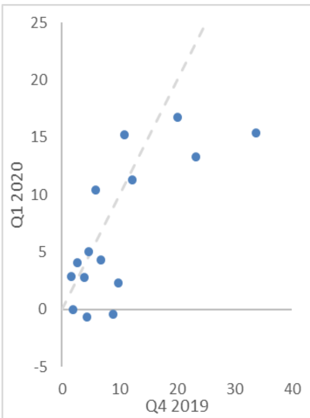
(a) Quarterly gross fixed capital formation growth (year on year) in selected Asia-Pacific countries, Q4 2019 and Q1 2020



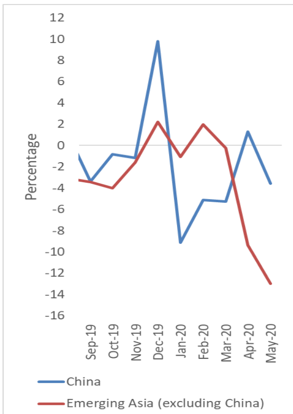
(b) Quarterly private consumption growth (year on year) in Asia and the Pacific, Q4 2019 and Q1 2020



(c) Quarterly government expenditure growth (year on year) in Asia and the Pacific, Q4 2019 and Q1 2020



(d) Monthly export growth (year on year) in Asia and the Pacific (in volume terms), September 2019 - May 2020



Source: Panel a-c – CEIC (accessed on 29 June 2020); Panel d - CPB World Trade Monitor (accessed on 5 August 2020).
Note: Panel a-c – Countries are selected based on data availability. The dotted lines are 45-degree lines, below which means that the growth in Q1 2020 was slower than that in Q4 2019.

transport restrictions, and suppressed demand. In contrast, government spending increased to relieve the economic stress and support economic activity (figure 3). However, as most countries started introducing lockdowns in March, the economic performance in the second quarter is anticipated to be poorer.

Lower aggregate demand has kept **inflation at bay**. ESCAP estimates that average inflation in developing Asia -Pacific economies could come down to 3.9 per cent in 2020 from 4.4 per cent in 2019. However, there is a lot of variation across countries. Although the latest data show that headline inflation in most countries is below their national targets, some countries with balance of payment crisis and, therefore, weaker currencies and those that depend on fuel exports have above-target inflation rates. At the same time, countries such as *Malaysia*, *Singapore*, and *Thailand* are facing a risk of deflation (figure 4).

… the Ugly side: Job losses could exacerbate already high inequalities and push people back into extreme poverty

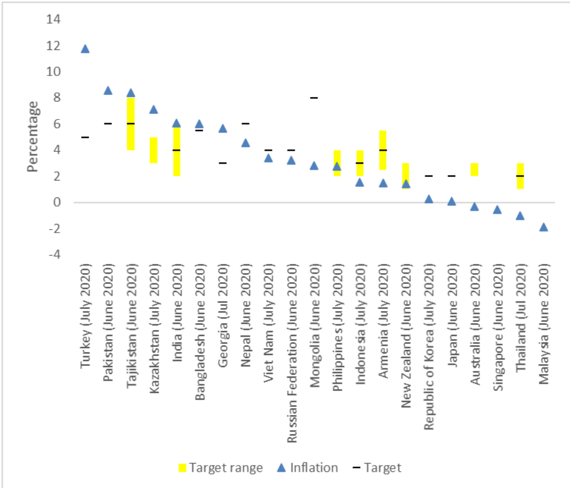
The pandemic brought to the fore many vulnerabilities in the labor market that already existed in the region. The *high and rising income inequality* in the region points to uneven access to opportunities (ESCAP, 2018). For instance, *low access to education* in many countries (especially in South and South-West Asia) means that a high proportion of the labor force possesses *less than basic education* (figure 5a). Not surprisingly, these same countries tend to have a higher proportion of workers in the informal sector, where they lack job security and social security coverage. Such countries with stricter lockdowns (figure 5b) naturally experienced the greatest reduction in working hours (figure 5c). With 60 per cent of the labor force in the informal sector in the region, the informal workers were the biggest casualties as lockdowns forced them to stay at home and not able to work. Indeed, in the second quarter of 2020, the total working-hour loss in the region is estimated at 13.5 per cent or 235 million full-time equivalent jobs, up from 7.1 per cent in the first quarter. An additional 20-200 million full-time equivalent job losses could occur in the second half of the year, depending on if a new wave of COVID-19 triggers more lockdowns (ILO, 2020a).

High informality and digital divide put the region at a disadvantage when it came to *work from home*. During the lockdowns, while some employees could work from home, blue-collar workers or service sector job holders are less likely to work remotely, compared with the white-collar workers (figure 5d). The region lags behind the world average (18 per cent) in the percentage of labor force that could work from home (12 per cent), with substantial disparity across the subregions (figure 5e) (ILO, 2020b). Moreover, with less than 50 percent of the population having access to the internet,[5] even if a job could be done from home, not everyone has the facilities to do so.

Such job losses, reduced income and lack of access to social safety net programmes could force people back into extreme poverty. Estimates suggest that the number of people living in extreme poverty could increase by 38-52 million in the region, depending on how severely the economies are hit by COVID-19 (Mahler, Lakner, Aguilar and Wu, 2020).[6] For the Least Developed Countries (LDCs), ESCAP (forthcoming b) estimates that the economic downturn (projected in April 2020) could push 5.9 million people into extreme poverty ($1.90 per day), and 12.4 million people to go under the $3.20-per-day poverty line. This would bring the poverty rates back to the levels seen 5-10 years ago (with some variation across LDCs). Based on historical data, recent research

Figure 4. Inflation is not a major concern

Inflation and inflation targets in Asia and the Pacific, latest available data



Source: CEIC (accessed on 6 August 2020).

also shows that **pandemics are expected to lead to a significant and persistent increase in inequality** (Furceri, Loungani, Ostry and Pizzuto, 2020). This is because output losses lower employment prospects, especially for those that are low-skilled. In this regard, countries with a larger share of low-skilled labour (such as those in South-East and South-West Asia) could observe a rise in inequality (figure 5a).

…. and the GOOD side: The considerable slowdown in economic activity, which was pursued in an unsustainable manner, show positive impact on the environment, even if it is likely to be short-lived

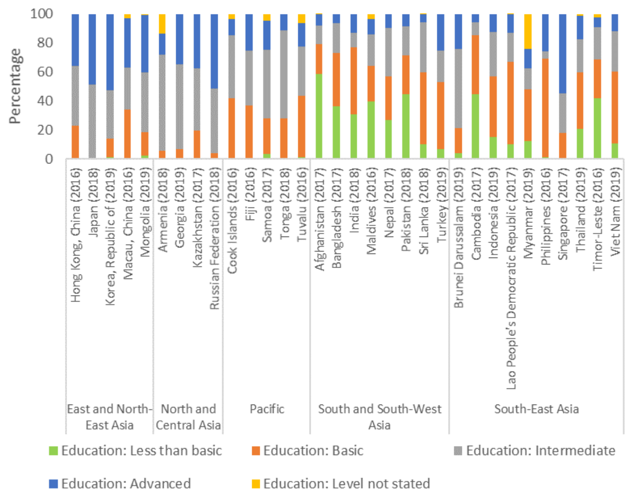
Despite significant adverse socioeconomic impacts, COVID-19 gave the environment some breathing space. A temporary suspension of business activities mostly pursued in an unsustainable manner, closure of public places, reduced air travel, and lower demand for oil and gas induced by reduced human mobility, has resulted in substantive reduction in emissions of carbon dioxide and nitrogen dioxide and reduced air pollution (ESCAP, 2020a). Latest data show that air quality (measured by PM2.5 concentration) has improved in 2020, compared with the same time in 2019, especially during the lockdown periods (figure 6).

However, **such environmental gains are likely to be short-lived.** Emissions and other environmental externalities will likely rebound, and perhaps even increase, once the restrictions are relaxed, due to the need to re-stock depleting supplies and for general economic recovery. Previous health crises linked to SARS, H1N1, Ebola and even the Spanish flu in the early 20th century witnessed a strong and robust rebound of transport demand after the disruptions (ESCAP, 2020a).

In addition, despite some improvement in air quality, **coronavirus waste has become a new form of pollution as single-use personal protective equipment flood our oceans**. In *Hong Kong, China*, for example, face masks were found on its beaches and nature trails (Stockes, 2020). Meanwhile, the pandemic has increased the demand for online shopping and food delivery, **resurrecting single-use plastics for packaging purpose**. *Singapore* has given companies an extra year before they must submit plans for reducing the amount of packaging they use (Hicks, 2020).

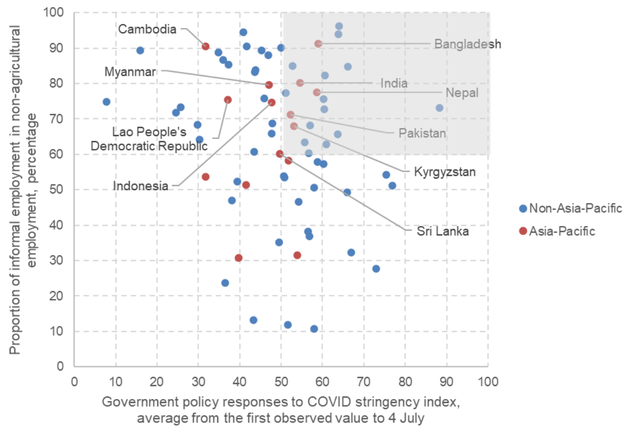
Figure 5. Impact of COVID-19 on the labour market in Asia and the Pacific

(a) Labour force distribution by education in Asia and the Pacific



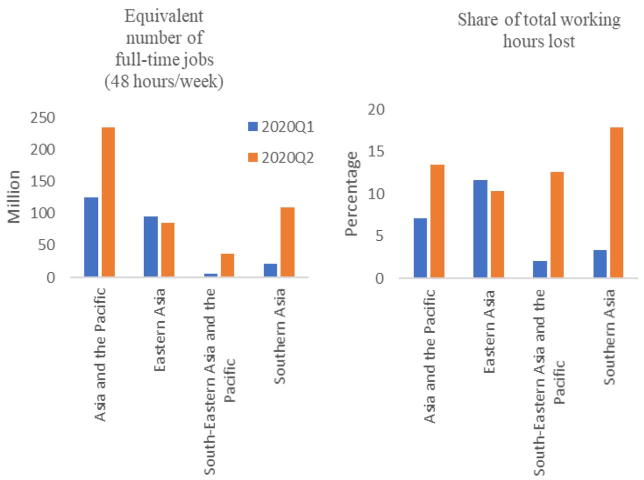
Source: ILOStat (accessed on 27 July 2020).

(b) Informal employment and policy responses stringency



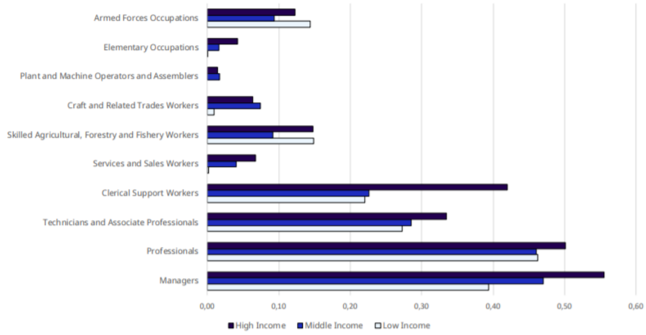
Source: ILOStat (accessed on 5 July) and Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government (accessed on 14 June 2020).
Note: The shaded area covers the countries with a relatively higher COVID stringency index (greater than 50) and a larger informal sector.

(c) Working-hour losses in the first and second quarters of 2020 (full-time equivalent jobs and percentage)



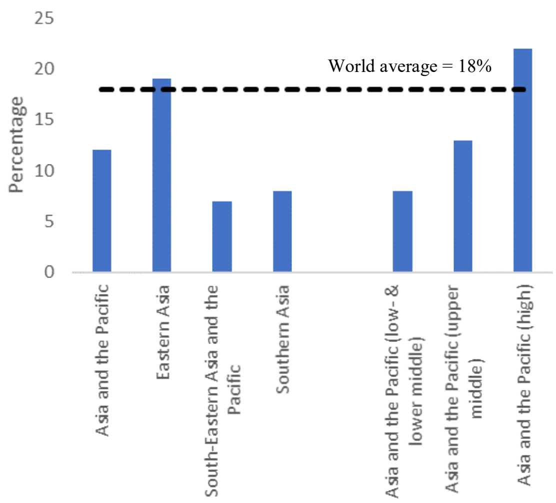
Source: ILO (2020a).

(d) Estimates of the likelihood of being able to work from home by occupation, by country income groups



Source: ILO (2020b).

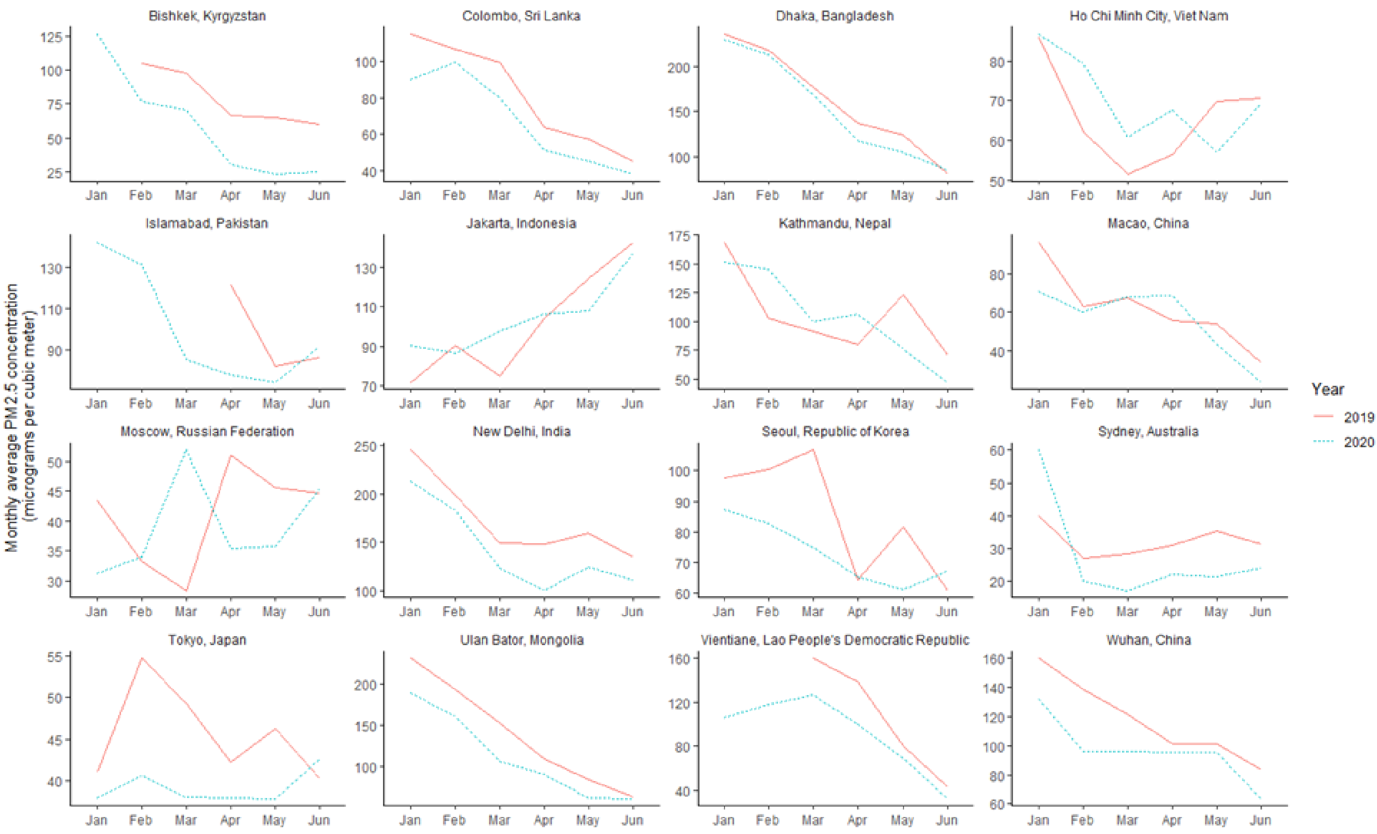
(e) Share of the labour force that could work from home



Source: ILO (2020b).

Figure 6. Air quality improves during lockdowns

PM2.5 concentration in selected cities



Source: Air Quality Open Data Platform, available at https://aqicn.org/data-platform/covid19/ (accessed on 27 July 2020).

II. THE DIFFICULT PATH TO RECOVERY: CAN THIS TIME BE DIFFERENT?

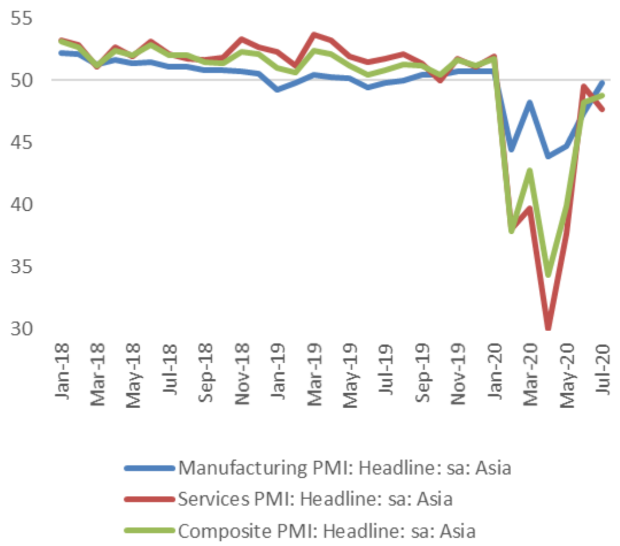
To respond to COVID-19, all the countries in the region have rolled out several administrative and policy measures since January 2020, including lockdowns, social distancing, and large and targeted fiscal and monetary policy measures to support affected businesses and households.[7] **Some countries have started to relax the lockdown bans since end-April**. In this context, the purchasing manager index (PMI), a leading indicator for economic health, showed an improved outlook for manufacturing and services activities, before the services PMI worsened again in July (figure 7).

What this means is that **the recovery path remains bumpy and uncertain**. Rise in COVID-19 cases after re-opening has forced at least eight economies in the region to reimpose lockdown measures in June and July, pointing to bleaker economic prospects. Moreover, the complete gamut of events – economic output losses, shuttered and shattered firms (especially the micro-, small- and medium-sized enterprises, or MSMEs), supply chain disruptions, volatile commodity prices, rising geopolitical tensions and occurrence of natural disasters – appears to portend a dark period ahead.

Furthermore, it is important to understand that **the** likely **economic recovery path will never be the same as slowdowns lead to permanent losses in output** (Cerra and Saxena, 2005 and 2008). For instance, the region experienced an L-shaped recovery path – economic output/GDP fell after the crisis but never reverted to the pre-crisis trend, though economic growth returned to normal. This left a permanent wedge between trend and actual

Figure 7. Have economic activities come back to pre-crisis levels?

Purchasing manager index (PMI) for Asia, seasonally adjusted



Source: CEIC (accessed on 7 August 2020).
Note: If PMI is above 50, it means expansion of economic activities; otherwise, contraction.

output – during both the 1997 Asia Financial Crisis and the 2008 Global Financial Crisis (GFC) (figure 8).

Conceptually, GDP growth rate could be pumped up significantly to try and fully recover and reach the pre-crisis trend level of GDP. For this to happen, growth rates will need to be substantially higher than the pre-crisis growth rates. However, this is unlikely to happen, because of: (i) *permanent closure of many MSMEs* and associated job losses; hence this sector may not simply pick up bussiness when economies re-open; (ii) *smaller policy room to respond to the shock.* For instance, policy rates on the eve of the pandemic outbreak were lower than before the 2008 GFC, while public debt levels (as a share of GDP) were higher, with the policy room being even smaller in July after several rounds of stimulus packages (figure 9); (iii) *lower confidence in the economy* - which further depresses aggregate demand and slows economic activities; (iv) *lower external demand* - as trading partners are also tackling the pandemic and experiencing economic difficulties, therefore not being able to increase demand for the region's exports.

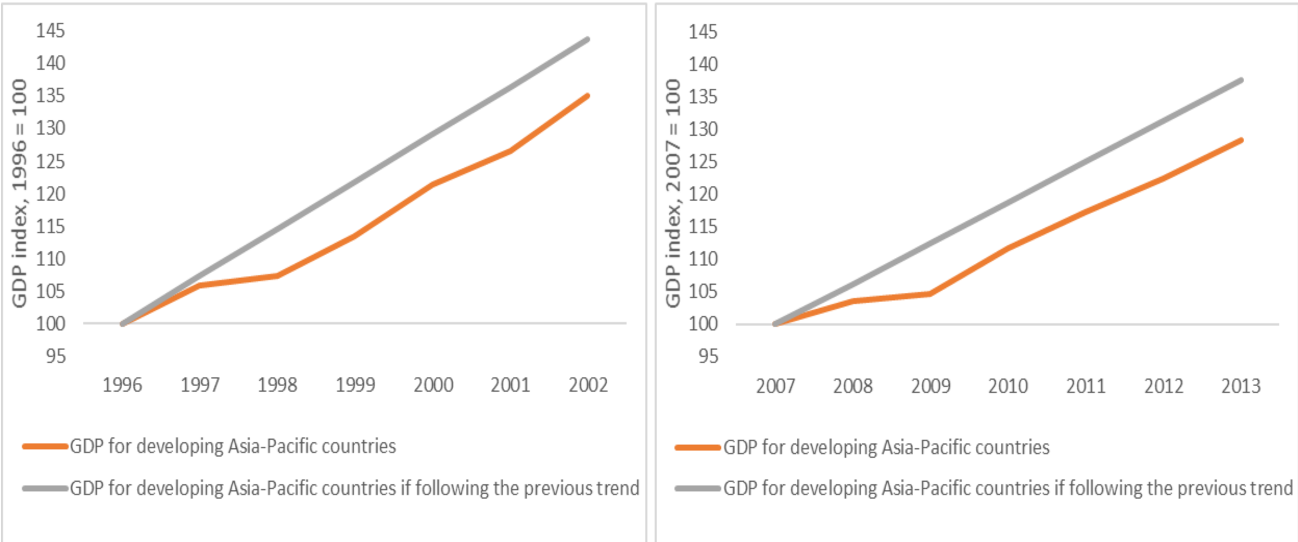
The pandemic also laid bare the many existing vulnerabilities that need fixing

Weak institutions; policy packages may fail to reach the intended beneficiaries: For instance, in the *Russian Federation*, while only 10 per cent (or 139) of the government's "systematically important" companies[8] were able to access state-backed loans (as of 2 July 2020), assistance to smaller businesses also appeared insufficient (The Moscow Times, 2020). Additionally, with low levels of financial inclusion, vulnerable groups have lower access to policy support. In many countries, especially the lower income ones, over half of the adult populations (aged 15 and above) without a bank account (figure 10) are finding it difficult to benefit from Governments' financial support, such as cash transfers and low or zero interest loans. Women could be even more vulnerable (figure 10).

Focus on efficiency over resilience: The supply chain disruptions experienced during the pandemic has brought to the fore the vulnerability of relying on external sources for many strategic industries. For instance, many countries

Figure 8. Output loss: GDP levels after the crisis are below the historic trend

(a) Asian Financial Crisis (b) Global Financial Crisis



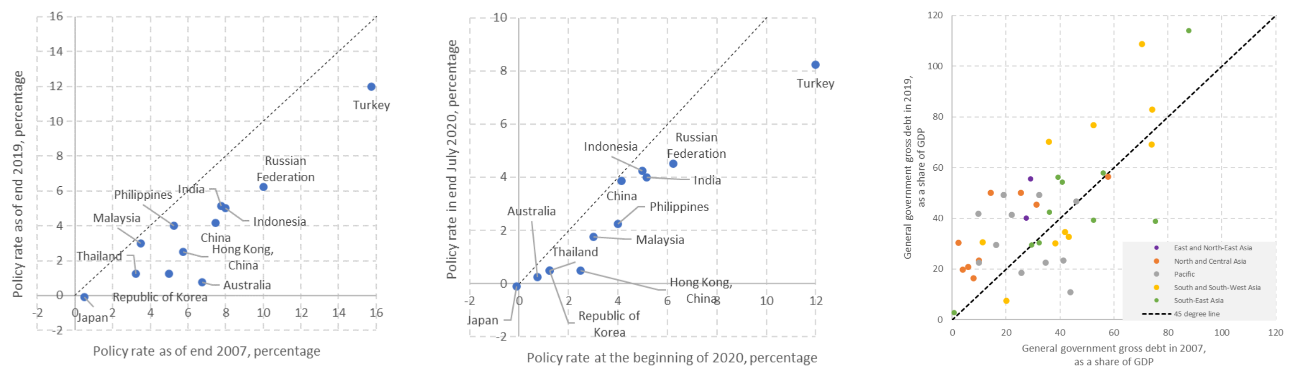
Source: ESCAP, based on World Bank Open Database (accessed on 22 June 2020).
Note: Panel a covers 26 developing Asia-Pacific economies; Panel b covers 44. They are selected based on data availability.

Figure 9. Many Asia-Pacific countries face a smaller policy room, compared with before the Global Financial Crisis

(a) Policy rates in 2007 and 2019

(b) Policy rates in the beginning of 2020 and end July 2020

(c) General government gross debt, as a share of GDP



Source: Bank for International Settlements (accessed on 27 July 2020).
Note: The dotted line is a 45-degree line. If below it, policy rates as of end 2019 are lower than that as of end 2007. Countries are selected based on data availability.

Source: Bank for International Settlements (accessed on 2 August 2020).
Note: The dotted line is a 45-degree line. If below it, policy rates in end July 2020 are lower than at the beginning of the year. Countries are selected based on data availability.

Source: IMF, World Economic Outlook Database (ver. October 2019) (accessed on 27 July 2020).
Note: The dotted line is a 45-degree line. If above it, public debt levels as a share of GDP in 2019 are higher than that in 2007. Countries are selected based on data availability.

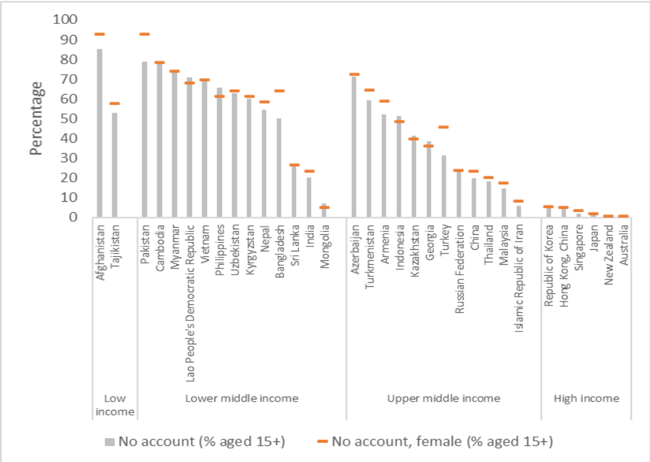
experienced shortages in medical supplies and automobile parts as borders were shut down. The high cost of efficiency put into question the (over) reliance on supply value chains for everything. This was particularly worrisome as everyone relied eventually on one supplier (e.g. *China*).

Weak economic fundamentals/management

- *Risk of deflation:* Even if inflation is not a major concern, some countries are experiencing negative inflation (or a risk of deflation). This could dampen the region's recovery by (i) discouraging consumer spending, as people expect goods will be cheaper in the future; (ii) delaying investment decisions, due to increased real interest rates; and (iii) increasing the real value of debt, making it more difficult for debtors to pay off their debts.

Figure 10. Lack of financial inclusion may prevent people benefiting from the policy support

Population without a bank account, as a share of total adult population (aged 15+), in 2017



Source: ESCAP, based on World Bank Global Financial Inclusive Database (accessed on 30 July).

- *Risk of sovereign debt distress:* As public expenditures increase and revenues decline in response to COVID-19, governments are facing widening fiscal deficits and much higher gross financing needs than in previous years. ESCAP (forthcoming b) estimates that COVID-19 fiscal response in Asia-Pacific developing countries amounts to $1.4 trillion, or 5 percent of GDP (as of June 2020). Countries reliant on external financing could face higher debt servicing costs. Ten countries in the region were already in high risk of public debt distress prior to COVID-19.[9] Indeed, past experience shows that in the years following the crises, fiscal deficits tend to increase, but are then followed by fiscal consolidations to restore healthy fiscal positions (figure 11).

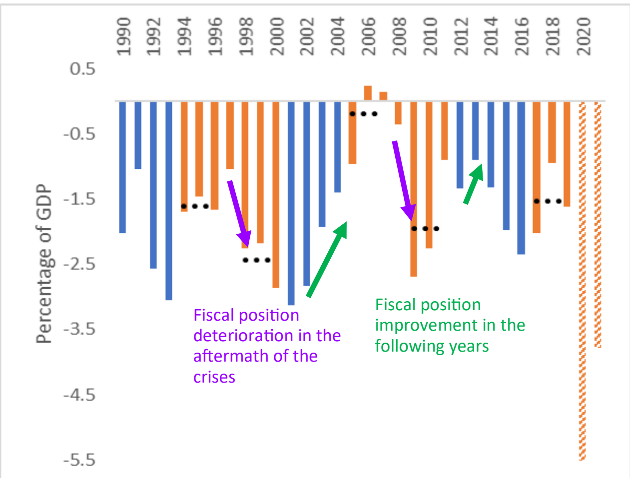
- *Risk to financial stability of banks from non-performing loans (NPLs).* Although many countries in the region have seen a recent uptick in NPLs (as a share of total loans), NPL in most cases remain well below those seen during the GFC (figure 12).[10] However, it usually takes some time for banks to classify loans as NPLs. Therefore, the NPL could increase quickly in the coming months, which could adversely affect financial stability in some countries; more so in countries with higher credit-to-GDP ratios.

Higher likelihood of external or exogenous shocks could pose headwinds in the path of an already fragile recovery:

- *Oil price volatility:* The sudden lockdown as well as price competition among the oil producers led to a sharp decline in oil prices[11] (it fell below $10 per barrel on 21 April 2020). This oil price crash imposed a double whammy on fuel-exporting countries in the region. Although oil prices recovered to above $40 per barrel in late July 2020 (thanks to a new deal among the oil producers), low demand for oil and gas for an extended period is expected to keep downward pressure on the prices. This adds uncertainties to the recovery of the fuel-exporting countries.

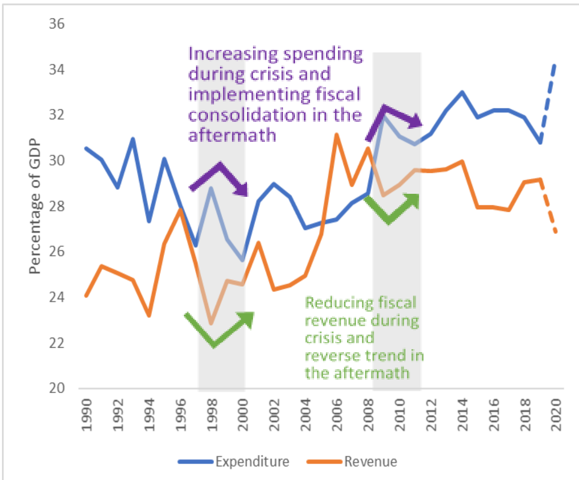
Figure 11. Fiscal position during and after crises

(a) Fiscal balance (as a share of GDP) in Asia and the Pacific



Source: IMF, World Economic Outlook Database (April 2020 version) (accessed on 23 June 2020).
Note: The orange bars illustrate three years before and after the crises. The black dotted lines provide average fiscal position during three years before and after the crises.
Median is taken to estimate fiscal balance in the region.

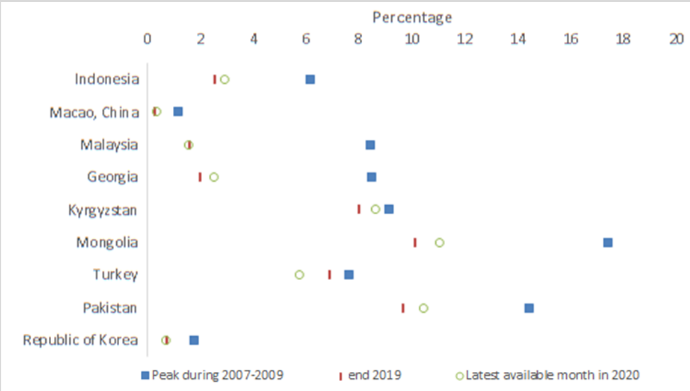
(b) Fiscal revenue and expenditure (as a share of GDP) in Asia and the Pacific



Source: IMF DataMapper (accessed on 25 June 2020).
Note: The shaded area covers the year when the crises took place and three years after that.
Median is taken to estimate fiscal revenue and expenditure (as a share of GDP) in the region.

Figure 12. Non-performing loans (NPL) in many countries increased in 2020

NPL, as a share of total loans



Source: ESCAP, based on CEIC (accessed on 27 July 2020).
Note: Countries and timeframe are selected based on data availability.

- *Natural disasters:* Several countries in the region have encountered extreme weather events while coping with COVID-19. For instance, southern *China*, northeast *India*, *Japan*'s southern island of Kyushu, and *Republic of Korea* are suffering from heavy rainfalls and severe floods (CGTN, 2020; Associated Press, 2020; New York Times, 2020; Yonhap, 2020). This is overwhelming the policy response to recover from COVID-19. As climate change is the defining issue of our time, the occurrence of natural disasters will continue to threaten the economic recovery.
- *Geopolitical tensions:* Even before the pandemic, *China* and *the United States* were engaged in prolonged trade tensions, which expanded to the technology area. Such tensions have only escalated. In July 2020, the *United States* closed *China*'s consulate in Houston; and *China* retaliated by closing the United States consulate in Chengdu. In August, the *United States* threatened to ban several Chinese social media apps, including forcing the owner of Tiktok, a Chinese video-sharing app, to sell its business in the *United States*. Additionally, China's souring relationships across the Asia-Pacific region (e.g., India-China border, South China Sea, protests in *Hong Kong, China*) could increase such tensions. Further escalation could create more uncertainties for the prospects of an already fragile economic recovery.

III. THE GREAT REALIZATION: POLICY SOLUTIONS SHOULD "BUILD FORWARD BETTER"[12]

Where there's a will, there's a way: The COVID-19 pandemic has highlighted that governments can do the unthinkable. The speed with which the lockdowns were implemented and policy packages rolled out is a testimony that difficult things can be done when there is political will and determination.[13] As of July 2020, all countries in the region have announced economic policies to protect people's health and livelihoods, reduce financial burdens for the affected businesses (especially the MSMEs) and stabilize economic and financial volatility. They surely have provided immediate relief.

However, past crises and recoveries are also a reminder that it will not be an easy ride going forward. Therefore, **the recovery policy packages should be thought of in terms of their impact in the medium- to longer term.** They must ensure that the region will pursue a **more inclusive, greener and more resilient development path,** aligned with the ambitions of the 2030 Agenda for Sustainable Development.

A. The short term: Focus on lives ….

First, **contain the pandemic and ensure adequate and equal access to medical treatment.** In the absence of an effective vaccine, countries should continue to require people to follow social distancing, wear masks in public places and wash hands. Meanwhile, countries should ensure the availability and sufficiency of personal protective equipment to help people protect themselves, as well as provide medical services to treat the infected people. Equal access for the vulnerable groups (such as women, children, people with disabilities, old persons and migrants) should be secured.

Second, **introduce sustainability requirements in the immediate policy responses to COVID-19.** For instance, when Governments are providing preferential loans or tax relief for businesses, they should link such support with mandatory information disclosure along ESG (Environmental, Social and Governance) factors.[14] Business operation is an integral part of economic activities. However, businesses often overlook the negative externalities associated with their activities. COVID-19 provides an opportunity for Governments to engage and transform business behavior. To ensure economic transformation towards a more sustainable pattern, ESCAP (2020b) recommends that firms adopt sustainability reporting.

Third, **plan the reopening in a staggered manner.** To restart too soon and too fast could risk public health and lead to subsequent lockdowns. Governments must develop a resilient and adaptive strategy for reopening, allowing for adjustments as events unfold and new information emerges. For instance, in *China*, even when the Government developed a national framework to guide its restart, discretion was given for implementation decisions at the local level. Activities were phased in on the basis of their transmission risk,[15] permitting businesses considered low-to-medium transmission risk, such as manufacturing, construction, and retail, to restart in late February. In early April, businesses with high transmission risk, including restaurants, hotels, and education institutions, were allowed to reopen (BCG, 2020).

B. …The medium to long term: Focus on livelihoods and economies that are more inclusive, greener and more resilient

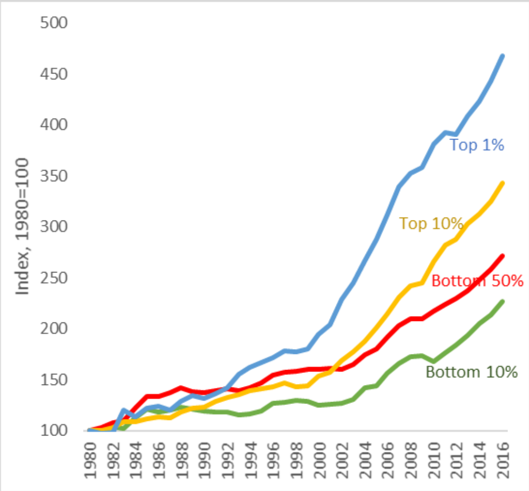
One overarching principle for the post-COVID recovery must put the 2030 Agenda at the center over a GDP-centric growth rebound. Economic growth should serve the wellbeing of people and planet. However, too much focus on economic efficiency (or "making the pie bigger") in the region in the past decades has come at the cost of rising inequality and leaving the most vulnerable behind (figure 13). The pandemic provides an **opportunity to reset and reprioritize policy** to make economies more resilient to future shocks.

People: To reduce the vulnerabilities of certain sections of society highlighted by the pandemic, it is imperative to improve the lives of those left behind. In this respect, developing countries could use more redistribution policies, such as by increasing revenues through progressive taxation, to support lower-income groups (figure 14).

In addition, countries should increase public spending to improve social protection and public health emergency

Figure 13. Focusing on GDP growth alone has come at a cost to social inclusiveness…

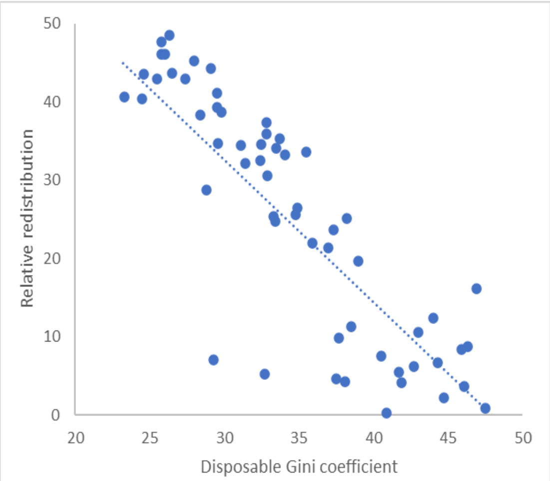
Pre-tax average income in Asia by income groups, index



Source: World Inequality Database (accessed on 4 August 2020).

Figure 14. … which could be improved through redistributive policies

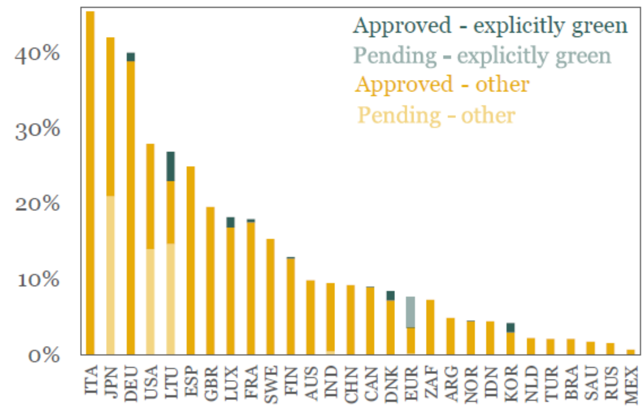
Gini coefficient (of disposable income) and relative redistribution in 2017



Source: The Standardized World Income Inequality Database (accessed on 4 August 2020).
Note: Gini coefficient (of disposable income) reflects post-tax and post-transfer inequality. Relative redistribution is the percentage reduction in inequality due to taxes and transfers. The dotted line is a fitted one.

Figure 15. Lots of fiscal stimulus, but it's not very green

Fiscal stimulus and emergency measures, as a share of 2019 GDP



Source: IIF (2020).
Note: The policy packages in the figure provide information as of June 2020.

preparedness. ESCAP (2019b) estimates that the developing Asia-Pacific countries need an additional annual investment of $1.5 trillion (or 5 per cent of GDP) to achieve the SDGs, including $669 billion to provide a social protection floor, targeted cash transfer for the poor, nutritious food, quality education and universal healthcare systems. These investments in people will not only enhance human capital, but also act as automatic stabilizers during crisis times.

To ensure that the policies are suitable and can reach those in need, Governments should engage vulnerable groups in the decision-making process. For instance, to support women, government should ensure the participation of women and women's organizations to apply a gender lens in formulating policy responses to achieve greater equality, opportunities, and social protection (United Nations, 2020).

Planet: As people experienced the environmental benefits (lower CO_2 emissions and air pollution) of lockdowns (even if temporarily), **now is the time to lock-in some of the climate initiatives in the recovery packages.** Climate change is the defining issue of our time and rising occurrence of natural disasters has severely affected people's lives and livelihoods. However, unlike the pandemic which is an acute crisis that has received immediate policy attention, climate change is a chronic one with insufficient policy actions taken to address it. For instance, among the announced stimulus packages, the focus on environment has been limited (figure 15 and box). To come out of the crisis without imposing further burden on the environment or ideally with reduced climate risks, Governments need to *deliberately* embed environmental sustainability into all policies going forward.

- **Increasing green public investment to create jobs**: Research shows that investing in the renewables sector to limit temperature rise within 2^{O}C (compared to pre-industrial levels) can create a net increase of 14 million jobs (ILO, 2018), which could partially offset the job losses during the pandemic. And these green jobs are more secure. ESCAP (2019b) estimates that the developing countries in the region need to invest an annual additional $590 billion in clean energy, climate resilience for basic infrastructure, resource use efficiency and conservation of nature, for a greener future.

- **Phasing out fossil fuel subsidies and introducing a carbon or environmental tax**. These policies not only protect the planet, but also generate fiscal revenue to support the financing needs during the recovery. Five out of the top 10 countries in the world that offer the largest amount of fossil fuel subsidies (as a share of GDP) are from the Asia-Pacific region, including *Islamic Republic of Iran*, *Uzbekistan*, *Turkmenistan*, *Azerbaijan* and *Kazakhstan* (IEA, 2020). Fiscal savings from subsidies can fully or largely cover the announced fiscal packages (Huang and Saxena, 2020). For a carbon or environmental tax, although the primary purpose is to lower greenhouse-gas emissions and pollution, it can also generate tax revenue. For example, a carbon tax of $35 per ton will increase tax revenue by over 2 per cent of GDP for Mongolia (ESCAP, 2020b). To ensure a *just* transition following the removal of subsidies or introduction of carbon taxes, targeted financial support for the poor must be instituted.

- **Encouraging investments in ESG (Environmental, Social and Governance) conscious businesses.** The pandemic highlighted the weaknesses in the

Box: Policy packages to cope with COVID-19: India and Republic of Korea's experiences

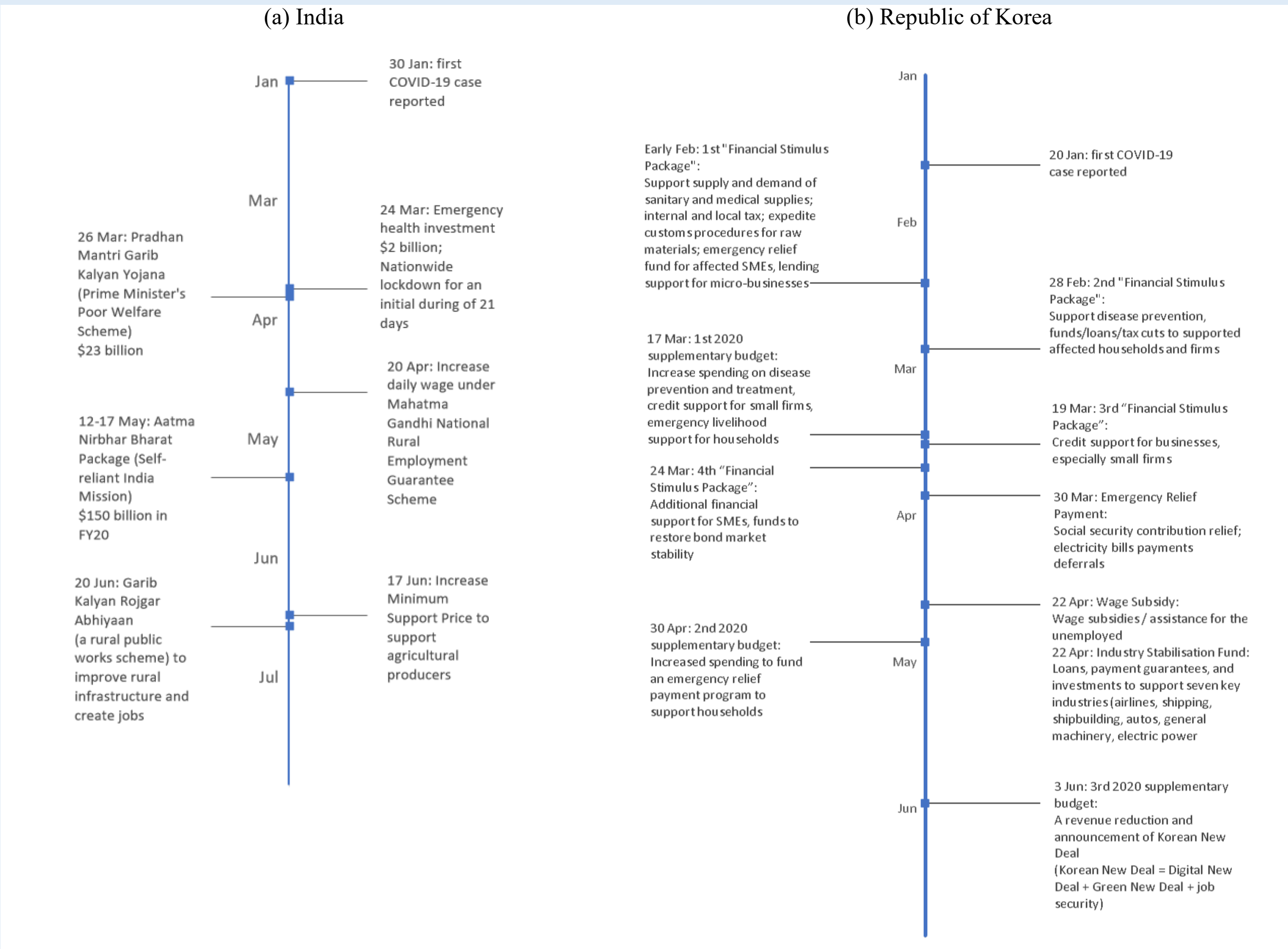
India and the *Republic of Korea* recently announced major policy packages to cope with and recover from COVID-19, i.e. the "Aatma Nirbhar Bharat Package" and the "Korean New Deal". This box reviews their policy packages to assess their alignment with the 2030 Agenda.

Since February 2020, both countries have announced several rounds of policy support, with a total of 10 per cent of GDP for *India* and 14 per cent for the *Republic of Korea*; considerably greater than the regional average of 5.3 per cent (as of 15 July). The policy trajectories of the two countries have some similarities (figure a). After the first COVID-19 case was reported,

- Their *first* reaction was to increase spending on healthcare and medical sectors to ensure that the infected people have access to health services and there are sufficient sanitary supplies for disease prevention.
- The *second* step was to support the affected households and enterprises and to retain employment. *India*'s "Pradhan Mantri Garib Kalyan Yojana" (Prime Minister's Poor Welfare Scheme) provides targeted support for different vulnerable groups, such as the poor, women, older persons and disabled people. Micro-, small- and medium-sized enterprises (MSMEs) have been a focus to support businesses. Over half of *India*'s "Aatma Nirbhar Bharat Package (ANBP)" (Self-reliant India Mission) focuses on MSMEs. Almost all of *Republic of Korea*'s packages have elements on small firms.
- *Thirdly*, both countries have rendered support to selected key industries during the crisis. *India* focuses on agriculture, energy (coals, atomic energy, and power distribution), defense production, airspace management, airports and civil aviation in ANBP. In April, *Republic of Korea* set up the Industry Stabilisation Fund to support airlines, shipping, shipbuilding, autos, general machinery and electric power industries. The "Korean New Deal" specifically promotes green industries and eco-friendly manufacturing, as well as the digital sector.
- *Fourth,* as there is no sign that COVID-19 will be fully defeated soon, countries will need to mainstream the COVID-related spending into the budget and prioritize the spending for recovery. *Republic of Korea* has announced three supplementary budgets.

The announced policy packages help the two countries to progress towards the Sustainable Development Goals.

Figure a: Timeline of policy announcements

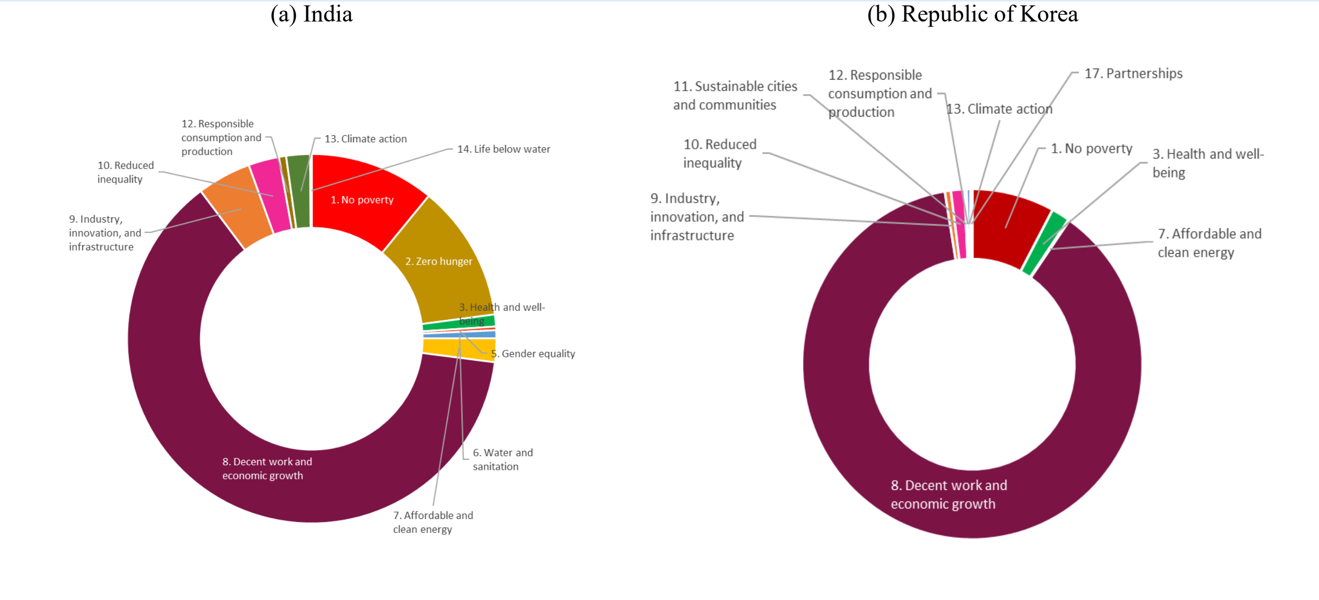


Among them, Goal 8 (Decent Work and Economic Growth) could benefit the most, followed by Goals related to social and environment concerns (figure b). This is not surprising as most policies aim to stabilize and revive economic and financial conditions, as well as to retain employment and create jobs.

Policies to support the vulnerable groups (including provision of healthcare services, in-cash or in-kind assistance, improved social safety nets) contribute to Goals 1 (No Poverty), 3 (Health and Well-being), 5 (Gender Equality), and 10 (Reduced Inequality). Improved digital infrastructure (e.g. *Republic of Korea*'s "Digital New Deal") could also benefit online education (Goal 4 Quality education).

Environmental well-being has received limited policy attention so far, but the awareness is on the rise. *Republic of Korea*'s "Green New Deal", which is part of the "Korean New Deal", will increase investment in eco-friendly management of cities and infrastructure, promote green industries and eco-friendly manufacturing, and promote low-carbon and distributed generation. *India*'s ANBP provides liquidity for power distribution companies. Many of them are State-owned with a focus on renewable energy generators. *India*'s "Pradhan Mantri Matsya Sampada Yojana" (A scheme to bring about Blue Revolution through sustainable and responsible development of fisheries sector in India), which is part of ANBP, could benefit both Goal 12 (Responsible Consumption and Production) and 14 (Life under Water).

Figure b: Estimate of policy packages' contribution to the Sustainable Development Goals by share



Source: ESCAP, based on ESCAP, based on ESCAP COVID-19 policy tracker (accessed 3 August 2020) and various national sources.
Note: This figure is for illustration purpose. It may not accurately reflect how the policy packages contribute to various Sustainable Development Goals. Because usually one policy announcement could cover spending in several Sustainable Development Goal areas; however, there lacks accurate spending breakdown. When doing the calculation, the author assigns some weights to decide the breakdown. For instance, financial support for the poor could contribute to Goal 1 (No poverty) and 10 (Reduced inequality). If a country provides $1 million targeted spending on the poor, then half of it goes to Goal 1 and the other half to Goal 10.

social fabric, environmental justice, and governance structures, and the role that businesses can play. For instance, the pandemic shifted the focus to social and environmental issues as people realized the value of essential workers that kept the economy going and of a cleaner environment. With such awareness, investors wish to invest in businesses that accord with their values; i.e., treat their workers well and care about the environment. In this sense, ESG investing, also known as "sustainable investing," is an umbrella term for investments that seek positive returns and long-term impact on society, environment and the performance of the business. If businesses adopt transparency by disclosing their record on ESG factors, they are likely to attract more investment. In *India*, ESG investing has started to gain traction with the launch of dedicated ESG funds and asset management companies signing up for the United Nations Principles for Responsible Investment. The size of ESG-linked assets stands at $30 billion and is expected to grow to $240 billion in the next 10 years (Yes Bank, 2019). The returns to such transparency are already evident as the majority of ESG funds outperformed wider market funds over the last 10 years.[16] In this vein, Governments could encourage sustainability reporting and use regulations or rules to catalyze sustainable investment. This means that investment in green projects could enjoy lower financial costs through preferential interest rates, higher credit rates, and special tax breaks (ESCAP, 2020b).

Prosperity: The pandemic also put a spotlight on the role that infrastructure plays to support people's livelihoods. For instance, as highlighted above, digital divide made it difficult to work and study from home during the lockdown, especially for vulnerable groups. Some of these online activities will continue after the crisis and would require decent digital connectivity.[17] Since it also boosts long-term productivity and creates short-term employment, **countries should invest in such infrastructure**, which should make them more resilient in dealing with similar shocks in future. In addition to ICT, countries should also invest in **green transport**. As discussed above, emissions and other environmental externalities will likely rebound when the crisis is over. Rebound of transport demand is one major culprit. Therefore, policies need to ensure that new investments in the transport sector are green. ESCAP (2019b) estimates that the developing countries in the region will need to invest an additional $56 billion per year in ICT infrastructure and $126 billion per year in transport sector, with built-in climate resilience.

As countries ramp up their investments in social protection, clean energy, and economic infrastructure, they need to be cognizant of their impact on fiscal positions. The impact of higher public spending can often be counteracted through better governance and institutions, such as by improving investment efficiency. Given that the investment efficiency in the developing Asia-Pacific region is lower than the global average, ESCAP (2019a) finds that these countries could achieve similar levels of output and outcomes in health and education sectors using 30 per cent fewer resources than they currently do. The potential savings through efficiency gains are even higher in the infrastructure sector, at more than 50 per cent. Hence, investment efficiency can be improved by strengthening public financial management institutions (including project appraisal, selection and management), improving coordination across government agencies (speeding up the process to issue construction permits, environmental clearance and land acquisition), and ensuring services delivery for the targeted beneficiaries (ESCAP, 2019a).

Additionally, the pandemic has changed how we live, work and do businesses. For instance, the disruption to the existing global value chains[18] might lead to goods traded more with our own neighbors and countries in the region rather than some far-off countries. This requires businesses to evaluate near-shoring options to shorten supply chains, increase proximity to customers, and leverage advanced technologies to become more resilient. In this context, countries should work together to ensure openness of the regional markets and provide more stable policy environment with reduced trade costs to facilitate value chain shifts, and include more SMEs in national and regional supply chains.

CONCLUSION

This is a difficult time. COVID-19 is threatening people's lives and livelihoods as never before. However, it also offers an opportunity for us to stop and realize that we could have blue skies, clean rivers, and a world where no one is left behind. We should use the policy responses to COVID-19 to address existing development challenges and transit to a more inclusive, greener and more resilient future through domestic and global partnerships. Such transition calls for Governments to align recovery packages and upcoming budgets with the 2030 Agenda for Sustainable Development and engage all stakeholders to take part. Regional cooperation is also critical to share national policy experiences and support those in need. The window of opportunity to change the path of unsustainable policies is unprecedented. Policy action is needed now, before it is too late!

Endnotes

[1] See Huang and Saxena (2020), and visit ESCAP's tracker of policy responses to COVID-19 for more details: www.unescap.org/covid19/policy-responses.

[2] These forecasts are based on the assumption that countries have lifted lockdowns by the end of second quarter of 2020 and will gradually reopen their economies in the third quarter. Meanwhile, the announced stimulus packages as of mid-July are expected to support the economies. However, the pandemic may return in multiple waves due to absence of an effective vaccine, which could prevent countries from fully reopening their economies.

[3] The previous forecast was based on data and information available up to 10 March 2020. See ESCAP (2020b).

[4] See more details in Huang and Zhao (2020).

[5] In low-income countries in the region, the access to internet is even lower – about 30 per cent in 2017.

[6] The estimation was done in early June 2020. The actual increase of poverty headcount could be greater than the estimate.

[7] See Huang and Saxena (2020) for more details about the policy measures.

[8] The "systematically important" companies refer to those being monitored for potential state assistance to ensure economic stability.

[9] See ESCAP (forthcoming b) for more details on managing fiscal positions and debt during the pandemic.

[10] High levels of NPLs are problematic because they impair bank balance sheets, depress credit growth, and delay economic recovery and even lead to banking crisis.

[11] Measured by Brent crude oil.

[12] To recover from the COVID-19 pandemic, countries need to devise and implement policies that help "build back better," a term used in the post-disaster recovery. To expand its use to post-COVID-19 recovery could give the impression that the pre-COVID-19 world is a desirable norm to return to. However, given the pervasive inequality and environmental degradation, countries need to have a vision of a better world for times ahead. Hence, they need to build ***forward*** better.

[13] Visit ESCAP's tracker of Policy Responses to COVID-19 in Asia and the Pacific (https://www.unescap.org/covid19/policy-responses) to learn more details of countries' policy packages.

[14] See ESCAP (2020b) for more details about sustainable report and ESG.

[15] With the exception of the most essential operations, such as medicine, energy supply, logistics, and food.

[16] Majority of ESG funds outperform wider market over 10 years, Financial Times, 13 June 2020.

[17] For instance, big companies such as Facebook or Twitter have announced some of their workforce will continue working from home permanently.

[18] See Anukoonwattaka and Mikic (2020) for more discussion on coping with the "new normal" in supply chains in Asia and the Pacific.

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Appendix: ESCAP region: rates of economic growth and inflation 2019-2021
(Percentage)

	GDP growth			Inflation[a]		
	2019	2020[b]	2021[b]	2019	2020[b]	2021[b]
Total ESCAP region	**3.4**	**-2.8**	**5.0**	**3.5**	**3.0**	**2.8**
Developing Asia-Pacific[c]	**4.2**	**-1.8**	**5.8**	**4.4**	**3.9**	**3.5**
Developed Asia-Pacific[d]	**0.9**	**-5.8**	**2.7**	**0.7**	**-0.1**	**0.7**
East and North-East Asia[e]	**3.9**	**-1.5**	**5.5**	**1.9**	**1.7**	**1.4**
East and North-East Asia (excluding Japan)[e]	**5.4**	**0.7**	**7.1**	**2.6**	**2.7**	**1.9**
China	6.1	1.4	7.6	2.9	3.0	2.0
Democratic People's Republic of Korea	..	..	..	..	..	..
Hong Kong, China	-1.1	-7.7	4.5	2.9	1.4	2.3
Japan	0.7	-6.0	2.4	0.5	-0.3	0.5
Macao, China	-4.6	-54.7	31.0	2.8	1.4	1.6
Mongolia	5.5	-1.9	5.8	7.3	4.1	6.5
Republic of Korea	2.0	-1.3	3.0	0.4	0.3	1.1
North and Central Asia[e]	**2.0**	**-7.3**	**4.0**	**5.0**	**4.1**	**4.5**
North and Central Asia (excluding Russian Federation)[e]	**4.8**	**-1.2**	**3.4**	**7.1**	**7.5**	**6.5**
Armenia	7.6	-3.0	4.8	1.5	0.8	2.2
Azerbaijan	2.6	-2.0	2.0	2.7	2.9	3.2
Georgia	5.1	-5.4	4.5	4.9	5.5	4.0
Kazakhstan	4.4	-1.9	3.0	5.4	7.0	6.0
Kyrgyzstan	4.5	-5.0	4.5	1.1	6.0	6.0
Russian Federation	1.3	-8.8	4.1	4.5	3.2	4.0
Tajikistan	7.5	-3.6	7.0	7.8	10.0	8.0
Turkmenistan	6.3	1.0	4.5	11.0	8.0	8.0
Uzbekistan	5.8	2.0	4.0	14.5	13.5	10.6
Pacific[e]	**2.7**	**-5.3**	**3.9**	**0.9**	**0.5**	**1.0**
Pacific island developing economies[e]	**3.8**	**-5.5**	**3.7**	**0.2**	**0.4**	**0.6**
Cook Islands	5.3	-9.0	1.0	0.8	1.5	1.7
Fiji	1.0	-15.0	5.3	1.8	1.5	3.5
Kiribati	2.0	0.6	3.9	-1.8	1.0	1.1
Marshall Islands	3.8	-5.5	3.7	0.1	0.3	0.5
Micronesia (Federated States of)	3.0	-2.0	3.0	1.0	0.5	1.0
Nauru	1.0	-2.4	1.1	3.9	1.5	1.7
Palau	-3.1	-10.5	1.2	0.6	0.4	0.8
Papua New Guinea	3.6	-4.1	5.3	3.6	3.3	4.4
Samoa	2.9	-5.0	3.3	2.2	4.9	4.5
Solomon Islands	2.8	-6.0	3.9	1.6	6.2	3.0

	GDP growth			Inflation[a]		
	2019	2020[b]	2021[b]	2019	2020[b]	2021[b]
Tonga	3.0	-3.0	2.5	4.1	0.4	1.8
Tuvalu	4.1	2.7	3.2	3.3	3.0	3.0
Vanuatu	3.0	-9.8	5.3	2.4	3.0	2.0
Developed countries (Australia and New Zealand)[e]	**1.8**	**-5.1**	**4.0**	**1.6**	**0.6**	**1.4**
Australia	1.8	-5.0	4.0	1.6	0.5	1.3
New Zealand	2.2	-5.7	4.0	1.6	1.6	2.1
South and South-West Asia[e,f]	**2.1**	**-3.8**	**3.9**	**10.8**	**9.3**	**8.2**
Afghanistan	1.5	-3.5	3.4	2.3	5.0	4.5
Bangladesh	8.1	3.8	5.7	5.5	5.6	5.5
Bhutan	5.2	3.1	5.6	3.0	2.5	3.0
India	4.2	-4.0	5.5	4.8	4.0	3.5
Iran (Islamic Republic of)	-8.0	-5.5	-2.5	36.2	33.3	30.7
Maldives	5.9	-17.7	9.2	0.2	-0.5	0.2
Nepal	7.0	2.3	6.5	4.5	6.3	5.8
Pakistan	1.9	-0.4	1.0	7.3	10.8	8.0
Sri Lanka	2.3	-5.2	4.3	3.5	5.0	4.8
Turkey	0.8	-4.6	3.4	15.5	11.5	9.5
South-East Asia[e]	**4.3**	**-3.3**	**5.7**	**2.1**	**1.1**	**2.3**
Brunei Darussalam	3.9	1.0	2.0	-0.4	0.9	1.0
Cambodia	7.1	-1.5	6.3	1.9	2.1	2.0
Indonesia	5.0	-1.0	6.2	2.8	2.1	3.0
Lao People's Democratic Republic	5.0	0.0	4.5	3.3	5.5	4.3
Malaysia	4.3	-3.0	5.5	0.7	-1.0	2.0
Myanmar	6.9	1.8	6.0	8.8	5.5	6.2
Philippines	5.9	-7.0	7.0	2.5	2.2	2.5
Singapore	0.7	-6.2	3.5	0.6	-0.5	1.1
Thailand	2.4	-8.1	5.0	0.7	-1.0	0.3
Timor-Leste	2.1	-6.0	-3.2	0.1	0.9	1.9
Viet Nam	7.0	2.3	7.1	2.8	3.3	3.5
Least developed countries	**7.1**	**2.2**	**5.6**	**5.7**	**5.3**	**5.3**
Landlocked developing countries	**4.8**	**-0.9**	**3.7**	**6.8**	**7.3**	**6.4**
Small island developing States	**3.8**	**-5.6**	**3.7**	**0.2**	**0.4**	**0.6**

[a] Changes in the consumer price index.
[b] Forecasts as of 31 July 2020.
[c] Developing Asia-Pacific economies consist of all countries and areas listed in the table, excluding Australia, Japan and New Zealand.
[d] The group of developed Asia-Pacific economies consists of Australia, Japan and New Zealand.
[e] Aggregate growth rate calculated using 2015 GDP in 2010 United States dollars as weights. United States dollars GDP weights.
[f] The estimates and forecasts for countries relate to fiscal years. These are defined as follows: 2020 refers to fiscal year spanning from 1 April 2020 to 31 March 2021 in India; 21 March 2020 to 20 March 2021 in Afghanistan and the Islamic Republic of Iran; 1 July 2019 to 30 June 2020 in Bangladesh, Bhutan and Pakistan; and 16 July 2019 to 15 July 2020 in Nepal.