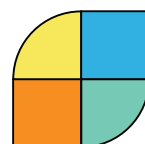
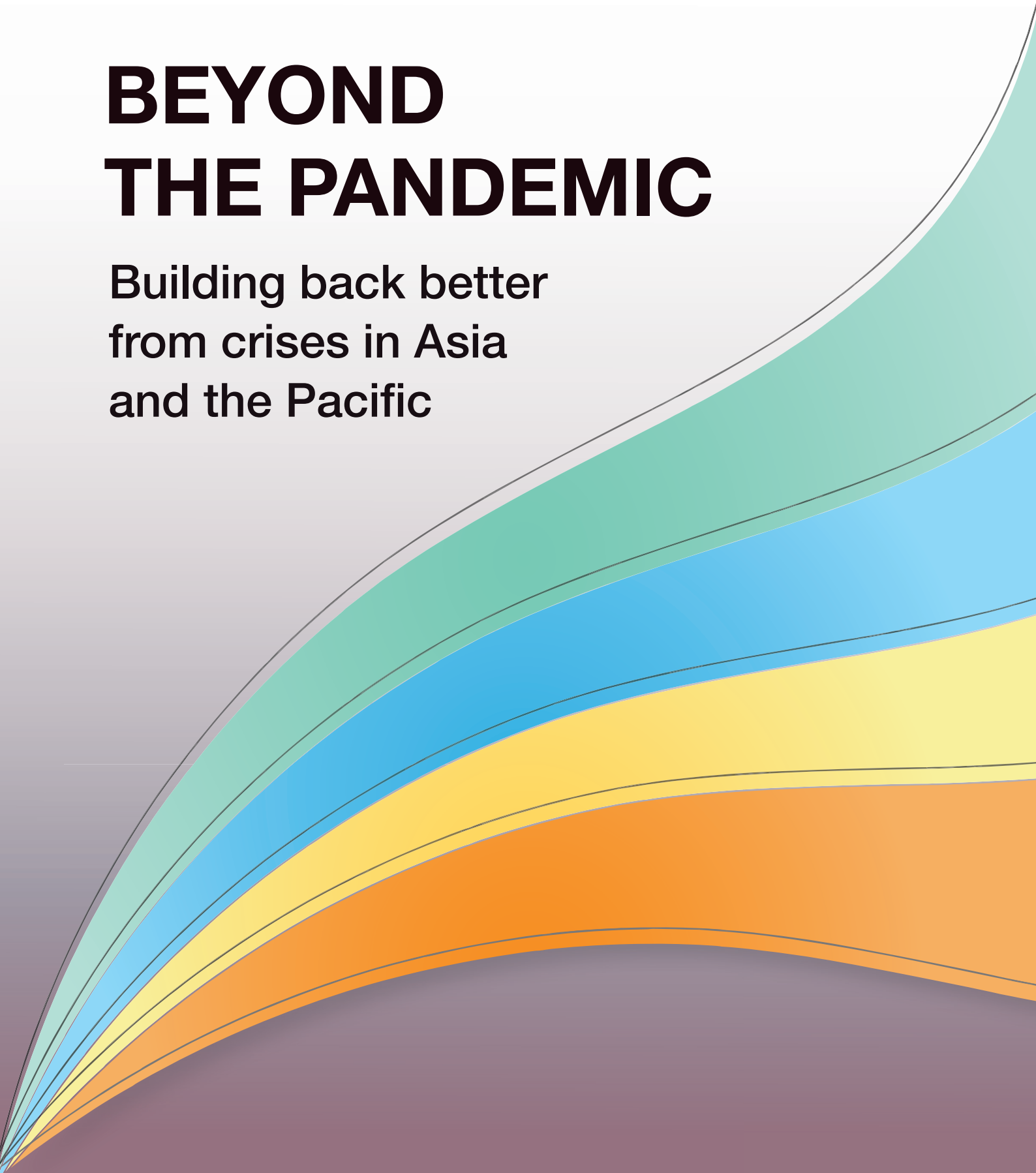


BEYOND THE PANDEMIC

Building back better
from crises in Asia
and the Pacific





*The shaded areas of the map indicate ESCAP members and associate members.**

The Economic and Social Commission for Asia and the Pacific (ESCAP) is the most inclusive intergovernmental platform in the Asia-Pacific region. The Commission promotes cooperation among its 53 member States and 9 associate members in pursuit of solutions to sustainable development challenges. ESCAP is one of the five regional commissions of the United Nations.

The ESCAP secretariat supports inclusive, resilient and sustainable development in the region by generating action-oriented knowledge, and by providing technical assistance and capacity-building services in support of national development objectives, regional agreements and the implementation of the 2030 Agenda for Sustainable Development.

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BEYOND THE PANDEMIC

Building back better
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Beyond the pandemic

Building back better from crises in Asia and the Pacific

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The world is still reeling from the effects of a virus that suddenly jumped from animals to humans and spread globally at an astonishing speed and with tragic results. The COVID-19 crisis has shaken the world, but it has had a particular resonance in Asia and the Pacific. This region has had salutary experiences of other coronaviruses and knows only too well the threat that they pose. Some countries were thus able to react swiftly to contain the danger – though others were less fortunate and the poorest people in particular have been cruelly exposed both to the virus itself and the ensuing economic shocks.

The Asia-Pacific region has also pointed the way forward. It was in response to the 2004 Indian Ocean tsunami that we first resolved to “build back better” – a slogan that has now been adopted around the world – and a determination that is echoed in this ESCAP theme study *Beyond the pandemic: Building back better from crises in Asia and the Pacific*.

As this report highlights, that commitment has become even more urgent given the scale of the task ahead. The report identifies fault lines in the region’s societies and economies that the virus was quick to expose – not just the stark inequalities and the fragility of our health and social protection systems, but also weaknesses in Internet coverage and digital capacity, and the limitations in some trade and transport links that seized up just when they were needed most. It also points out that humanity’s assault on the natural environment is opening new interfaces between humans and animals and fresh opportunities for the spread of new and more perilous viruses.

Beyond the Pandemic sets out a policy agenda grounded in regional cooperation. It argues for building universal social protection that extends coverage to informal workers, and more women and vulnerable population groups. It points out that countries will need to strengthen trade and transport links and invest in digitalization and broadband connectivity. And it sets out regional priorities for planetary health, identifying the institutional, structural economic and behavioural changes needed to better manage our human and natural environment.

Generating the necessary fiscal space to invest in a sustained socio-economic recovery will not be easy. But it is certainly feasible – for example, by switching government spending and priorities, and adopting more progressive taxation, and experimenting with new financial instruments.

This report sets out an ambitious agenda. We hope its information and analysis will assist countries across Asia and the Pacific as they look beyond the pandemic and set a steady course towards achieving the Sustainable Development Goals.

March 2021



Armida Salsiah Alisjahbana

Under-Secretary-General of the United Nations and
Executive Secretary of United Nations Economic and
Social Commission for Asia and the Pacific



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ASEAN	Association of Southeast Asian Nations
COVID-19	coronavirus disease 2019
DSSI	Debt Service Suspension Initiative
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	foreign direct investment
GDP	gross domestic product
GATT	General Agreement on Tariffs and Trade
HIV	human immunodeficiency virus
ICT	information and communications technology
ID	identification document
ILO	International Labour Organization
ITU	International Telecommunications Union
IMF	International Monetary Fund
IXP	Internet exchange point
LDCs	least developed countries
MSME	micro, small and medium-sized enterprise
OECD	Organization for Economic Co-operation and Development
R&D	research and development
SAARC	South Asian Association for Regional Cooperation
SARS	severe acute respiratory syndrome
SIDS	small island developing States
SDGs	Sustainable Development Goals
SMEs	small and medium-sized enterprises
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WHO	World Health Organization
WTO	World Trade Organization

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Executive Summary

The COVID-19 pandemic has triggered unprecedented and globally synchronized health, social and economic crises, which threaten to roll back hard-won development gains. This report analyses the socio-economic impacts of the pandemic in the region, takes stock of actions so far, and offers recommendations for building back better – bolstering resilience to future wide-scale crises and setting the region back on track to achieve the Sustainable Development Goals.

Counting the costs of a global pandemic

The coronavirus disease 2019 (COVID-19) pandemic has created the worst crisis in Asia and the Pacific and beyond since World War II. The virus has attacked the core of our societies: few countries have been spared the shockwaves or the heart-breaking health consequences. Across the Asia-Pacific region, as across the world, countries have suffered sudden economic contractions, along with interruptions to trade, broken supply chains, and the collapse of international tourism – leading to widespread job losses and increases in poverty. Everyone everywhere has had to make changes to the way they live, work or study.

The virus does not discriminate between rich and poor. Anyone can be infected. But it does hit hardest at the poor and marginalized in developing countries because they are less able to adapt and adjust. Typically, they live in precarious situations and have less to fall back on and do not benefit from the kind of inclusive national policies that could offer greater protection.

People in richer countries, including some in Asia and the Pacific, are also under enormous pressure. Indeed, they have often had greater COVID-19 prevalences and suffered more fatalities than many developing countries. On the other hand, offsetting this richer countries are in a stronger position to defend their people. They can deliver

more robust government services and medical care, and protect the livelihoods of households and the education of children and young people. They also have more robust and extensive Internet infrastructure and connectivity which, combined with greater digital skills, has enabled them to move many services, particularly education, online. Above all, they have greater financial resources, even if this entails massive public borrowing. For many developing countries in the Asia-Pacific region on the other hand, COVID-19 has been a sudden wakeup call, revealing gaps in health services, as well as in social protection and in digital connectivity and skills that have left their people harshly exposed.

In all countries, the economic shock caused by the pandemic has exposed many structural weaknesses and fault-lines – in particular, the extent to which our production and consumption patterns have been destroying the environment. Once the virus hit and brought economic production and travel to a halt, the region saw dramatically boosted air and water quality, and reduced greenhouse gas emissions. On the other hand, the pandemic also created new problems – generating significant, if temporary, flows of waste material, mainly from plastics and food packaging, as well as medical equipment, gloves and face masks. The issue now is how to ensure a sustainable, green and inclusive recovery, that addresses the underlying causes of environmental degradation and social inequalities.

Even before the pandemic, many Asia-Pacific countries struggled to address their vulnerabilities and systemic weaknesses – notably in health and social protection systems, in digital connectivity and skills, and in transport links. As countries now work to stem the unprecedented challenges of the pandemic, they also need to address these weaknesses – to build back better.

This study proposes four critical interconnected areas: broadening social protection, investing in a sustained recovery, keeping goods and information flowing, and mending a broken relationship with nature. If countries in Asia and the Pacific can combine concerted national action with coordinated regional cooperation, they

– and the world – can emerge from the pandemic more prosperous, sustainable, resilient and unified.

Broadening social protection

The COVID-19 pandemic has aggravated many underlying ills and highlighted gaps in social protection. More than half the region's people are completely unprotected throughout their lives. Excluding China, this proportion rises to three-quarters. This is partly because so many people work in the informal economy, but it is also a reflection of a lack of political will to provide adequate social protection.

As a result, most individuals and families in Asia and the Pacific manage life's risks on their own – which not only leaves them very exposed but reduces their opportunities and life prospects. Children living in poor and deprived communities can suffer from nutritional and health deficiencies, with lifelong consequences. Adults who lose their job, become pregnant or give birth, can suddenly fall into poverty. Living with a disability often means living on a very low, if any, income, and at older ages people without adequate pensions are forced to continue working or depend on other family members for their survival. At the same time there is the ever-present danger of sickness, which can mean working while being ill and contagious. Without affordable health care, people may not seek treatment, or wait until it may be too late. While damaging for individuals, this lack of social protection is also stifling innovation and overall economic progress.

Simulations for 13 developing countries in the Asia-Pacific region show that if governments offered universal child benefits, disability benefits and old-age pensions, at conservative benefit levels, more than one-third of people would be lifted out of poverty. In the poorest households in Indonesia, Maldives, the Philippines and Sri Lanka, this basic social protection package would increase purchasing power by around 50 per cent.

Providing a basic social protection package would require an investment of 2 to 6 per cent of gross domestic product (GDP). Almost all countries in the region could afford this, especially when they

consider the cost of doing nothing. Nevertheless, many countries spend less than 2 per cent of their GDP on social protection and the average investment across countries the region, at around 5 per cent, is less than half the global average of 11 per cent. Countries need therefore to extend coverage to everyone, while also ensuring that benefits are sufficiently high to make a difference to people's lives.

Investing in a sustained economic recovery

Governments around the world have responded to the immediate pandemic by deploying extensive fiscal resources and other measures for health care and for supporting business and household incomes. Over the first eight months of 2020, crisis-related emergency spending by the region's developing countries, together with accommodative monetary and financial policies, amounted to some \$1.8 trillion, or 6.6 per cent of their combined 2019 GDP. In most countries, these expenditures, along with declining revenues, are leading to increases in fiscal deficits, which are projected to widen from 1.5 per cent of GDP in 2019 to 6.8 per cent in 2020, and to 5.6 per cent in 2021. Between 2019 and 2020, the average debt-to-GDP ratio in the region is estimated to rise from around 41 to 47 per cent and by 2021 could reach 49 per cent.

If countries in Asia and the Pacific are to embark on a sustained economic recovery, they will need to extend this commitment – to provide ongoing fiscal support and stimulus and direct their economies along more inclusive, resilient, and sustainable development pathways. But they should nevertheless aim to avoid unsustainable levels of debt or undermine macroeconomic stability. To do so, and create the necessary 'fiscal space', governments can take a number of measures. On the expenditure side they can aim to improve efficiency and reorient spending away from non-developmental areas, such as defence, and fossil fuel subsidies. On the revenue side they should be aiming for tax reform that mitigates inequalities and support the climate agenda.

Tax changes could include more progressive income tax and taxes on wealth, as well as on carbon. At the same time, it is important to combat tax evasion and eliminate harmful, if legal, tax practices.

While doing so, countries will need to cooperate with other countries, in the region and beyond, to avoid harmful international tax competition.

Governments should also consider more innovative forms of borrowing. They can, for example, issue green, or sustainable, or pandemic bonds. For this they could look to the international community for technical support and guarantees, and also possibly the creation of bond funds aligned with the Sustainable Development Goals. There should also be opportunities to capitalize more on public assets, such as real estate or buildings, so as to unlock some of the potential on public balance sheets, for example, by identifying assets that could be used as collateral against which to borrow. To support such expansionary fiscal measures, central banks should pursue supportive policies to the extent possible, without compromising economic and financial stability. In this vein, national capital control measures and regional cooperation regarding financial stabilization arrangements can also be considered.

Closer integration with global financial markets does however bring risks, notably of volatility and capital outflows, so there may also be a need for measures to address these risks. With the help of the international community, countries should advocate for debt relief where necessary. All these measures will benefit from early engagement among pertinent stakeholders.

Keeping goods and information flowing

The COVID-19 crisis disrupted global trade and supply chains, often leaving the most vulnerable population groups even further behind. During the first quarter of 2020, aiming to ensure supplies, many governments restricted exports while liberalizing imports, notably for food products and the medical supplies essential for fighting the pandemic. Although, in principle the World Trade Organization (WTO) as well as bilateral and regional trade agreements permit such measures, the restrictive measures added to economic and policy uncertainties, which pushed trade costs up by an estimated 7 per cent across the region during 2020.

During the pandemic, the transport and logistics industry made efforts to keep borders open to trade. Nevertheless, additional inspections, reduced hours of operation and road and border closures may have increased transport costs by 25 per cent. Again, it is those countries that already suffer from lower levels of connectivity which may be affected the most, further widening regional transport gaps.

A more positive outcome was a boost to cross-border paperless trade. Some countries that previously only used original paper documents now accept electronic customs declarations and other certificates. But this does require sufficient digital infrastructure, connectivity and skills. Moreover, the quality of digital infrastructure is reshaping international competitiveness and influencing decisions on where enterprises will invest. However, many countries still lack affordable Internet access and the technical capacity to implement and harmonize their systems with those of other countries.

Shifting production towards new and enabling digital technologies, while modernising traditional industries, depend on universal access to affordable and reliable broadband Internet. In this regard the region suffers from a digital divide that has not only persisted but also widened. More than half the region's population remains offline. Only 13 per cent, or 600 million people, have access to fixed-broadband subscriptions. Most of the remainder rely on mobile broadband, which is often slower and less reliable but does reach more than 70 per cent of the region's population. In Pacific island developing countries, however, uptake even of mobile broadband remains below 15 per cent.

There is also a sharp gender digital divide. Even before the pandemic, the gap between male and female users of the Internet was growing faster in the Asia-Pacific region than globally. And the pandemic is also expected to widen the gender digital gap in Internet access and further hamper women's and girls' access to employment and education.

If Asia and the Pacific is to withstand future crises, ensure resilient supply chains, keep markets open,

and safeguard vulnerable groups, governments across the region will need to embrace digitalization and close the digital divides between and within countries. They should also make better use of international rail freight and multi-modal systems. This will mean not just building hard infrastructure, but also developing soft infrastructure and harmonizing digital connectivity and trade regulations. It will also mean increasing the capacity of governments, firms, and workforces, especially in countries in special situations (comprising least developed countries, landlocked developing countries and small island developing States) and addressing issues facing women and small businesses. For this purpose, a coordinated regional approach will be more effective than unilateral policy action.

Protecting environmental health

COVID-19 is a zoonotic disease – transmitted from animals to humans; it thus emerges where people come into direct or indirect contact with wild and farmed animals. As economic development has gathered pace, this interface has radically changed and expanded, a consequence in part of land degradation and urban sprawl that is destroying natural ecosystems and habitats, eliminating some species, and changing the ways in which humans and animals interact. The extent of the damage is evident from the region's biodiversity intactness index score, which is the lowest in the world. Over recent decades, Asia and the Pacific has lost over 60 per cent of its mangroves and 40 per cent of its coral reefs. Environmental damage is also being intensified by global warming. Asia and the Pacific has six of the top ten global carbon emitters, generating more than half the world's greenhouse gas emissions.

Heightened exposure to zoonotic and other diseases and the general degradation of the region's environmental health reflect critical failings in the way we manage our environment. These weaknesses can be institutional, structural-economic or behavioural.

Institutional – Many countries lack the necessary governance and institutional capacities. Science shows what should be done to address critical

environmental issues, but governments may not respond adequately, especially when different ministries or departments work in separate siloes that inhibit concerted and coherent action. There is also a lack of commitment: countries need not just the institutional capacity to act but also the political will.

Structural-economic – Economic growth is often driven by a relentless paradigm that demands ever more intensive use of land, while encouraging unsustainable urbanization and multiple forms of pollution. The financial and business sectors take little or no account of the impact of their activities on the natural environment or on human health.

Behavioural – The drive for growth also encourages unsustainable lifestyles and patterns of consumption that need to be satisfied by intensive agro-food systems – and include illegal hunting and trade in wildlife as well as international live animal exports.

The COVID-19 pandemic is a wake-up call – for urgently restoring a sustainable relationship between human societies and the natural environment. For this purpose, a useful framework is the concept of 'planetary health'. In alignment with the 2030 Agenda for Sustainable Development, this can serve as the basis for ambitious policies that address the linkages between human health and the health of the natural world – working within the limits of what nature can provide.

To achieve planetary health, the report suggests solutions that are institutional, structural-economic, and behavioural. Key institutional solutions include a regional agenda for planetary health that would bring in all relevant actors, strengthen environmental laws, regulations and their enforcement, support monitoring – and address the biodiversity and climate crises. Structural economic solutions would promote putting nature at the centre of the economic paradigm and as well as more sustainable land management and better forms of urbanisation, while also controlling pollution. Finally, behavioural change solutions would focus on sustainable consumption and production, promoting sustainable agri-food systems and better management of wildlife and wildlife trade.

Globally, the estimated annual cost of preventing zoonotic diseases ranges from \$22 billion to \$30 billion. This is a major investment – but far overshadowed by the estimated \$8 trillion to \$15 trillion that the COVID-19 pandemic is predicted to cost. Good planetary health makes good economic sense.

Beyond the pandemic – a five-point policy agenda

Governments across the region have responded to the unprecedented situation created by the COVID-19 outbreak and worked hard to curb the fallout. Most have concentrated on short-term measures. But if economies are to recover faster and in more inclusive way they must also aim for long-term sustainability – restoring ecosystems, reducing poverty and building resilience throughout the region. To enable member States of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) to build back better, this study proposes a five-point policy agenda:

1. Enhance regional cooperation – Establish or mobilize existing sectoral mechanisms to help governments recover from this pandemic and plan for future crises – while dealing with climate change and taking into account population ageing, and technological innovation and new forms of work.

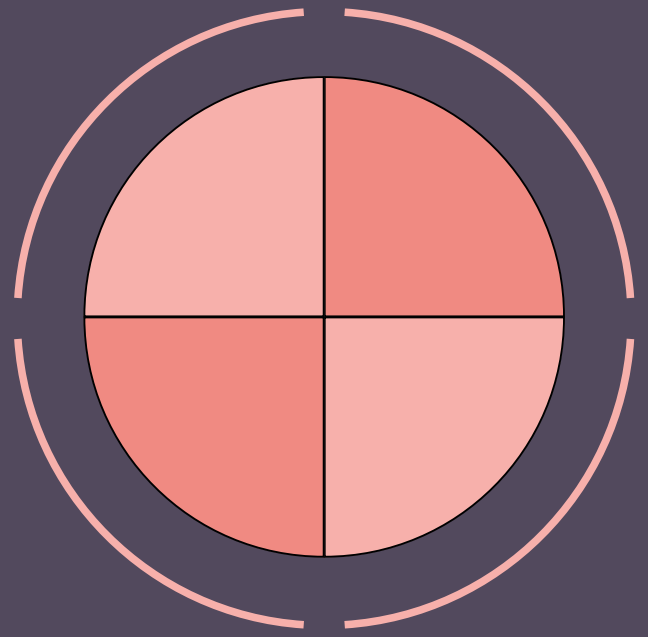
2. Build universal social protection along the life course – Embed social protection in national development agendas and allocate the necessary resources. As a basis for leaving no one behind, governments should use a mix of contributory and non-contributory benefit schemes. They will also need to expand social protection to embrace informal workers and ensure that women and vulnerable population groups are sufficiently covered.

3. Investing in sustained recovery – Investing in a sustained socio-economic recovery aligned with the Sustainable Development Goals will require additional financial resources. To support long-term, resilient, inclusive and sustainable development, countries can reorient spending away from non-developmental areas, consider

tax reforms to mitigate inequalities and support the climate agenda, and explore innovative financing instruments. They can also advocate for further debt relief measures and accelerate efforts to combat tax evasion through regional and international cooperation.

4. Promote trade facilitation, digitalization, and harmonization, and fully embed social and environmental concerns into global supply chains – Resist protectionist actions and forge regional solidarity to arrive at proportionate trade responses. Mobilize regional transport cooperation instruments for emergency use of cross-border freight. Decarbonize production and shift to more sustainable and lower-carbon, multimodal freight transport. Increase support for trade facilitation, trade digitalization and the development of paperless and contactless trade. Accelerate investment in digitalization and broadband connectivity. Improve the efficiency and sustainability of trade and transport procedures through regionally coordinated investments in hard and soft infrastructure.

5. Safeguard environmental health – Adopt a regional agenda for planetary health, bringing in all relevant actors to implement the institutional, structural economic, and behavioural changes needed to better manage human and environmental health.



CHAPTER 1

Counting the costs of a global pandemic



COVID-19 was first detected in December 2019 and on 11 March 2020 it was officially declared a global pandemic. Since then, it has triggered simultaneous health, social and economic crises around the world. To stop the spread of the virus, within and between countries, governments took unprecedented measures, aiming to “flatten the curve” of infection so that health systems were not overwhelmed. They instituted lockdowns, border controls, and travel bans, while closing schools and suspending rail, road, ship and air travel.

Across Asia and the Pacific, these measures, though essential, have had drastic consequences for societies and economies – decimating economic activity and interrupting trade and supply chains.¹ Millions of workers across the region, particularly in the informal sector, have lost their jobs or had to work reduced hours – in many cases with little or no social protection to fall back on. There has also been a heavy human cost, through illness and death and the rise in poverty, along with increased gender-based violence, and interruptions to school and university learning, to maternal health services and immunization programmes. These control measures persisted through 2020 and on into 2021. The bright spot is that there are now a number of coronavirus vaccines and millions of people have been inoculated, though rolling these vaccines out to whole populations is a massive task.

Since the COVID-19 crisis is still evolving, it is difficult to estimate the timing and speed of the recovery. Rapidly changing circumstances have created a general climate of uncertainty, and there is still no clear narrative about how the world will transition out of COVID-19 and reach a new normal. The International Monetary Fund (IMF) has developed a number of scenarios, and the current ones are pessimistic, suggesting that lockdowns and social distancing measures will be needed throughout 2021, with local transmission of the virus not ending until the close of 2022.²

Unique worldwide disruption

Over the past century Asia and the Pacific have been struck by other pandemics. Some have proved more deadly. For example, the 1918 flu claimed around 50 million lives. But in an

increasingly interconnected world, COVID-19 has caused far greater disruption. There have been a number of contributing factors, notably the extent of international mobility and the use of extended value chains – combined with rising inequality. These allowed the virus to inflict greater damage across Asia and the Pacific and around the world, even in countries that escaped the direct health impacts.

Human mobility – Unprecedented migration across countries and regions allowed the virus to reach almost every corner of the world within a few months. Scarcely any country was untouched. At the same time, applying restrictions to people’s movements amplified the economic damage since many countries rely for their labour forces on migrants, or depend heavily on international tourism.

Interconnected economies – Across the Asia-Pacific region much economic development has relied on global value chains. This allows more efficient production but also leaves industries vulnerable to disruption from local lockdowns and border closures that break the chains and rapidly transmit economic shocks across the region.

Rising inequality – Before the pandemic, the region had been experiencing greater inequality.³ This magnified the impact of COVID-19, which has hit hardest at the most vulnerable in society – informal sector workers, migrants, refugees, persons with disabilities and older persons. With greater exposure to infection, and in some cases discrimination, these groups have little access to social protection and less coping capacity so have been bearing a disproportionate share of the burden. There have also been significant gender impacts – through rising gender-based violence and a greater burden for women of unpaid care. As a result, COVID-19 has been further widening inequalities – eroding the region’s resilience and its capacity to withstand shocks, whether from pandemics, natural disasters or economic recessions.

1.1 Contrasting experiences across the region

COVID-19 has triggered health, social and

economic crises that are simultaneous and interconnected. The primary impact has been on health – through loss of life and illness. By March 2021, the region had recorded 26 million cases. The Asia-Pacific region with 55 per cent of the world’s population, has recorded 22 per cent of the total COVID-19 infections and 16 per cent of the total deaths. Nevertheless, there is a great variation: some countries have been hit hard, while others have avoided the worst impacts and many smaller Pacific island states have completely escaped.

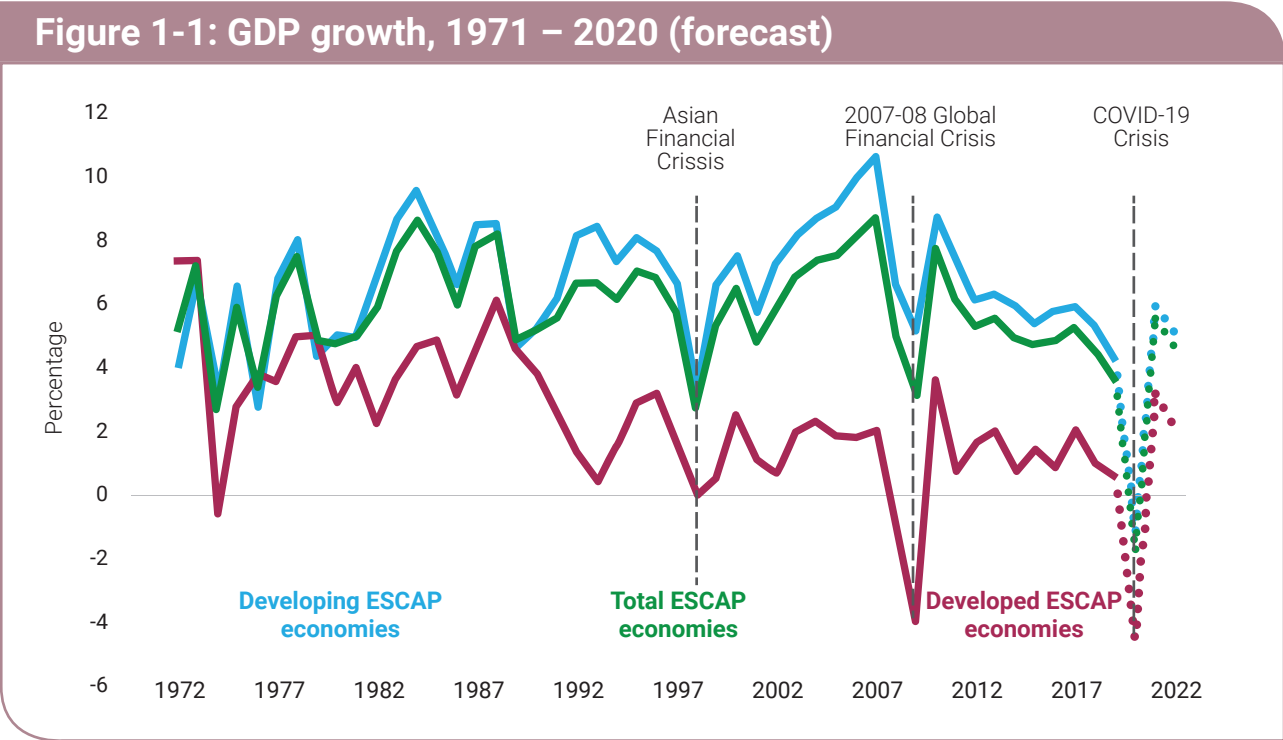
It is not yet clear why countries have had such contrasting experiences. The reasons for the uneven impacts are many and complex depending on such factors as population genetics, social behaviour and culture.⁴ The scientific community is still investigating these, and there is ongoing work to translate new scientific findings into public policy.

At the same time many people have suffered dramatic falls in income – particularly the 68 per cent of the region’s labour force in informal employment.⁵ In the second quarter of 2020, following lockdowns and requirement for social distancing, there was a 14 per cent loss in working hours – equivalent to 235 million full-time jobs.⁶

The pandemic has also exposed gender fault lines. Women and girls have had to shoulder the additional burden of care for ill family members. Women also make up the majority of healthcare workers so are on the frontlines of the health response. Meanwhile extensive lockdowns have placed women at greater risk of gender-based violence, often with limited access to support services.⁷

All of this is happening within the worst economic recession in living memory (Figure 1-1). In 2019 economic growth of Asia-Pacific economies averaged 4.2 per cent. ESCAP’s latest estimates suggest, however, that in 2020 the combined GDP of the developing Asia-Pacific economies could contract by 1 per cent. The economic dip in 2020 is expected to be deeper than that following the 1997 Asian financial crisis, or the 2008 global financial crisis.

This economic contraction was broad-based, but with significant variation across countries. Economic growth slowed in all Asia-Pacific economies, with three fourths experiencing a recession. Although the worst shocks proved short-lived and most of developing Asia-Pacific countries had entered the recovery phase by the third quarter of 2020, the pandemic’s economic



Source: ESCAP, forecasts updated as latest information received

impact and the recovery speed have been highly uneven both across and within subregions. Multiple factors contributed to such differences. For instances, swift and effective pandemic control supported strong production recovery and export expansion in China and Viet Nam. Bangladesh benefited from its robust economic fundamentals and prudent fiscal management prior to the pandemic as well as a countercyclical surge in remittance inflow. The high gold price and low oil price helped Tajikistan, which is a gold exporter and fossil fuel importer. Economic structure may have also conferred benefits to countries with a large agricultural sector, which suffered less disruptions. In contrast, countries experiencing longer COVID-19 outbreaks and lockdowns, with larger contact-intensive and informal sectors, and more dependent on international tourism are among the worst hit and slowest to recover.

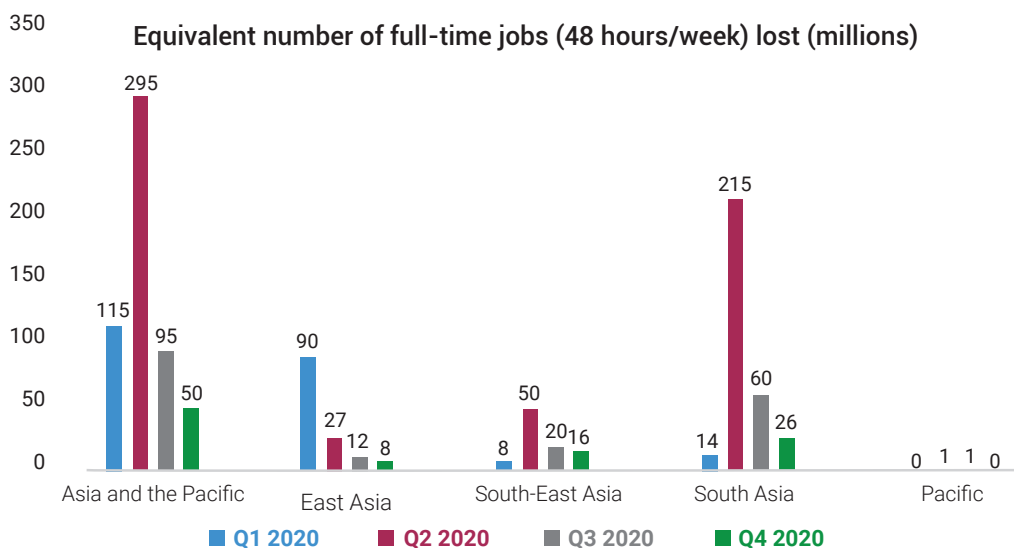
The economic shock has directly translated into shocks to employment and people’s livelihoods. In Asia and the Pacific, total working hours are estimated to have shrunk by 6.5, 16.9, 5.4 and 2.8 per cent respectively in the four quarters of 2020, equivalent to an average loss of 140 million full-time jobs over the whole year (Figure 1-2). The sectors worst hit were those that require face-to-face contact, such as retail, hospitality, and transport, as well as labour-intensive manufacturing such as garments. The workers

most exposed were informal employees, the self-employed, low-wage workers and female workers and those running their own small businesses. While some lost their jobs, others faced wage cuts as businesses struggling to keep afloat also reduced salaries and other labour cost, putting further downward pressure on household incomes.

The crisis could set poverty reduction efforts in Asia and the Pacific back by 5 to 10 years, and perhaps more in South Asia. The latest estimates suggest that an additional 89 million people in the region are estimated to have been pushed back into extreme poverty, according to the \$1.90 per day threshold.⁸ If the higher income criteria, such \$3.20 or \$5.50 per day, are considered, the total headcount of poverty increase would more than double. South and South-West Asia accounts for more than 80 per cent of this increase in poverty, as this densely populated subregion is among the worst affected.

The impact is likely to be significant in the least developed countries (LDCs), with 3.4 more million people falling below the extreme poverty line, due to their greater employment vulnerability, lower income levels, thinner fiscal buffers and inadequate social security coverage.⁹ The Asia-Pacific region is also home to 36 countries in special situations which have been hard hit by the pandemic. Box 1-1

Figure 1-2: Equivalent full time job losses, millions, 2020



Source: ESCAP, 2020.

Note: Based on 48 hours per week

explains how COVID-19 is affecting these LDCs and their prospects of graduating from LDC status.

COVID-19 has affected countries all over the world. Indeed, it has led to the first recorded drop in the global human development index. But in contrast to other international crises, the global impact has not been matched by global solidarity. This is partly because the pandemic affected the traditional donor countries and cut across conventional disaster cooperation models. Another factor is the scarcity of vaccines even in developed countries. Demand has far exceeded supply, leading the World Health Organization (WHO) to express concerns about “vaccine nationalism.”¹⁰

Beyond cross-border tensions, the pandemic has also created new stresses within societies. Governments have to consider the balances and inter-relationships between human health and economic well-being – and are being pressed by different economic and social groups on various policy priorities. These include concerns about migration – as some groups question the merits of globalization.¹¹

The continuing trajectory of the disease remains uncertain. It is not clear how effectively countries can suppress the virus. And while science has made remarkable progress, it remains to be seen just how effective the vaccines will be, especially given the evolution of multiple variants, or how quickly they can be rolled out across this vast region. Many countries across the world, and several in the Asia-Pacific region, have seen infections return in multiple waves, in some cases requiring further lockdowns. Governments are continuously learning through trial and error and refining their policies in real time – tailoring plans for workplaces, schools and public spaces, so as to achieve public safety while not stifling economies. This uncertainty hampers the capacity of the region’s governments to plan their recovery efforts.

The Asia-Pacific region's unsustainable development pathway

Asia and the Pacific has shown considerable progress towards the Sustainable Development Goals (SDGs), but is still off track for full

implementation by 2030 (see Annex 1) and the COVID-19 pandemic has exposed many frailties. One is the limited coverage of social protection: almost 70 per cent of workers are engaged in informal employment, mostly outside any form of protection from contributory schemes.¹² Another is the digital divide: according to ESCAP data, only 8 per cent of the Asia-Pacific population can access affordable high-speed broadband. These and other limitations weakened the capacity of many countries to respond to the pandemic.

The extent of these weaknesses can be measured through the COVID-19 preparedness dashboard of the United Nations Development Programme (UNDP) – which shows the human development index and the extent of health services and digital connectivity (Table 1-1).¹³ This shows that the countries most unprepared are in the Pacific and in South and South-West Asia. But across the region a consistent weakness is the poor quality of health provision. Addressing these systemic weaknesses becomes increasingly important not only to recover from the current pandemic but to enhance resilience against future crises.

1.2 The scale of the crisis by subregion

Asia and the Pacific is a vast and diverse region so, as might be expected, the pandemic is affecting the Asia-Pacific subregions differently. These variations are indicated in Figure 1-3 for COVID-19 mortality, showing the greatest burden of deaths to be in South and South-West Asia. Next is North and Central Asia which recorded its first confirmed cases later than other subregions.¹⁴ Both South-East Asia and East and North-East Asia have shown few cases or fatalities, while Pacific island states had very low numbers and then closed their borders.

South and South-West Asia – Countries in South Asia entered the pandemic with serious vulnerabilities. Many of their people were living at the margins, often working in the informal sector, with limited social protection or health care. Due to strict lockdowns implemented by the governments, millions of workers have lost their jobs and ESCAP estimates suggest that 80 million people in the subregion could be pushed into extreme poverty.¹⁵ Until the pandemic

Table 1-1: COVID-19 preparedness dashboard for Asia-Pacific countries and subregions

Country / subregion	Human development			Health System				Connectivity	
	Human development index (HDI)	Inequality adjusted HDI	Inequality in HDI	Physicians	Nurses and midwives	Hospital beds	Current health expenditure	Mobile phone	Fixed broadband
	(value)	(value)	(%)	(per 10,000 people)			(% of GDP)	(subscriptions per 100 people)	
	2018	2018	2018	2010-2018	2010-2018	2010-2018	2016	2017-2018	2017-2018
South-East Asia									
Singapore	0.935	0.810	13.3	23.1	72	24	4.5	145.7	28.0
Brunei Darussalam	0.845	..	..	17.7	66	27	2.3	131.9	11.5
Malaysia	0.804	..	..	15.1	41	19	3.8	134.5	8.6
Thailand	0.765	0.635	17.0	8.1	30	21	3.7	180.2	13.2
Philippines	0.712	0.582	18.2	12.8	2	10	4.4	110.1	3.7
Indonesia	0.707	0.583	17.5	3.8	21	12	3.1	119.8	3.3
Viet Nam	0.693	0.580	16.3	8.2	14	26	5.7	147.2	13.6
Timor-Leste	0.626	0.450	28.0	7.2	17	59	4.0	103.2	0.0
Lao People's Democratic Republic	0.604	0.454	24.9	5.0	10	15	2.4	51.9	0.6
Myanmar	0.584	0.448	23.2	8.6	10	9	5.1	113.8	0.2
Cambodia	0.581	0.465	20.1	1.7	10	8	6.1	119.5	1.0
East and North-East Asia									
Japan	0.915	0.882	3.6	24.1	115	134	10.9	139.2	32.6
Korea (Republic of)	0.906	0.777	14.2	23.7	70	115	7.3	129.7	41.6
China	0.758	0.636	16.1	17.9	23	42	5.0	115.0	28.5
Mongolia	0.735	0.635	13.6	28.9	40	70	3.8	133.2	9.7
Korea (Democratic People's Rep. of)	..	..	..	36.7	44	132	..	15.0	..
Pacific									
Australia	0.938	0.862	8.1	35.9	127	38	9.3	113.6	30.7
New Zealand	0.921	0.836	9.2	30.3	110	28	9.2	134.9	34.7
Palau	0.814	..	..	11.8	53	48	11.7	134.4	6.9
Fiji	0.724	..	..	8.4	29	23	3.5	117.8	1.5
Tonga	0.717	..	..	5.2	39	26	5.3	105.8	2.4
Samoa	0.707	..	..	3.4	19	..	5.5	63.6	0.9
Marshall Islands	0.698	..	..	4.6	35	27	23.3	27.6	1.7
Kiribati	0.62	..	..	2.0	48	19	11.9	46.6	0.8
Micronesia (Federated States of)	0.614	..	..	1.9	33	32	12.6	..	3.4
Vanuatu	0.597	..	..	1.7	14	17	3.7	79.9	1.6
Solomon Islands	0.557	..	..	2.0	21	14	5.2	73.8	0.2
Papua New Guinea	0.543	..	..	0.5	5	..	2.0	47.6	0.2

Table 1-1: COVID-19 preparedness dashboard for Asia-Pacific countries and subregions (contd.)

Country / subregion	Human development			Health System				Connectivity	
	Human development index (HDI)	Inequality adjusted HDI	Inequality in HDI	Physicians	Nurses and midwives	Hospital beds	Current health expenditure	Mobile phone	Fixed broadband
	(value)	(value)	(%)	(per 10,000 people)			(% of GDP)	(subscriptions per 100 people)	
	2018	2018	2018	2010-2018	2010-2018	2010-2018	2016	2017-2018	2017-2018
North and Central Asia									
Russian Federation	0.824	0.743	9.9	40.1	86	82	5.3	157.4	22.0
Kazakhstan	0.817	0.759	7.1	32.5	85	67	3.5	142.0	13.4
Georgia	0.786	0.692	12.0	51.0	41	26	8.4	133.4	21.0
Armenia	0.760	0.685	9.9	29.0	56	42	9.9	121.3	11.8
Azerbaijan	0.754	0.683	9.4	34.5	70	47	6.9	103.9	19.0
Turkmenistan	0.710	0.578	18.5	22.2	46	74	6.6	162.9	0.1
Uzbekistan	0.710	..	..	23.7	121	40	6.3	75.9	12.7
Kyrgyzstan	0.674	0.610	9.5	18.8	64	45	6.6	122.6	5.6
Tajikistan	0.656	0.574	12.5	17.0	52	48	7.0	111.5	0.1
South and South-West Asia									
Turkey	0.806	0.676	16.2	17.6	26	27	4.3	97.3	16.3
Iran (Islamic Republic of)	0.797	0.706	11.5	11.4	19	15	8.1	108.5	12.0
Sri Lanka	0.780	0.686	12.1	9.6	21	36	3.9	115.1	7.3
Maldives	0.719	0.568	21.0	10.4	40	43	10.6	166.4	10.4
India	0.647	0.538	16.9	7.8	21	7	3.7	86.9	1.3
Bhutan	0.617	0.450	27.1	3.7	15	17	3.5	93.3	1.4
Bangladesh	0.614	0.465	24.3	5.3	3	8	2.4	97.3	6.3
Nepal	0.579	0.430	25.8	6.5	27	3	6.3	139.4	2.8
Pakistan	0.560	0.386	31.1	9.8	5	6	2.8	72.6	0.9
Afghanistan	0.496	..	..	2.8	3	5	10.2	59.1	0.0
World	0.731	0.596	18.6	14.9	34	28	9.8	104.0	14.0

Low Medium-low Medium Medium-high High

Source: UNDP

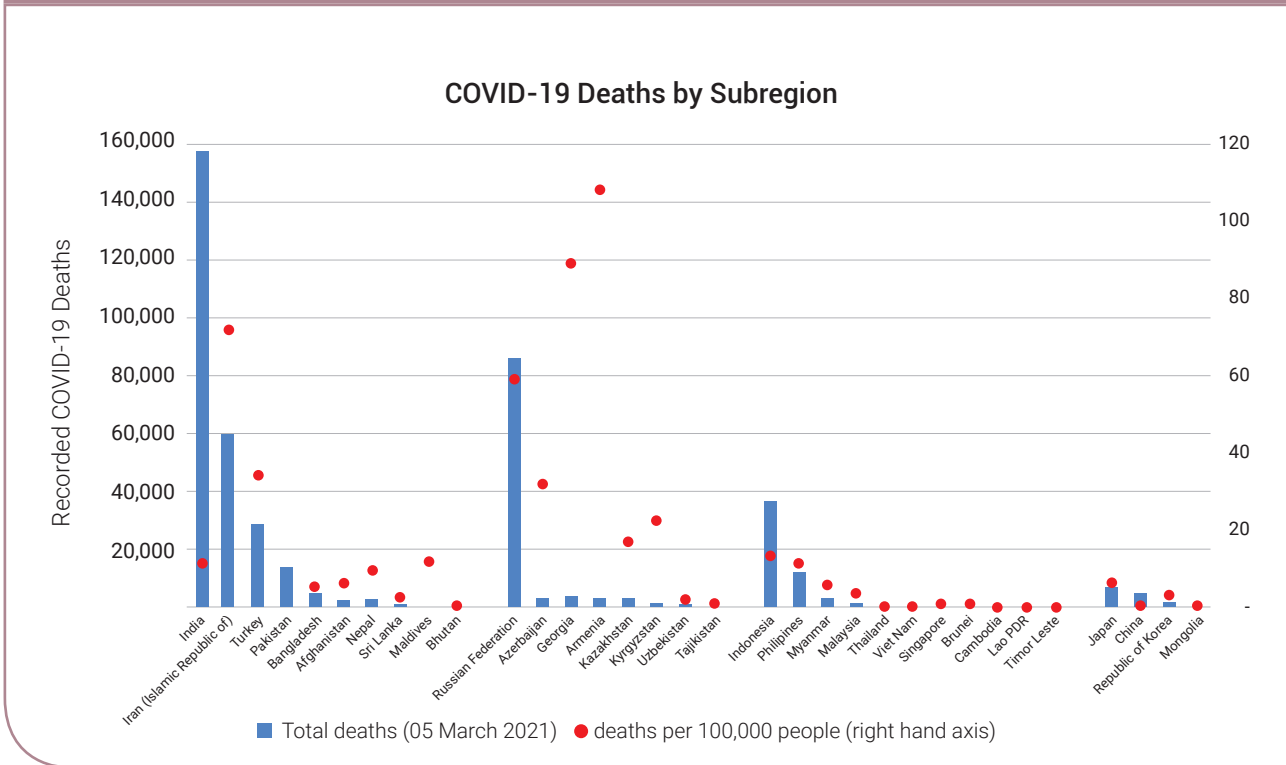
struck them, South Asian economies were growing strongly but for the first time in four decades they are likely to shrink in 2020.

Three of the region's 11 LDCs will graduate from LDC status in the next 3 years, most others are also on track to graduation. ESCAP has recommended

that to overcome the challenges posed by the pandemic the timelines for graduation should be more flexible and that these countries should be offered additional transitional support.¹⁶

North and Central Asia – Early in the crisis, the countries in this subregion implemented strict

Figure 1-3: Impact of COVID-19 on ESCAP subregions



Source: ESCAP compilation based on (Roser et al., 2020).

Notes: The Pacific subregion does not appear due to its very low numbers. Data, as of 5 March 2021.

measures that kept the case counts low through the early part of 2020. Due to the economic consequences these were relaxed at the end of April and early May of 2020. Consequently, cases began to rise, and many countries entered a second wave. While many countries have reformed their public health systems, the pandemic exposed a number of weaknesses. Many of their workers are in informal or precarious employment. These countries are also heavily reliant on commodities whose prices have slumped, as well as labour migration and remittances which have also fallen.¹⁷

East and North-East Asia – This region encompasses the epicentre of the outbreak. Nevertheless, these countries endured the crisis well. To slow the spread of the virus, they responded promptly by closing borders and schools and enacting quarantine and physical distancing. They also undertook very effective mass testing and contact tracing. As a consequence, the case numbers have been relatively low in both aggregate and per capita terms. However, as elsewhere, there has been extensive social and economic disruption.

South-East Asia – These countries also managed to avoid the worst effects. With some exceptions, they were able to control community transmission early in the pandemic and thus opened up their economies earlier. But they could not escape the economic consequences. Many of these are deeply integrated in global value chains and rely on inbound tourism. For example, Thailand’s GDP was expected to contract by 8 per cent in 2020, largely driven by a downturn in international tourism.¹⁸

The Pacific – Countries in this subregion were largely spared by the pandemic due to swift containment measures. Nevertheless, COVID-19 has been devastating the subregion’s economies, particularly the services industries such as tourism, retail trade, hospitality and civil aviation.

1.3 Building back better – four priority actions for regional cooperation

COVID-19 has raced across international borders delivering shocks for all countries in the region – which suddenly faced overlapping health, social and economic crises. But just as there are

common problems, there are also common solutions. Countries in Asia and the Pacific can reduce costs and achieve more by sharing information, insights and resources. This report identifies four priority areas for regional cooperation – broadening social protection; investing in economic recovery, keeping goods and information flowing and protecting environmental health.

Chapter 2 – Broadening social protection

The COVID-19 pandemic has aggravated many underlying ills and highlighted gaps in social protection. More than half the region's people are completely unprotected throughout their lives and had little to fall back on when the crisis struck. The chapter advocates for broadening social protection coverage, but also creating a platform for more equitable and sustainable economic growth.

Chapter 3 – Investing in a sustained recovery

Governments have responded to the immediate pandemic by deploying extensive fiscal resources and other measures for health care and for supporting business and household incomes.

This chapter argues that they should extend these commitments for an inclusive and sustainable recovery, while avoiding unsustainable levels of debt or undermining macroeconomic stability.

Chapter 4 – Keeping goods and information flowing

The COVID-19 crisis disrupted global trade and supply chains which in some cases were worsened by protectionist policies. If Asia and the Pacific is to withstand future crises, ensure resilient supply chains, keep markets open, and safeguard vulnerable groups, governments across the region will need to embrace digitalization and close the digital divides between and within countries.

Chapter 5 – Protecting environmental health

The COVID-19 pandemic emerged from the interface between animal and human life. This chapter argues that the pandemic must be a wake-up call – for urgently restoring a sustainable relationship between human societies and the natural environment. This should be based on the concept of 'planetary health' and based on deep changes that are institutional, structural-economic, and behavioural.

Box 1-1: Impact of COVID-19 on Asia-Pacific least developed countries

As of 5 March 2021, 11 Asia-Pacific least developed countries (LDCs) had reported a total of 1.03 million COVID-19 cases and over 16,700 total deaths. These countries are, however, also acutely vulnerable to external economic shocks in the global economy. In 2019, before the pandemic, the Asia-Pacific LDCs grew by a weighted average of 7.2 per cent. But for 2020, as a result of the pandemic, growth is estimated to have plunged to 3.0 per cent. There have been widespread job losses, especially among low-wage informal workers. Millions of people are expected to sink back into poverty.

Asia-Pacific LDCs have been hard hit partly because they depend heavily on sectors such as export-oriented manufacturing, as in Bangladesh, Cambodia, the Lao People's Democratic Republic and Myanmar. In particular micro, small and medium-sized enterprises have suffered losses in jobs and incomes. Another sector vital for Pacific LDCs is tourism which has come to a halt.

These countries typically offer little formal social protection. With low incomes and little personal savings, households have no buffers to protect them and governments, with limited fiscal space, have little capacity to support their citizens. These factors are further compounded by bleak prospects for official development assistance, foreign direct investment and remittances. So although they have relatively few COVID-19 cases, these countries have seen the erosion of hard-earned development gains – reducing their chances of achieving the SDGs by 2030.

**Box 1-1: Impact of COVID-19 on Asia-Pacific least developed countries (contd.)**

Over the coming decade some LDCs are expected to graduate from LDC status. This may imply the withdrawal of duty-free quota-free entry for their exports to other countries and the cessation of access to certain concessional financing sources. The pandemic has made it more difficult to plan and prepare for graduation. The preparations for LDC graduation therefore need to focus on sustainability in a much more holistic way.

Graduating LDCs will need to address the additional risks and gaps that have been revealed by the pandemic, including weak economic fundamentals, growing inequality, lack of economic and export diversification, shortage of skilled labour, a large informal sector, slow technological progress, and institutional weaknesses. At the same time, they should seek international support so that graduation becomes a more sustainable process with built-in mechanisms to increase their economic and social resilience.

Source: Adapted from ESCAP (2021). *Asia-Pacific Countries with Special Needs Development Report 2021: Strengthening the resilience of least developed countries in the wake of the coronavirus disease pandemic*. [Forthcoming]

Endnotes

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¹³ UNDP (2020) *COVID-19: New UNDP data dashboards reveal huge disparities among countries in ability to cope and recover*, UNDP. Available at: https://www.undp.org/content/undp/en/home/news-centre/news/2020/COVID19_UNDP_data_dashboards_reveal_disparities_among_countries_to_cope_and_recover.html.

¹⁴ For this analysis, the Russian Federation has been included as part of North and Central Asia and excluded from East and North East Asia

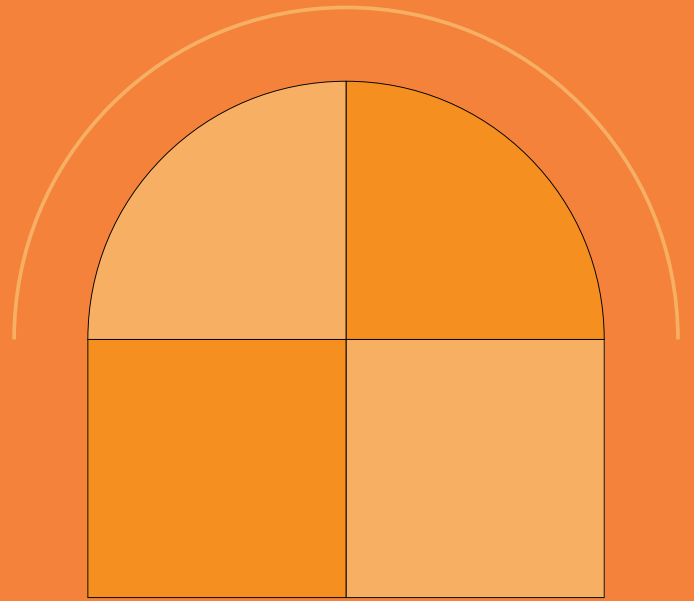
to avoid double counting.

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CHAPTER 2

Broadening social protection

The sudden contraction in economic activity and rise in unemployment are hitting hard at household incomes and driving millions more people into poverty. The pandemic has also revealed huge gaps in the reach and quality of social protection. These gaps need to be filled if Asia and the Pacific is to protect its people and build a more resilient, sustainable and prosperous region.

As indicated in Chapter 1, the pandemic related lockdowns may have pushed 89 million people in extreme poverty in Asia and the Pacific, as per ESCAP estimates. But the losses are not only in the poorest households. Initial studies in Bangladesh and Sri Lanka, for example, found that the COVID-19 pandemic reduced average incomes across the whole income distribution.¹

The unprecedented decline in working hours has disproportionately affected workers in the informal sector, who were already being paid lower wages, often without access to social protection. In the first months of the pandemic, their earnings declined by over 20 per cent.² As a result, the relative poverty rate of informal workers is expected to rise from 22 to 36 per cent.³

Women are at particular risk. They are more likely to be working in frontline occupations, such as in health and social work, as well as in hard-hit sectors such as hospitality and labour-intensive manufacturing. They also make up most of the unpaid family workers and other undervalued jobs. The pandemic has also undermined many micro, small and medium-sized enterprises (MSMEs). For women-led MSMEs the pandemic has added to other, gender-related barriers. These include discriminatory laws and regulations and obstacles for accessing finance, information, digital technologies and connectivity, and formal business networks.⁴ Globally, by the end of 2021 in the age group 25 to 34, there will be almost 20 per cent more women than men living in extreme poverty.⁵

In addition, the pandemic is compromising the health, livelihoods and well-being of older persons, young people, persons with disabilities, migrants and domestic workers, many of whom were already living in precarious situations.

2.1 COVID-19 exposes huge gaps in social protection

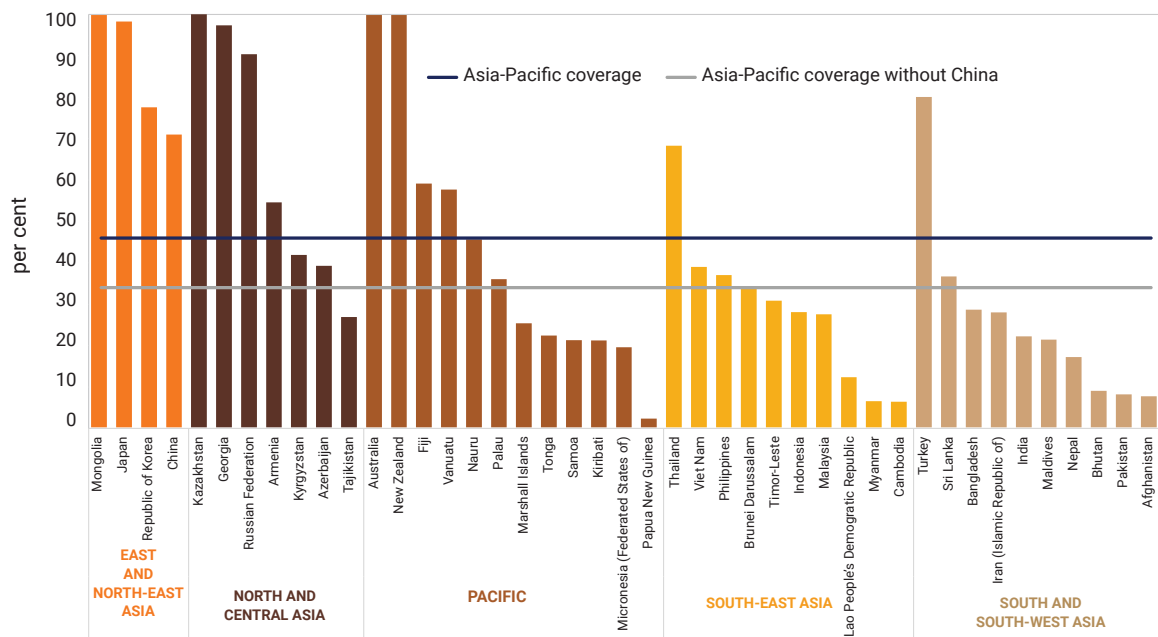
Everyone has a right to social protection to shield their incomes and well-being throughout their lives – to help them face a wide range of social and economic contingencies, whether losing a job or a breadwinner, getting sick or acquiring a disability, having children, or growing older. People also need buffers against shocks that reverberate across whole communities, such as natural disasters, economic crises and pandemics.

The COVID-19 pandemic aggravated many underlying ills and highlighted gaps in social protection coverage (Box 2-1). These gaps reduce people's opportunities and life prospects but also hamper social and economic development. More than half the region's people are completely unprotected throughout their lives. Excluding China, this proportion rises to three-quarters (Figure 2-1). This is partly because so many people work in the informal economy, but it is also a reflection of a lack of political will to provide adequate protection.

Coverage tends to be better for health care, old-age benefits which reach the majority of older persons, while coverage for children, for unemployment, employment injury and for persons with severe disabilities are all below one-third (Figure 2-2). When schemes do exist, benefit levels are often too low to have a real impact. Health care may be provided at free or low-cost public health service, or some form of health-care protection such as contributory health insurance. But this extends to only seven out of ten people in the region.

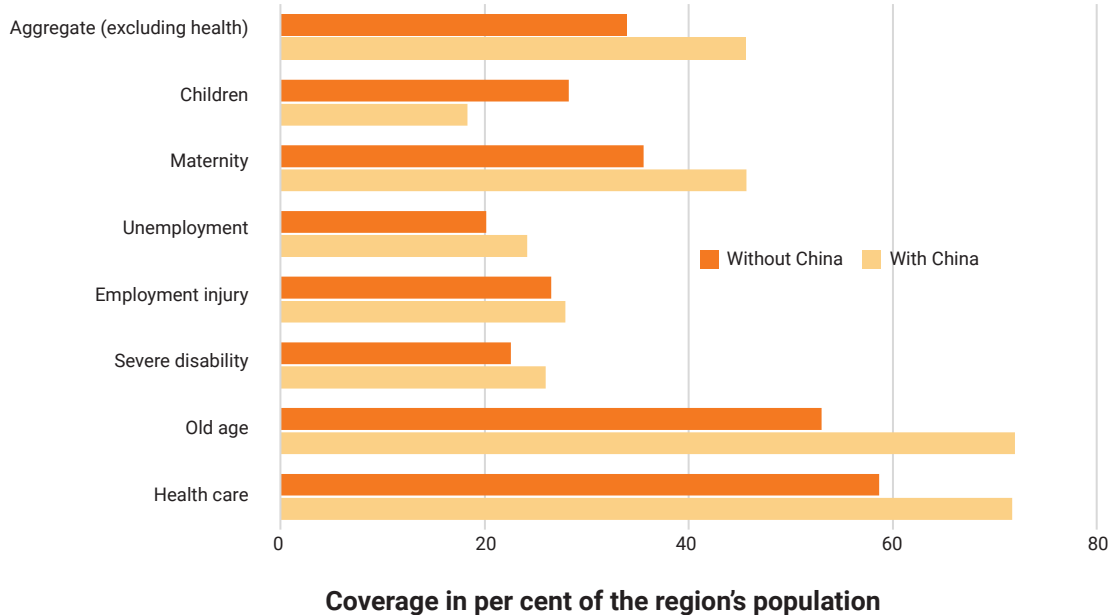
More than two thirds of all workers or 1.3 billion people are in informal employment where contributory schemes are rarely available (Figure 2-3). The lack of widespread contributory-based schemes can be attributed to legal barriers to join such schemes for informal workers, their limited financial capacity to actually contribute, as well as poor compliance among employers and workers. Also, institutional and administrative capacity, information and trust play important roles. Gaps in women's coverage are further accentuated by their lower labour force participation.

Figure 2-1: Proportion of people covered by at least one social protection scheme



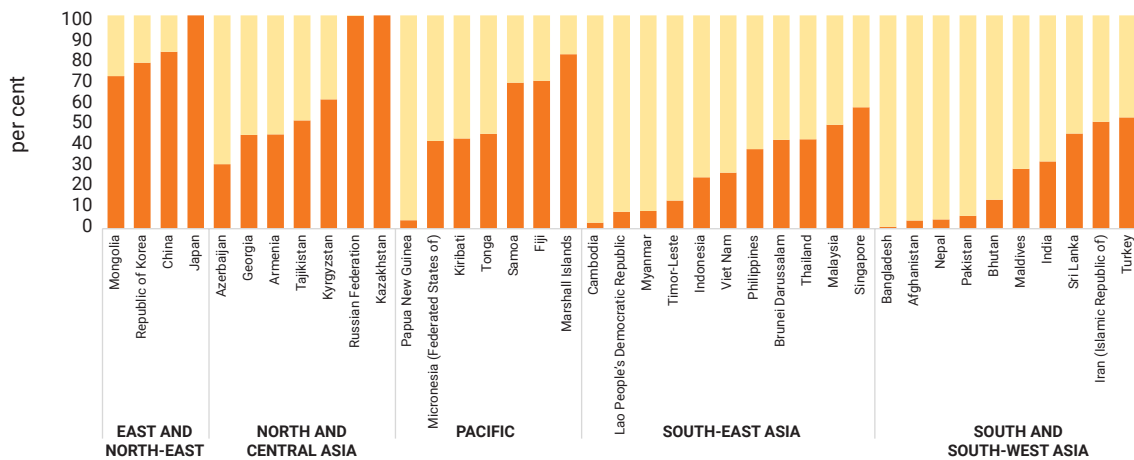
Source: International Labour Organization, World Social Protection Database (ILO, 2021).
 Note: Percentage of population using population weighted averages, latest available year.

Figure 2-2: Proportion of the Asia-Pacific population protected against everyday contingencies



Source: International Labour Organization, World Social Protection Database (ILO, 2021).
 Note: As per Sustainable Development Goal target 1.3 and health care (population weighted). Latest available year. The aggregate indicator measures the proportion of the population protected in at least one area of social protection, excluding health, which is a core indicator of progress for Sustainable Development Goal target 1.3.

Figure 2-3: Contributory social protection, percentage of the labour force actively contributing to a scheme



Source: International Labour Organization, World Social Protection Database (ILO, 2020).

Non-contributory schemes are often only available for poor households. The argument is that it is more efficient to target those most in need. However, in practice such targeting is rarely accurate. Even the best performing poverty schemes in the region miss around half of those they intend to reach.⁶

There is also a significant “missing middle”. This comprises people who are not eligible to participate in contributory schemes but earn too much to qualify as poor. Typically, they work in informal employment and normally make ends meet, but risk falling into poverty when they encounter modest shocks and stresses to their livelihoods.

Exacerbating these issues are incomplete systems of civil registration. Millions of people in Asia and the Pacific have never been registered, making it difficult to establish a trusted legal identity for gaining access to social protection benefits. At the same time, inadequacies in social protection benefits reduce the incentives for individuals to register their vital events – births, marriages, divorces, deaths – with governments.

Ultimately, most individuals and families in Asia and the Pacific manage many of life’s contingencies on their own or through the support of family or

community groups. But these informal support mechanisms are also under severe strain as a result of population ageing, migration and urbanization. In the late nineteenth and twentieth centuries, these same dynamics led industrialized countries to significantly expand their systems of social protection. The same transformation now needs to take place in the low- and middle-income countries of Asia and the Pacific.

2.2 Consequences of inadequate social protection

Lack of social protection causes serious damage. Children living in poor and deprived communities can suffer from nutritional and health deficiencies that hamper their cognitive and physical development and educational achievements – and their employment prospects in adulthood. In adulthood, unemployment often pushes families into poverty. Lack of protection during pregnancy and childbirth risks lives, but also women’s livelihoods and chances to work. A work injury can further lead to disability or loss of a breadwinner and thus cause a quick descent into poverty for an entire family. A disability means living in poverty, no job or dignity and harsh impact on the family.

At older ages, many people without an adequate pension are forced to continue working or depend on other family members for their survival. Given the region's unprecedented trends of population ageing, leaving old-age support to families alone is becoming increasingly unsustainable.

At the same time there is the ever-present danger of sickness, and of people working while being ill and contagious. Without affordable health care, people often do not seek treatment, or wait until it is too late – with huge costs to individuals, families and society, including loss of income, productivity and premature death. They may also face catastrophic health expenditures. Each year, high out-of-pocket payments for health-care services push millions of households into poverty. While damaging for individuals, this lack of access to health care and social protection is also damaging for society as it stifles innovation and overall socio-economic progress (Box 2-2).

The key is preparedness. Well-resourced social protection systems built over time are far better equipped to respond to the unexpected and shield the vulnerable. During this pandemic, countries with well-developed social protection systems have been in a much better position to protect their people, rather than relying on ad hoc measures that are often imprecise, inefficient and costly.

2.3 How Asia-Pacific countries responded to COVID-19

Recognizing the social and economic consequences of lockdowns and social distancing measures, governments across Asia and the Pacific tried to protect as many people as possible, often through a fragmented assortment of mechanisms. Some countries have been able to use existing contributory schemes such as unemployment insurance, job retention and sickness benefits, as well as non-contributory schemes such as lifecycle and poverty-related programmes. However, given the gaps in coverage, particularly for informal workers and migrant workers, several schemes have been extended also to non-poor households. Some of these short-term response measures also form the basis of future social protection schemes.

The ideal response at times of emergency would be to deliver support based on a system of universal civil registration linked to national identification documents (IDs). Many governments have indeed been using existing social registries to top-up cash transfers to large segments of society. They have also sought to expand their registration bases to new groups through national ID systems, the tax system, and mobile phone and online registrations.⁷ In some cases, to ensure quicker and easier access they have waived conditionalities. Where possible they have made payments by electronic transfer, while aiming to ensure social distancing at physical pay points.⁸

Across Asia and the Pacific governments took thousands of relief measures. It is difficult to summarize these, but it is possible to identify some key components as below.

Job retention schemes

For companies to retain their workforces and avoid the additional costs of layoffs and subsequent recruitment, one option is subsidizing the hours worked or reimbursing companies for a portion of an employee's salary. In Australia and New Zealand, for example, people earned either the rate for the number of hours worked or the level of the subsidy, whichever was higher – which ensured a minimum salary. Japan, for its Employment Adjustment Subsidy, increased subsidy rates and relaxed eligibility criteria to non-regular workers who previously were not covered.⁹

Job retention schemes can also include cash grants, or low-interest loans or tax credits to companies to sustain their cashflows. Malaysia, for example, launched the Employee Retention Programme and Wage Subsidy Programme.¹⁰

These schemes can be effective temporary buffers, on the assumption that full-time jobs can return. But some jobs will be permanently lost, so when countries transition to the recovery phase, these schemes may need to be coordinated with unemployment benefits systems and active labour market policies such as training and reskilling to help people find new work. For example, the Republic of Korea has introduced

a virtual Smart Training Education Platform to provide vocational re-skilling training courses. To offer better support for young people who are often the first to be laid off there were also youth-targeted measures, such as creating 50,000 high tech jobs and 50,000 internships for young adults.

In addition to job retention schemes, governments have provided employment through their public works programmes, and at higher daily wages. They have also offered short-term financing for MSMEs and for the self-employed and freelancers to enable them to meet their current operational requirements.

Unemployment benefits

Unemployment benefits in the region are mainly based on contributory schemes; only a handful of countries have non-contributory schemes. In both Thailand and Malaysia, for example, the pandemic led to a surge in claims for unemployment benefits. In response, Thailand increased the benefit level and extended its duration. China and Viet Nam relaxed eligibility requirements to support workers who would not normally qualify.¹¹ In addition to cash benefits, unemployment support has also been provided in the form of training vouchers.

Sickness benefits

Sickness benefits are usually provided through employer liability schemes or social insurance. Employer liability arrangements generally allow only a limited number of days per year, while those using social insurance can be for a longer duration, sometimes more than six months.¹²

Even if not themselves ill, workers may have to go into quarantine. In response to the pandemic, Singapore, for example, introduced a Quarantine Order Allowance Scheme that provides SGD100 per day for the duration of the worker's quarantine. Sickness benefits are normally a responsibility of the employer, but this allowance was also extended to self-employed workers.¹³ Fiji introduced 21 days of paid leave for workers earning below a certain threshold and provided a one-off grant for informal workers who tested positive. The Republic of Korea extended sickness benefits to migrant workers who were quarantined.

Some countries, such as the Russian Federation and Uzbekistan, increased their social insurance sickness benefits. Others waived waiting periods or requirements: Japan, for example, did not require a medical certificate. A notable innovation in China, in Zhejiang province, was the first blockchain e-bill platform, through which online medical visits were invoiced and reimbursed using the Zhelien app.¹⁴

Some countries coordinated sickness benefits with health service benefits that facilitate prevention, diagnosis and treatment. In the Philippines, the National Social Health Insurance institution created a package of care and cash, Philhealth COVID-19, which included an allowance for persons in quarantine. In China, the health and social protection systems worked together to develop a health security plan and coordinate existing universal social protection programmes on health, social insurance contributions and income support for sickness or quarantine.¹⁵ Nevertheless in many countries in the region, workers who contracted the virus had no support and thus no alternative but to continue working.

Remote and flexible work

The pandemic has also encouraged employers and workers, where feasible, to adopt more flexible work arrangements. Singapore, for example, has provided workers with a Work Life Grant to encourage employers to put in place flexible work arrangements. Japan has introduced new subsidies for SMEs as well as emergency loans for freelancers and the self-employed to cover costs for technical equipment to implement teleworking. Countries are also supporting vocational training, apprenticeships for new graduates, and upskilling and reskilling of unemployed workers.¹⁶

Support through contributory schemes

To reduce the financial pressure on employees and employers, some contributory social security schemes, have deferred, reduced, or waived contributions. When the schemes are based on provident funds workers have been allowed to withdraw from their savings.¹⁷ It is important, however, that these relief measures do not reduce

future social protection entitlements. In Malaysia and the Republic of Korea, COVID-19 can be considered an occupational disease, and in Singapore employers are responsible for paying compensation in the case of remote working.¹⁸

Support through non-contributory schemes

The bulk of social protection measures have however been through non-contributory schemes financed by government budgets. In Mongolia, benefits from the Child Money Programme, covering around 90 per cent of children aged 0-18, were increased by 400 per cent from April to October 2020. In Thailand, a one-off lump sum payment was made through the universal old-age, disability and child allowances. Similarly, Hong Kong, China, provided an additional one-month allowance to recipients of old-age pensions, disability benefits and social assistance allowances. Though poverty targeted, Sri Lanka provided a top-up to people eligible for the senior citizen benefits and disability allowances and also extended these benefits to people who had applied but were not yet eligible.¹⁹

Targeted schemes have been used to support poor and low-income families. Malaysia created the Bantuan Prihatin Nasional scheme, a one-off benefit for low-income and middle-income people, identified through a targeting system for cash transfers and the tax system. The Philippines launched its Social Amelioration Programme to provide a two-month transfer for around 75 per cent of low- and middle-income households. Pakistan developed the Ehsaas emergency cash programme that made a one-off cash transfer to 12 million families. India announced a comprehensive relief package under the Pradhan Mantri Garib Kalyan Yojana, to provide support to poor and vulnerable people, through income support for farmers, expansion of its food subsidy programme and transitory additional income support for older persons, persons with disabilities and widows.²⁰ Cambodia launched its first large-scale social protection non-contributory programme, using a poverty-targeted identification system.²¹

Several countries have offered tax deferrals, utility waivers and rental subsidies. Around one-third of new programmes for poor and vulnerable families

have provided food and vouchers.²² Bangladesh, for instance, has provided food assistance at subsidized rates through the Special Open Market Sales programme, and the Food Friendly Programme, to support vulnerable and low-income households. In addition, Japan, Hong Kong, China, and Singapore provided all residents with a one-off transfer of 'helicopter money'.

Benefits for informal workers

Some countries have used quick and creative ways to incorporate informal workers into their social protection systems. Thailand, for example, introduced an online registration form that was linked to other government databases to verify the information provided, including the national ID number, though there were also lower-tech solutions, whereby local informal workers associations helped their members enrol. In Sri Lanka, a short-term payment was provided to daily wage and vulnerable workers, where local administrators verified applicants.²³

Countries that already had more comprehensive social protection systems were able to upscale benefits relatively smoothly to reach informal workers. Viet Nam, for example, had already extended social insurance coverage to informal garment factory workers, who could then avail of unemployment insurance when the crisis struck. In addition, the Government provided a monthly stipend to other workers and the self-employed without social insurance who had to reduce their working hours.²⁴

Informal workers have also been supported through active labour market measures. In Indonesia, the Kartu Pra-Kerja, pre-employment card programme benefited an estimated 5.6 million informal workers based on their national ID numbers. India allocated an additional \$5 billion to the National Rural Employment Scheme to provide 100 days of unskilled manual wage employment.²⁵ Nepal extended a public infrastructure works programme to informal workers who had lost their jobs. The Philippines similarly added to its Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers public works programmes to provide 10 to 30 days of work to displaced, underemployed or seasonal workers.²⁶

Short-term measures such as these have offered vital support. However, as many of the initial measures come to an end, it is important to ensure that they lead to financially viable and longer-term inclusive social protection systems.

Reinforced health systems

The pandemic has placed huge additional burdens on health systems many of which were already underfunded. So, when the pandemic struck there was often a shortage of health workers and of equipment. A number of countries invested additional financial resources into the health sector. These include Australia, China, India, Japan, Malaysia, New Zealand, the Philippines, Republic of Korea, Singapore and Viet Nam.²⁷ China addressed the surge of patients by rapidly converting existing public venues into healthcare facilities where patients could be isolated and provided with essential medical support.

Countries with comprehensive health protection systems were better placed to expand coverage and respond quickly. Thailand, for example, integrated COVID-19 treatment into its Universal Coverage Scheme for Emergency Patients, making it available to nationals and non-nationals free of charge.²⁸ Australia invested \$2.4 billion to provide a comprehensive range of health services and ensured universal access, including to all vulnerable groups, older persons, those with chronic conditions, and Indigenous communities.²⁹

Kerala state in India has a public health service with an excellent reputation. Health is high priority and the state has invested in its system, ensuring sufficient health workers. Building on its experience from previous epidemic outbreaks Kerala mobilized a state-wide response working with local social partners in a more coordinated and coherent manner.³⁰

Governments have also aimed to ensure that people could afford essential services. India, for example, under Ayushman Bharat, the public health insurance scheme, reimbursed the cost of COVID-19 testing for more than 500 million people. Japan, under the Emergency Comprehensive Support Grant for Novel Coronavirus Disease, provided a grant of almost ¥3 billion for medical

care and long-term care.³¹ Recognizing that excluding anyone from treatment would put everyone at risk, countries such as China, the Islamic Republic of Iran, Malaysia and Thailand have extended free access to COVID-related treatment for migrant workers and refugees and asylum seekers.³²

As the success in Kerala has confirmed, it is critical to sustain investment in public health systems. Affordable, accessible and quality health services not only save lives and avoid unnecessary suffering, they create an overall more productive work force, including quality jobs in the health sector. They also provide strong lines of defence against epidemics as well as offering treatment and testing, with timely surveillance of morbidity and mortality trends.

2.4 A regional commitment to social protection

The message is clear. Countries that have continued to invest in and improve their social protection systems have responded best to the current pandemic. The most effective are universal social protection systems that combine contributory and non-contributory schemes. Universal systems along the life course are part of a national social contract between the state and its people.

Specific efforts should be made to reach groups that are often excluded, such as migrants and forcibly displaced individuals and families, ethnic minorities and those living in urban informal settlements, or in remote areas. An established best practice is to have organizations representing these groups on the boards of the social security institutions.

Schemes should also ensure gender equality. Social protection design matters for gender equality. Mechanisms to recognize and reward care and unpaid work are necessary. For example, to support workers with frequent career interruptions pension formulas could place a higher weight on the first years of contribution. Care credits can compensate women and men for time dedicated to caregiving.³³ Public or subsidized childcare services should be significantly improved to allow women's participation in the labour force.

Technological change is enabling new forms of work, such as the gig economy should also be used to enhance social protection. For example, modern information and communications technology (ICT) systems can identify and register beneficiaries. National identification systems should be linked with civil registration and vital statistics systems. Social protection can also be linked with these to reduce the risks of fraud and duplication. ICT solutions should however have transparent operational guidelines and privacy policies to ensure inclusive responses and the protection of personal data.

An action plan for universal protection

Universal social protection is one of the ambitions of the 2030 Agenda for Sustainable Development, embodied in SDG 1 and SDG 10. Achieving this goal will require strong national commitment that can be supported by regional cooperation. To guide this process ESCAP members and associate members endorsed the Action Plan to Strengthen Regional Cooperation on Social Protection in Asia and the Pacific.³⁴ Launched in the midst of the pandemic, the Action Plan provides governments in the region with a shared vision, strategy and platform for promoting partnership, peer learning and the sharing of good practices, as well as for identifying needs for technical assistance, with the aim that the Asia-Pacific region emerges from the crisis stronger, inclusive, prosperous and resilient.³⁵

The Action Plan calls on countries to establish a 2021 benchmark on social protection coverage then set a target for 2025, and monitor progress towards universal coverage by 2030. The plan covers issues such as: the design of social protection systems; legislation; gender; allocation of funds; engagement of civil society and private sector; national targets; data management; and North-South, South-South and triangular cooperation. In addition, it will provide a regional platform on which governments can consolidate good practices, facilitate peer learning and advance the social protection agenda.

Governments can also work with other countries to mitigate some of the immediate impacts of the pandemic. A case in point is the COVID-19

Emergency Fund established in March 2020 under the subregional framework of the South Asian Association for Regional Cooperation (SAARC). Though not an official summit, this virtual meeting was attended by the leaders of all South Asian countries and the Health Minister of Pakistan. The fund received voluntary contributions of \$22 million which is being used for combating health crises nationally and for extending support to South Asian countries through supplies of medicines, testing kits and equipment.³⁶

2.5 Social protection as a wise investment

Investing in social protection makes economic sense. The COVID-19 crisis, like the financial crises in 1997 and 2008, has demonstrated how well functioning social protection systems can act as automatic stabilizers, stimulating aggregate demand and thereby helping to steady economies.

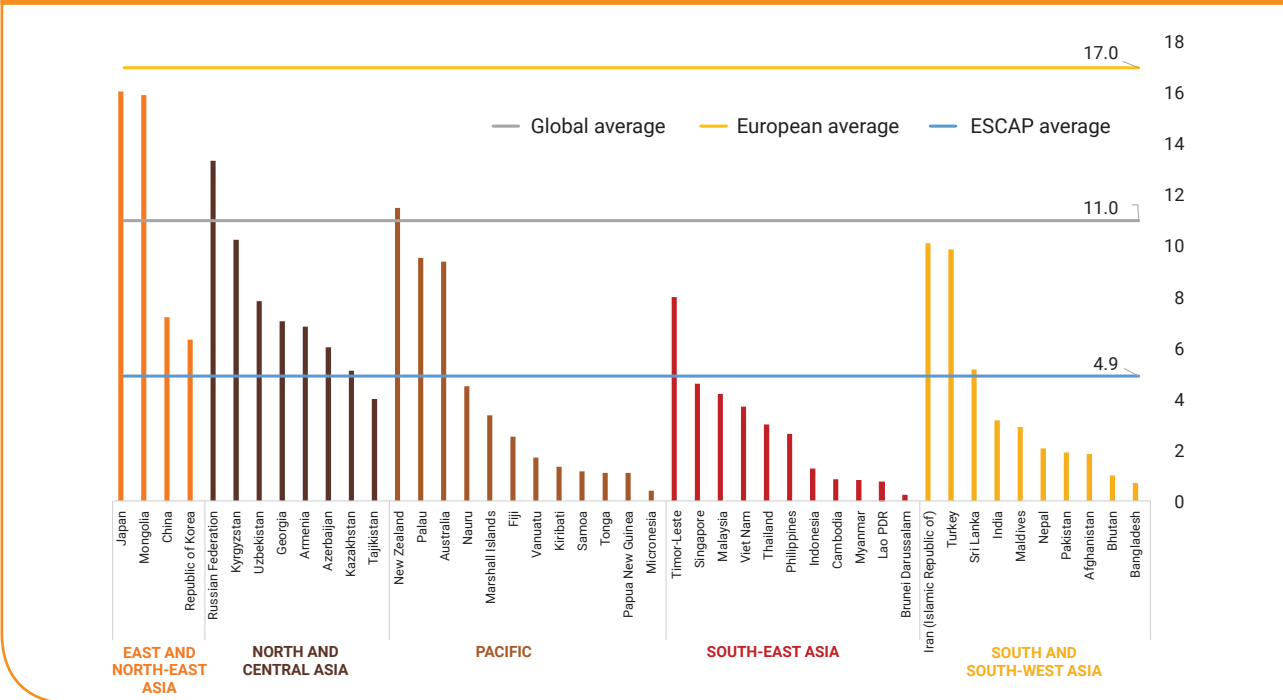
A basic social protection package requires resources – depending on national circumstances this would range from 2 to 6 per cent of GDP. Almost all countries in the region could afford this, especially when they consider the cost of doing nothing. Nevertheless, many countries spend less than 2 per cent, and the average spending across countries in the region, at around 5 per cent, is less than half the global average of 11 per cent (Figure 2-4).³⁷ It is also significantly below Europe's level of 18 per cent.

Social protection is a core component of the 2030 Agenda for Sustainable Development. Four of the Sustainable Development Goals also have specific social protection targets (Goal 1, 3, 5 and 10). Most prominently, Goal 1 on ending poverty includes target 1.3 to “implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.” Universal systems along the life course are better able to nurture social protection as part of a national social contract between the state and its people.

A launching pad for human development

Simulations based on 13 developing countries in the Asia-Pacific region show that a basic social protection package including child benefits,

Figure 2-4: Public expenditures on social protection, excluding health, per cent of GDP, by country, latest available year



Source: International Labour Organization, World Social Protection Database. Available at ILO, 2021.

disability benefits and old-age pensions, at conservative levels, would significantly reduce poverty: the proportion of recipient households living in poverty would fall by up to 18 percentage points. In Indonesia the proportion of households living in poverty would fall from 32 to 14 per cent. The impact would be greatest in Indonesia, Mongolia, Maldives and Thailand, where poverty rates in recipient households could be halved.³⁸ In nine out of the 13 countries more than one-third of the population currently living in poverty would no longer be impoverished.

Recipient households would also see significant boosts in purchasing power, by up to 7 per cent in Kyrgyzstan, and up to 24 per cent in Indonesia and Sri Lanka. In the poorest households in Indonesia, Maldives, the Philippines and Sri Lanka, purchasing power would increase by 50 per cent. There would also be major improvements in children's nutrition and their access to health and education.³⁹

Building inclusive and prosperous economies

Social protection also provides a platform from which

households embark upon longer-term planning; they can start to accumulate assets and take financial risks such as using new farming methods or starting up a company. By increasing human well-being, and widening opportunities and aspirations for all, social protection promotes upward mobility and social progress, especially for disadvantaged groups. These developments, also support women's labour force participation and boost overall labour productivity.⁴⁰

These benefits reverberate through the wider economy. A new study commissioned for the 2020 Social Outlook in Asia and the Pacific shows how new investments in social protection can increase GDP in Japan, Mongolia, the Republic of Korea and Thailand.⁴¹ In the Republic of Korea, for example, after ten fiscal quarters, each additional dollar spent on social protection increased GDP by \$3 and in Japan by \$1.7. In Mongolia, after eight quarters, the accumulated multiplier effect was \$1.5, and in Thailand it was \$1.4.

Another notable feature of social protection is its potential for reducing inequality. In countries of the

Organization for Economic Co-operation and Development (OECD), the combination of taxes and social protection transfers reduces market income inequality by, on average, 25 per cent.⁴² Significant impacts on inequality have also been demonstrated in low- and middle-income countries, such as Brazil, Georgia and South Africa.⁴³ Social protection can also support labour market formalization and act as a buffer as for workers being affected by automation and digitization.⁴⁴

2.6 Country actions

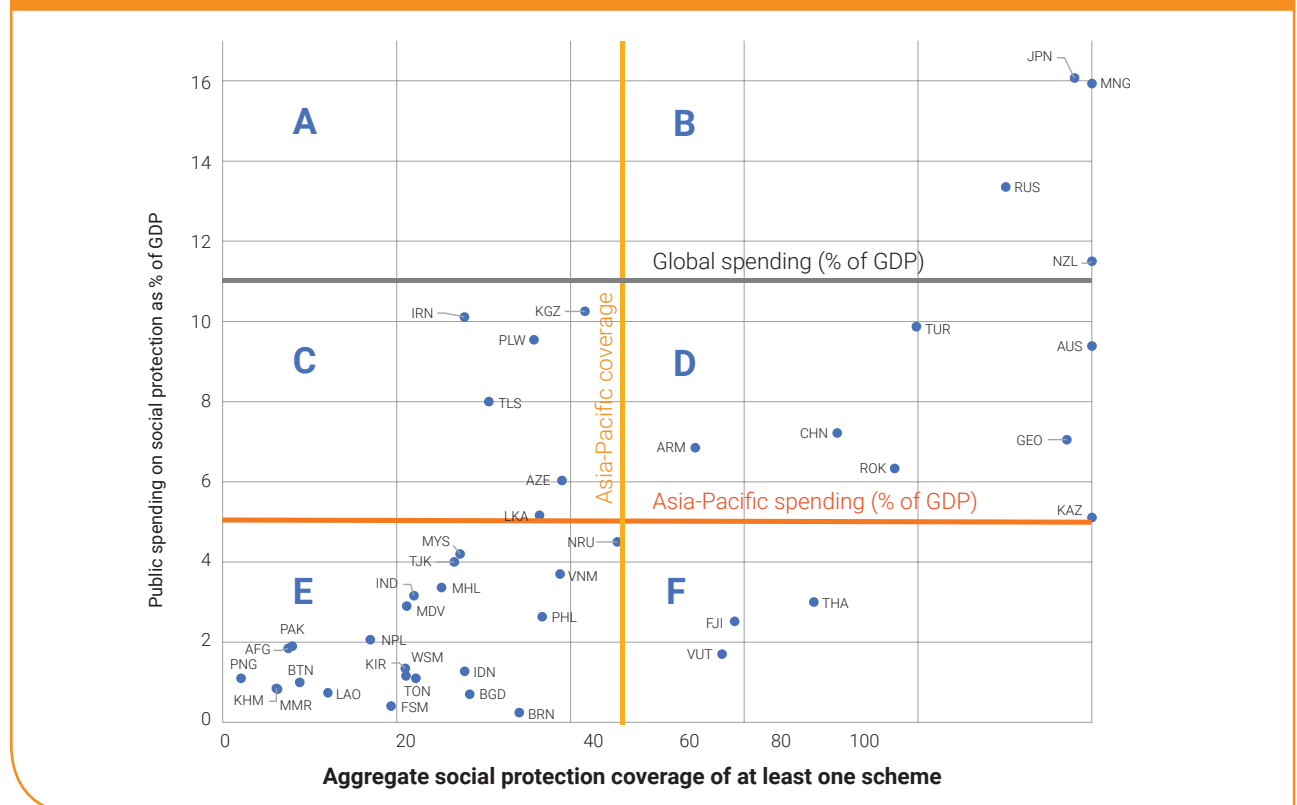
Social protection provides personal and societal benefits for countries at all levels of development. But some countries achieve greater coverage with their investments than others. Figure 2-5 maps countries according to expenditure on social

protection as a percentage of GDP and their aggregate social protection coverage of at least one scheme. The area is sectioned by lines that mark global or Asia-Pacific averages, to create six categories in which countries can be located as on or off track for achieving the SDG social protection goals. There are Asia-Pacific countries in five of the six categories.

B – On-track

Japan, Mongolia, New Zealand and Russian Federation are the region’s high-performing countries. These countries already cover more than 90 per cent of their populations and their spending levels are above the global average. This means that while almost all people are covered by a scheme, they are probably also receiving

Figure 2-5: Relationship between social protection spending and coverage



Source: International Labour Organization, World Social Protection Database. Available at <https://www.social-protection.org/gimi/ShowTheme.action?id=10> and <https://www.social-protection.org/gimi/WSPDB.action?id=32>.

Note: Country abbreviations: Afghanistan - AFG; Armenia - ARM; Australia - AUS; Azerbaijan - AZE; Bangladesh - BGD; Bhutan - BTN; Brunei Darussalam - BRN; Cambodia - KHM; China - CHN; Fiji - FJI; Georgia - GEO; India - IND; Indonesia - IDN; Iran (Islamic Republic of) - IRN; Japan - JPN; Kazakhstan - KAZ; Kiribati - KIR; Kyrgyzstan - KGZ; Lao People's Democratic Republic - LAO; Malaysia - MYS; Maldives - MDV; Marshall Islands - MHL; Micronesia (Federated States of) - FSM; Mongolia - MNG; Myanmar - MNR; Nauru - NRU; Nepal - NPL; New Caledonia - NCL; New Zealand - NZL; Niue - NIU; Pakistan - PAK; Palau - PLW; Papua New Guinea - PNG; Philippines - PHL; Republic of Korea - ROK; Russian Federation - RUS; Samoa - WSM; Singapore - SGP; Solomon Islands - SLB; Sri Lanka - LKA; Tajikistan - TJK; Thailand - THA; Timor-Leste - TLS; Tonga - TON; Turkey - TUR; Turkmenistan - TKM; Tuvalu - TUV; Uzbekistan - UZB; Vanuatu - VUT; and Viet Nam - VNM.

adequate benefits. These countries are well on track but need to close the remaining coverage gaps, ensuring that benefit levels are adequate and that no one is left behind. They also need to make sure that their systems retain work incentives and are efficient, well governed and financially sustainable in the face of population ageing.

D – Partly on track

Australia, Armenia, China, Kazakhstan, the Republic of Korea and Turkey have more than 50 per cent coverage and are above the regional average. Expenditure is above the regional average, but less than the global average. They now need to identify those groups not covered. Some also need to introduce new schemes to cover those contingencies that are currently not protected. These countries should also assess eligibility requirements and the adequacy of benefit levels. This will require an increase in social protection budgets.

F – On-track for coverage but not for benefit levels

Fiji, Thailand and Vanuatu have fairly broad coverage but because of lower than average levels of spending the benefits are likely to be inadequate. These countries also need to identify the one-third of their populations that are unprotected, and adjust eligibility criteria. They would also need to spend more on social protection and gradually extend the coverage of contributory schemes across the working-age population, including informal workers. It would also be important to ensure that existing jobs are being formalized and that new jobs are formal with access to necessary life cycle social protection schemes.

C – On-track for spending but not coverage

Azerbaijan, the Islamic Republic of Iran, Kyrgyzstan, Nauru, Palau, Sri Lanka and Timor-Leste all spend more than the regional average but have relatively low coverage, suggesting that resources are unfairly distributed. They will need to identify the groups excluded from existing schemes, then widen these programmes while introducing new one for contingencies currently not covered. They can provide a full range of social protection

schemes, combining contributory and non-contributory schemes while ensuring that these are integrated and coherent. They should also aim to boost formal employment.

E – Off track

The remaining 21 countries are below average for both spending and coverage. Many are LDCs with large informal workforces and significant gaps in access to basic opportunities. Several have seen their human and other resources depleted by conflicts and natural disasters. Here the first task is to summon political will and public support for extending non-contributory schemes. Priority should be given to universal schemes covering health care, maternity, children, disability and old age. In most cases this will mean formalizing more jobs and increasing tax revenue through legal, policy and administrative reforms. These countries can then gradually extend coverage of contributory schemes to the working-age population and build efficient, reliable and competent social protection institutions.

The success of a given scheme ultimately depends on a range of related processes, including identification, registration, contribution collection, delivery of benefits, service quality, and functioning grievance and redress mechanisms. Success may also be affected by weaknesses in other systems, such as civil registration and financial services. All countries need to arrive at a national consensus on social protection leading to transparent and well governed schemes based on principles of solidarity across populations and between generations.

2.7 Policy recommendations

The COVID-19 pandemic has created a window of opportunity for governments to build back better through strengthening their social protection systems to ensure more rapid and coordinated responses to crises.

ESCAP Member States have endorsed the 10-year Action Plan to Strengthen Regional Cooperation on Social Protection in Asia and the Pacific. Now is the time to operationalize it at the national level.⁴⁵ The central ambition should be to establish a

universal social protection floor by 2030. To achieve this, policymakers can consider the following seven broad recommendations:

- Allocate more resources to social protection – governments need to reprioritize existing expenditures and focus on increasing revenues, primarily by broadening the tax base, introducing progressive taxation, more strictly enforcing tax laws and extending contributory social insurance.
- Build a universal social protection system – this should be a mix of contributory and non-contributory schemes.
- Ensure gender equality – schemes should recognize home care and unpaid work. Women and men should be able to rely on public or subsidized childcare services.
- Include informal workers – contributory social protection schemes should enable contributions from informal workers, who should also be able to join subsidized health insurance schemes and have access to non-contributory schemes such as basic health care.
- Leave no one behind – specific efforts should be made to reach groups that are often excluded, such as migrants and forcibly displaced individuals and families, ethnic minorities and those living in urban informal settlements, or in remote areas, as well as those who face legal and physical barriers to access.
- Cover the missing middle - these households are not part of contributory scheme, nor do they count as 'poor' for targeted support. They can be included by coherent and complementary integration of contributory and non-contributory schemes.
- Take advantage of emerging technologies – with due concerns for privacy, national identification systems should be linked with civil registration and vital statistics systems and with the delivery of social protection.

Box 2-1: Types of social protection

Social protection benefits can be provided in cash, such as old-age pensions, or can be delivered in-kind in the form of food subsidies, for example, or through school feeding programmes. Another important distinction is whether they are contributory or non-contributory.

Contributory schemes – These schemes such as those for unemployment benefits are usually only available for workers in formal employment. Workers, along with their employers or the state, make regular contributions. Usually these finance 'social insurance' – pooling the risk among contributors or their dependents based on the principle of solidarity. The size of the benefit usually reflects the level of contributions, though there is often a minimum guaranteed benefit.

Non-contributory schemes – These, such as public feeding programmes, are usually financed from the general government budget and support a qualifying population group, such as poor households or individuals or young children. The benefits are normally the same for all recipients but tend to be lower than for contributory schemes.

Universal social protection systems refer to the integrated set of policies designed to ensure income security and support throughout the life cycle. Universality can be achieved through different combinations of contributory and non-contributory schemes, depending on national circumstances, including both cash and in-kind benefits. Universal (generally categorical) schemes cover all residents belonging to a certain category, such as being old or having children.⁴⁶

Coverage has both horizontal and vertical dimensions. The horizontal dimension ensures that everyone – regardless of their previous income or employment status – should have at least a minimum level of protection. The vertical dimension allows for higher levels of protection for certain groups, primarily through contributory schemes.

Box 2-2: Health care systems during the pandemic

The COVID-19 crisis is testing the limits of health-care systems throughout the region. Those countries with universal health systems, especially having learned from the 2003 severe acute respiratory syndrome (SARS) crisis, were able to respond better. They were able direct initiatives to all segments of the population enabling them to detect, contain, treat and prevent the disease, and keep the public informed.

Some countries have efficient health surveillance systems which increases the chances of testing and diagnosis for accurate reporting of outbreak-related deaths, but even these may have been outpaced by the speed of the COVID-19 virus transmission.

In many Asia-Pacific countries, not all deaths are registered and even fewer are assigned a cause of death; among those which reported data only 29 per cent of deaths were assigned a medically certified cause.⁴⁷ Thus, the number of COVID-19 deaths in the region is under-reported in many countries, especially those with the weakest public health systems. This does not only mean that there will be incomplete measurement of the morbidity and mortality burden, especially among the most marginalized, but it also hinders a timely response.

Endnotes

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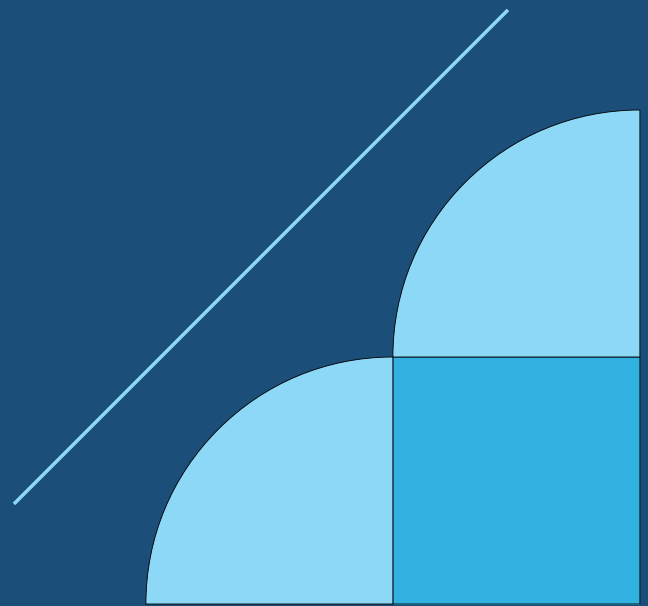
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CHAPTER 3

Investing in a sustained recovery

In response to the pandemic, governments around the world have deployed trillions of dollars for emergency health responses and to support households and firms. But if they are to ensure a sustained recovery and resume the march towards the SDGs, they will need to continue with ongoing financial support and economic stimulus. In particular, investing in priority SDG areas such as health, social protection, digital infrastructure, and climate action.

It is unclear, however, whether developing countries can generate sufficient resources for this – create the necessary ‘fiscal space’.¹ COVID-19 expenditures, together with a sharp decline in revenues, have steeply increased fiscal deficits and thus government borrowings, with implications for debt sustainability and overall macroeconomic stability. Responding to both the immediate crisis and preparing for future ones will require innovative macroeconomic policies supported by regional cooperation.

3.1 The impact of the COVID-19 crisis on fiscal space

Even before the pandemic, there were concerns about rising debt in developing countries.² By the end of 2019, half the world’s low-income countries were either at high risk of, or already in, debt distress. The Asia-Pacific region was overall in a better position, thanks to its dynamic economies and prudent management of public finances. Nevertheless, across the region the fiscal space had been narrowing.

As illustrated in Figure 3-1, Asia-Pacific countries entered the COVID-19 crisis with a fiscal deficit. By contrast they had entered the global financial crisis in 2007 with a fiscal surplus. This in part reflected the changing economic conditions since then, including China’s gradual and deliberate economic slowdown, but also lack of significant tax reforms in many countries. As a result, in two-thirds of countries there was a rise in the ratio of debt-to-GDP (Figure 3-2). Over the same period, there was a change in the debt structure. More of the debt had been raised in local currency bond markets which reduced the currency risks, however a

high proportion was held by non-residents which makes the region vulnerable to sudden changes in capital flows and in the costs of refinancing (Figure 3-3).³ Countries with good fiscal credibility and higher liquidity in domestic markets have been able to lower their risks with longer-term borrowing. However, in others the debts have to be repaid quite soon.

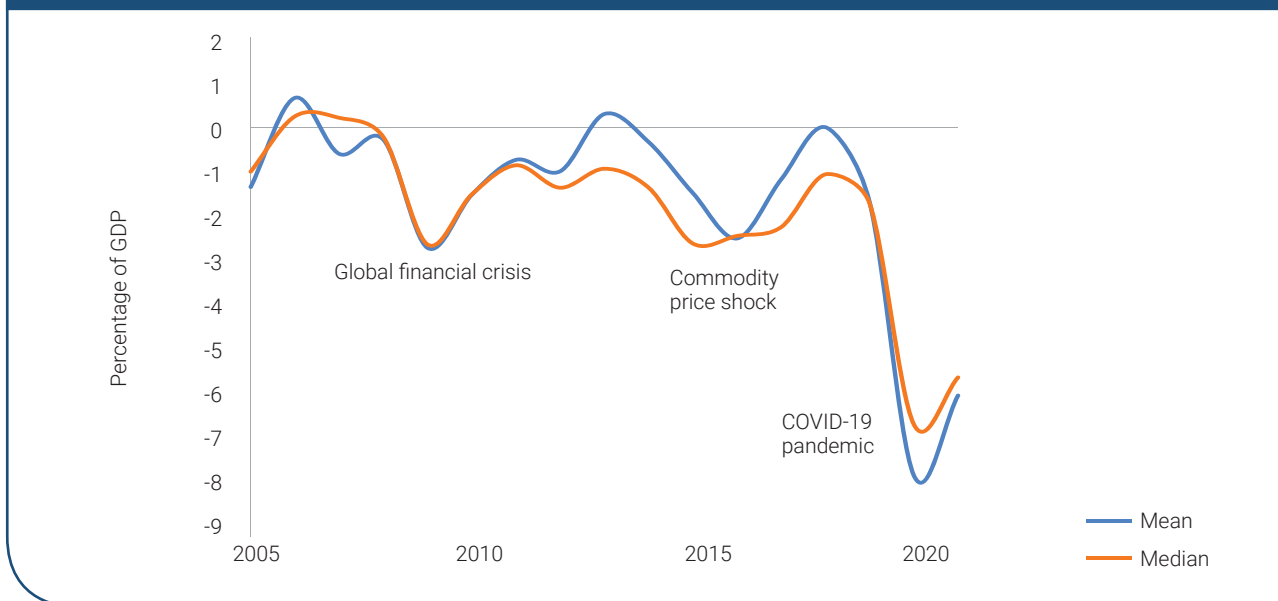
Unprecedented government spending

Despite the narrowing fiscal space, Asia-Pacific governments responded to the pandemic in an unprecedented manner. By September 2020, 45 developing countries in the region had announced fiscal packages, together with accommodative monetary and financial policies, amounting to some \$1.8 trillion, or about 6.6 per cent of their combined 2019 GDP (Figure 3-4). Nevertheless, this was far smaller than that of the world’s developed countries, where average fiscal packages amounted to about 20 per cent of GDP.⁴

- East and North-East Asia – large fiscal packages included Mongolia at 10 per cent and the Republic of Korea at 14 per cent.
- South-East Asia – the ratio was highest in Singapore at 21 per cent and Thailand at 13 per cent, but much smaller in Cambodia, Lao PDR, Myanmar, and Viet Nam, averaging 1.6 per cent.
- South and South-West Asia – the ratio was highest in Turkey and Bhutan at 14 per cent and India at 7 per cent of GDP,⁵ but in other members of SAARC, averaged only 1.6 per cent, reflecting tight fiscal space in countries such as Pakistan and Sri Lanka.
- North and Central Asia – the fiscal response was constrained by the commodity price shock that accompanied COVID-19.⁶
- Pacific island developing States – despite the severe impact of COVID-19 on tourism the response was small. Several States were at high risk of public debt distress.⁷

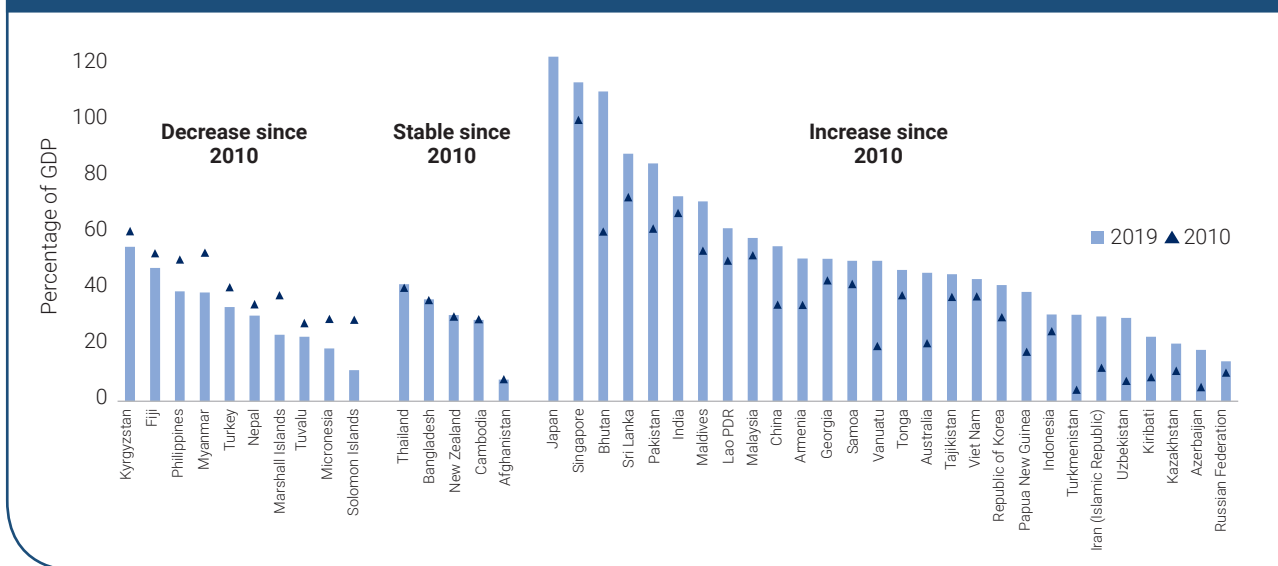
Asia-Pacific LDCs, on average, have had small fiscal packages, although these ranged from 10 per cent of GDP in Bhutan, Kiribati, Nauru and Tuvalu to 1 per cent or less in Cambodia, the Lao People’s Democratic Republic and Solomon Islands.

Figure 3-1: Asia-Pacific fiscal balance, 2005-2021 (% of GDP)



Source: ESCAP, based on IMF World Economic Outlook database, October 2020.
 Note: Averages based on 45 Asia-Pacific developing countries.

Figure 3-2: Government debt (% of GDP)



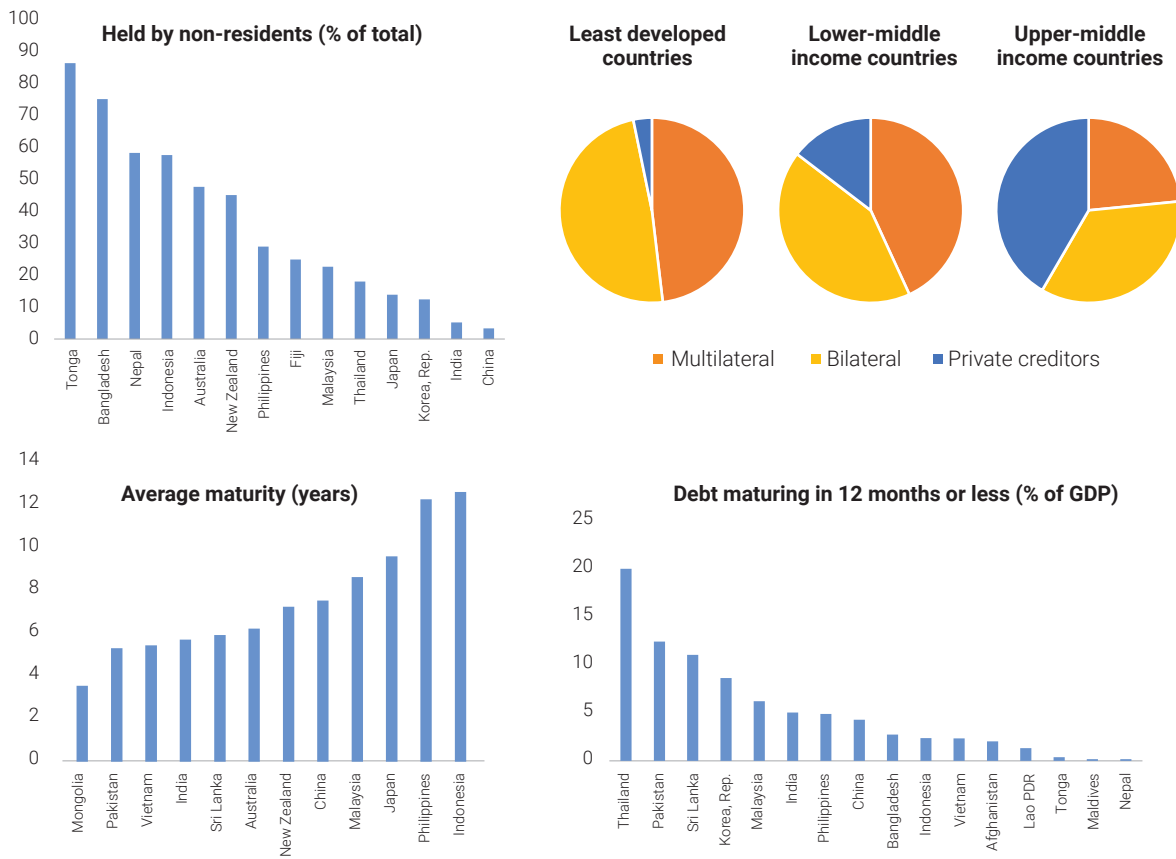
Source: ESCAP, based on World Bank Fiscal Space database, April 2020.

Rising fiscal deficits and debts

Among Asia-Pacific developing countries, the average fiscal deficit is projected to widen from 1.5 per cent of GDP in 2019 to 6.8 per cent in 2020 and to 5.6 per cent in 2021. Asia-Pacific small island developing States (SIDS), due to the collapse in tourism, could also see the average fiscal

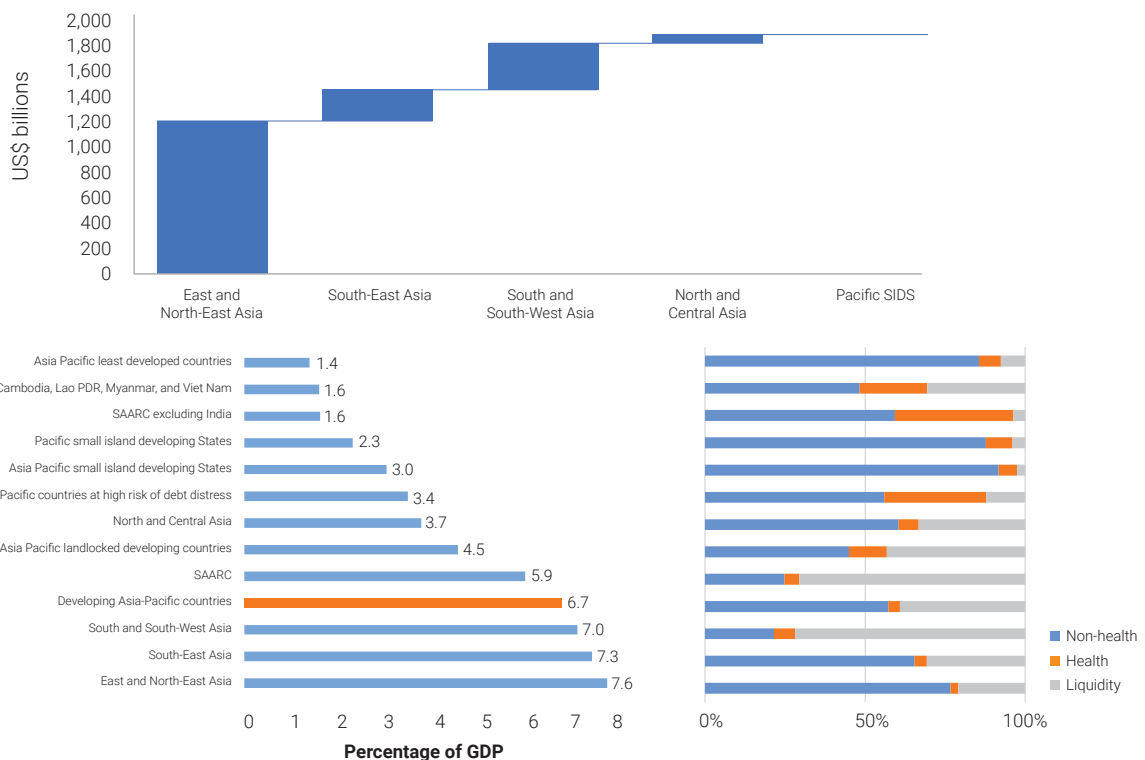
balance turn from a surplus of 1.4 per cent of GDP in 2019 to a deficit of 8.5 per cent in 2020. The wider fiscal deficit is due to both discretionary measures and the direct impact of the pandemic on revenues, with the latter playing a more prominent role in countries such as India and Turkey (Figure 3-5). In India and several economies of the Association of Southeast Asian Nations

Figure 3-3: Government debt structure



Source: ESCAP, based on World Bank International Debt Statistics, Fiscal Space database, and AsianBondsOnline.

Figure 3-4: Fiscal response to COVID-19 in Asia and the Pacific



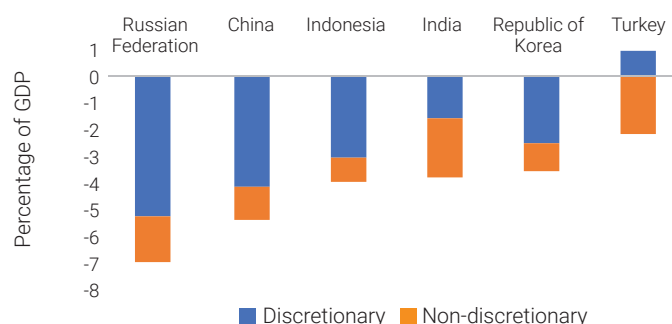
Source: ESCAP, based on ESCAP COVID-19 response tracker and IMF Fiscal Monitor database, October 2020 and January 2021.

(ASEAN) gross financing needs are likely to be between 10 and 16 per cent of GDP (Figure 3-6). They are expected to rise considerably in least developed countries, landlocked developing countries, and SIDS.

Increased deficit financing, combined with the economic slowdown, will increase debt-to-GDP

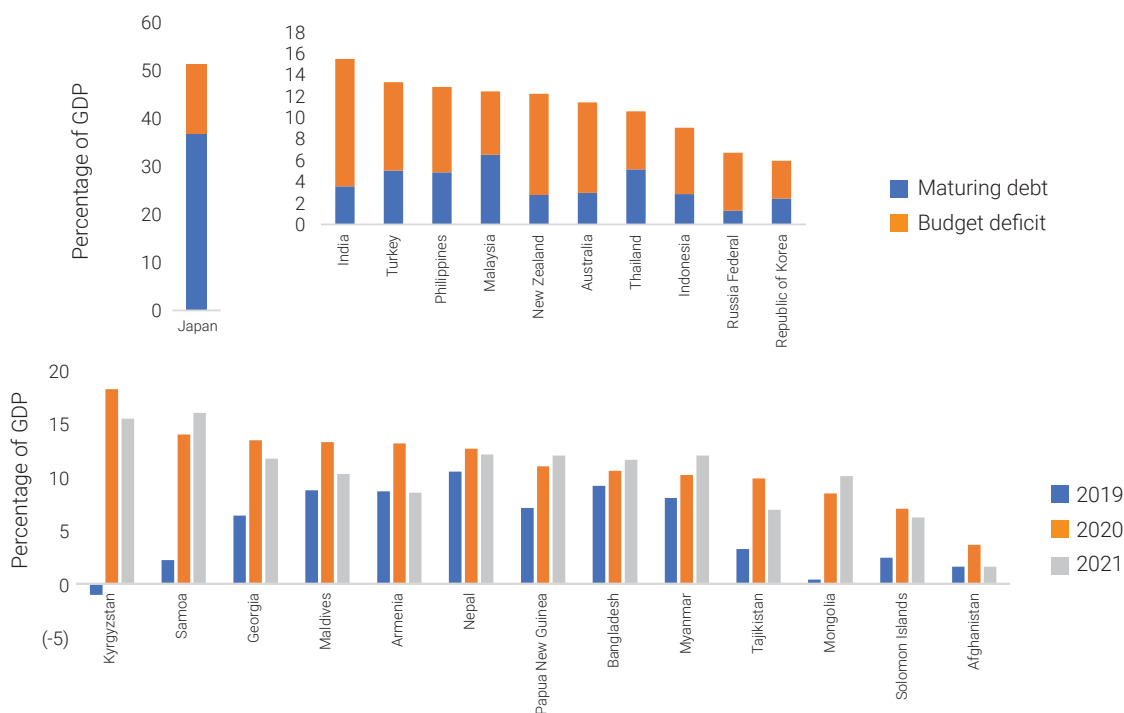
ratios. Amongst Asia-Pacific developing countries, the ratio is projected to rise from 41 per cent in 2019 to 47 per cent in 2020 and 49 per cent in 2021 (Figure 3-7).⁸ The ratio is expected to rise in 40 out of 43 countries in the region. Most severely affected are Fiji and Maldives where the ratios could increase by more than 30 percentage points (Figure 3-8).

Figure 3-5: Change in fiscal deficits, 2019 - 2020



Source: IMF Fiscal Monitor, October 2020.

Figure 3-6: Gross financing needs – fiscal deficit plus maturing debt



Source: ESCAP, based on IMF Fiscal Monitor, April 2020, Eurodad (2020), and national sources.

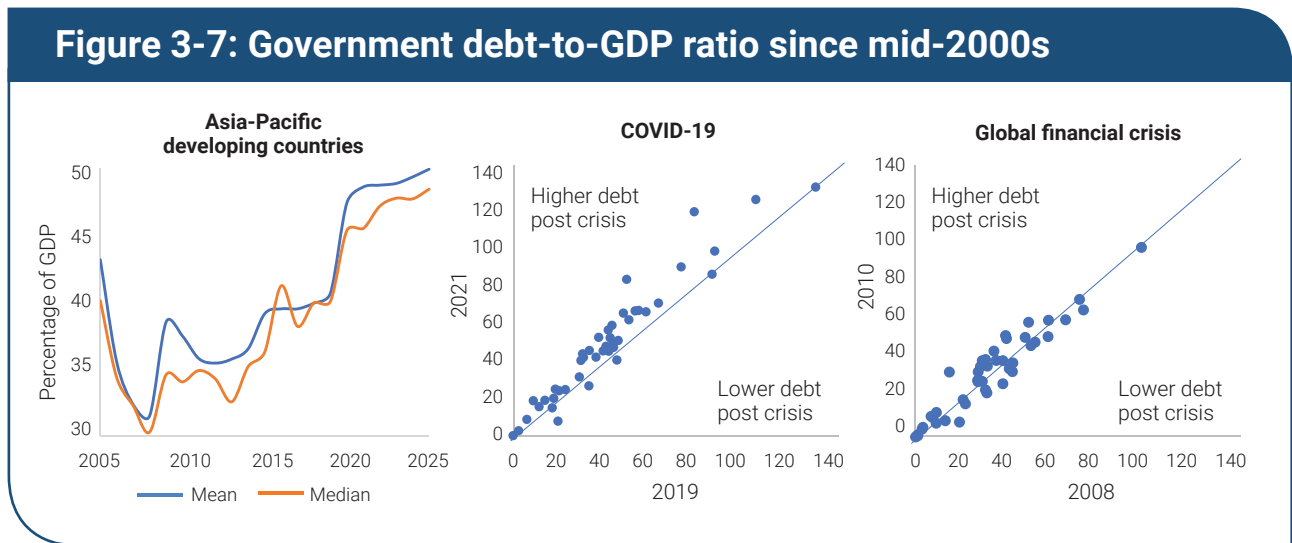
International fiscal assistance – helpful but not sufficient

The international community has provided some assistance. Between March and September 2020, the IMF and major multilateral development banks committed \$38 billion to help Asia-Pacific developing countries combat the pandemic (Figure 3-9).⁹ Nearly half of this went to South and South-West Asia. In 22 out of 37 recipient

countries multilateral support was greater than 1 per cent of GDP and in eight countries it was on a par, or exceeding, the government’s COVID-19 fiscal package.^{10,11}

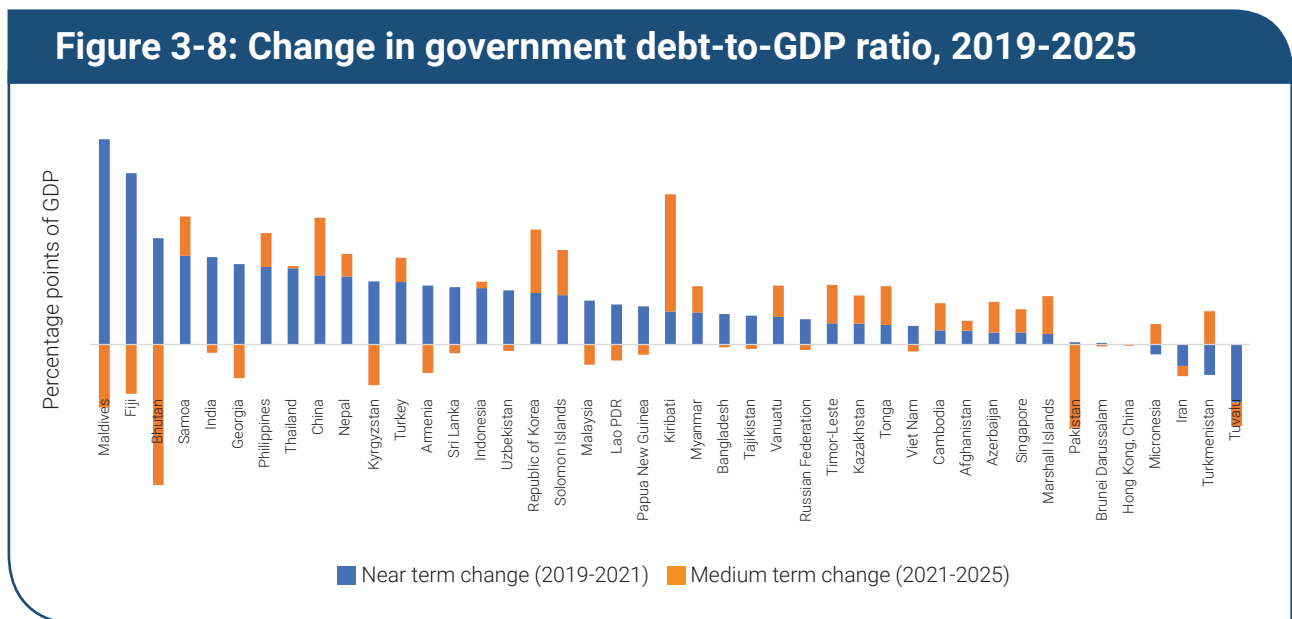
However more than 90 per cent of assistance was in the form of loans – thus addressing immediate liquidity problems but not long-term solvency.¹² Moreover, in 2020–2021 Asia-Pacific LDCs need to pay \$4.1 billion in debt servicing to these same

Figure 3-7: Government debt-to-GDP ratio since mid-2000s



Source: ESCAP, based on IMF World Economic Outlook database, October 2020.
Note: Averages based on 45 Asia-Pacific developing countries.

Figure 3-8: Change in government debt-to-GDP ratio, 2019-2025



Source: ESCAP, based on IMF World Economic Outlook.

multilateral lenders, so the net inflows will be substantially smaller.

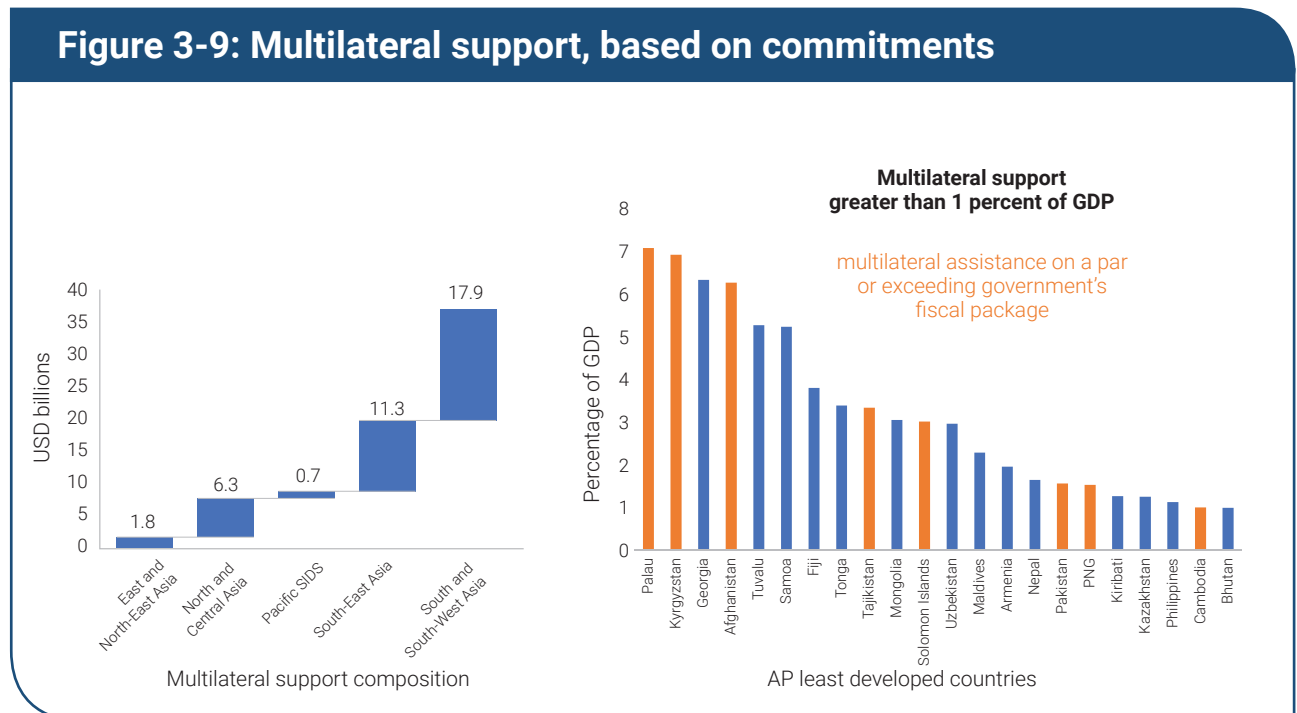
Another source of international assistance, from the members of the G20 and the Paris Club, has been the Debt Service Suspension Initiative (DSSI). Under this initiative, eligible debtor countries can request a temporary suspension of debt servicing to major official bilateral creditors.¹³ The payments covered are not forgiven but delayed, with a repayment period of five years and a one-year grace period.¹⁴

and Vanuatu. In May to December 2020 these countries postponed \$3.3 billion in repayment and \$2.8 billion in January to June 2021 – though around four-fifths of this was owed by Pakistan. Some countries are not participating, fearing that it would curtail their access to non-concessional loans in the international capital markets.

Supportive monetary policies

Central banks have also taken action to avoid

Figure 3-9: Multilateral support, based on commitments



Source: Source: Jeong Dae Lee, An assessment of fiscal space for COVID-19 response and recovery in Asia-Pacific developing countries, ESCAP MPFD Policy Brief No. 116 (2020).

The G20 has also called on commercial creditors to offer something similar, but this has not yet happened.¹⁵

In the Asia-Pacific region, the major official bilateral creditors are China, to whom the DSSI eligible countries in 2020 owed \$4.1 billion in interest and principal payment in 2020, followed by Japan at \$0.7 billion and other members of the Development Assistance Committee of the OECD at \$0.8 billion and India at \$0.4 billion. To date, 11 Asia-Pacific countries are participating: Afghanistan, Fiji, Kyrgyzstan, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Samoa, Tajikistan,

liquidity and credit crunches and ensure that economic activities could be sustained. Most countries in the region took measures to enhance liquidity, primarily through interest rate cuts of between 25 and 625 basis points (Figure 3-10). Turkey and Kyrgyzstan, on the other hand, facing inflationary pressures, raised interest rates but lowered liquidity ratios or adjusted the risk weights of certain assets. Other policies to inject liquidity in the system included open market operations and setting up special financing facilities.¹⁶

Some countries entered the crisis with high levels of household and corporate debt – including China,

Republic of Korea, Japan, Singapore and Thailand. Governments therefore took measures to support financial stability, particularly for SMEs, including loan deferments, extensions, moratoriums, lower interest rates, issuance of interest-free loans and special loan facilities. Some countries also lowered bank fees and charges, or temporarily waived penalties for non-performing loans. Stock market volatility was also a concern, so some countries temporarily prohibited short-selling, for example, or relaxed rules on share buybacks or reduced or exempted fees for securities services.

The first quarter of 2020 saw unprecedented capital outflows. To maintain foreign exchange market stability some countries sold international reserves and held foreign exchange auctions, and sought to avoid capital flight by suspending outward remittances and investment payments or tightening exchange restrictions on current international payments and transactions. Others aimed to adjust more flexibly by allowing exchange rates to fluctuate, or through one-off currency depreciation.

Central banks also increased liquidity by arranging emergency swap lines. On 19 March 2020, the central banks of Australia, the Republic of Korea, New Zealand, and Singapore established temporary dollar liquidity-swap lines with the United States Federal Reserve, which already had a swap line with Japan. In May 2020, Turkey

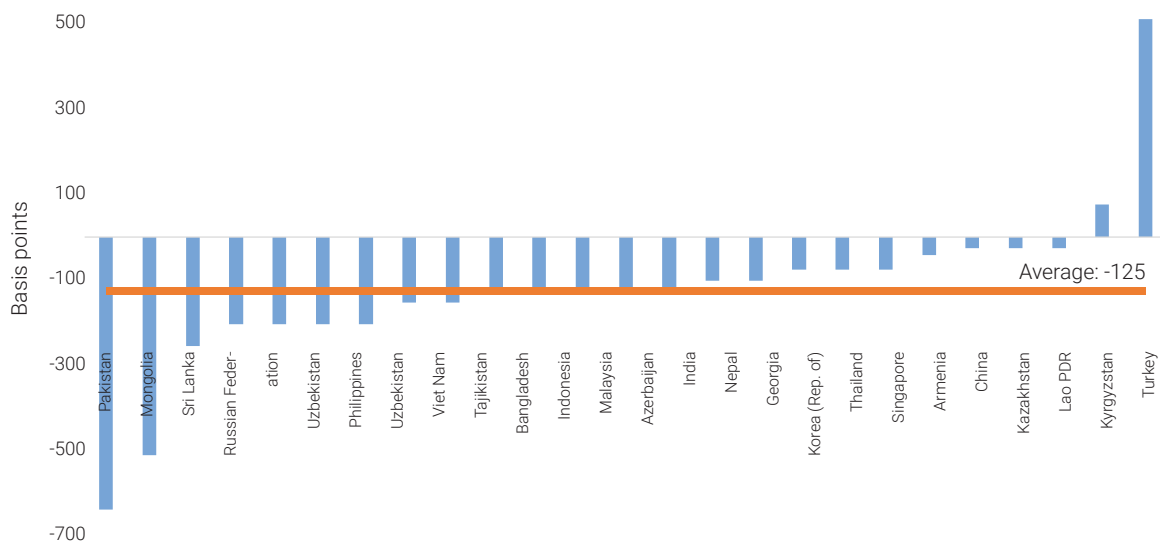
set up a bilateral swap arrangement with Qatar. Another source of international liquidity support was the IMF: in addition to the existing Flexible Credit Line and the Precautionary Liquidity Line in April 2020 the IMF introduced the Short-Term Liquidity Facility.

3.2 Opportunities for building back better

GDP growth rates are expected to rebound in 2021, but without continuation of supportive government policies income levels are likely to remain lower than the pre-crisis trend. This is clear from the experience of previous crises. In 1997, following the Asian financial crisis, fiscal consolidation and interest hikes actually deepened the crisis, while in 2008, following the global financial crisis, fiscal and monetary stimulus helped countries recover much faster.¹⁷

To build back better, fiscal stimulus packages should also be aligned with the 2030 Agenda for Sustainable Development.¹⁸ To assess whether new projects and interventions meet both short-term needs to deliver as many jobs, income and economic demand as quickly as possible, and the long-term needs to deliver socially and environmentally sustainable growth and resilience to future shocks, policy makers could adopt a “sustainability checklist.”¹⁹ Measures can include, building green physical infrastructure, and retrofitting buildings for efficiency, as well as

Figure 3-10: Interest rate cuts in Asia-Pacific economies, 2020



Source: ESCAP calculations.

investing in education and training, in natural capital, and in green research and development (R&D).²⁰

The stimulus packages introduced by major Asia-Pacific countries following the 2008 crisis helped lift the world out of recession. Even so, the countries did not introduce much needed structural reforms and put too much emphasis on resource-intensive GDP growth without considering how that growth would be distributed and what would be its impact on the environment. The result was continuing inequality, slower growth in productivity, balance-of-payments pressures, and rising carbon emissions.

This time should be different. ESCAP macroeconomic modelling shows that investing in inclusive and sustainable development brings positive economic outcomes. Investing in SDG priorities such as social protection and climate action could reap a double dividend by enhancing a country's resilience to future shocks as well as supporting the economic recovery. Similarly, SDG priorities such as health, education and infrastructure contribute to long-term growth, thereby increasing the government's ability to service its debt obligations. Actual and potential output levels rise amid stronger domestic demand and higher total factor productivity.²¹ ESCAP estimations show that achieving SDGs in the region will require additional investments of \$1.5 trillion per year.²²

If they are to offer large fiscal support while ensuring fiscal and debt sustainability, countries may need to go beyond traditional prudence and utilize unconventional fiscal tools. At present, most are not experiencing inflationary pressures so governments have greater leeway to issue more government bonds, with central banks buying some of the issuances. Governments can also relax fiscal rules and allow for larger budget deficits: rather than aim to emulate the 3 per cent deficit and 60 per cent debt thresholds of the European Union's Stability and Growth Pact, countries in Asia and the Pacific need to calibrate fiscal rules more closely with their own development needs. The Philippines, for example, before the pandemic had targeted its budget

deficit for 2020 and 2021 at 3.2 per cent, but raised it to 9.6 per cent for 2020 and 8.5 per cent in 2021. Similarly, Indonesia revised its target for 2020 from 1.8 to 6.3 per cent of GDP, and to 5.5 per cent for 2021.

There should also be opportunities to borrow more against public assets. The first step is to include assets such as land, property, and state-owned enterprises in government balance sheets more transparently.²³ It is estimated that globally such measures could raise up to \$3 trillion a year by 2024, enough to fund the entire incremental cost of crisis-related debt service, until at least 2032. India, for example, is making use of such measures.²⁴

It is important to ensure that additional spending is not misdirected, particularly through corruption. Public procurement should be fully transparent, with expenditure controlled through legislation and stronger enforcement on corruption and money laundering.

Public expenditure and taxation reform

Governments can also create more fiscal space by curbing non-developmental expenditures, notably on defence. Some Asia-Pacific countries are among the world's highest defence spenders, allocating far more to defence than they do to health and education. Global military spending in 2019 stood at a record high of \$1.92 trillion, of which Asia and the Pacific accounted for 27 per cent.²⁵

Countries can also free more resources for SDG-oriented investments by removing untargeted and unnecessary subsidies, particularly those on fossil fuels, which in 2018 amounted to \$240 billion a year. By removing fossil fuel subsidies, some countries could fully or largely finance their stimulus packages.²⁶ At the same time governments can implement carbon taxes. A moderate carbon tax of \$35 per ton could provide revenues equivalent to two to three percentage points of GDP (Figure 3-11).²⁷ Removing subsidies and taxing carbon serve a dual purpose – raising revenues while simultaneously accelerating the low-carbon transition and mitigating climate change. Such actions should be politically more popular if the

resources gained are targeted towards vulnerable groups, fund social protection and offer support for low-income households or communities that are hardest hit by the transition to a low-carbon economy.

In addition to redirecting expenditure, governments can also increase fiscal space by using more equitable forms of taxation. This would mean moving away from indirect taxes, such as sales tax on goods which are 'regressive' in that everyone pays the same, and towards direct taxation on income which can be more 'progressive' since those with higher incomes can pay at higher rates. In Asia and the Pacific direct taxes account for only 36 per cent of total tax revenue, whereas in OECD countries the proportion is 59 per cent.²⁸ The richest citizens can also contribute more through taxes on wealth and property. Such taxes are largely missing in the region, so inequality is passed from one generation to the next.

For most of this work, governments can take full advantage of digitalization, which can be used to make the system more efficient and to expand the tax base. They can, for example, establish electronic platforms for tax registration, filing, payment, and dispute resolution. To facilitate the

collection of value-added tax and customs duties e-commerce can be required to report sales on tax collection platforms. Property taxes can be collected more efficiently by matching the taxpayer file with the land registry. And to make the stimulus programmes more transparent governments can verify compliance by analysing past tax filings of citizens seeking relief.

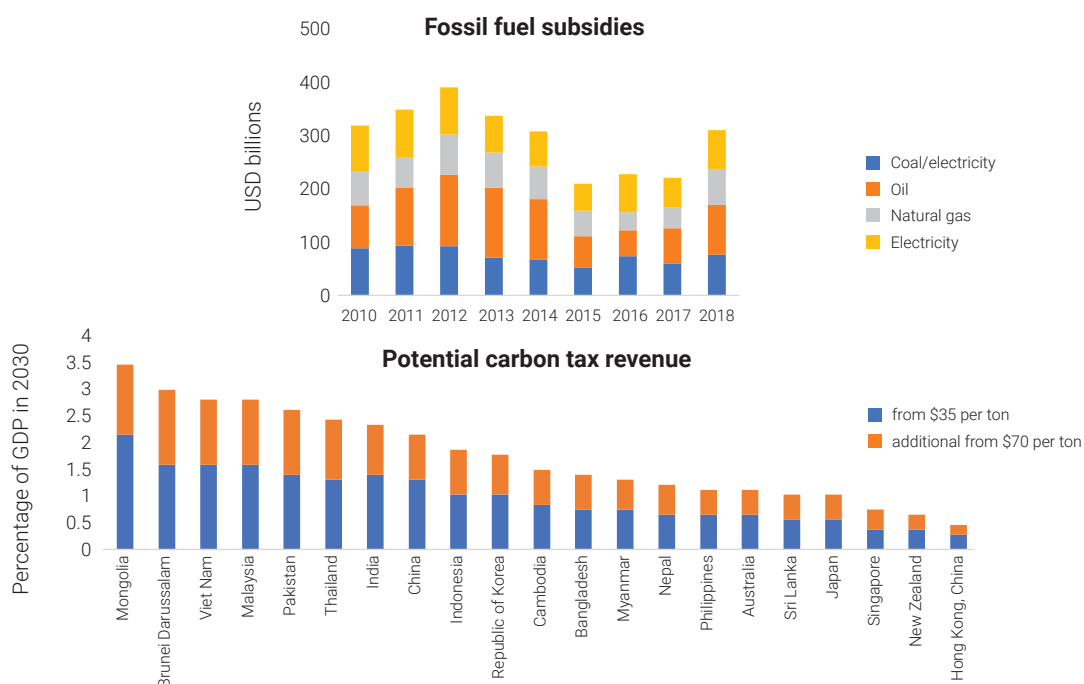
Innovative bond instruments

Governments can also raise more resources through innovative financing instruments. Recent years have seen a rapid increase in the issuance of green, social, sustainability and, more recently, pandemic bonds. In Asia-Pacific, by 2019 total issues reached \$72 billion (Figure 3-12).

In the Asia-Pacific region there has been a steady growth in the green bond market where the proceeds are used to finance 100 per cent green projects and assets (Figure 3-13). Issuance in 2019 reached \$64 billion; much of which has been channelled to energy and transport sectors but also buildings, water, waste, land use, industry and ICT.

In August 2020, as part of a COVID-19 recovery package, Thailand issued its first sovereign

Figure 3-11: Carbon pricing in Asia and the Pacific



Source: International Energy Agency data and IMF (2019).

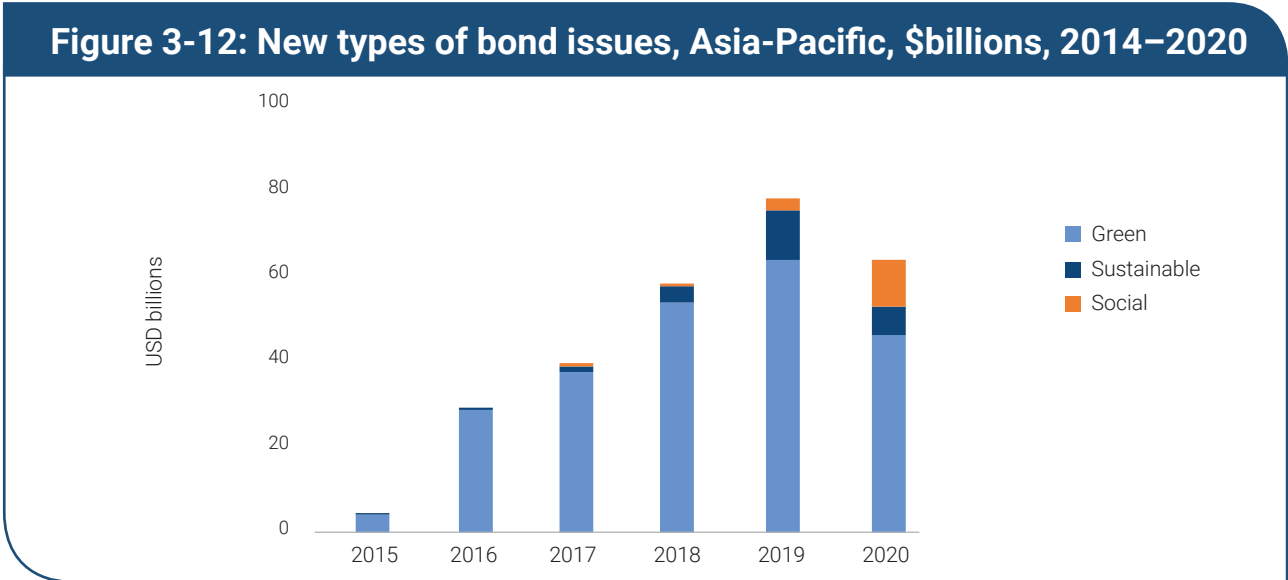
sustainability bond of about \$1 billion to finance green infrastructure and social impact projects in health, SMEs, and local development. Similarly, in September Bhutan, one of the LDCs, successfully issued its first sovereign bond to support its COVID-19 response.²⁹

International investors that buy such bonds can be linked with SDG-verified investments in developing countries. Bonds from developing countries that are not as attractive to them can be supported by partial guarantees from the G20 countries, as well as from multilateral financial institutions which can use a mix of green, social or sustainable bonds to create SDG-aligned funds.

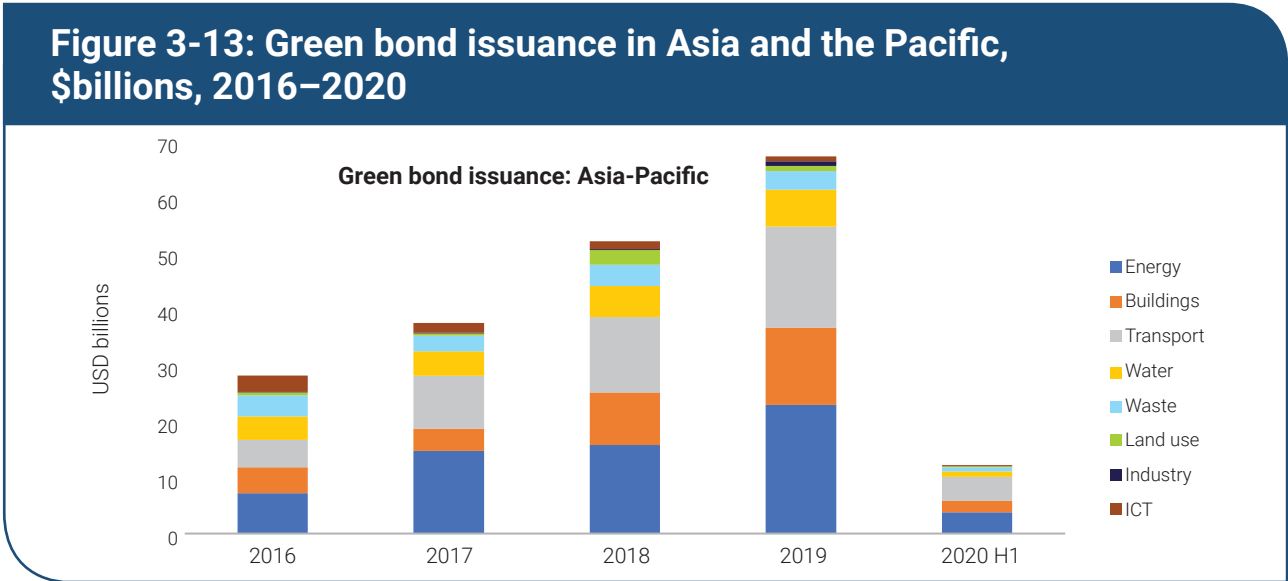
For the global and regional multilateral financial institutions, integrating SDGs should be a natural expansion of their financial support activities.

Combating cross-border tax avoidance and evasion

International cooperation is also needed to stop illicit cross-border financial flows designed to evade tax, bypass capital controls or hide ill-gotten gains. Corporations can do this, for example, by trade mis-invoicing – by under- or over-pricing goods on customs declarations. This practice is widespread in Asia and the Pacific, as revealed when the value of exports reported



Source: Climate Bonds Initiative, Sustainable Debt: Global State of the Market H1 2020.



Source: Climate Bonds Initiative, Sustainable Debt: Global State of the Market H1 2020.

by one country does not match the value of imports reported by the trading partner. Over the period 2008-2017, developing Asian countries were found to have the largest total trade data discrepancy in the world, at \$476 billion.³⁰ Stopping trade mis-invoicing is low-hanging fruit that can be gathered through better cooperation between national customs agencies.

Countries also need to cooperate to combat tax evasion and harmful tax competition, as well as to eliminate legal but harmful tax practices. At present, corporations aiming to reduce or avoid taxation can exploit gaps created by current international tax rules, and differences in domestic tax rules, to shift their profits to a lower-tax jurisdiction – referred to as ‘base erosion and profit shifting’. Some of the most notable examples of such activities in recent years have been by global technology companies. Globally, between 2010 and 2019 six of the largest global IT companies avoided up to \$100 billion in taxes.³¹ Some regional countries have taken steps to stop this by taxing not just profits but also sales. Indonesia, for example, in 2020, imposed a 10 per cent value added tax on domestic sales of global IT firms. India in its February 2020 Budget introduced a similar tax of 2 per cent on aggregate revenue for large e-commerce companies. A goal worthy of consideration is that developing countries commit all additional flows arising from such taxation of multinational enterprises to financing the SDGs.

Regional cooperation for debt relief

Many of the poorest countries already have high levels of debt, so have less capacity to respond to the epidemic or support sustainable recovery. The Secretary-General of the United Nations has argued for global action on debt and solidarity, which should involve writing down debt in the poorest and most vulnerable countries.³² Debt relief could be achieved in three phases.

1. *Temporary debt standstill* – immediate “breathing space” to reducing short-term liquidity risk for all countries.
2. *Targeted debt relief* – to address solvency concerns.

3. *Changing the debt architecture* – so as to prevent defaults leading to prolonged financial and economic crises.

Phase 1 – For bilateral debt, the G20 and the Paris Club could consider extending the DSSI term to at least the end of 2021 while also including more middle-income countries under debt distress. This could help prevent liquidity crises from turning into solvency crises. For multilateral debt, the development banks such as the World Bank and the Asian Development Bank could commit ‘net positive flows’ – that is, they are disbursing more than they are receiving in repayments. For upcoming payments, they could consider close-to-zero interest rates for funds that are directed towards the SDGs.

Phase 2 – Depending on country circumstances, the international community could address the problem of unsustainable debts through debt cancellations or write-downs, debt swaps for SDGs, or debt buybacks – to be financed either bilaterally or multilaterally.³³ In this regard, in October 2020 the G20 announced the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative. This initiative is welcome but insufficient because it excludes many affected countries who do not qualify as “low-income” so are ineligible for assistance. Further international initiatives are needed to reach all affected countries as quickly as possible.

Phase 3 – In recent years, there has been a rise in international lending from countries such as China and India, which are not part of the Paris Club, as well as from private creditors. To deal with future debt crises there are proposals to set up a Sovereign Debt Forum for early engagement among diverse creditors, debtors, and other stakeholders. Regional commissions of the United Nations could support discussions between member States to establish an inclusive and open Sovereign Debt Forum in their respective regions.

Central bank support through monetary policy

Central banks should consider accommodative monetary policies, and target availability of

liquidity to the economic sectors most in need. In addition to keeping interest rates low, this could include quantitative easing – buying already issued government bonds. In current circumstances quantitative easing gives a double benefit: in addition to providing extra liquidity to the domestic banking system, it offers the government a buyer of last resort.

In normal circumstances, quantitative easing might raise fears of inflation, reduce fiscal discipline, encourage financial repression and impinge on central bank independence. But, given an unprecedented collapse in economic activity these outcomes are unlikely in the near future.³⁴ The immediate priority is to revive economies that are on the brink of collapse, though such support must only be temporary. In Asia and the Pacific, many central banks have been buying government bonds, as in India, Indonesia, the Philippines, the Republic of Korea and Turkey. Early evidence suggests that such interventions were helpful: bond yields declined, and exchange rates stabilized.

Government and monetary authorities can also support businesses and households directly, to preserve jobs, to keep open distressed but otherwise solvent firms, and to maintain household finances. One avenue, in countries with active corporate credit markets, is for central banks to support issuers of corporate bonds. The Bank of Korea, for example, introduced facilities to lend to financial institutions against corporate bond collateral. Many governments in the region have taken action in this area – requiring lenders to offer repayment holidays, providing loan guarantees for SMEs, and extending the periods after which restructured loans are considered non-performing. These measures will need to continue well into 2021 so as to offer the banking sector, and regulators, time to adequately provision funds to cover lenders who are in difficulty.

Maintaining macroeconomic stability

Substantial interest rate reductions help businesses, but risk capital outflows and a depreciation in the exchange rate which can affect financial stability and inflation. As a buffer against this, governments

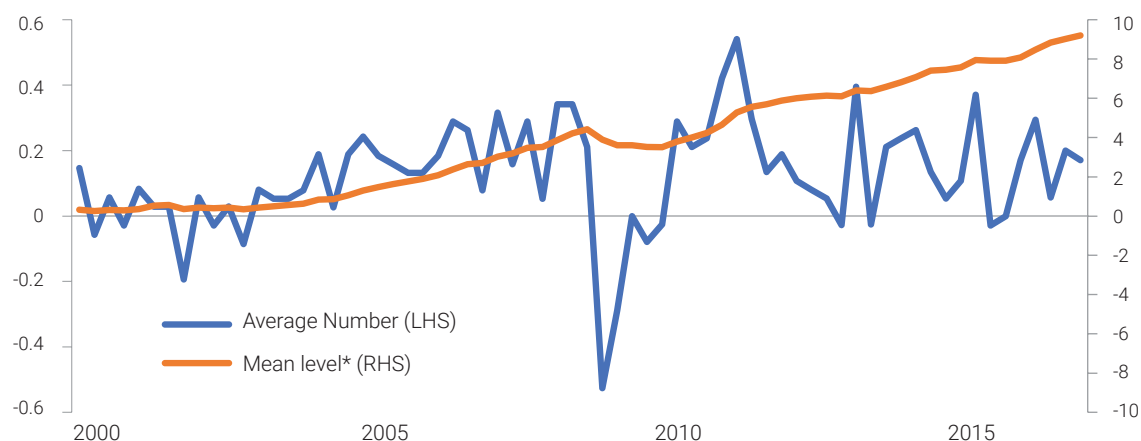
can consider capital flow measures – such as controls on domestic companies' currency derivative trades and a withholding tax on interest and capital gains earned by foreign investors on local government bonds.³⁵ Governments can also take macroprudential measures, such as setting a minimum holding period for short-term central bank certificates, and only allowing domestic banks to make loans in foreign currency for the purchase of raw materials, foreign direct investment (FDI) and repayment of debts. Overall, there has been an increase in the number of macroprudential regulations in emerging markets (Figure 3-14).

Capital flows can also be managed through regional and international cooperation. At present international support largely consists of bilateral credit lines with the IMF and the United States Federal Reserve. These have their limitations: first, they are subject to significant conditionalities; second, even the Federal Reserve and the IMF do not have sufficient financial firepower to meet the enormous needs during a global crisis.³⁶

In addition to credit lines at the global level, countries can consider complementary regional support. Since 2012, there has for example, been a subregional arrangement under the auspices of the SAARC. This is a \$2-billion swap facility managed by the Reserve Bank of India to address temporary liquidity problems affecting South Asian countries. It has been drawn upon during the pandemic by Maldives and Sri Lanka.³⁷ Another international initiative with a significant Asia-Pacific element is the BRICS Contingency Reserve Arrangement which was set up in 2015 and is valued at \$100 billion.

At the subregional level, the most comprehensive option is the Chiang Mai Initiative Multilateralization of ASEAN+3, of \$240 billion³⁸ However, this is not wholly independent: a borrowing country also needs an IMF programme for more than 30 per cent of the funds. Another limitation of the Chiang Mai Initiative Multilateralization has been the lack of independent monitoring and evaluation of economies. Nevertheless, the establishment of the ASEAN+3 Macroeconomic Research Office

Figure 3-14: Macroprudential regulations in emerging markets



Source: IMF, integrated Macroprudential Policy (iMaPP) database; and (IMF, 2020).

Note: The level of macroprudential regulation is calculated by cumulating the net tightening actions for each country since 1990, the first year in the database.

in 2010 was a first step towards such analysis. However, the most fundamental drawback of this arrangement is that it only covers a subset of the region's economies.³⁹

For the establishment of a modality which benefits all regional countries, there is a need to eventually look beyond existing subregional agreements, and to consider an Asia-Pacific financial stabilization arrangement. As following both previous crises there were calls to complement the IMF with an Asian Monetary Fund which could provide additional funds.⁴⁰ Such an entity could also engage in crisis surveillance and prevention at the regional level. One approach towards such a fund would be an extended Chiang Mai Initiative Multilateralization. The establishment of the Asian Infrastructure Investment Bank in recent years has shown the ability for the region to establish such new institutions and meet its own financial and economic challenges.

3.3 Policy Recommendations

- *Check for sustainability* – check that fiscal interventions meet both short-term needs to deliver as many jobs, income and economic demand as quickly as possible in the short-term, and long-term needs to deliver socially and environmentally sustainable

growth and resilience to future shocks. Measures can include building green physical infrastructure, retrofitting buildings for greater energy efficiency, increasing education and training, investing in natural capital and green R&D.

- *Relax financial rules* – relax fiscal and borrowing rules and generate income from government balance sheets, going beyond traditional measures of prudence and utilize unconventional tools.
- *Reorient public expenditure* – curb non-developmental expenditure, such as on defence and on fuel subsidies. Subsidy removal and carbon taxes would serve a double purpose -- raising revenues while simultaneously accelerating low-carbon transition and supporting climate change mitigation efforts.
- *Reform taxation* – make more use of progressive taxation and implement carbon taxes.
- *Issue new and innovative bonds* – these can include green, sustainability and pandemic bonds. International organizations can guarantee these, while also creating SDG-aligned bond funds.
- *Combat tax evasion* – regional cooperation can help combat tax evasion, harmful tax competition and profit-shifting to lower-tax jurisdictions. Apply sales taxes to global IT firms.

- *Write down debt* – advocate for international debt write-downs, and for a regional Sovereign Debt Forum to facilitate early engagement among stakeholders when sovereigns encounter trouble. This should provide space for development investments in the poorest and most vulnerable countries.
- *Provide targeted funding and liquidity* – Central banks should keep interest rates low and target funding and liquidity to vulnerable businesses and households.
- *Manage capital flows* – apply national capital controls if necessary and establish an Asia-Pacific financial stabilization arrangement.

Endnotes

¹ Fiscal space can be defined as “the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position (Heller, 2005).” In the present context, this refers to the space that governments have to pursue short-term countercyclical crisis measures and subsequently undertake longer-term recovery spending.

² UNCTAD (2019). Current challenges to developing country debt sustainability. Available from https://unctad.org/system/files/official-document/gds2018d2_en.pdf.

³ As of end 2017, about two-thirds of emerging market debt securities were issued in local currency (LCY), nearly 20 percentage points higher than 15 years ago. LCY bond markets have seen rapid growth in Asia, especially China and the Republic of Korea but also in several ASEAN countries in the aftermath of the Asian financial crisis of 1997. However, as highlighted in recent BIS research, LCY bond markets cannot completely shield countries from external shocks especially if non-resident holdings are high, as in countries like Indonesia. During the first few weeks of the COVID-19 pandemic, Asian local currency bond markets experienced massive bond portfolio outflows and surges in bond yields, which called for central banks acting as buyers of last resort to calm market dislocations.

⁴ Calculation based on ESCAP COVID-19 response tracker. This estimate is broadly in line with that of IMF (2020) *Fiscal Monitor, October 2020 - Policies for the Recovery*. Available at: <https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor>. McKinsey (2020). Closing the \$30 trillion gap: Acting now to manage fiscal deficits during and beyond the COVID-19 crisis. Available at <http://www.mckinsey.com/industries/public-and-social-sector/our-insights/closing-the-30-trillion-gap-acting-now-to-manage-fiscal-deficits-during-and-beyond-the-covid-19-crisis?cid=eml-web> and other recent estimates, but smaller than that of Qureshi, I. A. (2020) *The right policies can help manage foreign debt in Asia*. Asian Development Bank. Available at: <https://blogs.adb.org/blog/right-policies-can-help-manage-foreign-debt-asia> (Accessed: 14 February 2021).

⁵ IMF (2020) *Fiscal Monitor, October 2020 - Policies for the Recovery*. Available at: <https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor>;

⁶ ESCAP policy brief on COVID-19 impact on fuel exporting countries <https://www.unescap.org/resources/mpfd-policy-brief-no-113-coping-covid-19-and-enhancing-long-term-resilience-future-shocks>

⁷ ESCAP (2020) *MPFD Policy Brief No. 111: Addressing the impact of the pandemic on tourism in Asia-Pacific small island developing States* | ESCAP. Available at: <https://www.unescap.org/resources/mpfd-policy-brief-no-111-addressing-impact-pandemic-tourism-asia-pacific-small-island>.

⁸ This is the unweighted average. GDP weighted average would be higher due to relatively high government debt levels in China and India.

⁹ Multilateral development banks included in the review are: Asian Development Bank (ADB), Asian Infrastructure Investment bank (AIIB), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB), New Development Bank (NDB), and the World Bank. For more information, see Huang and Shim (2020).

¹⁰ However, as major economies such as China and India were also recipients, multilateral support was equivalent to only 0.2 per cent of all recipient countries’ combined GDP and 3 per cent of their COVID-19 fiscal response.

¹¹ For Asia-Pacific least developed countries, multilateral support of \$5.6 billion was equivalent to 1.2 per cent of GDP and 85 per cent of COVID-19 fiscal response; and for small island developing States, the \$0.9 billion committed was equivalent to 2.2 per cent of GDP and 84 per cent of fiscal response.

¹² Four Asia-Pacific countries benefited from debt relief through the IMF’s Catastrophe Containment and Relief Trust: Afghanistan, Nepal, Solomon Islands, and Tajikistan.

¹³ The initiative was announced in April 2020, initially to last until the end of 2020 and was extended for six months at the G20 meeting, falling short of the 1 to 2 years extension requested by beneficiary countries. There are broader criticisms that G20 is a forum primarily for creditors and it has been reluctant to move forward with the broader theme of debt relief.

¹⁴ The rescheduling is intended to be ‘net present value neutral’. However, some Chinese creditors have rescheduled principal payments but continued to take interest payments, with the deferred debt still subject to interest, so that it adds to the debt burdens of poor countries rather than relieving them. This is because China treats its large policy banks as commercial rather than public lenders and therefore not obligated to the DSSI terms.

¹⁵ Of the 44 debtor countries that are participating in the DSSI, only three have asked for comparable treatment from private creditors and no agreements have yet been signed.

¹⁶ Countries also temporarily eased macroprudential policies to improve the liquidity conditions in their economies, including through cuts in reserve requirement ratios, relieving capital requirements, loosening countercyclical capital buffers, liquidity cover ratio requirements and lowering risk weights of certain assets (such as loans to SMEs, or provision of mortgages). Some central banks also announced delays in the implementation of macroprudential policies.

¹⁷ Saxena, S. C. and Cerra, V. (2008) 'Growth Dynamics : The Myth of Economic Recovery', *American Economic Review*, 98(1), pp. 439–457. See also Park, Donghyun, Arief Ramayandi and Kwanho Shin (2013). "Why Did Asian Countries Fare Better during the Global Financial Crisis than during the Asian Financial Crisis?" In Changyong Rhee and Adam S. Posen (eds) (2013). *Responding to Financial Crisis: Lessons from Asia Then the United States and Europe Now*. Washington: Asian Development Bank and Peterson Institute for International Economics.

¹⁸ Huang, Zhenqian, and Shim, Christopher Cho. (forthcoming). Follow the Money: Lending by MDBs and IFIs to Asia-Pacific region in the time of COVID-19. ESCAP Policy Brief.

¹⁹ Hammer, S. and Hallegate, S. (2020) Planning for the economic recovery from COVID-19: A sustainability checklist for policymakers. Available at: <https://blogs.worldbank.org/climatechange/planning-economic-recovery-covid-19-coronavirus-sustainability-checklist-policymakers>.

²⁰ Hepburn, C. et al. (2020) 'Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?', *Smith School Working Paper*, 20–02, p. 48.

²¹ Such macroeconomic and fiscal effects of scaling up investment in SDG priorities will be examined in-depth in ESCAP's forthcoming *Economic and Social Survey 2021*.

²² ESCAP (2019) *Economic and Social Survey of Asia and the Pacific 2019*.

²³ McKinsey (2020). Closing the \$30 trillion gap: Acting now to manage fiscal deficits during and beyond the COVID-19 crisis. Available at <http://www.mckinsey.com/industries/public-and-social-sector/our-insights/closing-the-30-trillion-gap-acting-now-to-manage-fiscal-deficits-during-and-beyond-the-covid-19-crisis?cid=eml-web>

²⁴ ESCAP (2020) *Report of High-Level Policy Dialogue on COVID-19 and South Asia: Socio-Economic Impacts, National Strategies and Subregional Cooperation for Building Back Better*. Available at: <https://www.unescap.org/sites/default/d8files/knowledge-products/Key%20Highlights%20HLPD%20on%20COVID-19%20and%20South%20Asia.pdf>

²⁵ SIPRI (2020) *Trends in World Military Expenditure, 2019* | SIPRI. Available at: <https://www.sipri.org/publications/2020/sipri-fact-sheets/trends-world-military-expenditure-2019>.

²⁶ Huang, Zhenqian, and Saxena, Sweta. (2020). Can this time be different? Challenges and opportunities for Asia-Pacific economies in the aftermath of COVID-19. Available at [www.unescap.org/sites/default/files/PBx114_Can %20this %20time %20be %20different_Challenges %20and %20opportunities %20for %20Asia-Pacific %20economies %20in %20the %20aftermath %20of %20COVID-19.pdf](http://www.unescap.org/sites/default/files/PBx114_Can%20this%20time%20be%20different_Challenges%20and%20opportunities%20for%20Asia-Pacific%20economies%20in%20the%20aftermath%20of%20COVID-19.pdf).

²⁷ ESCAP (2020) *Economic and Social Survey of Asia and the Pacific 2020: Towards sustainable economies*. Available at: <https://www.unescap.org/publications/economic-and-social-survey-asia-and-pacific-2020>.

²⁸ ESCAP (2017) *Taxing for Shared Prosperity*. Bangkok. Available at: <https://www.unescap.org/resources/taxing-shared-prosperity>.

²⁹ ESCAP (2020) *Bhutan issues first sovereign bond to meet increasing fiscal financing needs in fighting COVID-19*, ESCAP. Available at: <https://www.unescap.org/news/bhutan-issues-first-sovereign-bond-meet-increasing-fiscal-financing-needs-fighting-covid-19>.

³⁰ Global Financial Integrity (2020) *Trade-Related Illicit Financial Flows in 135 Developing Countries: 2008-2017* « *Global Financial Integrity*. Available at: <https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-135-developing-countries-2008-2017/>.

³¹ Fair Tax Mark (2020) *Silicon Six Report*. Available at: <https://fairtaxmark.net/wp-content/uploads/2019/12/Silicon-Six-Report-5-12-19.pdf>.

³² See the UN policy brief on debt and solidarity https://www.un.org/sites/un2.un.org/files/un_policy_brief_on_debt_relief_and_covid_april_2020.pdf and a more detailed "menu of options" presented for consideration of Heads of State and Government <https://www.un.org/pt/node/81536>

³³ There is a precedent for this in the form of the Heavily Indebted Poor Country Initiative. However, these were complex and lengthy processes.

³⁴ Benigno, G. et al. (2020) Credible emerging market central banks could embrace quantitative easing to fight COVID-19. Available at: <https://www.bruegel.org/2020/07/credible-emerging-market-central-banks-could-embrace-quantitative-easing-to-fight-covid-19/>.

Lawson, A. and Feldberg, G. (2021) 'Monetization of Fiscal Deficits and COVID-19: A Primer', *Journal of Financial Crises*, 2(4), pp. 1–35.

³⁵ Capital flow measures comprise residency-based capital flow measures, which encompass a variety of measures (including taxes and regulations) affecting cross-border financial activity that discriminate on the basis of residency; and other capital flow measures, which do not discriminate on the basis of residency, but are nonetheless designed to limit capital flows. Macroprudential measures are those measures intended primarily to contain systemic financial risks and taken by the agency mandated to be in charge of macroprudential policy.

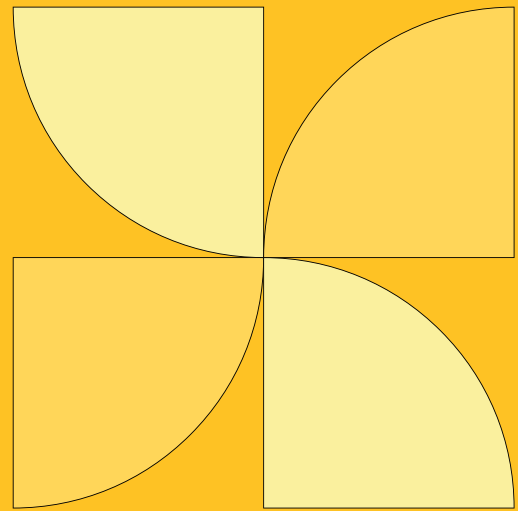
³⁶ García-Herrero, A. and Ribakova, E. (2020) 'COVID-19's reality shock for emerging economies: Solutions to deal with dependence on external funding', *VoxEU.org*, 21 May. Available at: <https://voxeu.org/article/solutions-deal-emerging-economies-dependence-external-funding>.

³⁷ ESCAP (2020) *COVID-19 and South Asia: National Strategies and Subregional Cooperation for Accelerating Inclusive, Sustainable and Resilient Recovery*, Available at: <https://www.unescap.org/resources/covid-19-and-south-asia-national-strategies-and-subregional-cooperation-accelerating>

³⁸ ASEAN plus China, Japan, and the Republic of Korea.

³⁹ On 23 June 2020, a positive development in the progress of the Chiang Mai Initiative Multilateralization was its agreement to create more flexible financing periods for financing during the current crisis to strengthen the Chiang Mai Initiative Multilateralization mechanism (Qureshi, 2020).

⁴⁰ Gallagher, K. P. *et al.* (2020) 'Safety First: Expanding the Global Financial Safety Net in Response to COVID-19', *Global Policy*. doi: [10.1111/1758-5899.12871](https://doi.org/10.1111/1758-5899.12871).



CHAPTER 4

Keeping goods and information flowing

The COVID-19 pandemic put a severe strain on international trade. Multiple lockdowns and associated production shutdowns, combined with restrictions on domestic and international operations, quickly cut cross-border trade and increased transport costs and delays. The guiding principles for the future should be to streamline, harmonize and digitalize.

Over the recent decades, supply chains, also referred to as global value chains, have been critical to economic growth and poverty reduction in Asia and the Pacific.¹ But COVID-19 has stimulated a debate on their inherent risks.² Global value chains have largely resumed, but if countries in Asia and the Pacific are to navigate better through future crises they will need to make supply chains more resilient and minimize cross-border disruption through deeper regional cooperation. To make this work, many countries will also have to substantially upgrade their digital connectivity infrastructure.

4.1 Supply chains under strain

Even before the pandemic, companies had been aiming to reduce supply chain risks – by shortening global value chains, nearshoring production, and diversifying supply locations away from China in particular.³ Indeed global value chain shortening started a decade ago. This was stimulated by rising wages in China, growing use of services in production, increasing protectionism and greater consumer demand for more sustainable production processes. Reshoring production back to high-income economies had also become more economically feasible by the use of more sophisticated robots and other digital technologies such as 3-D printing. The COVID-19 disruptions just added further reasons for diversifying sources of supply. In particular, the shortages of personal protective equipment as well as key respiratory medical devices such as ventilators in the global emergency situations have highlighted the risks associated with a global interdependence in the production process. Many global value chains have nevertheless quickly adjusted and demonstrated their value by tackling global shortages. With government encouragement and seeing new opportunities because of increased demands, many firms quickly started producing needed medical essentials.

Ad-hoc responses and regulations

Adding to supply and demand shocks, trade and production were disrupted by new border controls and trade regulations. During the first quarter of 2020, many countries in the Asia-Pacific region restricted exports of medical-related and food products. At the same time, they tried to liberalize medical supply imports to build up stocks for fighting the pandemic. As of October 2020, across Asia and the Pacific there were 92 restrictive and 66 liberalizing measures. Despite the liberalizations, countries were not able to import enough because of global shortages.

Although two-thirds of the measures were temporary, they had significant adverse effects.⁴ ESCAP estimates that trade costs in the Asia-Pacific region rose during 2020 by an average of 7 per cent.⁵ This was the result of both restrictive measures and higher risk premiums driven by policy uncertainties. These costs may not come down quickly. Indeed, some temporary trade barriers may become permanent.

Most trade measures were ad hoc, with little coordination between countries. This was partly because neither the multilateral trading system, nor the bilateral and regional trade agreements provided effective guidance on how to adapt trade measures during a crisis, while preserving the national interests of trading partners. In principle, the World Trade Organization (WTO) prohibits export bans as these are quantitative restrictions on trade. However, Article XI:2 of the General Agreement on Tariffs and Trade (GATT) allows temporary export prohibitions or restrictions to prevent or relieve critical shortages of foodstuffs or other essential products. More important in practice is the general exceptions provision of the WTO, Article XX(b), which permits trade measures that are necessary to protect human, animal, or plant life, or health – and thus provides for the COVID-19 trade-restrictive measures used by many countries.

Nor was there much guidance within regional trade agreements. Asia and the Pacific has more than half the world's regional trade agreements but these add little discipline to what is already contained in the WTO. Generally, they do not go

beyond GATT, or offer even less when it comes to disciplining quantitative export restrictions,⁶ though this failure is not specific to Asia-Pacific regional trade agreements: even the much deeper integration arrangements of the European Union, allow for similar exemptions.

Nevertheless, some economies have used regional cooperation to keep markets open. For example, through the Ha Noi Plan of Action adopted on 14 June 2020, ASEAN countries agreed to ensure the smooth flow of essential goods by, amongst others, refraining from unnecessary non-tariff measures.

4.2 Slow take-up of contactless trade

The COVID-19 crisis has underlined the benefits of paperless cross-border trade. Automated documents and customs services not only simplify procedures, they also reduce human contact, making spread of infection less likely. Prior to the pandemic, paperless trade had made some progress in the region, but had been hampered by the lack of political will and adequate integrated legal and institutional frameworks. (Figure 4-1). As of 2019, few countries had effective single window systems that would support electronic application and issuance of all relevant documents. Also, less than 20 per cent of the countries in the Asia-Pacific region had fully implemented “electronic

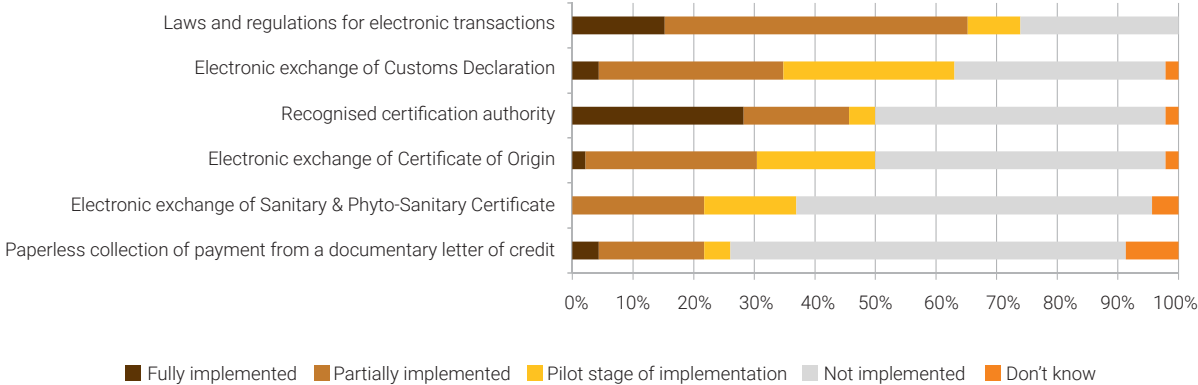
application and issuance of preferential certificate of origin”.

Progress on implementation of new electronic systems and procedures has been slow because of limited technical capacity and digital infrastructure, as well as a lack of inter-agency and cross-border cooperation. Moreover, the region lacks laws and regulations for various aspects of paperless trade operations – covering e-payments, data protection, network security, interoperability of digital platforms, and mutual legal recognition of trade-related data. A number of international instruments already exist to support implementation of contactless trade, such as the model laws of the United Nations Commission on International Trade Law (UNCITRAL) on electronic commerce and electronic signatures, as well as the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific. However, many countries have yet to take full advantage of these tools.

4.3 COVID-19 strains weak transport connections

The pandemic underscored major limitations in freight transport. Trade proved to be lacking resilience due to its over dependence on road transport, with poor connectivity along regional

Figure 4-1: Cross-border paperless trade implementation in Asia and the Pacific, 2019



Source: ESCAP, 2019 based on data from untfsurvey.org.

transport networks which had different technical standards and numerous documentary requirements. This weakened supply chains, leading to shortages of goods. It also highlighted many vulnerabilities – in aviation, for example, and for small and medium transport operators and freight forwarders. The problems were often greatest in countries in special situations, such as landlocked developing countries and small island developing States.

Keeping goods flowing

During the pandemic the Asia-Pacific region made great efforts to preserve transport connectivity. Many countries took a series of measure to keep cross border freight flowing, especially for essential goods (Table 4-1).

Table 4-1: Transport facilitation measures during the COVID-19 pandemic

Area	Transport facilitation measures implemented
<p>Simplified border-crossing procedures</p>	<ul style="list-style-type: none"> • Development of guidelines on the prevention and control of COVID-19 for border-crossing officials and transport crews. • Designated priority lanes and green corridors for essential goods and designated truck stop and rest area locations. • Reduction in landing/port fees to help aviation and shipping industries. • Use of TIR/e-TIR system to facilitate transport and transit. • Special arrangements for ease of transit provided to landlocked countries
<p>Digitalization of freight operations</p>	<ul style="list-style-type: none"> • Wider use of information and communication technology, including electronic exchange of information between transport and control authorities. • Advance submission of transport documents in digital form before arriving to the port of entry. • Creating web portals to inform about areas under lockdown and road closures.
<p>Supporting Business Continuity of Transport Sector</p>	<ul style="list-style-type: none"> • Launch of economic stimulus measures to support transport sector (reduction of income tax, financial relief packages, unsecured loans, decreasing vehicle registration fees etc.). • Enabling public-private partnerships, easier access to market and improving digital capacities of transport sector players. • Providing training, timely information and protective equipment for transport crews and staff. • Enhancing disinfection and sanitization regime of property and facilities.

Source: Based on online ESCAP repository of transport-related COVID-19 policy measures

Members of the Asian Highway Network, for example, kept all, or at least a significant portion, of their land borders open for freight. Two-thirds of countries smoothed the movement of essential goods and, in many cases of general freight, through special trade and transport facilitation measures. Along the Trans-Asian Railway Network, freight transport proceeded with limited interruptions and ports remained operational helping maintain international supply chains (Figure 4-2). Rail transport also proved particularly resilient for inter-regional trade between Asia and Europe: between 2019 and 2020 freight volumes increased by around one quarter.

For some countries, the pandemic accelerated the introduction of digitalized services – they began accepting electronic documents, piloted new automated and digital technologies, and promoted contactless processing and delivery. For example, ASEAN countries previously only accepted original paper documents, but now accept electronic customs declarations, certificates of origin, and sanitary and phytosanitary measures certificates.

Increased costs and delays in freight transport

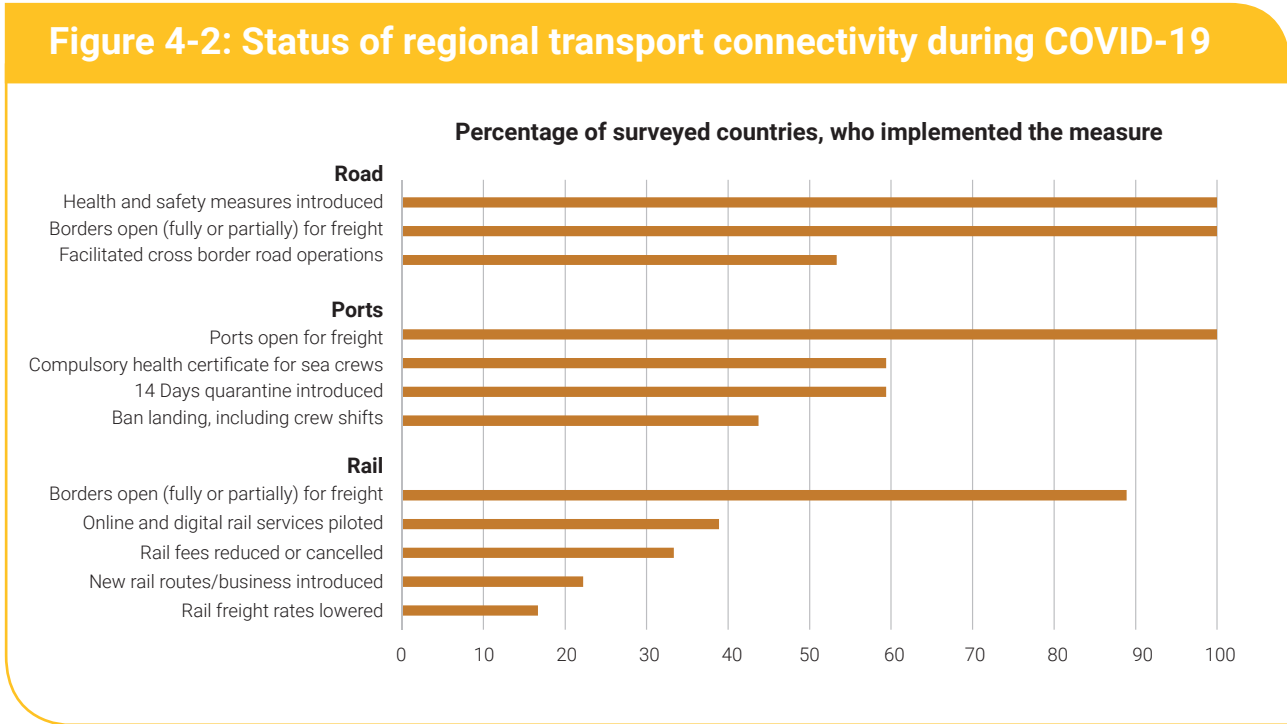
The pandemic is likely to have increased the cost of transport and travel which under normal

conditions account for 15 per cent of trade costs in agriculture, 19 per cent of those in goods-related services such as retail and wholesale, and about 31 per cent of those in manufacturing. WTO estimates suggest that these costs could increase by 25 per cent, due to reduced hours of operation, road and border closures, and increases in transport costs.

ESCAP’s survey on freight transport policy responses to COVID-19 for June–July 2020 indicated that, while many countries in Asia and the Pacific found COVID-19 caused either limited or moderate disruption, almost 80 per cent of respondents estimated that it had significantly increased transport costs and delays. These are particularly high in some countries in South Asia, which rely largely on road transport for inland cross-border freight movements and use manual transshipment at land customs stations. In addition, container costs have risen, as a result of shortages of containers and other factors. According to Drewry, since April 2020 world container rates have more than doubled.⁷

Increasing inequalities and gaps in connectivity

Transport connectivity across Asia and the Pacific varies considerably between subregions and



Source: Estimates based on online ESCAP repository of transport-related COVID-19 policy measures

economies. It is strongest in East and North East Asia and weakest in North and Central Asia (Figure 4-3).⁸ Some countries entered the pandemic with significant shortages.

In North and Central Asia, the deficiencies are partly due to the geographical positions of these landlocked countries, but also to infrastructure and operational weaknesses in freight transport. The Pacific small island developing States rely heavily on shipping services making them vulnerable to fluctuations in global trade. Contracting demand or supply of seaborne trade, due to COVID-19, and quarantine procedures and other COVID-19 related measures adversely impacted their maritime connectivity. Overall the impact on international transport varies significantly across regions, countries and the segments of the freight industry.

The pandemic has led to a significant reduction in freight transport income. The greatest losses have been for aviation, but freight transport has also seen a fall: the road freight industry expects a decline in 2020 globally of 18 per cent, amounting to approximately \$652 billion, with an expected decline in Asia of 21 per cent.⁹ There have also been falls for rail freight, globally by around

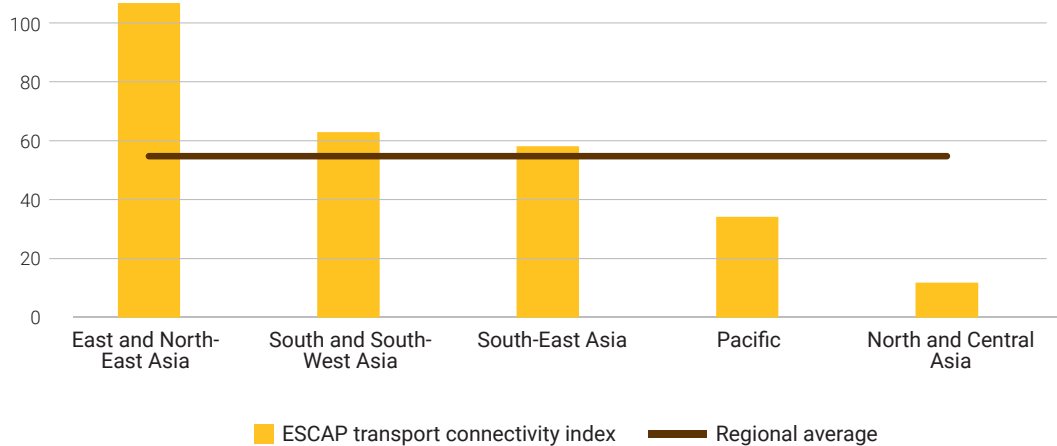
\$1.7 billion for 2020 and 2021.¹⁰ Nevertheless, traffic along the corridors of the Trans-Asian Railway network has grown in recent years – demonstrating its resilience to pandemics and similar disruptions.¹¹

4.4 The digital divide and unequal participation

The COVID-19 pandemic is likely to accelerate digitalization across Asia and the Pacific and reshape trade and production in global value chains. But this will depend on the digital connectivity infrastructure. Greater use of digital technologies for production and for modernising traditional industries will rely on access to affordable and reliable broadband Internet. Indeed, international competitiveness increasingly depends on the quality of digital connectivity infrastructure and is now a critical factor in corporate decision-making on where to invest.

In Asia and the Pacific, a group of high-income countries have already pulled away as global leaders in the frontier technology revolution, while many LDCs have seen little change in digital connectivity coverage, usage and diffusion over the past two decades.¹² Greater use of digital

Figure 4-3: Transport connectivity index in Asia and the Pacific, by subregion



Source: ESCAP, 2019.

connectivity technologies is therefore likely to widen the digital divide within and across Asia-Pacific economies.

According to the International Telecommunications Union (ITU), more than half of the region’s population remains offline.¹³ Only 13 per cent (598 million) of the region’s 4.6 billion inhabitants have fixed-broadband subscriptions. Within ESCAP subregions, the proportion is only three per cent in South and South-West Asia, and six per cent in South-East Asia (Figure 4.4). In the Pacific developing countries, the proportion is only one per cent. As a result, many MSMEs are losing opportunities to increase efficiency and productivity on delivering their services and products digitally.

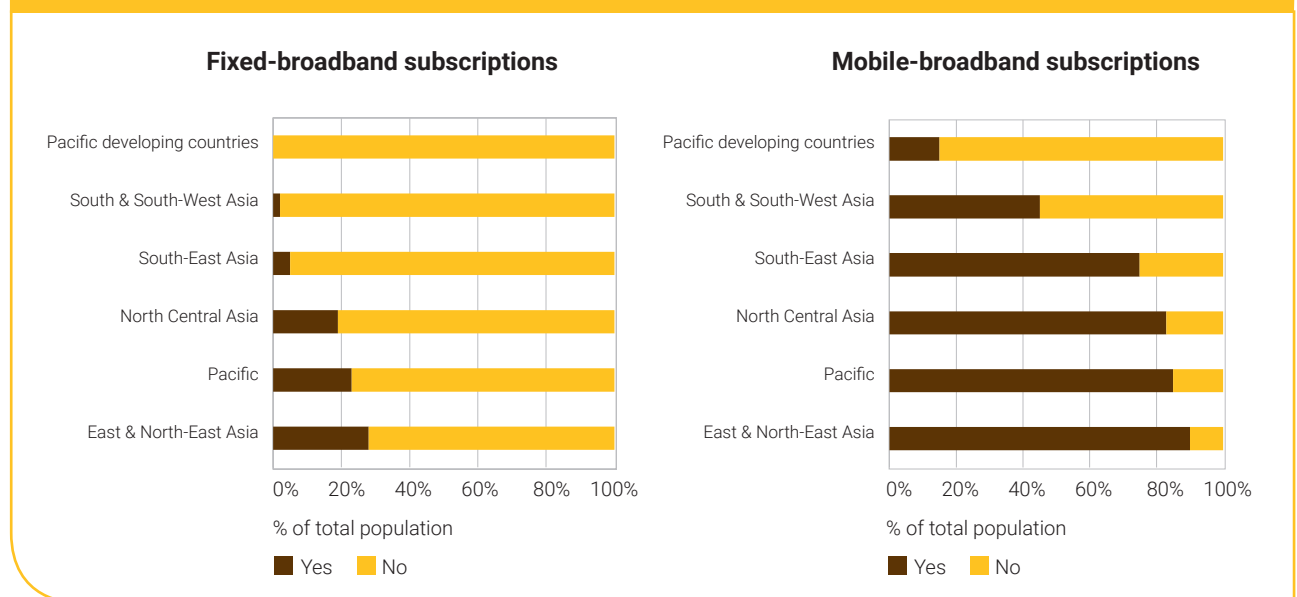
More people have mobile-broadband subscriptions; in most subregions mobile uptake is more than 70 per cent of the total population. However, in South and South-West Asia it is less than 50 per cent, and in the Pacific developing states less than 15 per cent. Mobile broadband connects more people but in developing countries these connections are typically slower, less reliable, and unable to support bandwidth-intensive

transactional usage. For businesses connected to the Internet, up to two-thirds are under-connected at any point in time. Slow speeds and unpredictability are discouraging overall migration to digital platforms.

Figure 4-5 shows download speeds across Asia and the Pacific. The countries in the optimum position are those that have both high download speeds and also a large number of carrier-neutral Internet exchange points which improve connectivity, particularly in deregulated markets with multiple IXPs and network operators. These countries gave an early priority to developing Internet infrastructure, in particular the deployment of fibre-optic cables and developing large amounts of national content in local languages.

In low- and lower-middle-income countries on the other hand, many people cannot afford to use the Internet.¹⁴ The issue is similar with mobile phones: for around 2.5 billion people living in 70 developing countries, the cheapest available smartphone costs a quarter or more of the average monthly income (Figure 4-6).¹⁵ And while prices are declining, smart devices that are 4G or 5G enabled, remain out of reach of millions of users.

Figure 4-4: Access to broadband connectivity in Asia and the Pacific subregions



Source: ITU, “World Telecommunication/ICT Indicators 2020 Database (24th Edition, July 2020)”.

Available from: <https://www.itu.int/en/ITU-D/Statistics/Pages/publications/wtid.aspx>.

Note: Pacific developing countries excludes Australia and New Zealand.

There are also persistent digital divides within countries, with less access for women than men, and for persons with disabilities, labourers, migrant workers and students. During the pandemic their situation is likely to have worsened. Even before the pandemic there was a clear and widening gender gap. While in developed countries the gender gap in Internet use had been narrowing, in developing countries it had been widening – growing between 2013 and 2019, from 16 to 23 per cent, with the greatest deterioration in the LDCs.¹⁶

Figure 4-7 illustrates fixed-broadband speed of users in rural and urban areas in a geo-tagged map across the Asia-Pacific region. In Cambodia and Lao People’s Democratic Republic higher fixed-broadband speeds are mostly available only in major cities. On the other hand, the Republic of Korea, Thailand and Viet Nam enjoy high speed Internet in most urban and rural areas. In addition, countries in South and South-West Asia and the archipelagos of Indonesia and the Philippines appear to experience slower fixed-broadband speeds compared to all other countries.

Innovative approaches are needed to help bridge this connectivity divide. One option is to build community-based networks that use low-cost wi-fi-based equipment.¹⁷

4.5 Increasing cross-border connectivity

The COVID-19 pandemic demonstrated that coordinated subregional and regional approaches are more effective than unilateral policies. In response to the pandemic the European Union, for example, introduced “green lanes” to preserve the free circulation of goods. The East African Community proposed coordinated measures for controls of trucks and vehicles carrying goods, with surveillance systems for transport crew to enable contact tracing.

To move more in this direction, countries in Asia and the Pacific could make better use of existing United Nations standards on trade and transport facilitation, which help streamline, facilitate and digitalize cross-border operations. These include global and regional trade facilitation standards, United Nations transport conventions and other

instruments which promote and encourage the use of global best practices (Box 4-2).

ESCAP has been working closely with its member States on regional initiatives in trade, transport, and ICT connectivity.¹⁸ The key areas include:

Harmonizing controls and regulations to cut costs

Governments should make recognition and equivalence arrangements for certification and acceptance of foreign standards, especially during crises when rigid enforcement of national standards can have high humanitarian costs.¹⁹ During crises, interoperable regulatory regimes would facilitate international sourcing and help firms ramp up supplies, and in normal times reduce trade costs.

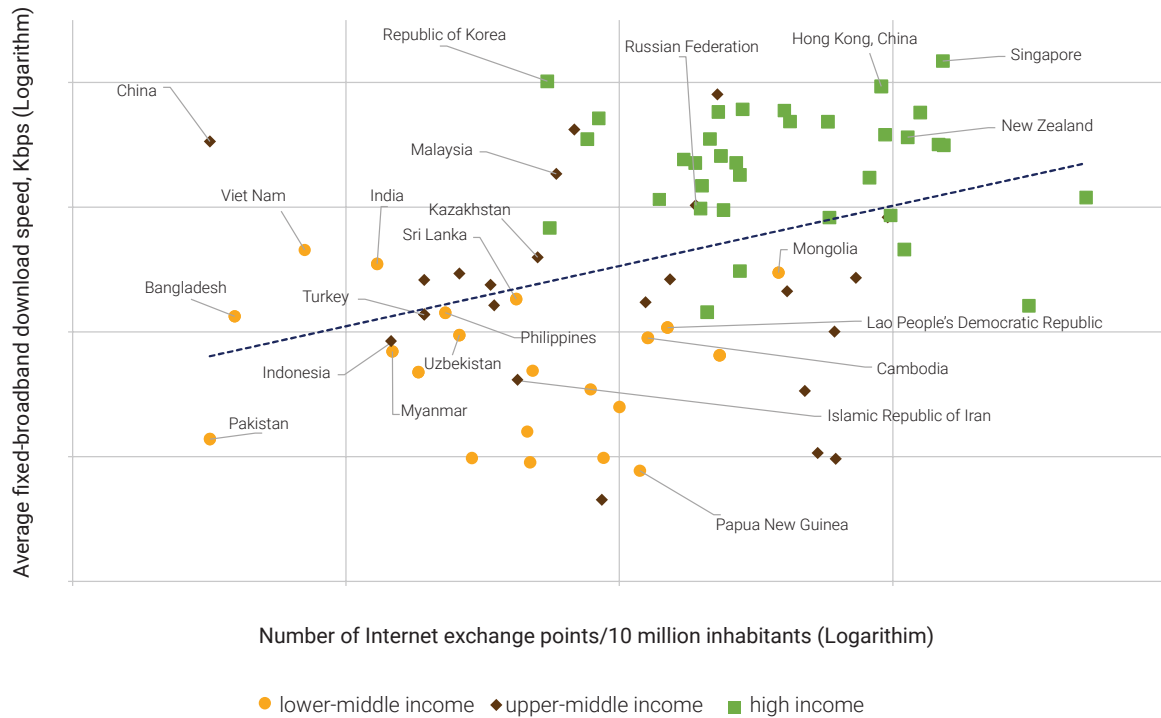
Digitalizing documents and procedures

COVID-19 is giving countries a further impulse to streamline their trade procedures and documents. This process had already started in ASEAN which since 2005 has used the ASEAN Single Window to enable cross-border electronic exchange of trade-related documents – including customs declarations, certificates of origin and sanitary and phytosanitary certificates. This could now be expanded to include other countries with which ASEAN already has free trade agreements – which would help reduce physical contact between traders and regulatory authorities during the COVID-19 outbreak and future crises.²⁰

For this purpose, countries can use ESCAP’s Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific. The framework offers a common set of general principles and a dedicated intergovernmental platform for cross-border paperless trade. It also provides opportunities to exchange and harmonize paperless trade practices and develop specific technical and legal protocols (Box 4-3).

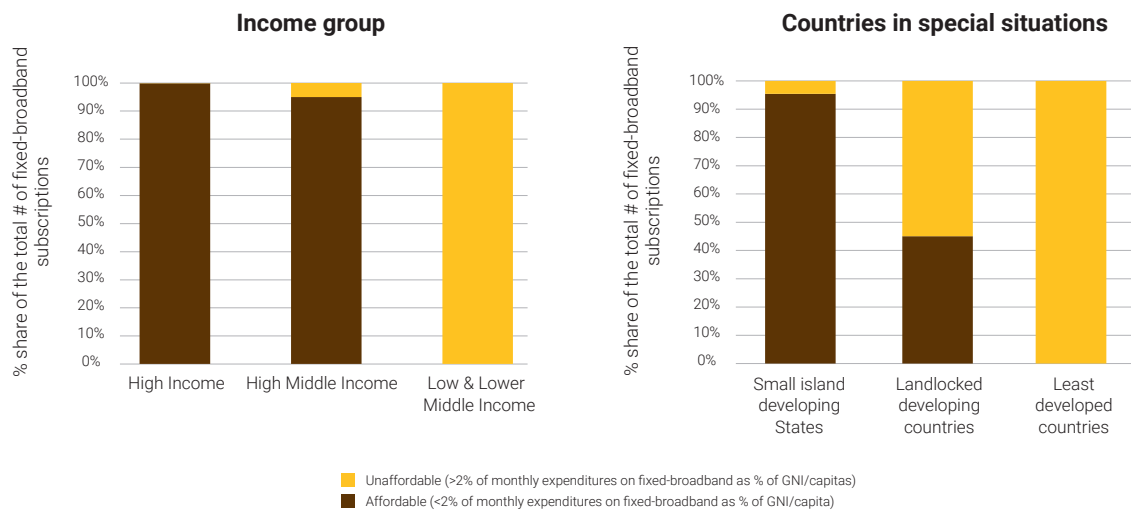
Specific to crisis responses, ESCAP has also organized dialogues to improve regional coordination. Among others, an Expert Group Meeting on Trade Facilitation Measure in Times of

Figure 4-5: Internet exchange points and download speed (fixed-broadband)



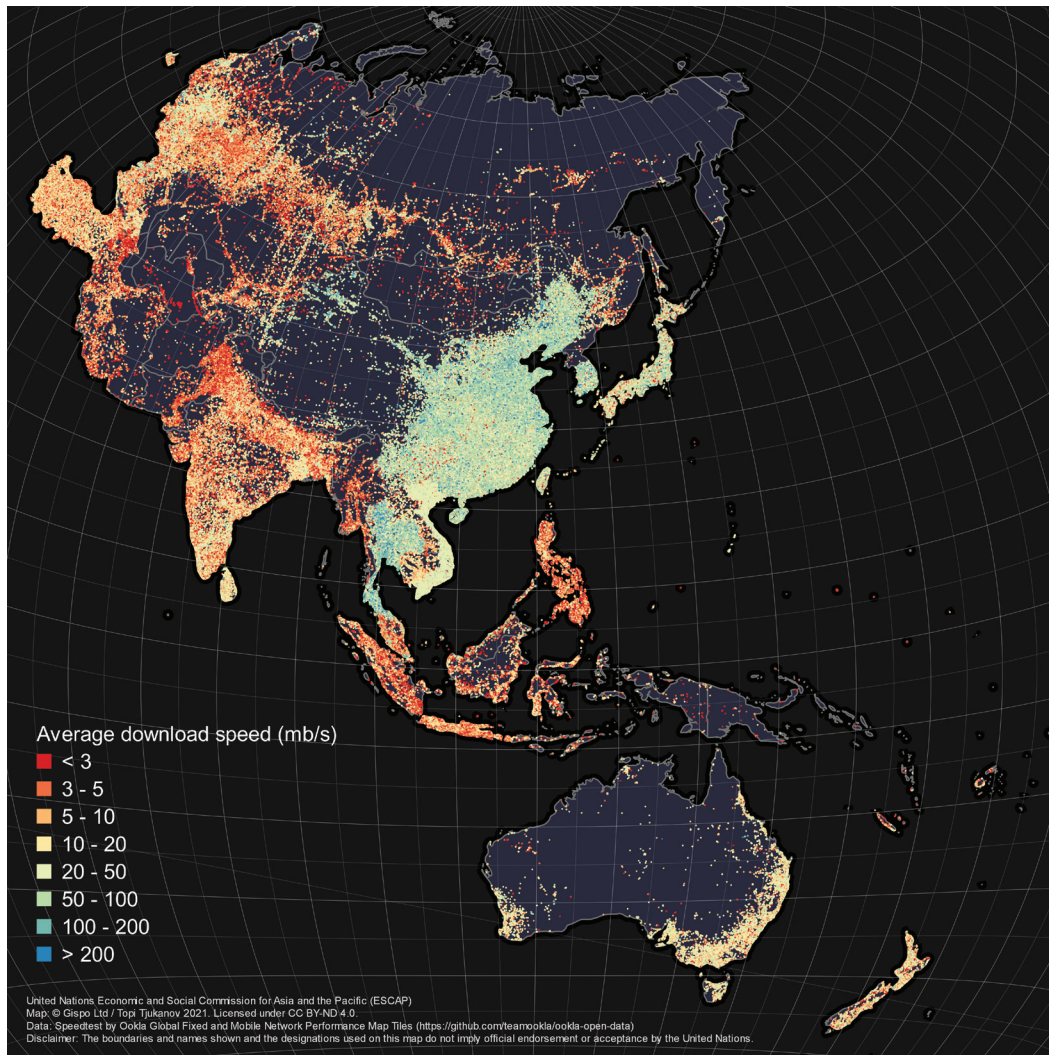
Source: Produced by ESCAP based on data from the Economist Intelligence Unit's 'Inclusive Internet Index 2020', (EIU, 2020). (accessed 27 February 2020).

Figure 4-6: Affordability of fixed-broadband subscriptions in Asia and the Pacific



Source: ITU, 2020.

Figure 4-7: Fixed-broadband speed in Asia and the Pacific



Crisis and Epidemic has identified good practices in the region and discussed recommended measures that will help cope with future crises.²²

Improving trade agreements

At present, only one-third of all free trade agreements in Asia-Pacific region address environmental issues, and say little or nothing about emergencies.²³ Future negotiations of regional trade agreements should promote trade that is more inclusive, resilient and sustainable and that enables systemic and effective action during crises. They should have mechanisms to preclude import or export restrictions on essential goods, and have emergency clauses based on predefined criteria with clear definitions of a ‘public health

emergency’ or a ‘shortage of essential goods’.²⁴ They can also enhance regulatory cooperation in times of crisis – in essential supplies, trade in food and animal-related products.

In June 2020, in response to this situation and in support of the global ambition to build back better, ESCAP, together with other United Nations regional commissions, the United Nations Conference on Trade and Development (UNCTAD), and the WTO launched a policy hackathon – to gather inputs for the development of model provisions that could plug the gaps in existing regional trade agreements, promote cooperation and predictability in times of future crises and build resilience in the post-pandemic future.²⁵

Freeing up cross-border freight during emergencies and disruptive events

During the pandemic, countries have been analysing their policy responses and their impact on connectivity through regional intergovernmental transport agreements – on the Asian Highway Network, on the Trans-Asian Railway Network, and on Dry Ports. ESCAP member States held several meetings: a Virtual Expert Group Meeting on Safe and Seamless Transport Connectivity along the Asian Highway Network during and after the COVID-19 pandemic;²⁶ a Virtual Meeting on Challenges and Opportunities for International Railway Transport along the Trans-Asian Railway Network and beyond;²⁷ and a Webinar on Preserving Transport Connectivity and Building Freight Transport Resilience in ASEAN.

The secretariat set up a repository of the initial containment measures along the three land networks and helped member States with information exchange, paving the way for greater transparency and coordination of transport-related responses during future disruptions. Countries that belong to the Asian Highway Network and the Trans-Asian Railway Network will now need to consider further crisis-response provisions in regional and bilateral transport agreements using model agreements.

Digitalizing regional transport networks

There are already policy and technical solutions for seamless and smart connectivity along the Asian Highway Network, and there is also potential for the Trans-Asian Railway Network. But further digitalization will face a number of issues, not just the digital divide but concerns about data protection and cyber security. Harnessing the full potential will require a regionally coordinated approach with a platform for sharing information and a plan of action to help Countries in special situations, including landlocked countries and LDCs, leapfrog to digital freight. However, this is likely to have only a limited impact until countries can upgrade their infrastructure, for instance, to modernize cargo tracking inspection and clearance. This should cover cargo handling equipment, cargo scanners, ICT infrastructure at customs stations, and containerized cargo

movement enabled with e-sealing, and an electronic cargo tracking system which would help border agencies deal with unexpected constraints such as those imposed by COVID-19.²⁸

Shift to sustainable freight

Building back better will mean decarbonizing freight transport and making it more sustainable. This can be achieved by greater use of rail and water, and more efficient inter-modal traffic distribution along with supportive national policies and deeper regional cooperation within the framework of ESCAP's intergovernmental agreements. However, the pandemic has also underscored the importance of a nuanced approach, best fitting the current configuration of national and regional connectivity status and needs.

This will mean inter alia establishing standardized definitions for environmental goods and services and using climate-friendly non-tariff measures such as carbon labelling, ensuring that the full cost of carbon is reflected in energy tariffs, developing a universal carbon measurement and reporting standard, and establishing an open carbon trading system.

ASEAN, for example, supported by ESCAP and the International Transport Forum, has developed the COVID-19 Recovery Guidelines for Resilient and Sustainable International Road Freight Transport Connectivity in ASEAN. The Guidelines, adopted in January 2021, define three priority areas: 1) Ensuring transport workers' safety and training; 2) Preserving connectivity for efficient and resilient supply chains; and 3) Building back better through digital, resilient and decarbonized transport connectivity. The Guidelines contribute to the ASEAN Comprehensive Recovery Framework adopted at the 37th ASEAN Summit.²⁹

Implement the Asia-Pacific Information Superhighway

ESCAP is supporting regional cooperative actions through the Asia-Pacific Information Superhighway initiative – which addresses connectivity, Internet traffic and network management, e-resilience; and affordable broadband access for all. At the recommendation of the third session of the

Committee on Information and Communications Technology, Science, Technology and Innovation in August 2020, the secretariat is helping to draft an action plan for the second phase implementation of the Asia-Pacific Information Superhighway initiative – working towards doubling broadband connectivity twofold by 2025 and achieving universal connectivity by 2030. The action plan puts Governments in the lead, identifies investment and financing needs, and promotes the development of digital economies, interconnectivity, cyber security and ICT connectivity in poverty alleviation.

Establishing Internet exchange points

An effective way of increasing Internet speeds is to increase the number of Internet exchange points that connect different carriers.³⁰ Interoperable traffic exchanges are crucial for integrating small volume markets. Responding to requests for support to improve Internet speeds and establish Internet exchange points, ESCAP, in collaboration with the Internet Society has established two working groups – one for the Pacific island countries, the other for Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam.³¹

In the Pacific where few countries have established Internet exchange points, the initial phase has focused on three candidate countries (Fiji, New Zealand and Samoa) and work is underway on a draft trilateral memorandum of understanding. Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam have also made limited progress and lack subregional cooperation frameworks. For these countries plus Thailand, the secretariat will be undertaking a follow-up technical study which will incorporate some of the technical aspects not covered in the first study.

Strengthening rural-urban infrastructure connectivity in North and Central Asia

It is more difficult to extend Internet infrastructure to rural areas given the vast distances and the low traffic volumes. In these circumstances it is cost-effective to take an interdisciplinary approach which means co-deploying digital, transport, energy and water infrastructure. To increase rural connectivity this can be complemented with community-based networks.³²

Around 90 per cent of the costs of laying down fibre-optic cable is in excavation and obtaining rights-of-way. Thus laying down cables while building roads – the dig once policy – will significantly reduce costs. But this is not yet happening on a sufficient scale. Some member countries of the Asian Highway and Trans-Asian Railway have institution-level plans for sharing digital and transport resources but no national-level policies.³³

Co-deployment is particularly relevant for the North and Central Asia sub-region, given vast geographic expanses, rugged terrains and sparse populations. ESCAP has identified three potential smart corridors to improve in-country and cross-border connectivity: Urzhar (Kazakhstan) to Chuguchak (China); Semey (Kazakhstan) to Rubtsovsk (Russian Federation) and Almaty (Kazakhstan) to Cholpon-Ata (Kyrgyzstan). This would provide income from transport, tourism, and customs fees, as well as from telecommunication services.

ESCAP is also developing an online toolkit for identifying economically feasible smart corridors. This should help public and private sector decision-makers to choose the most interesting solutions and identify regulatory issues and areas.

4.6 Policy recommendations

The guiding principles should be: streamline, harmonize and digitalize, addressing cross-border problems with cross-border solutions. The poorer developing countries will need aid and technical assistance not just for building hard infrastructure, but also for creating soft infrastructure – improving the capacities of governments, firms, and workers.

The aim should be to keep trade and transport open while protecting vulnerable groups. The Asia and the Pacific should aim to:

- Develop provisions in regional trade agreements to address crises – taking advantage of the UN-wide initiative to develop model provisions.
- Implement the WTO Trade Facilitation Agreement – streamlining border processes and harmonizing standards.

- Accelerate digitalization – pursuing a coordinated regional strategy for strengthening digital connectivity to bridge the digital divide and preparing the labour force.
- Invest in digital connectivity infrastructure – strengthening regulations that enable digital transformation, including the Asia-Pacific Information Superhighway and stepping up e-government services.
- Fast-track e-trade – facilitating digital, paperless and contactless trade, especially for SMEs, taking advantage of the Framework Agreement on Facilitation of Cross-border Paperless Trade and the regional Paperless Trade Council.
- Build digitalized multimodal transport chains – switching to rail, short sea and inland waterways and combining these modes into sustainable transport chains with specific investments to remove congested nodes or sections.
- Decarbonize production and transport – supporting national and regional policies on more sustainable freight and establishing standardized definitions for environmental goods and services ensuring that the full cost of carbon is reflected in energy tariffs. Priorities should be given to integrated flow management schemes.
- Ensure no one is left behind – allowing all countries and vulnerable groups to embrace and benefit from e-commerce and the digital transformation. In the countries in special situations this will mean investing both in ICT infrastructure and in human capital while also addressing regulatory barriers to cross-border flows.
- Support women and small businesses – foster greater participation of SMEs and of women through an enabling environment for digital trade. free trade agreements should incorporate provisions related to gender, SMEs and development, which could include ‘GATT-like’ exception.

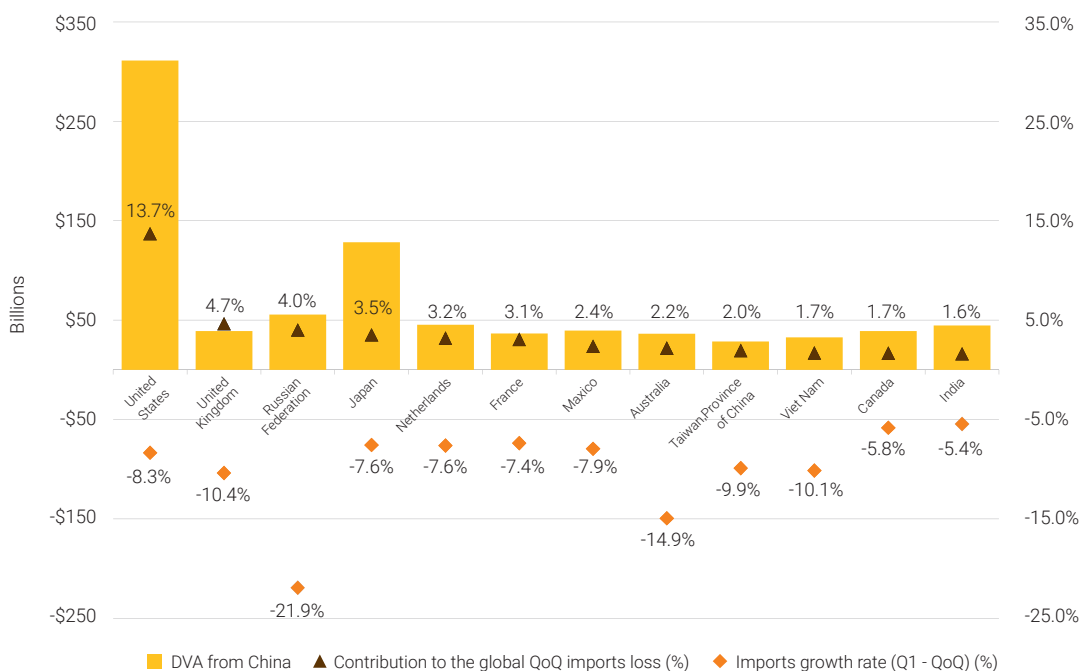
Box 4-1: COVID-19 supply chain disruptions

As strict lockdowns halted China’s manufactured goods production, year-on-year exports from this economy, as well as from neighbouring Hong Kong, China, fell 13.4 per cent and 10.3 per cent, respectively. China is the world’s largest production node, so foreign economies highly integrated through global value chains immediately felt the impacts both via direct suppressed imports from China, as well as via diminished exports due to missing components from China.

The economies contributing the most to the fall in global imports were among those most integrated with China and Hong Kong, China.³⁴ The most high-profile issues emerged in the personal protective equipment and medical equipment industries. China is the largest supplier of medical equipment and personal protective equipment, accounting for roughly 50 per cent of the world’s total exports, and in the early months of the pandemic, demand and prices surged exponentially leaving many developing economies without essential supplies.³⁵

Supply chain contagion continued in 2021, notably in automobile production. Around 80 per cent of global car production involves at least some components manufactured in China, and as the pandemic evolved into a country-wide lockdown, Hyundai factories in the Republic of Korea and Nissan plants in Japan were forced to a halt due to missing components.³⁶ Ultimately, as consumer demand in China picked up and supply-chain disruptions were resolved, trade was able to resume though global demand remained subdued.³⁷

Figure: Quarter-over-quarter (Q1) import decline. and supply-chain integration with China and Hong Kong, China, highest contributors (\$ billions/per cent)



Source: ESCAP calculations.

Notes: 'DVA' stands for Domestic Value Added; 'QoQ' stands for quarter over quarter.

Top 12 contributors to the world's quarter over quarter imports' plunge were selected.

Box 4-2: The One UN trade and transport connectivity challenges

Since May 2020, a special UN project has been helping governments and businesses keep transport networks and borders operational and facilitate the flow of goods and services, while containing the spread of the coronavirus. The trade and transport project financed by the Development Account of the United Nations brings together ESCAP, UNCTAD and the four other regional commissions of the United Nations.

The initiative addresses three priorities:

- Contactless solutions – implementing United Nations conventions and standards for seamless harmonized electronic exchange of data in digital transport corridors, border crossings and trade operations, as well as developing smart rail and road connectivity.
- Seamless connectivity – promoting synergies among border agencies by empowering national trade facilitation committees, improving customs automation and identifying and overcoming non-tariff barriers.
- Collaborative solutions – strengthening regional and sectoral cooperation on transport, trade and logistics operations to facilitate joint actions and solutions.

Source: www.unttc.org.

Box 4-3: A regional United Nations treaty to accelerate trade digitalization

Developed by more than 25 Asia-Pacific countries, the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific was adopted in May 2016. It offers an inclusive and enabling platform for all participating countries, regardless of their level of implementation of trade facilitation.

The agreement is dedicated to the digitalization of trade processes and enabling the seamless electronic exchange and legal recognition of trade-related data and documents across borders. Armenia, Bangladesh, Cambodia, China, and the Islamic Republic of Iran signed the agreement in 2017. Azerbaijan acceded to the treaty in 2018 and the Philippines in 2019. The Islamic Republic of Iran, Bangladesh and China ratified the agreement in 2020. The Agreement has entered into force since 20 February 2021. Furthermore, several other ESCAP member States are in the process of completing their domestic processes for accession.

The agreement is expected to help ESCAP members meet and exceed commitments of the WTO Trade Facilitation Agreement. It also supports the process by providing a dedicated institutional framework for countries with proven political will to develop legal and technical solutions for cross-border paperless trade.

Source: ESCAP (2020) Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, ESCAP. Available at: <https://www.unescap.org/resources/framework-agreement-facilitation-cross-border-paperless-trade-asia-and-pacific>.

Endnotes

- ¹ ESCAP estimates that global value chains-related exports account for 62 per cent of Asia-Pacific region's total exports and 15 per cent of the region's GDP. Trade and global value chains have helped developing Asia-Pacific economies to source their inputs more efficiently, to access knowledge and capital beyond the domestic economy and to expand their activities into new markets.
- ² Findings from the OECD Composite Leading Indicator (OECD, 2021) and the European Union Business and Consumer Survey (European Union, 2021) indicate lower confidence. The supply chain disruptions, travel restrictions, and lockdowns have had extensive consequences on policy uncertainty in Asia.
- ³ Anukoonwattaka, W. and Mikic, M. (2020) *ESCAP Policy Brief Beyond the COVID-19 pandemic: Coping with the 'new normal' in supply chains*, p. 23.
- ⁴ About half of 158 measures implemented, 106 are temporary measures decomposed into 87 measures either expired or set to expire by the end of 2020, four measures tentatively set to expire by the end of 2021, and further 15 described as temporary, but with no expiration date specified.
- ⁵ Utoktham, C. and Duval, Y. (2020) *ESCAP-World Bank Trade Cost Database, ESCAP*. Available at: https://www.unescap.org/sites/default/files/ForecastingESCAPWBtradedcostsusingEIUdata-TechnicalBriefOct2020_0.pdf
- ⁶ Korinek, J. and Bartos, J. (2012) 'Multilateralising Regionalism: Disciplines on Export Restrictions in Regional Trade Agreements'. doi: <https://doi.org/10.1787/5k962hf7hfnr-en>.
- ⁷ Drewry's Composite World Container Index, available from www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry.
- ⁸ ESCAP (2019) *Review of Sustainable Transport Connectivity in Asia and the Pacific: Addressing the Challenges for Freight Transport 2019*. Available at: <https://www.unescap.org/publications/review-sustainable-transport-connectivity-asia-and-pacific-addressing-challenges>.
- ⁹ International Road Transport Union (2021) *COVID-19 Impact on the Road Transport Industry - Update November 2020*. Paris: UIC. Available at: <https://www.iru.org/resources/iru-library/covid-19-impact-road-transport-industry-update-november-2020>.
- ¹⁰ UIC (2020) First estimation of the global economic impact of Covid-19 on Rail Transport *economic_impact_v2.pdf*. Available at: https://uic.org/IMG/pdf/economic_impact_v2.pdf.
- ¹¹ The number of China-Europe freight trains rose 36 per cent year-on-year to 5,122 in the first half year 2020. (Global Times, 2020)
- ¹² Some countries, such as the People's Republic of China, the Republic of Korea and Singapore are more advanced than European countries with respect to e-commerce or fintech.
- ¹³ ITU (2020) World Telecommunication/ICT Indicators Database. Available at: <https://www.itu.int/en/ITU-D/Statistics/Pages/publications/wtid.aspx>.
- ¹⁴ ESCAP (2020) *Expanding infrastructure networks and leveraging on technology innovations to mitigate COVID-19 impacts, ESCAP*. Available at: <https://www.unescap.org/blog/infrastructure-technology-covid-19>.
- ¹⁵ ITU (2020) World Telecommunication/ICT Indicators Database. Available at: <https://www.itu.int/en/ITU-D/Statistics/Pages/publications/wtid.aspx>.
- ¹⁶ Gender gap represents the difference between the internet user penetration rates for males and females relative to the internet user penetration rate for males, expressed as a percentage.
- ¹⁷ Internet Society (2017) 'Tusheti Case Study', Internet Society, 9 October. Available at: <https://www.internetsociety.org/resources/doc/2017/tusheti-case-study/>.
- ¹⁸ As mandated in the Commission Resolution 73/3 on Advancing integrated and seamless connectivity for sustainable development in Asia and the Pacific.
- ¹⁹ ASEAN countries have been proactively negotiating with their trading partners to sign mutual recognition agreements for their respective Authorized Economic Operators) during the pandemic. It is envisaged that development of AEO schemes and Authorized Economic Operators mutual recognition agreements will accelerate in the post-pandemic future.
- ²⁰ Suvannaphakdy, S. (2020) *ASEAN Single Window: Time to Enlarge the Aperture, ISEAS-Yusof Ishak Institute*. Available at: <https://www.iseas.edu.sg/media/commentaries/asean-single-window-time-to-enlarge-the-aperture/>.
- ²¹ ESCAP (2020) *Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, ESCAP*. Available at: <https://www.unescap.org/resources/framework-agreement-facilitation-cross-border-paperless-trade-asia-and-pacific>
- ²² ESCAP (2020) *Expert group meeting on trade facilitation in times of crisis and epidemic, ESCAP*. Available at: <https://www.unescap.org/events/expert-group-meeting-trade-facilitation-times-crisis-and-epidemic>.
- ²³ Research based on ESCAP's Asia-Pacific Trade and Investment Database (APTAD), available from <https://www.unescap.org/content/aptiad/>, and ESCAP's Digital and Sustainable Digital Integration Index (DigiSRII), available from <https://www.unescap.org/resources/DigiSRII>.
- ²⁴ UNCTAD (2021) *Improving access to medical products through trade | UNCTAD*. Available at: <https://unctad.org/webflyer/improving-access-medical-products-through-trade>.

²⁵ ESCAP (2020) *Online Repository of Contributions to the Policy Hackathon on Model Provisions for Trade in Times of Crisis and Pandemic*, ESCAP. Available at: <https://www.unescap.org/resources/online-repository-contributions-policy-hackathon-model-provisions-trade-times-crisis-and>.

²⁶ <https://www.unescap.org/events/virtual-expert-group-meeting-safe-and-seamless-transport-connectivity-along-asian-highway>

²⁷ <https://www.unescap.org/events/joint-escap-osjd-virtual-meeting-experts-challenges-opportunities-international-railway>

²⁸ ESCAP (2020) *ESCAP SSWA Policy Briefs 6 - Strengthening Freight Transport Corridors of South Asia in the aftermath of COVID-19*. Policy brief. Available at: <https://www.unescap.org/resources/unescap-sswa-policy-briefs-6-strengthening-freight-transport-corridors-south-asia>.

²⁹ ASEAN (2020) *ASEAN Comprehensive Recovery Framework and its Implementation Plan*. Available at: <https://asean.org/asean-comprehensive-recovery-framework-implementation-plan/>.

³⁰ Internet Society (2020) 'Policy Brief: Internet Exchange Points (IXPs)', *Internet Society*, 30 October. Available at: <https://www.internetsociety.org/policybriefs/ixps/>.

³¹ ESCAP (2020) *Strengthening efficient Internet traffic management through a subregional Internet Exchange Point (IXP) in Pacific Island Countries*. Available at: <https://www.unescap.org/events/strengthening-efficient-internet-traffic-management-through-subregional-internet-exchange>.

³² Internet Society (2017) 'Tusheti Case Study', *Internet Society*, 9 October. Available at: <https://www.internetsociety.org/resources/doc/2017/tusheti-case-study/>.

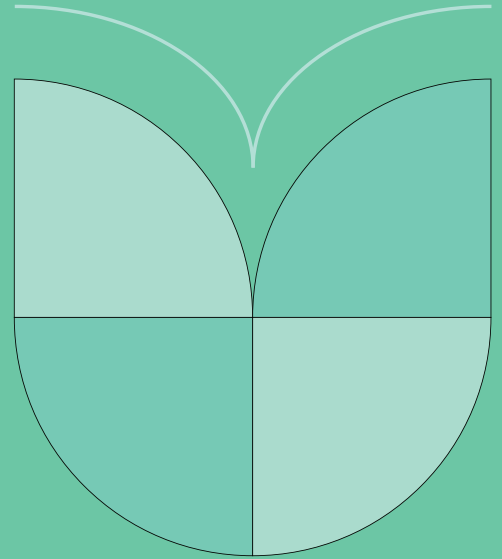
³³ ESCAP, *Co-Deployment of Fibre Optic Cables along Transport Infrastructure for SDGs Including Cross Border*, (Bangkok, 2018). Available from <https://www.unescap.org/resources/co-deployment-fibre-optic-cables-along-transport-infrastructure-sdgs-including-cross>

³⁴ A quarter-over-quarter analysis is used exceptionally in order to isolate COVID-19's short-term impacts. However, for Viet Nam and Taiwan Province of China, yearly growth rates (provided elsewhere) give a better picture of these economies' performance. This is due to the fact that both economies follow China's yearly Chinese New Year export downturn. Despite illustrating China's supply-chain influence on foreign economies goods imports, this is a structural rather than episodic feature not attributable to the virus. Contrarily, in the case of the Russian Federation a quarterly analysis is deemed more illustrative of COVID-19's impacts, since the country's year on year performance incorporates strong imports growth verified during 2019 (explored above). All other economies did not display sizeable differences.

³⁵ Bown, C. P. (2020) *China should export more medical gear to battle COVID-19*, *PIIE*. Available at: <https://www.piie.com/blogs/trade-and-investment-policy-watch/china-should-export-more-medical-gear-battle-covid-19>.

³⁶ Financial Times (2020) *Coronavirus: Chinese carmakers struggle with disruption*. Available at: <https://www.ft.com/content/b5392370-53b6-11ea-8841-482eed0038b1> (Accessed: 28 February 2021).

³⁷ Han, S. and Jung, E. (2020) *Despite flattening the curve, South Korea faces economic challenges from COVID-19 as does the United States*, *PIIE*. Available at: <https://www.piie.com/blogs/realtime-economic-issues-watch/despite-flattening-curve-south-korea-faces-economic-challenges>.



CHAPTER 5

Protecting environmental health

Countries across Asia and the Pacific and around the world need to restore a sustainable relationship between human societies and the natural environment. As the Secretary-General of the United Nations has said “science is screaming to us that we are close to running out of time – approaching a point of no return for human health, which depends on planetary health”.¹

COVID-19 is thought to be a zoonotic disease – transmitted from vertebrate animals to humans, through the virus, SARS-CoV-2.² Zoonoses have been linked with around 60 per cent of known infectious diseases and almost 100 per cent of pandemics.³ They include Ebola, the human immunodeficiency virus (HIV), Avian flu, the many mosquito- and rodent-borne diseases and, most likely, COVID-19.

This type of transmission of disease is on the rise worldwide, as humans, domestic animals and wildlife come into greater contact and allow the virus to jump between species. Over the past 80 years there have been growing numbers of infectious disease outbreaks, zoonotic and others (Figure 5-1).^{4,5} The main drivers include changes in human demographics and the use of land, agricultural intensification, and the wildlife trade, as well as war and famine (Figure 5-2).⁶

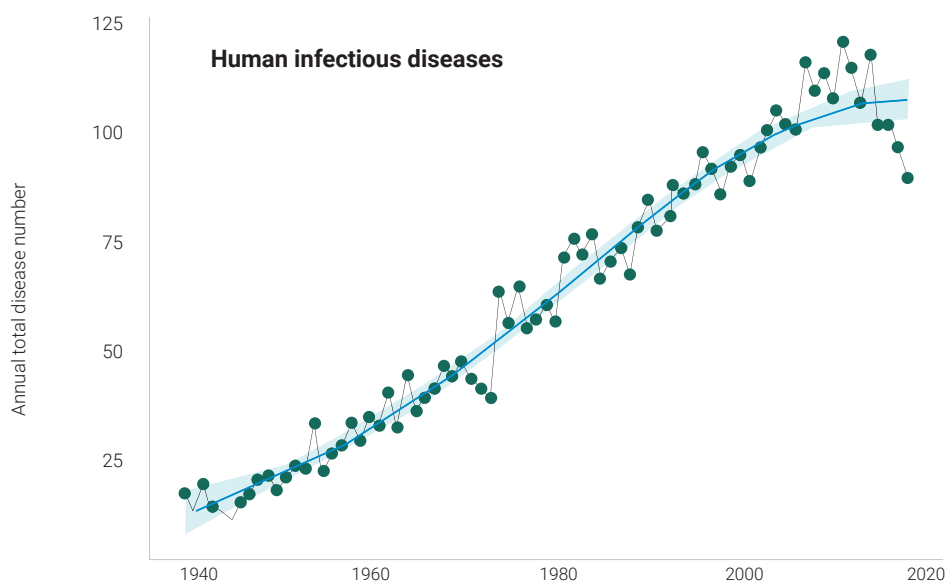
The Asia-Pacific region needs to pay more attention to the natural environment to minimize the opportunities for zoonotic disease transmission and deliver multiple benefits by improving overall human well-being and development.

5.1 Mending the broken relationship between people and nature

Different concepts can help us understand the relations between the health of ecosystems, human health and the various functions that support a resilient environment, such as such as One Health, Planetary Health or EcoHealth. While these differ in some respects, they have one common underlying principle – they place human beings as integral parts of ecosystems linking nature and human societies and incorporate the concept of ecosystem services - the benefits people obtain from ecosystems (Box 5-1) as well as the more recent concept of nature’s contributions to people, as promoted by the Intergovernmental Platform on Biodiversity and Ecosystem Services.

The analytical concept used in this report is ‘planetary health’. As defined by the Rockefeller Foundation with *The Lancet*, “planetary health is the achievement of the highest attainable standard of health, wellbeing, and equity worldwide through

Figure 5-1: Number of human infectious diseases, global, 1940–2020

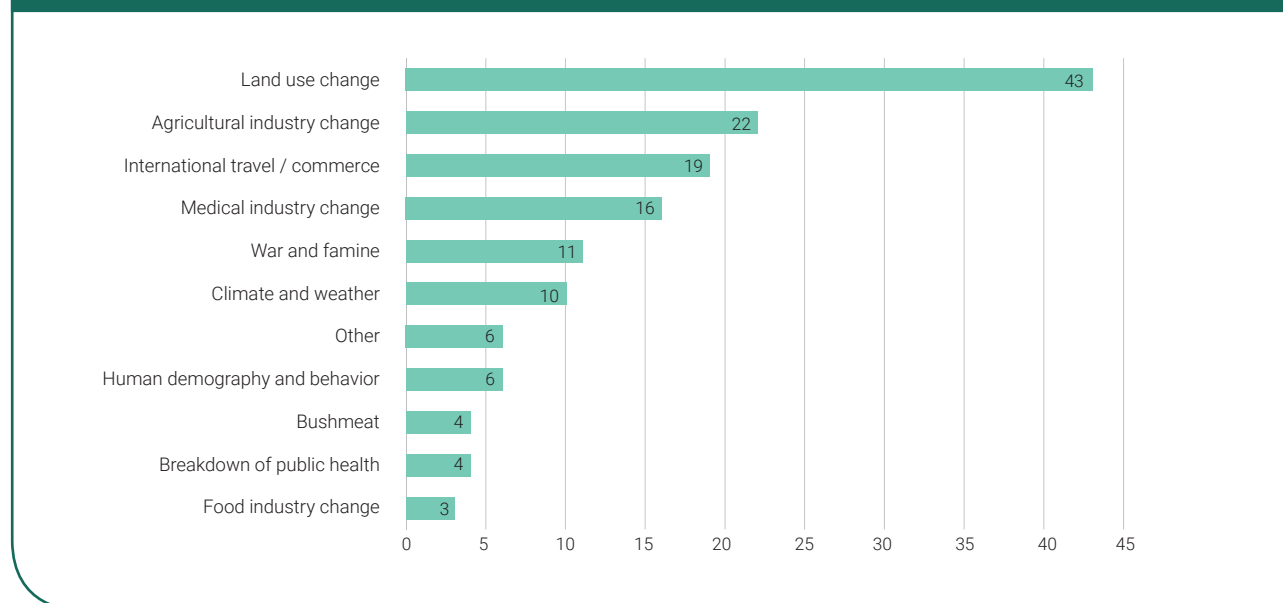


Source: Morand and Walther, 2020.

judicious attention to the human systems – political, economic, and social – that shape the future of humanity and the Earth’s natural systems that define the safe environmental limits within which humanity can flourish. Put simply, planetary health is “the health of human civilization and the state of the natural systems on which it depends”.⁷ The main drivers of planetary health are indicated in figure 5-3.

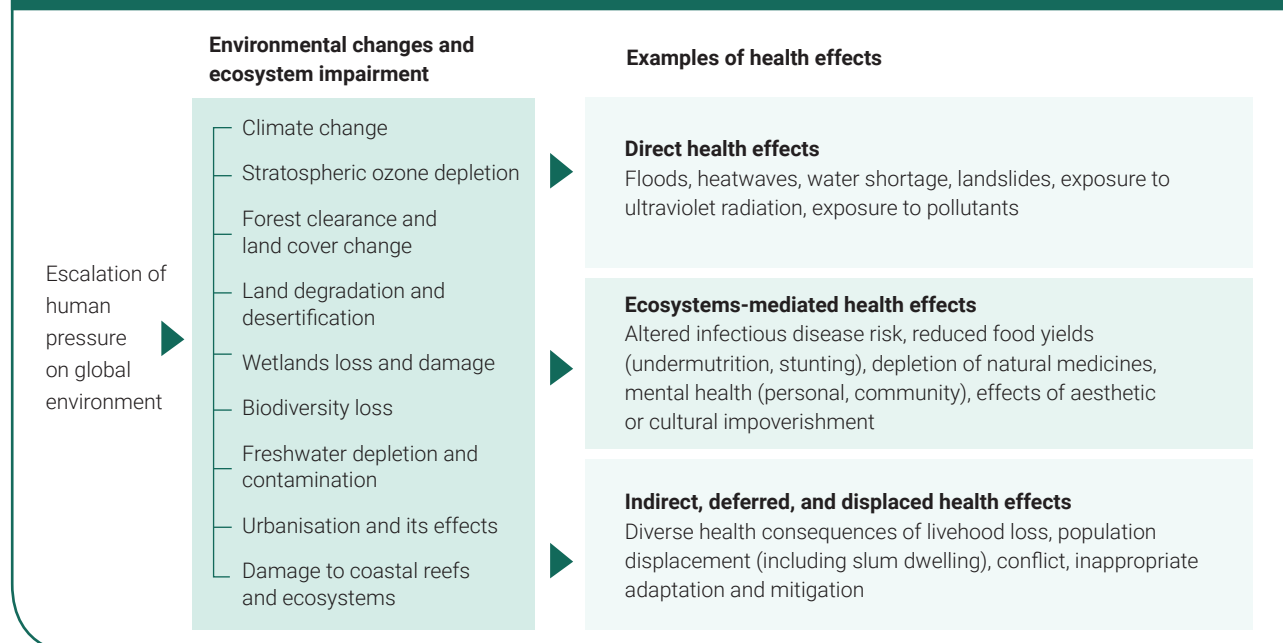
The world needs to operate within ‘planetary boundaries’ – limits within which humanity can flourish. As indicated in Figure 5-4, a number of these have already been exceeded or are at serious risk – genetic diversity, phosphorous and nitrogen flows, climate change, and land use.⁸ This is not surprising, as pursuit of economic growth at the cost of the natural environment has

Figure 5-2: Number of infectious disease events, global, 1940-2004



Source: Adapted from Loh and others, 2015.

Figure 5-3: Planetary health drivers



Source: Whitmee and others, 2015.

increased the human ecological footprint by almost 200 per cent over the past 50 years.⁹

Planetary health addresses the linkages between the health of the natural world and human health. It thus aligns with the 2030 Agenda for Sustainable Development. Some of the SDGs can be considered drivers of planetary health, others as contributing directly to people’s health, or nature’s health (Figure 5-5). Progressing SDG 3 on good health and wellbeing, for example, relies on good nutrition freedom from hunger and thirst (SDG 2), clean air (SDG 13), clean water (SDG 6), life below water (SDG 14), life on land (SDG 15) and sustainable energy (SDG 7).

Ensuring planetary health would thus make a vital contribution to the achievement of the SDGs. As indicated in Figure 5-6, this support is urgently needed as the world is off track on many of the relevant goals.

This chapter examines key fault lines and barriers to achieving planetary health in Asia and the Pacific and proposes national land regional solutions for restoring a sustainable relationship between people and nature. The overall framework is summarized in Figure 5-5. This identifies a series of weaknesses: institutional, structural-economic and behavioural.

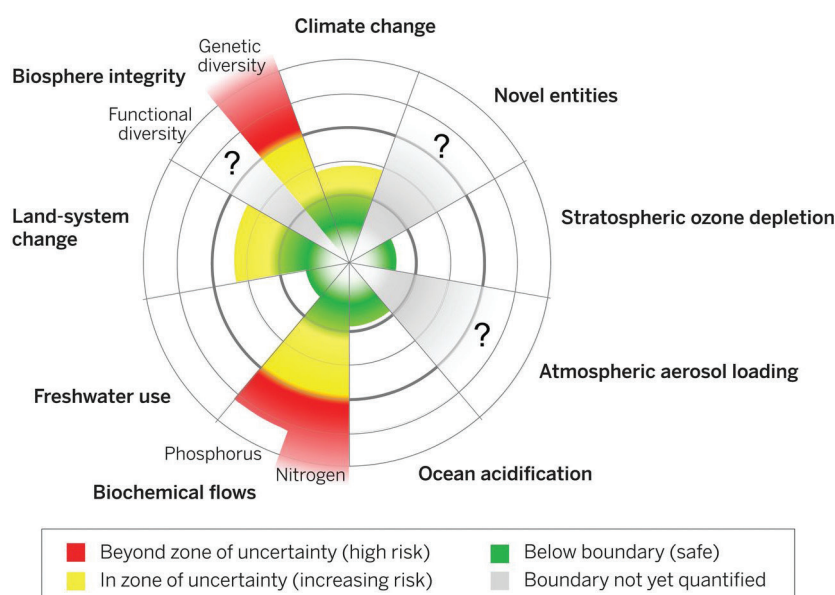
5.2 Institutional weaknesses

Unsustainable use of biodiversity and ecosystems

Despite the prospect of the 6th mass extinction of biodiversity, directly driven by human behaviour, yet, no drastic action is taken and result in a lack of progress on global and national commitments. Much of this extinction is taking place in Asia and the Pacific. According to the World Wide Fund for Nature, this region has the world lowest rating on the biodiversity intactness index.¹⁰ Similarly, the International Union for Conservation of Nature says the region is in the worst position for the extinction of its wildlife. Other assessments covering Asia and the Pacific paint a similarly bleak picture, such as those of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services,¹¹ the United Nations Environment Programme (UNEP)¹² and the Convention on Biological Diversity.¹³

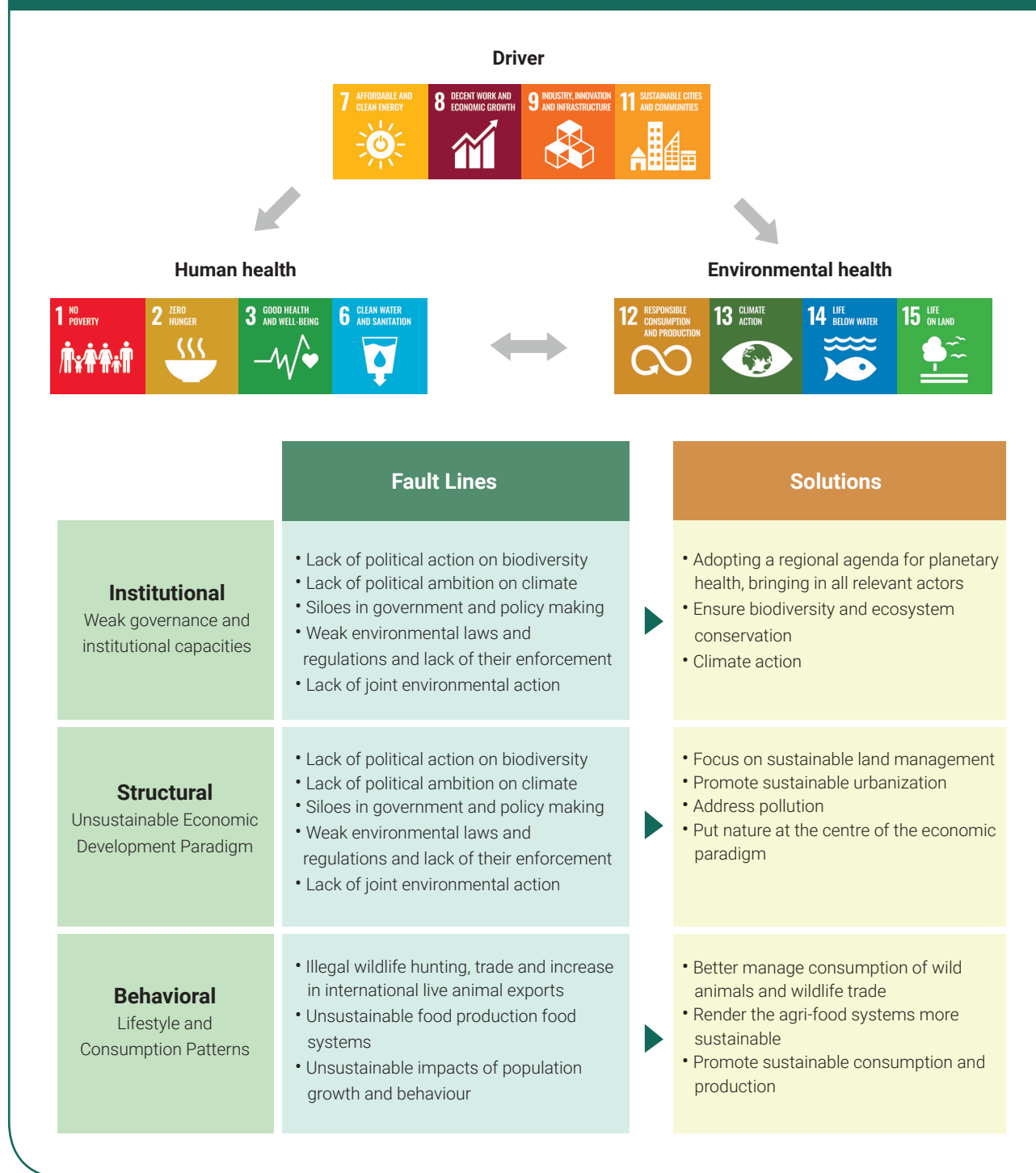
This loss of biodiversity and ecosystems is the result of land use change, climate change, pollution, and invasive species, as well as increased demand for natural resources and energy due to growing human populations.¹⁴ This loss presents direct and indirect threats to human health, well-being, and survival linked, for example, to the emergence of infectious diseases such as

Figure 5-4: Current status of planetary boundaries



Source: Steffen and others, 2015.

Figure 5-5: An SDG approach to planetary health



Source: ESCAP, 2020.

coronaviruses and of new pathogens as well as the re-emergence of known diseases, including dengue and malaria.

Shrinking biodiversity also diminishes the potential for medical treatments. Microorganisms, flora and fauna are rich sources of medicines and provide

inspiration for treatments.¹⁵ Close to 50 per cent of medical drugs are developed from natural products, and 50,000 to 70,000 plant species are harvested for medicines. Biodiversity loss thus limits the discovery of potential treatments for many diseases and health problems and weakens this natural health insurance for human populations.

Figure 5-6: Status of progress on SDG indicators related to planetary health



Key: Progress to Achieve 2030 Targets

- Good Progress
- Insufficient Progress
- Minimal Progress / Regression
- Insufficient Data to Measure Progress

Source: ESCAP Statistics Division. “SDG progress report” (2020).
 Note: For details on these indicators, see Annex 1.

Biodiversity is also critical for food production. Globally, around \$577 billion worth of crop output is at risk annually due to reduced populations of bees and other pollinators.¹⁶ Food from the sea is also at risk. Asia and the Pacific is home to many of the world’s coral reefs, its most biodiverse ecosystems, which are coming under increasing stress as a result of coastal development and unsustainable management of marine resources, marine pollution, ocean acidification and climate change. In Asia and the Pacific, over 40 per cent of coral reefs have disappeared, and most of the rest are leading to declines in fish stocks. The region has also lost 60 per cent of mangrove forests.¹⁷

Climate change

Similarly, the climate crisis largely derives from a lack of sufficient climate ambition to meet the 1.5°C scenario of the Intergovernmental Panel

on Climate Change, despite some ambitious nationally determined contributions to reach carbon neutrality. Climate change is a direct result of unsustainable consumption and production patterns. Increasing human populations are using up natural resources and fossil fuels.¹⁸ Some governments continue to offer financial incentives to use fossil fuels instead of greener energy. And the world is degrading natural ecosystems that capture and absorb carbon.

Asia and the Pacific is uniquely vulnerable. The region is home to extensive low-lying territories and small island developing States that are menaced by rising sea levels and extreme weather patterns. Unpredictable weather patterns are wiping out crops and spiking food prices. Other impacts include more frequent storms and floods, escalating heatwaves and droughts, and acidification and coral bleaching.

Climate change is also helping spread diseases by bringing wild animals closer to humans, further risking zoonotic outbreaks such as COVID-19.¹⁹ Bats, for instance, are common vectors of disease. Their natural habitat includes caves and trees, but due to climatic change, species are forced to move, often into increasingly smaller areas, or new semi-natural habitats that may be in close proximity to humans. As these animals interact with their novel ecosystems, animals and humans alike are exposed to new viruses that could have been dormant in bats and are potentially lethal for humans (Lyssavirus, SARS, or Ebola). Another example is the increasing frequency of dengue fever: rising temperatures are increasing the available habitats for the *Aedes aegypti* mosquito, while also increasing the longevity of the mosquito.²⁰

Silos in government and policy-making

Efforts to link environmental measures with those for health and the national economy are often thwarted because government administration often takes place in silos. This makes it difficult to develop policies that tackle environmental and human health together and that address the environment as one of the three pillars of sustainable development.

Weak legislation and enforcement

Inadequate laws and regulations, combined with weak enforcement undermine the sustainable use and management of biodiversity and natural resources, and hamper action on climate change and pollution. The inability to combat the illegal wildlife trade and to appropriately ensure health standards in live animal trade can lead to zoonoses.

Since the COVID-19 pandemic struck, many governments have weakened land-use policies, waste collection requirements, air and agricultural pollution standards, project permitting processes, and environmental monitoring and reporting requirements. In addition to weakening existing environmental regulations, some countries have postponed the entry-into-force of environmental regulations.²¹

Fragmented environmental action

There is also a lack of joint environmental action. Protecting the environment is a joint responsibility, that should be shared by individuals through their consumption and lifestyle choices, by policy makers at all levels, and by all parts of society who manage and use the environment, including local communities and indigenous people, the private sector and civil society organizations.

5.3 Structural economic weaknesses

Land use changes augment the risks of diseases

Between 2000 and 2015, roughly 135,333 square kilometres of natural forest area were lost in the region, larger than the size of Bangladesh, and accounting for 11 per cent of the world's total natural forest loss.²² Further, more than 80 per cent of agricultural expansion in the tropics between 1980 and 2000 came at the expense of forests. South-East Asia for example relies on the conversion of intact forests for nearly 60 per cent of new agricultural land, and oil palm plantations were responsible for more than 80 per cent of the expansion in plantation area by the 1990s.²³

Resource-intensive, industrial monoculture farming and urban sprawl into hinterlands damages the natural environment, reduces the habitats of wildlife and widens the interface between wildlife and human populations. Increasing demand for food, in particular animal protein, encourages enterprises to convert forests into farmland.²⁴ This reduces the provision of ecosystem services and increases the risk of transmission of infectious diseases. It is sensible to assume that land use change creates new opportunities for emergence, as the emergence of zoonoses is a 'logical consequence of pathogen ecology, as microbes exploit new niches and adapt to new hosts.'²⁵

Unsustainable urbanization

There is no historical precedent for the scale and speed of urbanization in Asia and the Pacific – which is adding the equivalent of four cities the size of Tokyo every year.²⁶ Urbanization takes rural land and leads to increases population density, socio-economic change and ecological

fragmentation – which can have profound impacts on the epidemiology of infectious diseases such as COVID-19. Urban slums and wet markets, for example, are creating new ecological niches and risk factors for such diseases.²⁷ These impacts are magnified by climate change, increasing the opportunities for zoonotic spill overs. Informal settlements and slum communities are particularly vulnerable, given the coexistence of poor living conditions coupled with poverty and precarious employment, such as large numbers of subsistence labourers.

Pollution

Air pollution is a severe environmental hazard worldwide and especially in Asia and the Pacific.²⁸ More than 90 per cent of people in the region are exposed to a level of air pollution that poses significant health risks²⁹ and in 2018 approximately 2.2 million of the world's 7 million premature deaths from household and ambient air pollution were in the Western Pacific Region.³⁰

In addition to pollution from transport and other fossil fuel use, there is also smoke and haze from forest fires and slash-and-burn agriculture. Several studies have shown that an increase in particulate matter (PM_{2.5}) is linked to a death rate increase between 8 and 16 per cent in persons with COVID-19.³¹ In this respect at least, the pandemic brought temporary relief: in China, for example, the lockdowns in 2020, are likely to have saved the lives of 4,000 children under five and 73,000 adults over 70.³²

Other pollution impacts that could undermine resistance to pandemics are the bio-accumulation of heavy metals and microplastics which are associated with hormonal interference, reduced fertility, various cancers and weakened immune systems.³³

Fixated on growth

Despite achievements in promoting sustainable development, the dominant measure of national progress is economic growth, most often at the expense of natural resources. This outdated measure of development is still dominant in

financial and market systems which fail to internalize the costs of environmental degradation or risks. Estimates of financial returns of projects rarely take account of the loss of natural capital or adjust returns to value ecosystem risk.

Subsidized destruction

Governments continue to offer taxes and subsidies that promote a brown economy, the degradation of the environment and environmental pollution. Currently countries provide more than \$500 billion annually in subsidies that are potentially harmful to nature. This is more than five times the annual public and private spending to protect biodiversity.³⁴ During the COVID-19 responses, this included, for example, bailouts in the form of loans, grants and guarantees without any environmental conditions, to businesses that have a heavy biodiversity footprint such as airlines and coal companies. Some subsidies potentially harm biodiversity, for example for fertiliser purchase and waiving taxes on oil/gas exploration and production. There have also been reductions in charges for commercial operators in conservation areas and reduced licencing fees for mining. While this may be justifiable from the perspective of immediate human well-being, it is likely to hamper biodiversity conservation.³⁵

5.4 Behavioural weaknesses

Illegal wildlife hunting, trade and live animal exports

Illegal trade in wildlife was valued at \$107 billion in 2019, a rise of 500 per cent in the last 15 years and of 2,000 per cent since the 1980s.³⁶ Live animal exports internationally are valued at approximately \$22 billion and have increased from 680 million animals in 1997 to 1.9 billion in 2017. Four of the top global importers are from Asia and the Pacific.³⁷ Wet markets selling wild animals are a suspected origin of the 2002 SARS outbreak and the current pandemic,³⁸ and illegal wildlife hunting, trade and live animal exports can lead to the emergence of zoonosis, if not catering for the health and wellbeing of animals and for human health risks.

Unsustainable food production systems

Unsustainable food production systems also play a major role in the emergence of zoonoses. In addition to driving land use changes, selective breeding for specific characteristics reduces genetic diversity including agro-biodiversity, hereby reducing the long-term resilience of agricultural systems to environmental changes and climate change and increasing zoonotic disease risk. Growth in livestock production creates greater likelihood of wildlife interacting with domestic animals, potentially acting as intermediate viral hosts, and drives the expansion of agricultural land. One of the most notable consequences of intensification in this region is the pandemic associated with highly pathogenic avian influenza that in 2003-2004 affected more than 60 countries, resulted in more than 400 human deaths, and millions of poultry being destroyed by culling or killed by the virus, as well as untold numbers of lost wildlife. Asia and the Pacific accounts for more than 90 percent of world rice production and consumption and is a decisive component in the global food chain.^{39,40} Intensive agriculture and agrochemicals affect the ecology of soils and watercourses and the indiscriminate use of antibiotics, causing antimicrobial resistance. Poor sanitation of animal holding facilities and low welfare standards stress animals, reducing their immune response and leave them susceptible to diseases.⁴¹

Population growth and unsustainable consumption

By 2050, the global population is estimated to reach 9.7 billion people as opposed to 7.7 billion now.⁴² Growing human populations with ever greater demands for food, water and energy, are all taking a toll on natural resources and the state of the environment. To meet these needs, growers will need to produce as much as 70 per cent more food than today.⁴³ Rising incomes and lifestyle changes and continued resource-intensive growth are expected to further exacerbate resource depletion and ecosystem degradation, increase pollution levels and drive climate change.⁴⁴

5.5 Ways forward for achieving planetary health

In responding to the pandemic, governments should design green recovery packages. These will involve significant investment: globally, the estimated annual cost of preventing zoonotic disease, for example, is between \$22-30 billion. But this should be compared with the global economic damage caused by COVID-19, estimated at \$12 trillion and rising.^{45,46}

Using the concept of planetary health, countries can take a number of measures to protect the environment and mitigate the impacts of environmental degradation on human health. Stimulus packages should aim to accelerate decarbonization, build cleaner energy, security-based independence and support the Paris Agreement. Investments should be in line with existing national environmental and climate objectives, and recovery plans should at least maintain, if not strengthen, existing environmental standards and policies.

A green pandemic recovery could cut 25 per cent off the expected 2030 emissions based on pre-COVID-19 policies in place. However, many opportunities for adopting green recovery measures have been missed.⁴⁷ To date, Asia-Pacific countries have introduced 111 measures that are in line with a green recovery, though 56 per cent of these measures were entirely unplanned. There are a further 93 measures identified in Asia-Pacific's nationally determined contributions that could be in line with a green recovery but that are not being acted upon.⁴⁸ In 50 of the largest economies' recovery plans, less than 0.2 per cent of stimulus packages could be directly linked to green recovery.⁴⁹

Few countries are yet implementing economy-wide "build-forward" policies, and there are major gaps in the energy, transport and tourism and land-use sectors. Only one country in the region – Singapore – estimates its climate change costs as comparable to its COVID-19 response cost.

An important element of all plans should be regulatory measures – to promote the conservation, sustainable use and restoration of biodiversity. China and Viet Nam, for example, have introduced measures to regulate wildlife trade to reduce human health risks. China requires captive wildlife facilities to quarantine and has prohibited trade of wildlife in any form.

Environmental investments can also create employment. India's recovery package channelled almost \$1 billion through its Compensatory Afforestation Fund Management and Planning Authority to provide jobs for tribal communities in forest management, wildlife protection and other related activities.⁵¹ Additionally, India's \$26 million commitment to address land degradation and forestland restoration is the largest global pledge under the Bonn Challenge.⁵² India has a Nationally Determined Contribution target of 175 GW of renewable energy capacity by 2022 and 450 GW by 2030, this includes plans for expansion of solar investment in the agriculture sector.⁵³

Another example is New Zealand's Response and Recovery Fund which includes a \$1-billion Jobs for Nature programme aiming to provide up to 11,000 jobs, controlling invasive species and protecting and restoring habitats on private and public conservation land.⁵⁴

Renewable energy now outcompetes traditional energy sources in many parts of the world. Economic recovery stimulus packages should include renewable energy as one of the main sectors, as renewable energy can create more jobs per unit of energy delivered than fossil fuels and, has lower lifecycle costs.⁵⁵

Governments can also alter tax and other incentives and support smart de-risking investments in climate and environmentally friendly areas.⁵⁶ There is an opportunity for a more extensive carbon pricing mechanism. At the same time, governments should be aiming to eliminate fuel subsidies and reduce the use of coal. The Republic of Korea's New Green Deal, for example, sets a 2050 net zero emission goal, a first in East Asia, and pledges to end coal financing. This was followed by Japan which has matched this goal. And China has pledged net zero emissions by

2060,⁵⁷ and has introduced a ban on new coal-fired plants and a reduction of emissions from existing coal-fired plants.⁵⁸

Since ecosystems and natural systems don't recognize subnational, national and regional boundaries, all these efforts must be backed with regional collaboration.

5.6 Policy recommendations

The following overall policy recommendations are offered to improve both environmental and human health in Asia and the Pacific, by addressing institutional change, structural economic changes and behavioural change.

Solutions for institutional change

- *Act at a regional level* – policy makers and others could benefit from regional platforms for capacity building and to exchange regional best practices. These should be available to all relevant stakeholders, including all sectors of government, civil society, academia and private citizens. These platforms could support the strengthening of environmental regulations, of statistical capacity on planetary health as well as the early detection and better monitoring systems for zoonotic diseases.
- *Ensure biodiversity and ecosystem conservation* – biodiversity and ecosystems need to be streamlined into disease prevention, food, land and ocean, infrastructure, as well as energy and extractive industries agendas. Conservation policies should focus on large-scale integrated restoration of degraded ecosystems, enhanced management of protected areas to increase resilience to natural and health disasters and on transboundary conservation including biodiversity corridors.
- *Raise climate ambition* – regional initiatives looking at raising ambition on climate action in Asia and the Pacific could support meeting ideal global climate objectives, support protect biodiversity and ecosystems. Ecosystem-based adaptation measures and climate smart agriculture would support climate and biodiversity objectives.

Solutions for structural change

- *Achieve sustainable land management* – this should be integrated across sectors and focus on achieving land degradation neutrality, afforestation, preferably from a biodiversity perspective, agroforestry, and forest landscape restoration.
 - *Promote sustainable urbanization* – address the urban sprawl leading to accelerated land use, provide access to public space, including open green space, integrating nature-based solutions that protect urban biodiversity.
 - *Address environmental pollution that affects human health* – reducing soil, water, ocean and air pollution is critical to protect both ecosystems and human health.
 - *Putting nature at the center of the economy.*
 - adopting natural capital approaches, reforming the financial sector to promote a greener economy and removing financial incentives that promote environmental degradation. Assess the economic value of biodiversity and ecosystem services.
- high-intensity farms. Zoonotic diseases on livestock farms could be prevented and control using ICT-enabled solutions.
- *Promote sustainable consumption and production* – Increasing resource efficiency, improve waste management, and move toward a more circular economy.

Solutions for behavioural change

- *Better manage consumption of wild animals and wildlife trade* – Increasing regulations of wet markets and of wildlife consumption for food, as well as stopping the illegal wild life trade across the region would be immediate steps towards mitigating and preventing future zoonoses.
- *Localize food systems* – This should improve human nutrition, as well as strengthen agro-biodiversity and make food systems more sustainable. Moving from global to intra-regional food trade and more local food systems would also help speed up economic recovery from the pandemic.
- *Apply ecological principles to food systems*
 - A transition to agro-ecology: low-carbon, risk-informed, resilient, regenerative and sustainable agricultural practices should be integrated into agricultural sector policy, planning and investments.
- *Enhance animal welfare laws* – More stringent regulation of animal welfare standards especially for live animal exports and in

Boxes

Box 5-1: Ecosystem services

Ecosystem services can be classified broadly into four categories,⁵⁹ though some may fit into more than one.⁶⁰

- Provisioning – food, raw material, medicinal resources, freshwater.
- Supporting – through nutrient cycling, soil formation, photosynthesis.
- Regulating – air, climate, and water, while controlling diseases and pests, pollinating and moderating extreme events.
- Cultural – contributing to human values and to mental and physical health.



Source: Worldwide Fund for Nature.

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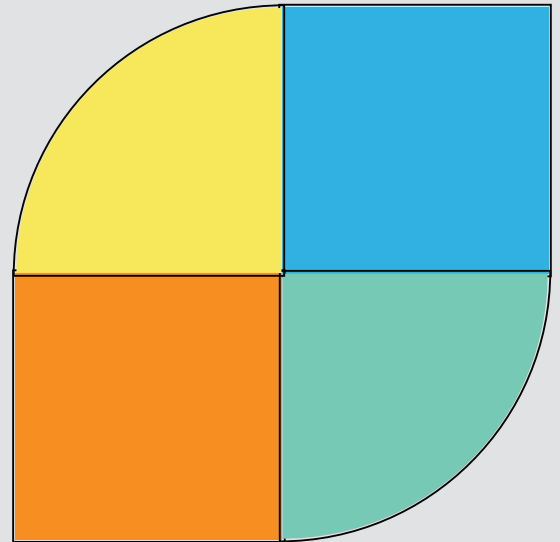
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CHAPTER 6

Beyond the pandemic – a five-point policy agenda

Governments across the region have responded to the unprecedented situation created by the COVID-19 outbreak and worked hard to curb the fallout. Most have concentrated on short-term measures. But if economies are to recover faster and in a more inclusive way they must also aim for long-term sustainability – restoring ecosystems, reducing poverty, and building resilience throughout the region. To enable member States of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) to build back better, this study proposes a five-point policy agenda:

1. Enhance regional cooperation

Establish or mobilize existing sectoral mechanisms to help governments recover from this pandemic and plan for future crises – while dealing with climate change and taking into account population ageing, and technological innovation and new forms of work.

2. Build universal social protection along the life course

Embed social protection in national development agendas and allocate the necessary resources. As a basis for leaving no one behind, governments can use a mix of contributory and non-contributory benefit schemes. They will also need to expand social protection to embrace informal workers and ensure that women and vulnerable population groups are sufficiently covered.

3. Ensure sufficient fiscal space

Investing in a sustained socio-economic recovery aligned with the Sustainable Development Goals will require additional financial resources. To support long-term, resilient, inclusive and sustainable development, countries can reorient spending away from non-developmental areas, reform taxation to mitigate inequalities and support the climate agenda, while explore innovative financing instruments. They can also advocate for further debt relief measures and accelerate efforts to combat tax evasion through regional and international cooperation.

4. Promote trade facilitation, digitalization, and harmonization, and fully embed social and environmental concerns into global supply chains

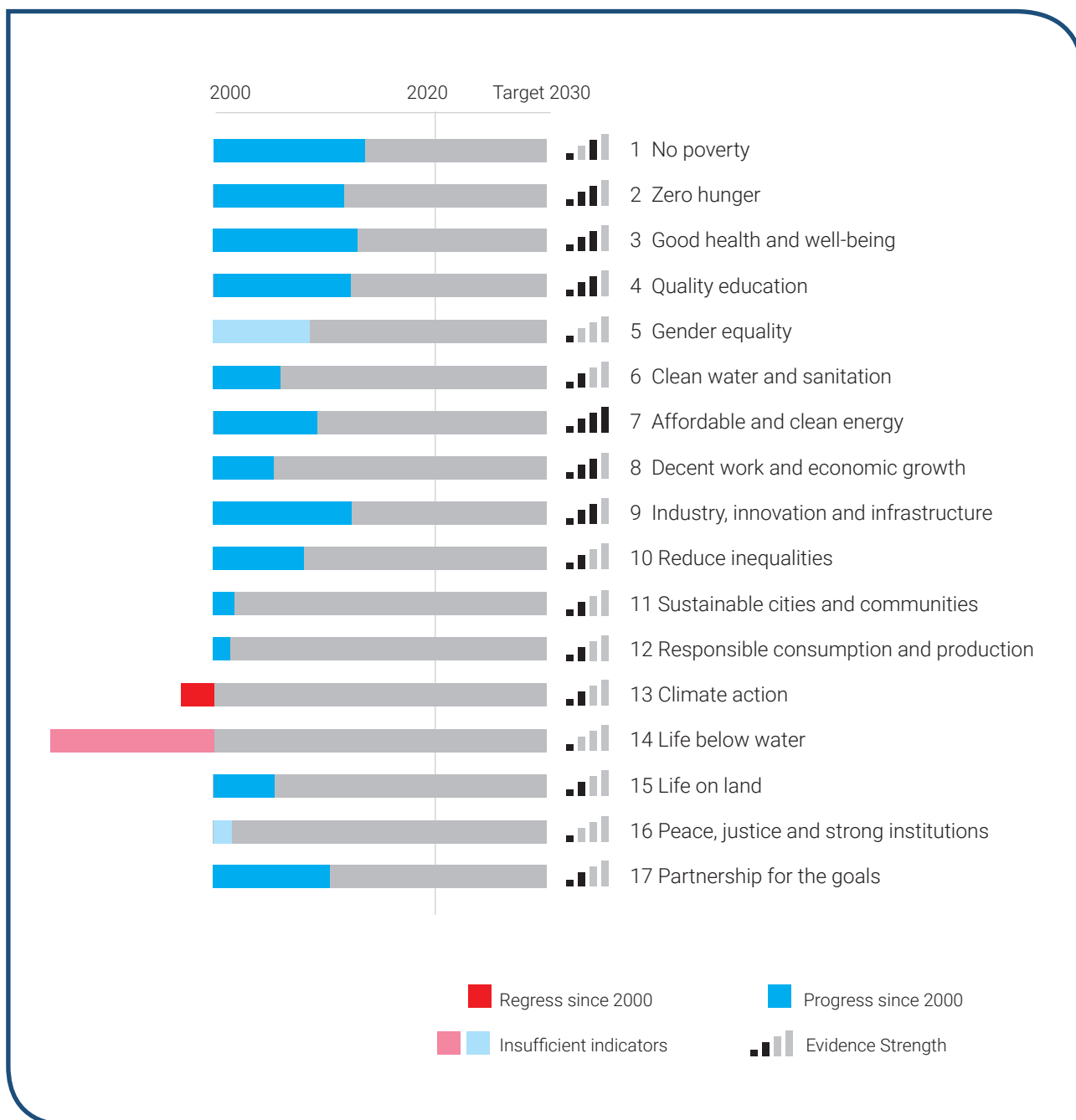
Resist protectionist actions and forge regional solidarity to arrive at proportionate trade responses. Mobilize regional transport cooperation instruments for emergency use of cross-border freight. Decarbonize production and shift to more sustainable and lower-carbon, multimodal freight transport. Increase support for trade facilitation, trade digitalization and the development of paperless and contactless trade. Accelerate investment in digitalization and broadband connectivity. Improve the efficiency and sustainability of trade and transport procedures through regionally coordinated investments in hard and soft infrastructure.

5. Safeguard environmental health

Adopt a regional agenda for planetary health, bringing in all relevant actors to implement the institutional, structural, economic and behavioural changes needed to better manage human and environmental health.

Annex 1

Asia-Pacific progress towards the SDGs



Source: ESCAP SDG Gateway. Available at <https://data.unescap.org/data-analysis/sdg-progress>.

Annex 2

Selection of SDG Indicators that relate to Planetary Health

SDG Indicator Number	SDG Indicator
1.4	By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
1.5	By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters
2.1	By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round
2.2	By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons
2.3	By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment
2.4	By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality
2.5	By 2020, maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed

SDG Indicator Number	SDG Indicator
3.3	By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases
3.4	By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being
3.9	By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination
6.1	By 2030, achieve universal and equitable access to safe and affordable drinking water for all
6.2	By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations
6.3	By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
6.4	By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
6.5	By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate

SDG Indicator Number	SDG Indicator
6.6	By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes
7.1	By 2030, ensure universal access to affordable, reliable and modern energy services
7.2	By 2030, increase substantially the share of renewable energy in the global energy mix
7.3	By 2030, double the global rate of improvement in energy efficiency
7.b	By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support
8.4	Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead
9.4	By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
11.1	By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
11.4	Strengthen efforts to protect and safeguard the world's cultural and natural heritage
11.5	By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations

SDG Indicator Number	SDG Indicator
11.6	By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
11.7	By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities
11.a	Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning
11.b	By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015–2030, holistic disaster risk management at all levels
12.1	Implement the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries
12.2	By 2030, achieve the sustainable management and efficient use of natural resources
12.4	By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
12.5	By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
12.8	By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature
12.c	Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account

SDG Indicator Number	SDG Indicator
	the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities
13.1	Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
13.2	Integrate climate change measures into national policies, strategies and planning
13.3	Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
14.1	By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution
14.2	By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
14.3	Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels
14.4	By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics
14.5	By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information
14.6	By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential

SDG Indicator Number	SDG Indicator
	treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation
15.1	By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements
15.2	By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
15.3	By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world
15.4	By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development
15.5	Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species
15.7	Take urgent action to end poaching and trafficking of protected species of flora and fauna and address both demand and supply of illegal wildlife products
15.8	By 2020, introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the priority species
15.9	By 2020, integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts
15.c	Enhance global support for efforts to combat poaching and trafficking of protected species, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities

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The coronavirus disease 2019 (COVID-19) pandemic has created the worst crisis in Asia and the Pacific since World War II. Across the Asia-Pacific region, as across the world, countries have suffered sudden economic contractions, along with interruptions to trade, broken supply chains, and with the collapse of international tourism – leading to widespread job losses and increases in poverty. In all countries, the economic shock caused by the pandemic has exposed many structural weaknesses and fault-lines – notably in health and social protection systems, in digital connectivity and skills, as well as the extent to which our production and consumption patterns have been destroying the environment. As countries now work to stem the unprecedented challenges of the pandemic, they also need to address these weaknesses – to build back better.

The report analyses the socio-economic impacts of the pandemic in countries of Asia and the Pacific, takes stock of action so far, and sets out a policy agenda for building back better grounded in regional cooperation and centered around four critical interconnected areas: broadening social protection, investing in a sustained recovery, strengthening connectivity and supply chains; and mending a broken relationship with nature.

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