

World Economic and Financial Surveys

Regional Economic Outlook

Navigating the Pandemic:

A Multispeed Recovery in Asia

OCT 20

Cataloging-in-Publication Data

Names: International Monetary Fund, publisher.

Title: Regional economic outlook update. Asia and Pacific : navigating the pandemic : a multi speed recovery in Asia.

Contents

Acknowledgments	v
'HÀQLWLRQV	YLL
1. Overview	1
2. A Multispeed Recovery in Asia	2
*OREDO &RQWH[W	
*UHHQ 6KRRWV LQ \$VLD	
2XWORRN DQG 5LVNV &DQ \$VLD /HDG WKH :D\)RUZDUG"	
8QFHUWDLQWLHV 8QNQRZQV DQG 5LVNV	
3ROLFLHV)URP *UHHQ 6KRRWV WR D 6PDUW *UHHQ ,QFOXVLY	
3. COVID-19 Lockdowns and Exits in Asia: Some Lessons	11
/RFNGRZQV 7KH ,PSRUWDQFH RI \$FWLQJ)DVW	
([LW 6WUDWHJLHV 7LPLQJ ,V .H\	
ODFURHFRQRPLF 3ROLFLHV &DQ 0LWLJDWH (FRQRPLF &RVWV DC	
&RQFOXVLRQV	
4. COVID-19 and Inequality in Asia: Risks of Social Unrest?	19
/DERU 0DUNHW 6XUYH\ ,QGLFDWH 5LVLQJ ,QHTXDOLW\	
3DQGHPLFV DQG \$XWRPDWLRQ :LOO WKH /RVW -REV &RPH %DF	
3DQGHPLFV DQG 6RFLDO 8QUHVW :KHQ ,QHTXDOLW\ %HFRPHV	
%UHDNLQJ WKH 9LFLRXV &\FOH 3ROLFLHV DQG WKH :D\)RUZDU	
3ROLF\ \$QDO\VLV 0RUH 7DUJHWHG 0HDVXUHV 0RUH /LYHV 6DY	
References	25
Box	
([LWLQJ /RFNGRZQV \$VLD·V 5HRSHQLQJ ([SHULHQFH DQG 6RP	
Figures	
5HDO *'3 *URZWK 5DWHV	
&XPXODWLYH &RQÀUPHG &DVHV (PHUJLQJ \$VLD	
0DQXIDFWXULQJ DQG 6HUYLFHV 30,	
5HWDLO 6DOHV	
7UDGH ([SRVXUH RI 5(2	
/RFNGRZQ 6WULQJHQF\ DQG 'XUDWLRQ	

5HRSHQLQJ 7LPLQJ DQG /DVWHVW ,QIHFWRQ 5DWHV
6WDWXV RI &RQWDLQPHQW 0HDVXUHV
&KDQJH LQ 0DQXIDFWXULQJ 30,
,PSDFW RI &RQWDLQPHQW 0HDVXUHV
(DUO\ ,QWHUYHQWLRQ ,V 3DUDPRXQW
5HVXOWV IURP DQ ([WHQG 6XVFHSHWLEOH ,QIHFWHG 5HFR
(DVLQJ RI &RQWDLQPHQW 0HDVXUHV +DV \$V\PPHWULF (IIHF
7HVWLQJ DQG 7UDFLQJ 3ROLFLHV
7KH ,PSRUWDQFH RI *HWWLQJ WKH 7LPLQJ 5LJKW
3ROLFLHV &DQ &XVKLRQ (FRQRPLF ,PSDFW RI &RQWDLQPHQW
6HOHFWHG (FRQRPLHV LQ \$VLD 1RQ 7HOHZRUNDEOH 6HFWRU
8QHPSOR\PHQW
3DQGHPLFV \$XWRPDWLRQ DQG ,QHTXDOLW\
3DQGHPLFV ,QHTXDOLW\ DQG 6RFLDO 8QUHVW
\$VLD·V 3ROLF\ 5HVSRQVHV
7DUJHWHG YHUVXV 8QWDUJHWHG)LVFDO 6XSSRUW

Table

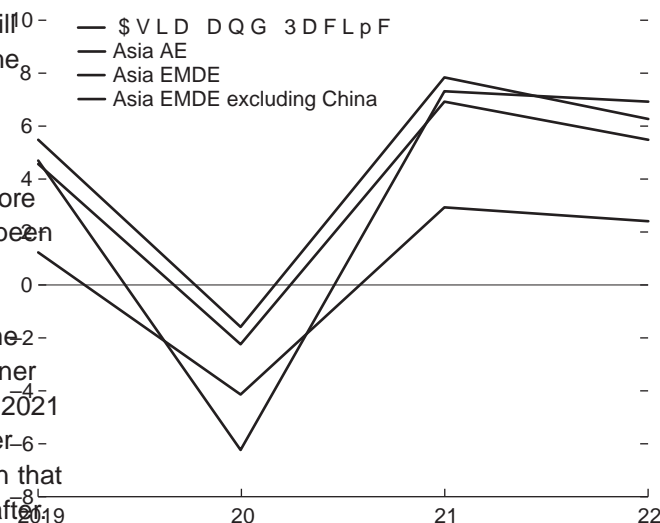
\$VLD 5HDO *'3

Navigating the Pandemic: A Multispeed Recovery in Asia

1. Overview

The coronavirus disease (COVID-19) pandemic is still unfolding around the globe. In Asia, as elsewhere, the virus has ebbed in some countries but surged in others. The global economy is beginning to recover after a sharp contraction in the second quarter of 2020, as nationwide lockdowns are lifted and replaced with more targeted containment measures. Global growth has been revised up since the June 2020 World Economic Outlook (WEO) Update to 4.4 percent in 2020, because of better-than-expected second quarter outturns in some major countries where activity began to improve sooner than expected after lockdowns were scaled back. In 2021 global growth is projected at 5.2 percent, a little lower than projected earlier, consistent with the expectation that social distancing persists into 2021 and fades thereafter.

Figure 1.1. Real GDP Growth Rates (In percent)



Source: IMF World Economic Outlook.
Note: EMDE = Emerging and Developing Economies.

The Asia and Pacific region is also starting to recover tentatively, but at multiple speeds. Economic activity is expected to contract by 2.2 percent in 2020, due to a sharper-than-expected downturn in key emerging markets, and to grow by 6.9 percent in 2021—0.6 percentage point lower and 0.3 percentage point higher, respectively, than in the June 2020 World Economic Outlook Update (Figure 1.1).

The outlook varies by country depending on infection rates and containment measures, the scale and effectiveness of the policy response, reliance on contact-intensive activities, and reliance on external demand. In parts of Asia where virus transmission rates are low, mobility and activity could normalize faster than elsewhere. Scarring is likely, however, as labor market participation has fallen, and output is expected to remain below pre-pandemic trends over the medium term, with the most vulnerable in society likely to be hit the hardest.

The forecasts remain highly uncertain, with significant downside risks. A resurgence of the pandemic cannot be ruled out. Geopolitical

tensions—particularly US-China—may also derail the recovery. A rise in social unrest triggered by the pandemic's disproportionate impact on the poorest and most vulnerable could compromise recent hard-won gains, or a return to risk aversion in financial markets could add to balance sheet vulnerabilities. Prospects for an early, large-scale rollout of an effective vaccine creates an upside risk.

With the pandemic seemingly far from over, policy support should be sustained and, in some cases, increased. Strong health care and containment measures are vital until the pandemic has abated. Targeted fiscal spending is needed until the recovery is entrenched. It should aim at the most vulnerable where fiscal multipliers are highest, and to jobs-oriented, inclusive, and green investment. Looking ahead, credible fiscal plans will be key to secure debt sustainability. Monetary policy should remain supportive. Elevated credit risks demand continual monitoring, especially where debt levels

are high. Policymakers need to redouble efforts to keep workers connected to the labor force and solvent firms in business while allowing nonviable firms to exit, and facilitating new businesses to emerge and generate new job opportunities, thus mitigate scarring.

This Regional Economic Outlook draws on studies analyzing the impact of COVID-19. Chapter 3 examines the effect of containment and related policy measures on health outcomes and economic activity. Fast implementation of containment measures and appropriately timed exits—supported by strong testing and contact tracing policies—have been key in stabilizing COVID-19's spread while mitigating its economic costs in many Asian economies. Fiscal support has also been critical to reduce economic costs, underpin recovery, and limit scarring. Chapter 4 warns that the crisis is having the largest impact on low-income workers, women, and youth, and so is increasing inequality. These distributional effects could be even larger in the medium term as robots displace low-skilled workers, and the resulting higher levels of inequality could undermine social cohesion. Policies should be targeted to mitigate the pandemic's adverse distributional consequences and so underpin overall economic activity and virus containment.

Green Shoots in Asia

The pandemic is at various stages. Global growth is projected at 5.2 percent, 0.3 percentage point lower than projected in June 2020, reflecting the persistence of social distancing into 2021.

2. A Multispeed Recovery in Asia

Global Context

The COVID-19 pandemic plunged the world into a sharp recession in the first half of 2020. Service sector activity, which relies on person-to-person contact, took a big hit. Manufacturing also weakened substantially, and global trade plummeted. Global growth is projected at -4.4 percent in 2020, 0.6 percentage points above the June 2020 World Economic Outlook Update forecast. The upgrade reflects a better second quarter outturn in major countries that eased lockdowns earlier than expected.

Economic activity is beginning to revive, starting with China. After hitting a trough in February 2020, China's growth received a boost from infrastructure, real estate investment, and a surge in exports, mainly of medical and protective equipment, as well as work-from-home-related goods.

countries have started diversifying their economies and moving up the value chain. However, a fundamental reorientation of growth models toward domestic demand will take time and considerable policy effort. For small economies (such as the Pacific island countries), their size, remoteness, and high vulnerability to natural disasters make it exceptionally difficult to reorient away from tourism, commodities, and remittances.

The extent of scarring will depend on economies' reliance on contact-intensive activities; market rigidities; digital penetration, technological capacity, and availability of remote working; and policy space to support resource reallocation. Weak household, corporate, and financial balance sheets may add to scarring.

Policies: From Green Shoots to a Smart, Green, Inclusive Recovery

A full arsenal of policy support is needed. Asia and Pacific countries have already provided significant fiscal policy support to cushion the pandemic's impact. Likewise, central banks have cut policy rates, injected liquidity, and introduced unconventional measures: such support should continue because of the extent of evident economic slack across the region. However, the pandemic's prolonged duration is creating structural challenges for financial institutions.

Uncertainties, Unknowns, and Risks

Although early success in developing an effective vaccine could lead to a quicker and stronger recovery, the downside risks are considerable.

- A second wave of the pandemic cannot be ruled out.
- Escalating US-China tensions spanning trade, financial flows, technology, and geopolitics could pose major economic risks, given Asia's major role, among other things, in global value chains.
- The pandemic's disproportionate impact on the poorest and most vulnerable will exacerbate already high and rising income and wealth inequality in Asia and could engender social tensions.
- A return to tighter financial conditions could exacerbate pre-pandemic vulnerabilities (such as highly leveraged public and private sector balance sheets), tip struggling corporations and small and medium enterprises into bankruptcy, worsen credit risk and financial stability, and aggravate debt overhangs.





their
s.
ses
k
y

ese

is.

sity.
ecting a



3. COVID-19 Lockdowns and Exits in Asia: Some Lessons

This chapter uses new data and novel modeling techniques to examine the effect of containment and policy measures in affecting the health and economic consequences of the COVID-19 pandemic.

Lockdowns: The Importance of Acting Fast

The analysis quantifies the impact of COVID-19 containment measures on the number of infections and on economic activity using real-time containment measures implemented by 129 countries (Deb and others 2020a; 2020b). Daily data on the number of COVID-19 infections and fatalities are used, along with novel high-frequency indicators of economic activity, such as the level of nitrogen dioxide (NO_2) emissions. The results suggest that containment measures have been effective in flattening the pandemic curve. For example, the very stringent containment measures put in place in New Zealand (such as an international travel ban and early restrictions on gatherings and public events, followed quickly by school and workplace closures and stay-at-home orders) are likely to have reduced the number of infections by almost 90 percent relative to a baseline of no containment measures (Figure 3.1, panel 1). Containment measures have been associated with a strong decline in mobility and were more effective in halting the spread of the virus in countries where de facto mobility was curtailed the most, either because of compliance or greater voluntary social distancing stemming from fear of becoming infected (Figure 3.1, panel 2; October 2020 World Economic Outlook, Chapter 2). The flattening of the pandemic curve ensured that medical systems were not overwhelmed and reduced fatalities, laying the foundation for recovery (Figure 3.1, panel 3) and medium-term growth (Barro and others 2020).

While necessary to save lives and pave the way for recovery, containment measures resulted in large short-term economic losses. The analysis suggests that in countries where stringent measures were implemented, NO_2 emissions—a proxy for economic activity—cumulatively fell by almost 99 percent 30 days after their implementation, relative to the country-specific path without containment (Figure 3.1, panel 4). Translating this into economic terms, containment led to about a 12 percent decline (month-on-month) in industrial production, which is in line with the decline in industrial production observed in many Asian countries after lockdowns, including China (more than 10 percent) in January–February, Japan (10 percent), and Vietnam (15 percent) in April. The impact of containment has been adverse across all sectors, but tourism has been affected the most. This is particularly important for the Pacific island countries and other Asian economies that

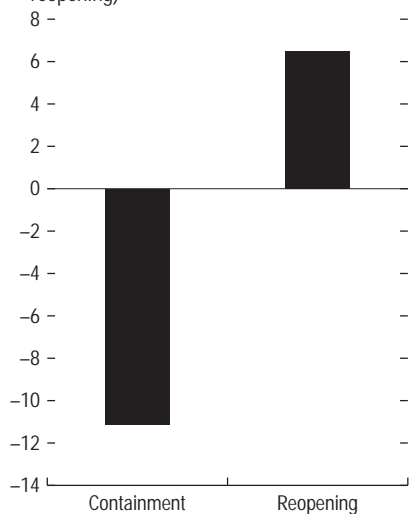


did relatively well compared with other regions,

Figure 3.4. Easing of Containment Measures Has Asymmetric Effects, Depending on the Strength of Testing and Tracing Policies

Easing of containment measures has led to a pickup in economic activity, but this effect is less pronounced ...

1. Industrial Production, Deviation from Baseline (Percent, implied impact on industrial production 30 days after containment/reopening)

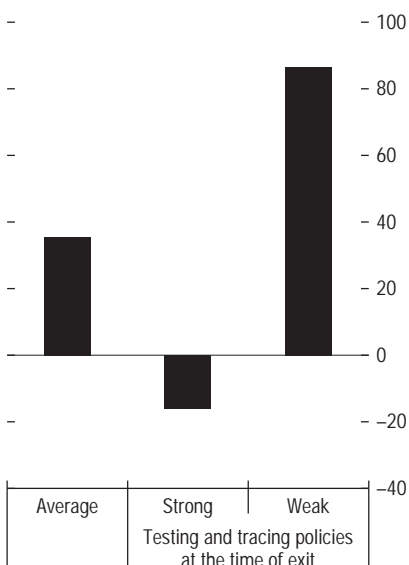


Source: Deb and others (2020b).

Note: The bars show the impact after 30 days on industrial production (implied by changes in NO₂ emissions) to a unitary change (tightening during containment and easing during reopening) in the containment measures relative to a baseline of no change. Changes in NO₂ emissions are translated into industrial production using estimated historical elasticity of 0.015.

... and is associated with a larger increase in the number of COVID-19 infections in countries with weaker testing and tracing policies at the time of exit.

2. COVID-19 Infections (Log percentage points, 30 days after relaxation of containment measures)

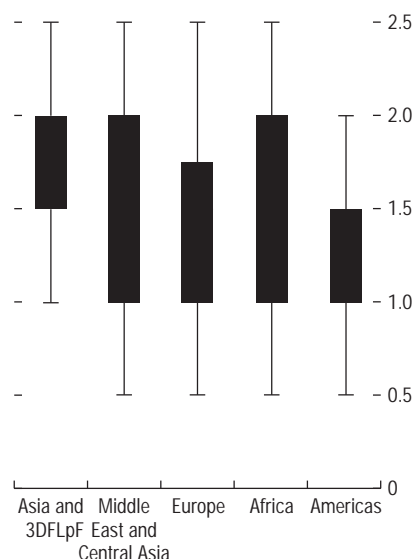


Source: Deb and others (2020b).

Note: The bars show the impact after 30 days on the number of coronavirus disease infections to a unitary easing in the containment measures relative to a baseline of no change. Lighter shade indicates effects not statistically significant.

Asian countries had relatively strong testing and tracing policies at the time they eased lockdowns.

3. Testing and Tracing Policies at Time of Exit (Index, 7-day moving average)



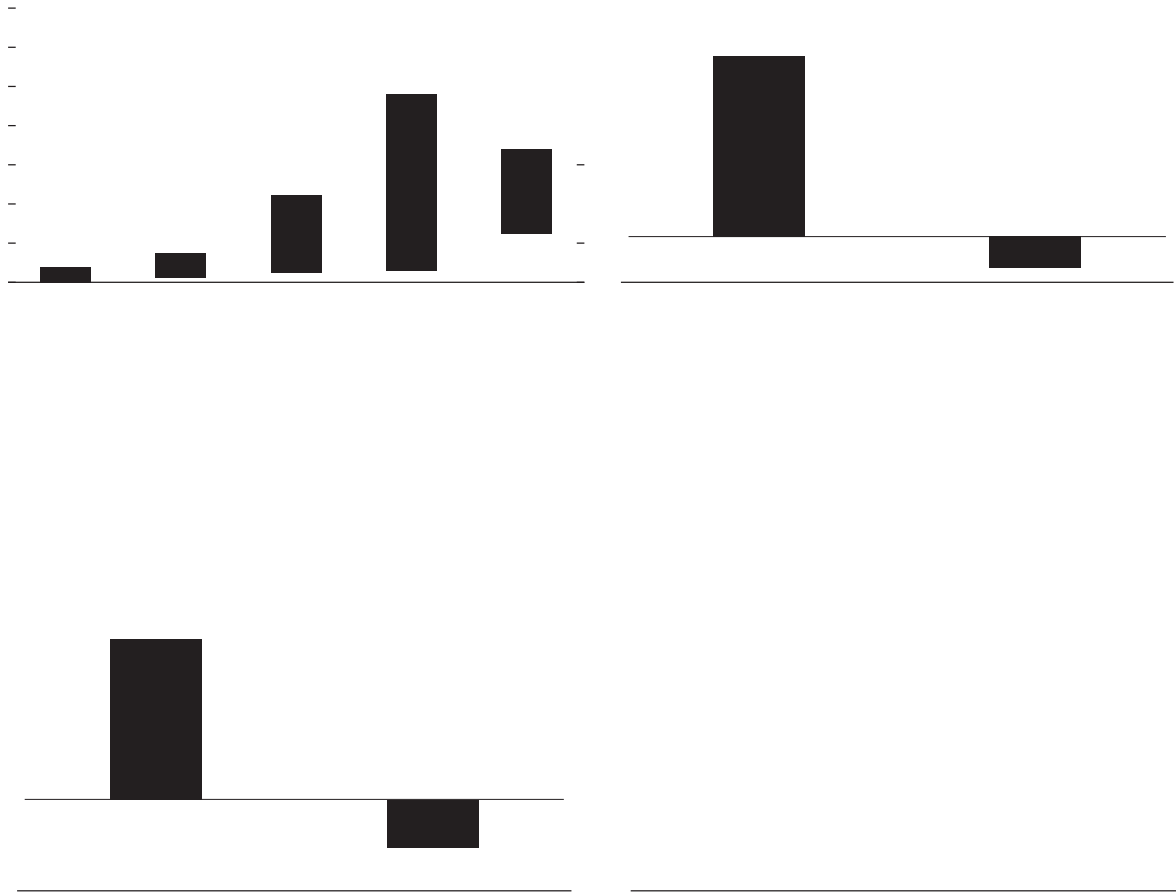
Source: Deb and others (2020b).

Note: The index was calculated as the simple average of testing and contact tracing policies available from the Oxford Coronavirus Government Response Tracker. The horizontal line inside each box represents the median; the upper and lower edges of each box show the top and bottom quartiles, respectively; and the top and bottom markers denote the maximum and the minimum, respectively. X is the mean.

relatively high in Asia (Figure 3.4, panel 3), and significant increase in mobility (which proxies the median seven-day average of new cases was less than 1 per million people—among the lowest across all regions (Figure 3.5, panel 1).

The analysis indicates that appropriately timing the exit from lockdowns is key to limiting the risk of a new wave of infections, restoring confidence, boosting economic activity, limiting scarring effects, and laying the foundation for a stronger recovery. Empirical results show that in countries that eased lockdowns when new infections were very low, exits have been associated with a

significant increase in mobility (which proxies individual behavior in relation to the fear of becoming infected) and economic activity. By contrast, in countries that started reopening when the number of new infections was still high and increasing, mobility did not increase significantly (Figure 3.5, panel 2), and neither did economic activity (Figure 3.5, panel 3). Model simulations also illustrate another dire consequence of exiting too early and before the pandemic peaks: early exits lead to a significantly higher number of infections and fatalities, which can plunge the



economy into a second recession and weaken the medium-term recovery (Figure 3.5, panel 4).

Macroeconomic Policies Can Mitigate Economic Costs and Support Recovery

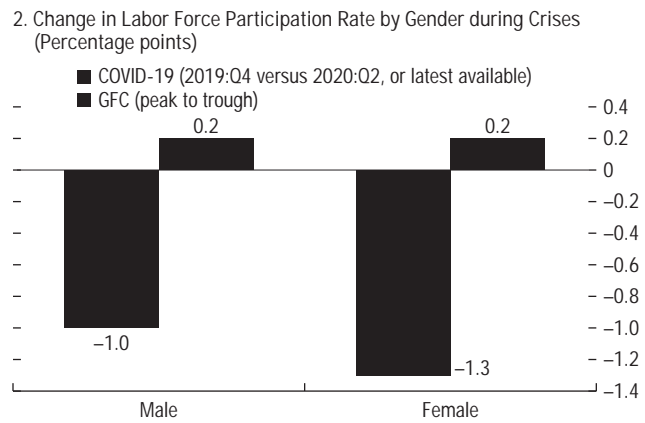
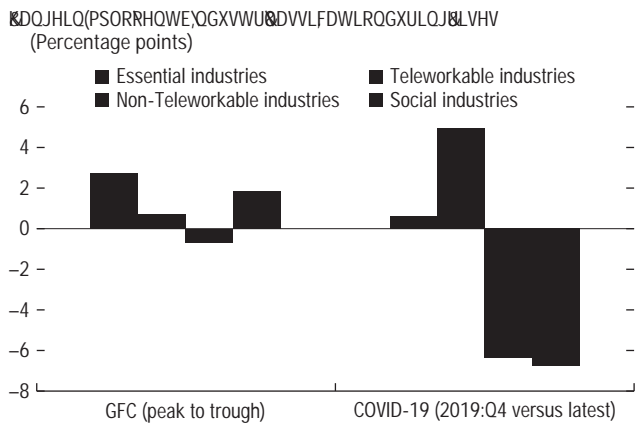
Supportive policies can mitigate the economic costs of containment measures. Using aggregate

data provided by the IMF Policy Tracker on discretionary fiscal and monetary measures implemented and announced in response to the COVID-19 pandemic, empirical analysis confirms that such policy measures have been effective in mitigating the economic costs associated with containment measures. Such measures had a much larger impact on economic activity—equivalent to a 22 percent decline in industrial production—in countries with relatively small

iscal packages. Likewise, some of the adverse impact of containment measures was mitigated in countries with larger cuts in policy rates (Figure 3.6, panel 1).

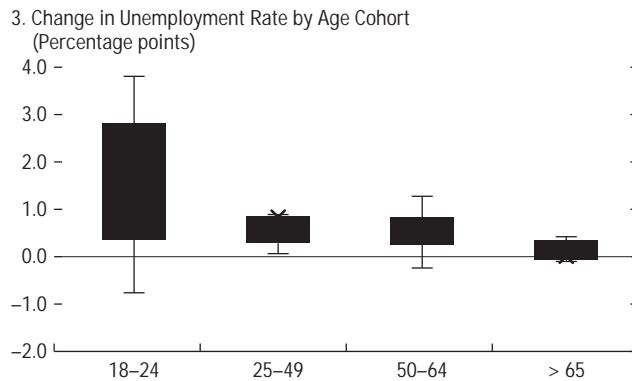
To shed more light on the effectiveness of fiscal measures, a daily database of new announced fiscal plans—encompassing direct fiscal measures as well

Figure 4.1. Selected Economies in Asia: Non-Teleworkable Sectors, Gender Gap, and Youth Unemployment



Sources: Haver Analytics; and IMF staff calculations.
 1RWHLQ, FRURQDYLUXVGLVHVDVH*)&OUREDOPQDQFLDOFVLVLUVLDUHIHUV
 to Australia, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan Province of China, Thailand, The Philippines, and Vietnam. Data are seasonally adjusted, based on June 2020 data (or latest available). Essential industries refer to agriculture, utilities, transport, information and communication, and health and public administration; social industries refer to wholesale and retail, hotels and restaurants, and arts and entertainment; education; and non-teleworkable industries refer to mining, manufacturing, and construction.

Sources: Haver Analytics; and IMF staff calculations.
 1RWHLQ, FRURQDYLUXVGLVHVDVH*)&OUREDOPQDQFLDOFVLVLUVLDUHIHUV
 to Australia, Hong Kong SAR, Japan, Korea, the Philippines, and Thailand. Data are seasonally adjusted. For COVID-19, data are up to June 2020.



Source: Haver Analytics.
 Note: Asia refers to Australia, Japan, Korea, New Zealand, Taiwan Province of China, and Thailand. Data refers to the change in unemployment rate from December 2019 to June 2020. Data are seasonally adjusted. The horizontal line inside each box represents the median; the upper and lower edges of each box show the top and bottom quartiles, respectively; and the top and bottom markers denote the maximum and the minimum, respectively. X is the mean.

automation and robotization. Automation raises productivity, but the analysis suggests that it also increases inequality by displacing workers in routine manual occupations, which have low earnings.

Robot adoption (measured by new robot installations per 1,000 employees, collected by

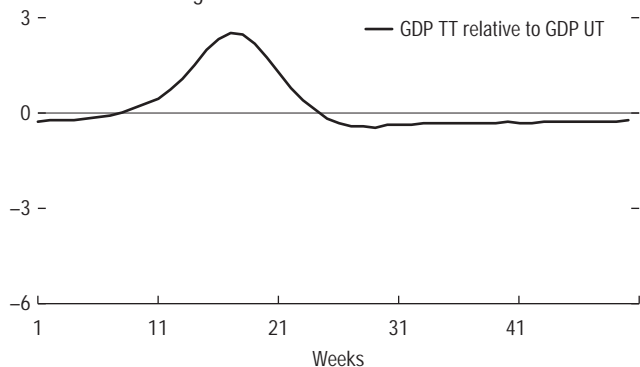
the International Federation of Robotics) tends to increase after pandemic events (Figure 4.2, panel 1), especially when the such events are associated with a significant economic contraction. This is in line with the literature showing that firms tend to undertake restructuring after recessions and adjust production toward labor-saving technologies (Hall 2005; Mortensen and Pissarides 1994; Hershbein

and Kahn 2018; Carbonero, Ernst, and Weber 2018). It is also consistent with recent studies showing that pandemic-induced uncertainty could add to the incentives for automation on net,

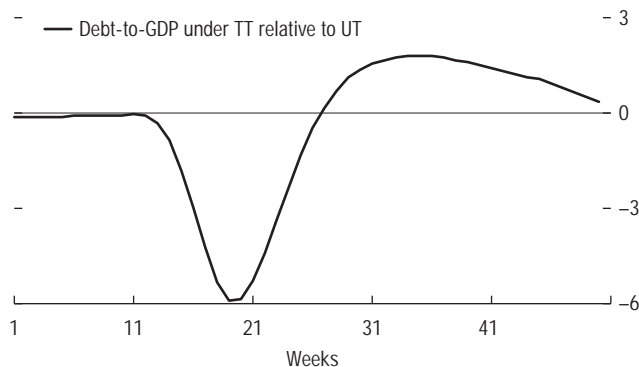
1). Advanced economies introduced targeted cash transfers more than emerging market and developing economies did (Figure 4.4, panel 2). The degree of digitalization likely played a role, helping to reach citizens in need: low-income and emerging market countries that introduced targeted cash transfers (for example, Cambodia and India, see Chapter 2) had, on average, higher digitalization scores than those that did not introduce these measures. Most advanced economies also introduced enhanced unemployment benefits, wage subsidies, and fiscal support to firms. Less frequent adoption of such measures among low-income countries and emerging markets was likely related to a higher degree of informality, which made reaching the workers and firms more challenging.

Figure 4.5. Targeted versus Untargeted Fiscal Support (Differences, percent of GDP)

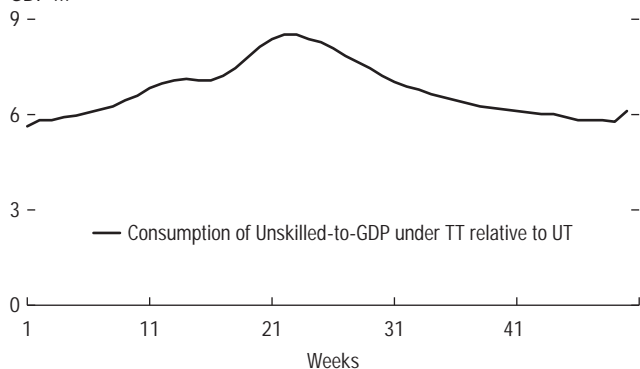
Optimal policy with targeted transfers results in a higher GDP relative to the one with untargeted transfers ...



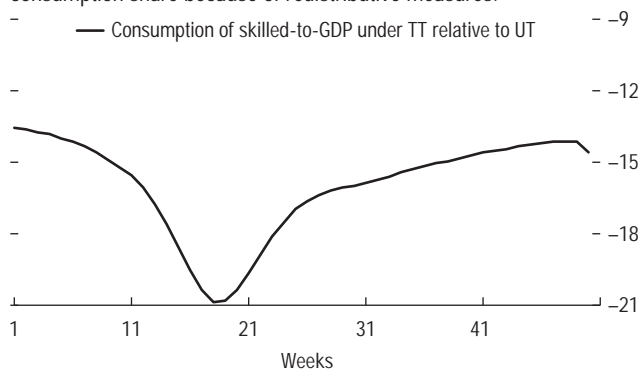
... which leads to a lower pandemic debt accumulation.



Targeted support leads to higher consumption share of the unskilled in GDP ...



... while the skilled experience a significant reduction in their consumption share because of redistributive measures.



Source: Engler and others (2020).
Note: TT = targeted transfers; UT = untargeted transfers.

The favorable effects are larger for targeted than for untargeted measures. The former help reduce inequality in disposable income and preserve a higher consumption share of GDP for the unskilled (Figure 4.5). This saves more lives because unskilled workers tend to be more exposed to the health crisis. The reduction in infections and fatalities, in turn, helps reduce the depth of the recession and therefore attenuates the surge in the debt-to-GDP ratio. The model suggests that, compared with untargeted transfers, targeted transfers raise GDP by some 3 percent and lower the debt-to-GDP ratio by 6 percentage points.

Although there is no one-size-fits-all best policy, the model suggests that it is economically and socially beneficial to provide targeted support to the unskilled. To minimize longer-term damage, policies should also address challenges from uncertainty, including by revamping education curriculums to achieve more flexible skill sets and lifelong learning, as well as new training for adversely affected workers.

References

World Health Organization (WHO). 2020. "Considerations in Adjusting Public Health and Social Measures in the Context