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Working Paper

Building forward better: Enhancing resilience of Asia and Pacific economies in a post-Covid-19 world

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ADB Working Paper Series

**BUILDING FORWARD BETTER:
ENHANCING RESILIENCE OF ASIA
AND PACIFIC ECONOMIES IN
A POST-COVID-19 WORLD**

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The Asia and Pacific region in this paper refers to the 53 members and nine associate members of the United Nations Economic and Social Commission of Asia and the Pacific (ESCAP). The geographical scope of the region stretches from Turkey in the west to the Pacific island nation of Kiribati in the east, and from the Russian Federation in the north to New Zealand in the south. See more details at: www.unescap.org/about/member-states.

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Abstract

The COVID-19 pandemic is imposing economic and broader development challenges as never before. Policy lessons from Asia and the Pacific's past experience in dealing with shocks show that focusing on economic growth alone is not enough. Rising inequality and environmental challenges increased the region's vulnerabilities. The post-pandemic recovery in Asia and the Pacific should place the 2030 Agenda for Sustainable Development at the center. In addition to using the traditional macroeconomic policies, governments should deliberately increase public investments in the Sustainable Development Goals, reduce inequalities, provide decent work, and green the economic activities and financial systems. New technologies and sustainable financing could facilitate the process. All stakeholders, including governments, businesses, and the general public, need to play their integral role to "*build forward better*".

Keywords: economic resilience, post-COVID-19 recovery, sustainable development, green recovery, macroeconomics

JEL Classification: E3, E61, E70, H5, N15, O11, O15, O20, P46, Q48

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INTRODUCTION

The COVID-19 pandemic is imposing economic and broader development challenges as never before. The world is looking to Asia and the Pacific for recovery, as it did during the global financial crisis (GFC). However, too much focus solely on economic growth in the post-GFC recovery has increased the region's vulnerabilities in terms of social inclusivity and climate and environmental challenges. The lack of progress towards the 2030 Agenda for Sustainable Development left the region unprepared to deal with the pandemic. For instance, a lack of public investment in the health systems revealed the insufficient capacity of healthcare services. The prevalence of the informal sector and lack of social protection have exposed vulnerable employees in terms of losing jobs and incomes, and being forced into extreme poverty.

Policy lessons from the region's past experience in dealing with various shocks highlight the importance of supportive macroeconomic policies to boost economic activities during, and in the aftermath of, shocks. However, policies to merely uphold economic growth are not enough. The COVID-19 pandemic provides a special window of opportunity to incorporate medium- to long-term sustainability into the recovery strategies. The overarching principle is to put the 2030 Agenda for Sustainable Development at the center of post-COVID-19 recovery. In addition to increasing public investment in the Sustainable Development Goals, governments should use traditional macroeconomic policies and innovative initiatives to green the economic activities and financial systems, as well as to reduce inequalities and provide decent work. Businesses should internalize the social and environmental externalities through sustainability disclosures, increasing ESG investment and adopting internal carbon pricing. The general public needs to choose mindful lifestyles to live in harmony with nature. New technologies and sustainable financing should facilitate the process to *"build forward better."*

The paper is composed of four sections. Section I examines the Asia and the Pacific region's sustainable development progress since the GFC. Section II assesses the impact of COVID-19. The third section reviews the impact of various shocks in the recent past and the region's policy responses. Building on the first three sections, the last one proposes to mainstream the 2030 Agenda in post-COVID-19 recovery to build forward better with a clear policy focus on social inclusivity and environmental sustainability.

1. THE LOST DECADE: POST-GFC RECOVERY INITIATIVES LACKED THE IMPETUS TO ACHIEVE THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

1.1 Asia and the Pacific Powered the World Out of the Last Economic Crisis

Asia and the Pacific, home to 4.6 billion people,¹ has achieved strong economic growth over the last few decades (Figure 1). This has been instrumental in propping up global

¹ As of 2019, 4.6 billion people were living in the region, compared to the world population of 7.7 billion. Source: World Bank Open Data, available at <https://data.worldbank.org/> (accessed 7 November 2020).

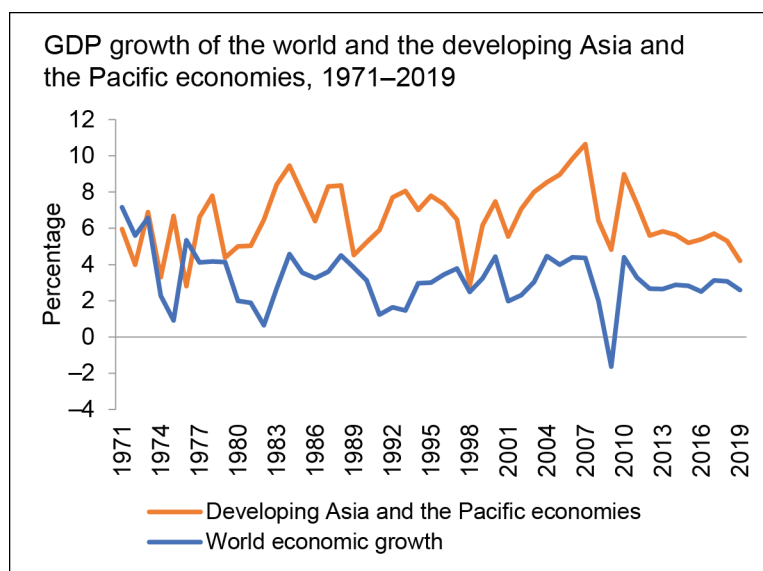
growth while lifting 1.2 billion people out of extreme poverty.² As an engine of economic growth, the world looked to Asia and the Pacific for recovery from the global financial crisis (GFC). The immediate stimulus packages announced by Asia and Pacific countries accounted for nearly half of the world's total (Table 1), driving the world out of the crisis.

Table 1: Stimulus Packages Announced by Governments during Global Financial Crisis

Date Announced	Country	\$ Billion
17-Feb-09	United States	787.00
10-Nov-08	PRC	586.00
13-Dec-08	Japan	250.00
6-Apr-09	Japan	146.00
13-Jan-09	Germany	65.00
7-Jan-09	Mexico	54.00
7-Jan-09	Mexico	54.00
3-Nov-08	Republic of Korea	14.64
9-Feb-09	Republic of Korea	37.87
16-Nov-08	Italy	52.00
12-Dec-08	European Union	39.00
26-Jan-09	Australia	35.20
5-Nov-08	France	33.00
4-Feb-09	Canada	32.00
24-Nov-08	United Kingdom	29.60
20-Nov-08	Russian Federation	20.00
27-Nov-08	Spain	14.30
22-Jan-09	Singapore	13.70
3-Dec-08	Egypt	8.51
22-Nov-08	Netherlands	7.50
21-Jan-09	Philippines	7.01
28-Jan-09	Indonesia	6.32
16-Dec-08	Viet Nam	6.00
20-Nov-08	Israel	5.40
23-Dec-08	Brazil	5.00
8-Dec-08	India	4.00
6-Jan-09	Chile	4.00
5-Dec-08	Argentina	3.80
29-Jan-09	Thailand	3.35
14-Jan-09	Portugal	2.89
26-Jan-09	Norway	2.88
5-Dec-08	Sweden	2.70
11-Dec-08	Belgium	2.60
30-Nov-08	Malaysia	1.93
21-Dec-08	Switzerland	0.59
31-Dec-08	Sri Lanka	0.14
Total (Asia and the Pacific)		1,132.16
Total		2,337.93

Source: US Congressional Research Service (2010).

² Source: ESCAP data portal, available at <https://dataexplorer.unescap.org/>.

Figure 1: Asia and the Pacific Has Become a World Economic Powerhouse

Source: ESCAP and UN DESA's World Economic Forecasting Model.

1.2 However, Climate Risks Were Short-Changed in the Name of Economic Recovery...

While the stimulus to cope with the GFC appeared green on the face of it, real green investment was minimal (Figure 2). Countries continued their brown and black policies by providing fossil fuel subsidies and financing coal-fired plants. For instance, five out of the top ten countries providing fossil fuel subsidies (as a share of GDP) were from the Asia and the Pacific region.³ Among the global top 20 producers of coal, nine are found in the region.⁴

On the private financing side, about 307 commercial banks have provided \$159 billion in direct loans to coal plant developers globally since 2017. The top three lenders are Japanese banks; they account for 32% of direct lending to coal plant developers. Although Chinese banks account for only 5% of direct lending to coal plant developers, they account for 69% of underwriting for coal plant developers (ESCAP 2020a).

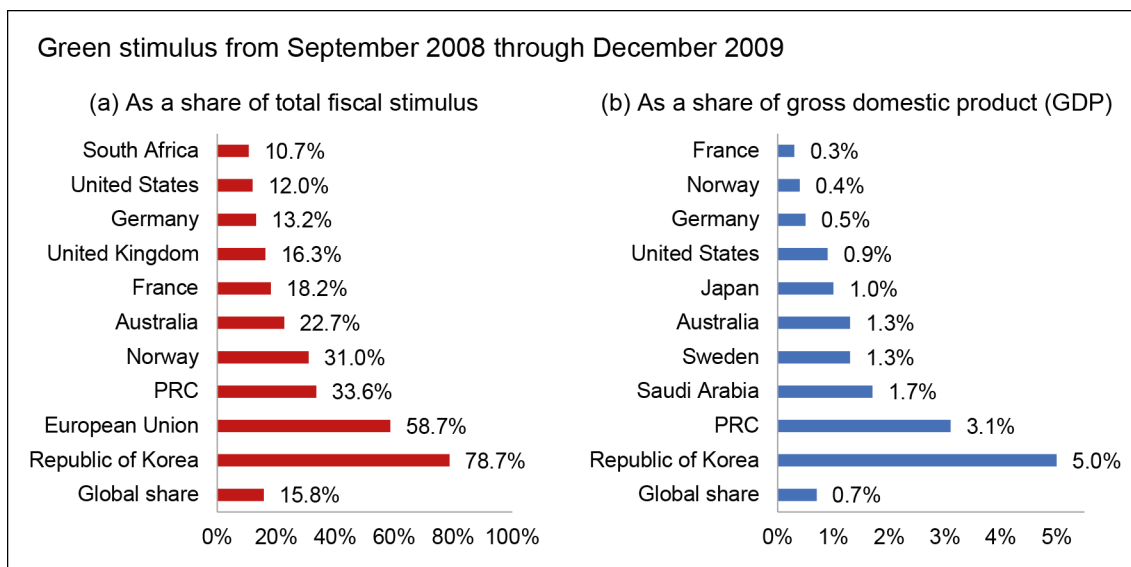
As a result, Asia and the Pacific continued to increase its carbon footprints in the decade after the GFC (Figure 3a). The growth of carbon emissions exceeded that of income (i.e., GDP per capita), especially after the GFC (Figure 3b). In 2017, carbon emissions from the region's fuel combustion rose to over 50% of the world total.⁵

³ The five countries are: the Islamic Republic of Iran, Uzbekistan, Turkmenistan, Azerbaijan, and Kazakhstan. Source: International Energy Agency, Energy Subsidies Database, available at www.iea.org/topics/energy-subsidies (accessed on 8 November 2020).

⁴ Namely, Australia, the PRC, India, Indonesia, Kazakhstan, Mongolia, the Russian Federation, Turkey, and Viet Nam.

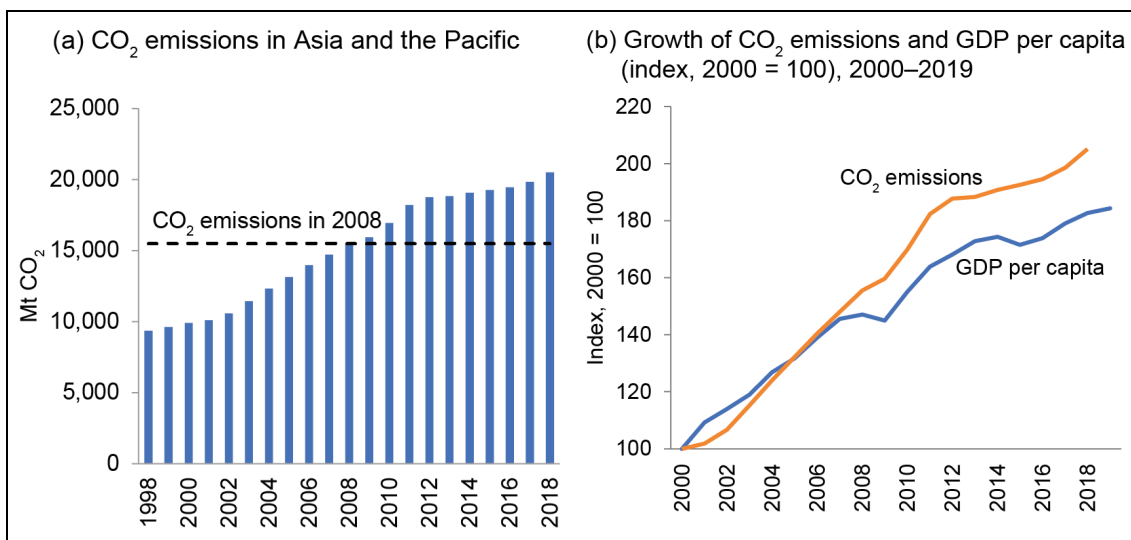
⁵ Source: United Nations Statistics Division, SDG Global Database, available at: <https://unstats.un.org/sdgs/indicators/database/> (accessed on 24 October 2020).

Figure 2: Were Stimulus Packages during the GFC Green?



Source: Barbier (2010).

Figure 3: The Region Is Continuing to Increase Its Carbon Footprints



Source: Global Carbon Atlas, available at www.globalcarbonatlas.org/en/content/welcome-carbon-atlas (accessed on 24 October 2020).

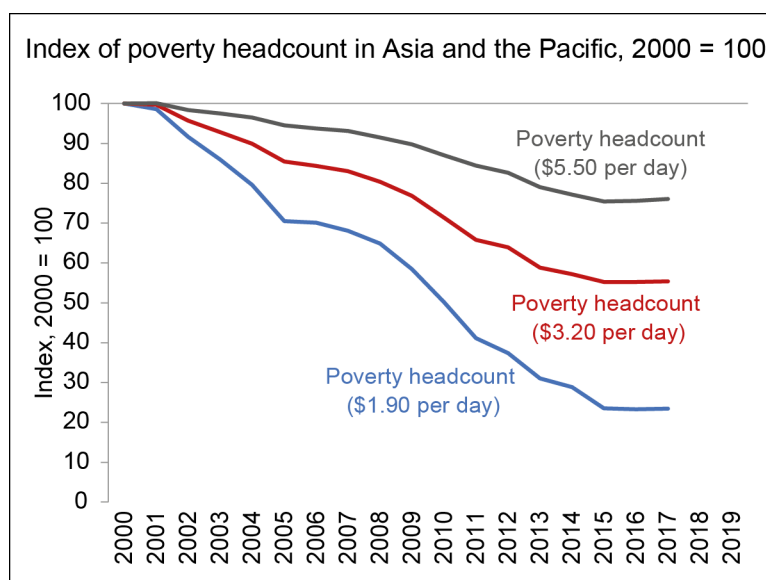
Source: ESCAP (2019a).

Such a persistent rise in CO₂ emissions and the ever-increasing use of natural resources have worsened the adverse impacts of climate change. Between 2015 and 2020, 45% of global disasters occurred in the region,⁶ and the region is home to five of the world's ten economies most affected by climate change in the past ten years (Bangladesh, Nepal, Sri Lanka, Thailand, and Viet Nam) (Eckstein, Hutfils, and Wings 2019). As greenhouse gas (GHG) emissions are a key source of air pollutants, it should not come as a surprise that the region is also now home to 97 of the 100 most air-polluted cities in the world (AirVisual 2018). High air pollution poses a threat to people's health.

1.3 ... While GDP Growth Has Not Benefited Everyone

Moreover, the Asia and the Pacific region's ambitions on eliminating poverty have remained quite low. While 1.2 billion people have been lifted out of extreme poverty (measured at \$1.9 per day), the pace of poverty reduction has slowed (Figure 4). There are still 1.2 billion and 2.2 billion people living below the poverty lines of \$3.2 per day and \$5.5 per day, respectively, in the region.⁷ Such low ambition on poverty reduction only goes to show that even if people have been brought just above the extreme poverty line, they remain vulnerable to falling back as they lack basic education, formal jobs, and access to social safety networks.

Figure 4: Poverty Reduction Is Not Sufficient If We Raise Our Ambitions



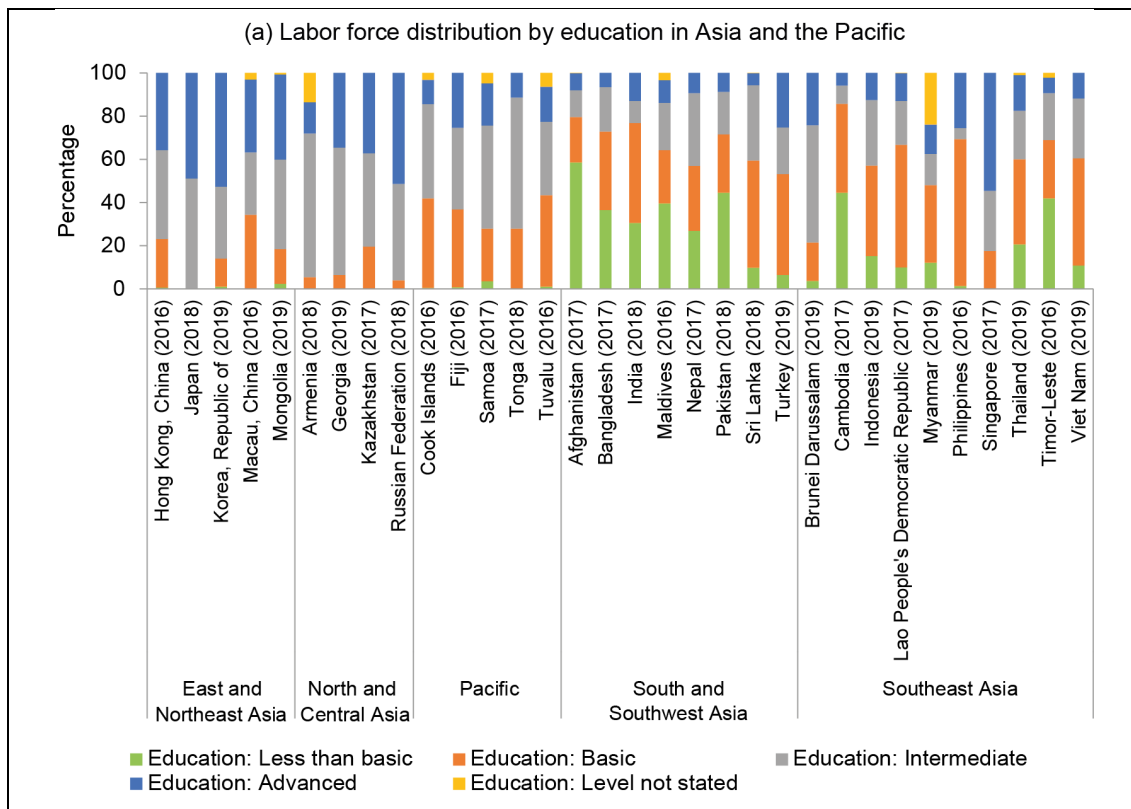
Source: ESCAP data portal, available at <https://dataexplorer.unescap.org/> (accessed on 31 October 2020).

For instance, a high proportion of the labor force in the Asia and the Pacific region (especially in South and Southwest Asian countries) possesses less than basic education. This means that these same countries tend to have a higher proportion of workers in the informal sector, which provides limited job security and social protection (Figure 5a–c). When crises hit, those informal workers are the biggest casualties.

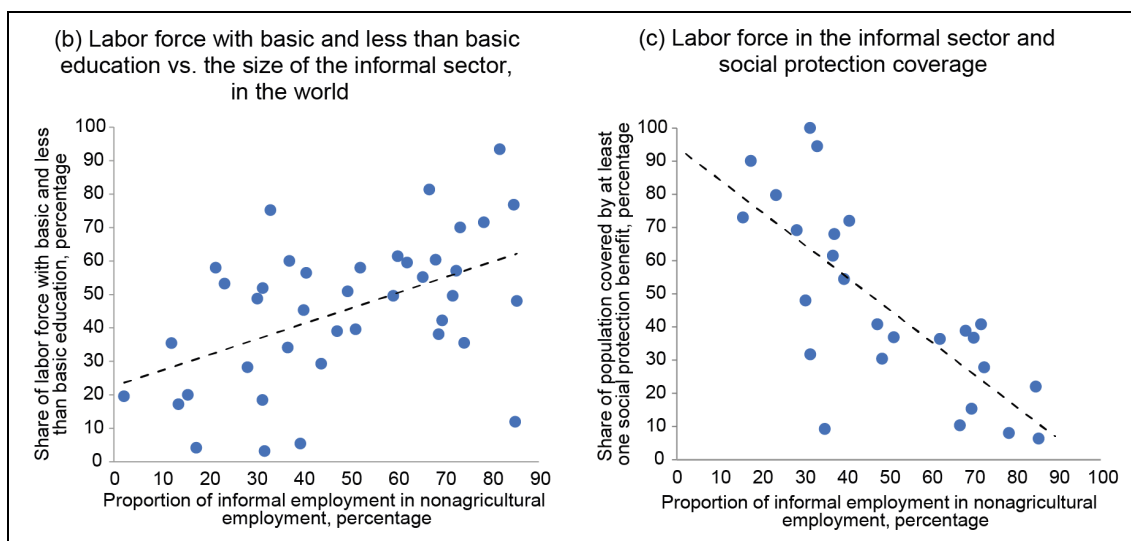
⁶ Source: The International Disaster Database (EM-DAT), available at: www.emdat.be (accessed on 24 October 2020).

⁷ As of 2017. Source: ESCAP data portal, available at <https://dataexplorer.unescap.org/> (accessed on 31 October 2020).

Figure 5: Those Brought Out of Extreme Poverty in Asia and the Pacific Are Vulnerable to Falling Back



Source: ILOStat (accessed on 27 July 2020).



Note: The latest available data are chosen to plot this figure. The dotted line is a fitted one. Countries are selected based on data availability.

Source: ILOStat (accessed on 8 November 2020).

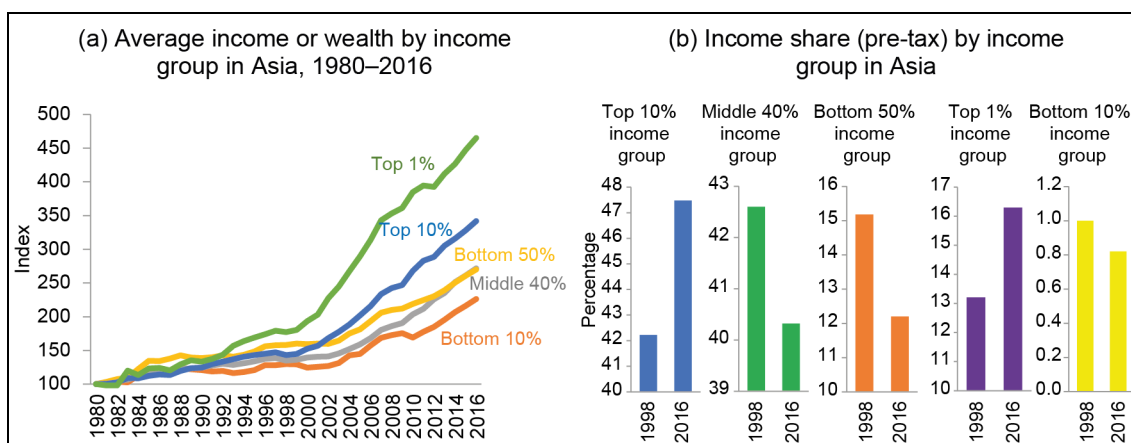
Note: The latest available data are chosen to plot this figure. The dotted line is a fitted one. Countries are selected based on data availability.

Source: ILOStat (accessed on 8 November 2020).

The lack of equal access to opportunities is a source of a high level of income inequality. Since 1980, the income of the top 1% group has grown by over 4.5 times, while that of the bottom 10% group has grown by just over two times, even though the

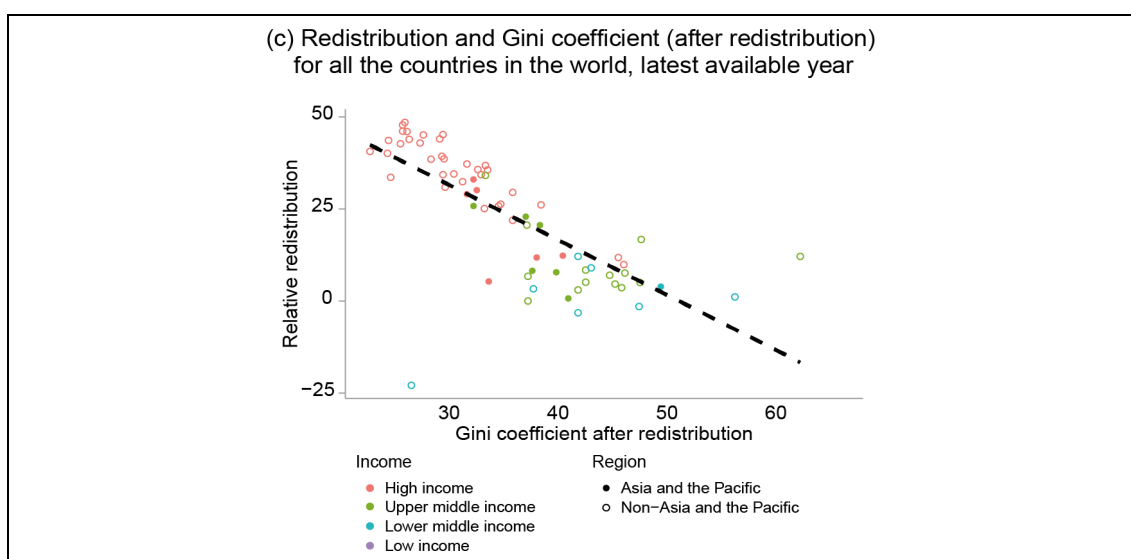
latter started at a lower income base (Figure 6a). Therefore, the income share of the top 10% income group increased from a decade before the GFC to a decade after, while that of the bottom 50% income group decreased (Figure 6b). Moreover, the lack of redistributive policies contributed to high inequality. In middle- and low-income countries in particular, income redistribution has been limited (Figure 6c). Persistent and widening inequality could have an adverse impact on longer-term growth prospects, as well as future poverty reduction efforts, for example by increasing the risk of a crisis or making it difficult for the poor to invest in education (Berg and Ostry 2011). This is particularly true for low-income countries (Barro 1999). In addition, inequality hurts long-term growth as it reduces social mobility and increases social unrest (Ferreira and Schoch 2020). This may be particularly true for pandemics, which can set off a vicious cycle of economic despair, inequality, and social unrest (Sedik and Xu 2020).

Figure 6: Asia and the Pacific Observes Persistent Income Inequality



Source: World Inequality Database, available at <https://wid.world/data/> (accessed on 24 October 2020).

Source: World Inequality Database, available at <https://wid.world/data/> (accessed on 24 October 2020).



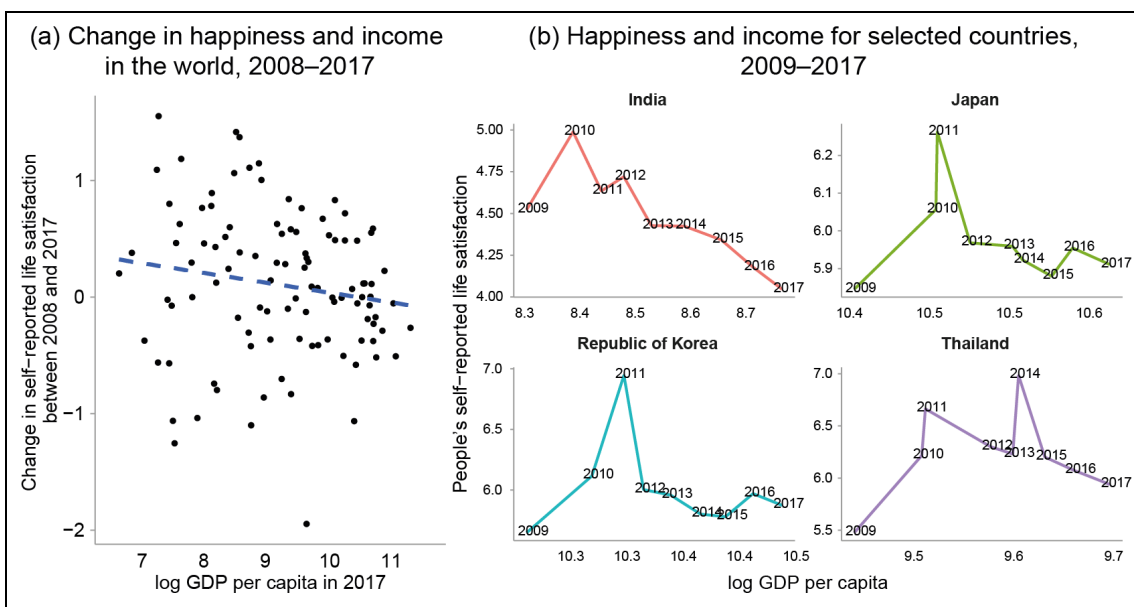
Note: Relative redistribution is the percentage reduction in inequality due to taxes and transfers. The dotted line is a fitted one.

Source: The Standardized World Income Inequality Database, available at <https://fsolt.org/swiid/> (accessed on 8 November 2020).

1.4 Economic Growth Alone Does Not Necessarily Deliver Well-being

Therefore, strong economic growth has not necessarily been accompanied by higher well-being for all. Between 2006 and 2017, while all the countries in the region observed an improvement in income (measured by GDP per capita), there was a mixed picture in terms of the improvement of people’s life satisfaction. About half of the countries had fewer happy people.⁸ Indeed, higher income per capita generally leads to greater happiness, but only up to a certain point (Layard 2005). At the same time, strong income growth does not necessarily translate into greater happiness (Figure 7a and b). For instance, the World Happiness Report 2017 shows that, while GDP has multiplied more than fivefold over the past quarter of a century, subjective well-being in the People’s Republic of China (PRC) fell for 15 consecutive years before finally beginning to recover, with the current levels still being lower than a quarter of a century ago. Indeed, the report also finds that factors contributing to happiness beyond income levels include a healthy life expectancy, social support (having someone to count on in times of trouble), trust (perceived absence of corruption in government and business), perceived freedom to make decisions, and generosity (recent donations) (Helliwell, Layard, and Sachs 2017).

Figure 7: Economic Growth Does Not Necessarily Improve People’s Life Satisfaction

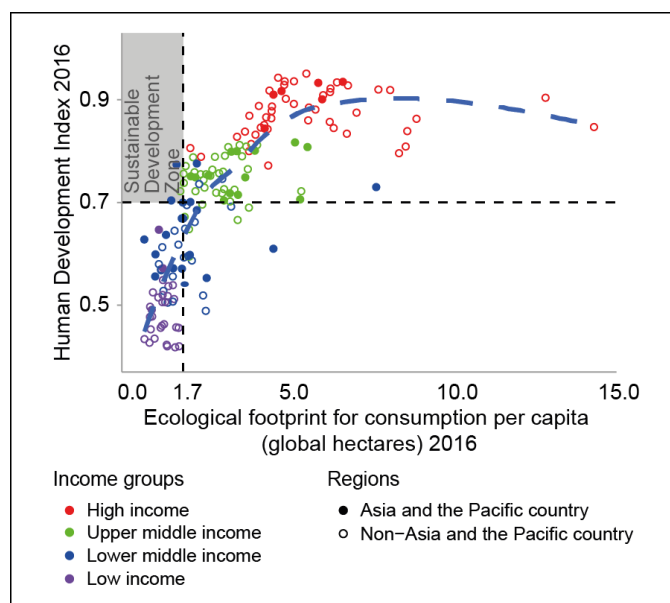


Source: Our World in Data, available at <https://ourworldindata.org/grapher/gdp-vs-happiness?time=2019> (accessed on 31 October 2020).

⁸ Source: Our World in Data, available at <https://ourworldindata.org/grapher/gdp-vs-happiness?time=2019> (accessed on 31 October 2020).

In particular, environmental sustainability is a key dimension of well-being. Economic growth at the cost of rising environmental degradation, such as air or water pollution, decreases people’s well-being. In fact, recent research has made the case that high economic growth, as currently being pursued, simply cannot respect planetary boundaries (Smil 2019; Knight and Schor 2014). Evidence so far suggests that meeting the human needs of all within planetary boundaries as currently envisaged is impossible (O’Neill et al. 2018). Sustainable human development requires us to thrive within the limits of our planet. For illustration purposes, two proxy indicators are used along the dimensions of the people (Human Development Indicators) and the planet (Ecological Footprint) (Figure 8); they show that reaching a higher level of socioeconomic development involves considerable transgression of biophysical boundaries. Hence, an alternative approach to the economic growth needed to sustain higher social standards must address this trade-off.

Figure 8: Human Development Index and the Ecological Footprint: A Trade-off?

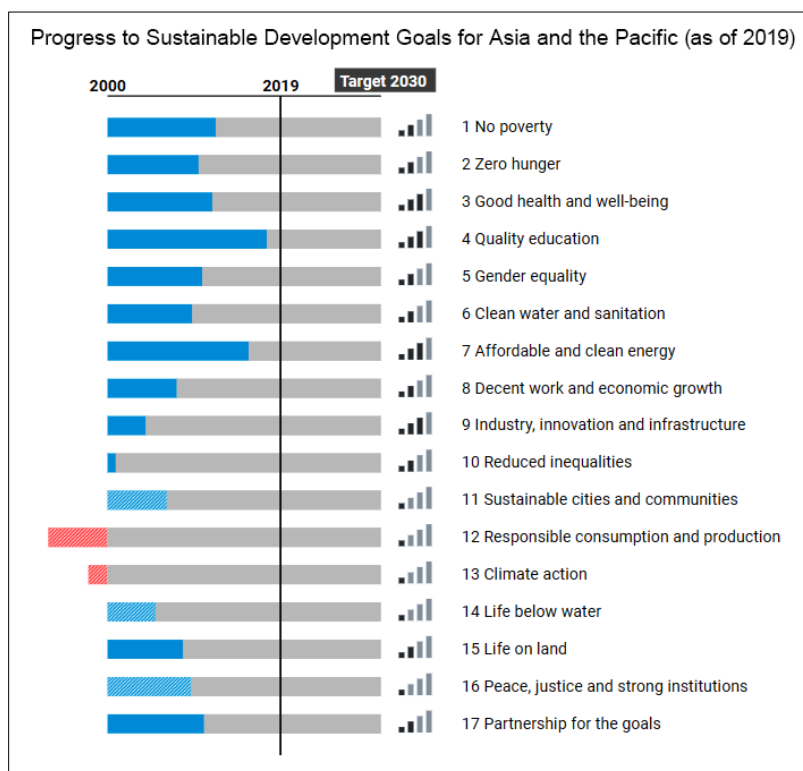


Source: ESCAP (2020a).

1.5 The Singular Focus on Growth Is Holding the Region Back from Its Ambition of Achieving the 2030 Agenda for Sustainable Development

With so little emphasis on people and planet, it is not a surprise that **the region is not on track to achieve the 2030 Agenda**. Too much focus solely on GDP growth after the GFC has worsened the situation. ESCAP (2020b) shows that Asia and the Pacific is not making the anticipated progress towards any of the Sustainable Development Goals (Figure 9). In particular, the region has regressed on the Planet-related Goals, namely Goal 12 *Responsible Consumption and Production* and Goal 13 *Climate Action*. If the current pace continues, the region is not expected to achieve any Goals by 2030.

Figure 9: Asia and the Pacific Is Not on Track to Achieve the 2030 Agenda for Sustainable Development



Note: The vertical black line illustrates the anticipated progress in 2019 if the region was on track to achieve the Sustainable Development Goals. The blue and red bars illustrate the progress of SDGs as of 2019.

Source: ESCAP SDG Gateway, available at <https://data.unescap.org/data-analysis/sdg-progress> (accessed on 24 October 2020).

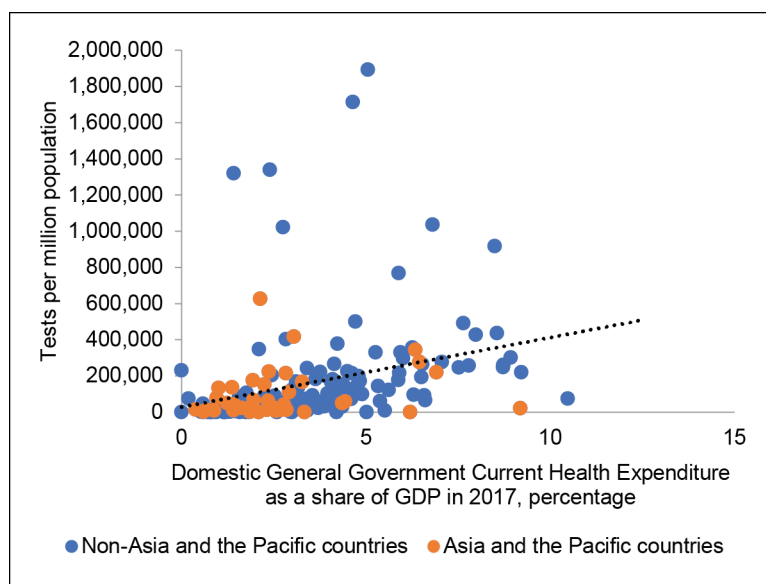
2. CONSEQUENTIAL REACTIONS TO INSUFFICIENT ACTIONS: THE IMPACT OF COVID-19 ON SUSTAINABLE DEVELOPMENT

2.1 Lack of Progress towards the Sustainable Development Goals Has Exposed the Region to the Worst of the Pandemic...

The lack of preparedness to meet the challenges associated with the unexpected outbreak of the COVID-19 pandemic was visible. For instance:

- *Unprepared healthcare systems (Goal 3 Good Health and Well-being)*: Most countries in the region have a relatively low public health expenditure, compared with the rest of the world. Those same countries have also had less ability to conduct tests for COVID-19, hampering the ability even to monitor the spread of the pandemic (Figure 10).

Figure 10: Lack of Investment in Public Health Exposes People to Health Crisis



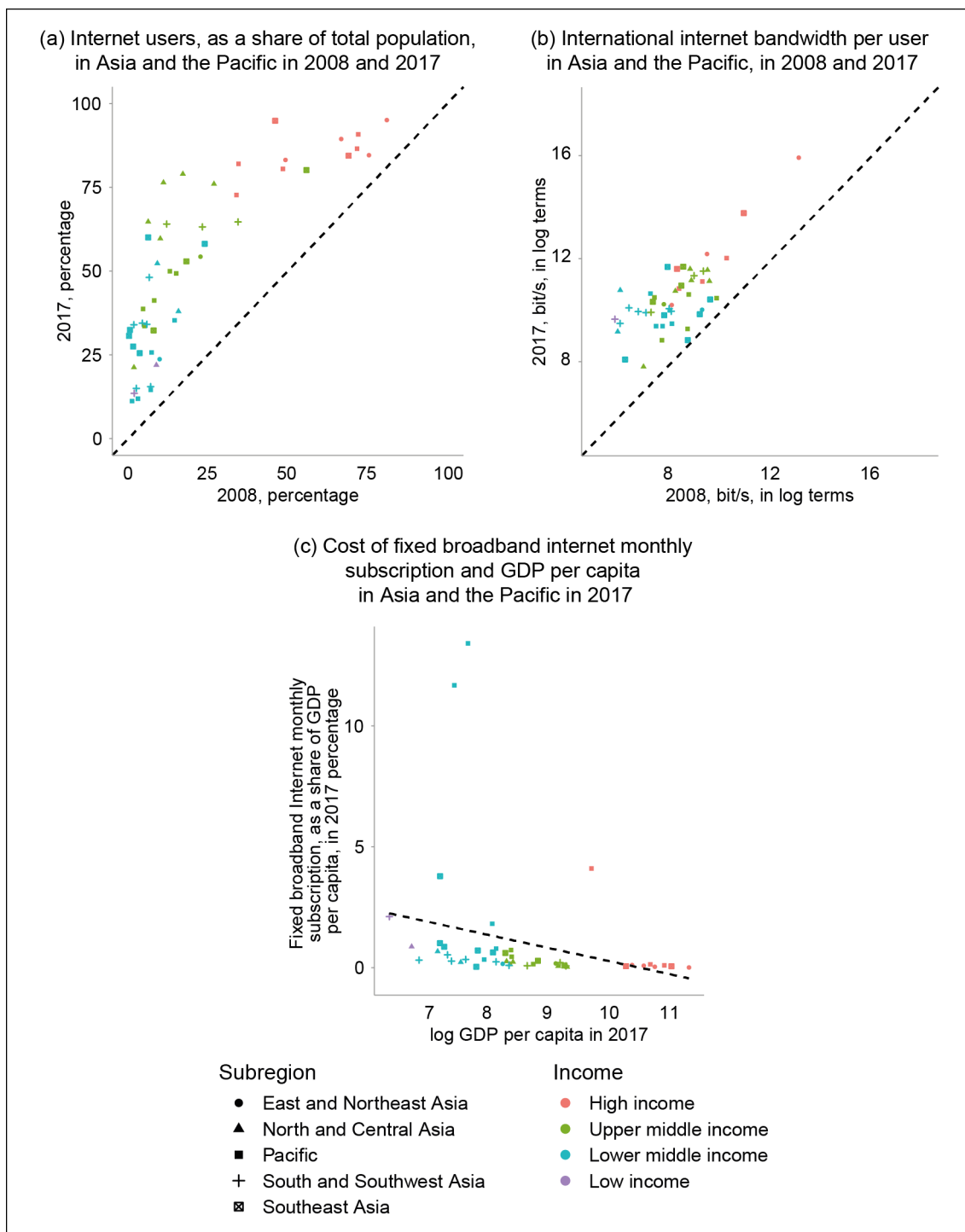
Source: WHO Global Health Expenditure Database, available at <https://apps.who.int/nha/database> (accessed on 1 November 2020) and Worldometers COVID-19 Coronavirus Pandemic, available at www.worldometers.info/coronavirus/ (accessed on 1 November 2020).

- **Lack of running water (Goal 6 Clean Water and Sanitation):** The provision of safe water, sanitation, and hygienic conditions is essential to protect human health during all infectious disease outbreaks, including the COVID-19 outbreak. However, in at least ten countries in the region, more than half of their population lack access to safely managed drinking water.⁹ LDCs and landlocked developing countries (LLDCs) are particularly vulnerable.
- **Lack of digital infrastructure (Goal 9 Industry, Innovation and Infrastructure):** During the lockdowns, some employees could work from home and some students could join online learning. However, the lack of decent digital infrastructure made it difficult, especially for those living in less developed countries. In Asia and the Pacific, even though internet access has improved during the last decade, a large digital divide remains. While most high-income countries have over 75% of the population with access to the internet, the share for low-income countries is below 25% (Figure 11a). What’s more, internet speed in higher-income countries tends to be faster (Figure 11b), while the costs are relatively lower (Figure 11c). Therefore, those living in lower-income countries are more likely to have a lower-quality and higher-cost internet connection to support working and studying from home.

⁹ As of 2017 (latest available data). Source: ESCAP data portal, available at <https://dataexplorer.unescap.org/> (accessed on 1 November 2020).

Asia and the Pacific countries or territories that have more than half of their population without access to safely managed drinking water include: American Samoa, Bhutan, Cambodia, the Lao People’s Democratic Republic (Lao PDR), Mongolia, Nepal, Pakistan, the Philippines, Tajikistan, and Vanuatu.

Figure 11: Lack of Digital Infrastructure and Digital Divide Put the Region at a Disadvantage When it Comes to Working from Home and Online Learning

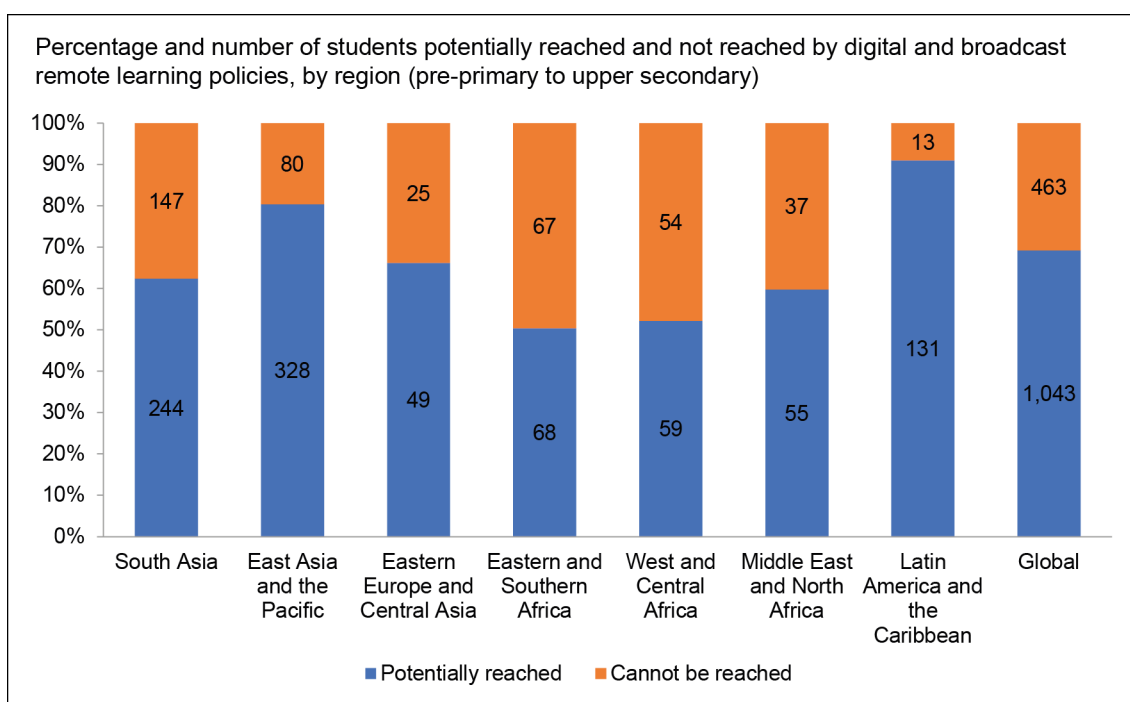


Note: Panels a and b – the dotted lines are 45-degree lines; Panel c – the dotted line is a fitted one.

Source: Produced by ESCAP based on ITU's World Telecommunication/ICT Indicators Database (June 2019 Edition) and World Bank Open Data (accessed on 19 December 2020).

- School closure (Goal 4 Quality education):* Most countries in the region closed schools fully or partially due to COVID-19.¹⁰ At least about 150 million schoolchildren in South Asia and 80 million in East Asia and the Pacific cannot be reached by digital and broadcast remote learning programs enacted to counter school closures, accounting for about half of the world total (Figure 12) (UNICEF 2020). This will deprive children and young people of opportunities for growth and development, especially underprivileged learners who tend to have fewer educational opportunities beyond school. Moving learning from classrooms to homes at scale and in a rush presents enormous challenges. It will be difficult to measure learning to determine admission or advancement to new education levels and institutions. Additionally, the digital divide means that only those privileged with internet access will be able to continue, as discussed above. Some children or young people, especially those in financially distressed families, could permanently drop out when schools reopen (UNESCO 2020).

Figure 12: How Many Students Are Left Behind during the COVID-19 Lockdowns?



Note: The numbers on the bar represent the number of students affected. Unit: million.

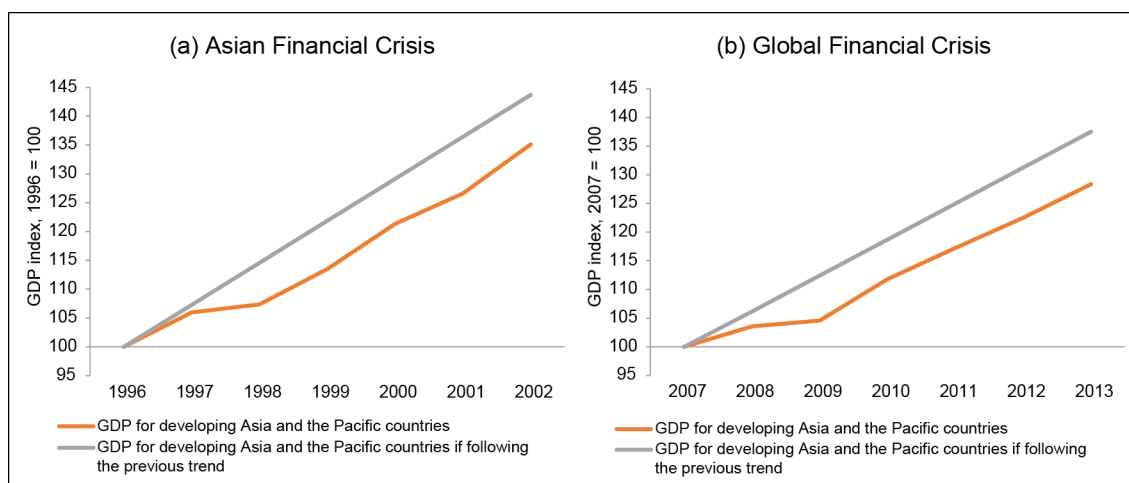
Source: UNICEF, 2020.

¹⁰ Source: UNESCO, COVID-19 Impact on Education, available at <https://en.unesco.org/covid19/educationresponse> (accessed on 1 November 2020).

2.2 ... with the Potential to Overtake the Gains in Socioeconomic Achievements So Far

Moreover, some of the adverse impacts of COVID-19 could set back what the region has achieved towards the Sustainable Development Goals. In particular, the anticipated economic contraction is likely to lead to permanent losses in output (Cerra and Saxena 2005, 2008). In the aftermath of the last two major shocks (the 1997 Asia financial crisis and the 2008 global financial crisis), the region experienced an L-shaped recovery – economic output/GDP fell after the crisis but never reverted to the pre-crisis trend levels, though economic growth returned to normal. This left a permanent wedge between the trend and the actual output (Figure 13). For more vulnerable countries, this threatens their ability to catch-up with advanced economies.

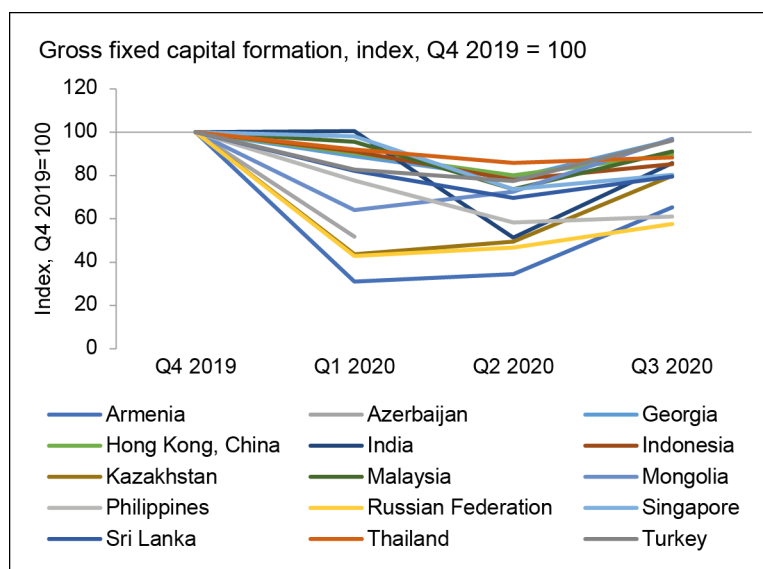
Figure 13: Output Loss: GDP Levels after the Crisis Are Below the Historic Trend



Note: Panel a covers 26 developing Asia-Pacific economies; Panel b covers 44. They are selected based on data availability.

Source: ESCAP, based on World Bank Open Database (accessed on 22 June 2020).

An investment slump with a permanently lower level of capital is part of the cause of the permanent output loss. *First*, a sudden cessation of business activities, such as during the COVID-19 pandemic, slows firms' investment plan implementation. *Second*, the shock to the demand side combined with higher aggregate risk lowers consumer confidence, which leads to a fall in investment. Countries in the region have observed lower levels of investment since the beginning of 2020, which will have an impact in the longer run (Figure 14). *Third*, possible tightening of liquidity conditions could force firms to cut back investment in innovative activities, especially financially fragile firms. Research shows that firms with preexisting balance sheet vulnerabilities cut back on intangible investment more than their less vulnerable counterparts after a crisis. Such investment losses and lower R&D spending during, and in the aftermath, of the crisis could lead to long-term productivity losses (Cerra, Fatás, and Saxena 2020).

Figure 14: Investment Slump during the COVID-19 Pandemic

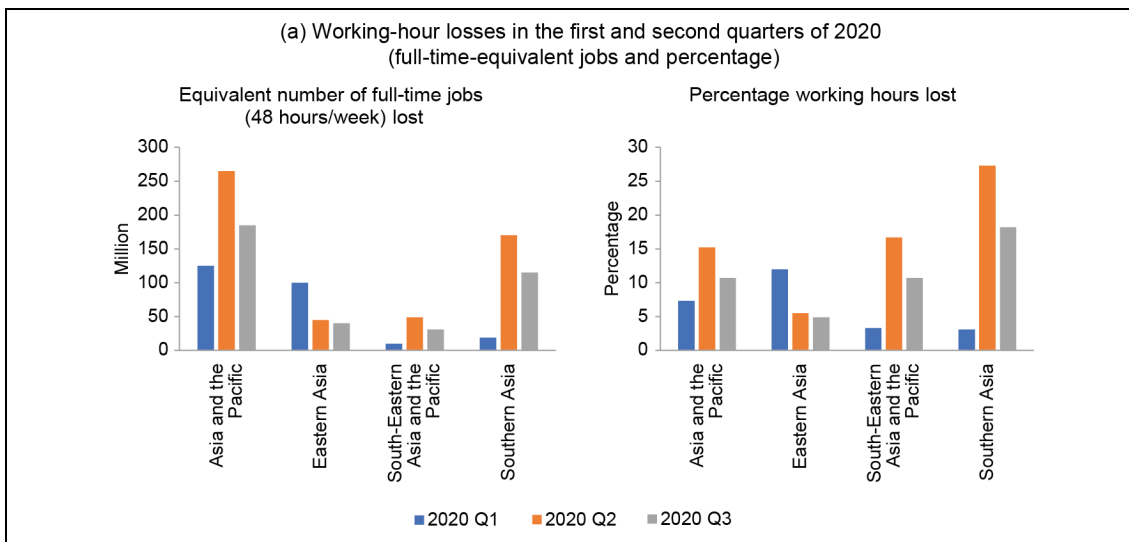
Source: ESCAP based on CEIC (accessed on 24 January 2021).

Another channel through which crises have long-term impacts on output is through the scarring in the labor markets. Workplace closures to cope with COVID-19 have disrupted labor markets. In the Asia and the Pacific region, 10% or 185 million full-time-equivalent **jobs were lost** in the third quarter of 2020, compared with 15.2% (or 265 million jobs) in the second quarter and 7.3% (or 125 million jobs) in the first quarter (Figure 15a) (ILO 2020a). Indeed, some jobs could be done remotely. However, most blue-collar workers or service-sector jobholders are less likely to work remotely than white-collar workers (Figure 15b). Also, taking the **digital divide** into consideration, the region lags behind the world average (18%) in the percentage of the labor force that could work from home (12%), with substantial disparity across the subregions (Figure 15c) (ILO 2020b). In addition, the labor market is facing a real risk of **productivity loss**. The **disruption to schooling** could lead to a **drop in human capital accumulation** (but the actual impact might not be known for some time). Job detachments and persistent unemployment may cause **workers to lose skills** (Mauro and Syverson 2020). The young workers, especially young women, are particularly vulnerable, as many could be “**permanently scarred**” in their search to find a decent job (United Nations 2020a).

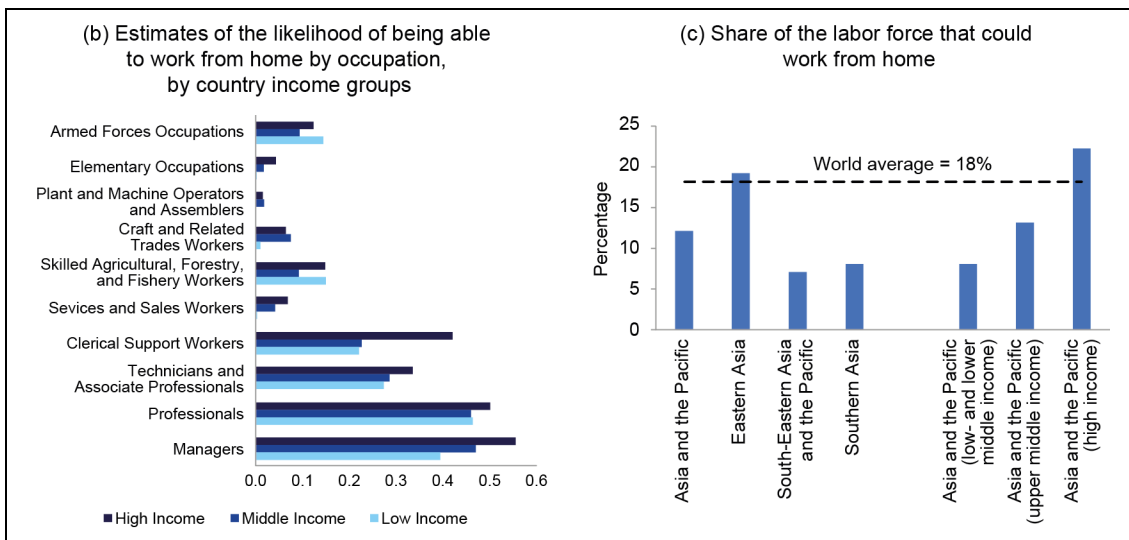
Labor market weaknesses caused by the pandemic are expected to lead to a significant and persistent increase in inequality (Furceri et al. 2020). The within-country inequality worsens because output losses lower employment prospects, especially for those that are low-skilled. Furthermore, the gap between higher- and lower-income countries could widen during the COVID-19 crisis, which would keep the vulnerable countries at a disadvantage with respect to future shocks.

In particular, **COVID-19 would worsen gender inequality**. Women tend to earn less, have fewer savings, are disproportionately more in the informal economy, and are more likely to be burdened with unpaid care and domestic work. Therefore, when crises hit, women bear the brunt of the economic and social fallout. In Asia and the Pacific, more women (50%) than men (35%) in formal employment have reported drops in working time (UN Women 2020).

Figure 15: Impact of COVID-19 on the Labor Market in Asia and the Pacific



Source: ILO (2020a).



Source: ILO (2020b).

Job losses, reduced income, and lack of access to social safety net programs could force people back into extreme poverty. According to the ILO (2020b), the Asia and Pacific region lost 9.9% of labor income in the first three quarters. ESCAP (forthcoming a) estimates that the economic downturn could push 91.3 million people in the region into extreme poverty (\$1.90 per day) and 156.7 million people to go under the \$3.20-per-day poverty threshold by 2021. For LDCs, this would bring their poverty rates back to the levels seen five to ten years ago (with some variation across LDCs).

2.3 However, the Considerable Slowdown in Economic Activity Has Had a Positive Impact on the Environment, but It Will be Short-lived

Despite significant adverse socioeconomic impacts, COVID-19 seems to have given the environment some breathing space. A temporary suspension of business activities mostly pursued in an unsustainable manner, closure of public places, reduced air travel, and lower demand for oil and gas induced by reduced human mobility have resulted in a substantive reduction in emissions of carbon dioxide and nitrogen dioxide, reduced outdoor air pollution, and released land and wildlife pressure. Indeed, the latest data show that air quality (measured by PM_{2.5} concentration) improved in 2020, compared with the same time in 2019, especially during the lockdown periods (Figure 16a).

However, such environmental gains are likely to be short-lived. The level of emissions and other environmental externalities will likely rebound, and perhaps even increase, once the restrictions are relaxed, due to the need to restock depleting supplies and for general economic recovery. Previous crises in the 20th century witnessed a strong and robust rebound of energy demand after the disruptions, and therefore a rebound of CO₂ emissions (Figure 16b). This concern is also evident in the latest data on air pollution (Figure 16a).

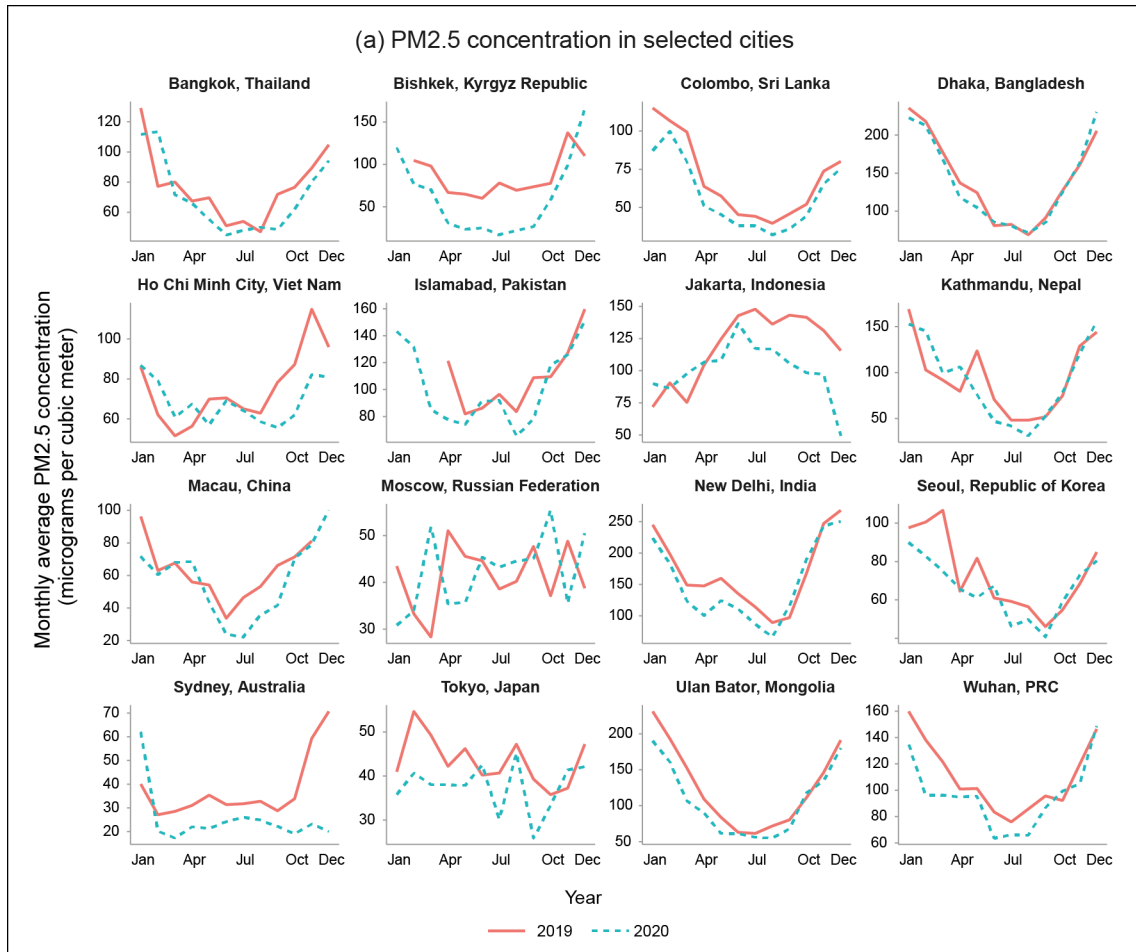
Meanwhile, the pandemic has increased the demand for online shopping and food delivery, **resurrecting single-use plastics for packaging purposes.** For instance, in Singapore, companies have been given an extra year before they must submit plans for reducing the amount of packaging they use (Hicks 2020).

In addition, **coronavirus waste has become a new form of pollution.** To reduce the transmission of the virus, people have increased the consumption of personal protective equipment (PPE), especially single-use PPE. However, PPE, including surgical gloves and masks, is usually made of nonwoven materials that will likely degrade into smaller microplastic pieces.¹¹ Thus, the disposal of such items in open fields will endure the “never-ending story” of plastics in the environment (Silva et al. 2021).

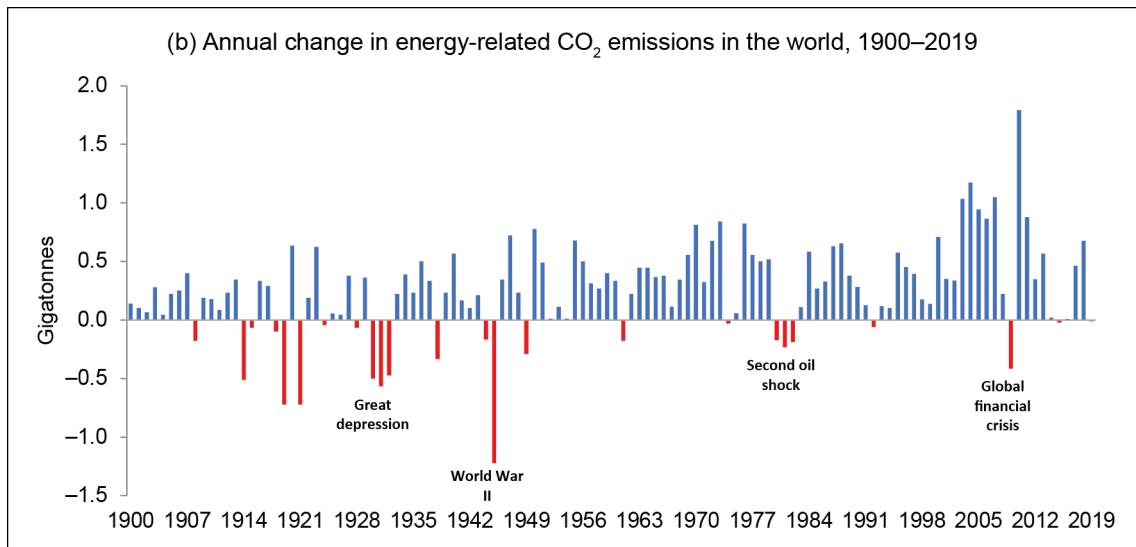
Furthermore, **the dramatic increase in medical waste is overloading the capacity of economies to manage it adequately.** Due to the persistence and high contagiousness of the virus, many economies are classifying all hospital waste as infectious waste, which needs to be incinerated under high temperatures, to allow for sterilization, followed by landfilling of the residual ash (Silva et al. 2021). But not all economies have the capacity to do this. For instance, some Indian municipalities allowed the disposal of medical waste by landfilling and local burning (Corburn et al. 2020). Some of the medical waste has flooded into the oceans. In Hong Kong, China, for example, face masks were found on its beaches and nature trails (Stockes 2020).

¹¹ Research shows that in the Magdalena River, Colombia, the degradation of nonwoven synthetic textiles was the predominant origin of microplastic microfibrils found in both water and sediment samples (Silva et al. 2021).

Figure 16: Environmental Gains during Crises Could Be Short-lived



Source: Air Quality Open Data Platform, available at <https://aqicn.org/data-platform/covid19/> (accessed on 24 January 2021).



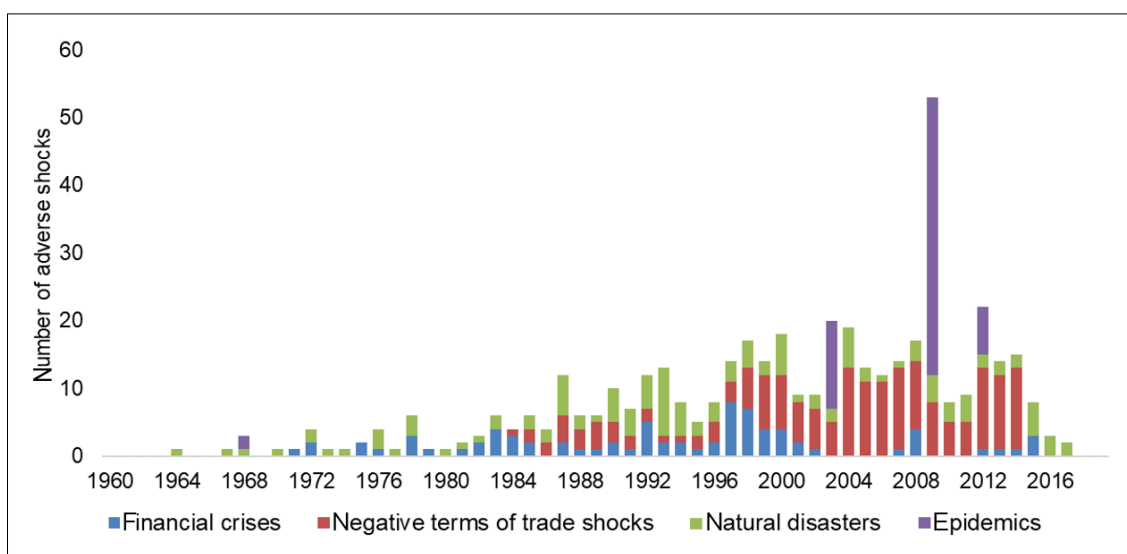
Source: IEA Carbon Brief, available at <https://www.carbonbrief.org/iea-coronavirus-impact-on-co2-emissions-six-times-larger-than-financial-crisis> (accessed on 22 November 2020).

3. LEARNING FROM THE PAST: USING MACROECONOMIC POLICIES TO RECOVER FROM SHOCKS

3.1 All Kinds of Shocks Bring Socioeconomic Challenges for the Region

While COVID-19 is unprecedented, this is not the first time that Asia and the Pacific has experienced adverse shocks. In fact, the region’s recent history shows numerous acute setbacks from financial crises, terms of trade shocks, natural disasters, and epidemics (Figure 17). The number of adverse shocks is on an upward trend in general.

Figure 17: Asia and the Pacific Countries Have Experienced Adverse Shocks
Number of adverse shocks in Asia and the Pacific economies



Source: ESCAP.

Although the causes of these shocks may vary, their impacts on the economy and people’s well-being share commonalities.

- *Permanent losses to economic output.* Recent research shows that shocks could result in a permanent loss in terms of output loss. Even if economies could pump up the GDP growth to the pre-crisis level, this should not be mistaken as recovery, as income levels are likely to be permanently lower than the pre-crisis trend (Cerra and Saxena 2008, 2017). Among different types of shocks, the output loss from economic crises tends to be higher or more persistent. In comparison, the adverse impact of natural disasters could be smaller, especially if countries implement post-disaster rehabilitation effectively. However, given the higher frequency, the aggregate impact of natural disasters could pose a substantial hindrance to productivity (Dieppe, Celik, and Okou 2020).

- *Loss of human capital.* Shocks influence human capital through different channels. *First*, they disrupt labor markets. Persistent unemployment could cause skill losses. *Second*, extreme weather events could destroy schools and hospitals, increasing school dropouts and difficulty in receiving healthcare services.¹² *Third*, pandemics and natural disasters also result in direct loss of lives.
- *Worsened inequality.* Studies show increased inequality in a time of crisis. Vulnerable groups are more likely to lose jobs, be forced into extreme poverty, and lack the resources to support themselves during the crisis and recover, especially in the absence of a social protection system. For instance, ESCAP (2019b) estimates that a 1 percentage point increase in the number of disasters corresponds to a 0.24 percentage point increase in the Gini coefficient (after wealth, education, population, and exposure to hydrometeorological hazards are adjusted).

3.2 Dealing with Shocks: Lessons from the Recent Past

To cope with the adverse socioeconomic impact and drive the economies out of crises, countries in the region usually take proactive policy actions. Examining the policy toolkits together sheds light on their effectiveness, which provides important lessons for post-COVID-19 recovery.

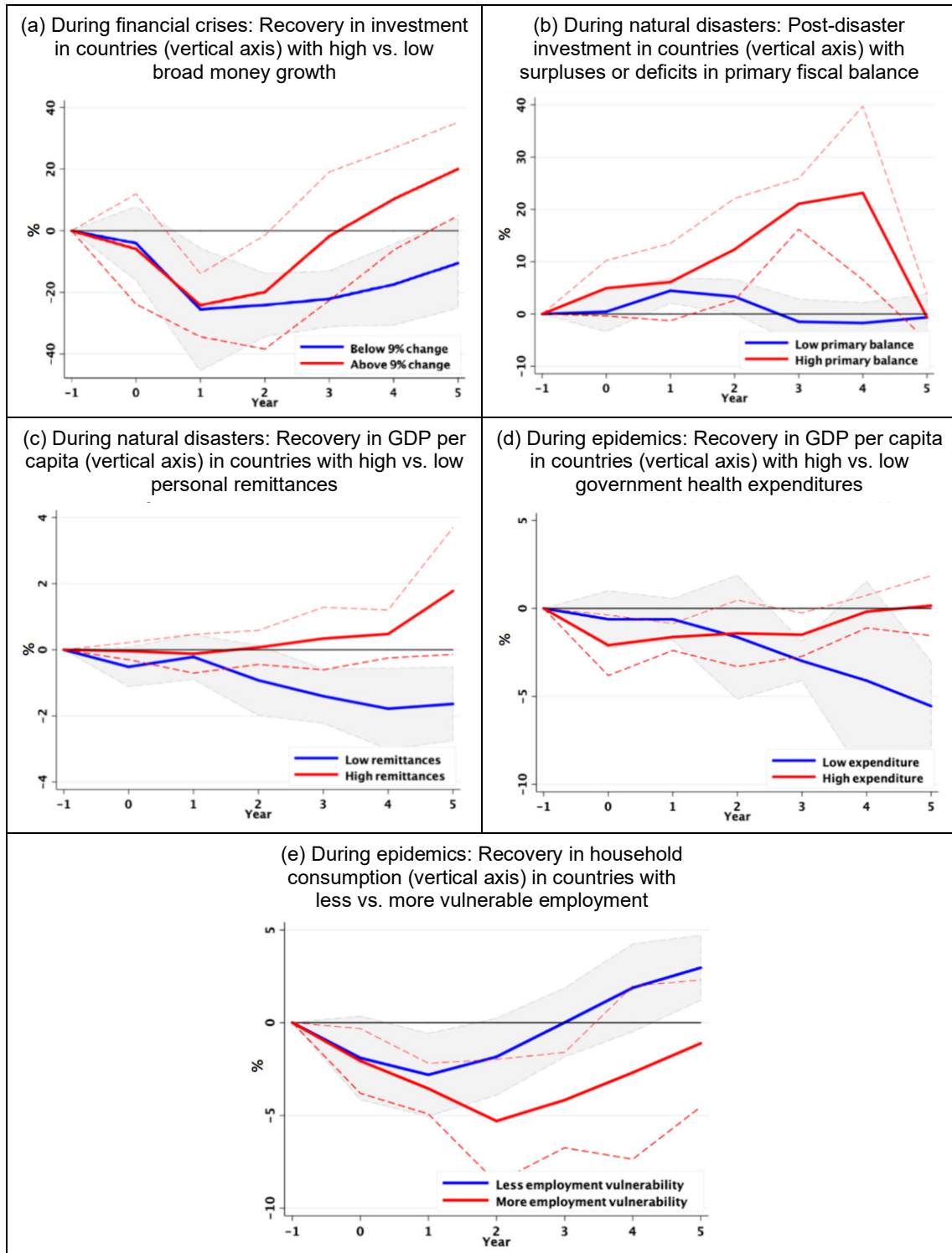
- *Monetary policy* is typically the first line of defense in stabilizing the economy. Monetary easing, in terms of higher broad money growth, supports the growth of investment and therefore economic growth (Figure 18a).
- *Fiscal policy*, both through automatic stabilizers and discretionary measures, needs to step in during major crises. Quickly reprioritizing the budget towards disaster relief is also critical. However, to have fiscal policies playing a more effective role, countries need to build fiscal buffers *ex ante*. Fiscal space, saved for rainy days, can contribute to economic recovery (Figure 18b).
- *Macroprudential measures* can facilitate macroeconomic easing by preserving financial stability and stabilizing price levels. For instance, *official reserves* can act as self-insurance against external shocks.
- *Remittances* can smooth consumption (Figure 18c), while *ODA* can support post-disaster reconstruction.
- In addition, underlying factors such as *human capital*, *social protection*, *infrastructure*, *innovation*, and *governance* could also determine a country's degree of resilience to shocks. For instance, public expenditure on healthcare services and social protection to reduce vulnerable employment could support households' well-being during epidemics (Figure 18d and e).

These policies may not sound unfamiliar to most countries. During the COVID-19 pandemic, Asia and the Pacific countries have rolled out expansionary macroeconomic policies. However, designing policy packages based on past experience may be insufficient, as many of them focus on economic recovery, which should not be the sole aim of the post-COVID-19 recovery. Persistent high inequality and climate and environmental challenges, as reflected in the slow progress towards the Sustainable

¹² However, school enrollment, especially for tertiary education, could increase during economic and financial crises, due to Asian families' commitment to children's health and education in times of crises (Frankenberg and Thomas 2017).

Development Goals, continue to act as a roadblock. We should raise our ambitions beyond economic growth towards a green, inclusive, and resilient future.

Figure 18: Asia and the Pacific Countries' Lessons Learned to Deal with Shocks



Source: ESCAP (2021).

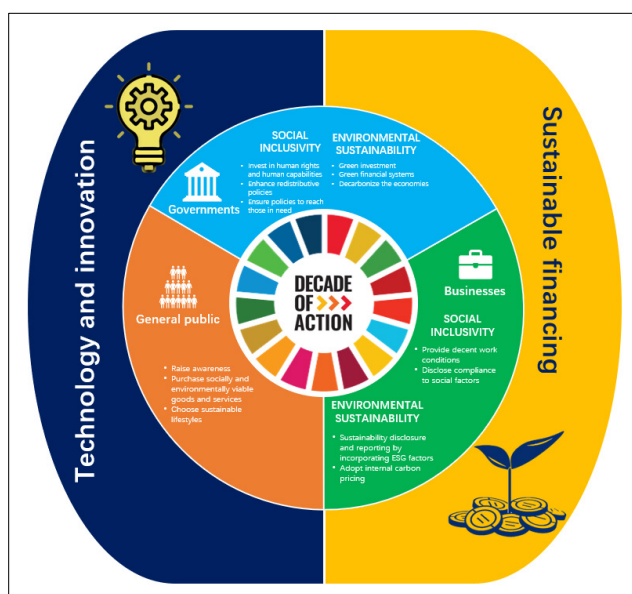
4. THE GREAT REALIZATION: POLICY SOLUTIONS SHOULD “*BUILD FORWARD BETTER*” TOWARDS RESILIENT ECONOMIES

Past crises and recoveries provide a reminder that it will not be an easy ride going forward, and focusing on economic growth alone could bring undesired social and environmental challenges. Therefore, the policies to recover from COVID-19 should ensure that the region will “*build forward better*”¹³ to pursue a more inclusive, greener, and resilient development path that aligns with the ambitions of the 2030 Agenda for Sustainable Development (Huang and Saxena 2020).

4.1 Bring the 2030 Agenda to the Center for a Post-COVID-19 Recovery

One overarching principle for the post-COVID recovery is that countries must put the 2030 Agenda at the center over a GDP-centric growth rebound. Economic growth should serve the well-being of people and the planet. However, too much focus on economic efficiency (or “making the pie bigger”) in the region in the past decades has come at the cost of, for example, rising inequality and leaving the most vulnerable behind, as discussed above. The pandemic provides an opportunity to reset and reprioritize policy to make economies more resilient to future shocks. All stakeholders, namely *governments*, *businesses*, and *the general public*, have a critical role to play in the transition to more inclusive, greener, and more resilient economies (Figure 19).

Figure 19: Move towards More Inclusive, Greener, and More Resilient Economies by Mobilizing All Stakeholders



Source: Authors.

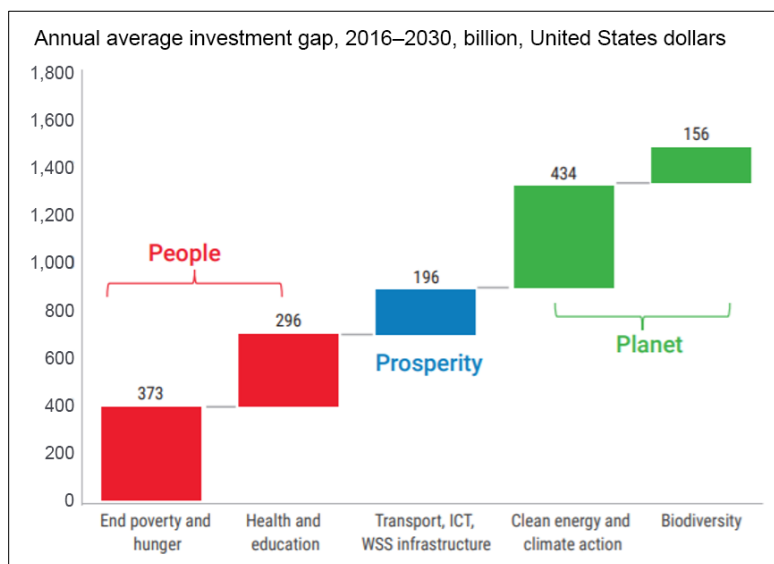
¹³ The term “build back better” was used in the post-disaster recovery. Its usage for post-COVID-19 recovery could give the impression that the pre-COVID-19 world is a desirable norm to return to. However, given the pervasive inequality and environmental degradation before the onset of the COVID-19 pandemic, countries need to have a vision of a better world for times ahead. Hence, they need to build **forward** better.

4.2 Putting PEOPLE First and Leaving No One Behind: Ensuring Social Inclusion to Enhance People’s Resilience to Shocks

To reduce the vulnerabilities of certain sections of the society exposed by the pandemic, it is imperative to improve the lives of those left behind, including their income and access to basic public and social services. Enhancing people’s, especially vulnerable groups’, own capability to deal with shocks could be more effective than governments’ supportive policies in emergency times, because it not only accumulates human capital but also acts as an automatic stabilizer when crises hit.

In this respect, **governments should increase public spending to meet people’s basic human needs** (including eliminating extreme poverty and ensuring food security) **and to enhance human capacities** (in terms of strengthening health systems, accessing quality education, and reducing inequalities). ESCAP (2019a) estimates that the developing Asia and Pacific countries need an additional annual investment of \$1.5 trillion (or 5% of GDP) to achieve the SDGs (Figure 20), including \$669 billion to provide a social protection floor, targeted cash transfer for the poor, nutritious food, quality education, and universal healthcare systems. In particular, an annual additional \$880 million (through 2030) is included to improve the preparedness of the healthcare system for emergent occasions such as a pandemic. The gender dimension should be mainstreamed to all investment aspects. For instance, investment in school and healthcare services should ensure equal access to women and girls.

Figure 20: Investment Gap for the Asia and the Pacific Region to Achieve Sustainable Development Goals



Source: ESCAP (2019a).

One concern regarding macroeconomic supportive policies is whether they can, in reality, reach those in need. To make this happen, **governments should engage the pertinent vulnerable groups in the decision-making process**. For instance, to support women, government should ensure the participation of women and women’s organizations to apply a gender lens in formulating policy responses to achieve greater equality, opportunities, and social protection (United Nations 2020b). Moreover,

governments should increase their own capacity to collect real-time data to understand the vulnerability of different groups to form targeted policies.

In addition to investing in people, governments should also use macroeconomic tools to address the persistent inequality issue. **Developing countries could use more redistributive policies** to support lower-income groups.

Moreover, another aspect to strengthen people's resilience is to protect employment, which requires actions by businesses. **Businesses should contribute to the post-COVID-19 recovery by respecting and securing the fundamental rights of the workers** (e.g., no forced or compulsory labor and abolition of child labor) **as well as the rights of workers in terms of conditions of work safety and remuneration.**

Meanwhile, in the wake of rising socially conscious investors, **businesses should take broader social factors into consideration in their entire production process**, such as consumer protection, product safety, diversity, and respect for human rights, including throughout the supply chain. These factors can affect a company's financial performance, ranging from short- to long-term challenges. Therefore, they can influence socially conscious investors' investment decisions (see more discussion on ESG investment below).

The general public should **raise its awareness of social inclusivity and reveal its preference for goods and services provided by socially responsible companies.** This can in turn influence the behavior of businesses. At the same time, **they should engage themselves in dialogues with governments, if possible, to ensure service delivery**, as discussed above.

4.3 Greening the Recovery: Decarbonizing the Economies to Enhance Climate Resilience

As people have experienced the environmental benefits (lower CO₂ emissions and air pollution) of lockdowns (even if temporarily), **now is the time to lock in climate initiatives in the recovery packages.** Climate change is the defining issue of our time and the rising occurrence of natural disasters has severely affected people's lives and livelihoods. However, unlike the pandemic, which is an acute crisis that has received immediate policy attention, climate change is a chronic one with insufficient policy actions taken to address it. For instance, among the announced stimulus packages, the focus on environment has been limited (Figure 21). To come out of the crisis without imposing a further burden on the environment and ideally with reduced climate risks, **governments** need to deliberately embed environmental sustainability into all policies going forward.

- **Increase green public investment to create jobs:** ESCAP (2019a) estimates that developing countries in the region need to invest an annual additional \$590 billion in clean energy, climate resilience for basic infrastructure, resource use efficiency, and conservation of nature for a greener future (Figure 19). Research shows that investing in the renewables sector to limit temperature rises to within 2 °C (compared to pre-industrial levels) can create a net increase of 14 million jobs (ILO 2018), which could partially offset the job losses during the pandemic. And these green jobs are more secure.
- **Green the financial system:** As new investments are needed to move towards a low-carbon economy pass through the financial sector, governments should take measures to green the financial systems.

- *Enforce environment-related disclosures and reporting:* Central banks and financial regulators need to incorporate environment and climate risks into their supervisory mechanisms. To achieve this, they should enforce sustainability reporting, disclosure, and transition. Joining the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) could be two options. The **TCFD**, established in 2015, is a voluntary initiative to increase transparency and disclosure on financial exposure to climate-related risks. Governments can incorporate TCFD implementation guidelines and align them with their domestic reporting and disclosure regulations. In addition, the **NGFS**, also on a voluntary basis, provides a platform for central banks and supervisors to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and mobilize mainstream finance to support the transition toward a sustainable economy. As of mid-November 2020, 15 countries and territories¹⁴ in the region have become members of NGFS.
- *Provide monetary and regulatory incentives to foster green finance:* Monetary authority and financial regulators could design interest rates specifically for green projects (such as differential rediscount rates for green investment), or encourage financial institutions to provide subsidized loan rates by lowering the cost of credit or improving financial flows (e.g., adjusting certain assets' risk weights). State-owned development banks can introduce specific lending terms and conditions for green projects. Since green projects are sometimes exposed to risks derived from adopting new technologies or business models, countries can also provide credit support and government guarantees for new loans.
- *Green FDI:* In addition, countries can also adjust their inward and outward foreign direct investment (FDI) policy in order to channel investment into sustainable projects. Host countries (recipients of FDI) and home countries (originators of FDI) should work together, with the former establishing an enabling environment (e.g., tax incentives and provision of targeted industries) and the latter focusing on sustainable projects. This greening of FDI will reduce carbon-intensive investments and increase green technology transfers. There is some progress in this respect. For instance, India has set up a dedicated investment promotion agency, *Invest India*, to attract environmentally friendly FDI into the country.

Given the cross-border nature of FDI, a global platform could be set up to facilitate investment projects. The platform will coordinate, resolve, and monitor potential disputes and actions of both home and host countries, so that investors may feel more at ease placing their investments in sustainable projects, thus increasing their willingness to partake in green FDI.

¹⁴ The 15 economies and territories are: Armenia; Australia; Cambodia; the PRC; Hong Kong, China; Georgia; Indonesia; Japan; Malaysia; New Zealand; the Philippines; the Republic of Korea; the Russian Federation; Singapore; and Thailand.

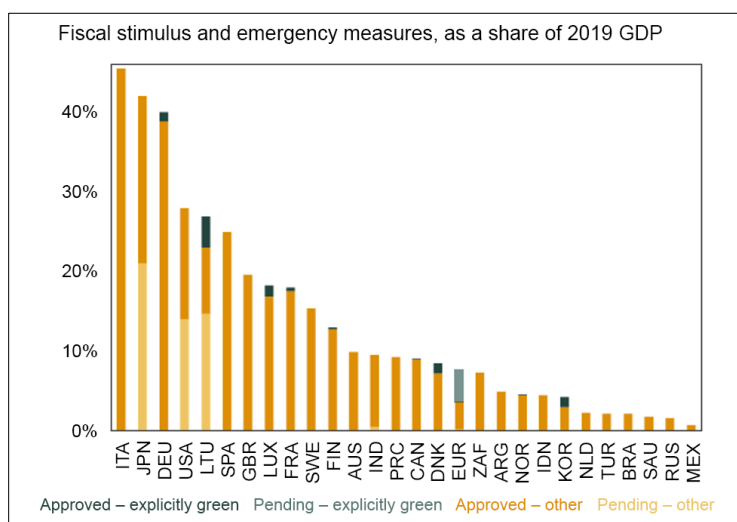
Source: NGFS, available at www.ngfs.net/en/about-us/membership.

- **Decarbonize the economy to create fiscal space and reduce carbon emissions:**

- *Eliminate fossil fuel subsidies:* Fossil fuel subsidies are popular in Asia and the Pacific. In 2018, fossil fuel subsidies (\$240 billion) exceeded the investment in renewables (\$150 billion in 2018) (ESCAP 2020a). They encourage overuse of fuels and are highly regressive. Hence, fossil fuel subsidies should be eliminated. A recent study suggests that eliminating oil and gas subsidies alone could have reduced global carbon emissions by 5–6 % in 2015, and by 28% if coal subsidies had also been eliminated (Coady et al. 2019). This policy not only protects our planet but also generates fiscal revenue to support the financing needs during the recovery. Fiscal savings from subsidies can fully or largely cover the announced fiscal packages (Figure 22). That said, to ensure a *just* transition following the removal of subsidies, targeted financial support for the poor must be instituted.
- *Implement carbon pricing:* Putting a price on carbon could incentivize a shift towards clean energy to reduce the competitiveness of polluting industries and increase the use of green technologies and energy. Carbon pricing typically refers to carbon tax and an emissions trading system (ETS); while the former sets the price, the latter sets the emission reduction target. For the region, if carbon taxes of \$35 per ton and \$70 per ton were imposed in the two scenarios shown in Figure 23a, carbon emissions would fall significantly. Although 16 emissions trading schemes have been established, prices vary considerably across existing schemes, ranging from about \$1 to \$29 per ton (Figure 23b), which is substantially lower than the required range estimated in most studies.

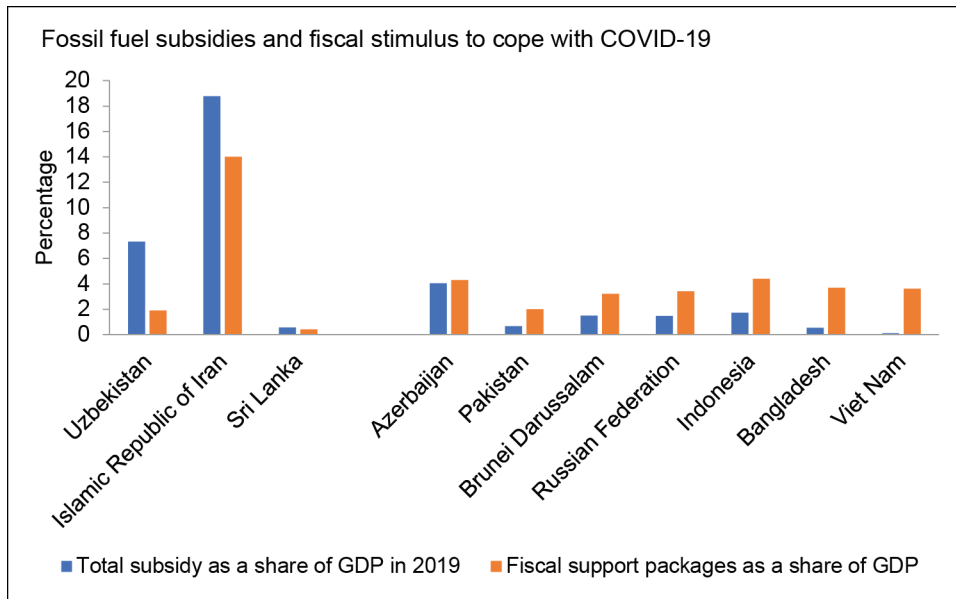
Moreover, globally and ideally, a uniform carbon tax and a carbon market covering all jurisdictions would be the most efficient way to mitigate emissions. Linking the national and subnational carbon markets in the region would widen the range of emission reduction options, disincentivizing carbon leakage to jurisdictions with less stringent climate policies.

Figure 21: Lots of Fiscal Stimulus, but It’s Not Very Green



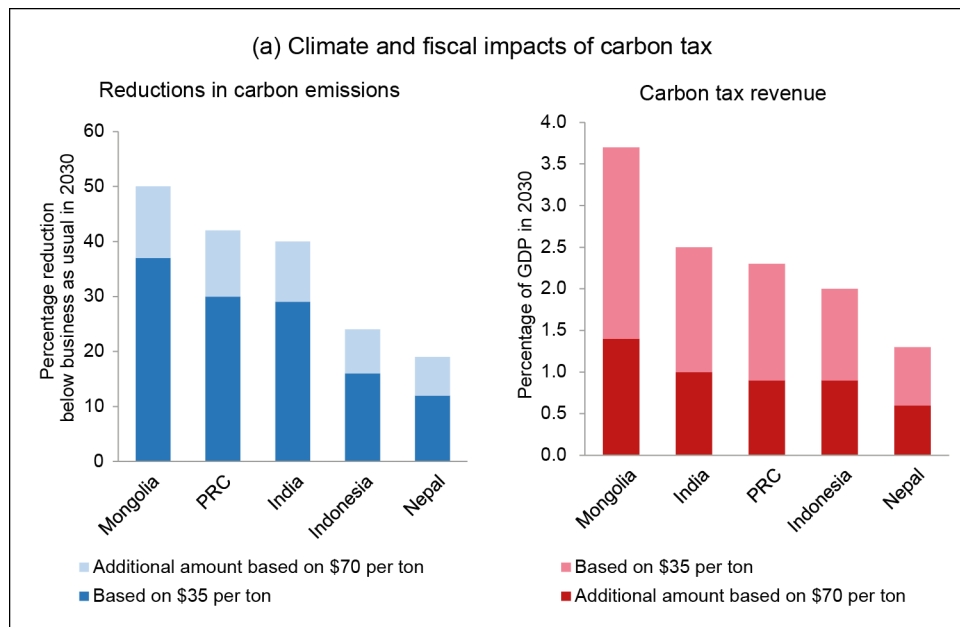
Note: The policy packages in the figure provide information as of June 2020.
 Source: IIF (2020).

Figure 22: Eliminating Fossil Fuel Subsidies Can Generate Fiscal Space to Finance Recovery



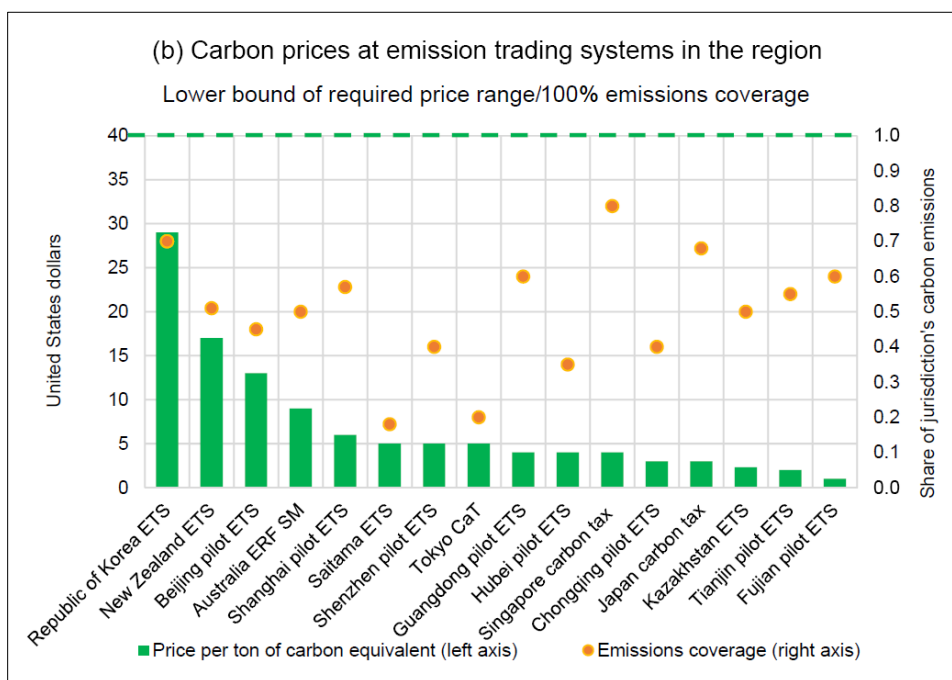
Source: IEA, Energy subsidies database; ESCAP, based on information available up to 28 August 2020 from IMF Policy Responses to COVID-19, ILO COVID-19 Country Policy Responses, OECD Country Policy Tracker, and various national sources.

Figure 23: Introducing Carbon Pricing to Catalyze Low-Carbon Transitions



Source: ESCAP 2020a.

Figure 23 continued



Note: ETS = emission trading system, CaT = cap and trade, ERF SM = emissions reduction fund safeguard mechanism. Source: ESCAP 2020a.

Businesses should facilitate the transition to greener and more resilient economies by internalizing the externalities of their business operations. Businesses maximize profits to enhance the returns to their shareholders. However, the recent subscription of major businesses around the world to “stakeholder capitalism”¹⁵ would require them to account for the damages done to the environment.

- Incorporate ESG considerations in making decisions:* In order to better manage risks and improve returns, businesses need to explicitly and systematically include environmental, social, and governance issues in investment analysis and decisions (Box 1). If businesses adopt transparency by disclosing their record on ESG factors, they are likely to attract more investment. In India, ESG investing has started to gain traction with the launch of dedicated ESG funds and asset management companies signing up for the United Nations Principles for Responsible Investment. The size of ESG-linked assets stands at \$30 billion and is expected to grow to \$240 billion in the next 10 years (Yes Bank 2019). The returns to such transparency are already evident as the majority of ESG funds have outperformed wider market funds over the last ten years.

¹⁵ In August 2019, the Business Roundtable, a group of chief executive officers of nearly 200 major US corporations, issued a new statement on the purpose of a corporation. The CEOs commit to leading their companies for the benefit of all stakeholders – customers, employees, suppliers, communities, and shareholders. In November 2019, the UK’s Institute of Directors also required businesses to balance the interest of shareholders with workers, the supply chain, and other stakeholders. Meanwhile, the Asian Business Summit made climate change a priority agenda for the first time in its 10th Joint Statement (October 2019) and committed to discuss the issues in fostering sustainable development in its 11th Joint Statement (November 2020). In January 2020, the World Economic Forum made “stakeholder capitalism” the theme of its annual meeting, discussing it with nearly 3,000 global leaders, including those from the Asia and Pacific region.

Signing up for membership in the United Nations-supported Principles for Responsible Investment (UNPRI) and following the Task Force on Climate-related Financial Disclosures (TCFD) guidelines can steer businesses to incorporate ESG considerations in their business activities. The UNPRI provides clear instructions on how to incorporate ESG into ownership policies and practices, investment analysis, and appropriate disclosure. And the TCFD framework facilitates understanding of the environment's impact on a business instead of a business's impact on the environment. This enables businesses to assess which areas of their activities are affected by climate change and ultimately allows them to make decisions on the areas that need to be greened. So far, about 15% of the PRI's signatories are from the Asia and Pacific region. For the TCFD, most of its 43% of signatories from the Asia and Pacific region are from developed countries (namely Australia, Japan, and New Zealand).

In the same vein, governments in the region, especially those of the developing countries, should encourage sustainability reporting and use regulations or rules to nudge businesses to incorporate ESG factors in daily operations, as discussed above.

- *Adopt internal carbon pricing:* One way for businesses to reflect the true costs of their activities is to put a monetary value on GHG emissions. There is a growing business consensus that carbon pricing is the most effective way to cut carbon emissions. Of the companies worldwide that have disclosed the use of – or plan to – implement carbon pricing, 35% are from the region. For instance, Mahindra and Mahindra, a major utility vehicle and farm solutions company in India, established an implicit carbon price of \$10 per metric ton of carbon dioxide emitted (ESCAP 2020a).

Box 1: What Is ESG?

ESG stands for “Environmental, Social, and Governance.” In detail:

- Environmental concerns the rising threat of climate change and depletion of resources, and the urgent need to eliminate externalities from GHG emissions, waste, and pollution;
- Social concerns basic human rights, equal access to services, reducing inequality to opportunities, welfare of people and animals, decent work, diversity, etc.;
- Governance requirements concern improvement of institutions to reduce corruption, enhance efficiency, and improve transparency.





“ESG investing,” also known as “sustainable investing,” is an umbrella term for investments that seek positive returns and long-term impact on society, environment, and the performance of the business.

Source: ESCAP 2020a.

The general public can contribute to green recovery by choosing sustainable lifestyles. The will and action of individuals translate into the will and action of the society. The pandemic has shown that our actions can impact others, e.g., wearing masks and keeping social distance. At the same time, it has also helped people learn to distinguish between needs (that are limited) and wants (that are unlimited). Hence, moving forward, choosing lifestyles that minimize the use of natural resources and reduce our carbon footprint will help us coexist with nature (Figure 24). Additionally,

more importance needs to be given to mindful living – a state of life that reduces mental stress and improves cognitive ability and productivity.

Figure 24: Choosing Sustainable Lifestyles

	✓ DOs	✗ DON'Ts
 FOOD	Plant-based diet and eating what you need	Animal-based diet and food waste
 TRANSPORTATION	Biking, ride-sharing and commuting on public transportation	Driving and excessive air travel
 HOUSING	Using energy-efficient appliances and reducing energy usage	Using energy-intensive appliances and consuming excessive energy
 CLOTHING	Reducing clothes and buying only what you need	Buying single-use clothes and discarding clothes that are in good condition

Source: ESCAP 2020a.

Governments and businesses can also help consumers move towards sustainable lifestyles through nudging. Nudges can include positive reinforcements, small suggestions, or changes in choice architecture intended to influence the behavior of consumers. In principle, if a behavior is recommended, governments and businesses should make it easy to help people make such sustainable choices. For instance, Singapore has introduced a mandatory energy label on electric appliances to encourage the purchase of energy-efficient products (ESCAP 2020a).

4.4 Invest in and Leverage New Technology and Innovation to Foster the Transition to More Inclusive, Greener, and More Resilient Economies

Technology is a cross-cutting issue that can accelerate the needed development transition with innovative solutions. For instance, during the COVID-19 pandemic, the use of AI and new technology has risen to the occasion, not least in finding cures for new diseases, but also in controlling the spread of the pandemic. Currently, such technologies are being used effectively to track infected people for containment purposes.

In addition, in order to ensure that policies reach those that are most in need, governments would need real-time high-quality data on the socioeconomic conditions of the vulnerable, as discussed above. Big data could contribute to this purpose.

Moreover, the pandemic could have permanently changed the way we work. Working from home and participating in virtual meetings can become a new norm so that people can maintain a good work-life balance and improve their levels of satisfaction and productivity, while at the same time reducing their carbon footprint by decreasing travel within and across countries. Likewise, new technology has enabled online learning, and can further support improvements in the education system.

All such innovative solutions would require people to have access to the internet. ESCAP (2019a) estimates that **the developing countries in the region will need to invest an additional \$56 billion per year in ICT infrastructure, with built-in climate resilience**. In addition to access to ICT facilities, **governments should also secure affordability for all**. This includes classifying pricing services based on regions and income levels and subsidizing the price of devices (ESCAP 2019a).

While new technologies have provided innovative solutions to cope with the current pandemic and enhance resilience, going forward, more precaution is needed to enhance cyber security and check the power of governments and corporations, or we will risk losing control over privacy and other human rights.

4.5 Manage Surging Debt Risks and Mobilize Financing for Transition to Resilient Economies

The post-COVID-19 transition to resilient economies requires scaling up of investments that provide environmental and social benefits. The public sector plays a major role. However, public financial resources are not unlimited. **Better governance and institutions can counteract the impact of higher public spending, such as by improving investment efficiency**. The efficiency of investment in the developing Asia and the Pacific region is lower than the global average. ESCAP (2019a) finds that these countries could achieve similar levels of output and outcomes in health and education sectors using 30% fewer resources than they currently do. The potential savings through efficiency gains are even higher in the infrastructure sector, at more than 50%. To increase investment efficiency, countries should strengthen public financial management institutions (including project appraisal, selection, and management), improve coordination across government agencies (speeding up the process to issue construction permits, environmental clearance, and land acquisition), and ensure services delivery for the targeted beneficiaries (ESCAP 2019a).

However, increasing public spending for post-COVID-19 recovery is critical, especially to transition towards more inclusive, greener, and more resilient economies. The needed public spending is substantial. During March and September 2020, Asia and Pacific developing countries announced an estimated \$1.8 trillion, or 7% of their GDP, in COVID-19 fiscal support packages.¹⁶ The poorest and the most vulnerable countries had to rely on relatively small relief packages, at the risk of delaying the recovery. Higher spending and lower revenues (government revenue tends to be lower due to economic disruptions) suggest that the region will see a surge in public debt similarly to the rest of the world.

¹⁶ ESCAP estimate.

In the immediate term, international cooperation and coordination are much needed for a temporary debt standstill and targeted debt relief. For instance, the Group of 20 (G20) agreed a time-bound suspension of debt service payments for the world's most needy countries. As of September 2020, the multilateral development banks and international financial institutions had provided rapid support of close to \$40 billion to the Asia and the Pacific countries, including concession loans and debt services relief (Huang and Shim 2020). **Countries also signed new currency swap lines** with the US Federal Reserve **to address an acute liquidity crunch**, such as the Republic of Korea (The Korea Times 2020). In the medium to long term, countries should still focus on strengthening macroeconomic conditions to manage debt, while cultivating the local/regional capital markets and attracting domestic and international investors.

To supplement public financing, **countries could also mobilize private funding through innovative financing tools and instruments**, such as green, social, and sustainability bonds as well as sustainability-linked bonds. Green, social, and sustainability bonds refer to any type of bond instruments where the proceeds will be exclusively applied to eligible environmental and/or social projects. Sustainability-linked bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives. The private sector has shown increasing interest in sustainability-related investments, given their increasing awareness of sustainability's impact on long-term return. In the Asia and the Pacific region, so far companies from at least 15 countries have issued green bonds, seven have issued social bonds, and ten have issued sustainability bonds (ICMA 2020). Governments could consider embedding sustainability into the financing projects and attracting private investors.

Furthermore, **countries should set up effective collective emergency financing mechanisms to prepare for future shocks.** Studies show that only about one third of countries in the world can respond sufficiently well to public health emergencies, partly as a result of inadequate financial resources and rigid emergency responses, which result in slow and costly delivery of support (Osewe 2017). An effective emergency financing mechanism tends to provide quicker and larger financial assistance during emergencies. Such speed and scale of spending is essential to limit the devastating impacts of shocks. Some subregional groups in Asia and the Pacific have taken related action. For instance, the South Asian Association for Regional Cooperation (SAARC) set up an emergency fund in response to the pandemic. Such mechanisms enhance preparedness to deal with future shocks. In the longer term, an effective emergency financing mechanism will also help countries to reduce fiscal contingent liabilities (as prearranged financing options generally have lower financing costs), face smaller post-event budgetary disruptions, and improve public financial management.

5. CONCLUSION

Asia and the Pacific is not on track to achieve the Sustainable Development Goals. Although there has been progress in eliminating extreme poverty, such achievements appear more mediocre when we raise our ambitions any higher. The outbreak of the pandemic offers an opportunity for us to pause and realize that we could have blue skies, clean rivers, and a world where no one is left behind. When dealing with the last crisis, i.e., the global financial crisis in 2008, countries put too much effort into reviving economic growth alone, which has come at the cost of persistent inequality in income and opportunity as well as rising climate risks. Designing policy response to cope with COVID-19 and to recover is an opportunity for us to embrace course correction and

pursue a more inclusive, greener, and more resilient future through domestic and global partnerships. Such a transition calls for governments to align recovery packages and upcoming budgets with the 2030 Agenda for Sustainable Development and integrate ESG factors. All stakeholders can play an integral role.

Where there's a will, there's a way. The COVID-19 pandemic has highlighted the reality that governments *can* move quickly and do the unthinkable. The window of opportunity for bold policy actions to change the unsustainable path is unprecedented. Choosing to return to the pre-COVID-19 status quo would constitute the missed opportunity of a lifetime!

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