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Macroeconomic impact of Covid-19 in developing Asia

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ADB Working Paper Series

MACROECONOMIC IMPACT OF COVID-19 IN DEVELOPING ASIA

Yasuyuki Sawada and
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Abstract

This paper summarizes unprecedented adverse health and economic impacts as well as policy responses in the Asia and Pacific region and the rest of the world generated by the coronavirus disease (COVID-19) pandemic in 2020. By the end of 2020, over 80 million people had been infected, with developing Asia accounting for 17% of cases. As the pandemic progressed, the Asian Development Bank (ADB) carried out assessments of the impacts on the global economy as well as on the overall economies of its developing members, updating the analyses as more information became available. On the whole, five economic impact assessments were undertaken in 2020 – one each in March, April, May, June, and December. Based on the latest analysis, relative to a no-COVID-19 baseline, global losses were estimated at 5.5%–8.7% of world GDP in 2020 and 3.6%–6.3% of world GDP in 2021, with the corresponding losses for developing Asia amounting to 6.0%–9.5% of regional GDP and 3.6%–6.3% of regional GDP in 2020 and 2021, respectively. These impacts largely originate from declines in domestic demand and tourism, and from global spillovers. As a result of these losses, real GDP of the developing Asian region is estimated to have contracted by 0.4% in 2020. A partial recovery is expected in 2021, with regional growth projected at 6.8%. Further analyses were carried out to study the impacts on: micro, small, and medium-sized enterprises; employment; migration and remittances; poverty; nonperforming loans; and debt sustainability. Faced with wide-ranging unfavorable impacts, governments and multilateral lenders responded aggressively to mitigate the adverse effects of the pandemic. Many governments provided direct income support to households and businesses to help them cope with the economic shock. Meanwhile, multilateral lenders like ADB readily provided support in terms of finance, knowledge, and partnerships. In addition, ADB launched a \$9 billion vaccine facility, the Asia Pacific Vaccine Access Facility, in December 2020, to support its low- and middle-income member countries in the effective procurement and delivery of COVID-19 vaccines. Despite the availability of vaccines, however, there is no room for complacency, as it will take years for the global population to achieve herd immunity, especially amidst the emergence of new, more transmissible, virus strains. While COVID-19 has brought about long-lasting changes to the global economy, it is up to policymakers to use this opportunity to adapt COVID-19 responses to address longer-term challenges.

Keywords: COVID-19, economic impact, policy response

JEL Classification: E17, H3, H6, I15, I32

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1. COVID-19—A GLOBAL HEALTH CRISIS

While individuals, businesses, and communities have persistently been exposed to a variety of natural hazards and manmade disasters (Sawada 2007), the COVID-19 pandemic evolved to be a global biological disaster that is one of the most serious and catastrophic events in human history. Mainly based on the Asian Development Bank's recent studies on developing Asia and the Pacific, this paper reviews the basic nature of COVID-19 as a global health crisis and its macro impacts on national and regional economies as well as policy measures to tackle the impacts of the pandemic in building a more resilient and sustainable new normal (Susantono, Sawada, and Park 2020).

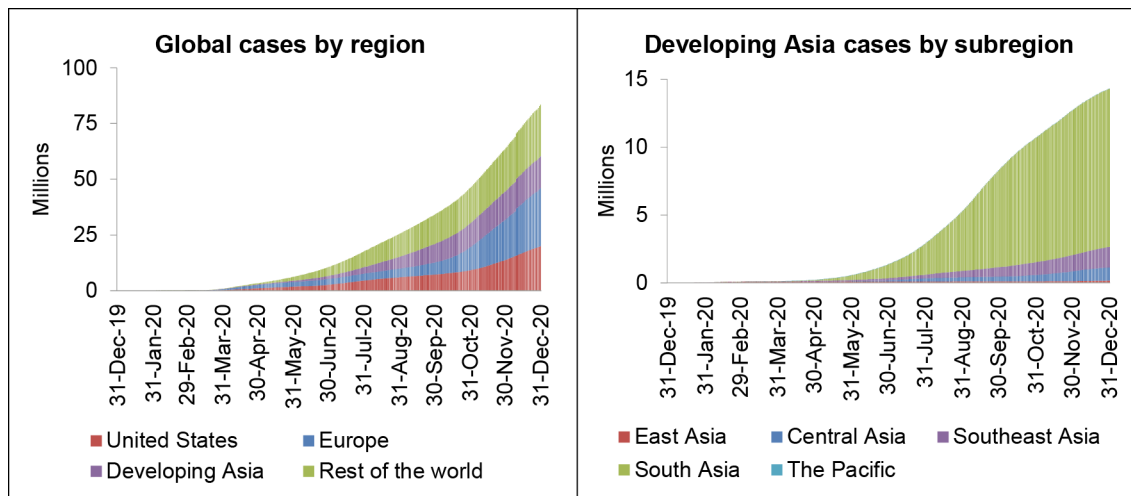
The coronavirus disease (COVID-19) has spread to every continent in the world. What started as a series of pneumonia cases of unknown cause in Wuhan Province, the People's Republic of China (PRC), quickly turned into a public health emergency of international concern. The disease spread rapidly within the PRC and beyond, surpassing the total cases and deaths from the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003 and the Middle East Respiratory Syndrome (MERS) outbreak in 2012.¹ The pace and extent of the disease's transmission ultimately led the World Health Organization to declare the COVID-19 outbreak a pandemic on 11 March 2020.

The number of cases continues to rise, both globally and within developing Asia. As of 31 December 2020, COVID-19 had afflicted nearly 83.5 million people in 218 countries and territories, with a global death toll of over 1.8 million. While the first case was reported in the PRC, by the end of 2020, the US accounted for 24% of total cases (Figure 1, left panel). Developing Asia accounted for 17% while Europe's share was 31%. Australia, Japan, and New Zealand, collectively accounted for less than 0.5% of cases worldwide. Within Developing Asia's 14.3 million infections, South Asia had recorded the largest share of cases, followed by Southeast Asia, Central Asia, East Asia, and the Pacific (Figure 1, right panel). Daily new cases in the region were still high, reaching an average of over 40,000 in the fortnight ending 31 December 2020. Of ADB's 46 developing members, 25 economies had domestic outbreaks of 1,000 cases or more.

The 1918–1920 Great Influenza Pandemic provides plausible upper bounds for outcomes under COVID-19. While the COVID-19 epidemic was initially compared frequently with the SARS and MERS epidemics, it has turned out to have far more substantial impacts. Barro Ursua, and Weng (2020), using data from 48 countries, estimate flu-related deaths from the Great Influenza Pandemic in 1918–1920 of 40 million or 2.1% of the world population, implying 150 million deaths when applied to the current global population. At this point, however, the probability that COVID-19 fatalities would reach anything close to the rate recorded during the Great Influenza Pandemic seems slim, given the public health improvements achieved since then, and the combination of pharmaceutical and nonpharmaceutical interventions taken to mitigate propagation and restore the health of those afflicted with COVID-19. In addition, they also estimate flu-generated economic declines for gross domestic product (GDP) and consumption to average 6% and 8%, respectively, for a typical country. These economic declines are comparable to those projected for many advanced economies, as well as some of developing Asia's economies that have been severely affected by the COVID-19 epidemic. In its December 2020 Consensus Forecast, Focus Economics (2020) projected that, in 2020, Japan contracted by 5.5%, Canada by 5.9%, the euro area by 7.6%, and the United Kingdom by 10.7%.

¹ For the economic analysis of SARS, see Wong (2008) and Doan et al. (2020).

**Figure 1: Cumulative COVID-19 Cases Globally and in Developing Asia
(as of 31 December 2020)**



Source: Roser, M. et al. 2021. Coronavirus Pandemic (COVID-19). Published online at OurWorldInData.org. Retrieved from: <https://ourworldindata.org/coronavirus> on 18 January 2021.

The world knows little about when the COVID-19 pandemic will end, undermining investment and consumption. No one can accurately predict when COVID-19 will be eliminated, in the absence of a reliable vaccine that is made available for the majority of the world's population (Kremer 2020; Ahuja, et al. 2020).² A full year after the first recorded case, some countries continue to struggle to flatten the curve, i.e., inhibit the number of new COVID-19 cases to mitigate the pressure on healthcare systems. Testing, contact tracing, and isolating suspected and confirmed cases proved difficult, more so for developing countries with limited manpower and testing capacity. The speed and scale of the spread of infections around the world put severe strains on countries' healthcare systems. The uncertainties around the pandemic have undermined private investments and consumption around the globe.

Authorities have taken a range of stringent measures to stem the spread of COVID-19. Many countries partially or fully closed their borders and restricted people's movements. Containment measures—such as restrictions on transport, labor mobility, and workplace closures—initially acted as supply shocks, impairing the productive capacity of the economy. However, this spilled over to the demand side as people were locked down in their homes and workers were laid off and lost income. Air travel restrictions and border closures limited both the movement of people and the movement of goods across borders. Governments also immediately ramped up spending on medical supplies, such as masks and other personal protective equipment (PPE), and viral medicines. These efforts were intended to flatten the curve, but economic activity ground to a halt.

The rapid development and availability of effective vaccines offer a ray of hope that the pandemic could soon be defeated. Since the beginning of 2020, scientists around the world have been working hard to develop vaccines to quell the pandemic. These efforts have borne fruit, with a number of COVID-19 vaccines having received approval for use. For instance, the Pfizer-BioNTech and Moderna vaccines have both

² We also need to consider a contingency where vaccine development will take many years as has been the case with malaria. This contingency highlights the importance of developing effective nonpharmaceutical interventions.

been given emergency-use authorizations in the United States and European Union. Meanwhile, the Oxford-AstraZeneca vaccine has been given emergency authorization in the United Kingdom, Argentina, India, and Mexico. At the end of 2020, a number of countries around the globe began the rollout of COVID-19 vaccines, but there is no room for complacency, as it will take years for the global population to achieve herd immunity, especially amidst the emergence of new, more transmissible, virus strains (Park et al. 2021).

2. ECONOMIC IMPACTS HAVE BEEN SIGNIFICANT

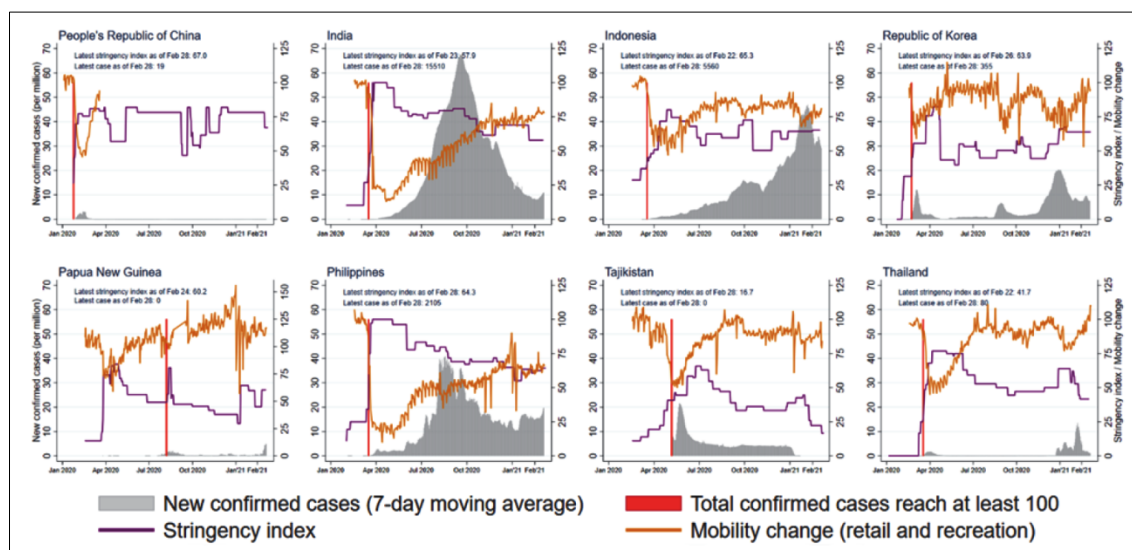
Since the pandemic began, ADB has continuously undertaken analyses of the economic impacts of COVID-19. The first impact assessment exercise was published on 6 March 2020, based on information available through end-February 2020 (Abiad et al. 2020a). At that time, there were only about 86,000 cases worldwide. Most of these cases were recorded in the PRC, which accounted for 93% of the total. The study considered a range of scenarios, from which estimates of global and regional losses were generated. This initial assessment produced estimated global impacts of \$77–\$347 billion, or 0.1%–0.4% of global GDP. Two thirds of the impact fell on the PRC, where the outbreak had been concentrated thus far. A revised assessment was published in April 2020 as part of ADB’s flagship publication, *Asian Development Outlook 2020*, based on data through 20 March 2020 (ADB 2020). Global cases then had reached 500,000, with Europe accounting for 50%, US 20%, the PRC 15%, and the rest of the world 15%. Updated scenarios produced larger estimates of global losses of \$2.0–\$4.1 trillion, or 2.3%–4.8% of global GDP. These two initial assessments were generated from ADB’s Multi-Regional Input-Output Tables (MRIOT). Using the Global Trade Analysis Project model, ADB released in May 2020 a further updated assessment of global and regional economic impacts (Park et al. 2020). This study upgraded the estimates of global economic impacts to between \$5.8 trillion (6.4% of global GDP) and \$8.8 trillion (9.7% of global GDP). At that time, the PRC had contained domestic transmission and accounted for just 2% of the over 4 million global cases. ADB’s next impact assessment using MRIOT was published in June 2020, reaffirming the magnitude of the global losses released the previous month (Abiad et al. 2020b). This study suggests a global impact of between \$6.1 trillion and \$9.1 trillion relative to a no-COVID baseline, equivalent to a loss of 7.1%–10.5% of global GDP. About 22% of the global loss accrues to developing Asian economies, where the impact is estimated at between \$1.3 trillion and \$2.0 trillion, or 5.7%–8.5% of developing Asia’s GDP. ADB’s latest MRIOT-based impact assessment, released in December 2020, estimates the global losses to be 5.5%–8.7% of world GDP in 2020 and 3.6%–6.3% of world GDP in 2021. The corresponding losses for developing Asia amount to 6.0%–9.5% of regional GDP and 3.6%–6.3% of regional GDP in 2020 and 2021, respectively (Abiad et al. 2020c).

The ongoing COVID-19 outbreak is affecting economies through numerous channels. COVID-19 has direct effects on health, such as increased morbidity and mortality in the short-term and medium-term, as well as diversion of healthcare spending toward addressing COVID-19 impacts. Apart from health effects, however, the COVID-19 pandemic has significant economic effects. These include: sharp declines in domestic consumption in outbreak-affected economies as people’s mobility is restrained, resulting in severe declines in business sales, as well as in investment spending as the outbreak prompted less optimistic views on future business activity; declines, and sometimes even cessation, in tourism and business travel due to border closures; spillovers of weaker demand to other sectors and economies through trade

and production linkages; and supply-side disruptions to production and trade, which are distinct from demand-side shocks spilling over through trade and production linkages.

Measures to contain COVID-19 has undercut developing Asia's domestic demand. Since the beginning, governments have been forced to impose containment measures of various levels of stringency, which have restricted mobility and domestic activity. Within the region, the stringency of containment measures and the decline in mobility were relatively high in South Asia, largely reflecting India's strict lockdown measures. This was followed by Central Asia. It had been low in East Asia, as economies in that subregion used aggressive testing and contact tracing instead of strict lockdown measures, and in the Pacific, whose economies had managed to avoid domestic outbreaks. The relative stringency of lockdowns across economies is strongly associated with a relative decline in mobility outside the home. Figure 2 shows the diversity in experience of selected regional members in terms of number of cases, stringency of control measures, and mobility changes. While a general trade-off is observed between health outcome (captured by the containment index in the purple line) and economic level (captured by the mobility level in the orange line), it is not necessarily avoidable. As can be seen in Figure 2, countries such as the Republic of Korea wisely avoided such a trade-off by adopting smart lockdown policies through strict (digital-based) testing and contact tracing (ADB 2020b).

Figure 2: COVID-19 Cases, Stringency of Control, and Mobility for Selected Economies



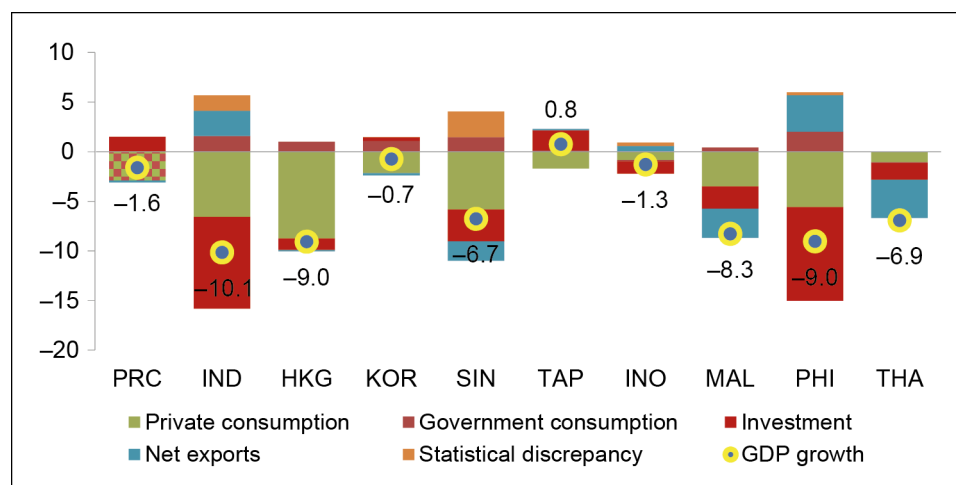
Notes: Confirmed cases (per million population) on the left axis; stringency of control and mobility change indexes on the right axis. For the PRC, mobility change data cover the PRC outside Hubei until March 15.

Sources: Mobility change data: Google COVID-19 Community Mobility Reports (except for the PRC: He, Z. et al. 2020. Preliminary Estimates of Economic Effect of Lockdown in China. COVID-19 Thematic Report No.1. Chinese University of Hong Kong – Tsinghua University Joint Research Center for Chinese Economy.); COVID data: OurWorldInData; Stringency of control index data: Hale, T. et al. 2020. Oxford COVID-19 Government Response Tracker. Blavatnik School of Government.

With people staying at home, private consumption dropped sharply. In 10 developing Asian economies with disaggregated quarterly GDP data by expenditure, private consumption subtracted from first-half growth (Figure 3). Singapore; Hong Kong, China; and India all experienced double-digit contractions in private consumption. Government consumption generally contributed positively, but the contributions of investment and net exports varied across the economies covered.

Investment plummeted by a staggering 26.3% and 36.6% in India and the Philippines, respectively. Falling external demand has also taken its toll on the region. External demand for goods and services had been depressed in 2020 as COVID-19 affected most economies around the world, with sharp contractions in major economies such as the United States, Europe, and Japan. Net exports thus detracted from first-half growth in export-oriented economies Republic of Korea, Singapore, and Thailand. Overall, the containment measures adopted across the region depressed economic activity. Except for Taipei, China and Viet Nam, developing Asian economies with available data recorded economic contractions in the first half of 2020. Some had even fallen into a recession (e.g., the Philippines, Singapore, and Thailand).

Figure 3: Contributions to GDP Growth, First Half of 2020 (percentage points)



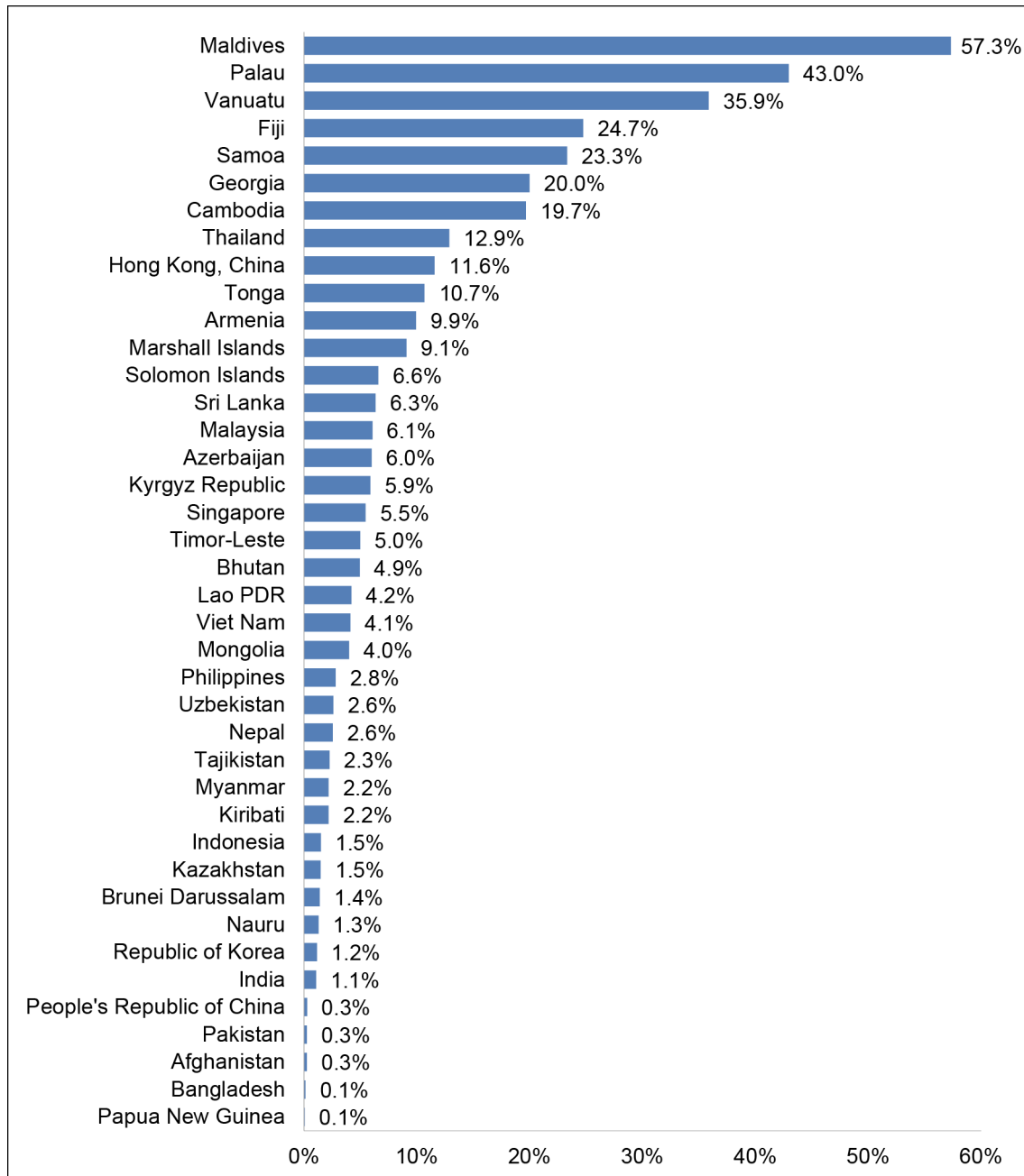
PRC = People's Republic of China; IND = India; HKG = Hong Kong, China; KOR = Republic of Korea; SIN = Singapore; TAP = Taipei, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; THA = Thailand.

Note: Consumption data for the PRC is an aggregate of private and government consumption.

Sources: ADB staff calculations from CEIC Data Company and Haver Analytics (accessed 9 September 2020).

Travel and tourism have been particularly hard hit. Until the COVID-19 outbreak, the travel and tourism sector had been a major source of revenue and jobs for many Asia and the Pacific economies. In 2019, the sector accounted for 9.8% of GDP, 9.6% of total employment (equivalent to 182.2 million jobs), and \$547.7 billion in international visitor spending (WTTC 2020). As border closures were implemented both within and across countries, domestic and international tourism took a huge dive. Some countries saw international tourist arrivals drop by 90%–100%. Considering that international tourism receipts account for more than 25% of GDP in a few of developing Asia's economies, such as Maldives and Palau, before the pandemic, the drying up of international visitors would be devastating to these economies (Figure 4). Add to this the dearth of domestic tourists and the sector continued to struggle. Surveys conducted by the International Air Transport Association (IATA) suggest that even after travel restrictions are lifted, most travelers will wait several months to a year or more before resuming travel. The abrupt fall in tourist arrivals, the resulting demand plunge in the tourism sector, and negative spillover effects through industry linkages have caused millions of job losses and economic hardships and wiped out many firms, especially the micro-, small-, and medium-sized enterprises (MSMEs) that had catered to tourists or in related industries. Reduced employment and incomes, increased uncertainty, and renewed flare-ups of outbreaks in various countries will all hamper the recovery in this important industry as well as its closely associated sectors.

Figure 4: International Tourism Receipts, 2018
(% of GDP)



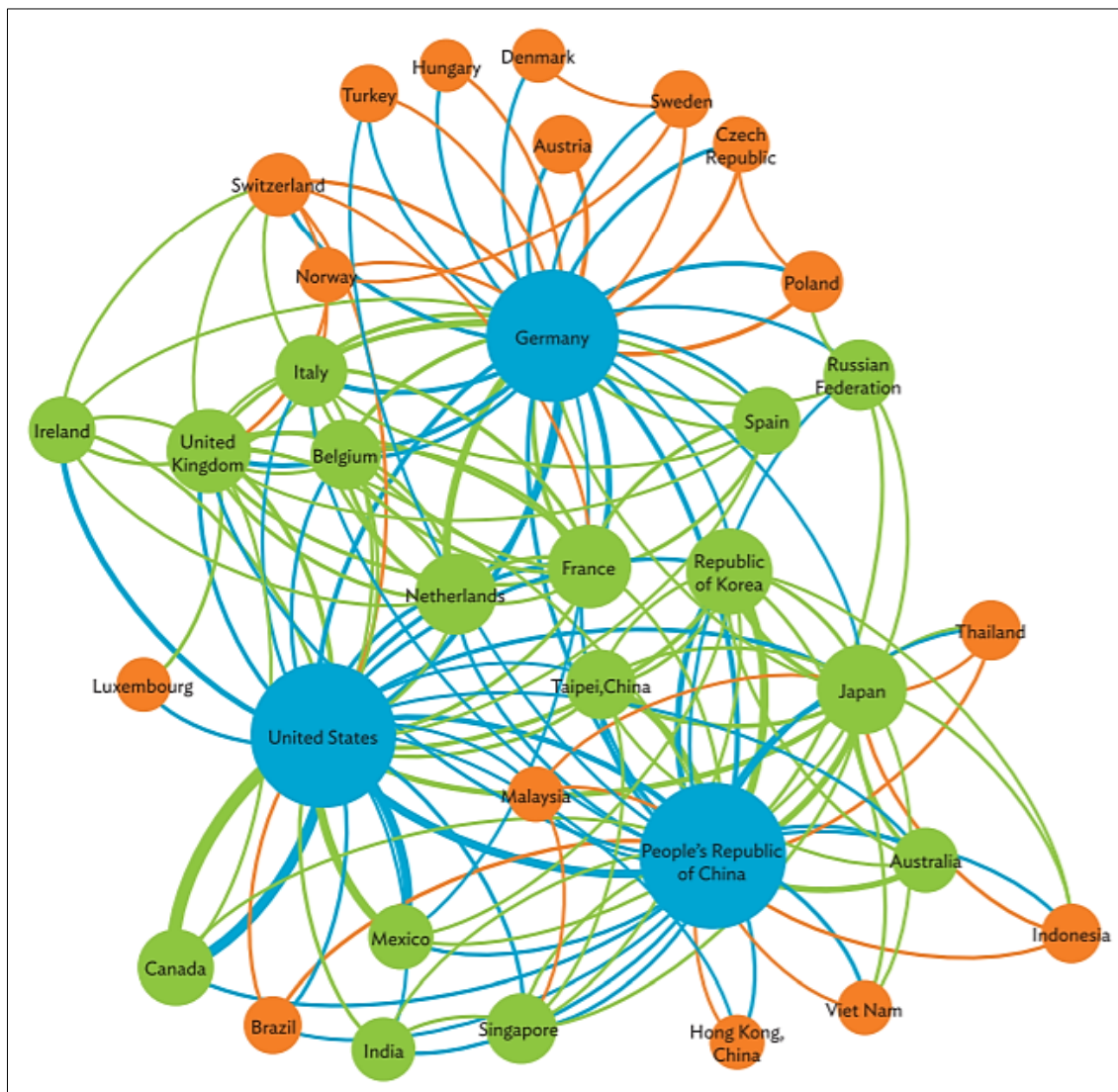
GDP = gross domestic product; Lao PDR = Lao People's Democratic Republic.

Note: Data for Kiribati, Palau, and Papua New Guinea refer to 2017.

Source: World Bank. 2020. World Development Indicators. Accessed from <https://databank.worldbank.org/source/world-development-indicators#> on 10 September.

The domestic and external demand shocks have spilled over to other sectors and economies through trade and production linkages. Developing Asia has been the major driver of global growth for the past decade. However, it remains heavily reliant on demand from its major export markets, both within and outside the region. Falling domestic consumption in developing Asian economies' trading partners is thus reducing demand for imports from the region. These declines in both domestic and external demand are then transmitted across sectors and borders via trade and production linkages. Figure 5 shows the global as well as regional interconnectedness of production chains before the outbreak of the COVID-19 pandemic.

Figure 5: Global Production Chains

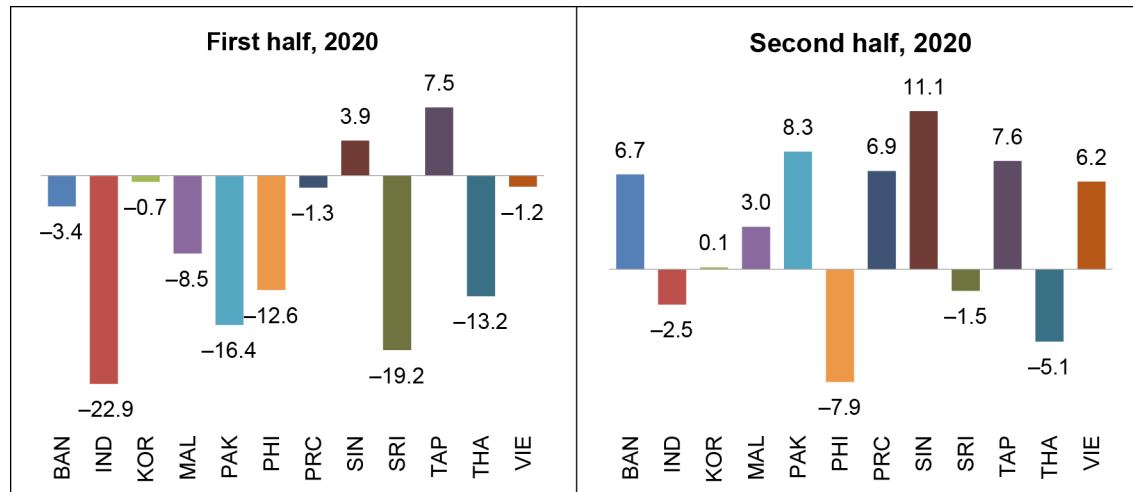


Source: Abiad et al. 2018. The Impact of Trade Conflict on Developing Asia. ADB Economics Working Paper Series No. 566. Manila: Asian Development Bank.

Supply-side disruptions are reverberating across developing Asia. Early in the pandemic, production in nonessential industries basically ground to a halt as authorities forced business closures, stopped public transportation operations, and limited the mobility of people and goods. On the whole, manufacturing production indices shrank

in many regional economies in the first half of 2020, with India, Pakistan, the Philippines, Sri Lanka, and Thailand recording contractions exceeding 10% (Figure 6, left panel). In the second half of 2020, manufacturing in most economies recovered (Figure 6, right panel).

Figure 6: Growth in Manufacturing Production
(%, year-on-year)



BAN = Bangladesh; IND = India; KOR = Republic of Korea; PAK = Pakistan; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; SRI = Sri Lanka; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam.

Notes: Second half figure for Bangladesh is up to November. Figure for the PRC refers to value added of industry (in real terms).

Source: ADB calculations from CEIC Data Company and Haver Analytics (accessed on 5 March 2021).

Developing Asia's economic losses estimated to exceed 9% of regional GDP in 2020. As noted earlier, Abiad et al. (2020c) assessed the extent of worldwide losses to be between \$4.8 trillion and \$7.4 trillion or 5.5%–8.7% of global GDP in 2020 and between \$3.1 trillion and \$5.4 trillion or 3.6%–6.3% of global GDP in 2021 (Table 1). The same study also finds that about 27%–30% of the global losses accrue to developing Asian economies, where the impact is estimated at \$1.4 trillion–\$2.2 trillion in 2020, equivalent to 6.0%–9.5% of regional GDP, and \$0.8 trillion–\$1.5 trillion in 2021, equivalent to 3.6%–6.3% of regional GDP. Compared to developing Asia, losses in the US are slightly smaller in absolute terms and in terms of shares of GDP in both years. Meanwhile, estimated losses in Europe are larger than in developing Asia both in absolute terms and as a share of GDP. By subregion, East Asian economies are expected to be hit less hard, as these economies have been able to contain domestic outbreaks through aggressive testing and contact tracing, and have avoided stringent containment measures and the associated sharp declines in mobility. The Pacific subregion also sees a somewhat smaller impact, as none of its countries has had a significant outbreak and Papua New Guinea (the largest economy, which accounts for 68% of the subregion's GDP) is only minimally affected. This, however, masks the large impact of COVID-19 on Pacific island economies that are heavily tourism-dependent; in many of these economies, the GDP loss from COVID-19 is in double-digits.

Table 1: Estimated Global and Regional Losses Due to COVID-19
(relative to a no-COVID baseline)

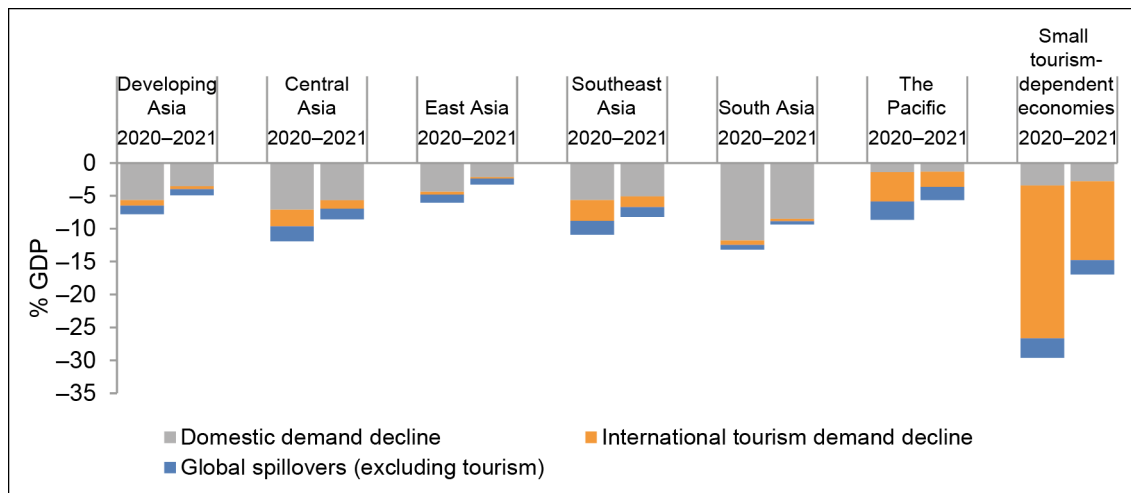
	2020					
	GDP (%)			GDP Loss (\$ billions)		
	Better	Baseline	Worse	Better	Baseline	Worse
World	-5.5	-7.2	-8.7	4,757	6,165	7,441
Developing Asia	-6.0	-7.8	-9.5	1,394	1,818	2,211
<i>Central Asia</i>	-9.3	-11.9	-14.2	34	43	51
<i>East Asia</i>	-4.6	-6.0	-7.4	761	999	1,223
<i>Southeast Asia</i>	-8.6	-10.9	-12.7	253	320	374
<i>South Asia</i>	-10.0	-13.2	-16.3	343	453	560
<i>The Pacific</i>	-7.0	-8.7	-9.6	2	3	3
United States	-4.9	-6.4	-7.8	1,038	1,349	1,634
Europe	-7.9	-10.2	-12.2	1,488	1,913	2,285
Rest of the World	-3.6	-4.6	-5.6	836	1,084	1,310

	2021					
	GDP (%)			GDP Loss (\$ billions)		
	Better	Baseline	Worse	Better	Baseline	Worse
World	-3.6	-4.9	-6.3	3,108	4,234	5,407
Developing Asia	-3.6	-4.9	-6.3	844	1,148	1,470
<i>Central Asia</i>	-6.2	-8.6	-11.1	23	31	40
<i>East Asia</i>	-2.4	-3.3	-4.2	402	547	698
<i>Southeast Asia</i>	-6.1	-8.4	-11.0	178	246	322
<i>South Asia</i>	-7.0	-9.4	-11.8	240	322	406
<i>The Pacific</i>	-3.8	-5.6	-7.8	1	2	3
United States	-3.3	-4.5	-5.8	696	947	1,212
Europe	-5.1	-7.0	-9.0	956	1,311	1,697
Rest of the World	-2.6	-3.5	-4.4	612	828	1,027

Source: Abiad, A. et al. 2020c. The Impact of COVID-19 on Developing Asia: The Pandemic Extends into 2021. ADB Brief No. 159. Manila: Asian Development Bank.

By developing Asian subregion, estimated economic losses range from a lower bound of 6.0% of GDP to an upper bound of 13.2% of GDP in 2020. Figure 7 presents the impact of the COVID-19 pandemic on the five subregions, plus an additional group on small tourism-dependent economies with three components of impacts, i.e., domestic demand decline (gray), international tourism decline (orange), and global spillovers excluding tourism (blue). The largest impacts are seen in South Asia and in the small tourism-dependent economies group due to a sharp decline in domestic demand and the tourism sector, respectively. In 2021, the pattern of losses is the same, albeit the projected magnitudes are smaller.

Figure 7: COVID-19 Estimated Impact on Developing Asian Economies
(% of GDP)



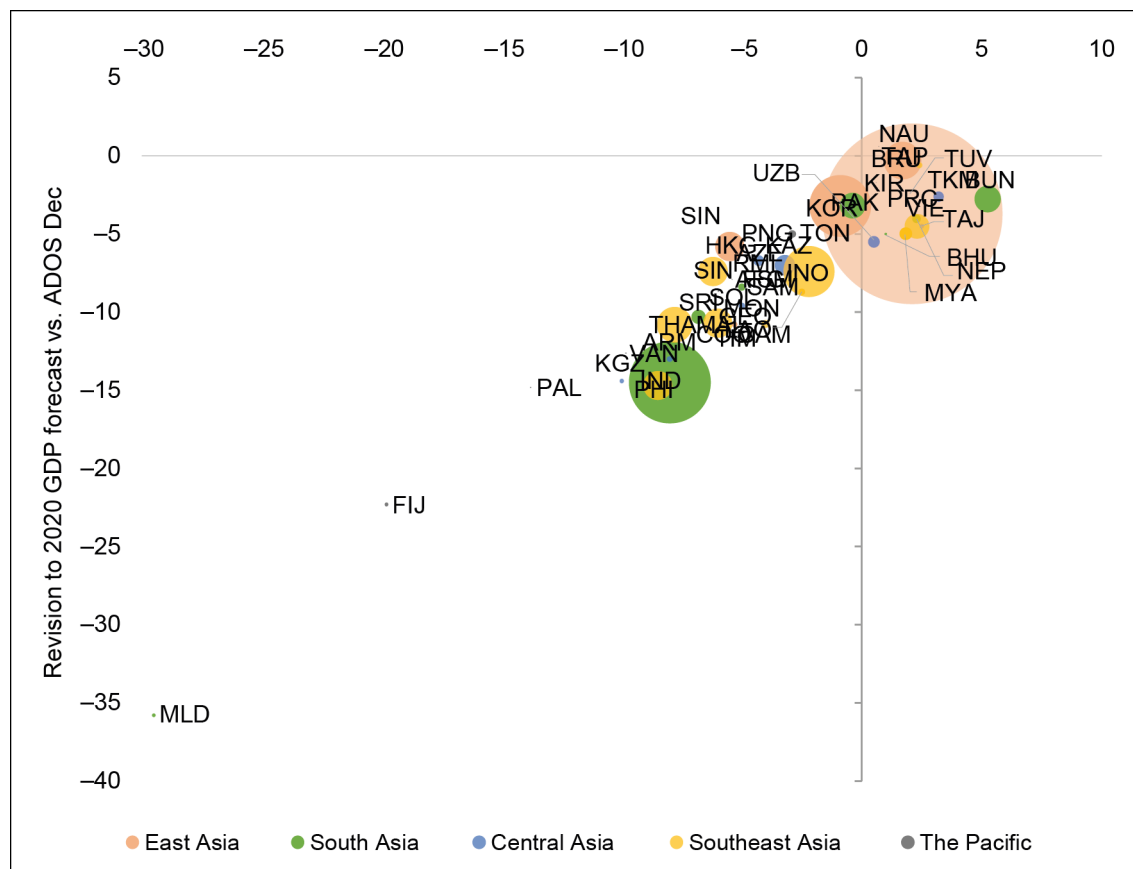
Note: Small tourism-dependent economies include Maldives, Cook Islands, Palau, Vanuatu, and Fiji.

Source: Abiad A. et al. 2020c. The Impact of COVID-19 on Developing Asia: The Pandemic Extends into 2021. ADB Brief No. 159. Manila: Asian Development Bank.

3. LINGERING RISKS ARE CLOUDING THE REGIONAL OUTLOOK

Uncertainty surrounding the depth and duration of the pandemic dimmed economic prospects. ADB revised down its growth forecasts for all its developing members between the April 2020 *Asian Development Outlook* (ADO) and the publication of the June 2020 *ADO Supplement* as data releases revealed greater economic damage than had been earlier anticipated. The largest changes were made in more tourism-dependent and open economies, as well as those hard hit by domestic outbreaks of COVID-19. Further revisions were implemented in the *ADO Update* released in September 2020 and the *ADO Supplement* in December 2020 in which growth forecast for developing Asia as a whole was to experience an economic contraction of 0.4% in 2020—a downward revision of over 5 percentage points relative to pre-COVID forecasts,³ and its worst economic performance in six decades. At present, a V-shaped recovery of real GDP level is unlikely. Figure 8 gives a visual representation of the updated forecasts, and how they have been revised relative to the pre-COVID forecasts in December 2019. It can be noted that no economy has escaped the negative economic impact from COVID-19, with all forecasts having been revised down (the vertical axis). Contractions are now expected in most developing members, i.e., in 31 of 46 developing members, and those expected to grow will do so at very low rates (the horizontal axis). The process of normalizing economic activity will be hampered by continued social distancing and possible recurrences of outbreaks. And even if individual countries succeed in normalizing domestic activity, they will be held back by a very weak external environment and potentially disrupted supply chains.

³ The December 2019 *ADO Supplement* projected 2020 growth at 5.2%.

Figure 8: Latest Forecasts vs. Pre-COVID Forecasts, 2020

AFG = Afghanistan; ADO = Asian Development Outlook; ADOS = ADO Supplement; ARM = Armenia; AZE = Azerbaijan; BAN = Bangladesh; BHU = Bhutan; BRU = Brunei Darussalam; CAM = Cambodia; COO = Cook Islands; FIJ = Fiji; FSM = Federated States of Micronesia; GDP = gross domestic product; GEO = Georgia; HKG = Hong Kong, China; IND = India; INO = Indonesia; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; KIR = Kiribati; KOR = Republic of Korea; LAO = Lao People's Dem. Rep.; MAL = Malaysia; MLD = Maldives; MON = Mongolia; MYA = Myanmar; NAU = Nauru; NEP = Nepal; PAK = Pakistan; PAL = Palau; PHI = Philippines; PNG = Papua New Guinea; PRC = People's Republic of China; RMI = Marshall Islands; SAM = Samoa; SIN = Singapore; SOL = Solomon Islands; SRI = Sri Lanka; TAJ = Tajikistan; TAP = Taipei, China; THA = Thailand; TIM = Timor-Leste; TKM = Turkmenistan; TON = Tonga; TUV = Tuvalu; UZB = Uzbekistan; VAN = Vanuatu; VIE = Viet Nam.

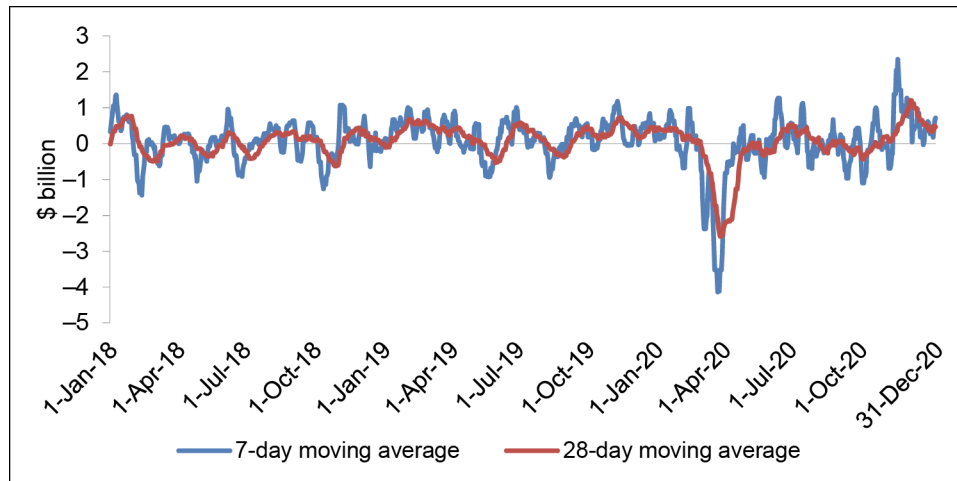
Note: Bubble size indicates the value of 2019 nominal GDP.

Source: *Asian Development Outlook* database.

Risks of financial turmoil and financial crises cannot be discounted. In the early stages of the global pandemic, especially in March and April 2020, movements in equity markets, exchange rates, bond spreads, and volatility indexes have been sharp, reminiscent of the global financial crisis of 2008–2009 and in some cases exceeding it. Markets, however, have stabilized since the peak of the turmoil in March and April. Evidence suggests that heightened financial volatility and a sudden stop to capital flows into the region are distinct possibilities. Indeed, in mid-March 2020, an average of over \$4 billion in portfolio flows fled from developing Asia over a 7-day period (Figure 9). This poses a danger, particularly in light of a decade-long rise in regional debt, primarily private but some of it public. As of the third quarter of 2020, regional debt has risen to \$63.3 trillion, compared to \$21.2 trillion in the third quarter of 2010. The shares of all sectors—corporations (financial and nonfinancial), governments, and households—increased over the period (IIF 2020). One sector that may be susceptible to tightening financial conditions and a worsening economic environment is that of small and medium-sized enterprises (SMEs). SMEs are an important part of the

economy in terms of production and employment generation, but many of them are borrowing-constrained according to a recent ADB study (ADB, 2020c). Also, they found it difficult to participate in the world economy even before the COVID-19 pandemic and have been devastated further by it now. Much depends on how quickly domestic outbreaks can be contained to allow economic activity to normalize.

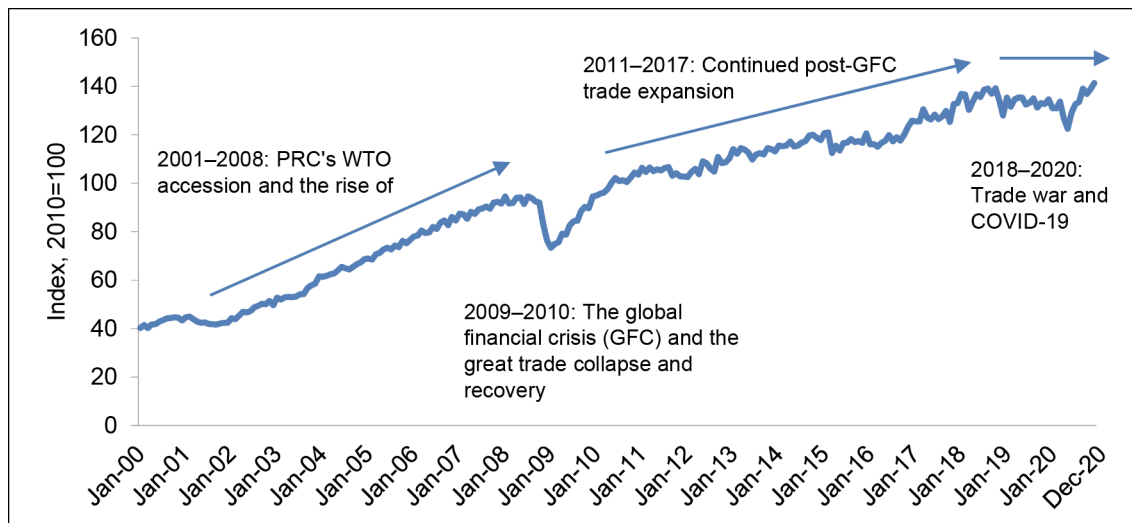
Figure 9: Portfolio Flows in Developing Asia (1 January 2018–31 December 2020)



Notes: Data refer to 7-day and 28-day moving averages of total portfolio flows. Total portfolio flows are the sum of debt and equity flows. Debt flows are available only for India, Indonesia, Malaysia, and Thailand. Developing Asia comprises India; Indonesia; Malaysia; Pakistan; the People's Republic of China; the Philippines; the Republic of Korea; Sri Lanka; Taipei, China; Thailand; and Viet Nam.

Source: IIF Daily Portfolio Flows database (accessed 19 January 2021).

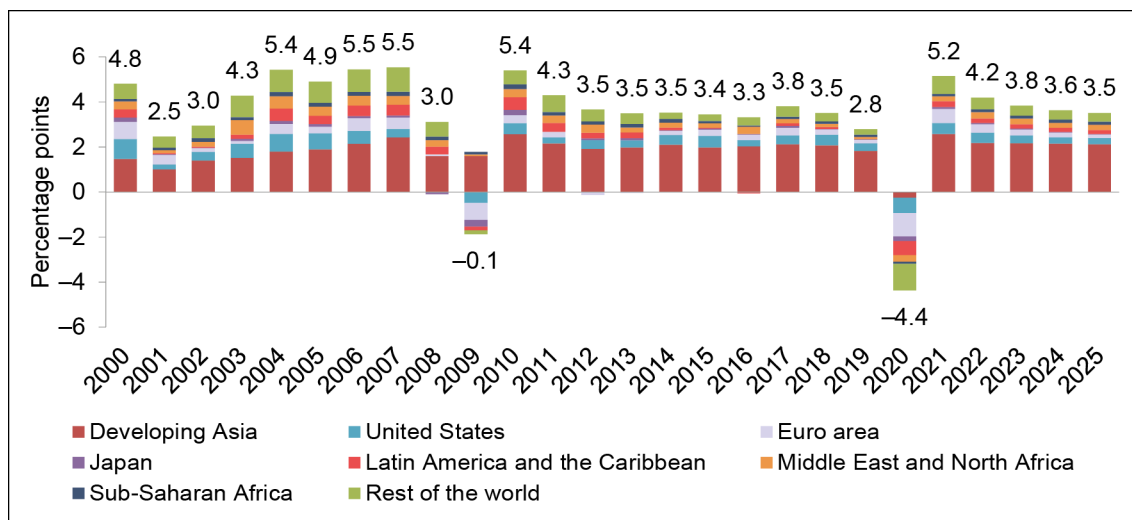
US–PRC tensions remain an important risk. While the phase one deal signed in January 2020 eased trade tensions between the PRC and the US, it is only a fragile truce featuring import commitments that the PRC will find more difficult to meet in the current economic environment than when the deal was negotiated. Indeed, the US–PRC trade conflict is an issue that has predated COVID-19. Over the past two decades, Asia's overall trade had been rising. When the PRC joined the World Trade Organization in September 2001, and for about eight years hence, there was a tremendous growth in trade and in the use of global production networks, particularly in Asia. This was interrupted by the global financial crisis and the global trade collapse in 2009. Nevertheless, Asian trade quickly recovered, despite an almost stagnant global trade. However, when the trade war started in 2018, developing Asia's trade began to flatten, then declined sharply with COVID. Although regional trade had returned to pre-COVID levels towards the end of 2020, and transition to the new administration in the US may result in more predictability and possibly more multilateral approaches to resolution, it could continue to remain sluggish at that level in the foreseeable future (Figure 10).

Figure 10: Developing Asia's Merchandise Trade, 2000–2020

GFC = global financial crisis; PRC = People's Republic of China; WTO = World Trade Organization.

Note: Developing Asia includes Hong Kong, China; India; Indonesia; Malaysia; Pakistan; the People's Republic of China; the Philippines; the Republic of Korea; Singapore; Taipei, China; Thailand; and Viet Nam.

Source: CPB World Trade Monitor – October 2020. CPB Netherlands Bureau for Economic Policy Analysis. The Hague. Accessed at: <https://www.cpb.nl/en/worldtrademonitor> on 24 February 2021.

Figure 11: Contributions to Global GDP Growth

GDP = gross domestic product.

Sources: *Asian Development Outlook* database; International Monetary Fund (IMF), *World Economic Outlook* database (October 2020).

Developing Asia will continue to drive global growth, but globalization may falter.

While developing Asia's economy shrank in 2020, a larger contraction was projected in the rest of the world. For 2021, ADB forecasts developing Asia to grow at 6.8% and account for half of global growth (Figure 11). This trend is expected to continue beyond 2021. As the driver of future global growth, suppliers are expected to want to keep their presence in the region. Nevertheless, the COVID-19 outbreak could leave permanent scars on globalization, which has underpinned the rise of developing Asia over the last few decades. The rapid spread of COVID-19 laid bare the downside of highly integrated global production processes and heavy specialization. Production chains

were extremely vulnerable to shutdowns on a global scale and for prolonged periods caused by massive disruption to transport and trade. With the COVID-19 pandemic highlighting the importance of diversification in supply chains, there may be louder calls for protectionist policies to urge foreign firms in Asia to shift production or transplant back to their home countries. The challenges to global value chains (GVCs) brought about by COVID-19 may thus tamp down the rate of growth seen in the past, but a complete disengagement, which will not be easy, is not expected.

4. DEVASTATING EFFECTS ON SPECIFIC SEGMENTS

COVID-19 has put severe strains on firms, especially on MSMEs. In March and May 2020, ADB partnered with national government agencies to conduct a series of rapid online business surveys of MSMEs in selected Southeast Asian economies (Indonesia, the Lao People's Democratic Republic, the Philippines, and Thailand). The surveys aimed to assess the impact of COVID-19 and related containment measures on MSMEs. Findings show that at least 40% of MSMEs in each of the four economies surveyed suspended operations after the virus outbreak. A similar proportion of MSME firms, especially in the manufacturing sector, were thus compelled to reduce their workforce. Those that remained open experienced production and supply disruptions. In addition, about one third of respondents suffered declines in domestic demand due to the imposition of strict lockdown measures, leaving them with sharply reduced sales and revenues. Moreover, most of the firms reported severe lack of funds to retain their business, having no cash or savings, and resorting to borrowing from relatives and friends to supplement their working capital. Few were able to obtain bank credit, though authorities in all four economies introduced measures such as special refinancing facilities, soft loan programs, and special guaranteed loans. Most respondents sought further assistance from governments in the form of financial support through interest- or collateral-free loans, grants, and subsidies (Shinozaki 2020; ADB 2020c).

The pandemic has put many jobs at risk, and some jobs may be lost permanently. Early estimates from Park et al. (2020) indicate that 158 million to 242 million jobs may be lost globally, equivalent to 6.0% to 9.2% of total world employment (Table 2). This translates to global wage income losses of \$1.2 trillion–\$1.8 trillion. For developing Asia, the drop in employment is projected to reach 109 million to 166 million jobs—or nearly 70% of total employment losses globally. The estimated wage income losses for the region range from \$348 billion to \$533 billion, about 30% of global losses. Not all jobs are equally affected, however. Unskilled workers, women, informal sector workers, and foreign migrant workers will be heavily impacted. Particularly at risk are the workers in the informal sector, which is characterized by low wages and lack of access to social protection. Around 7 in 10 workers in the region are in the informal economy. South Asia, where at least 9 in 10 people are informal workers, would be at higher risk of poverty because of the crisis. In addition, even before the pandemic struck, manual and routine jobs were at risk from robotization and automation. Technological change is leading to polarization of low- and high-skilled jobs and hollowing out of middle-skilled jobs, displacing middle-skilled workers into lower-paying work and further driving down wages of low-skilled workers. Yet, COVID-19 effects are accelerating digital transformation and automation as workers are forced to work from home and stay out of offices. This has fast-tracked job polarization trends and widening wage inequality, to the detriment of workers in labor-intensive, low-skill, and informal jobs (Park and Inocencio 2020).

Table 2: Estimated Employment and Wage Income Losses Due to COVID-19
(relative to a no-COVID baseline)

	Employment (million)	Wage Income (\$ billion)
World	158.1–242.1	1,201.2–1,832.4
Developing Asia	108.7–166.3	347.5–532.8
<i>Central Asia</i>	1.9–3.0	3.4–5.4
<i>East Asia</i>	65.1–98.8	291.3–445.7
<i>Southeast Asia</i>	11.6–18.4	25.0–39.0
<i>South Asia</i>	30.0–45.9	27.6–42.4
<i>The Pacific</i>	0.1–0.2	0.2–0.3
United States	9.0–13.5	402.7–611.2
Europe	16.5–25.1	272.1–415.5
Rest of the World	23.9–37.2	178.9–272.9

Source: Park, C.-Y. et al. 2020. Updated Assessment of the Potential Economic Impact of COVID-19. ADB Brief No. 133. Manila: Asian Development Bank.

Jobs held by migrant workers may be particularly vulnerable, potentially undercutting remittances. In 2019, the Asia and the Pacific region accounted for about one third (or 91 million) of all migrant workers worldwide and about 44% (or over \$316 billion) of global remittances. With the pandemic triggering a global recession, destination economies of these Asian migrants are projected to suffer contractions in economic output in 2020 and numerous jobs are projected to be lost, including those of migrant workers. Indeed, severe losses of migrant jobs have been reported in retail trade, manufacturing, hospitality and recreation, and accommodation and food service sectors. In addition, border control restrictions are putting migrant workers' job security and well-being in peril. Crucial remittances they send home to their families are thus expected to decline dramatically. Takenaka et al. (2020) estimate that total remittances to developing Asia could fall by between \$31.0 billion and \$53.5 billion in 2020, or a drop in the value of remittances of 11.6% to 20.0% (Table 3). This is especially difficult for economies that are heavily reliant on remittances, such as Tonga, Tajikistan, the Kyrgyz Republic, and Nepal, where remittance receipts account for at least a quarter of GDP. With many households depending on international remittances in developing Asia—particularly in the Pacific and Central and West Asian economies—a sudden stop in remittance flows to these regions could push people into poverty.

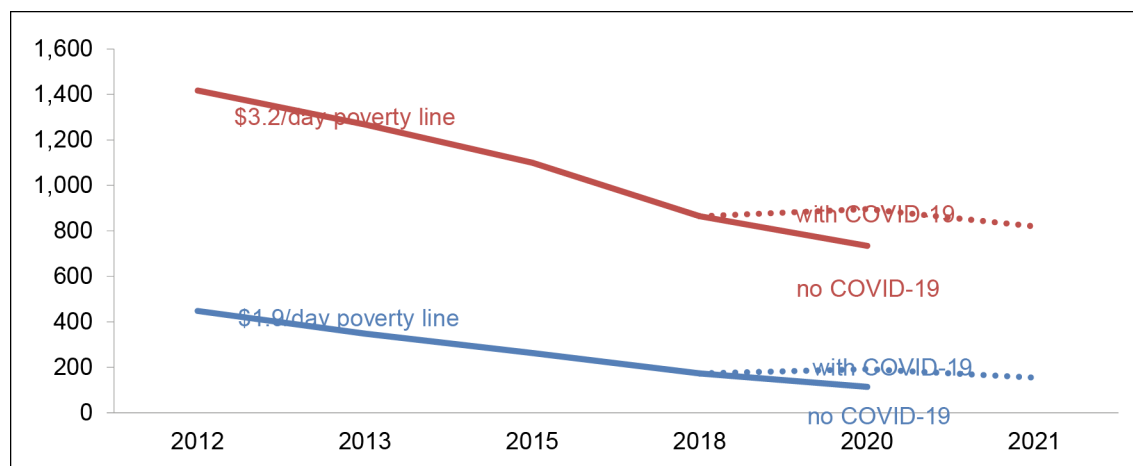
Table 3: Estimated Reduction in Global and Regional Remittance Inflows
(relative to a no-COVID baseline)

	Amount (\$ million)	% of Baseline
World	57,603–108,617	9.7–18.3
Developing Asia	31,016–53,460	11.6–20.0
<i>Central Asia</i>	2,228–3,366	15.7–23.8
<i>East Asia</i>	4,209–9,546	5.8–13.1
<i>Southeast Asia</i>	6,187–11,660	9.9–18.6
<i>South Asia</i>	18,276–28,621	15.8–24.7
<i>The Pacific</i>	116–267	5.7–13.2
United States	226–482	3.5–7.4
Europe	8,071–17,889	6.5–14.4
Rest of the World	18,290–36,786	9.3–18.8

Source: Takenaka, A. et al. 2020. COVID-19 Impact on International Migration, Remittances, and Recipient Households in Developing Asia. ADB Brief No. 148. Manila: Asian Development Bank.

The crisis could reverse years of progress toward eliminating poverty in developing Asia. Before the pandemic, the region was on a path of continued steady reduction in poverty rates and number of poor. According to Bulan et al. (2020), had the trajectory been in line with 2012–2018 data, there would have been an estimated 734 million (or about 19%) living in poverty as defined by the \$3.2 per day international poverty line in 2020, and an estimated 114 million (or about 3%) living in extreme poverty as defined by the \$1.9 per day international poverty line (Figure 12). However, the pandemic has adversely affected livelihoods as described previously, cutting into economic activity, earnings, remittances, and consumption. COVID-19 is thus projected to have added to the number of poor in developing Asia by 162 million and 78 million in terms of the \$3.2 per day and \$1.9 per day international poverty lines, respectively, in 2020 (Bulan et al. 2020). By 2021, as the region's economy rebounds, poverty is expected to return closer to its pre-COVID-19 levels.

Figure 12: Simulated Poverty Impacts in Developing Asia



Notes: Developing Asia refers to the average of 34 developing members. For 2018, India's estimates were based on extrapolations using the World Bank's model-based mean per capita expenditure in 2015, GDP per capita growth rates between 2015 and 2018, and distribution based on the 2011–2012 household consumption survey.

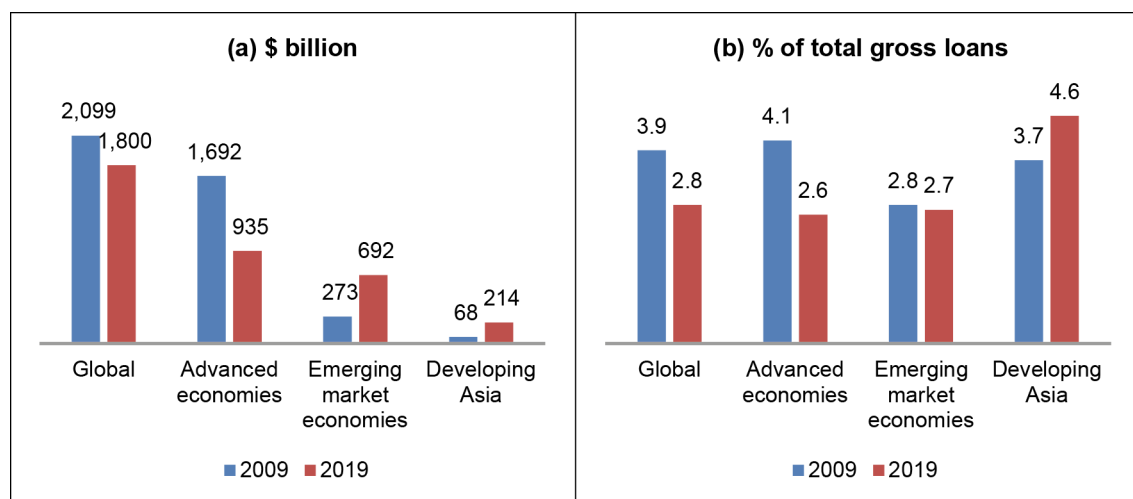
Source: Bulan, J. et al. 2020. "COVID-19 and Poverty: Some Scenarios." Unpublished note prepared for the Economic Research and Regional Cooperation Department, Asian Development Bank. Manila.

There are reasons to believe that the COVID-19 pandemic could worsen income inequality. Zhuang (2020) identifies possible channels through which income gaps between the rich and the poor could be exacerbated. First, while job losses and wage cuts affect wage earners across the board, unskilled workers will be hit harder than skilled workers. As noted earlier, nonroutine and nonmanual jobs are at risk of automation, which has been accelerating during the pandemic. Second, the pandemic will have disproportionate impacts on poor and vulnerable groups, such as MSMEs, women, the elderly, and those who are employed in labor-intensive service sectors. Third, even though economic contractions caused by the pandemic affect both labor and capital owners, the former, who are on average poorer and more engaged in hard-hit service sectors, are likely to be hurt more severely than the latter, who are on average wealthier. Fourth, the pandemic could increase regional income inequality, as poor regions often have lower capacity in implementing containment measures and in providing adequate healthcare services, leading to slower recovery from the outbreak. Poor regions also face greater constraints in providing fiscal support to local economies and affected groups. Fifth, government fiscal stimulus measures could exacerbate income inequality if these are not well-designed and targeted at protecting

jobs and livelihoods of low-income households and vulnerable groups. Finally, the new normal may exacerbate the “digital divide” by creating technological unemployment, especially among the poor, as well as disproportionate business failures of MSMEs by facilitating rapid digitalization of economies. For example, a UNICEF report showed that around a third of schoolchildren in Asia as well as in the world cannot access remote learning during school closures due to the lack of home-based technology and tools (UNICEF 2020).

The projected contraction in the majority of developing Asia’s economies has raised concerns about the threat from rising nonperforming loans (NPLs) and financial instability. The pandemic-induced slowdown implies lower corporate earnings and higher unemployment, exacerbating the debt service burden for both firms and households. Many corporations, especially MSMEs, face the risk of default due to prolonged forced business closures. Job losses also imply rising household debts and mortgage defaults. Lenders are thus bound to suffer from loan losses and rising NPLs. Pre-COVID, NPLs in developing Asia had already more than tripled from \$68 billion (3.7% of total gross loans) to \$214 billion (4.6% of total gross loans) between 2009 and 2019, rising faster than the 2.5 times increase in NPLs in emerging market economies (Figure 13). Preliminary data suggest rising NPL ratios in 2020 in some regional economies, including in Indonesia (where the NPL ratio increased to 3.1% in December from 2.8% in January) and in the Philippines (where the NPL ratio increased to 3.6% in December from 2.2% in January). Persistently high NPLs limit banks’ profitability, tie up their capital due to high provisions, and deteriorate their balance sheet health, constraining their capacity to lend. Emerging market economies could thus be vulnerable to a withdrawal of funds by major global lenders as NPLs rise (Park and Shin 2020).

Figure 13: Nonperforming Loans of Deposit-Taking Financial Corporations



Notes: Where 2019 data are not available, 2018 data are used. Advanced economies include Australia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, France, Greece, Ireland, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Portugal, San Marino, Slovenia, Spain, Sweden, Switzerland, United Kingdom, and United States. Developing Asia includes Armenia, Bangladesh, Georgia, India, Indonesia, Kazakhstan, the Kyrgyz Republic, Malaysia, Pakistan, the People’s Republic of China, the Philippines, Singapore, Sri Lanka, Thailand, and Viet Nam. Emerging market economies include Developing Asia plus Albania, Argentina, Bosnia and Herzegovina, Brazil, Bulgaria, Chile, Colombia, Croatia, Dominican Republic, Ghana, Guatemala, Honduras, Hungary, Kenya, Lesotho, Mauritius, Mexico, Moldova, Nicaragua, Nigeria, Paraguay, Peru, Poland, Romania, Seychelles, South Africa, Tanzania, Turkey, Uganda, Ukraine, and Uruguay.

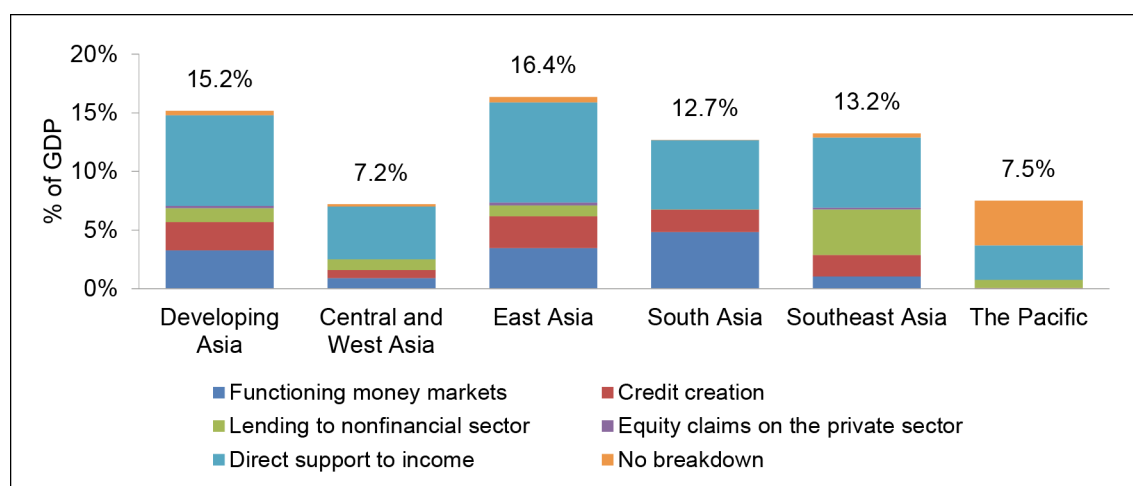
Source: Park, C.-Y., and K. Shin. 2020. The Impact of Nonperforming Loans on Cross-Border Bank Lending: Implications for Emerging Market Economies. ADB Brief No. 136. Manila: Asian Development Bank.

5. GOVERNMENTS AND ADB HAVE RESPONDED SWIFTLY AND DECISIVELY

Governments around the world have taken steps to mitigate the economic impacts. At the same time that authorities around the world adopted containment measures that restricted mobility and economic activity, many announced massive support packages to help households and businesses cope with the economic shock. By 11 January 2021, according to data from the ADB COVID-19 Policy Database (Felipe and Fullwiler 2020), ADB members had announced policy packages amounting to \$27.1 trillion, the heftiest of which was from the United States at \$8.1 trillion. The amount announced by developing Asian economies was \$3.6 trillion, accounting for 15.2% of regional GDP. More than half of this total support package has been focused on providing direct support to income to mitigate the adverse effects of the COVID-19 pandemic on households and firms. Interventions to reinforce money markets and credit creation have also been important to avoid compounding the pandemic with a credit crisis. It is noteworthy there is a distinct possibility that actual disbursements may not match these announced packages.

Nevertheless, the extent of policy packages has been uneven across developing Asia. Of developing Asia's \$3.6 trillion package, East Asia accounts for the largest announced policy package among the subregions at 75.4% (\$2.7 trillion), South Asia at 11.8% (\$428.5 billion), Southeast Asia at 11.4% (\$412.3 billion), Central and West Asia at 1.3% (\$48.5 billion), and the Pacific at 0.1% (\$2.6 billion). As a share of each subregion's GDP, the package by East Asia is still the biggest at 16.4%, followed by Southeast Asia (13.2%), South Asia (12.7%), the Pacific (7.5%), and Central and West Asia (7.2%) (Figure 14). The PRC's package is the most sizeable among ADB's developing members at \$2.3 trillion (or 17.0% of its GDP).

Figure 14: Packages Announced in Developing Asia, by Subregion and Policy Measure



Notes: Data as of 11 January 2021. One out of ADB's 46 developing members has zero amount, i.e., Niue.

Source: ADB COVID-19 Policy Database, accessed on 16 January 2021. For the database, see Felipe, J., and S. Fullwiler. 2020. ADB COVID-19 Policy Database: A Guide. *Asian Development Review* 37(2): 1–20.

Table 4: Summary of ADB's Commitments^a in Support of Developing Member Countries' COVID-19 Response, 2020 (\$ million)

Item	ADB	Cofinancing	Total
Sovereign operations	13,280	8,187	21,467
Nonsovereign operations	448	158	606
Trade Finance, Supply Chain Finance, and Microfinance Programs ^b	2,419	2,496	4,915
Total	16,147	10,841	26,988

^a Commitment is the financing approved by the ADB Board of Directors or Management for which the legal agreement has been signed by the borrower, recipient, or the investee company and ADB. It is the amount indicated in the investment agreement that may or may not be equal to the approved amount, depending on the exchange rate at the time of signing. In the case of official and commercial cofinancing not administered by ADB for which the signed amount is not readily available, the approved amount is used.

^b The Trade Finance Program represents 92% of the ADB figure and supported 7,178 transactions in the reporting period, with an average maturity of 159 days.

Source: Extracted from Asian Development Bank. 2021. *2020 Asian Development Bank Annual Report*. Manila.

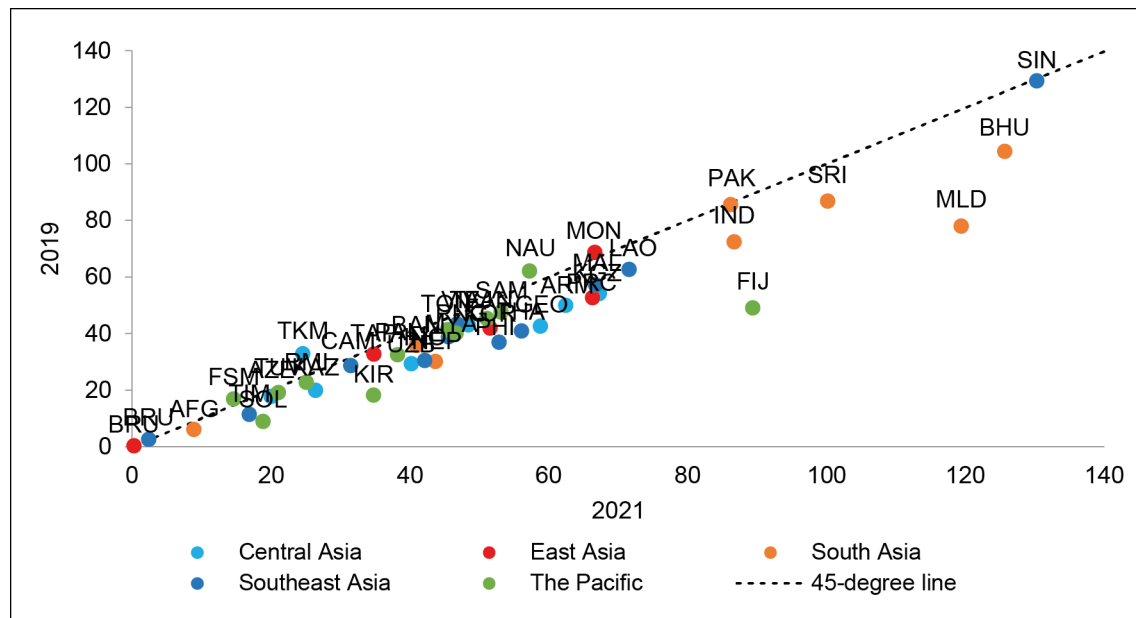
ADB is supporting developing members' pandemic responses with finance, knowledge, and partnerships. In terms of finance, ADB has announced a \$20 billion package of quick-disbursing loans, grants, and technical assistance, plus approved measures to streamline its operations for quicker and more flexible delivery of assistance. ADB stands ready to provide support via countercyclical support programs (including the newly established COVID-19 Pandemic Response Option [CPRO]), emergency assistance loans, and other instruments, if needed. In 2020, commitments in ADB financing for projects in support of its members' COVID-19 response amounted to \$16.1 billion (Table 4). This includes 26 CPROs, other sovereign projects, nonsovereign projects and programs, technical assistance projects, and projects under the trade finance, supply chain finance, and microfinance programs. In addition, \$10.8 billion of cofinancing has been committed for these projects. On the knowledge side, ADB has undertaken numerous economic impact assessments and analyses of the COVID-19 outbreak and its effects. Furthermore, ADB has been convening partnerships with other international organizations and the broader global community as part of ADB's overall response strategy. On the vaccine front, ADB launched a \$9 billion vaccine facility, the Asia Pacific Vaccine Access Facility (APVAX), in December 2020 to support the bank's low- and middle-income member countries in the effective procurement and delivery of COVID-19 vaccines.

COVID-19 responses are putting a strain on governments' fiscal positions. Sharply slower economic growth and fiscal policy responses to stem the impact of COVID-19 are raising public debt ratios. The COVID-19 pandemic sharply deteriorated short-term growth forecasts for many countries in the region. A drop in fiscal revenue, coupled with unplanned spending and countercyclical policies deployed to stem the crisis, will cause primary deficits to widen sharply. Economies that thus used to be associated with a favorable combination of low debt (below 50% of GDP) and fiscal surpluses, are being pushed into situations characterized by high debt (above 50% of GDP) and fiscal deficits. Using *ADO Supplement – December 2020* growth projections for 2020 and 2021, the average public gross debt ratio among developing members is currently projected at 50.9% of GDP by 2021, a significant increase from 42.5% of GDP in 2019.⁴ Figure 15 shows the public debt ratios for 44 of ADB's developing members with available data using ADB's debt projection model (Ferrarini et al. 2021).

⁴ These figures are simple unweighted averages across 44 ADB developing members for which projections are available, hiding much variation among this group of economies.

Projected increases in the public debt ratios between 2019 and 2021 are largest for Bhutan, Maldives, and Fiji, exceeding 20 percentage points for each of them.

Figure 15: Public Debt
(% of GDP)



Source: Ferrarini, B. et al. 2021. Asia Sovereign Debt Monitor. Manila: Asian Development Bank (forthcoming).

Past prudent behavior has created fiscal space for COVID-19 response. The region's past track record of strong growth and a generally prudent fiscal stance kept public debt levels sufficiently low for most regional economies, now giving them the necessary fiscal muscle to run larger deficits in the short term. But policy space is not unlimited, so resuming growth and normalizing fiscal balances is critical to preserving debt sustainability in the region. Even where pre-COVID-19 debt ratios are low enough to allow for some increase in debt ratios, maintaining debt sustainability inevitably requires that, soon enough, countries resume robust growth and rein in deficits from their crisis response. Otherwise, ballooning debt in gross terms would occur, and sustainability could possibly end up impaired in some parts of the region. Without growth resuming in earnest, countries are bound to face a policy dilemma from having to support their economies against the backdrop of shrinking policy space and rising debt ratios.

6. MOVING BEYOND THE PANDEMIC TOWARD THE “NEW NORMAL”

Governments must get their economies back on track while grappling with the constraints of the “new normal.” Many governments have slowly reopened their economies, gradually removing mobility restrictions and opening domestic borders to revive domestic activity. In some cases, such reopening has resulted in new waves of infection. Chen et al. (2020) look at cross-country experiences, analyzing global responses to the virus to determine which measures work best in controlling the virus, while costing the least for the economy. They find that contact tracing combined with a paid sick leave policy is highly effective in controlling the spread of COVID-19. In

addition, mass testing, bans on gathering, and a mandate on masks are effective in controlling spread and are less costly for the economy (i.e., associated with smaller declines in economic growth). Thus, when future waves hit, control measures proven to be effective and with lower economic cost should be implemented early and swiftly. Such measures should be central features of the “new normal” until herd immunity is achieved.

COVID-19 has affected all sectors substantially, with some disproportionate impacts on the poor and the vulnerable as well as services sectors. There is no way that economies can return to their pre-COVID environments anytime soon. Affected sectors must thus find ways to survive and thrive under these new circumstances. Below are some ways affected sectors can adapt to the different conditions everyone is now facing.

Promoting domestic tourism and negotiating travel bubbles can help revive tourism. Tourism has been hit hard by COVID-19. As a major economic sector and source of foreign exchange earnings in many countries in Asia and the Pacific, the sudden fall in tourist arrivals is having severe economic and social consequences within and beyond tourism. Helble and Fink (2020) analyze two strategies to revive tourism. The first is the promotion of domestic tourism. Their analysis shows that in about half of the economies in the region, domestic tourists could replace a considerable portion of international visitors, if fully mobilized. Second, in the recovery phase, countries can negotiate so-called travel bubbles or green corridors with preferred partners, which could progressively expand into subregional travel bubbles. Successfully reviving tourism requires that governments together with travel and tourism sectors prepare phased tourism recovery plans, in which travel bubbles can only be a stepping-stone to a fully open regime. During the recovery phase, governments need to rebuild tourist confidence and encourage innovation and investment for a resilient and sustainable tourism sector.

Digital transformation can help MSMEs access supply chains and enhance consumer welfare. Pandemic-induced trade and mobility restrictions have temporarily disrupted MSMEs’ access to global and local supply chains. However, the crisis presents an opportunity for countries to further accelerate their digital transformation and e-commerce agenda for international and domestic trade to flow. Prior to the pandemic, ADB had extended loans to help its developing members increase financial inclusion. As a result of the crisis, it has modified its assistance to get more small- and medium-sized enterprises (SMEs) to utilize digital payments. In the case of the Philippines, digital finance is increasing competition in the financial sector and leading to wider access to funds. In the PRC, the rise of big tech credit offers new avenues of financing for SMEs, which have been particularly hard hit during the COVID-19 pandemic (Huang et al. 2020). Countries must allow global financial technology firms to operate and spur innovation. Governments can also link up payment vendors with businesses and get more small businesses to connect to online platforms to spur trade and economic activity (Vandenberg 2020). In this respect, conducting fair competition policies and, also, setting cohesive and pro-competitive data-sharing rules will be critical. If successful, “inclusive” digital transformation can be achieved by helping MSMEs access supply chains and enhancing consumer welfare through transactions on digital platforms.

Investing in digital readiness and developing skills for the digital economy can help mitigate the impact of the post-pandemic structural changes. COVID-19 has spurred the digital transformation of work and the workplace. At the same time, technology is helping mitigate the health and economic effects of COVID-19. Digital readiness has been a contributing factor in the successful containment of the spread of

the virus in economies such as the Republic of Korea; Singapore; Taipei, China; and Viet Nam. It has also facilitated the shift toward greater online transactions for businesses and consumers. However, the digital divide remains significant in many developing economies. Governments should thus ensure adequate investment in high-speed broadband and fiber networks, while designing appropriate regulatory regimes with proper incentives and governance mechanisms. They should also invest in skills development of people unemployed and furloughed due to the pandemic, as well as of those of the future workforce. (Park and Inocencio 2020).

Reskilling migrants can help them and their households cope with the remittance drop. Remittances are a normally stable and countercyclical source of income for recipient households. However, border closures and the global economic slowdown are affecting host countries as well, so that remittances are expected to be severely curtailed. For vulnerable migrant workers, source and host countries are encouraged to extend temporary social protection programs to assist stranded and returned migrants and extend social protection to the remittance recipient households that fall back to poverty. Source countries can also design health, labor, and skills policies to help migrants return to their jobs, or get employment in their home countries. Moving forward, governments can introduce measures to smooth out remittance inflows during crisis times (Takenaka et al. 2020; Lanzafame and Qureshi 2020).

Stronger social protection programs can help ease the worsened conditions of the poor and vulnerable. The COVID-19 pandemic has exacerbated the conditions of vulnerable groups, including the urban and rural poor, those in informal and low-skilled work, the elderly, and women. It has also taken away many jobs, leaving many workers unemployed. This is expected to result in higher poverty rates and greater income inequality. Governments should consider upgrading social protection programs—in terms of both expansion of coverage and greater efficiency of delivery—for the poor and vulnerable. In addition, public policy should limit the impact of unemployment on workers and their families by providing temporary income support (such as unemployment insurance systems, redundancy payments, and social assistance programs) and employing active labor market policies (such as labor exchanges or mobility assistance, education and training, and business support or subsidized employment) (Susantono, Sawada, and Park 2020).

Authorities together with banks should develop clear action plans to effectively resolve nonperforming loans. Many central banks in the region have already cut interest rates, and governments have introduced measures to provide financial relief to households and businesses. However, the widespread economic slowdown suggests that a build-up of nonperforming loans may still be inevitable. Governments must ensure that these nonperforming loans do not exacerbate the economic problems created by the COVID-19 pandemic. Authorities can put in place preventive loan restructuring frameworks to allow actions that preempt corporate defaults. They can also consider developing private nonperforming loan markets to allow financial institutions to dispose of distressed portfolios at fair and efficient market prices. Moreover, Asian policymakers should work together through a combined focus on adequate national regulatory policies, effective monitoring and surveillance frameworks, and regional cooperation for emergency liquidity support to safeguard regional financial stability (Susantono 2020).

Multilateral lenders must plan for improved sovereign debt workouts and help achieve medium-term fiscal sustainability. ADB and other multilateral lenders responded quickly to help members combat the COVID-19 pandemic and mitigate its

health and economic effects. Financial support came in the form of technical assistance, grants, and loans. The severity and pervasiveness of the pandemic effects compelled governments to use up considerable fiscal space to cope with the shock. Multilateral lenders must thus help ensure that the global health crisis does not morph into a global debt crisis. While many developing economy governments were able to secure loans in local currency, many large corporations were forced to amass foreign currency debt. If these firms are systemically important to their domestic economies, governments may be compelled to bail them out when they fail. Amid large and simultaneous financing needs across the globe, official lenders should be prepared to offer debt restructuring as needed. Making debt restructuring more expedient, however, requires more transparency on debt data and debt contracts, realistic economic forecasts that incorporate downside risks, and new legislation to support orderly sovereign debt restructurings (Bulow et al. 2020). Also, as the pandemic continues to pressure government expenditures, in the medium term, it will be imperative for governments to broaden the tax base and enhance tax compliance for debt sustainability by addressing the issue of domestic resource mobilization and international tax cooperation. To support such fiscal adjustments as well as to help achieve the Sustainable Development Goals in a world reshaped by COVID-19, ADB is establishing a regional hub for Asia and the Pacific tax cooperation through close collaboration among finance and tax authorities of developing economies as well as international organizations such as the IMF, the Organisation for Economic Co-operation and Development, and the World Bank; and regional tax associations.

COVID-19 has brought about long-lasting changes to the global economy. On the positive side, COVID-19 accelerated digital transformation across the world in the mad rush to adapt to the new environment of limited face-to-face interactions. It also prompted changes in industry structures and consumer behavior, encouraging greater efficiency and innovative methods of production and consumption. On the negative side, COVID-19 has resulted in rising income inequality, which could lead to social unrest if left unaddressed. It could also lead to national isolation as economies hold back on reopening their borders to avert succeeding waves of infection. As seen earlier, policy responses are also raising public debt levels, which could threaten debt sustainability in some countries. And finally, COVID-19 has increased government intervention in economic affairs, which may be difficult to withdraw when the pandemic is no longer a concern (Lee 2020).

Policymakers must use this opportunity to adapt COVID-19 responses to address longer-term challenges. The structural changes brought on by the pandemic could also usher in positive changes, if well managed. For example, a focus on resilient, green infrastructure investments could help jump-start economies while moving them on to a more environmentally sustainable path. Indeed, investments in climate-resilient infrastructure should be the centerpiece of the billions of dollars in economic stimulus being used to rebuild Asia's economies. Governments must thus put in place pragmatic principles to help guide infrastructure choices and ensure they are green. In addition, green finance principles must build in financial incentives to make green projects more bankable. Greening the post-COVID recovery can spur industry and keep jobs, as well as help build resilience against the next major shock or crisis that hits the region. This will hopefully pave the way for a greener, more balanced growth pathway becoming the "new normal" in the Asia and Pacific region in the long-term (Mehta and Morgado 2020).

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