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**Working Paper**

## Reset and rebuild for a better Philippines in the post-pandemic world

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# Reset and Rebuild for a Better Philippines in the Post-pandemic World

*Adoracion M. Navarro, Margarita Debuque-Gonzales,  
and Kris A. Francisco*



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# **Reset and Rebuild for a Better Philippines in the Post-pandemic World**

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## **Abstract**

Despite the continuing threat of the COVID-19 virus mutating, the pandemic will eventually end given widespread vaccination and virus suppression policies. Policymakers need to think ahead, assess scenarios of possible futures, and start to reset and rebuild toward a better Philippines in the post-pandemic environment. Owing to the many societal issues that the pandemic exposed and exacerbated, thinkers were compelled to scrutinize the current flaws in the capitalist system and how these can be fixed to ensure a more sustainable existence. The Great Reset agenda by the World Economic Forum is one example. This agenda is contextualized in the Philippine situation through three major strategies, namely: making businesses more ethical through stakeholder capitalism; pursuing a green and inclusive recovery; and maintaining a robust and healthy workforce. Policy insights and recommendations for each strategy include the following: for ethical business, enjoin companies to adopt universally recognized environmental, social and governance metrics, strengthen the country's competition framework, and create an equal environment for different businesses in similar industries; for green and inclusive recovery, make space for greening in the stimulus packages, create a pipeline of needed climate-smart infrastructure projects, identify and invest in green growth areas, support the calls for a green new deal in Southeast Asia, push Philippine concerns in the global debates on climate actions, and find alternatives in the face of carbon-related tradeoffs; and for a robust and healthy workforce, invest in reskilling and upskilling programs, revamp the social protection system, address the digital divide, and address the needs of the workers of the future.

**Keywords:** COVID-19 pandemic, capitalism reset, stakeholder capitalism, green recovery, robust workforce

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# **Reset and Rebuild for a Better Philippines in the Post-pandemic World**

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## **1. Introduction**

Given the huge uncertainty on how and when the coronavirus disease 2019 (COVID-19) pandemic will end, the question of whether there will be a post-pandemic world has arisen. The rapid mutation of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)—the virus that causes COVID-19—and the emergence of variants of concern have acutely increased the challenge of ending the pandemic. The World Health Organization (WHO) defines a SARS-CoV-2 mutation as “a variant of concern” if there is evidence of increased transmissibility, increased severity of the disease, decrease in effectiveness of treatments or vaccines, or reduced effectiveness of available diagnostics (WHO 2021a). There are various evolutionary paths of the mutation. An evolutionary path wherein the mutation becomes more transmissible even if it becomes neither more nor less virulent will mean exponential growth in the number of illness and deaths, raising further the uncertainty on the end of the pandemic.

The likelihood that COVID-19 will be eradicated completely in a generation is very small, if not nil. The only infectious disease that has been eliminated in the history of humankind is smallpox. It was believed to have existed for 3,000 years before it was declared by the WHO in 1980 as completely eradicated. The eradication of smallpox is considered the most profound public health accomplishment in history, thanks to a combination of widespread immunization and global surveillance for several years (WHO n.d.).

Large-scale immunization is being pushed to fast-track the attainment of herd immunity, or the point when there are enough people with antibodies that the SARS-CoV-2 virus is unable to successfully find enough hosts that will transmit it. The 1918 flu pandemic ended in the middle of 1920 when much of the world had achieved herd immunity through natural infection, although there was no official declaration that the pandemic had already ended at the time (Waxman 2020). In the current pandemic, it would be irresponsible to aim for herd immunity through natural infection, which could mean uncontrolled increase in deaths and unnecessary suffering. Thus, governments are hoping that herd immunity could be achieved through unavoidable natural infection and deliberately scaled up vaccination across the globe.

Moreover, many scientists believe that COVID-19 will eventually become endemic. In January 2021, *Nature* surveyed more than 100 scientists (immunologists, infectious-disease researchers, and virologists) working on SARS-CoV-2 and 89 percent of them felt that the virus will become endemic. That SARS-CoV-2 will become endemic means that it will consistently be present but limited to pockets of the global population and there will be occasional disease flare-ups or outbreaks the spread and rates of which will be predictable and

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manageable. Scientists note that some of the key factors that are likely to lead to SARS-CoV-2 becoming endemic are immunity through vaccines or infections, vaccine booster or vaccine reformulation when immunity wanes, herd immunity through wide enough geographic coverage of vaccines, prevention of severe illnesses through vaccines, and continuing control of the virus should it persist in animal reservoirs. However, these scientists' view on herd immunity came before the Delta variant was found to be highly transmissible. Nonetheless, an encouraging opinion by these scientists is that they consider a less destructive possible pathway of the endemicity of the virus--it will be first encountered in early childhood and can cause mild infection or none at all because that is how the four endemic coronaviruses, namely, OC43, 229E, NL63 and HKU1, behave (Nature 2021a).

Experts do not know yet (at least at the time of this writing) how long the immunity, either due to the vaccines or due to natural infection, lasts. What has been established is that immunity diminishes over time and virus mutation continues, with the Delta variant being the most infectious thus far. Although most estimates had placed the herd immunity threshold at 60% to 70% of the population of a geographic area, reaching that threshold has started to look unlikely due to vaccine hesitancy by some people, the emergence of new variants, the delayed development of vaccines for children, and the unequal distribution of vaccines (Aschwanden 2021). It has been reported in August 2021 that given the vaccines developed at that point, herd immunity has become mathematically impossible at the high end of the Delta variant's range of basic reproduction number, or  $R_0$ , which is estimated as between 5 and 9 (meaning, one infected person can infect 5 to 9 persons). Nevertheless, as vaccination rates rise, infection surges will become more manageable (Yong 2021). Thus, the race is not just a race toward vaccinating most of the population but a race between the scientific community developing boosters or next generation vaccines and the virus mutating. Moreover, vaccination plus policies to suppress the spread of the virus such as mandating better ventilation, shifting risky physical activities outdoors, masking, physical distancing, rapid and more affordable testing, better contact tracing, effective and more affordable treatment, and various forms of social support (including assistance that will allow infected people to isolate themselves) are still the best strategies for working our way toward a new normal, a point where we learn to live with the virus.

Thus, based on current knowledge, the post-pandemic world in the medium term can be assumed as a future where the virus is under control through a combination of vaccination, treatment, prevention, good public policies, and individuals knowing how to live with the virus. In the medium to long term, it is a future where herd immunity is achieved, public health systems manage an endemic disease, and governments get better at rapidly detecting local transmissions and definitively containing outbreaks.

The transition to a post-pandemic world will not be easy as it will necessitate consistent monitoring of mutations, supporting epidemiologic improvements, and sustaining public policies that work. The transition will also involve shifting responsibility for risk-taking, prevention, and treatment decisions more to the level of the individual than governments. Governments will then have to focus more on setting the right policies to support continuing epidemiologic improvements, removing inequities in and providing resources for the access to disease prevention and treatment, and incentivizing people to adopt better and more sustainable ways of life.

In this context, there is a need to work toward a better Philippines in the post-pandemic world. The title of this paper, *Reset and rebuild for a better Philippines in the post-pandemic world*,

invokes the following actions: **reset**, meaning to clear errors, remove problematic applications, or put away things that entangle; and **rebuild**, meaning to make extensive changes, demolish obsolete rules, processes, and systems, and provide new ones. It also invites us to imagine a **better** Philippines and encourages us to enable a more effective functioning of our systems and processes. As the succeeding discussion shows, this involves picking constructive actions in the global debate on resetting capitalism, making businesses more ethical business through stakeholder capitalism, pursuing green and inclusive recovery, and maintaining a robust and healthy workforce.

## **2. Post-pandemic scenarios and the need for capitalism reset**

Equipped with the assessment that the pandemic will eventually end, policymakers can begin to think ahead and assess scenarios of possible futures. Various authors have explored possible post-COVID-19 scenarios and some of the results are discussed below. One important common implication of the scenario-building exercises is the to accelerate sustainable development and reset ways of life and the practice of capitalism.

### **2.1 *Post-pandemic scenarios***

The summaries below identify the range of possible futures deduced from scenario-building exercises and assessments that have been done so far. With the continuing virus mutation and changes in the way the world responds, it is likely that more explorations of possible scenarios will be upcoming.

#### **2.1.1 Five scenarios with varying levels of globalization and collaboration**

Talebian and Kemp-Benedict (2020) of the Stockholm Environment Institute described five alternative post-pandemic scenarios generated through scenario-building exercises by experts from different fields and conducted through surveys and online workshops. The scenario-building looked as far as 2050 and considered socioeconomic issues, uncertainties and change factors as future driving forces. The five alternative scenarios are labeled as: responsible globalization; chaotic globalization; world of walls; cold peace; and adaptive mosaic. The scenarios assume varying levels of control of the spread of COVID-19 by late 2020 to beginning 2021, which need to be updated given our current situation, but the descriptions of possible futures up to 2050 are still relevant.

The “responsible globalization” scenario is “an interconnected world where valuing society, sustainable development and protection of human life are shared principles of the global community” (Talebian and Kemp-Benedict 2020, p. 1). The spread of COVID-19 is successfully controlled through international collaboration and coordination on containment measures, epidemiological research, and vaccine development. The transition through economic recovery plans is just, human-centered, and considerate of the inequalities highlighted by the crisis. Post-crisis, the global community becomes more collaborative, less polarized, more trusting of international institutions, and more active and successful in coordinating global efforts. Governments rely on science, thereby generating public trust and increasing the demand for science-driven policies and actions. Governments also prioritize and tackle in an integrated manner climate change adaptation and mitigation targets. They and international institutions consider the negative effects of unchecked expanding globalization.

Both public and private sectors reform their interconnected production and trade network operations, and labor markets are able to adapt, adjust, and reduce income gaps.

The “chaotic globalization” scenario is “a world in which inequalities increase significantly, and tumultuous interconnections, opportunism, and growing rivalry undermine global collaboration” (Talebian and Kemp-Benedict 2020, p. 1). COVID-19 outbreaks continue to recur. Global cooperation is pursued but the international response is uncoordinated and countries’ opportunism lead them to diverge from prescribed policies. This creates disharmony and mistrust and loss of international institutions’ relevance and legitimacy, including in prioritizing climate targets. Failures in epidemiological responses, such as vaccine development, and spread of disinformation generate public distrust in science. Disrupted supply chains, trade conflicts, and unstable trade networks characterize the global production networks. Periodic lockdowns, crippled businesses, structural unemployment, lack of social protection to vulnerable groups, protests, and social and political instability characterize the situation in many countries.

The “world of walls” scenario describes “a fractured world in which there is an upsurge in nationalist values, conflicts grow substantially, and international institutions lose their legitimacy” (Talebian and Kemp-Benedict 2020, p. 1). Governments fail to control COVID-19 spread and bicker over the origins of SARS-CoV-2, the response measures, and accusations on withholding of information on COVID-19 data and statistics. Antagonism leads to the fracturing of the global community, growing distrust in international institutions, and increasing protectionism of countries. Climate change-related efforts of countries are minimal, short-term, divergent, and uncoordinated. Stricter border controls, anti-migration policies, tariff wars, and cuts in global trade networks occur. Long-term global recession happens, and governments’ fiscal policies prove ineffective against massive unemployment and poverty.

“Cold peace” is a scenario where “a highly polarized world splintered into two opposing blocs; each remains politically stable and grows economically, but global collaborative efforts collapse, and trade networks are disrupted” (Talebian and Kemp-Benedict 2020, p. 1). Although the world started with a collaborative stance in developing vaccines, two rivals — the US-Europe alliance on one hand and China on the other—exhibit fierce competition over patents, mass production, and marketing of vaccines, with each bloc attempting to dominate the global market. This competition cascades to other areas and governments align themselves within a bloc to get access to regional markets. Although international institutions try to resolve tensions, the dialogue opportunities they provide to the two blocs become platforms for propaganda wars. Sustainable development is not pursued as the two blocs merely brag about their own climate commitments while accusing the other of inaction. There is economic recovery within countries in each respective bloc but production networks are confined and inequalities increase.

The “adaptive mosaic” scenario is characterized as: “a localized world focused on sustainability; countries collaborate across borders, but emphasize resilience and self-sufficiency and reduce their dependence on global markets and supply chains” (Talebian and Kemp-Benedict 2020, p. 1). COVID-19 spread is contained through policies, measures, and solutions that are adapted to different country contexts. Countries work cooperatively, value openness, foster cooperation, and give mutual support, and international institutions facilitate international relations and global collaboration. But imports decrease and international supply chains shrink as countries advocate for restrained globalization and promote local production networks to build resilience to risks from unfettered globalization. Countries use science-based

policies and collaborate at the global level on implementation of national commitments and climate targets. National governments support businesses and public-private partnerships engaged in sustainability and local operations that mitigate globalization risks. Businesses reskill their employees and offer continuous training, thus reducing unemployment.

### 2.1.2 Three scenarios based on adaptation and learning

In the five scenarios of Talebian and Kemp-Benedict summarized above, note that the roles of international institutions, governments, and businesses or markets are analyzed. In a scenario building by Pelfini (2021), the roles of three structures—the state, the markets and the civil society—are described in the possible futures post-pandemic. Pelfini adopted the sociological viewpoint and posited that there can be three post-pandemic scenarios based on the capacity of people to learn when faced with extreme danger and of societies to be resilient when faced with unprecedented traumatic situations where everyone shares structural weaknesses.

The first scenario is the “particularist retreat”, which is business as usual, promotes taking refuge in the nation-state, disregards the global interrelatedness of COVID-19 issues, and ignores existing interdependencies. Alternatives to this scenario are scenarios that apply two levels or degrees of transformation — “adaptation” and “collective learning”. In the “adaptation scenario”, the state, market, and civil society communicate and adjust to complexities without completely abandoning settled practices. Multilateralism at the international level is strengthened, states invest in public health, and markets deepen digitalization and promote scientific cooperation but with full intellectual property protection. Civil society promotes responsible consumption, subsidiarity, self-care, and sustainable development. The “collective learning” scenario is more demanding as it goes beyond communication and negotiation and requires global governance on topics such as public goods provision, risk reduction, and catastrophe prevention. At the national level, the state prioritizes public policies that revolve around the notion of care and reducing inequalities. Markets prioritize short-distance logistics and localization of production and consumption, as economies revalue “essential activities” and civil society increasingly becomes a network of “prosumers”.

### 2.1.3 Three scenarios in an unequal world

In another scenario building, one that emphasizes that we live in an unequal world where achieving sustainable development goals may be more feasible for some countries than for others, business as usual is also predicted to happen if the civil society is weak and critical voices and social demands are not consolidated. Using non-structured documentary research and bibliographic reviews, Morea (2020) gathered insights from the debates about possible post-pandemic scenarios and synthesized the discourse into three futures, namely, business as usual, paradigm shift, and managed transition. He then applied the implications of these scenarios in the Latin American context given that it is one of the least favored regions in the world.

The “business as usual scenario” is the most pessimistic view as it posits that there will be no major changes and that policies for recovery will be based on the tried and tested consumerism-based rescue of the capitalist system, similar to the policies in the aftermath of the 2008 crisis. The desire for short-term economic gains and rapid recovery will drive countries to favor classic and familiar rescue packages for the economic and productive sectors (Morea 2020, p. 6).

But if critical voices and social demands are consolidated post-pandemic, two alternative scenarios could happen depending on the intensity of the call for reforms. First is a “paradigm shift” associated with a chaotic situation where COVID-19 causes the global economic order to fall apart and puts the environmental and climate crisis at the center of the need for recovery. The fear of another pandemic leads to calls for radical measures. The radical changes are framed by a paradigm shift “based on a total rethinking of natural resource management, animal-based food production, supply chains, and the relationship of societies with the environment in general” (Morea 2020, p. 6).

A less radical scenario is planned or managed transition where the pandemic is the trigger for calls similar to the “Green New Deal”<sup>2</sup> in order to attain sustainable development. In a managed transition, a gradual process of change takes place in the short and medium term in the areas of sustainable consumption, reduction of the economy in scale, circular economy, green economy, and blue economy (Morea 2020, p. 6).

The managed transition scenario as an intermediate position is the one that dominates the debate, but Morea (2020) posited that the potential transition does not seem viable under the present geopolitical relations between countries and the assignment of roles in the current capitalist system. Thus, the post-pandemic futures that countries will confront is not the same globally but will depend on their starting point in the current world order and capitalist system. Morea (2020) argued that in the case of Latin America, it is in a very disadvantaged starting position and initial political signals seem to indicate continuity of the present economic system (which is highly reliant on extraction of natural resources) and business as usual. Nevertheless, the first alternative future where paradigm shift leads to reforms does not seem farfetched due to recent antecedents such as social and political protests. With respect to the possibility of a planned transition, the future will depend on the consolidation of solutions at the global level and the reconfiguration of the world order in terms of greater equality and fraternity.

## 2.2 *Resetting capitalism*

The scenarios described in the previous discussion highlight important factors that will affect the post-pandemic recovery and the pursuit of sustainable development: the quality of globalization and cooperation in the world, the level of polarization and localization among countries, the tendency to lean toward business as usual, the roles of adaptation and learning by social structures, and the viability of paradigm shifts and managed transition in an unequal world. In all the scenarios except business as usual, resetting (i.e., restarting but with changes relative to the base setup) is a common theme.

Moreover, in the scenario-building exercises, a subtle criticism of capitalism runs undercurrent in the assessments of globalization, international order, markets, sustainable development, and inequality. Pondering about the future after the pandemic has compelled thinkers to explore the current flaws of the capitalist system and how these can be fixed to ensure a more sustainable life on this planet.

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<sup>2</sup> The Green New Deal is a term used to describe proposed public policies aiming to meet climate targets such as net zero greenhouse gas emissions while meeting social goals such as employment and equal access to basic necessities such as clean air and water, healthy food, and sustainable environment. It figured in the US 2020 presidential elections as a campaign platform (D’Souza 2021).

The World Economic Forum (WEF) 2020 recommended a so-called “Great Reset”. WEF founder Klaus Schwab argued that “we need a ‘Great Reset’ of capitalism” given that the long-term consequences of COVID-19 will exacerbate the ongoing climate and social crises and if left unaddressed, “these crises, together with COVID-19, will deepen and leave the world even less sustainable, less equal, and more fragile” (Schwab 2020a). The Great Reset has three main components or priorities: to steer the market toward fairer outcomes, to ensure that investments advance shared goals such as equality and sustainability, and to harness the innovations of the Fourth Industrial Revolution (FIR) to support the public good especially by addressing health and social challenges. The first component covers reforms in tax, regulatory and fiscal policies and may include, depending on the country, “changes to wealth taxes, the withdrawal of fossil-fuel subsidies, and new rules governing intellectual property, trade, and competition.” Examples of the second component are building “green” urban infrastructure and incentivizing businesses to improve their performance on environmental, social, and governance (ESG) metrics. Illustrations of the third component are the high level of collaboration between businesses and the scientific community to deliver COVID-19 diagnostics, therapeutics, and vaccines. In the Davos Agenda 2021, the World Economic Forum reiterated the Great Reset agenda and called for “a new form of capitalism, one that puts people and planet first” (WEF 2021).

As part of the Great Reset collection of ideas, Sompo Holdings (2020) presented an idea on redesigning capitalism by incorporating social sustainability and people’s wellbeing (Sompo Holdings 2020). Because capitalism is really about meeting people's demands, the new capitalism should therefore create demand for goods and services that contribute to attaining the Sustainable Development Goals (SDGs) and society should reward companies meeting this “good demand” and fulfilling ESG metrics. Moreover, economic returns for such company actions should be highlighted by capital markets and one way this can be done is by factoring in forecasts for long-term profits due to SDG and ESG pursuits (Sompo Holdings 2020). As Schwab (2020b) pointed out, companies need not stop seeking profits for shareholders. They just need to pursue this using a longer-term perspective, say a decade or a generation, and in line with an organizational mission.

The response to the COVID-19 pandemic has so far shown that the private sector collaborating with governments and the scientific community can accomplish so much in a short time by focusing less on profits and market power and more on shared goals of survival and resilience. This is apparent in the rapid development and manufacturing of vaccines against SARS-CoV-2. The global collaborative effort and the time it took to develop the vaccines have been unprecedented. A typical vaccine development timeline can take more than ten years from research to approval and distribution, but the January 2020 publication of the genetic sequence of the virus triggered global cooperation for the development of candidate vaccines (Richardson et al. 2020). Academic institutions and the vaccine development industry responded to the call, primarily by the World Health Organization, that data ownership rights be relaxed and all relevant data be made openly accessible. This is apparent in the COVID-19 vaccine tracker of the WHO (2021b). By December 2020, some of the vaccines have passed clinical trials and started to be rolled out.

Right now, there are calls to push the open data policy further by totally foregoing intellectual property rights or patents, a long-held instrument of monopoly power seen necessary to incentivize inventions and innovation for the manufacture of COVID-19 vaccines. The debate on this is still ongoing and the industry is resisting. But as of June 16, 2021, the campaign for

time-limited intellectual property relief on the vaccines has been backed by more than 100 countries (Nature 2021b).

It is not only by relaxing the hold on intellectual property as a profit-generating instrument that breakthroughs on COVID therapeutics were achieved. The widespread public enthusiasm and strong sense of public duty and concern to participate in clinical trials also contributed to the fast-tracking of vaccine development (Richardson et al. 2020). Indeed, surviving this pandemic and reaching a future where the disease is under control requires the help of everyone. The strategies for a sustainable existence post-pandemic include changing social and behavioral practices, altering people's views of what is essential and has economic value, and restructuring institutions to optimize the benefits from the new practices and emerging worldviews. Given the lessons from COVID-19 disruptions and the ongoing virus mutations, the old normal will not be back and therefore people must reset their ways of life and rebuild toward a better normal.

### **3. Making business more ethical through stakeholder capitalism**

Due to the harsh impact of lockdowns and quarantines, the COVID-19 crisis created a strong impetus for reform, especially in countries like the United States (US), as it came after the Global Financial Crisis (GFC) of 2008-2009 that already revealed some of the weaknesses of the existing capitalist system. The debate focused on which market model would deliver long-lasting and widespread prosperity — shareholder capitalism, where the interests of only one stakeholder (the stock owner) dominate, or stakeholder capitalism, where the interests of all stakeholders matter. One side of the debate calls for making business more ethical by serving all stakeholders and pushing for environmental, social and governance metrics.

The debate has not been purely academic, as shareholder capitalism has gained momentum even before the pandemic. In August 2019, the US Business Roundtable released a new “Statement on the Purpose of a Corporation” that declared “a fundamental commitment to all stakeholders” and listed specific commitments to customers, employees, suppliers, and relevant communities, in addition to long-term value for corporate shareholders. This statement was signed by over 180 CEOs of major US corporations. The same year, the *Financial Times*, an influential advocate of economic liberalism, surprisingly launched a campaign to reset capitalism by promoting a broader sense of corporate purpose, with business and markets ideally set “within a wider social context, and a legal and political framework” (Financial Times 2019).

In January 2020, the WEF updated the Davos Manifesto to more clearly state the purpose of a company, which is “to engage all its stakeholders in shared and sustained value creation.” Similar to the US Business Roundtable statement, stakeholders in the new manifesto include not just the shareholders, but also employees, customers, suppliers, local communities, and “society at large.” Responsibility to the latter entails paying a fair share of taxes and acting as “steward of the environmental and material universe for future generations.”

In the third month of the COVID-19 pandemic, Klaus Schwab argued that countries had greater reason to strive to improve coordination (e.g., in tax, regulatory, and fiscal policy), upgrade trade arrangements, and create the conditions for a “stakeholder economy” (Schwab 2020a). He cited powerful incentives by governments to do so, aside from steering markets toward

fairer outcomes, on account of dwindling tax bases and rising public debt that are the products of a pandemic recession.


Another noteworthy development under the WEF umbrella has been the release of a set of measures called Stakeholder Capitalism Metrics (SCM). Created by large global consultancy firms at the request of the WEF's International Business Council, the SCM had been drawn from existing standards and comprise various environment, social, and governance (ESG) metrics that serve as bases for universal and comparable disclosures (see Box 1 for a summary of the SCM). Over 60 global industry leaders, including in developing Asia, have reportedly already committed to using this new set of measures to assess long-term value creation for stakeholders.

In contrast to these mainly voluntary efforts, moves to establish stakeholder governance in Europe have seemingly gravitated towards building a solid legal framework. The European Union (EU) has also shifted its focus from the pursuit of short-term profits for shareholders outside of the usual bastions (e.g., Germany and the Nordic countries) to what the European Commission terms “sustainable corporate governance” where the interests of other stakeholders, including the environment and society, are considered. However, with voluntary commitments under soft laws failing to elicit certain desired behaviors, it has turned to proposing legislation (e.g., for supply chain due diligence on human rights and the environment), where identifying and addressing abuses may well turn into corporate board or management responsibilities.


There has been, so far, no strong movement pushing for stakeholder governance, particularly in developing Asia. An interesting question would thus be whether countries in the region, including the Philippines, should take steps in that direction.

#### Box 1. Measuring stakeholder capitalism


To promote a more unified approach to reporting on ESG practices among businesses, the World Economic Forum in 2019 recommended a key set of indicators that revolved around the four key pillars of governance, planet, people, and prosperity. They include 21 indicators classified as core metrics (or information already being disclosed by firms) and an additional 34 are considered as expanded metrics (i.e., more specific information not yet being widely reported).

Pillar	Theme	Core Metric (with sample features)	Expanded Metric (with sample features)
 <b>Governance</b>	<b>Governing purpose</b>	<b>Setting purpose</b> – company's purpose; should include the creation of value for all stakeholders	<b>Purpose-led management</b> – incorporation of purpose in strategies, policies, and goals
	<b>Quality of governing body</b>	<b>Governance body composition</b> – competencies in economic, environment-related, and social (EES) topics; stakeholder representation	<b>Progress against strategic milestones</b> – EES milestones achieved in the previous year, and targeted for the next; expected contribution to long-term value
	<b>Stakeholder engagement</b>	<b>Material issues impacting stakeholders</b> – identification	<b>Remuneration</b> – performance criteria in remuneration policies



 Planet		of material topics and engagement of stakeholders	(concerning executives' EES objectives)
	<b>Ethical behavior</b>	<b>Anti-corruption</b> – percentage of governing body members, employees, and partners with training on anti-corruption <b>Protected ethics advice and reporting mechanisms</b> – mechanism for behavior and integrity; reporting	<b>Alignment of strategy and policies to lobbying</b> – significant issues included in the company's participation in public policy development and lobbying <b>Monetary losses from unethical behavior</b>
	<b>Risk and opportunity oversight</b>	<b>Integrating risk and opportunity into the business process</b> – considers EES factors	<b>EES topics in capital allocation framework</b>
	<b>Climate change</b>	<b>Greenhouse gas (GHG) emissions</b> – report in metric tons of carbon dioxide equivalent GHG Protocol Scope 1 and Scope 3 emissions, upstream and downstream (GHG) Protocol Scope 3) emissions <b>TCFD implementation</b> – with regard to Task Force on Climate-related Financial Disclosures recommendations	<b>Paris-aligned GHG emissions targets</b> <b>Impact of GHG emissions</b>
	<b>Nature loss</b>	<b>Land use and ecological sensitivity</b> – number and area of sites owned, leased, or managed in or adjacent to protected areas and/or key biodiversity areas	<b>Land use and ecological sensitivity</b> – report for operations and full chain <b>Impact of land use and conversion</b> – valued impact
	<b>Freshwater availability</b>	<b>Water consumption and withdrawal in water-stressed areas</b> – megaliters of water withdrawn, consumed; percentage in regions with high or extremely high baseline water stress	<b>Impact of freshwater consumption and withdrawal</b> – valued impact
	<b>Air pollution</b>	-	<b>Air pollution</b> – proportion of emissions that occur in or adjacent to urban/densely populated areas <b>Impact of air pollution</b> – valued impact
	<b>Water pollution</b>	-	<b>Nutrients</b> – metric tons of nitrogen, phosphorus, and potassium in fertilizer consumed <b>Impact of water pollution</b> – valued impact

 <b>People</b>	<b>Solid waste</b>	-	<b>Single-use plastics</b> – estimated metric tons; most significant applications of such plastics <b>Impact of solid waste disposal</b> – measured effect on society
	<b>Resource availability</b>	-	<b>Resource circularity</b> – most appropriate metrics for the whole company
	<b>Dignity and equality</b>	<b>Diversity and inclusion (%)</b> – breakdown of employees by background (category, age group, gender, etc.) <b>Pay equality (%)</b> – ratio of basic salary and remuneration for each employee category <b>Wage level (%)</b> – ratios of standard entry-level wage by gender compared to minimum wage; ratio of annual total compensation of the CEO to the median of all other employees <b>Risk for incidents of child, forced or compulsory labor</b> – explanation of operations and suppliers	<b>Pay gap (% , number)</b> – mean pay gap of basic salary and remuneration of full-time relevant employees based on background; ratio of annual total compensation of highest-paid individual to median of others <b>Discrimination and harassment incidents (number) and the total amount of monetary losses (\$)</b> – including actions taken and relevant legal proceedings <b>Freedom of association and collective bargaining at risk (%)</b> - <b>Human rights review, grievance impact &amp; modern slavery (number, %)</b> – number and percentage of operations subject to human rights reviews <b>Living wage (%)</b> – current wages against the local living wage for employees and contractors
	<b>Health and well-being</b>	<b>Health and safety (%)</b> – report on work-related injuries, including resulting fatalities; employee access to medical and healthcare services	<b>Monetized impact of work-related incidents on organization (number, \$)</b> – number or type of occupation incidents multiplied by direct costs for employees, employers per incident <b>Employee well-being (number, %)</b> – number of fatalities and injuries from work-related ill-health; main types of work-related ill-health
	<b>Skills for the future</b>	<b>Training provided (number, \$)</b> – average hours of training given to employees; expenditure	<b>Number of unfilled skilled positions (number, %)</b> – number; percentage of unfilled positions for which the company will hire and train unskilled candidates

 Prosperity			<b>Monetized impacts of training –</b> Increased earning capacity as a result of training intervention (%,\$)
	<b>Employment and wealth generation</b>	<b>Absolute number and rate of employment</b> – Number, rate of new hires by background; number, rate of turnovers by background <b>Economic contribution</b> – economic value generated and distributed; financial assistance received from the government <b>Financial investment contribution</b> – total capital expenditures (CapEx) minus depreciation; share buybacks plus dividend payments	<b>Infrastructure investments and services supported</b> – qualitative disclosure on the extent of development of infrastructure supported, impacts on communities and local economies, and kind of investments (commercial, in-kind, or pro bono) <b>Significant indirect economic impacts</b>
	<b>Innovation of better products and services</b>	<b>Total R&amp;D expenses</b>	<b>Social value generated (%)</b> – percentage of revenue from products and services designed to deliver specific social benefits or to address specific sustainability challenges <b>Vitality Index</b> – percentage of gross revenue from product lines divided by total sales, noting how the company innovates to address sustainability
	<b>Community and social vitality</b>	<b>Total tax paid</b>	<b>Total Social Investment (\$)</b> <b>Additional tax remitted</b> <b>Total tax paid by the country for significant locations</b>

Source: World Economic Forum (2020b)

### 3.1 The big debate – shareholder versus stakeholder capitalism

It is useful to first describe the prevailing and competing economic systems, in the way they are interpreted and argued today. These include: shareholder capitalism, which is the prevailing model in many Western market economies such as the US; state capitalism, which is dominant in some emerging market countries like China and Vietnam; and stakeholder capitalism, which has been increasingly proposed after the GFC and when envisioning a post-COVID future (Schwab and Vanham 2021; see Table 1 below).

**Table 1. Prevailing and competing economic systems**

Types of Capitalism	Shareholder Capitalism	State Capitalism	Stakeholder Capitalism
Key stakeholder	<b>Company shareholders</b>	<b>Government</b>	<b>All stakeholders</b> matter equally
Key feature	The social responsibility of <b>business</b> is to increase its profits	<b>Government</b> steers the economy, can intervene when necessary	Considers <b>society's</b> goals
Implication for corporations	<b>Profit maximization</b>	Business interests are <b>subsidiary</b> to state interests	<b>Long-term value creation</b> and <b>ESG measures</b>

Source: Based on Schwab and Vanham (2021), with changes made by author.

**Shareholder capitalism** rests on the argument for “shareholder primacy” put forward by Milton Friedman.<sup>3</sup> In a famous *New York Times* essay, Friedman (1970) wrote that “the only social responsibility of business is to increase its profits.” This was taken to mean, in practical terms, that a corporation’s singular goal was to maximize its earnings and share price.

In that opinion piece, Friedman strongly argued that a corporate executive acting on a perceived “social responsibility” (e.g., keeping prices down to help prevent inflation, spending to reduce pollution beyond the amount mandated or the value the company can afford, and hiring the “hard-core” unemployed instead of better qualified workers) and as a result reducing returns to stockholders was tantamount to spending other people’s money. This principle has predominated in free market-economies for many years since then, in terms of economic, business, and legal thinking.

**State capitalism** is a more recent concept and refers to a market model where the government holds the greatest power among all the stakeholders. In this system, the state holds a strong presence in distributing resources and economic opportunities and can intervene in virtually all industries. This model is also called “political capitalism” and has purportedly been designed to achieve high growth, mainly through free market reforms, to support the political legitimacy of authoritarian governments (Milanovic 2019).

**Stakeholder capitalism**, meanwhile, refers to an economic system where firms act in the interests of their shareholders as well as their customers, suppliers, employees, local communities, and other participants that may be affected by company decisions. While not a new model, it has regained popularity in the last few years and has become associated with corporate governance that focuses on long-term value creation and commits to ESG goals. In its latest (and grandest) version (Schwab 2021), it has been constructed to meet society’s goals of progress and well-being of “people and the planet” and has been offered as a sounder and more sustainable alternative for economies, especially in a post-pandemic world.

<sup>3</sup> The argument, however, goes further back to 1932, when the issue of shareholder versus stakeholder governance was debated by legal scholars Adolfe Berle and Merrick Dodd in the *Harvard Law Review*.

For many countries, including the Philippines, shareholder and stakeholder capitalism are the only viable and desirable options. Shifting to the latter, however, means foregoing the advantages of the former.

### 3.1.1 Arguments for shareholder capitalism

Perhaps the strongest argument for shareholder capitalism is its simplicity. The accountability of corporate executives is clear to all in such a system since there is only one variable to be maximized — business profits. To monitor executives' performance, one also has on hand an easily measured and readily observed metric, which is simply shareholder value.

Another argument often raised to support shareholder capitalism relates to the structure of incentives. In the well-known agency theory of Jensen and Meckling (1976), directors and managers serve as the “agent” of shareholders, who as owners of the business constitute the “principal.” The role of the agent is essentially to maximize the utility (i.e., the business profits) of the principal. To ensure that agents will maximize profits, the idea is to align their interests with the principal, for instance, by closely linking executive pay to the stock price of the corporation. Directors and managers would this way also be rewarded when shareholder value rises.

Shareholder wealth maximization is also argued to lead to efficient decision-making, which in turn maximizes social value. Since share owners are the last to be compensated—i.e., after all claimants (all stakeholders, who have complete and fixed contracts) have been paid off—they are said to be bearers of the residual risk of corporate activities. In this context, boosting shareholders' residual profits redounds to boosting total profits, and this would be true for corporations across the economy.

### 3.1.2 Criticisms of shareholder capitalism

Criticisms of shareholder-primacy theory have emerged over the years, however.<sup>4</sup> Researchers point out that shareholder-primacy theory only works under specific conditions, which would indicate when Friedman's propositions would hold and when they would not. Edmans (2020), for example, highlights three important assumptions without which the theory would not work: (1) that the corporation has no comparative advantage in making socially responsible actions; (2) that governments are well-functioning; and (3) that there is no uncertainty regarding returns to investment.

There are instances when companies may have an edge, however, such as in pollution control, especially by the big polluters; gun crime prevention, such as by gun retailers' refusal to sell certain items (see Hart and Zingales 2017); and medicine distribution, say to far-flung areas, by companies with good logistic networks.<sup>5</sup> Regulations are also imperfect and taxes difficult to set, not to mention that both are challenging to implement. The real world is also risky, with

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<sup>4</sup> Legal arguments have also been raised against shareholder capitalism. Zamagni (2020), for example, argues, that a firm is not merely a nexus of contracts among individuals but a legal entity by itself and therefore shareholders are not the owners of the firm (but rather the firm owns itself). Thus, corporate managers are the employees/agents of the firm, not the shareholders, and their duty is to maximize the firm's objective function, which includes the interests of both the shareholders and other stakeholders. Similarly, Blair (2020) contends that corporate directors are fiduciaries for the corporation and not agents of shareholders.

<sup>5</sup> The first two examples represent cases of “non-separable activities,” when profit and damage are tightly linked because of technological reasons.

high uncertainty about returns potentially leading corporations to underinvest in their stakeholders (e.g., their employees) when maximizing profits.

Stakeholders themselves may be reluctant to “invest” in the firm if they are not fully insured against risk (i.e., if they have incomplete contracts), reducing the value of the firm. Rajan (2020a) notes that if one thinks of stakeholders who make long-term firm-specific investments as partners of the firm (e.g., employees through their “sweat equity,” or long-term suppliers and creditors), maximizing firm value would require that their interests be considered in making corporate decisions and that it is “not always appropriate” to choose shareholders over other claimants.

Stiglitz (2019) relatedly argues that shareholder capitalism does not maximize societal welfare when there are important externalities, which refer particularly to possible negative consequences of corporate activities that are unaccounted for by prices/markets. These may include unpleasant side effects such as pollution, climate change, and consumer stress due to excessive market power.

Zingales (2020) observes that while the preferred way to deal with externalities is through (Pigouvian) taxes rather than regulation, political economy factors make approval of such measures extremely hard. Moreover, by granting corporations the “extraordinary privilege” of limited liability (where shareholders’ losses are limited to the amount invested), he said the state can conceivably “demand something in exchange for this privilege.”

Monopolies and other big players in the business sector meanwhile have the power to alter the “rules of the game,” by influencing legislation that affects them, as well as the ability to go around the rules.<sup>6</sup> Thus, imperfect competition proffers another reason why it may not be socially efficient for corporate managers to focus solely on maximizing shareholder value (Zingales 2020). Wolf (2020), a noted financial observer, avers that corporations often play the game “according to rules they largely set themselves,” adding that if the game is political in nature, then the social obligation of corporations is “to use their power to create a good game, rather than a bad one.”

### 3.1.3 Is stakeholder capitalism better?

Supporters of stakeholder capitalism cite the need for an economic system that balances the interests of all participants in the economy and society, where companies optimize for more than just short-term profits, and governments ensure equal opportunity and a level playing field (Schwab and Vanham 2021). McKinsey & Company (2020), a leading global management consultancy firm, has been making a case for stakeholder capitalism, saying that serving all stakeholders is “an ethical good” that can also be a source of competitive advantage.

The benefits claimed include better governance (with greater emphasis on the delivery of long-term value for the company and all its stakeholders), revenue growth (as consumers respond to corporate philosophy), cost reduction (through efficiency gains in resource management), and lower turnover of employees. In some economies at least, it is believed that corporations committing solely to maximizing shareholder value may risk losing a critical consumer base of socially conscious customers (Rajan 2020a).

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<sup>6</sup> The original article by Friedman (1970) states that business has only one social responsibility, which is to use its resources and engage in activities meant to increase its profits “so long as it stays within the rules of the game,” where it “engages in open and free competition without deception fraud.”

Lack of a well-defined goal, however, remains to be an important criticism of stakeholder governance. Serving the interests of multiple stakeholders is inherently complex. Delivering value to *all* may be impossible, and the corporation may end up pleasing no one. As Rajan (2020b) notes, a company's stated objectives should help guide its choices, but if all stakeholders are considered essential, then effectively none are.

Another critical decision would be on which socially responsible action to spend corporate money on. Friedman (1970) argued that if shareholders were owners of the corporation and thus residual claimants of business profits, then spending on social concerns not shared by the shareholders, on the premise of social responsibility, was tantamount to "taxation without representation."

Such decisions to tax as well as to regulate are strictly governmental functions and can only be made by elected officials who have the authority to do so, adding a political perspective to the argument. Even if the firm decided to adopt a stakeholder approach based on more democratic foundations, for example, through shareholder voting as recommended by Hart and Zingales (2017) to maximize shareholder welfare rather than shareholder value, reconciling the social responsibility preferences and values of shareholders would be extremely difficult (Matsusaka 2020).<sup>7</sup>

Even supporters of improvements in shareholder capitalism, as it is practiced today, accept this argument. Rajan (2020b) states that special interest groups may try, in an "anti-democratic" fashion, to push their agenda in the guise of corporate social responsibility when they fail to obtain desired legislation through the proper avenues. Similarly, Hart and Zingales (2017) remark that asking corporate boards to pursue ethical concerns, which are difficult to quantify, may invite self-interested behavior rather than ethical behavior.

This segues to another important and often raised argument against stakeholder capitalism, which is weaker accountability of corporate executives under the system. Having multiple objectives makes it easier for corporate managers to mask poor performance due to inefficiency as well as to pursue personal agendas. Related to this argument is the formidable challenge of creating valid and precise measures of value that corporations provide to society, or the costs they impose, which are needed to assess the effectiveness and suitability of their socially responsible actions in meeting desired goals.

### 3.1.4 The emerging consensus on capitalism

The pros and cons of shareholder and stakeholder capitalism discussed above tie in neatly with the observations for different varieties of capitalism based on classifications by Soskice and Hall (2001) and Acemoglu et al. (2013). Shareholder governance characterizes liberal market economies (LMEs) of the former and "cutthroat capitalism" of the latter. Such systems rely more on markets for raising and allocating capital and determining wages, provide better incentives for technological advancement, but are also likely to have higher inequality. Stakeholder governance, on the other hand, is more often a feature of coordinated market economies (CMEs) and "cuddly capitalism." These systems depend more on banks and social

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<sup>7</sup> Arrow's impossibility theorem has long shown us that no voting system can produce a community-wide ranking of preferences while also satisfying a set of desirable conditions for fair voting, including non-dictatorship, Pareto efficiency, and independence of irrelevant alternatives (Arrow 1951).

organizations such as trade unions (The Economist 2020), have stronger mechanisms for redistributing income, a wider social safety net, but weaker incentives for radical innovation.

During the COVID-19 crisis, the observed weaknesses of the different capitalist systems have been largely consistent with expectations from their respective market models. Aghion et al. (2020) observe better outcomes for Western Europe (where economies are more the cuddly type) than the US during the pandemic in terms of employment and health coverage, while they find the US excelling in terms of innovation inputs and outputs needed for a quick recovery. CMEs, which already have institutions in place for collective action, were seen to have generally more coherent virus-containment strategies, while LMEs were seen leading the path in creating transformative solutions, particularly in treatments and vaccines.

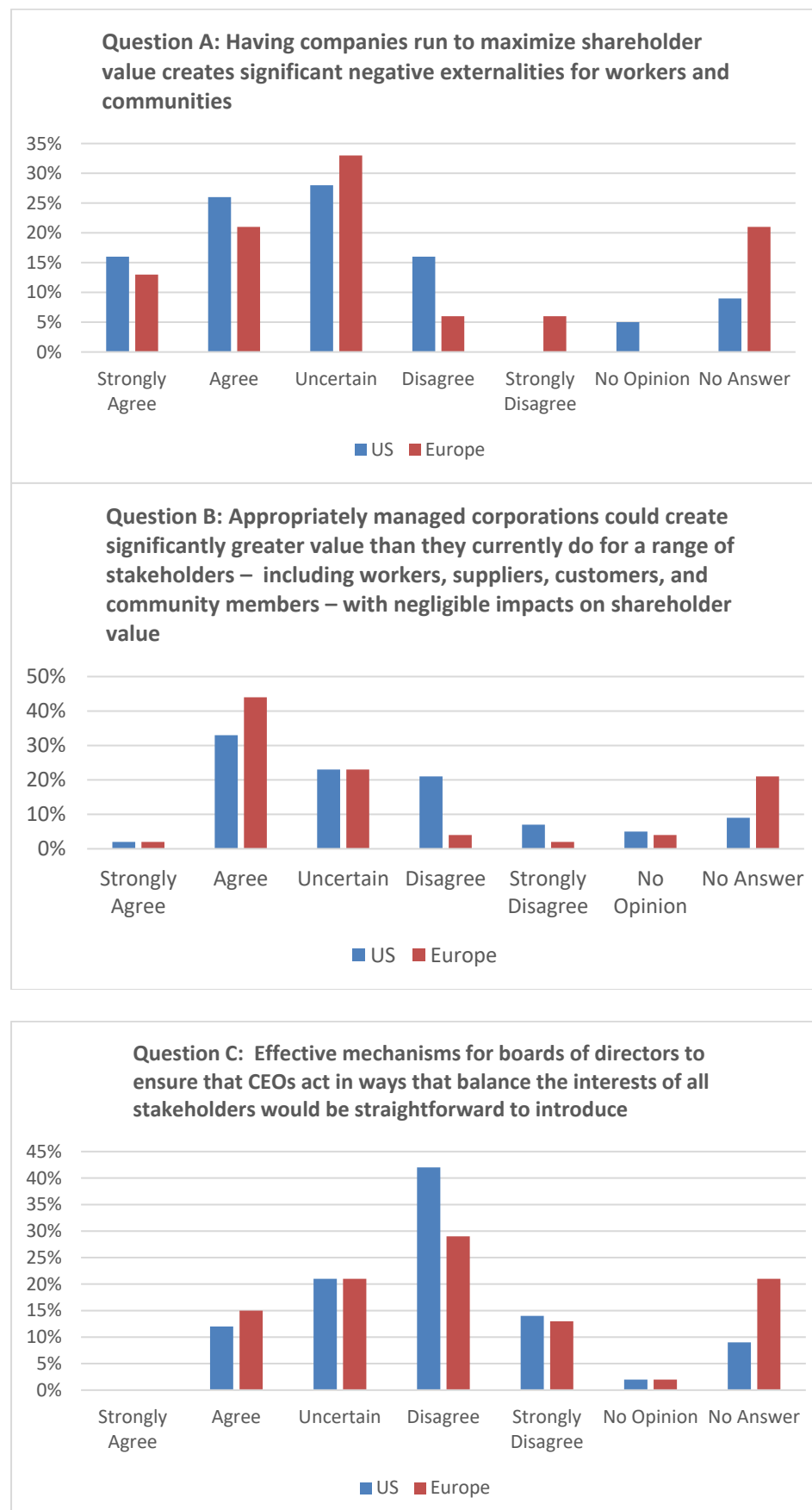
A survey of economic experts conducted under the Chicago Booth Initiative on Global Markets in late 2019 likewise reflects the various theoretical and empirical arguments related to shareholder versus stakeholder capitalism (IGM Forum 2019). Over a third of the experts, especially those based in the US, agree that having companies run to maximize shareholder value alone generates bad outcomes for workers and communities (Figure 1). Well over a third (nearly half in Europe) agree that companies can be managed better to create greater value for stakeholders—such as workers, suppliers, customers, and community members—without hurting shareholders. Finally, most experts disagree—56% of those in the US and 42% in Europe—that there is a simple way to introduce effective mechanisms by which corporate boards can ensure that CEOs will balance or will be able to balance the interests of all stakeholders.

As to public opinion and trust, there has evidently been mistrust in capitalism globally. Figure 2 shows the results of the Edelman Trust Barometer 2020 based on a sample of over 32,000 respondents surveyed across different countries between mid-October and mid-November 2019. Greater than half (56%) of respondents believe that capitalism as it exists today “does more harm than good,” with majorities in 22 of 28 markets surveyed, including in developing Asia, while nearly half (48%) believe the system is “failing me.” An overwhelming majority (87%) said stakeholders and not shareholders are the most important to long-term company success, while 73 percent said companies could take actions that simultaneously increase profits and improve conditions in communities where they operate.

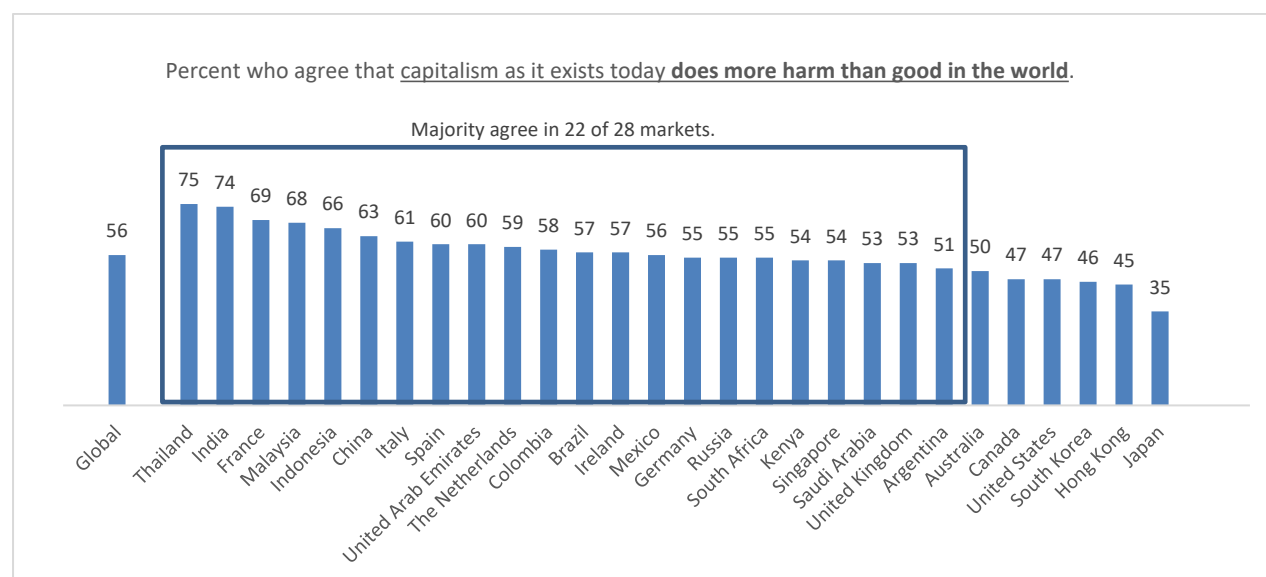
In a newer Edelman Trust Barometer survey conducted during the COVID-19 pandemic (between mid-October and mid-November 2020) with around 31,000 respondents globally, the interesting finding is how business is expected to fill the void left by the government. Sixty-eight percent said CEOs should step in when the government fails to fix society’s problems; 66 percent said they should take the lead on change rather than wait for the government to impose change; and 65 percent said they should hold themselves accountable to the public and not just to corporate boards and shareholders. Many also expect consumers and employees to have a seat at the table, with 68 percent and 62 percent respectively believing these two groups have the power to impose change on corporations (Edelman 2021).



**Figure 1. Expert opinion on stakeholder capitalism**



**Figure 2. Trust in capitalism, Edelman Trust Barometer 2020**



Source: Edelman (2020)

### 3.2 How relevant is the debate for Asia?

From the above surveys, much is clearly expected of business, with the general and informed public stating that capitalism can be tweaked to improve outcomes for various stakeholders. Focusing on Asia, prominent results are the vast majorities particularly in the region's developing economies, where most respondents believe capitalism in its current form was harmful (Figure 2)—namely, Thailand (75%), India (74%), Malaysia (68%), Indonesia (66%), China (63%), and Singapore (54%).<sup>8</sup> The mistrust appears lower in Hong Kong (45%), South Korea (46%), and especially Japan (35%).

Japan is a country known for its distinct stakeholder orientation.<sup>9</sup> However, a financial crisis in the 1990s and a bid to jumpstart growth in the 2010s provided impetus to pursue a shareholder model. Vogel (2019) notes that such efforts only gave Japanese firms greater options for restructuring but did not actually lead to shareholder primacy. Instead, he said companies continued to serve and collaborate with a wide array of stakeholders, as management practices were largely preserved.

When Japanese companies yielded to some reforms to attract foreign capital, these comprised informal codes rather than binding rules, and soft laws (i.e., a comply-or-explain approach) rather than rigid enforcement. Japan did not fully adopt the shareholder model and associated features such as stock options, share buybacks and dividends, mergers and acquisitions, and requirements for outside directors, whose job was to maximize shareholder profits. While the

<sup>8</sup> The Philippines was not included in the sample of countries of the Edelman Trust Barometer.

<sup>9</sup> Allen et al. (2009) report, based on Yoshimori (1995), that in the mid-1990s senior managers in Japan's major corporations overwhelmingly agreed (97% of those surveyed) that the company belonged to all stakeholders and not the shareholders.

country experimented with such features, this was done on a relatively modest scale (Vogel 2019).

Lee (2020) reports that changes geared towards liberalizing financial markets and strengthening shareholder capitalism were also levied on South Korea after the Asian Financial Crisis (AFC) of 1997-1998. While Japan and Korea represented a distinct East Asian capitalism featuring high growth and low inequality, the two countries eventually acquired the less desirable qualities of sampled LMEs, such as slow growth, high inequality, and a medium level of employment (Lee and Shin 2021). The study attributes the outcome to financialization, which becomes potent when coupled with shareholder capitalism, where stock repurchases and dividends and buybacks may be prioritized over investment, consequently lowering economic growth.

Re-evaluating East Asian capitalism in the context of the COVID-19 pandemic and the region's economic history, Lee (2020) proposes a rebalancing between shareholder and stakeholder capitalism. He believed that inclusively restoring growth would entail a hybrid capitalism but retaining elements of East Asian capitalism.

### 3.2.1 Corporate governance issues in developing Asia

The more relevant issues in other parts of developing Asia after the AFC differed from the above concerns. The region's crisis had been partly blamed on weak corporate governance and ownership and financing structures of firms in the region, resulting in mismanagement of resources through poor investment and risky funding decisions (e.g., Johnson et al. 2000; Saldaña 2000). Reviewing the region's corporate structures, Claessens et al. (2000a, 2000b) found that prior to the crisis, listed Asian firms typically had high leverage and concentration, were typically affiliated with business groups, and often operated in multiple industries.

Authors of the highly cited research stated how arrangements shaping ownership and control of corporations indicated an ability and incentive for controlling shareholders to expropriate from minority shareholders.<sup>10</sup> These included pyramid structures and crossholdings that allowed voting rights to exceed cash-flow rights; control by a single shareholder in more than two-thirds of the sample; and close linkage of management and ownership control.

The study found extensive family control in more than half of the sample of corporations, with the evidence gathered indicating a concentration of wealth among a few families in the region, especially in Southeast Asia (see Figure 3).<sup>11</sup> In three-fifths of corporations that were not widely held, managers of closely held firms were often relatives of the controlling shareholder's family. Older companies were also found to be generally family-controlled, suggesting that ownership may not tend to disperse over time as anticipated.

Carney and Child (2013) updated the Claessens et al. study and found this expectation to be true over a decade later. Ownership arrangements tended to persist in the absence of major

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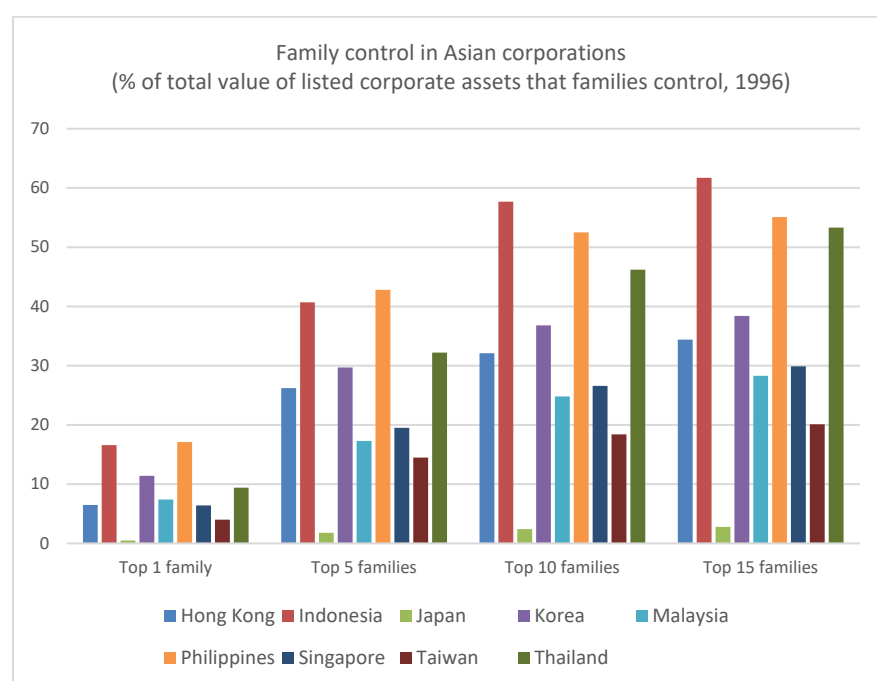
<sup>10</sup> Whoever holds the voting rights is deemed crucial from a corporate governance perspective, as this determines the control (or power) held in making important decisions such as on dividends, investments, and personnel appointments.

<sup>11</sup> Japan, which has minimal family control, stands out in this regard. In contrast, the top 15 families in Indonesia, the Philippines, and Thailand capture over half of the total value of listed corporate assets.

political changes. Family ownership remained dominant across periods in developing Asia, with the prevalence of family control even rising substantially in a few countries (Figure 4).<sup>12</sup>

Ownership also remained concentrated in the hands of a small number of families, although many countries saw declines that basically reflected a growing economy with a rising number of publicly listed firms (Figure 5).<sup>13</sup> Ownership and control continued to be interlinked, with the proportion of firms controlled by a single shareholder (with at least 50% of voting rights) rising substantially across countries (Figure 6). Control and management of corporations also continued to be tightly bound, especially among the largest firms.<sup>14</sup>

**Figure 3. Concentration of family control of Asian corporations in the 1990s**



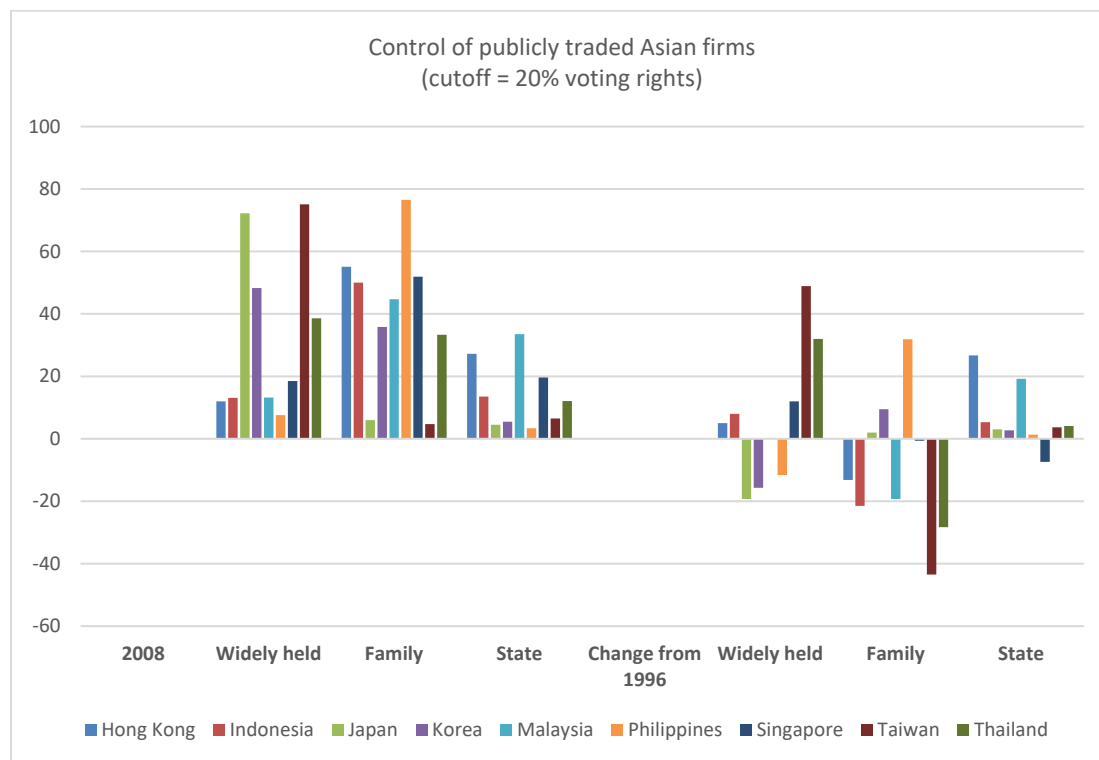
Source: Claessens et al. (2000a)

<sup>12</sup> Figure 4 displays the percentage of firms that are widely held, controlled by families, or controlled by the state in the leftmost panel, and the percentage-point change from the 1996 levels in the rightmost panel. Ultimate control is defined at a cutoff level of 20 percent of voting rights (the more conservative level). Figures based on a 10-percent cutoff are also computed by Claessens et al. (2000a) and Carney and Child (2013).

<sup>13</sup> Figure 5 shows the percentage of sample firms that the top one, five, or 10 families control in levels (for 2008) and changes (difference from the 1996 level).

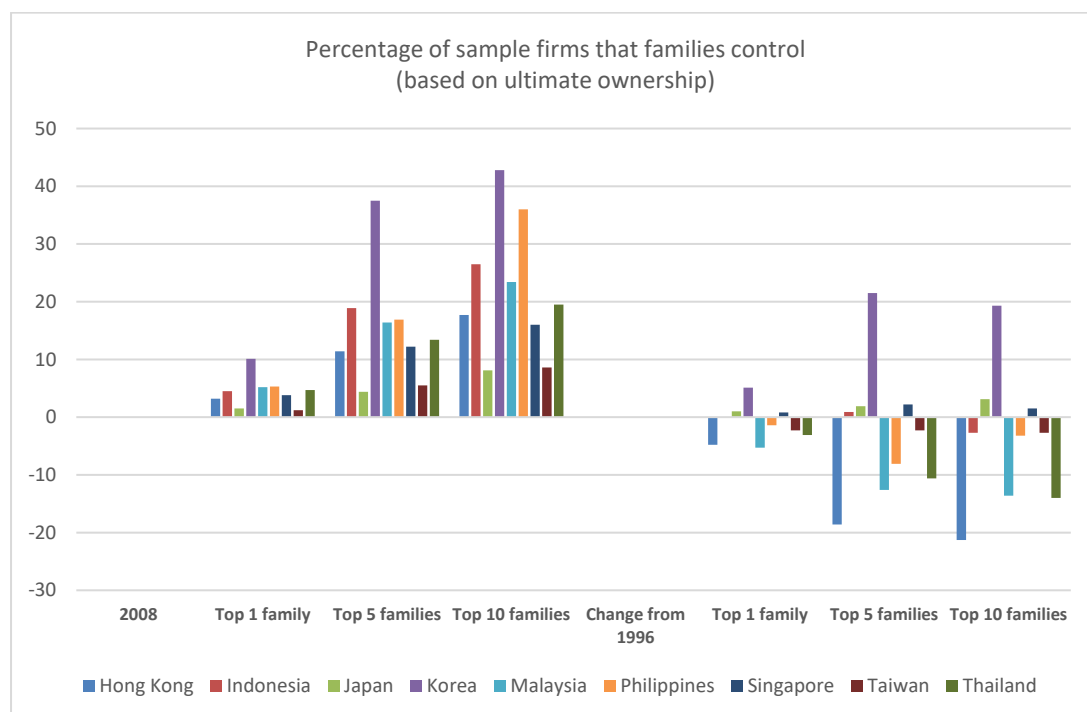
<sup>14</sup> To examine the separation of control and management, Carney and Child (2013), following Claessens et al. (2000a, p. 94), investigate whether “a member of the controlling family or an employee of the controlling widely held financial institution or corporation is the CEO, chairman, honorary chairman, or vice chairman of the company.”

**Figure 4. Changes in control of publicly traded Asian corporations**



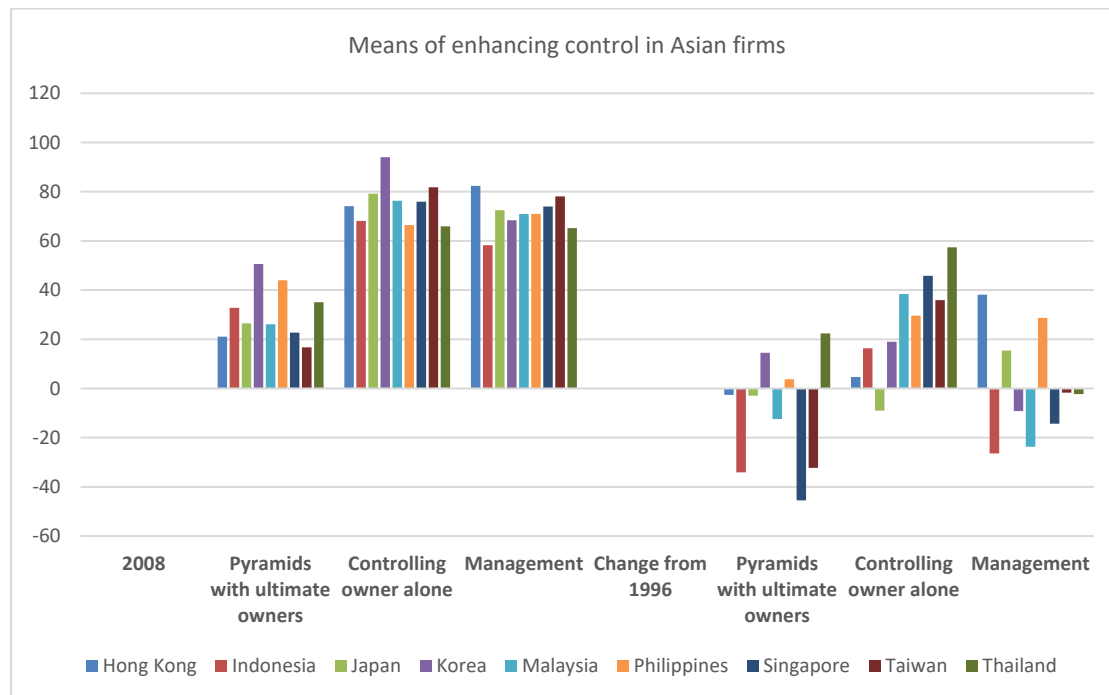
Source: Carney et al. (2013)

**Figure 5. Changes in the concentration of family control of Asian corporations**



Source: Carney et al. (2013)

**Figure 6. Changes in the means of enhancing control in Asian corporations**



Source: Carney et al. (2013)

With ownership, control, and management closely integrated and thus interests of controlling shareholders and managers firmly aligned, it is the minority shareholder who is most at risk in this arrangement. Corporate governance reforms pursued after the AFC had been designed precisely to address this weakness, although they apparently had minimal effect on the corporate landscape.

As Carney and Child (2013) pointed out, with no major political transformations, prevailing patterns in this area will likely persist or become more entrenched. The typical Asian corporation may therefore continue to be closely owned, controlled, and managed by family or family members in contrast to the depiction of the standard/modern firm, where ownership tends to be widely dispersed.

Corporate control in the hands of a few families may create incentives to deter the development of legal and other institutional frameworks for corporate governance, particularly those meant to safeguard the small and unconnected shareholders, who form a separate set of stakeholders. More broadly, Claessens et al. (2000a) reason that wealth concentration may have pernicious effects on how economic activity is conducted—for example, concerning market entry and competition, availability and access to financing, awarding of contracts, state regulation, and other relevant economic policies and transactions. It may also impede the evolution of legal systems and set up barriers to future policy reform, shaping the “rules of the game” in economies in the region.

### 3.3 Time for a reset?

Tendencies for wealth concentration are reflected in the available indicators of income inequality (Figure 7).<sup>15</sup> Although it had been customary to argue that focusing on inequality would divert policy attention from poverty and poverty reduction, the case for addressing inequality has gained potency (see Peterson 2017).<sup>16</sup> The issue has also won the attention of international financial institutions.

In an *IMF Staff Discussion Note*, Dabla-Norris et al. (2015) claim that high and sustained inequality, especially inequality in opportunity, entails large social costs. Moreover, inequality of outcomes that derives from rents (e.g., from favored treatment, corruption, and nepotism) fails to generate the desired incentives, such as for investment (including in education), excellence, innovation, and entrepreneurship (Stiglitz 2012), apart from eroding social cohesion and confidence in institutions.

Further, the rising concentration of incomes (and therefore wealth) could reduce aggregate demand and undermine growth, as the wealthy spend a lesser proportion of their income than the rest of society; dampen investment and growth by fueling instability (economic, financial, and also political); and lead to policies that hurt growth, for instance by heightening protectionist pressures or by limiting the provision of public goods that aim to boost productivity and benefit the poor.

Dabla-Norris et al. (2015) build on earlier work which found that income inequality negatively affected growth and its sustainability (Berg and Ostry 2011; Ostry et al. 2014) and find that income distribution directly matters for growth. An increase in the income share of the rich (top 20%) is associated with a decline in the growth of gross domestic product (GDP) over the medium term. This indicates a lack of the tendency for benefits to trickle down. Conversely, an increase in the income share of the poor (bottom 20%) and the middle class are associated with higher GDP growth.

The available literature also suggests that high income inequality slows down the pace of poverty reduction in response to economic growth and increases the vulnerability of a greater share of the population to poverty when subjected to periodic shocks (Ravallion 2004). Kanbur et al. (2014) similarly argued that inequality matters even if it is not a direct concern because the impact of growth on poverty depends on the level of inequality. Had there not been rising inequality alongside Asian growth, the authors calculate that an additional 240 million could have been lifted out of poverty in the region over the past two decades.

Such discussions matter in the context of the debate on capitalism as it exists today, especially with the prolonged COVID-19 pandemic in the background, which has created a great deal of uncertainty. In light of persistent wealth concentration in developing Asia and its negative implications, there is certainly room for improvement by voluntarily adopting some of the higher goals of stakeholder capitalism. These include more widespread prosperity, greater investment in and protection of a corporation's stakeholders, especially the vulnerable, and long-term perspective on firm value that considers and addresses, to the extent possible, the hidden impacts of the conduct of business activities on the rest of society.

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<sup>15</sup> Remarkably, the country that was able to widen corporate ownership the most in developing Asia (Thailand) also saw among the largest declines in both inequality and poverty over the years.

<sup>16</sup> Common arguments for why some degree of inequality may be tolerated include the incentives to compete, excel, and invest; and especially for innovation and entrepreneurship (e.g., Lazear and Rosen 1981, Barro 2000).

To maintain the efficiency of the economic system, such improvements may be achieved through continual nudges (e.g., by government and civil society) and voluntary compliance rather than rigid regulation of corporate decision making. The hallmarks of shareholder capitalism such as simplicity, practicality, and a clearer focus remain as advantages. Aghion et al. (2020) similarly argued that convergence towards a better economic model—one that combines the best of both liberal and coordinated market systems, and hence promoting both innovation and social protection—is not only desirable but possible.

Having achievable and measurable aims rather than grand goals that are impossible to meet would be more helpful in furthering the cause of inclusive and sustainable growth.<sup>17</sup> Both internal (through better corporate governance) and external mechanisms (through financial markets) may be important sources of discipline and even corporate purpose.

Fama (2020) recommends market-oriented solutions to the issues raised by proponents of stakeholder capitalism. While imperfect, environment-related and social considerations in consumer and investment decisions arguably would be a more effective, and certainly quicker, route than regulation, which is a more political solution. A market-oriented approach also allows for greater flexibility to adjust to negative outcomes. He further argued that activism through consumers instead of investors may accomplish more, as consumers can respond to socially responsible actions of firms producing specific products based on individual tastes regarding such behavior, while investors may have divergent tastes regarding socially responsible actions, with unpredictable behavior of firms implying uncertain welfare payoffs. Socially responsible investing (SRI) became popular beginning the 1990s in developed economies but lagged in Asia where markets were generally younger and smaller. However, corporate social responsibility (CSR) in business and SRI alongside it has gained attention since the mid-2000s, growing in importance with the emergence of numerous SRI funds in the region.

In examining this area, El Ghouli et al. (2016) find that family-controlled companies in Asia tend to have lower CSR, as represented by their environment and social performance scores.<sup>18</sup> The underperformance largely traces to firms with greater agency problems (between controlling shareholders and minority shareholders, and pertaining to the risk of appropriation described earlier), reflected by free cash flow and cash holdings, and in countries with weaker institutions.<sup>19</sup> The results, which were robust across estimation methods, underscore the importance of strengthening corporate governance and the institutional setting to improve CSR performance of firms in the region.

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<sup>17</sup> For instance, improvements can be achieved through simple tweaks, such as considering important long-term stakeholders rather than all stakeholders and maximizing firm value rather than shareholder value, as suggested by Rajan (2020a). Other options include allowing shareholders to choose (vote for) their social cause in maximizing shareholder welfare for better legitimacy, as suggested by Hart and Zingales (2017) and creating broadly representative and diverse boards that are sensitive to a corporation's impact on others and the political repercussions and risks, as recommended by Coffee (2020).

<sup>18</sup> Sample comprises Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand for the period 2002–2011.

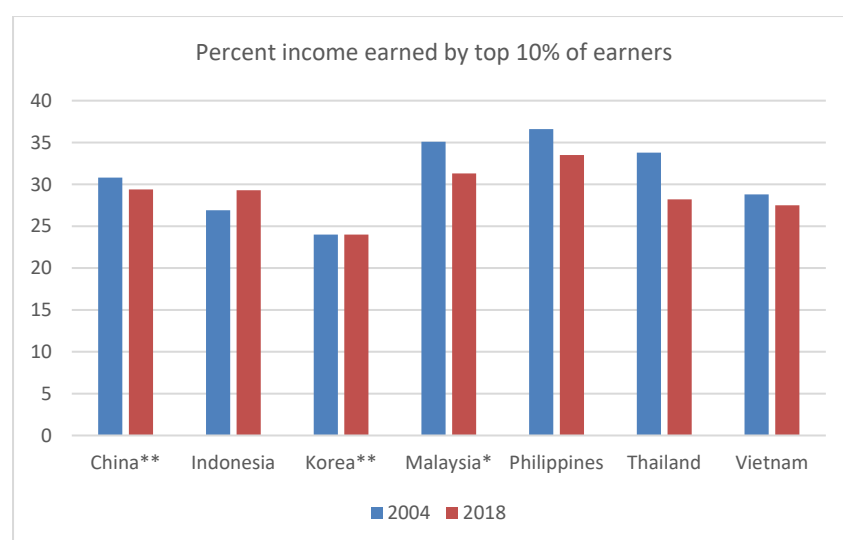
<sup>19</sup> Reputation/horizon effects (concern about family name and a long-term generational view), which may serve to increase CSR performance, may also exist. These run counter to expropriation effects, where controlling shareholders may use their voting rights to divert resources from CSR activities to other projects. The results imply weaker reputation/horizon effects compared to expropriation effects.



In a related study, Wang et al. (2021) observe that Asian companies with higher CSR performance also have higher cost of equity, particularly in firms with agency conflicts. Such conflicts are severe in the region, as reflected by low analyst coverage, lack of transparency in CEO compensation, and wide divergence between control rights and cash-flow rights of the controlling shareholder.<sup>20</sup> This suggests that investors in the region view CSR as a risky activity that implies monitoring cost, thus requiring a premium to compensate for the risk. The results again emphasize the importance of improving investor protection (including through stronger legal institutions and securities regulation) and minimizing agency conflicts for the promotion of CSR and in turn SRI.

Market-oriented solutions to encourage socially desired behavior in business clearly hold promise with improvements in corporate governance and the institutional environment. Nevertheless, continuous efforts to improve the legal and other frameworks meant to address market failures and other important social issues—which policymakers should acknowledge, understand in depth, and carefully resolve—are imperatives. Ideally, the aim ideally is to create “good rules of the game” (as coined by Wolf 2020) on important policy areas such as competition, the environment, labor, education, consumer protection, and taxation.

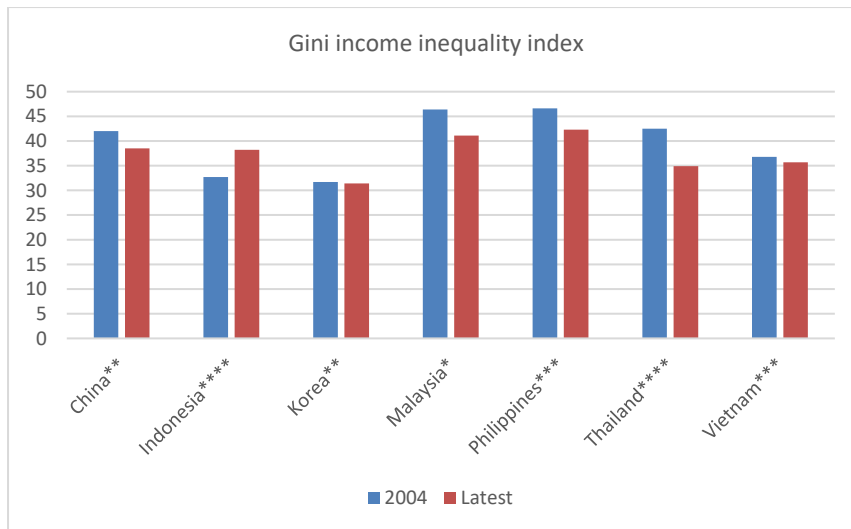
**Figure 7. Inequality and poverty indicators**



\*2015, \*\*2016

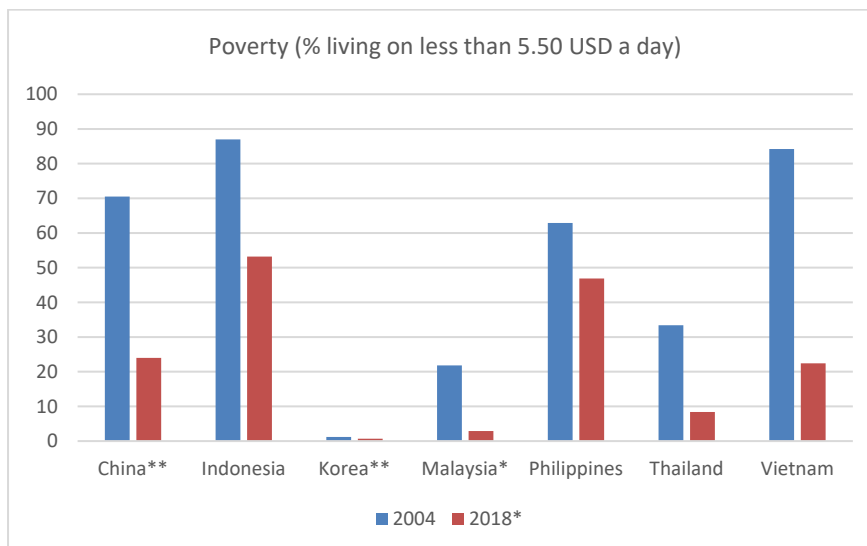
Source: World Development Indicators, World Bank

<sup>20</sup> The sample includes the same set of countries as in El Ghouli et al. (2016) for the period 2007–2013.



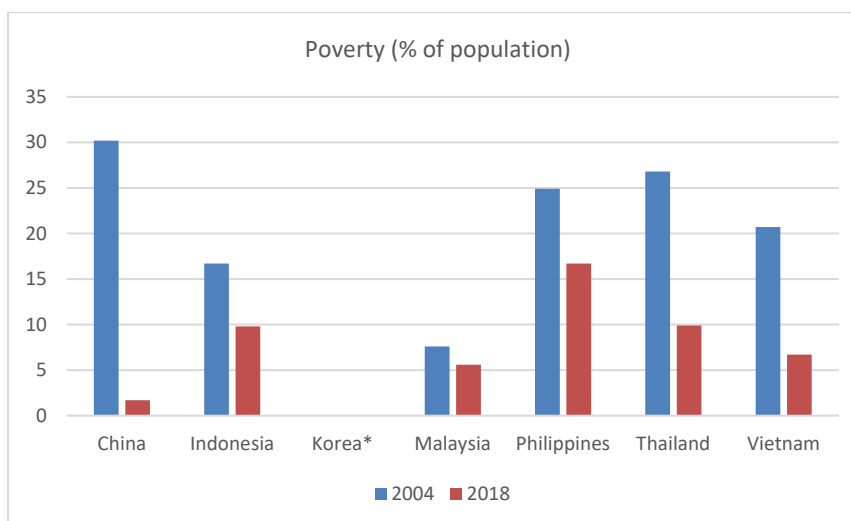
\*2015, \*\*2016, \*\*\*2018, \*\*\*\*2019

Source: World Development Indicators, World Bank



\*2015, \*\*2016

Source: World Development Indicators, World Bank



\*no data

Source: World Development Indicators, World Bank

### 3.4 Pursuing "good capitalism" in the Philippines

The Philippines can move toward "good capitalism", which tries to capture the best features of the different economic systems. From the private sector, this would entail a longer perspective on business growth or "prosperity", one that thinks of long-run sustainability, with renewed corporate purpose naturally promoting greater consideration of the interests of "people and the planet". From the government, this requires improvements in the rules of the game and leveling the playing field, with the intent to find a better balance between efficiency and equity, and in today's economy, which is vulnerable to catastrophes and pandemics, between incentives for innovation and the need for social protection.

The COVID-19 pandemic displayed how Philippine businesses had been able (and willing) to set aside self-interest to help their employees and society in time of need. At the height of the health crisis, large manufacturing firms redirected their factories to produce disinfectants to help fight the spread of the pandemic, and malls suspended the rents of their tenants. At the same time, various companies donated personal protective equipment, disinfectants, health care equipment and food supplies to government agencies, public and private hospitals, and local government units. Private firms also signed deals with the government to purchase COVID-19 vaccines for their employees and as a donation to the government.

In November 2020, the Philippine Business Group, comprising over 20 business associations in the country, signed a "Covenant for Shared Prosperity". The country's business leaders vowed to raise the welfare of all local stakeholders. Commitments included nondiscrimination in employment, assurance of quality products and services for customers, fair and ethical treatment of suppliers and funders, active involvement in communities where they operate, protection and preservation of the environment, and delivery of "reasonable and just returns to and fair treatment of" controlling and noncontrolling shareholders.

Companies will remain under pressure to pay less attention to profits and more to their workers, suppliers, customers, and relevant communities, even as the pandemic eases. While poverty levels have declined, a great number remain highly vulnerable to income shocks; inequality in the country also remains among the highest in the Southeast and East Asian region, with wealth similarly concentrated in the hands of only a few families (see Figure 3). Philippine corporations have increasingly consolidated their orientation toward family control and management, with the proportion of widely held corporations declining after the AFC, leaving non-controlling shareholders in a still relatively weak position (Carney and Child 2013).

#### 3.4.1 The stakeholder in corporate governance

Corporate governance reforms were launched in the Philippines in the early 2000s in response to the AFC as well as the corporate scandals that had broken out abroad and domestically at the time. As had been true for many Asian economies afflicted by the regional crisis, the reforms were meant primarily to address the weaknesses of the existing ownership and control structures, where minority shareholders were most at risk.

The first Philippine Corporate Governance Code was released by the Securities and Exchange Commission (SEC) in April of 2002 to support reforms that aimed to increase investor confidence and develop the Philippine capital market (Ferrer and Arias-Rocha 2019). It was further strengthened with the promulgation of the Revised Code of Corporate Governance in

2009, an amendment in 2014 to revise the definition of corporate governance, and following the release of the SEC's Philippine Corporate Governance Blueprint 2015, the issuance of the 2016 Code of Corporate Governance for Publicly Listed Companies and the 2019 Code of Corporate Governance for Public Companies and Registered Issuers.

The stakeholder concept was already present in the first corporate governance code in 2002 but was removed in the 2009 version.<sup>21</sup> It was restored in 2014 (SEC 2014) with strong support from a retail shareholders' group formed in the aftermath of the AFC, with members arguing that this would help raise the country's scores in the *Asian Corporate Governance Association Watch Report*, restore investor confidence, and build stakeholder support for Philippine companies.<sup>22</sup> The 2014 amendment (Memorandum Circular 9) defined corporate governance as "the framework of rules, systems, and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates" (Article 1).<sup>23</sup>

The stakeholder is frequently referred to in the succeeding corporate governance codes for publicly listed companies, public companies, and registered issuers. In both codes, corporate governance has been defined as "the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations" towards their stakeholders.<sup>24</sup> Both contain an entire section on the various "duties to stakeholders" with principles that refer to: (1) the need to respect the rights of stakeholders established under the law, by contractual relations and through voluntary commitments; (2) develop a mechanism for employee participation to realize company goals and participate in corporate governance processes; and (3) for the company to engage in socially responsible behavior "in all its dealings with the communities where it operates."<sup>25</sup> Corporations are also asked to ensure that sustainability issues are disclosed.<sup>26</sup>

However, the country's legal, regulatory, and corporate governance frameworks are quite far from instituting stakeholder capitalism. The SEC follows the "comply or explain" principle in implementing the corporate governance codes, which list key principles and corresponding recommendations. Corporations are required to publicly disclose noncompliance with the

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<sup>21</sup> Corporate governance was initially defined as referring to "a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global marketplace" (SEC Memorandum Circular 2, Series of 2002).

<sup>22</sup> Apart from more traditional business associations representing managers, accountants, and auditors, the institutional framework for corporate governance in the Philippines receives support from the Shareholders' Association of the Philippines (SharePhil), which protects and promotes the interests of shareholders, particularly minority shareholders; the Good Governance Advocates and Practitioners of the Philippines (CGAPP) from publicly listed corporations, the public sector, and relevant organizations; and the Institute of Corporate Directors, a society of fellows comprising actively serving corporate directors (SEC 2015).

<sup>23</sup> SEC Memorandum Circular 9, Series of 2014.

<sup>24</sup> The definition in the corporate governance code for public companies and registered issuers differ only slightly in that it refers to "shareholders/members and other stakeholders."

<sup>25</sup> Principles 14 to 16 in the Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular 19, Series of 2016) and the Code of Corporate Governance for Public Companies and Registered Users (SEC Memorandum Circular 24, Series of 2019).

<sup>26</sup> Principle 10 in the the Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular 19, Series of 2016) and the Code of Corporate Governance for Public Companies and Registered Users (SEC Memorandum Circular 24, Series of 2019). In 2019, the SEC issued Sustainability Reporting Guidelines for Publicly Listed Companies (SEC Memorandum Circular 4, Series of 2019).

codes, and the regulator simply assesses the “reasonableness” of the explanation (SEC 2015). While there are competing legal theories available, practitioners in the field state that it is still the “doctrine of maximization of shareholders’ value” that defines what is effectively considered to be “good corporate governance” under Philippine corporate law (Villanueva 2017). Even under the recently Revised Corporation Code of 2019, which recognizes and differentiates corporations “vested with public interests,”<sup>27</sup> it is argued that directors or trustees and corporate officers still owe fiduciary duties of diligence and loyalty only to the corporation and its stockholders, although Supreme Court jurisprudence regarding such duties may purportedly be invoked in some cases for such companies (Villanueva 2021). It is early days, but one can surely expect more debates revolving around the accountability of corporate executives to emerge.

### 3.4.2 Prospects for a market-oriented solution to “do good”

Market-oriented solutions, as discussed earlier, may help provide external pressure for corporations to “do good,” but old issues such as concentrated ownership and underdevelopment of the country’s capital markets continue to weaken potential sources of external control that can help align corporate decisions and social good (Saldaña 2000; Wong 2009). As noted in Cayan (2019), while the SEC increased the minimum for public listing to 20 percent of outstanding shares for new initial public offerings (IPOs), this requirement is still too low for non-controlling shareholders to influence important corporate decisions (since at least two-thirds of the vote is needed to drive strategic decisions, and at least one-third to block them). A minimum of 10 percent meanwhile has been retained for firms that are already listed.

Moreover, research shows how investors in Asian financial markets view CSR as a risky activity, with CSR performance tending to be lower for family-controlled firms, where the probability of such funds being redirected is deemed to be higher (El Ghoul et al. 2016; Wang et al. 2021). There is similar mistrust of CSR activity in the Philippines, judging from the heated debates surrounding a proposed CSR bill. Unless corporate governance and the institutional environment are strengthened and investor education is improved (e.g., to encourage long-term thinking) and widened, both CSR and socially responsible investing may be slow to develop. Whether internal or external mechanisms of control will be the way by which a stronger stakeholder orientation is established in Philippine business, a common metric of stakeholder capitalism will be crucial to monitor the behavior of firms. Markets as well as corporate executives will need this information to assess a company’s progress in achieving the goals of a more inclusive and sustainable type of capitalism. It remains to be seen though if Philippine corporations will adopt universal and comparable disclosures and measures such as those prescribed by the WEF (see Box 1) and whether future investors and consumers in the country will learn to value stakeholder-oriented corporate performance differently.

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<sup>27</sup> Corporations “vested with public interests”, for instance, must have independent directors constituting 20% of the board; submit to their shareholders or members and the SEC an annual report of the total compensation of their directors or trustees; and, in addition to the standard requirements (i.e., audited financial statements and the general information sheet), a director or trustee compensation report and a director or trustee appraisal of performance report and the standards or criteria for assessment used. Such companies include publicly listed companies, public companies (with assets of at least PHP 50 million and having 200 or more shareholders, each holding at least 100 shares of any class of shares), registered issuers (with securities registered at the SEC), and all corporate financial intermediaries.

### 3.4.3 Inclusive business models and social enterprises

There are, of course, other ways of pursuing more inclusive and sustainable growth. Poblador (2017) argues for creating value for all groups that contribute to the process of value creation (a firm's workers, customers, suppliers, and community) and not just for the owners of the business. Analytically, this is similar to Rajan's (2020a) recommendation to maximize firm value by maximizing the value of long-term investors, including long-term stakeholders.

To achieve this domestically, Poblador (2017) encourages developing and implementing inclusive business models (IBMs) to provide low-income communities with access to economic opportunities while making businesses more viable and sustainable. Some examples given are the farmer entrepreneurship program of a large food corporation (Jollibee Foods Corporation), the skills training program of a domestic subsidiary of a multinational company in the business process outsourcing industry (Accenture Philippines), and the crop growers program of a leading agricultural exporter (Kennemer Foods International).

The Department of Trade and Industry (DTI) has been supporting the growth of IBMs as a base for sustained inclusive growth, where the aim has been to pull smaller enterprises into the value chain of larger businesses as suppliers, distributors, retailers, employees, or customers (Briones 2016). Priority areas include agribusiness and tourism. In December 2019, the Board of Investments registered five IBMs that mobilized a total of PHP 3 billion from micro and small enterprises and engaged over 1,100 marginalized individuals, almost a third of whom are women.

Social enterprises, designed to generate positive social or environment-related outcomes, have also been recognized as models for achieving inclusive and sustainable growth given numerous success stories in the area (Ballesteros and Llanto 2017). Although typically small initially, they can be scaled up with the proper support and successfully linked to bigger inclusive businesses. They can also use blended finance to access private sector capital or avail of multilateral funding opportunities. With the right enabling environment, they are believed to have a strong potential to create financially sustainable, market-based approaches to achieve national and sustainable development goals (Ito and Shanaz 2019).

### 3.4.4 Broad takeaways and recommendations

With the COVID-19 pandemic continuing to expose inequities worldwide, the shareholder versus stakeholder capitalism debate will also continue to rage. A more ethical capitalism will remain as the holy grail of domestic policymakers.

Success in this area will depend on the willingness of companies to renew their corporate purpose in a post-pandemic environment. Their determination will be signaled by their willingness to adopt universally recognized stakeholder metrics that are already available, which help summarize what is needed for a more equitable and sustainable economy. However, regulators must also be sensitive to each firm's capacity to adopt these measures.

Corporate governance reforms and other efforts to encourage and broaden market participation and widen corporate ownership should continue, which will not only help even out the spread of wealth in the country but also strengthen the internal and external sources of discipline for companies, especially the very large ones. Shareholder activism supporting ESG goals is

emerging as an important force in other markets and may be an effective force locally under the right environment.

Further strengthening of the country's competition framework is also vital in pursuing good capitalism by creating an equal environment for different businesses in similar industries. While large headway has been made in this area, continued study of how outcomes can be improved is needed. Research on reforms should also continue in the areas of labor, education, and taxation.

#### **4. Implementing a green and inclusive recovery**

The COVID-19 pandemic has devastated the global economy, with the decline in world output in 2020 estimated by the International Monetary Fund (IMF) at 3.2 percent (IMF 2021a). To put this output decline in perspective, note that the world GDP in 2019 is USD 84.97 trillion in constant 2010 USD (World Bank n.d.), and a 3.2-percent drop in 2020 roughly translates to a loss of USD 2.72 trillion. To recover from the economic losses, it has been argued that recovery should be "green", especially since the early responses by governments to the pandemic have so far missed the opportunity to accelerate action on climate and environmental concerns (UNEP 2021).

There is no single description of "green recovery", but the various characterizations by academics and international organizations point to accelerating climate action, tackling environmental crises, and building resilience while creating jobs and addressing health and socioeconomic inequities. For example, Yale University experts explain that green recovery means bringing economies out of recession "through [a] redesign to reduce our greenhouse gas emissions, create jobs, increase the resilience of infrastructure and communities, and prioritize equity" (Yale Sustainability 2021). For the United Nations Environment Program (UNEP), green recovery means enabling countries to build back better through "green investments driving economic growth, short-term job creation, and significant environmental and social benefits" (UNEP 2021). The Asian Development Bank (ADB), on the other hand, sees green recovery as both policies and investments that bring positive impacts on the environment as well as health and socioeconomic benefits. Moreover, green recovery consists of initiatives that intend to cut COVID-19-related risks, avert future pandemics, quickly create jobs, sustain livelihoods, assist businesses, and promote health and general well-being (ADB n.d.). The inclusiveness of green recovery is evidenced by the pursuit of job creation, good health and well-being, and inequity reduction.

The terms "green economy" and "blue economy" arise in discussions of green recovery. The UNEP defines a green economy as one that "results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities" and that "is low carbon, resource efficient and socially inclusive" (UNEP 2011, p. 2). The World Bank defines blue economy as "sustainable use of ocean resources for economic growth, improved livelihoods and jobs, and ocean ecosystem health" (World Bank 2017). When the green economy was discussed in the Rio+20 Summit in 2012, the Pacific Island developing states emphasized that a green economy is basically a blue economy for them. Such is true for many coastal areas of the Philippines. In a sense, the blue economy is part of the green economy. In the discussions that follow, the green economy concepts are jointly applicable to blue and green ecosystems.

## 4.1 Impacts of COVID-19 on the sustainable development agenda

The pandemic continues to ravage economies while some countries are already slowly re-opening and loosening restrictions. However, the world should recover not only from economic losses brought by the pandemic but also from setbacks in achieving the United Nations Sustainable Development Agenda 2030. Box 2 below summarizes the impacts thus far of COVID-19 on the 17 SDGs. Countries have varying levels of achievement, lack of progress, or deceleration in SDGs as evidenced by available country monitoring dashboards (see Sachs et al. (2020) for the detailed dashboards), but the pandemic has exacerbated or highlighted existing problems in the achievement of the SDGs.

### Box 2. Short-term impacts of COVID-19 on the Sustainable Development Goals

#### **SDG 1—No poverty**

*Highly negative impact*

- Increased poverty due to job losses and economic lockdown
- Disproportionate impact on vulnerable groups (e.g., the poor)

#### **SDG 2—Zero hunger**

*Highly negative impact*

- Food insecurity due to reduction in global food supplies and trade
- Hunger due to fall in incomes and reduced food availability during lockdown
- Higher food loss and waste due to transportation challenges and reduced labor availability
- Poorer nutrition due to interruption of school meals

#### **SDG 3—Good health and well-being**

*Highly negative impact*

- Higher disease incidence and mortality from Covid 19
- Higher mortality from other causes because of overburdening of health systems
- Slight decline in mortality due to reduced economic and social activities (e.g., traffic accidents)
- Potential short-term health gains due to lower environmental pollution
- Negative impact of confinement and lockdown on mental health (e.g., anxiety and depression)

#### **SDG 4—Quality education**

*Mixed or moderately negative impact*

- School and day-care closures
- Loss in the development of human capital
- Poorer nutrition due to interruption of school meals

#### **SDG 5—Gender equality**

*Mixed or moderately negative impact*

- Possible disproportionate economic impacts on women (e.g., job losses, poverty)



- Other social impacts on women from the lockdown (e.g., domestic violence)
- Higher mortality rates from the virus among men (because they suffer from more chronic respiratory diseases due to higher smoking rate)

#### **SDG 6—Clean water and sanitation**

*Mixed or moderately negative impact*

- Limited access to clean water among disadvantaged groups limits possibility of adhering to strict hygiene guidelines

#### **SDG 7—Affordable and clean energy**

*Mixed or moderately negative impact*

- Slowdown in economic growth contributing to a reduction in energy prices (e.g., oil), which might increase access to energy but reduce incentives for renewables

#### **SDG 8—Decent work and economic growth**

*Highly negative impact*

- Economic crisis in virtually all parts of the world
- Trade disruption
- Mass unemployment
- Business closures/ bankruptcies
- Sharp decline in tourism activities
- Massive public deficits

#### **SDG 9—Industry, innovation and infrastructure**

*Mixed or moderately negative impact*

- Decline in industrial outputs
- Possible nationalization of some industries, and bankruptcies and closures of others
- Scientific collaboration to find treatments and vaccine
- Accelerated uptake of digital technologies, for e-health, e-education, e-governance, and e-payments

#### **SDG 10—Reduced inequalities**

*Highly negative impact*

- Disproportionate negative health and economic impacts on vulnerable groups (including refugees and migrants), especially in countries with low safety nets
- Loss of jobs of lower-skilled, lower-wage labor

#### **SDG 11—Sustainable cities and communities**

*Mixed or moderately negative impact*

- Rise in urban poverty and vulnerability
- Shut down of public transports
- Lower access to public/green spaces
- Movements of population that vary across countries
- Sharp short-term reduction in pollution levels

#### **SDG 12—Responsible consumption and production**

*Impact still unclear*

- Short-term reduction in natural resource use due to reduced economic activity and consumption
- Pressure to loosen up regulations on circular economy and postpone the adoption of new measures
- Increased plastic pollution (e.g., used to produce personal protective equipment)

### **SDG 13—Climate action**

*Impact still unclear*

- Short-term reduction in global GHG emissions
- Pressure to reduce environmental safeguards
- Lack of clarity on environmental investments
- Slowdown in economic growth contributing to reduction in energy prices (e.g., oil), which might increase access to energy but reduce incentives for renewables

### **SDG 14—Life below water**

*Impact still unclear*

- Short-term reduction in threats to marine biodiversity due to reduced global economic activity and consumption
- Pressure to reduce marine biodiversity and ecosystem safeguards

### **SDG 15—Life on land**

*Impact still unclear*

- Short-term reduction in threats to terrestrial and freshwater biodiversity due to reduced global economic activity and consumption
- Pressure to reduce terrestrial and freshwater biodiversity and ecosystem safeguards, including biodiversity and ecosystem regulations conventions (for instance, on deforestation)

### **SDG 16—Peace, justice and strong institutions**

*Mixed or moderately negative impact*

- Increased pressure on governments to mitigate the health and economic consequences of the pandemic
- Pressure to increase accessible health care in countries that have not yet achieved universal health coverage
- Increased public deficits and debt
- Disruption of legislative processes and public debates
- Suspension of freedom-of-information laws and transparency policies

### **SDG 17—Partnerships for the goals**

*Mixed or moderately negative impact*

- Possible reduced responsiveness of international aid community to needs of the poorest countries
- Possible reduction in international remittances and cross-border financing
- Closing of borders
- Slowdown in international trade
- Debt crisis

All the 17 SDGs can be affected by how the national environment is being cared for. For instance, the SDGs on health, food, energy, and water and sanitation, which are important for meeting the SDGs on poverty and inequalities, are affected by the natural resources used in production processes in the economy. The SDGs on life on land, life below water, climate action, and sustainable cities and communities are directly affected by people's interaction with the natural environment. Thus, a green recovery will have direct and indirect contributions to the achievement of the SDGs.

#### **4.2    *The link between environmental degradation and diseases***

Tackling environmental issues should be part of green recovery because of the link between environmental degradation and the emergence of diseases. The WHO reported that almost all recent pandemics originated in wildlife and pointed to evidence that increasing human pressure on the natural environment may drive disease emergence (WHO 2020a). A team from the WHO visited Wuhan, China between January and February 2021 and then reported in March 2021 that it has not yet found the zoonotic or animal source of the SARS-CoV-2 virus and the route of introduction to humans. Nevertheless, all hypotheses remain on the table, including an earlier one that bats are the likely reservoir of the virus. Moreover, the WHO called for continued scientific and collaborative research on tracing the origins of the virus (WHO 2021c). Among the aims of the WHO investigation are to prevent the establishment of new animal reservoirs and develop a research agenda to reduce the risk of similar events occurring.

Even though there is no conclusive evidence yet on how the wildlife-to-human transmission of SARS-CoV-2 took place, there are illustrations that this jump happens. For instance, the recent WHO alert on the Marburg virus disease (MVD) emergence in Guinea (reported on August 9, 2021) demonstrates the risk of wildlife-to-human transmission of diseases. MVD, which is highly virulent (with extremely severe effects) and epidemic-prone, can be transmitted by direct contact with bodily fluids and/or tissues of infected persons or wild animals such as monkeys and fruit bats (WHO 2021d). Moreover, although the zoonotic host of the SARS-CoV-2 before it jumped to humans has not yet been established, there had been evidences that it could live on in multiple animal species, including cats, dogs, and farmed mink. In Denmark, for example, people contracted the virus from minks and it appeared that human workers in fur farms were passing the virus to the minks (Maron 2020). There is no evidence yet of “sustained” transmission of SARS-CoV-2 from humans to animals and then back to humans, but it is claimed that this is probable (Brilliant et al. 2021).

Rapid land use conversion due to urbanization drives human incursions into wildlife habitat. Deforestation leads to biodiversity loss and forces animals to migrate to new habitats and sometimes closer to people, while illegal wildlife trade directly opens channels for human-animal species interactions. All these facilitate more frequent interactions and increase the probability of disease-causing viruses to be transmitted from host animals to humans. It is clearly emerging from our current understanding of the link between human-animal species interactions in nature and the emergence of diseases that there is a need to regulate human activities in the natural environment.

There is also specific evidence that climate change and human development activities are driving disease emergence. Examples are provided in Singh et al. (2021), which noted that for zoonotic diseases (or diseases that are transmitted between animals and humans) such as

COVID-19, a country's land area, human population density, and size of forests are associated with diversification of pathogens (or disease-causing agents like viruses and bacteria). In the case of emerging diseases, land area, human population density and human development index explain pathogen diversity. In the case of human diseases, land area, rainfall, mean annual temperature, human population density, human development index, and per capita health expenditure are associated with pathogen diversity.<sup>28</sup>

Rodó et al. (2021) also argued that climate change itself facilitates the so-called zoonotic spillovers of diseases or the jump of disease-causing viruses from animals to humans. Because of this, climate change can have an effect on disease transmission chains and, therefore, preventing another pandemic needs forecasting models that incorporate climate change effects alongside human behavior. Moreover, in the case of the current pandemic, if the facilitating role of climate is demonstrated in the spread of COVID-19, a tailored environmental surveillance would be needed. A large-scale transdisciplinary modeling initiative would also be justified.

Urgent cooperation on climate change is in order, as reported by the Intergovernmental Panel on Climate Change (IPCC), a United Nations body tasked to assess the science related to climate change. Its sixth assessment cycle report, titled *Climate change 2021: The physical science basis*, was released on August 7, 2021, contributed by Working Group I.<sup>29</sup> Published in the middle of the pandemic, this report cannot be more timely. It highlights the urgency of climate action, given numerous evidences that the world is already living through climate change and that the changes already set in motion are rapid and intensifying. It warns that the chances of crossing the 1.5°C global warming threshold over the next 20 years are higher and limiting warming to 1.5°C or even 2°C will no longer be possible unless the world immediately and drastically cut greenhouse gas emissions. The so-called "carbon budget" that will afford the world a 50:50 chance to stay below the 1.5°C threshold is 500 billion tons of carbon emissions, which at the rate industrial emissions are going would be equivalent to only 15 years of emissions (IPCC 2021).

The inclusion of human development in the explanatory factors for pathogen diversity confirms that human-influenced climate change also affects the emergence of infectious diseases. Green policies will be necessary to control the spread of COVID-19 while striving to live with its endemicity and to prevent another pandemic while building a better normal that can be sustained in the medium to long term. Science also compels us to have modeling and surveillance activities that incorporate climate change factors so that these may guide policies. This requires not only the collaboration of various disciplines within the scientific community but also the cooperation of governments and businesses as well as the facilitation by global and regional institutions.

#### 4.3 *Imperatives for governments, businesses and consumers*

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<sup>28</sup> The study classified pathogens into zoonotic, emerging, and human agents. Zoonotic pathogens are naturally transmitted between vertebrate animals and humans. Emerging pathogens are those that have appeared in a human population for the first time or have been increasing in or expanding into areas where they have not previously appeared in the last 20 years. Human pathogens are infectious among humans and are no longer transmitted between humans and animals (such as HIV).

<sup>29</sup> The fifth assessment cycle of the IPCC produced reports published in 2013-2014. The reports by other working groups will be released before the end of 2022.

The discussion below elucidates what actions government policymakers, businesses, and consumers can take and the perspectives or principles they can use to frame their efforts in pursuing green and inclusive recovery.

#### 4.3.1 Requirements from policymakers







Governments should look at the specific needs of their respective economies when charting a pathway to recovery. But there are general principles that can guide governments when crafting policies for a green recovery. The WHO listed general prescriptions with comprehensive actionable items for a healthy and green recovery through a declaration called “WHO Manifesto for a Healthy Recovery from COVID-19: Prescriptions and Actionables for a Healthy and Green Recovery” (WHO 2020b). The general prescriptions can be summarized into six, as follows:

1. Protect and preserve the source of human health: nature.
2. Invest in essential services, from water and sanitation to clean energy in healthcare facilities.
3. Ensure a quick and healthy energy transition.
4. Promote healthy, sustainable food systems.
5. Build healthy, liveable cities.
6. Stop using taxpayers’ money to fund pollution.

In the Manifesto, the WHO argued that “attempting to save money by neglecting environmental protection, emergency preparedness, health systems, and social safety nets, has proven to be a false economy—and the bill is now being paid many times over” (WHO 2020b, p. 1). Noting that national governments are now committing huge amounts of money for economic recovery, the WHO recognizes that the allocation of investments will shape how we live, work and consume in the future. Thus, it is important that, as early as possible, policies lock in the investment decisions in such a way that we do not go back to the old normal where damages to the ecological systems are escalating. Instead, policies should arrest these damages and push for a healthier, fairer and greener world.

Governments should also pursue policies and actions that can provide incentives for businesses to undertake green recovery investments and for consumers to adopt green practices, as well as guidance on what to stop doing or what to avoid. Recommendations along this line by the Climate Action Tracker, an independent scientific analysis project by the consortium of the Climate Analytics and the New Climate Institute and their collaborators, are made in the sectors of energy and electricity supply, land-based transport mobility, industry, aviation, buildings, and land-use and environmental protection (Climate Action Tracker 2020). Figure 8 summarizes the green stimulus interventions they recommended and the harmful actions they caution the world against.

**Figure 8. Climate Action Tracker's summary of the do's and don'ts of green economic recovery**

THE DO'S AND DON'TS OF GREEN ECONOMIC RECOVERY Green stimulus interventions and harmful actions to avoid					
 Energy and electricity supply		 Land-based transport and mobility		 Industry	
✓	✗	✓	✗	✓	✗
<ul style="list-style-type: none"> <li>Direct support for zero-emissions technologies and infrastructure</li> <li>Fiscal reform on fossil fuel subsidies</li> </ul>	<ul style="list-style-type: none"> <li>Revive plans for 'shovel-ready' fossil fuel power plants</li> <li>Waive oil and gas industry environmental regulations</li> <li>Bail out fossil fuel companies without conditions for zero-emission transition</li> </ul>	<ul style="list-style-type: none"> <li>Financial incentives for zero-emission vehicles</li> <li>Direct investments in low-carbon public transport</li> </ul>	<ul style="list-style-type: none"> <li>Roll back emission standards for cars</li> <li>Support to automobile companies without conditions for zero-emissions transition</li> </ul>	<ul style="list-style-type: none"> <li>Support uptake of efficient appliances, lighting, and digital devices</li> <li>Low-carbon technology R&amp;D and pilot projects (e.g. steel and cement)</li> </ul>	<ul style="list-style-type: none"> <li>Roll back climate measures and regulation (e.g. industry levy for supporting renewable energy)</li> <li>Support for industry without conditions for zero-emission transition</li> </ul>
 Aviation		 Buildings		 Land-use and environmental protection	
✓	✗	✓	✗	✓	✗
<ul style="list-style-type: none"> <li>Conditional sector support for aviation industry (e.g. bailout) and accelerated R&amp;D efforts</li> </ul>	<ul style="list-style-type: none"> <li>Roll back regulations and taxes (e.g. ticket taxes)</li> <li>Recalibrate CORSIA baseline without substantially improving entire scheme</li> </ul>	<ul style="list-style-type: none"> <li>Support for energy efficient retrofits of existing buildings</li> <li>Support for accelerated construction of low and zero-energy buildings</li> </ul>	<ul style="list-style-type: none"> <li>Stimulus programmes for new buildings without energy efficiency criteria</li> </ul>	<ul style="list-style-type: none"> <li>Large-scale landscape restoration and reforestation efforts</li> </ul>	<ul style="list-style-type: none"> <li>Roll back environmental regulations</li> <li>Dismantling enforcement of state protection for natural habitats</li> </ul>

Source: Climate Action Tracker (2020)

An example of a government entity implementing green stimulus interventions in response to the COVID-19 pandemic is the Milan city government's move to reduce street space for cars to allocate space for cycling and walking. An illustration of correcting government interventions is the criticism, under the "do no harm" principle, against the US proposal of an unconditional (without distinct climate safeguards) rescue package for automakers as this may result in locking in the uptake of carbon-emitting vehicles and inadequate infrastructure (Climate Action Tracker 2020).

Identifying growth opportunities and corresponding financing is also needed. To help governments in Southeast Asia in their green recovery initiatives, the ADB identified five green growth opportunities: productive and regenerative agriculture; sustainable urban development and transport models; clean energy transitions; circular economy models; and healthy and productive oceans (ADB 2021a). Moreover, the ADB and the Green Climate Fund (GCF) supported the ASEAN Catalytic Green Finance Facility (ACGF) for Green Recovery Program as an additional financing option for Southeast Asian countries. The ACGF Green Recovery Program aims to support at least 20 high-impact low-emission subprojects (ADB 2021a and GCF 2021).

#### 4.3.2 Needed green actions from businesses

To ensure greener participation in the post-pandemic recovery, businesses should reduce their carbon footprint (or even aim for net-zero carbon footprint), urge their customers and require their suppliers to do the same, and put themselves in a supply chain that deliberately reduces

carbon footprint. This more proactive pathway is different from the usual CSR activities that are sometimes just paid lip service by businesses.

Pursuing green recovery means more than practicing CSR, which has been a subject of criticism recently. For example, Nobel laureate William Nordhaus claims that the literature on CSR and even the treatment of such by corporations are a tangle of confusions. The blurry approaches are due to corporations finding it difficult to present themselves as socially responsible while satisfying their shareholders' desire for profits. Nordhaus (2021) opines that sharpening the focus should involve having a green view that emphasizes spillovers or externalities. In the earlier days, these include air pollution, harmful wastes, and greenhouse gas emissions; nowadays, they encompass the infection externalities of the COVID-19 pandemic. In the usual business schools and academic writing on corporate responsibility, activities that may qualify as CSR are endless and many firms can easily excel in any of them. However, Nordhaus offers a more fruitful approach—to focus on corporate irresponsibility, such as greed (including the prevalence of overpaid executives), pollution, lobbying for special tax breaks, regulatory demolition, and defrauding the public about the company's products. He finds the last offense the most egregious and gives as example a luxury car company which was recently found out to have fabricated engine test results and duped the public into believing they were buying “green” cars.

This focus on corporate irresponsibility calls to mind taxation and fines or penalties as mechanisms for aligning business with green objectives. But as the Climate Action Tracker's summary of do's and don'ts in the previous section shows, both carrots and sticks are important in pursuing green recovery. Stimulus packages and recovery assistance for businesses during and after the pandemic have been considerably discussed in policy circles.

Businesses can pursue green actions by themselves or as conditions for recovery assistance from the government. To illustrate, Endo and Sinogba (2020) of ADB articulated possible actions by the private sector given the stimulus packages or support from governments. Businesses can adopt green measures in their continuity plans by employing eco-friendly processes that can help save costs and protect health. Examples include working remotely to reduce carbon footprint from commuting and shortening supply chains by sourcing locally. Small and medium sized enterprises can adopt green technologies that minimize pollution, waste, and energy use through financial support and capacity building from the government. Civil society and the academe can also support by giving training on environmental management standards and practices. Companies availing of stimulus support from the government must publicly disclose their environmental performance and improve on it by investing in activities that have resource efficiency benefits. They can also adjust their risk appetite by accessing financing for innovative and cost-effective solutions that lower companies' environmental impacts. Lastly, as regulators enforcing key environmental policies and non-regulatory pressure groups like industry associations and civil society organizations are not likely to go away, companies will do better to be motivated to improve their products or processes in compliance with green frameworks.

In particular, adopting circular economy practices is one important green strategy for businesses because this creates additional value and results in efficiency gains. Using the manufacturing industry as an example, the United Nations Industrial Development Organization (UNIDO) distinguishes a circular economy from the linear process of manufacturing. The latter takes raw materials from the environment, produces something, and then disposes the waste into the environment. In contrast, the former designs durability, reuse

and recyclability into products and creates additional value as resources are used repeatedly, products are remanufactured, and waste is recycled back into a raw material or used as a source of energy. Circular economy practices generate increased income, reduce resource dependency, minimize waste, and reduce environmental footprint (see Figure 9) (UNIDO 2017).

**Figure 9. Circular economy practices**



Source: UNIDO (2017)

Public-private partnerships (PPPs) are also where green investment opportunities for businesses and public sector partners abound. Climate-smart infrastructure is particularly promising for PPPs. These are infrastructure solutions that mitigate climate change, facilitate adaptation to the impacts of climate change, or increase resilience to natural disasters. Examples of climate change mitigation projects are energy efficiency projects and GHG emissions reduction technology adoption. Climate change adaptation projects include design-build-operate projects that anticipate climate uncertainties, such as hydropower projects that consider extreme water flows or shortages. Resilience-building infrastructure includes projects that help prepare for disasters, such as beach mangrove forest restoration, flood spillways, canals, and sea walls.



#### 4.3.3 Desired consumer behavior

The pandemic and mobility restriction highlighted essentials versus non-essentials and led to a realization that citizens need to be responsible consumers. They need to avoid waste, reduce pollution, cut unnecessary consumption, and adopt sustainable lifestyles.

Many people in fact adopted sustainable behaviors and consumption habits during lockdowns, as illustrated in the YouGov and Food Foundation April 2020 data showing that more than 19 million people in the UK cooked from scratch and 17 million people threw away less food, and also in the Accenture Covid-19 Consumer Research April 2020 data showing that 64% of more than 3,000 consumer-respondents in 15 countries across five continents limited food waste and more than 50% made health-conscious decisions in buying groceries (One Planet Network 2020). The lockdowns proved that consumers can change their habits and behavior toward greener outcomes. The challenges now are making such changes more permanent and motivating consumers to stick to their role in the circular economy.

The past general trend on consumption shows that the global population as a whole is finding this hard to do. Chancel and Piketty (2015) noted that income or consumption level is the main driver of total carbon dioxide (CO<sub>2</sub>) emissions among households and individuals, as borne by several studies giving estimates of CO<sub>2</sub> emissions to consumption expenditure elasticity. Citing the work by Chakravaty et al. (2009)<sup>30</sup> in 17 countries and giving caveats on measurement issues, Chancel and Piketty noted a household CO<sub>2</sub> emissions-income elasticity range of 0.6 to 1, meaning, a household spending (or earning) 10 percent more than its neighbor emits 6-10 percent more CO<sub>2</sub>.

Along this line, Nobel laureates Banerjee and Duflo (2019) argued that in the absence of changes toward more sustainable consumption, any future economic growth would mean more CO<sub>2</sub> emissions and large direct impacts on climate change, as energy use increases with the rise in consumption and as the products being consumed are manufactured. They also pointed out the inequity of it all as encapsulated in what may be generalized as the "50:10 rule": 50 percent of the global CO<sub>2</sub> emissions are due to the highest polluters consisting 10 percent of the world's population, and the 50 percent who pollute the least are responsible for only 10 percent of the emissions. In the end, their radical conclusion is that consumption, in general, will need to fall because mitigation strategies alone, such as through better technologies, may not work.

Keeping the population healthy is also a must. This should involve government interventions and people maintaining good consumption habits and increasing capacity for self-help and mutual help. Collectively, this will prepare countries and communities for future pandemics and reduce their vulnerabilities to the health impacts of the current climate crisis.

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<sup>30</sup> As cited in Chancel and Piketty (2015): Chakravarty, S., Chikkatur, A., de Coninck, H., Pacala, S., Socolow, R., Tavoni, M., 2009. Sharing global CO<sub>2</sub>e emission reductions among one billion high emitters. *Proc. Natl. Acad. Sci.* 106, 11884-11888.

#### 4.4 *Green recovery is inclusive recovery*

Green recovery from the COVID-19 pandemic is inclusive recovery. It is more than climate activists' or advocacy groups' focus. There are concrete returns to health, job creation, income, and general socioeconomic wellbeing, especially for those who are left behind.

Take inequality in water and sanitation access as an example. As the country manages the COVID-19 and tries to live with the virus, water and sanitation investments will have far-reaching equity implications because inadequate water and sanitation access among the poor exacerbates the spread of the virus. Rodó et al. (2021) raised that fomite transmission is a crucial pathway to consider because viral viability and persistence on surfaces would be enhanced if access to safe water is limited and sanitation systems are poor. Moreover, Yoing (2021) highlighted that investments on wastewater monitoring (along with other interventions like regular testing, genetic sequencing, and use of data science) are important as these could help track future outbreaks. Note that in the likely future where the world needs to manage an endemic COVID-19, the ability to track where the next outbreak could occur would be as commonsensical as the ability to forecast typhoons or other weather disturbances.

Because climate change impacts poor people disproportionately, recovery principles anchored on addressing climate change will ultimately benefit the poor. It is not only the lack of clean water and sanitation that is hampering the poor's ability to manage COVID-19. The resulting air pollution from fossil fuels also has grave consequences for them as they are more exposed to polluted working and living conditions.

Extreme weather events, which the IPCC stresses as occurring “with human influence contributing to many observed changes in weather and climate extremes” (IPCC 2021), destroy homes, livestock and lives and the most affected are the poor who live in hazard-prone areas. These losses also force them to migrate to seek better living conditions, contributing to congestion in cities and urban centers. The IPCC underscored that, “At 1.5C global warming, heavy precipitation and associated flooding are projected to intensify and be more frequent in most regions in Africa and Asia (high confidence), North America (medium to high confidence) and Europe (medium confidence)” (IPCC 2021, p. 32). This predicted more intense and more frequent heavy rainfall and flooding in Africa and Asia do not bode well for inclusivity as most of the world's poor live in these regions. Thus, the poor must be at the center of climate actions.

Another example pertains to the importance of regenerative agriculture. It is inclusive because it has many links to the livelihood and incomes of poor households as opposed to industrial farming. It contributes to food security and also builds local economies, boosts local resilience, and discourages migration. It also protects soil and water bodies (with good consequences for ecosystems) and sequesters CO<sub>2</sub> emissions cheaply. In fact, proposals in the US to redirect agriculture subsidies toward regenerative agriculture have been called “paying the farmers to cut carbon footprint (see, for example, Newburger 2021).

Green projects create jobs and in some sectors that are transitioning to climate-friendly production, they create more jobs than they displace during the transition. In the energy sector, for example, it has been asked whether jobs created in clean energy will be more than the jobs to be lost in fossil fuel-based energy. Garret-Peltier (2017) provided evidence that clean energy will indeed create more jobs. On average, a million US dollars spent on fossil fuels makes

about 2.65 full-time equivalent (FTE) jobs. However, the same amount creates 7.49 FTE jobs in renewable energy and 7.72 FTE jobs in energy efficiency. Therefore, shifting USD1 million spending from fossil fuels to clean energy can create a net increase of around five jobs.

Rapid job creation is also another opportunity offered by green efforts. The International Energy Agency estimates that the energy efficiency sector can add 2.5 million new jobs per year as part of the green recovery from the pandemic (OECD 2020).

Addressing climate change in the recovery efforts will also lead to more inclusion for women given that climate change impacts exacerbate gender inequalities. The gender-differentiated impacts of climate change are well documented. The Food and Agriculture Organization (FAO), for example, explains that: when there is crop failure due to climate change, household food provision is affected and this increases the work load of women; water scarcity leads to additional time spent by women for water collection and additional stress on women when water is contaminated; in natural disasters, women suffer a greater incidence of mortality; and with the spread of diseases, women's burden as caregivers become heavier (FAO n.d.).

With the business slowdown during the pandemic, women have experienced relatively higher job losses as they were concentrated in the hard-hit sectors and many women-owned businesses have reported significant decline in revenues (ADB 2021b). Given that women own many micro, small and medium enterprises (MSMEs), supporting MSMEs to adapt to the post-pandemic better normal, where there would be higher demand for green and sustainable products, would be a gender-responsive and inclusive strategy.

#### **4.5 *Shaping the Philippines' sustainable recovery through green initiatives***

Given recent trends, the Economist Intelligence Unit (EIU) expects that the global GDP will bounce back to its pre-pandemic level by end-2021. However, the pace of recovery will vary across countries and some will still be unable to return to their pre-pandemic level by that time (EIU 2021). For the Philippines, the IMF expects that the pre-pandemic output level will be recovered in 2023, and medium-term economic growth will return to the pre-pandemic rate of 6.5 percent by 2024 (IMF 2021b). The National Economic and Development Authority, on the other hand, expects that recovery to the pre-pandemic level will be “sometime at the end of 2022, if not early 2023” (Laforga 2021).

The feasibility of recovery depends on the timing of the actions; thus, the urgency to act as early as possible cannot be overemphasized. The emergence of highly transmissible mutations has made it difficult to anchor the re-opening of the Philippine economy on herd immunity. It is more practical to view vaccinations and transmission prevention as instruments for decisionmakers to find an acceptable balance between new infections and the socioeconomic costs of targeted shutdowns and restricting the mobility of people. Sachs et al. posited in late 2020 that such balance as a guide for re-opening is a point in the SARS-Cov-2's reproduction rate known as  $R_0$ , particularly when  $R_0$  falls to 0.75 (Sachs et al. 2020),<sup>31</sup> but data and science interpretation in the Philippines may churn out a different number. Whatever that number is for the Philippine decisionmakers, the argument is to aim for it, re-open and start the recovery

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<sup>31</sup> Sachs et al. (2020) cited this based on the work of Dorn et al. (2020), which in turn is based on data from Germany. (The publication cited is in German language: Dorn, F., C. Fuest, M. Göttert, C. Krolage, S. Lautenbacher, S. Link, A. Peichl, M. Reif, S. Sauer, M. Stöckli, K. Wohlrabe, and T. Wollmershäuser (2020). “Die volkswirtschaftlichen Kosten des Corona-Shutdown für Deutschland: Eine Szenarienrechnung”. *ifo Schnelldienst* 73, no. 04 (2020): 29–35).

as early as possible, and take advantage of opportunities to have green measures in the recovery strategies, policies and programs, as discussed in the following recommendations.

#### 4.5.1 Making space for "greening" in the stimulus packages

Short-term stimulus packages for MSMEs have a swift turnaround and can quickly create jobs. These can be expanded from more than wage subsidies to cover also support for accelerated adoption of sustainable solutions and technologies, such as cleaner production processes, pollution prevention systems, water and energy reduction techniques, recyclable or biodegradable packaging solutions, solid and liquid waste management initiatives, and efficiency enhancing digital technologies. With the expansion of economic activities that will be supported by stimulus packages, the economy will regain old jobs lost and absorb newly created ones. This will also give the MSMEs the push to capture the value added from green growth opportunities in the medium to long term.

Moreover, to ensure a significant contribution to the sustainable development of the large strategic industries that will be targeted in rescue packages, the support to these industries can have either additional conditions to adopt green practices and build resilience or additional rewards for their green and resilience-building initiatives, or both.

The likely continuation of the infrastructure program (Build, Build, Build) in the next administration will create more jobs and provide an opportunity for green recovery. In particular, a pipeline of needed climate-smart infrastructure projects can already be created, and strategies for tapping climate financing and public-private partnerships must be planned and implemented.

#### 4.5.2 Identifying and investing in green growth opportunities

The five green growth opportunities identified by the ADB as most relevant to the Southeast Asia region (ADB 2021a) and can benefit from the ASEAN Catalytic Green Finance Facility (Green Climate Fund 2021) also look promising for the Philippines. These are:

1. Productive and regenerative agriculture - There are two categories of opportunities here—innovative technologies on precision agriculture and biotechnology, and agricultural practices improvement such as crop rotation, using biopesticides, organic fertilizers, and microbial inoculants, and building micro-irrigation.
2. Sustainable urban development and transport models - This has the potential to improve the environment and quality of life in cities while contributing to greenhouse gas emission reductions. Urban plans, however, will have to be updated to incorporate designs that are responsive to disease outbreaks and will allow people to safely move despite the virus.
3. Clean energy transition - The opportunities in this area include renewable energy and energy efficiency investments, which are already being supported by Philippine laws.
4. Circular economy models - The presence of untenable waste management practices and insufficiency of recycling activities indicate that there are growth opportunities in this area.

5. Healthy and productive oceans - Opportunities include sustainable management of ocean resources, pursuing projects to address overexploitation of fish stocks, and developing ocean-friendly mariculture and aquaculture.

Waste management is a huge challenge and investing in it is another growth area. The COVID-19 pandemic created additional strains to the already inadequate waste management systems. Face masks continue to pile up and find their way into waterways due to improper disposal. The increase in volume of municipal waste overwhelms existing waste collection and disposal systems. Use of single-use plastics is increasing. Infectious wastes are improperly mixed due to the weak practice or absence of segregation at source and the lack of healthcare waste management treatment services. Solid and liquid waste management initiatives are disrupted due to the financial challenges of dealing with the pandemic and the competing demands for public funds. However, more investments in waste management are needed.

Another growth opportunity is conservation activities. Building green and blue economy resilience entails conservation (i.e., ensuring sustainable use or preventing destruction and neglect) of green and blue ecosystems as well as climate change adaptation and mitigation. For the Philippines, recent data suggest that current conservation activities are somewhat inadequate if juxtaposed with the targets. The summary of Sachs et al. (2020) on the progress of the Philippines with the SDGs shows that pre-pandemic, the overall trend for SDG 14 (life below water) is stagnating while that for SDG 15 (life on land) is decreasing. Reversing these trends needs to be undertaken because doing nothing will create additional problems, including food insecurity and the emergence of new diseases.

The Philippines can also support the calls for an Association of Southeast Asian Nations (ASEAN) “green new deal” as this could pave the way for the creation of numerous jobs and sustainable economic growth. Sachs et al. (2020) encouraged the idea of having a regional green deal in the ASEAN. They also enumerated opportunities for jobs creation in new clean-energy systems based on solar and wind energy, long-distance power transmission, smart grids, electric vehicles, hydrogen and other synthetic fuels, and energy-efficient buildings. The green new deal initiative by South Korea announced in June 2020, under which legislation will be passed to implement a carbon tax, stop financing for coal plants, promote investment in renewable energy, and establish a workers’ training center for transitioning to green jobs, has been lauded as a first for East Asia and also brought forth a call for the ASEAN to step up and pursue a green new deal of its own (Yeoh 2021).

#### 4.5.3 Participating more vigorously in the debates on "global commons" and climate actions

Global commons refer to “areas or natural resources that are not subject to the national jurisdiction of a particular state but are shared by other states, if not the international community as a whole” (Schrijver 2016, p. 1, citing Buck 1998). Our global commons have been understood as including our shared space, air, electromagnetic frequency spectrum, high seas, the deep seabed, and the polar ice caps. SARS-CoV-2 is interpreted as a shared responsibility in the global commons in the same way that pollution or climate change is (see for example, Teo 2021). Thus, calls for democratizing access to intellectual property rights to COVID-19 vaccines as a global common good is attracting high-level attention.

Eliminating intellectual property protections on COVID-19 vaccines would mean any company in any country could manufacture them, leading to quick scaling up of the production and making the vaccines more affordable and accessible, especially to low-income countries. Opposing views, however, argue that waiving intellectual property rights would not be useful and would instead compromise global vaccination efforts and drive prices up. This is because allowing just any manufacturer to produce the vaccines would increase the demand for the raw materials that may cause a shortage, which may drive prices up and impede production (McMurry-Heath 2021). Nevertheless, India and South Africa sponsored a proposal at the World Trade Organization for a time-limited waiver of intellectual property rights to vaccines and the US Biden administration's expression of support to it is one of many that are required (BMJ 2021). The Philippines should join in the global debates on this concern to assess what would be in the best interests of developing countries like itself. Moreover, as the country continues to manage the virus, the government should also push for mechanisms to scale up the production and reduce the prices of COVID-19 testing, surveillance, prevention, and treatment technologies.

Another important global debate is accelerating climate action during the pandemic. It has been reported that if global average warming reached 3°C in 50 years, Southeast Asia could suffer approximately USD28 trillion economic losses in present value terms. This accounts for almost 16 percent of the region's GDP by 2070. Moreover, the region could suffer from lower productivity due to heat stress, land loss due to rising sea level, investment and capital productivity slowdown, adverse health and wellbeing impacts, disrupted circulation of international money, and significant agricultural losses. But such losses can be avoided if the needed policy and investment decisions on climate action are undertaken early, that is, in the next few years (Deloitte Economics Institute 2021).

In compliance with obligations under the Paris Agreement, an international treaty on climate change that was adopted in 2015 and entered into force in 2016, the Philippine government recently submitted, on April 15, 2021, its Nationally Determined Contribution (NDC) to reduce greenhouse gas emissions. The Philippines' NDC states, "The Philippines commits to a projected GHG emissions reduction and avoidance of 75%, of which 2.71% is unconditional<sup>32</sup> and 72.29% is conditional<sup>33</sup>, representing the country's ambition for GHG mitigation for the period 2020 to 2030 for the sectors of agriculture, wastes, industry, transport, and energy.<sup>34</sup> This commitment is referenced against a projected business-as-usual cumulative economy-wide emission of 3,340.3 MtCO<sub>2</sub>e<sup>35</sup> for the same period."

Crunching data from the Climate Action Tracker, *The Economist* noted that the world's 20 biggest polluters account for four-fifths of global emissions and about half of them have NDCs that provide for growth in emissions in the next decade (The Economist 2021). This is an important context because the Philippines is one of the most vulnerable countries to climate change. The Philippines is the fourth country most affected by extreme weather events due to climate change from 2000 to 2019, according to the Global Climate Risk Index 2021 (Eckstein

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<sup>32</sup> Unconditional refers to policies and measures which can be undertaken using nationally mobilized resources.

<sup>33</sup> Conditional refers to policies and measures which require support or the means of implementation under the Paris Agreement.

<sup>34</sup> Greenhouse gases covered are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), perfluorocarbons (PFCs) and hydrofluorocarbons (HFCs).

<sup>35</sup> Million metric tons of carbon dioxide equivalent.

et al. 2021). Yet, it emitted only an average of 1.98 metric tons of CO<sub>2</sub> equivalent per capita in 2020, which is way below the global average of 4 metric tons per capita (Climate Change Commission 2021). The 75-percent GHG emissions reduction and avoidance in the Philippines' NDC have been touted as ambitious and somewhat overpromising. Nevertheless, while delivering its own compliance, the Philippines must add its voice to those calling for more efforts from countries that are large contributors to GHG emissions.

#### 4.5.4 Understanding tradeoffs and finding alternatives

Resetting the economy post-pandemic and building resilience require viewing climate targets as complementary to socioeconomic development targets. However, tradeoffs are on the horizon. To illustrate, the IMF recommends that carbon taxes be used in Asia and the Pacific, including the Philippines, considering that these are rarely used in the region. If well designed, they can effectively reduce or prevent GHG emissions while providing necessary fiscal resources for climate change adaptation. For the Philippines, a carbon tax of USD75 per ton of CO<sub>2</sub> emissions could reduce emissions by as much as 30 percent of the business-as-usual CO<sub>2</sub> emissions in 2030, and at the same time, generate fiscal revenues of more than one percent of GDP. The IMF also argued that having a carbon tax is important given the imposition of carbon border adjustments by the European Union and prospective application by other advanced economies (see Box 3 explaining what carbon border adjustments are). Countries that impose carbon taxes could reduce the border adjustments and they get to keep the revenues for their domestic use (IMF 2021c).

#### **Box 3. Carbon border adjustments: what it is and how it is supposed to work**

Carbon border adjustments can be traced to the idea of carbon tax, or a “common (global) environmental tax on emissions” as Stiglitz (2006) puts it. An unintended consequence of carbon taxation is if it is not applied by all trading partners or if the taxes for similar tradeable products are uneven, the firms facing the tax in one country may shift production to other countries where carbon pricing is low or nonexistent, thereby leading to a net increase in emissions globally, a situation called “carbon leakage”. Border adjustments on carbon tax are supposed to address this imposing charges at the border, that is, by imposing taxes on imports and rebates on exports at levels that account for the differences in carbon pricing across trading partners.

Though it has been proposed many years ago, it was initially dismissed as a policy instrument that may trigger trade disputes. But there is currently a sudden flurry of interest in it because of the European Union’s recent adoption of it and other advanced economies’ inclusion of it in their respective trade agenda. On July 14, 2021, the European Commission adopted the Carbon Border Adjustment Mechanism (CBAM) and announced that it will be enforced by 2023. The CBAM will require importers to report the emissions embedded in their carbon-intensive imports and buy carbon certificates corresponding to the carbon price that would have been paid had the goods been produced in the EU, which applies carbon pricing. The CBAM is supposed to equalize the price of carbon between EU-produced goods and imports (European Commission 2021).

The US has also announced that it is considering this “to encourage climate action globally while protecting domestic manufacturing” (Natter et al. 2021). Canada is also holding consultations on carbon border adjustments and announced that it is “looking to engage with Canadians and with international partners to advance a global dialogue on this important issue” (Department of Finance of Canada 2021).

Four options have been offered, at least in the US, for spending the revenues to be earned from the mechanism:

1. to reduce other taxes or the revenue deficit;
2. to give rebates to domestic firms most affected by carbon taxes;
3. to fund the domestic development of low emissions technology; and
4. to help developing countries reduce their GHG emissions and adapt to climate change.

To demonstrate that the border adjustment is indeed for combating climate change rather than for domestic industry protection, Hillman (2013) advised that the US contribute a significant share of the revenues to the fourth option.

It is well known that the Philippines is among the countries in Asia with high electricity prices. Imposing a carbon tax in the Philippines at this time may risk increasing further the price of electricity and erode the competitiveness of the country. In addition, it might drive away investments to countries with no carbon taxes, a phenomenon called “carbon leakage”. (Carbon leakage happens when businesses in a country with higher production costs due to climate policies transfer their production to other countries which have looser climate policies.) The proposed imposition of carbon tax needs further in-depth study, including its distributional impacts on Filipinos and the timing of imposition should decisionmakers favor it eventually. Absent that study, an alternative is to push in the international arena the use of advanced economies’ revenues from carbon tax border adjustments to fund climate change mitigation and adaptation activities in developing countries like the Philippines. Moreover, even though carbon taxation is not yet being applied in the country, Philippine businesses must prepare to adjust to (rather than fight) climate-responsive taxation eventually and take advantage of the growing climate finance in the transition.

Another prominent dilemma facing the Philippines in the pursuit of a low carbon future is whether to accelerate weaning the country away from fossil fuels despite the uncertainties of supply reliability and the intermittency of renewable energy. The Department of Energy (DOE) has already taken bold steps to curb the growth of coal-fired power generation capacity and increase the share of renewable energy in the generation mix. The DOE issued a moratorium on processing of applications for greenfield coal-fired power plants, except if the applications are for capacities previously committed to the government and for expansion of existing power plants (DOE 2020a) and announced during a Senate briefing a planned 55.8 percent renewables in the generation mix by 2040 (Yang 2021).

The accounting is not yet definite on the net gains. Potential tradeoffs are in terms of sufficiency of baseload generation and reliability and quality of supply given that the Philippine power system does not yet have a smart grid. Nevertheless, it helps that the DOE opened geothermal energy to 100-percent foreign ownership (DOE 2020b) to attract more foreign investments to developing geothermal power generation, a recognized technology for baseload capacity. On



the intermittency of renewables, the most common approach is battery storage, but there are still limitations because the currently available technologies in the market can only store so much for a few hours. It is therefore opportune to consider granting incentives for research and development (R&D) on battery storage development. Policy proposals like the Science for Change bill, which aims to increase the public R&D expenditure starting at PHP10 billion for 2022 and then to increase it annually in the next five years until it reaches two percent of the national budget (Luci-Atienza 2021),<sup>36</sup> should be supported and battery storage for energy should be included in the R&D pipeline. Research efforts on battery storage for generated power, particularly ones that use low-cost materials and make storage more affordable, has nowhere to go but up and the potential market for advanced storage technology is growing.

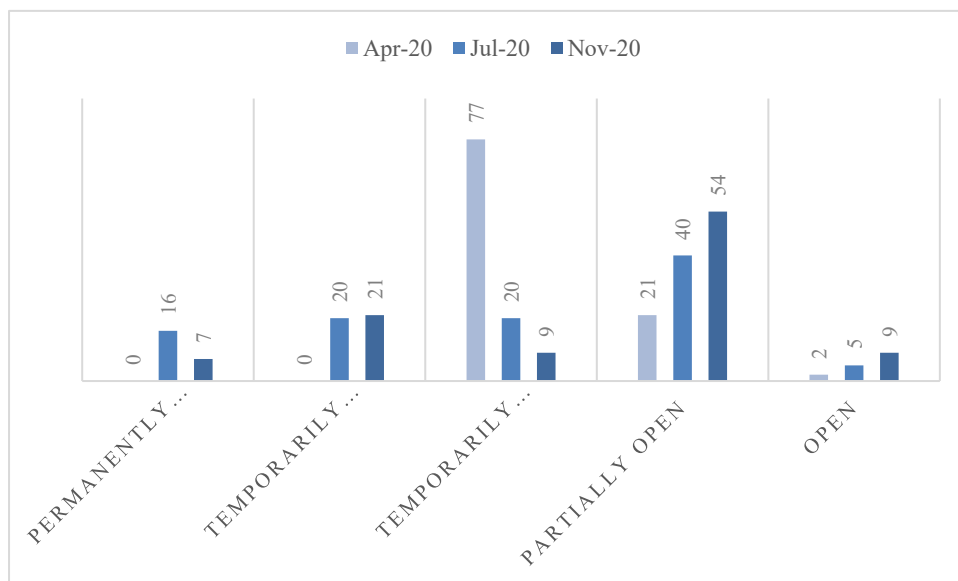
## **5. Developing a robust and healthy workforce**

A country's workforce is essential to the economy because it drives productivity and growth. Along with that, workers serve as the financial base of a country's social protection system. Hence, providing a strong support mechanism to enable the full potential of the workforce serves the interest of governments, businesses, and other stakeholders. Over the years, work opportunities have expanded due to increased globalization driven by improved technology and reduced cost of international travel. These advancements however, are not without consequences. Since economies are interrelated now more than ever, workers have also become more susceptible to macroeconomic shocks. In an increasingly globalized world, a shock in one economy can send ripple effects to other economies it transacts with. The COVID-19 pandemic provides a perfect demonstration of this. The spread of the virus from one country to another has caused massive global disruptions. In the Philippines, the initial spike of COVID-19 cases has urged the government to impose a strict lockdown with the aim of controlling the movement of the population. This move was detrimental to businesses as many were forced to shut down temporarily or limit their operations (Figure 10). Difficulties faced by the business sector then translated into job losses for workers. Figures 11 and 12 shows that in April 2020, almost a month of strict lockdown, labor force participation was low at 55.7 percent while unemployment rate was very high at 17.6 percent. Many workers were also looking for jobs as exhibited by almost 19 percent underemployment rate. Towards the end of 2020, the government started easing its restrictions by allowing more businesses to operate, in order to jump-start the economy. Around this time, unemployment rate has also started to go down and labor participation rate began to improve. Meanwhile, the desire to find other jobs remains to be volatile as workers navigate their way out of the COVID-19 pandemic.

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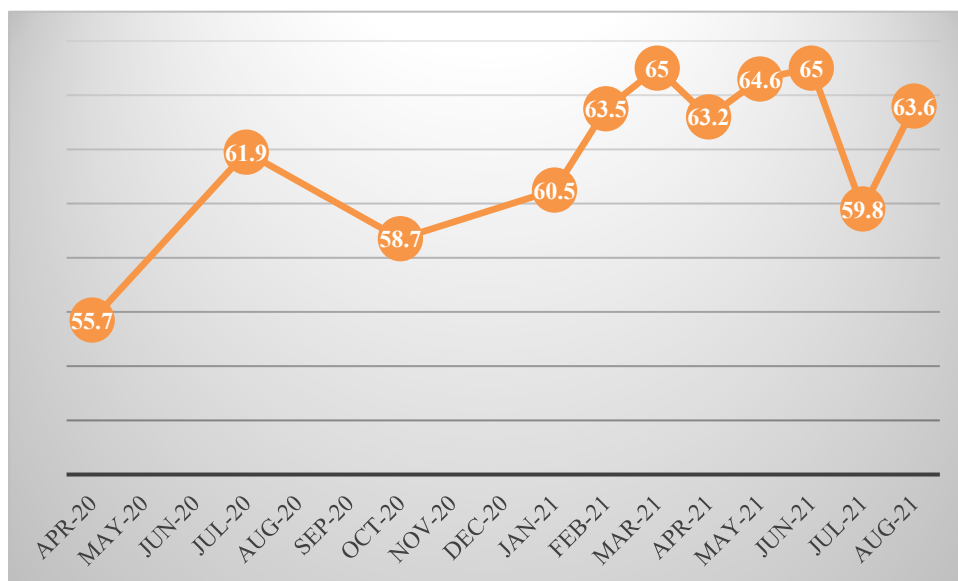
<sup>36</sup> The benchmark on R&D expenditure for a developing country is 1 percent of GDP, based on the assessment of the United Nations Educational, Scientific and Cultural Organization. It cannot be reckoned yet if the proposed increase will pass this benchmark.

**Figure 10. Operating status of firms in the Philippines (in percent)**



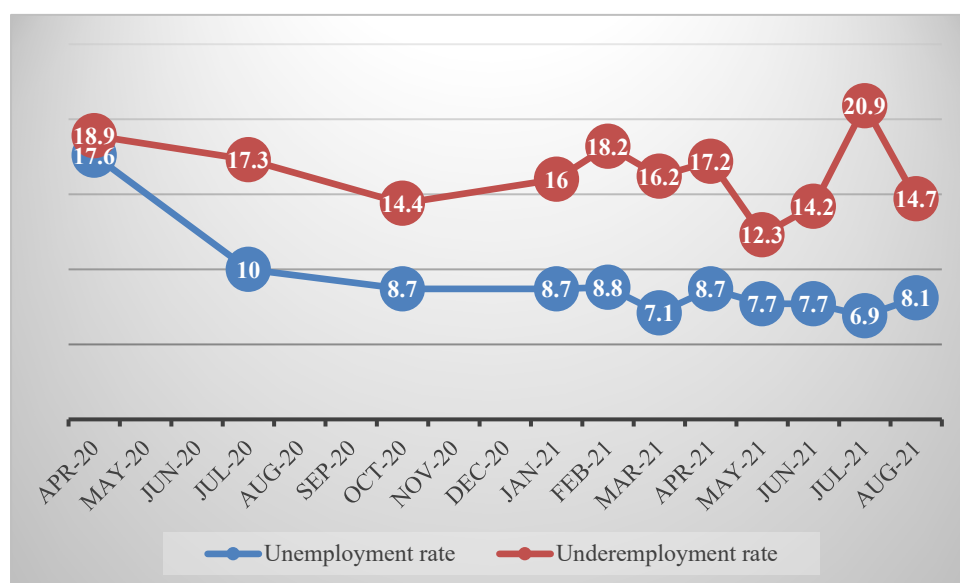
Source: World Bank (2021)

**Figure 11. Labor force participation rate, Philippines**



Source: Philippine Statistics Authority (2021)

**Figure 12. Unemployment and underemployment indicators, Philippines**



Source: Philippine Statistics Authority (2021)

### 5.1 Pre-COVID scenario

Prior to the COVID-19 crisis, workers worldwide were already facing various challenges caused by increased globalization and technology use. For instance, numerous companies have turned to automation and digitalization. The effect of this is two-fold. First, it increased the demand for high-skilled workers (Katz and Autor 1999). In a more digital world, skills have become the main defense of workers that many are investing in advanced education to fill the growing demand for jobs requiring cognitive tasks (Katz and Murphy 1992; Acemoglu 2002; Autor and Dorn 2013). Second, it decreased the demand for middle-skilled workers doing routine jobs because they are being replaced by machines (Jaimovich and Siu 2012). Worker polarization or the disappearance of middle-class jobs (i.e., those requiring moderate skills) has been documented in the literature. Goos and Manning (2007) notes that in Britain, employment in high-returns cognitive work has been increasing while middle-income routine jobs have been hollowing out. Similarly, the demand for routine and manual jobs has also decreased in developing countries (Maloney and Molina 2016). It appears that the higher the participation of developing countries in global value chains and the higher the degree of routinization of tasks, the greater the decline in medium-skilled workers (Dao et al. 2017).

The FIRE has pushed for major technological progress that resulted in jobless growth in many advanced economies (Brynjolfsson and McAfee 2011). According to a study (Acemoglu and Restrepo 2019), the increased use of automation in the US has led to the stagnation of productivity and slow creation of new jobs. An assessment of US data from 1990 to 2007 also shows that the increased utilization of industrial robots has negatively affected manufacturing employment and wages (Acemoglu and Restrepo 2018). Moreover, a report (ADB 2018) isolated the impact of technological progress in Asia where it was found to cause around 66 percent of employment between 2005 and 2015. Generally, rapid technological changes, increased automation and digitalization gave rise to job polarization, wage inequalities and displacement of workers doing manual and routine jobs (Goos et al. 2014; Autor 2015).

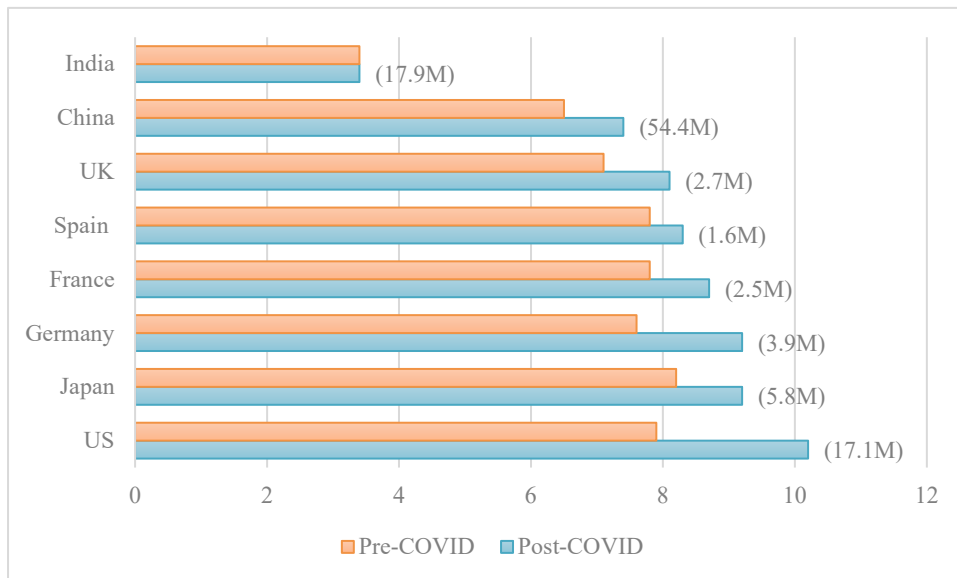
## 5.2 COVID-19 and rapid technology adoption

When the COVID-19 pandemic hit, countries were already discussing policy options to reskill and upskill their workforce in preparation for the full-scale impact FIRE. However, the pandemic forced many companies to fully embrace technology as a way to adapt to movement restrictions imposed by governments all over the world. As more businesses and companies rapidly transitioned to automation and digitalization, the world also witnessed massive unemployment and job displacements. The International Labour Organization (ILO) (2020) reports that in Asia and the Pacific alone, around 1.9 billion workers lost their jobs. Industries that were much affected by the pandemic are accommodation and food services, manufacturing, wholesale and retail trade, and real estate and business activities. These industries were hit badly because they relied on physical proximity (Petropoulos 2021). Disruptions in global value chains were also experienced in the manufacturing sector, specifically in automobiles and textiles, clothing, leather, and footwear industries (ILO 2020).

The COVID-19 pandemic effectively accelerated many of the trends that were already unfolding in several economies even before its arrival. More businesses were encouraged to engage in e-commerce to continue their operations and reach more customers. Results from the Philippines COVID-19 Firms Survey (World Bank 2021), for instance, show that 58 percent of small medium and large firms, and 63 percent of micro-enterprises in the Philippines utilized digital solutions to adapt to COVID-19 restrictions. It was noted in the same survey that business functions where digital technologies were used were in marketing, sales, service delivery, payment methods, business administration, supply chain management, production planning and fabrication of goods. On the other hand, customers preferred online shopping over going to physical stores, to limit their exposure to the virus. These changes in behavior of both businesses and consumers are not only making brick-and-mortar stores obsolete but also reducing the demand for workers in retail and services. On a more positive note, new opportunities also opened up for some workers during the pandemic because of the increased need for workers in delivery and technology services (Arora et al. 2020).

Old skills, however, are becoming irrelevant with the digital revolution. This trend underscores the value of upskilling and reskilling the workforce, as COVID-19 shifted the demand for workers across occupations. A study finds (Arora et al. 2020) that worker transitions that result from macroeconomic shocks usually impact women, younger and less educated workers, as well as members of ethnic minorities and immigrants. In the Philippines, an estimated 171,000 workers were displaced during the initial year of the pandemic (Bertulfo 2020). The McKinsey Global Institute (2021) predicts a general increase in the number of displaced workers in the post-COVID scenario. In the US, for example, more than 10 percent of its workforce or equivalently 17.1 million workers, will need to transition to new jobs by 2030 (Figure 13). This trend is uniformly observed for Japan, Germany, France, Spain, UK and China. It is important to point out that low-and middle-skill workers are at risk of falling into poverty if they are unable to transition to new jobs. The skills requirement for job transition however, is now more challenging because of the impact of the digital revolution aggravated by the COVID-19 pandemic.

**Figure 13. Workforce transitions by 2030 for selected countries**



Notes: Figures in parenthesis pertains to the equivalent number of workers in millions.

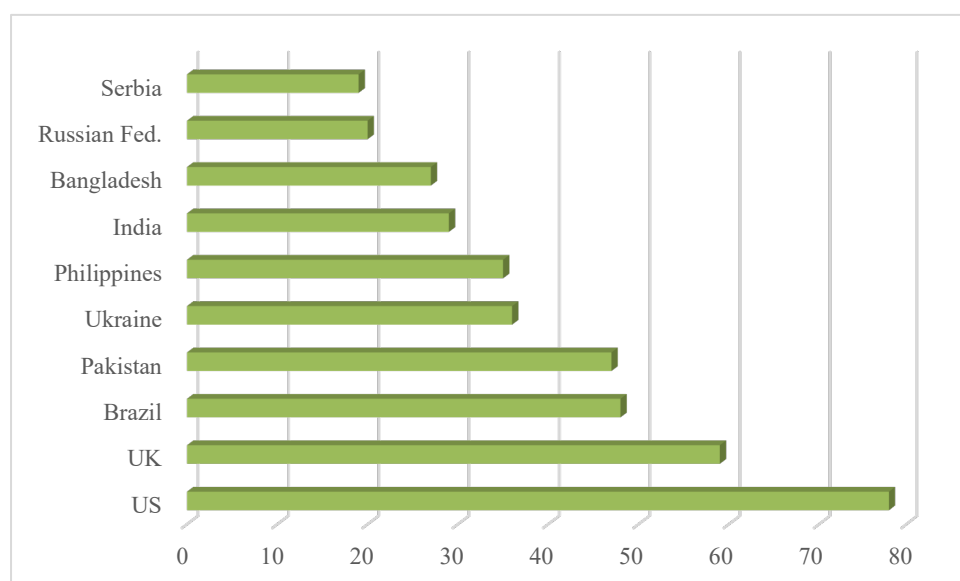
Occupation transition refers to a displaced job that does not come back with labor demand growth.

Source: McKinsey Global Institute (2021)

Gig work<sup>37</sup> functions as an alternative source of income for those who lost their jobs during the COVID-19 crisis. A previous study finds that laid-off workers' access to gig platforms such as Uber, has a tremendous impact to the labor market and modifies the way workers respond to job loss (Fos et al. 2019). A report (ILO 2018) meanwhile, shows that pre-pandemic, around 1.3 billion workers are in the informal sector in Asia and the Pacific. In the US, around 20 percent of the workforce in 2016 is involved in freelance work (McKinsey & Company 2016). In 2019, the Philippines experienced a 35-percent increase in earnings from the gig economy, suggesting the growth in employment in the sector (Figure 14). However, there is a growing concern about gig work because it is unregulated and does not provide social protection benefits to workers such as health insurance or pensions; thereby further exposing workers to uncertainty and risks. The role and value of gig economy continues to be a major debate in the literature.

<sup>37</sup> Refers to short-term work arrangement of independent workers, with no worker-employer relationship in place.

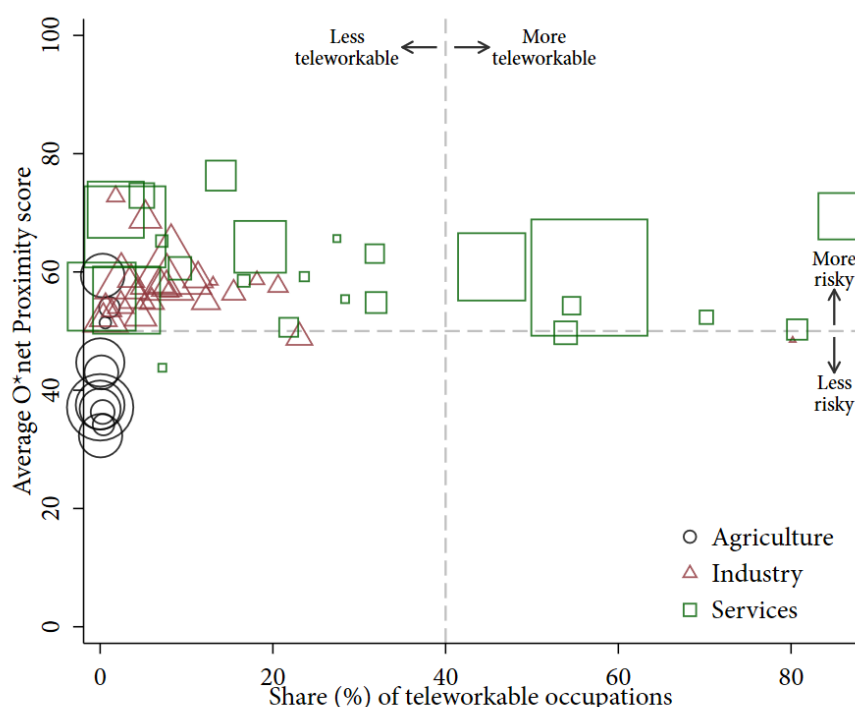
**Figure 14. Percent growth in earnings from the gig economy for selected countries, 2019**



Source: National Wages and Productivity Commission, Department of Labor and Employment (2019)

Stay-at-home mandate has prompted many companies to utilize work-from-home setups. Yet, not all jobs can be done remotely. In fact, a World Bank (2021) survey for firms in the Philippines reveals that the most cited obstacle for maximizing the number of employees working from home is that their nature of work is not suitable for such set-up. Figure 15 shows that occupations in the country that can be performed remotely are mostly in the services sector. Other occupations especially in the services sector are too risky to be performed under the threat of COVID-19. Relatedly, Dingel and Neiman (2020) show that jobs that are suitable for work-from-home setup are those that are related to: (1) educational services; (2) professional, scientific, and technical services; (3) management; (4) finance and insurance; and (5) information. In contrast, activities that require physical proximity and thus cannot be done at home are those in: (i) transportation and warehousing; (ii) construction; (iii) retail trade; (iv) agriculture, forestry, fishing, and hunting; and (v) accommodation and food services. Remote work also introduces some difficulties for workers mainly because it blurs the boundaries of work and life (Sinclair et al. 2020). Workers are faced with challenges related to reduced productivity despite spending more hours at work (Lautsch et al. 2009). Additionally, work-from-home setup unveils some issues with skills, income class, and access. Chiou and Tucker (2020) reveals that workers from high-income regions are more likely to stay indoors given their access to high-speed internet. On the other hand, Aum et al. (2020) notes that low-skilled workers face a higher risk of infection as they have lower chances of being allowed to work from home. An OECD study (2021) explains that this is because working remotely usually requires skills in numeracy and literacy.

**Figure 15. Teleworkable occupations versus risk in the Philippines**



Notes: Share of teleworkable occupations based on Dingel and Neiman (2020); for a complete guide on O\*net score see <https://www.onetonline.org/find/descriptor/result/4.C.2.a.3>

Source: Author's calculation as presented in Navarro et al. (2021).

It is well-recognized that macroeconomic shocks present different opportunities for different types of workers, which further aggravates previous income gaps (Bapuji et al. 2020). With the disruptions caused by the COVID-19 pandemic, it is expected that inequalities will worsen as the world eases back to the new normal, similar to the experience with the 2008 financial crisis (Wisman 2013).

### 5.3 COVID-19 and workers' health

The COVID-19 pandemic has a tremendous impact on the health of workers. Aside from economic problems such as unemployment, job uncertainty, job displacement and financial strain, workers also face threats to their health as they continue to perform their functions under irregular conditions. Expectedly, health workers face the highest risk of exposure due to the nature of their jobs. However, workers in other industries especially those requiring physical proximity like in the retail and trade (Lewandowski 2020; Koh 2020), food production (Peters 2020), construction (Araya 2021; Lewandowski 2020; Baker et al. 2020), and transportation sector (Lan et al. 2020; Koh 2020; Sierpinski et al. 2020) are likewise facing higher likelihood of contracting the disease.

The non-feasibility of remote work for other industries further makes some workers more vulnerable to COVID-19 than others. Those leaving their houses for work or out of necessity are exposing themselves to the virus not only in the workplace but also when taking public transportation. A study (Anand et al. 2020) finds higher recorded COVID infection for workers

travelling to their workplaces. Furthermore, low-income workers are also at higher risk of exposure to the virus (Lee and Kim 2020; Anand et al. 2020; Lan et al. 2020). Conversely, workers doing remote work are not exempted from other types of difficulties. According to a study (Waizenegger et al. 2020), these workers experience higher level of stress due to longer working hours and blurred boundaries between paid work and caring responsibilities. Remote work is also more burdensome for women than men given that they are more likely to provide more time for domestic work and childcare (Shockley and Shen 2016).

As economies contract, businesses continue in their struggle to remain afloat. Workers on the other hand, continue to experience financial insecurity, which in the literature is a common reason for *presenteeism* or attending work while ill. A concerning finding shows that such behavior was already prevalent even before the COVID-19 pandemic (see, for example, Chiu et al. 2017). Studies explain that workers often continue to report for work despite experiencing infectious diseases (Webster et al. 2019) due to factors like heavy workload, stringent absence policies and staffing difficulties (Johns 2010; Miraglia and Johns 2016).

### 5.3.1 Social protection and the changing world

In an ideal world, workers are paid fairly, are able to choose work based on their skills and potentials, have access to learning opportunities, and are able to tap into social protection programs in times of need. In reality however, the attainment of all these conditions remains an aspiration for many workers. Workers will be increasingly exposed to health risks and uncertainties while the world continues its battle with COVID-19. One positive impact of the crisis is that it highlighted the value of social protection. Programs and policies designed to protect workers from unforeseen events is vital so as not to reverse years of government efforts in reducing poverty and inequality.

Social protection could be in the form of (1) labor market policies that aims to improve the efficiency of labor market operation; (2) social insurance programs that help mitigate the impact of risks caused by unemployment, accident, disability, diseases, old age, and natural disasters; (3) social assistance programs that seek to support the most vulnerable groups; (4) micro and area-based programs for communities, or targeted programs for vulnerable communities; and (5) child protection programs that ensure the health and development of the future workforce (ADB 2003). Governments must ensure that all workers can access these support mechanisms during a crisis.

Social protection measures have undeniably played a huge role in government responses to COVID-19. According to an ILO report (2020), social protection in the time of COVID-19, addresses the health, social and economic dimensions of the crisis. For the health dimension, providing universal access to quality health care is important not only to treat those who were affected by the virus but also to save them from catastrophic personal expenditure. Moreover, this will encourage the population to seek medical help when experiencing COVID-19 symptoms so as not to spread the virus further. Programs like unemployment, sickness and cash benefits are also useful to mitigate income losses and keep the population's cooperation for movement restrictions, quarantine and social distancing protocols. For the social dimension, the aim is to protect vulnerable members of the population and prevent negative impacts to human capital and well-being. Such programs also prevent social unrest and improve social cohesion. Lastly, for the economic dimension, social protection programs that support the economy's recovery such as boosting the aggregate demand, are necessary to be able to bounce back from the crisis.



The COVID-19 pandemic however, brought to fore the inadequacy and gaps in coverage of existing social protection systems all over the world. Though the whole world was hit by the crisis, it is apparent that some were more badly affected than others. In the absence of adequate social protection, it is easy for economic shocks to push some workers towards poverty. Take for example the Philippines, wherein the poorest of the population have very little access to any type of insurance (Table 2). Thus, even a minor economic shock will be very detrimental to poor households.

**Table 2. Insurance coverage indicators by household income decile: Philippines, 2017**

	Share (%) of households with at least 1 member with:				
	Any insurance	SSS	GSIS	PhilHealth	Private Insurance
1 - Poorest	12.16	1.91	0.01	11.21	0.13
2	17.12	3.93	0.05	15.24	0.32
3	20.34	6.32	0.23	17.49	0.71
4	21.55	7.73	0.29	19.03	0.66
5	24.36	10.75	0.53	20.11	1.09
6	27.26	14.58	0.96	23.68	0.75
7	31.28	18.28	1.06	26.69	0.95
8	36.21	23.96	3.11	29.93	1.89
9	45.77	30.72	5.36	39.03	2.22
10 - Richest	55.29	37.71	11.41	45.47	4.89
All households	29.12	15.58	2.30	24.78	1.36

Source: Annual Poverty Indicators Survey 2017

Furthermore, the COVID-19 pandemic induced many changes in the way the labor market operates and how the workers behave. While companies continue to embrace automation and digitalization, workers also experiment on new work arrangements like flexible working hours and location, and flexible employment relationship such as temporary, contractual, or short-term engagements or gig economy. Unfortunately, the current design of social protection programs around the world is unable to protect many workers especially with the growing employment in the informal sector and gig economy. This puts forward the need to overhaul the existing design of social protection systems to adapt to the changing world of work, and to ensure that workers from all sectors are protected against unforeseen risks and vulnerabilities. Equally important to providing social protection programs is to ensure that workers are able to access these support mechanisms during the COVID-19 pandemic. Essentially, what the experience has provided is an opportunity to redesign a more comprehensive social protection systems that would be able to withstand future shocks.

#### 5.4 Lessons for the Philippines

The experience with COVID-19 showed the world how a single shock could agitate the labor market and place workers in great uncertainty. Without proper safeguards from such catastrophes, years of economic growth and progress can easily be reversed. While the world strives to regain balance from the impact of COVID-19, countries must realize the value of preparation as macroeconomic shocks are more likely to recur in the future. The following are

some lessons that the Philippines should consider to protect its workforce and be better prepared for future shocks.

- *Heavily invest in reskilling and upskilling programs.* Significant reallocation of jobs will most likely occur as the world embraces technology (Park and Inocencio 2020). In response to this, the government must invest in skills development programs and supporting labor policies to enable the workforce to navigate the changing world of work. The type of skills crucial for the future are related to problem-solving, self-management, working with people, and technology use and development skills (WEF 2020a).
- *Revamp the social protection system to cover the growing employment in the gig economy, and strengthen health support programs.* The increased use of digital technology has pushed workers to embrace the concept of flexibility, particularly, in terms of location of work, working hours, and employment status. As more workers join the gig economy and some having multiple jobs at a time, there is also an increasing need to update social protection programs to reflect recent changes in the labor market and worker behavior. Moreover, the experience with the COVID-19 pandemic underscores the value of having adequate support mechanisms to maintain the health and safety of the workforce. Thus, the government should revisit existing health support mechanisms and expand their coverage to protect as many workers as possible.
- *Improve digital readiness and address the digital divide.* The level of digital readiness of a country determines how well its economy can be able to benefit from the efficiencies that technology brings. During lockdowns, numerous government offices and businesses were still able to function because of remote working, made possible by technology. More investments in the country's information and communication technology infrastructure are therefore needed to facilitate the imminent digital transformation. The government must also set up necessary policies to ensure that technology is accessible to all, which can be facilitated by allowing more competition among service providers.
- *Invest in the future workforce.* Lastly, government interventions must focus both on the current workers and the workers of the future. It is essential to future-proof the country's education sector by improving teachers' digital competencies, incorporating digital skills in student curriculums, and providing necessary materials to both students and teachers.

## 6. Conclusion

Based on current knowledge, the probability of achieving herd immunity from SARS-CoV-2 has become smaller given the emergence of the highly transmissible variant of the virus, the Delta variant, and the continuing mutations. Widespread vaccination is nevertheless the primary policy instrument for suppressing the spread of the virus. Suppression is now the more realistic goal rather than a “COVID-zero” policy or virus elimination that was effectively deployed in a few countries before the seriousness of virus mutation into highly transmissible variants came to light. There is no global consensus yet on the benchmark for this, but Denmark has recently decided to reopen its economy and declared that it got the virus under control at a reproduction rate of 0.7 and with a vaccination rate of 73 percent for the total population and 96 percent for those 65 years old and older (Agence France-Presse 2021).<sup>38</sup>

The Philippines can realistically pursue virus suppression as a policy goal. Widespread vaccination plus policies to suppress the spread of the virus, such as mandating better ventilation, shifting risky physical activities outdoors, masking, physical distancing, rapid and more affordable testing, better contact tracing, effective and more affordable treatment, and various forms of social support (including assistance that will allow infected people to isolate themselves), are the best strategies for working our way toward a post-pandemic world. Based on scientific consensus, the pandemic will eventually end and the virus will be endemic in certain populations or areas rather than affecting the whole world. However, it is not certain when exactly this will happen.

Policymakers can begin to think ahead and assess scenarios of possible futures. Various authors have explored possible post-pandemic scenarios, and some of the results are reviewed in Section 2. Similarly, the government can convene multidisciplinary and interdisciplinary experts to do foresight analysis and think of alternative futures for the Philippines, given current knowledge and assessment of pathways of important factors affecting the country’s post-pandemic recovery. Planned strategies by the Philippine government can be stress-tested against the scenarios it can formulate and those for the global environment that various experts are continuously updating.

In the immediate term, the Philippines should use available tools to monitor suppression success indicators at the level of local government units (LGUs). The Philippines already has the tools for monitoring basic indicators, such as basic reproduction number ( $R_0$ ), testing positivity rate, contact-tracing ratio, health system capacity, and vaccination rates. Tracking and reporting these must be consistently done by LGUs. Predicting new infections and assessing the risks of outbreaks can be improved if the national government can support the LGUs in these measures.

Meanwhile, preparations should already be underway in handling the medium- to long-term challenges in a post-pandemic environment. Preparations should include the management of health-related factors and the economic and social consequences of the pandemic. Moreover,

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<sup>38</sup> But strict hygiene measures, isolation of infected people, requiring vaccine passport or negative RT-PCR test for entrants into Denmark, and masking at airports are still part of the suite of policies.

opportunities for recovery in stakeholder capitalism, green new deals, and workforce development should be identified and seized. As this paper has shown, analyzing those opportunities generates policy insights.

In making businesses more ethical through stakeholder capitalism, there are broad takeaways for the Philippines. One is that success in stakeholder capitalism will depend on the willingness of companies to renew their corporate purpose in a post-pandemic environment and the determination to adopt universally recognized ESG metrics. Another takeaway is that corporate governance reforms and other efforts on broadening market participation and widening corporate ownership should continue. This will help reduce inequality and strengthen discipline in company activities, including the pursuit of ESG goals. A third takeaway is that pursuing good capitalism requires further strengthening the country's competition framework and creating an equal environment for different businesses in similar industries.

In implementing green and inclusive recovery, the Philippines can make space for “greening” in the stimulus packages, such as in the short-term stimulus for MSMEs where assistance can be expanded from more than wage subsidies to also cover support for accelerated adoption of sustainable solutions and technologies. In the rescue packages for large strategic industries, the support can either impose conditions to adopt green practices or offer rewards for their green and resilience-building initiatives, or both. The infrastructure program can also be turned into an opportunity for green recovery by creating a pipeline of needed climate-smart infrastructure projects and tapping climate financing and public-private partnerships for these. The Philippines must also identify and invest in green growth areas, such as productive and regenerative agriculture, sustainable urban development and transport, clean energy transition, circular economy, and healthy and productive oceans. Investment opportunities must also be seized in areas where addressing the problem is a huge challenge, such as in waste management and ecosystem conservation activities. Calls for an ASEAN “green new deal” must be supported by the Philippines to expand the opportunities for job creation and sustainable economic growth.

The Philippines must also participate more vigorously in the debates on “global commons” and climate actions. For instance, it can add its voice to calls to treat the intellectual property rights to COVID-19 vaccines as a global common good and grant a time-limited waiver of such rights so that production can be scaled up quickly and the vaccines could be made more affordable and widely accessible, especially to low-income countries. On accelerating climate action, while the Philippines delivers its compliance, it must join calls for more efforts from countries that are large emitters of carbon. There are greening policies that involve tradeoffs and Philippine decisionmakers must find alternatives in the face of such tradeoffs. To illustrate, although there are proposals for the Philippines to adopt carbon taxation, it may not be affordable at this time, given that the country has high electricity prices. Alternatively, the Philippines could support in the international arena the use of potential revenues from carbon tax border adjustments for funding some of the developing countries' climate change mitigation and adaptation efforts. Another illustration is in the strategy of increasing the share of renewable energy in the Philippine power generation mix as the intermittency of renewables impacts baseload capacity and supply reliability. To help in the medium- to long-term energy transition, R&D incentives for battery storage can be granted. The proposed Science for Change bill, which aims to significantly increase R&D spending, provides an opportunity to push for this.

Given the pre-pandemic trends and the experience of the labor sector during the COVID-19 pandemic, there are important lessons for the Philippines in developing a robust and healthy workforce. The country needs to invest heavily in reskilling and upskilling programs, especially in skills crucial for the future, namely, problem-solving, self-management, working with people, and technology use and development. The social protection system also needs to be revamped to cover the growing employment in the gig economy and to strengthen the health support programs. The Philippines must also improve digital readiness and address the digital divide through government policies and public and private investments. The workers of the future must also be included in government interventions, which can be through such strategies as improving teachers' digital competencies, incorporating digital skills in student curriculums, and providing needed materials to both students and teachers.

Lastly, the Filipino people—individually and collectively—should start resetting and rebuilding while recovering from the pandemic. The current restrictions and controls offer chances to reset as early as possible. The lockdowns and travel restrictions are not simply meant to restrict people's mobility. They are intended to give time for the country to ramp up testing and contact tracing and bring down their costs, fix the health system and its capacities, and rethink and redesign travel modes for a more sustainable way of traveling and for a healthier environment. For the public, these are opportunities to restructure work, learning, spiritual practice, and leisure environments before the outbreak of the next highly transmissible variant or before the next pandemic. The economic cost of the lockdowns that disproportionately affects low-income and marginalized groups and the worsening inequality are points for reflection on the need to reduce inequities. The experiences in virtual work and learning environments offer insights for addressing issues in work-from-home, work-from-anywhere, and remote learning arrangements. Everyone should seize these opportunities to relearn and adapt to a better and new normal.

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