

# FROM CONTAINMENT TO RECOVERY



Presented by:

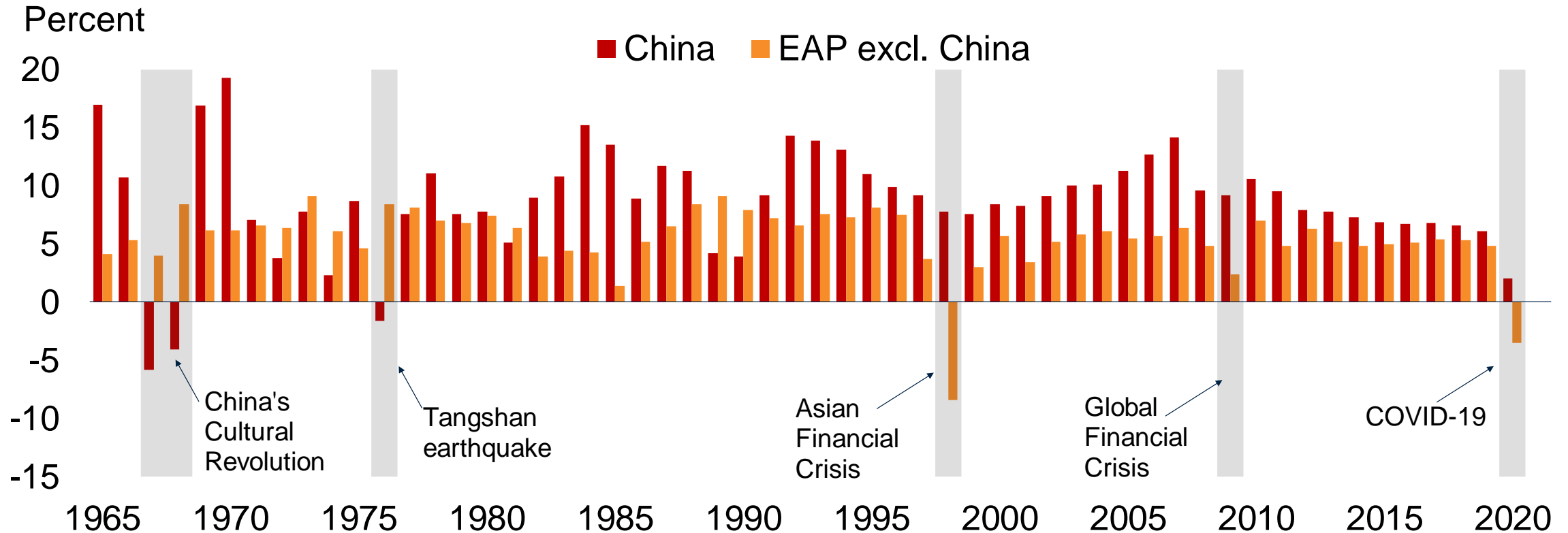
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Senior Economist

East Asia and the Pacific Region  
World Bank

October 2020

# COVID-19 has sharply reduced growth in the region



Source: World Bank Economic Monitoring

Note: Growth for 2020 refers to October 2020 EAP Update estimates

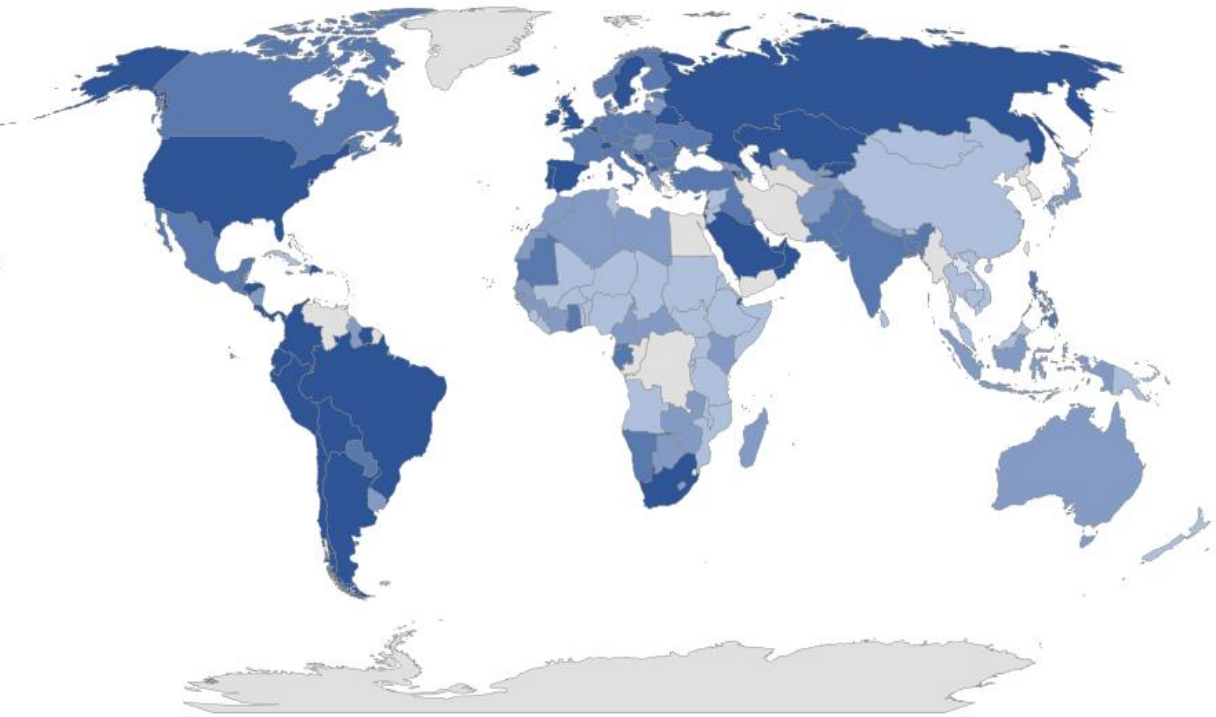
# Key points

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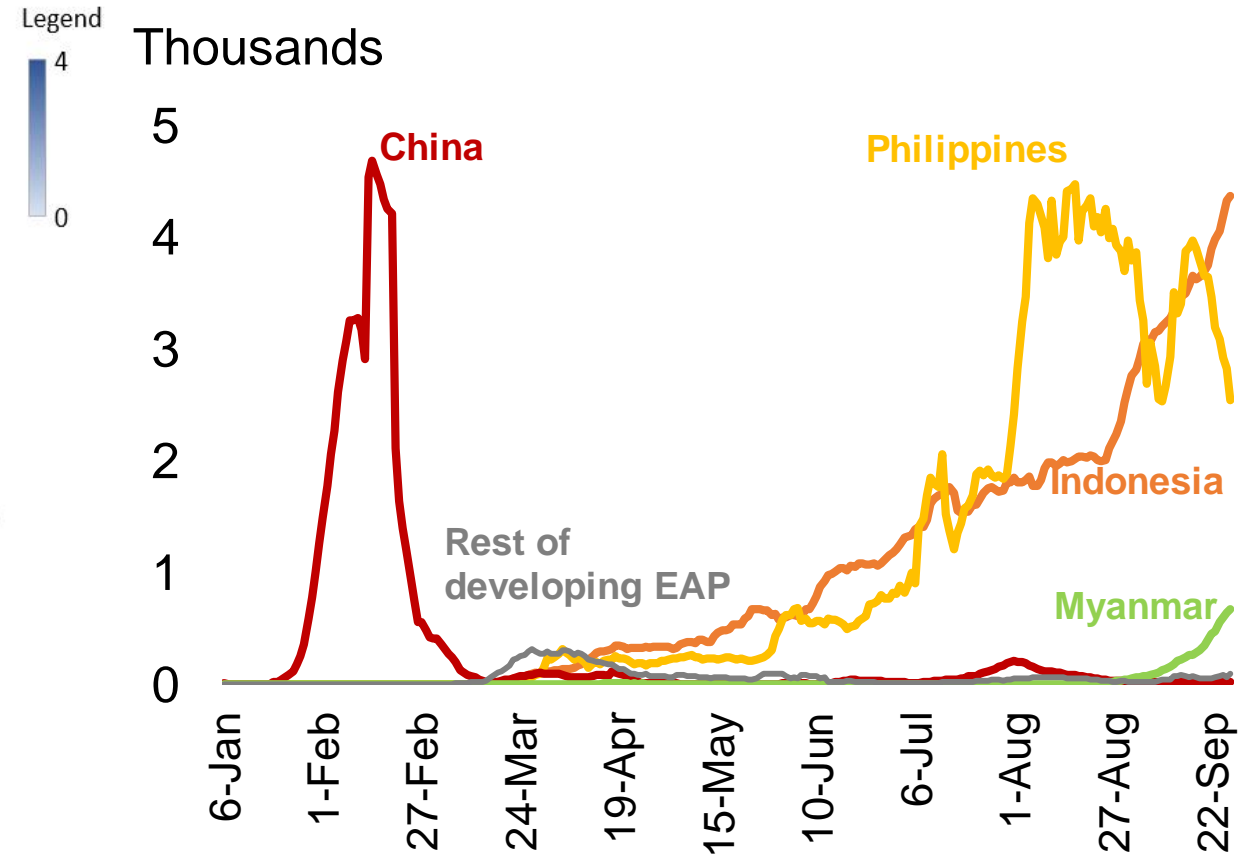
- Relatively successful containment and relief, but a struggle to recover and grow.
- Longer-term impact depends less on the virus and more on how governments respond.
- Growth rates could be 1% lower every year for the next ten years – unless there is meaningful reform.

# Successful containment with important exceptions

**A. Total confirmed cases  
(Cumulative number per million)**



**B. New confirmed cases  
(7-day moving average)**

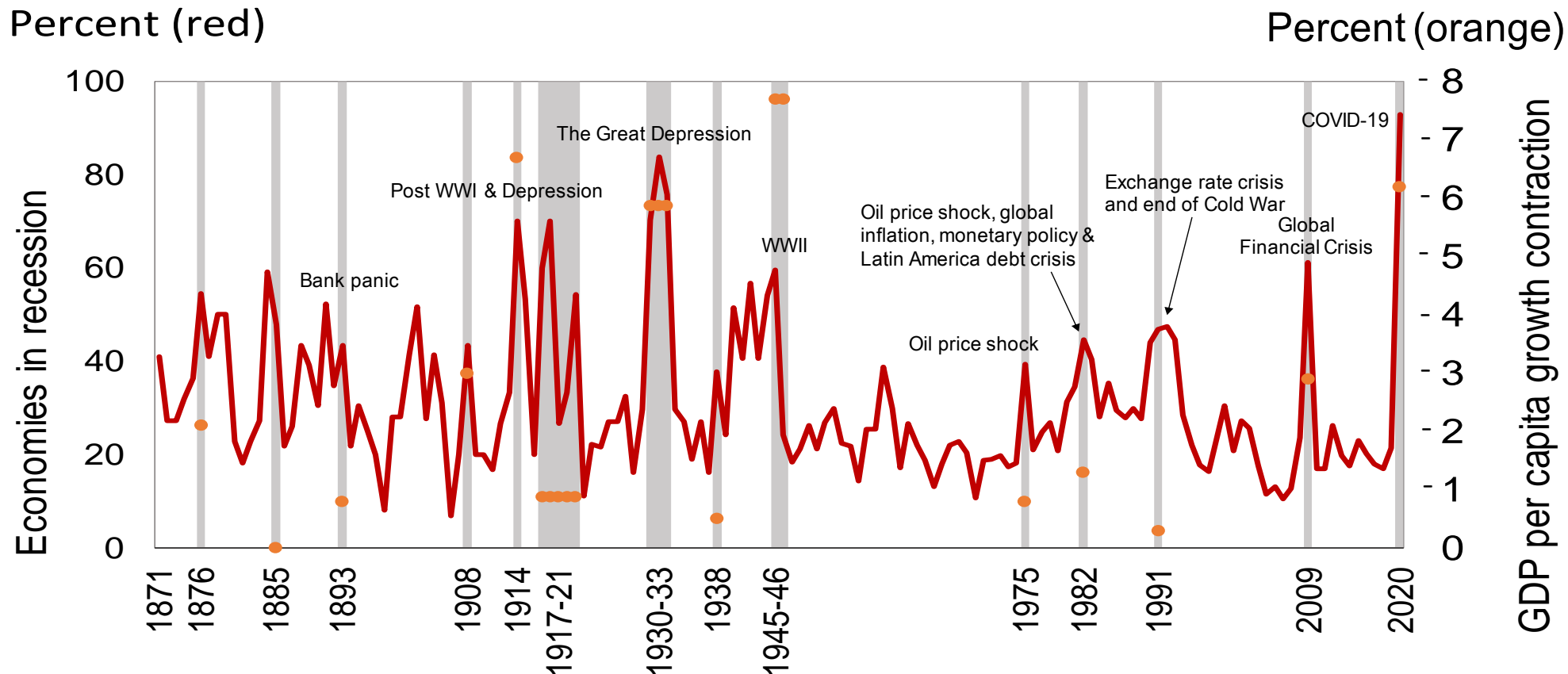


Source: European Centre for Disease Prevention and Control 2020; [World Bank staff elaboration](#).

Note: Last data point September 10.

# Much of the world has sunk into an unprecedented recession

Proportion of economies in recession and the contraction in GDP per capita growth

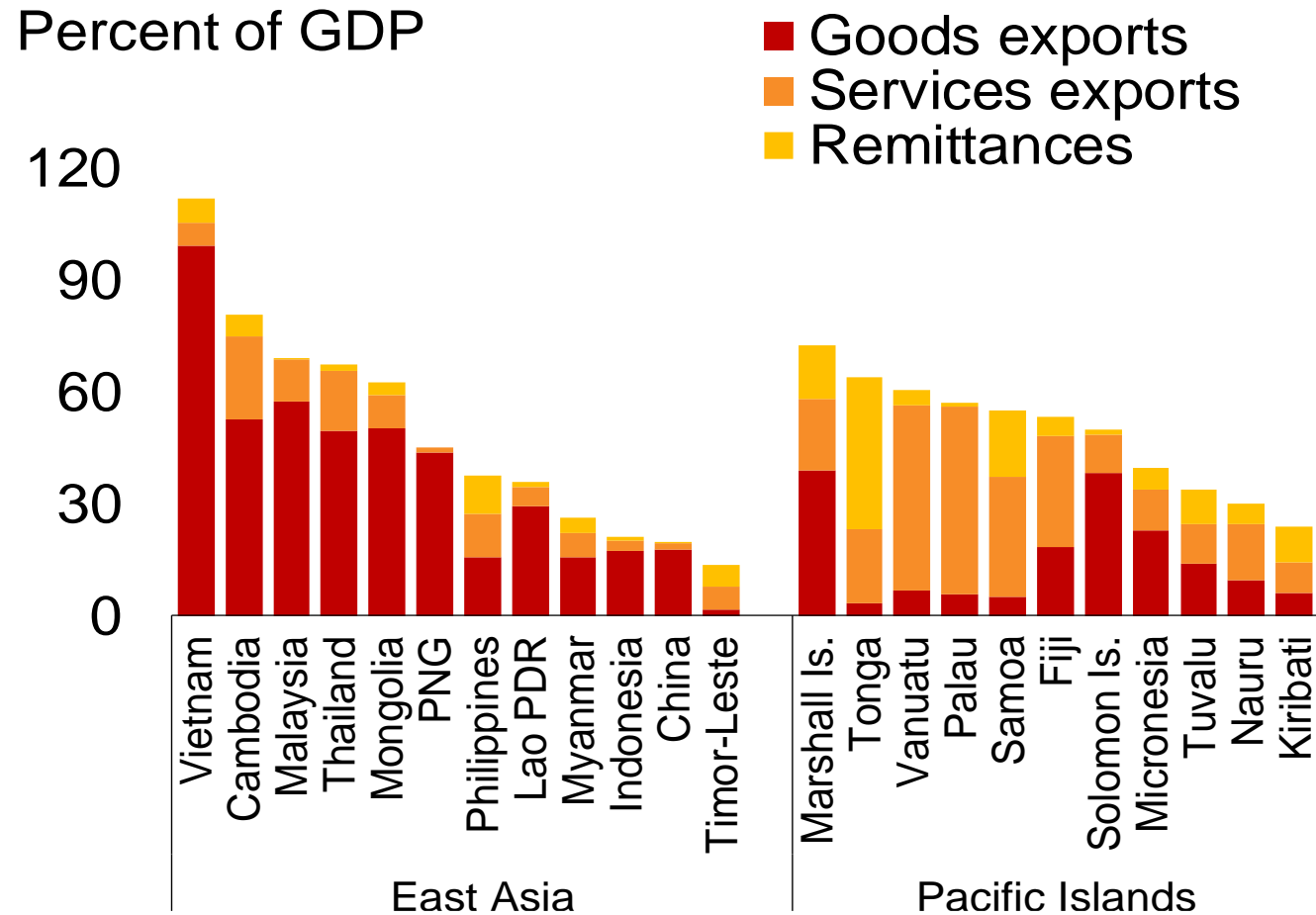


Source: Authors' figure adapted from World Bank 2020a. Data from Inklaar et al. 2018; Kose, Sugawara, and Terrones 2019, 2020.

Note: 2020 uses forecast data. Shaded areas refer to global recessions. Sample includes 183 economies though the sample size varies significantly by year. For crises that last for more than a year, the annualized average of the cumulative contraction of GDP per capita growth during the crisis is used.

# EAP countries are exceptionally but differently exposed

## Exposure to trade and remittances

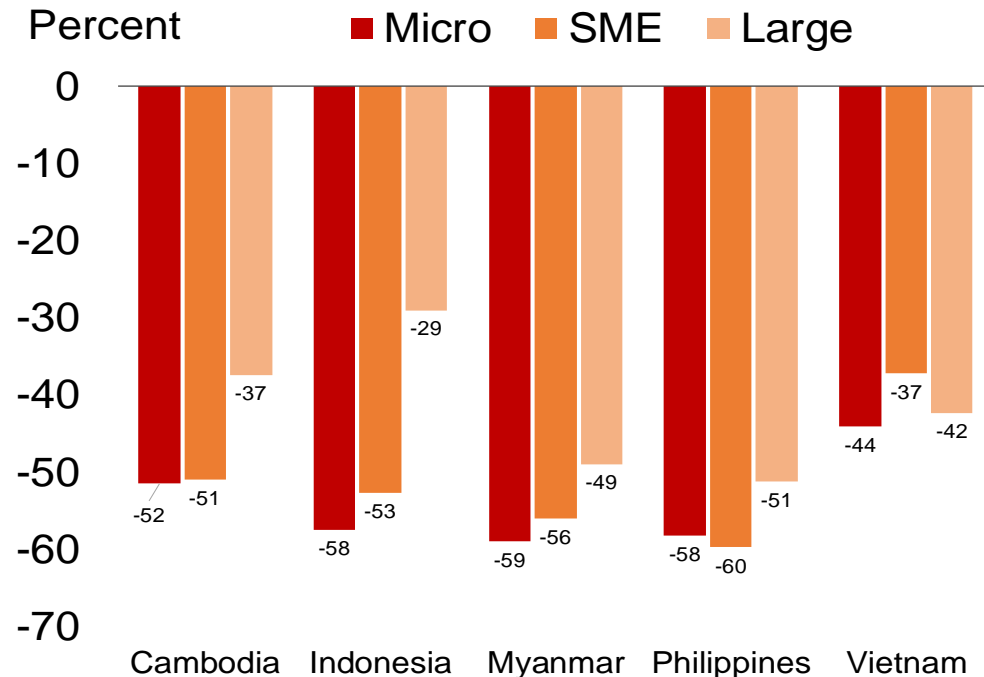


Source: World Bank.

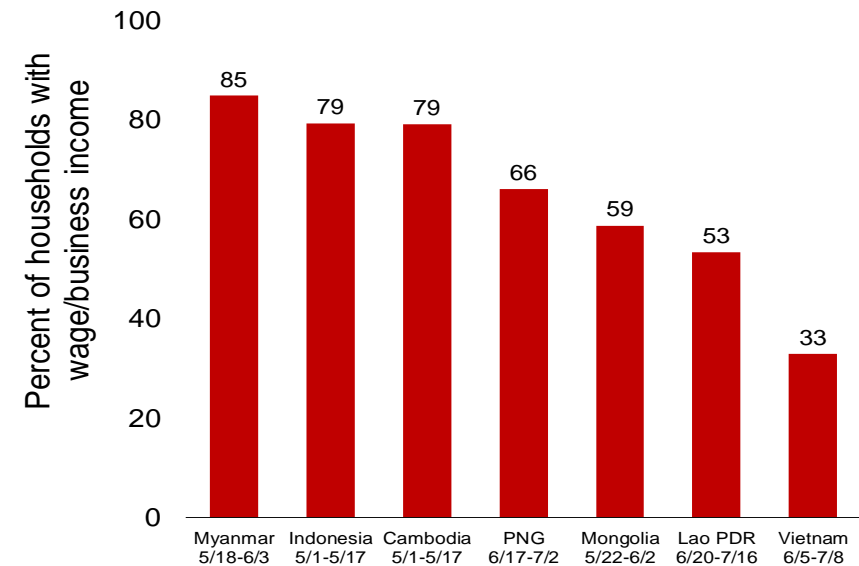
Note: Unweighted average over 2017-19 period or three latest years available.

# Firm sales and household earnings mirror the macroeconomic contraction

**A. Drop in monthly sales (vs prior year)**



**B. Share of households with earning losses from either wage or non-farm family business sources (%)**

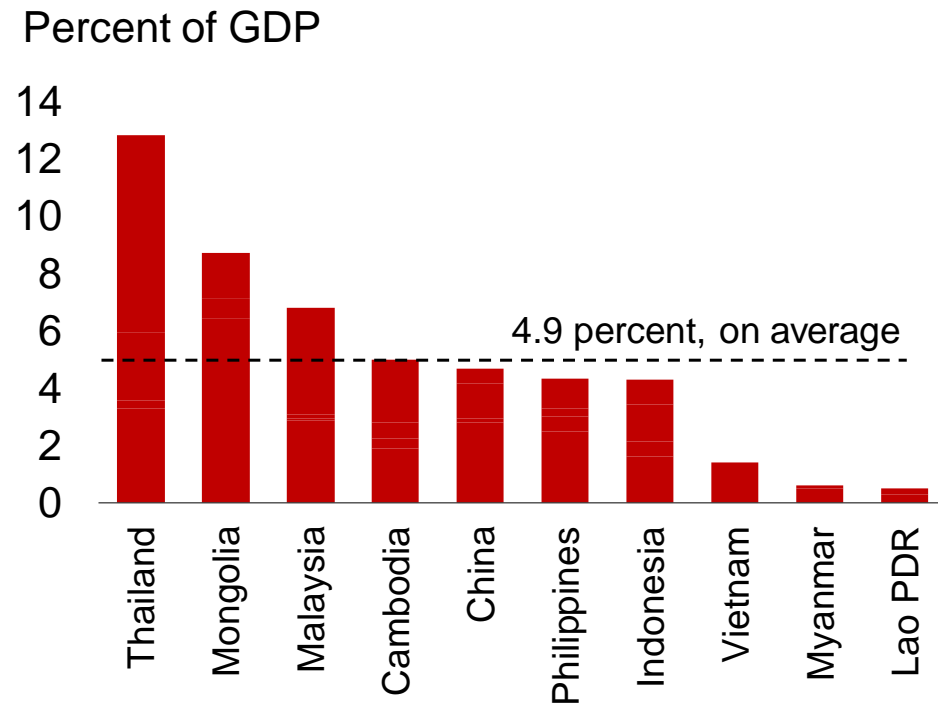


Source: Business Pulse Surveys. EAP High frequency phone surveys, first round.

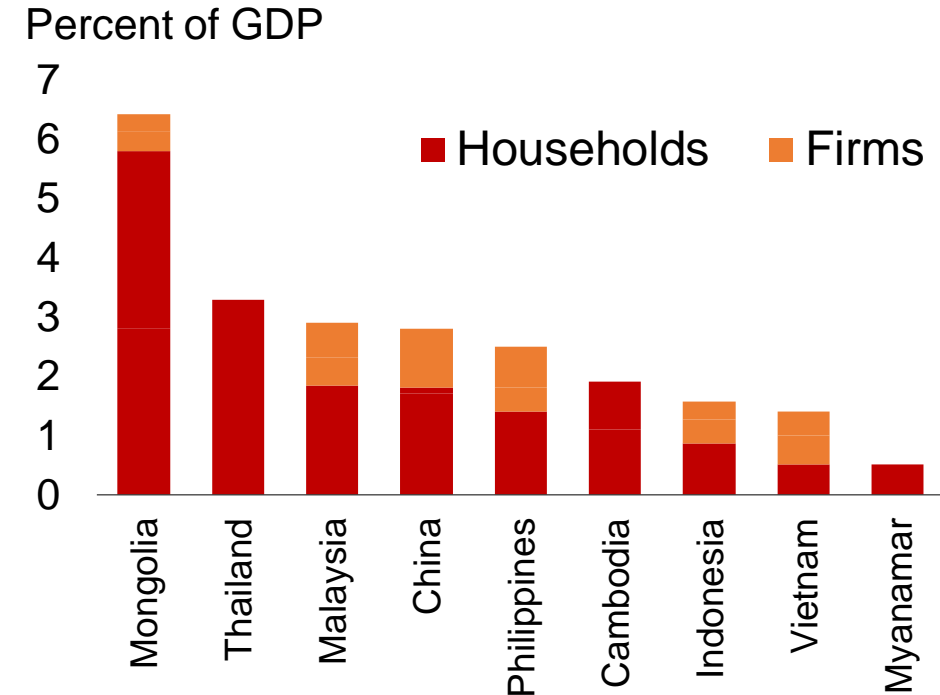
Note: A. The survey was conducted in May for Myanmar, June for Cambodia, Indonesia, Vietnam, and July for the Philippines. Monthly sales refers to firm sales in the last completed month (in the case of Myanmar) or the last 30 days (other countries) prior to the survey, relative to the same period in 2019. Micro is defined as firms having less than 5 employees, SME as having 5-99 employees, large as having 100+ employees. In the case of the Philippines, the change is between July and April, when Enhanced Community Quarantine (ECQ) was adopted. B. Survey dates are indicated underneath the country names. In Mongolia and Cambodia, wage losses are reported for the whole household, not only head of households.

# To stem the pain, governments provided fiscal support to firms and households

## A. Fiscal support



## B. Income support and revenue exemptions



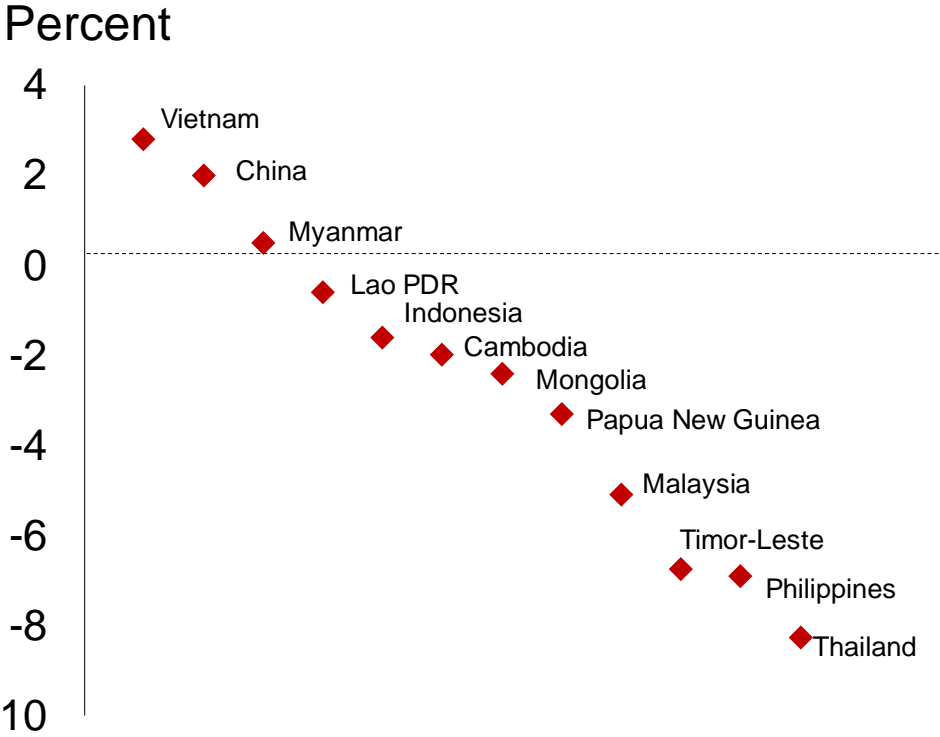
Source: International Monetary Fund June 2020 World Economic Outlook Update; World Bank staff estimates.

Note: Data are as of September 12, 2020. Data refer to general government, except for Indonesia, Malaysia and the Philippines which refer to central government only. Income and revenue support measures include direct transfer payments, reduction or deferral of payment commitments, foregone revenue from tax cuts, credits and exemptions, and other financial assistance to individuals and firms

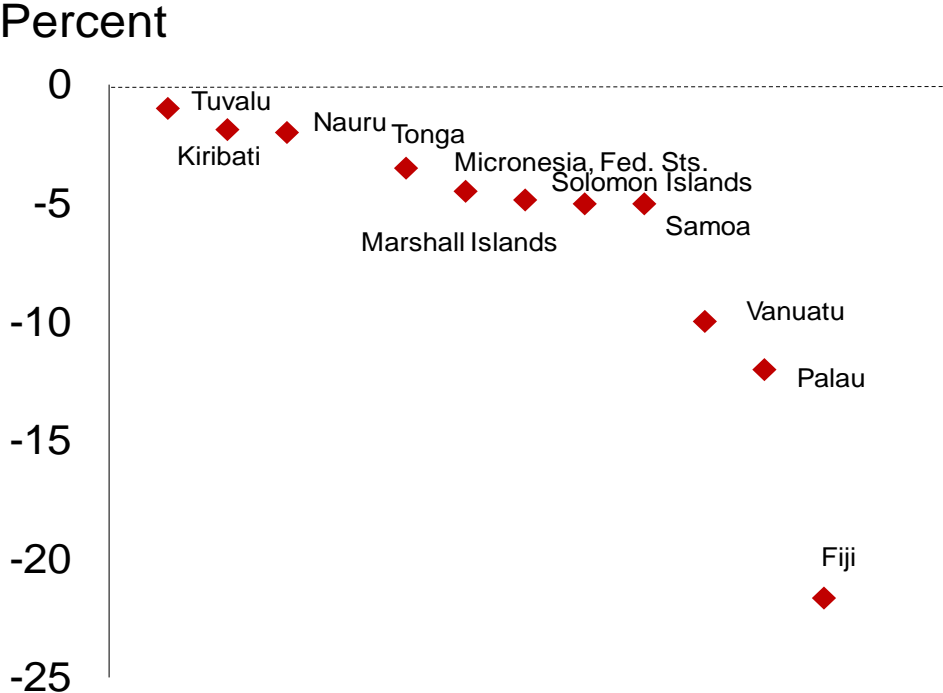


# Most regional economies are expected to contract in 2020

### A. Developing East Asia, projected growth 2020



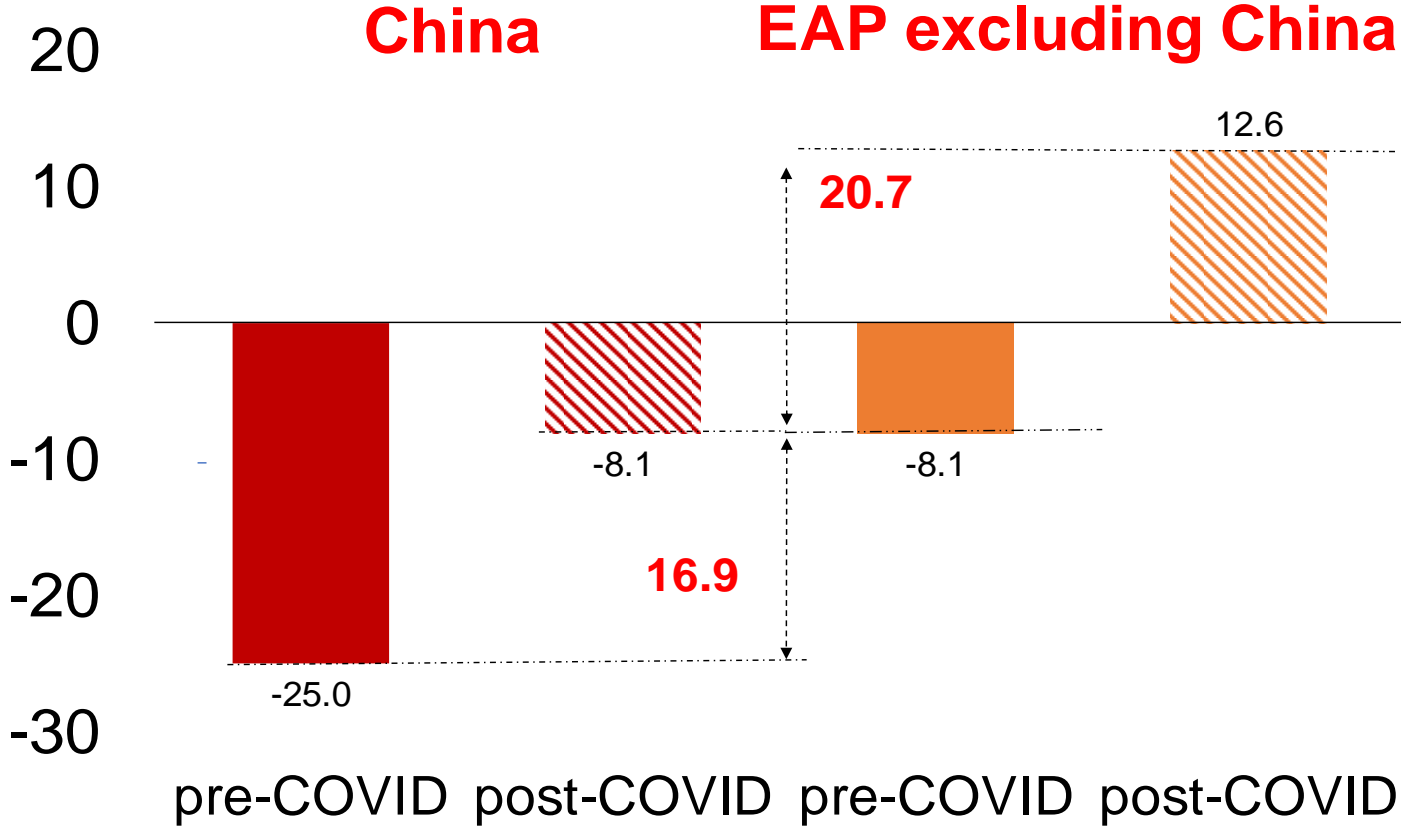
### B. Pacific Island economies, projected growth 2020



Source: World Bank.  
Note: Estimates

# Up to 38 million more people could be pushed into poverty

Change 2019-2020, million

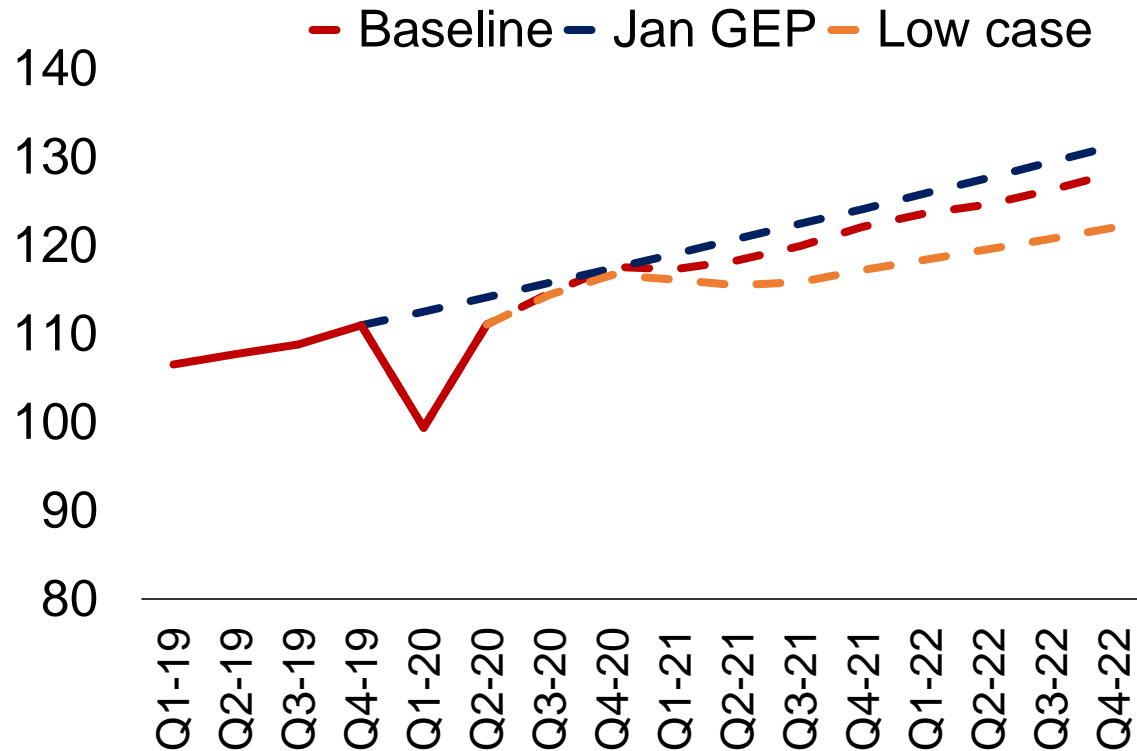


Source: World Bank East Asia and Pacific Team for Statistical Development. Poverty estimates are based on growth forecasts, population projections, and historical growth elasticities of poverty. Note: \$5.50/day (2011 PPP) indicates the poverty line for upper middle-income countries. The baseline and lower-case forecasts are as of September 17, 2020

# Some countries are likely to recover faster

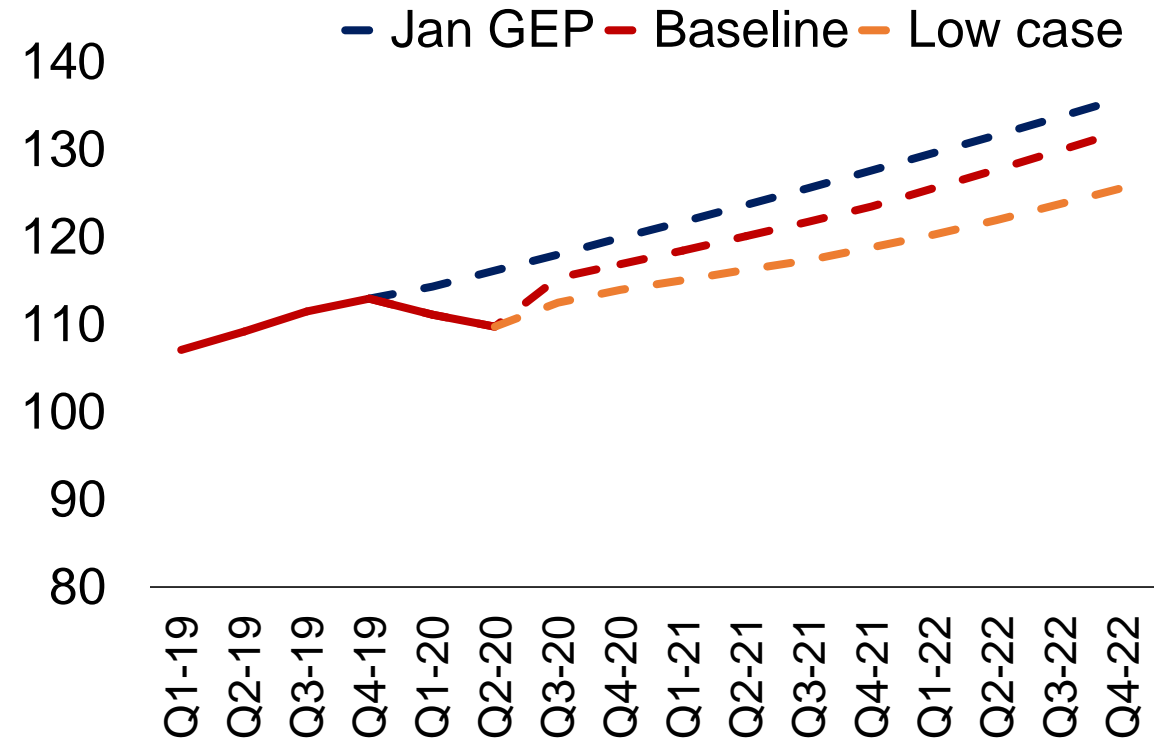
## A. China

Index, 2018Q1=100



## B. Vietnam

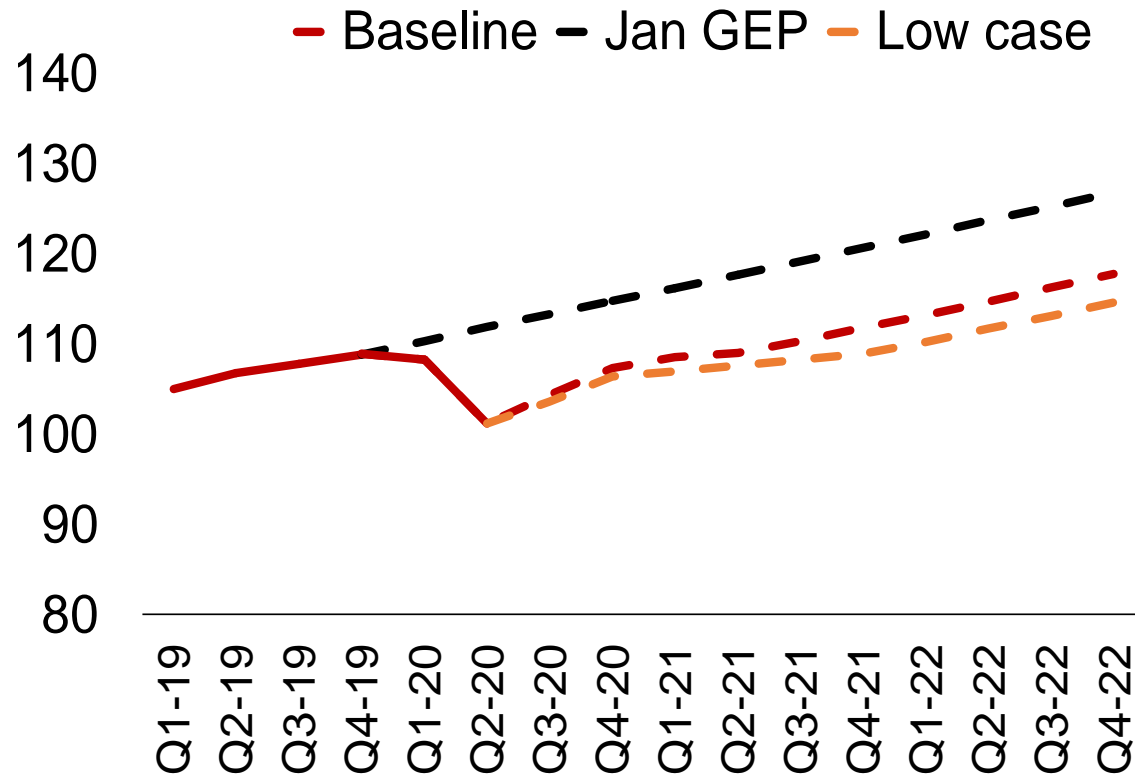
Index, 2018Q1=100



# Recovery is likely to be slower in other countries

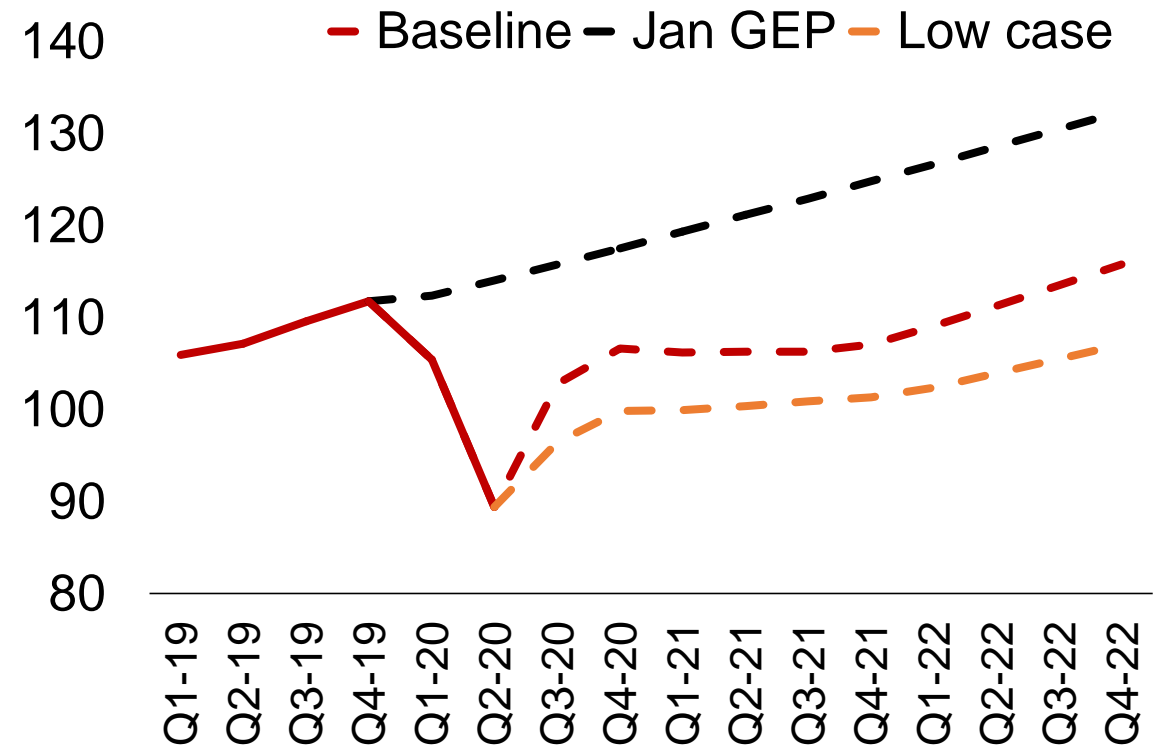
## A. Indonesia

Index, 2018Q1=100



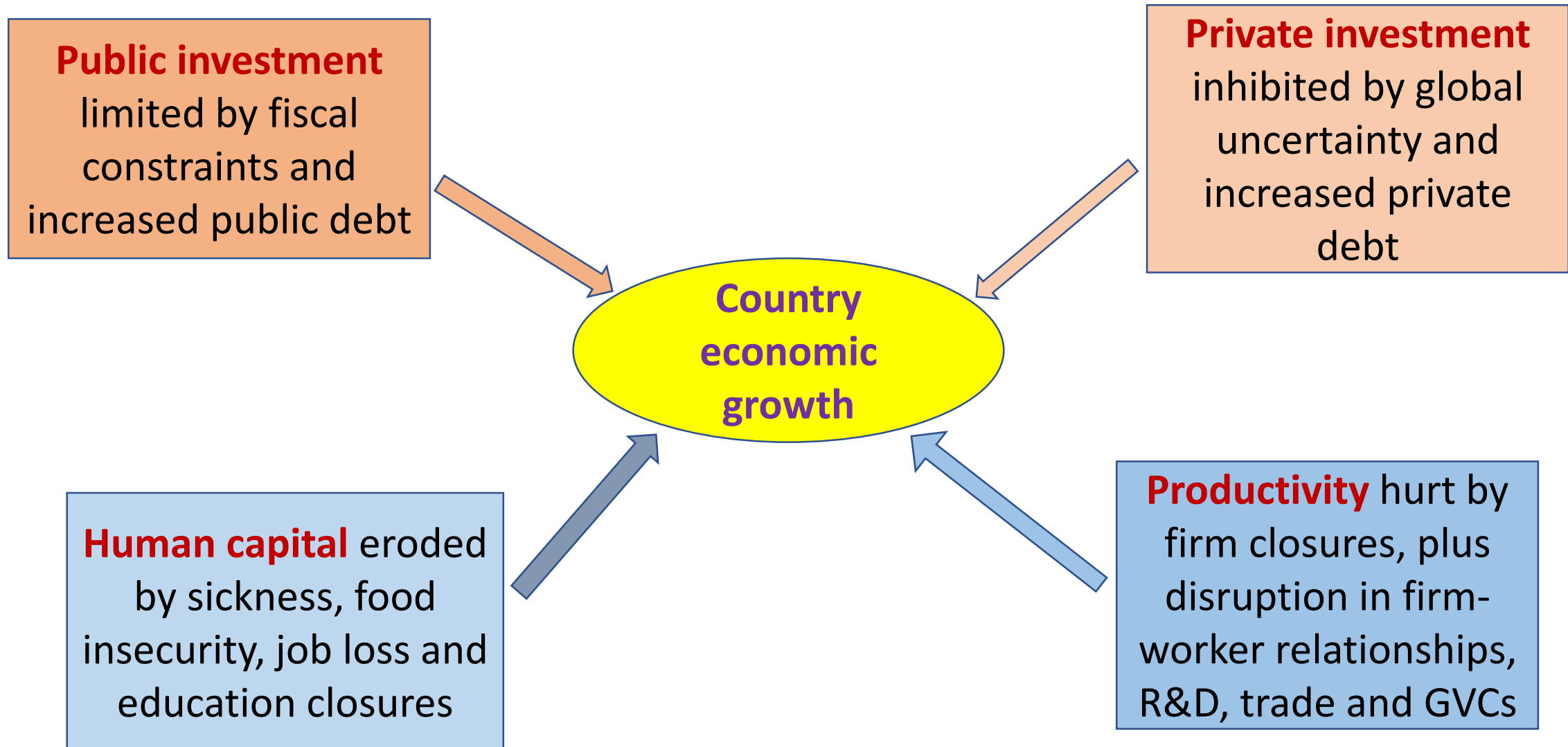
## B. Philippines

Index, 2018Q1=100

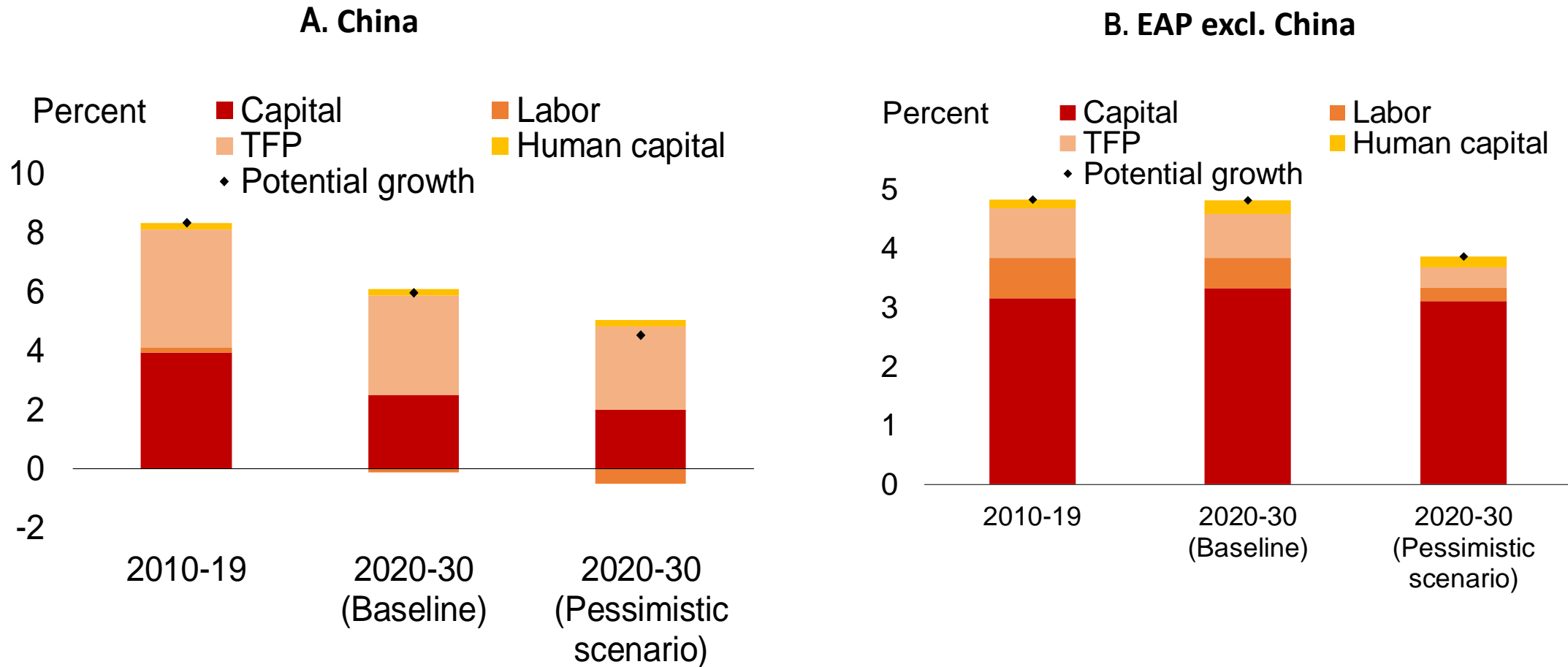


Source: World Bank staff

# The COVID-19 shock will hurt inclusive growth



# COVID-19 could reduce growth by 1 percentage point every year for a decade



Source: Penn World Tables; World Bank Staff estimations

Notes: GDP-weighted averages of production function-based potential growth. TFP is total factor productivity growth

# An integrated view of policy

***Building capacity for smart containment:*** test, trace and isolate; incentivize development and prepare to distribute vaccine efficiently and fairly

***Initiating fiscal reforms:*** widening the tax base with more progressive taxation; less wasteful spending on energy subsidies

***Widening social protection:*** to cover all existing and new poor; investment in the infrastructure of delivery

***Support for firms:*** to prevent bankruptcies and unemployment; without inhibiting the efficient reallocation of workers and resources to firms and sectors

***Financial prudence:*** credible commitments to transparency and to early restoration of financial discipline

***Smart schooling:*** sanitary protocols, social distance practices, student re-enrollment

***Deepen trade reform:*** in goods and still-protected services sectors – finance, transport, communications; greater MFN openness in China.

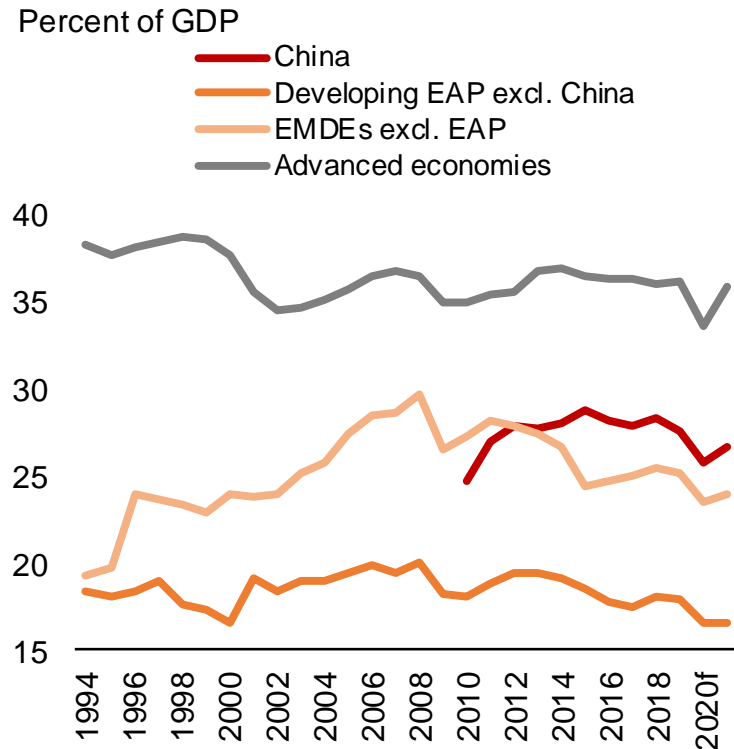
WORLD BANK EAST ASIA AND PACIFIC ECONOMIC UPDATE OCTOBER 2020

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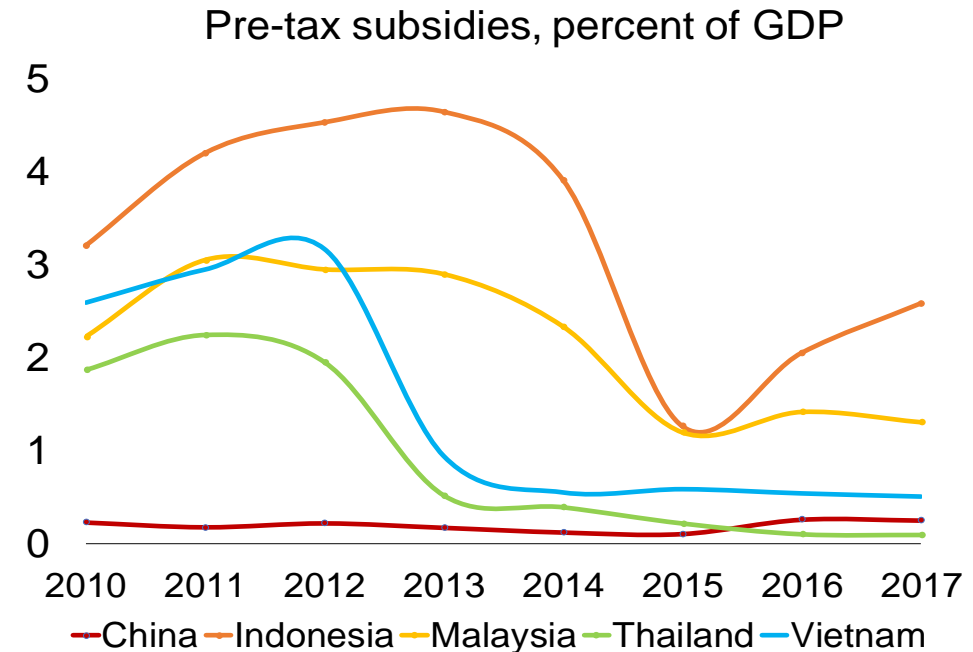


# Low revenue mobilization and some wasteful spending

## A. General government revenue



## B. Fossil fuel subsidies



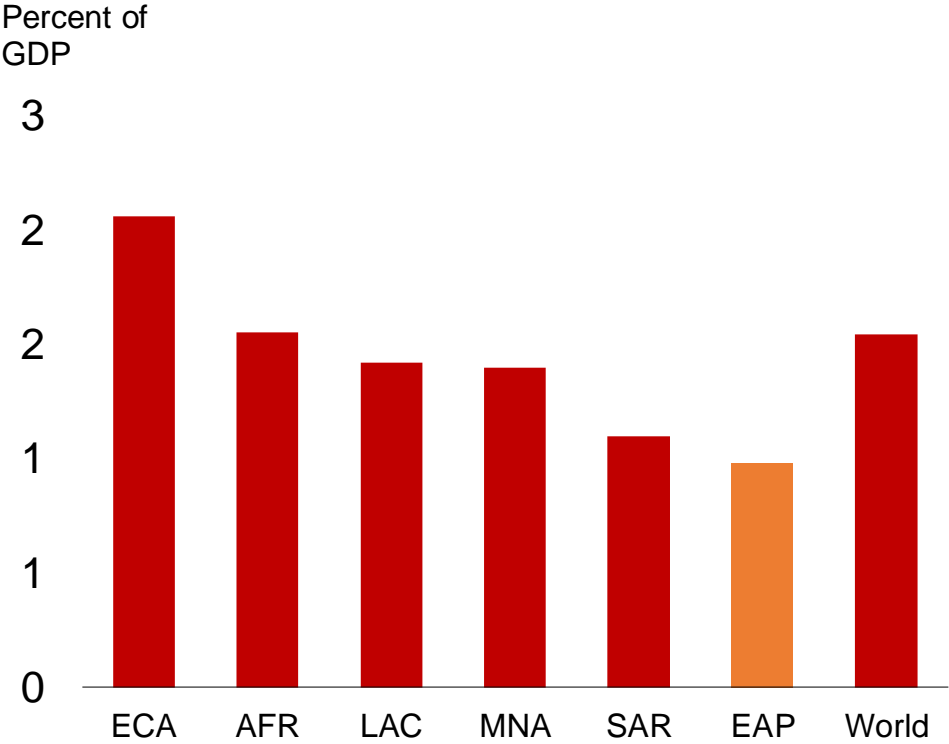
Source: Fiscal Monitor and Government Finance Statistics, IMF; International Center for Tax and Development and United Nations University World Institute for Development Economics Research (ICTD/UNU-WIDER) Government Revenue Dataset; World Bank staff calculations.

Note: A. Averages are computed with current U.S. dollar GDP weight. B. Total revenue excludes social contributions and grants revenue. 2018 or latest available year.

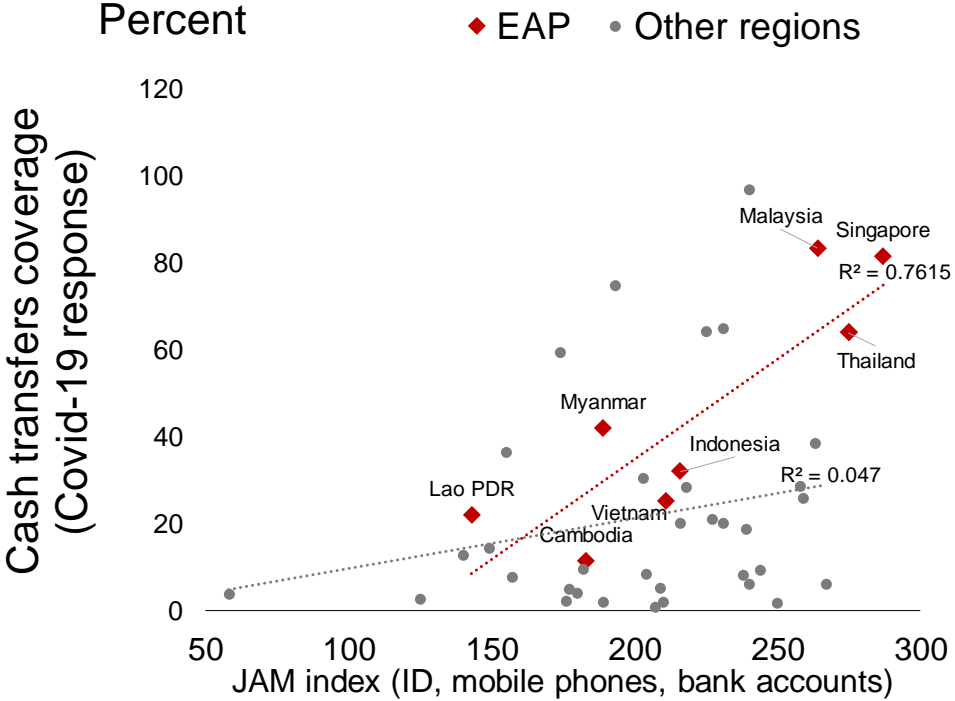


# Sustaining and scaling-up social protection will not be easy

## A. Average public spending on social assistance pre-COVID

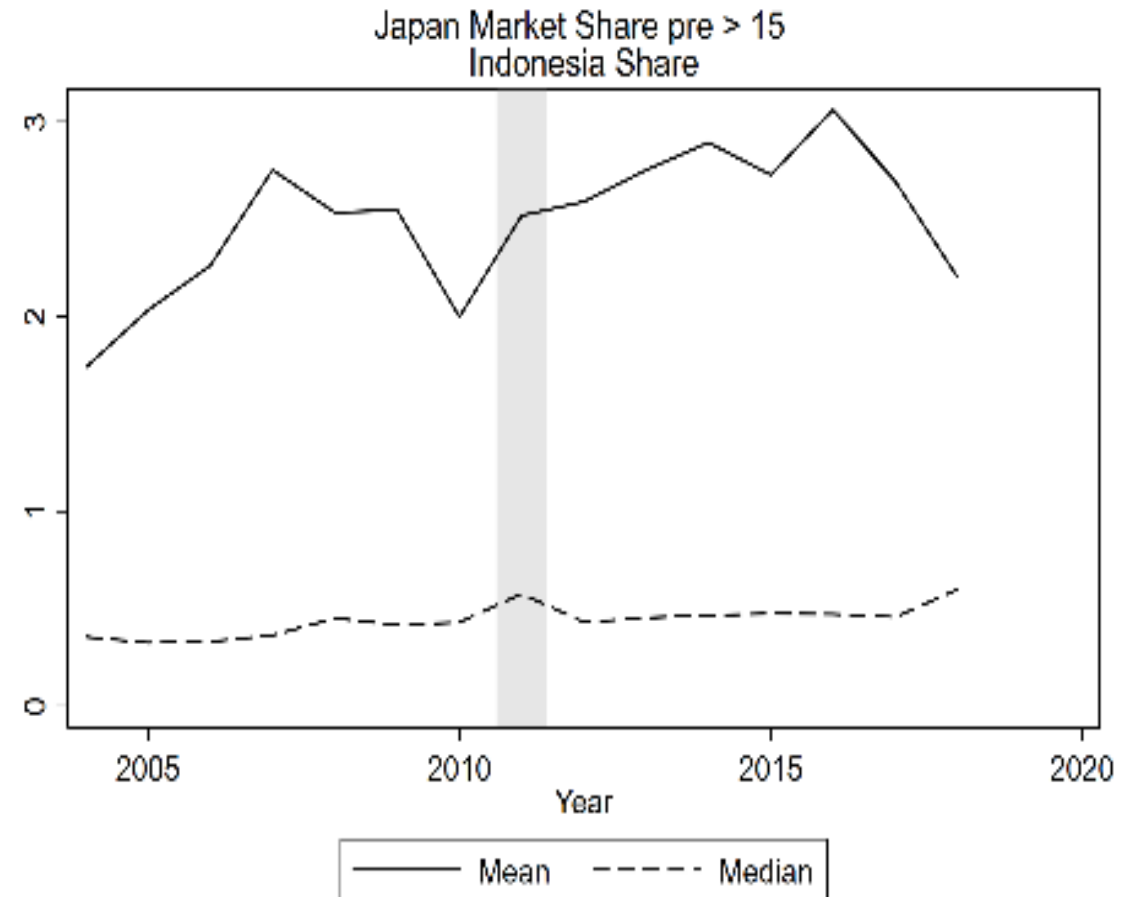
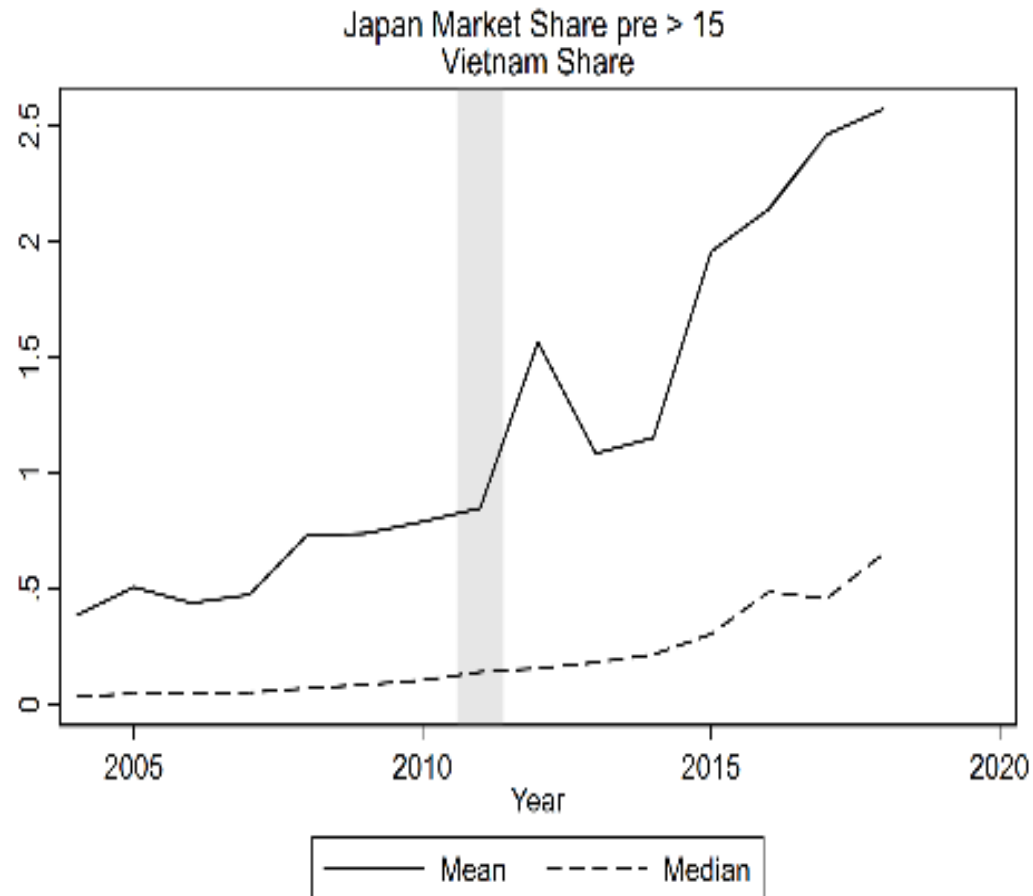


## B. Cash transfers coverage and delivery capacity



Source: Panel A, World Bank staff calculations based on ASPIRE database data; Panel B, World Bank staff estimates.  
 Note: Figures captures central government spending on social assistance. In contexts where social assistance spending by local governments is important, as in China, figures may underestimate pre-COVID spending levels as well as the magnitude of the response

# GVC relocation is sensitive to country conditions

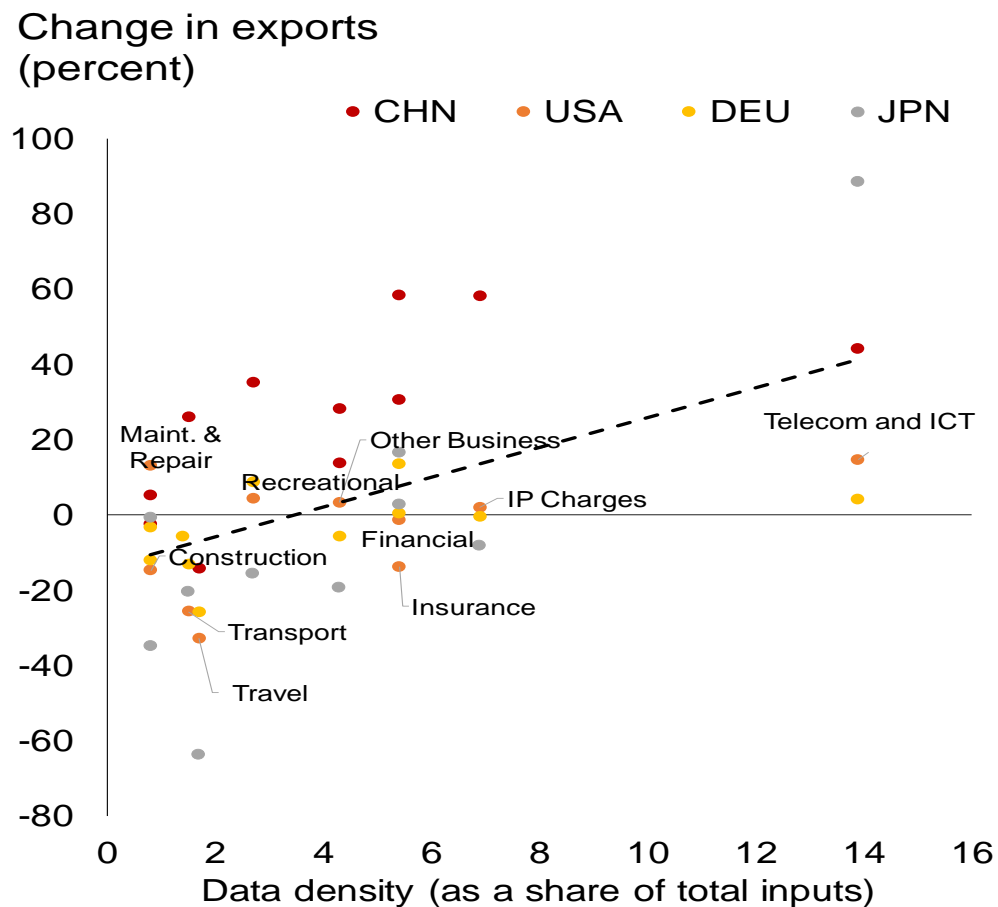


Source: Freund et al. (2020)

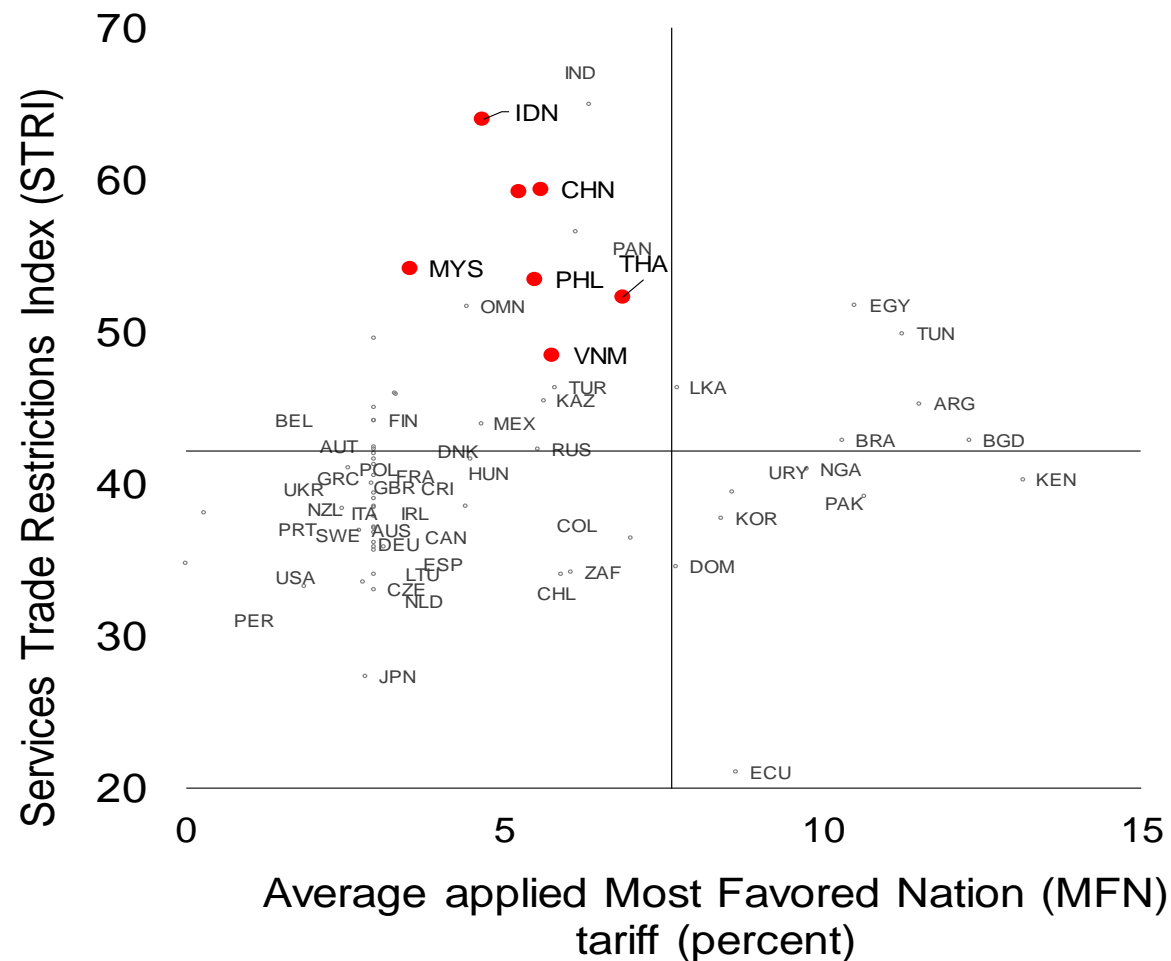
Note: The figures plot each country's mean and median market share in country-products in which Japan had an average market share greater than 15 percent (right panel "High Share") calculated over the 2004-2010 period

# Services trade is changing and the region needs to change

## Services trade growth and data intensity



## Protection of services and goods trade



Source: Mattoo and Taglioni 2020; Borchert et al. 2020

