The Economics of COVID-19 in Developing East Asia and the Pacific

An Introductory Course

November 2021
COVID-19 has delivered a triple-shock to the EAP economy

- COVID-19 pandemic
- Strength of recovery in the rest of the world
- Country economic conditions
- Government capacity to implement a smart containment strategy
- Government capacity to provide economic support
Response to COVID-19 must integrate health and economic policy

Flattening the pandemic curve through containment policies

Without public health measures
With public health measures

Health system capacity

Days since first case

Number of cases

Flattening the recession curve through macroeconomic policies

With accompanying macro measures
Without accompanying macro measures

Severity of the recession

Time since first case

Source: Staff illustrations based on Gourinchas (2020)
The tradeoff between health and economic benefits depends on the COVID-19 variant and the containment method.
To attain and sustain a benign phase will need a multi-faceted effort

1. Overcome vaccine hesitancy

Evolution of vaccine acceptance
- Indonesia
- Malaysia
- Philippines
- Thailand
- Vietnam

Percent of unvaccinated population

2. Improve distribution
3. Expand regional production

4. Enhance testing-tracing-isolation

COVID-19 – Testing coverage
- Indonesia
- Malaysia
- Philippines
- Thailand
- Vietnam
- Singapore

Tests per thousand people

5. Precautions: social distancing, masks
6. Equip health systems for Long COVID
The risk: a shock to inclusive growth…

Public investment limited by fiscal constraints and increased public debt

Private investment inhibited by global uncertainty and increased private debt

Human capital eroded by sickness, food insecurity, job loss and education closures

Productivity hurt by firm closures, plus disruption in firm-worker relationships, R&D, trade and GVCs
Bold and comprehensive reforms could spur inclusive and sustainable growth

EAP excluding China

<table>
<thead>
<tr>
<th>Year</th>
<th>Potential growth</th>
<th>Percent</th>
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<td>2010-19</td>
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<tr>
<td>2020-29</td>
<td>(COVID)</td>
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Course agenda

1. **Macroeconomics:** Providing support without creating instability
   - Q&A

2. **Trade and GVCs:** Responding to shifting comparative advantage
   - Q&A

3. **Firms and technology:** Supporting firms without inhibiting reallocation
   - Q&A

4. **Households:** Helping to avoid distress today and inequality tomorrow
   - Q&A
Good news: most economies could vaccinate a large share of their populations by mid-2022

Current vaccination coverage, estimated vaccine availability at end-2021, and when 60 percent coverage is likely to be achieved

Percent of population

- Fully vaccinated
- 60% population threshold
- Expected availability at end-2021 (IMF est.)

Estimated timing of achieving 60% population coverage based on current pace of vaccination and expected availability of vaccines
…which could usher in a relatively benign phase of COVID-19

…and vaccination above certain thresholds is associated with increase mobility and economic activity
This century, the region saw either an increase in both growth and inequality or a decline in both

Per capita growth and inequality in the 2000s

![Graph showing per capita growth and inequality in China and Indonesia from 2001 to 2019. The graph indicates that China saw an increase in growth and inequality, while Indonesia experienced a decline in both.](image-url)
Efficient containment
Lockdowns saved lives but hurt livelihoods; testing saved both

The impact of policies on COVID-19 infections

- Reduction in cumulative infection growth rate (percent)
  - Lockdown Stringency

The impact of country conditions on economic growth

- Marginal effect on GDP growth (percent)
  - Lockdown stringency
  - Tests per case
  - Tourism
  - Gross debt
  - Deaths per million

Source: Islamaj, Le and Mattoo (2021); Note: A. Effects after 2 months.
Why?

- Extent of disease suppression
- Strength of recovery in the rest of the world
- Government capacity to implement a smart containment strategy
- Government capacity to provide economic stimulus
- Phase out of economic shutdown, relaxed social distancing
- Expansionary monetary and fiscal policy
- Revival of trade, FDI, and financial climate
- Less illness-related earnings loss and health costs

Country economic conditions
EAP countries are exceptionally but differently exposed

Exposure to trade and remittances

Percent of GDP

- Goods exports
- Services exports
- Remittances

Note: Unweighted average over 2017-19 period or three latest years available.
...could lead to a decade of slower growth...

Source: Penn World Tables; World Bank Staff estimations

Notes: GDP-weighted averages of production function-based potential growth. Productivity refers to total factor productivity growth.