Agenda

• What is happening?
• Why?
• What are the big risks?
• What can be done?
What is happening?
What is happening?

Multispeed recovery faces a setback

GDP growth, 2019Q4 = 100

- China
- Indonesia
- Malaysia
- Philippines
- Thailand
- Vietnam

Purchasing Manager’s Index, 50+=expansion

- China
- Indonesia
- Malaysia
- Philippines
- Thailand
- Vietnam
What is happening?

Worsening prospects for growth

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<tr>
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<th>April forecast for 2021</th>
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East Asia

Island economies

EAP ECONOMIC UPDATE OCTOBER 2021
What is happening?

Declining employment and fewer people will escape poverty

Employment to population and Labor Force Participation

Number of poor (USD 5.50 poverty line)

- EAP excluding China pre-COVID
- China pre-COVID
- EAP excluding China baseline
- China baseline

What is happening?

EAP ECONOMIC UPDATE OCTOBER 2021
Why?
...because of a reversal of fortune

Why?

Country economic conditions

- Less illness-related earnings loss and health costs
- Expansionary fiscal and monetary policy, access to credit
- Virus control through testing, vaccination vs. lockdowns, border closures
- Strength of recovery in the rest of the world
- Revival of trade, FDI; global financial conditions
- Government capacity to provide economic stimulus
- Government capacity to implement a smart containment strategy

COVID-19 pandemic
Because of high vulnerability, vaccination is needed to revive growth

Susceptible, infected, recovered, vaccinated

Vaccination coverage and growth

Why?

EAP ECONOMIC UPDATE OCTOBER 2021
Why?

Delivery drives vaccination and delays a problem for larger countries, distribution for smaller, poorer

Delivered vaccines versus administered

Delivery delay vs. distribution (perception)

Note: x and y-axis shows percent to eligible population

Delivered vaccines: 
- <40%
- 40%-80%
- ≥80%

EAP ECONOMIC UPDATE OCTOBER 2021
Goods exports have recovered and are plateauing; services exports still languish except in China

Why?

Change in goods exports

Change in services exports
Shortages of essentials and shipping delays

Gap between ordering and delivering a chip

Source of shipping delays

Europe, 9%
Mediterranean, 1%
China, 34%
South-East Asia, 8%
North America East Coast, 4%
Japan Korea, 3%
North America West Coast, 27%
Middle East, 7%
Others, 7%
Others, 7%

Why?

EAP ECONOMIC UPDATE OCTOBER 2021
Government support has been declining while output gaps endure.

**Government support**

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**Output gaps**

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Why?

EAP ECONOMIC UPDATE OCTOBER 2021
Supportive monetary stance has not yet provoked inflation

Why?

Policy rates

CPI inflation

Percent

Percent, change

China
Indonesia
Malaysia
Mongolia
Myanmar
PNG
Philippines
Thailand
Vietnam

EAP ECONOMIC UPDATE OCTOBER 2021
The immediate policy challenge: Containing COVID
1. 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

Estimated timing of achieving 60% population coverage based on current pace of vaccination and expected availability of vaccines

EAP ECONOMIC UPDATE OCTOBER 2021
...which could usher in a relatively benign phase of COVID-19

...and vaccination above certain thresholds is associated with increase mobility and economic activity

United Kingdom

Germany

EAP ECONOMIC UPDATE OCTOBER 2021
But to attain and sustain a benign phase will need a multi-faceted effort

1. Overcome vaccine hesitancy

2. Improve distribution

3. Expand regional production

4. Enhance testing-tracing-isolation

5. Precautions: social distancing, masks

6. Equip health systems for Long COVID

EAP ECONOMIC UPDATE OCTOBER 2021
The longer-term policy challenge: Spurring inclusive growth
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

- **China**
  - Index
  - Percent, change

- **Indonesia**
  - Index
  - Percent, change

EAP ECONOMIC UPDATE OCTOBER 2021
For the first time this century, a potential double blow: slowing growth

Sales

- 25
- 20
- 15
- 10
- 5
0
Micro Small Medium Large
Percent

Employment

- 60
- 50
- 40
- 30
- 20
- 10
0
Micro Small Medium Large
Percent

EAP ECONOMIC UPDATE OCTOBER 2021
...and rising inequality across multiple dimensions

**Food insecurity**

**Increased debt or sale of assets**

**Interactive education opportunities**
1. Greater use and wider access to digital technologies can support inclusive recovery

Supply chain management

Interactive education opportunities

Percent of households

Wealth quintile
Addressing the constraints to the diffusion of technology

Perceived constrained

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<thead>
<tr>
<th>Constraint</th>
<th>Small</th>
<th>Medium</th>
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<tr>
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Percent

EAP ECONOMIC UPDATE OCTOBER 2021
2. Democratizing education: By harnessing technology through broader reforms

Countries have employed multiple distance learning modalities to cope with the pandemic

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<th>Region</th>
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<th>Upper Secondary</th>
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3. Direct taxes and transfers have limited redistributive impacts in developing East Asia.
Policy can more effectively address inequality:
An example from Indonesia

Fiscal policy

Social assistance as share of income

Reduction of mistargeted Energy Subsidies (% of GDP)
Expansion of Social Assistance to the Poor (Trillion Rupiah, real)
Higher Infrastructure Investment (% of GDP, real)
Higher Public Spending on Health (% of GDP, real)

EAP ECONOMIC UPDATE OCTOBER 2021
Bold and comprehensive reforms could spur inclusive and sustainable growth.

**Graphs:**
- **China**:
  - 2010-19
  - 2020-29 (COVID)
  - 2020-29 (Policy improvements)
- **EAP excluding China**:
  - 2010-19
  - 2020-29 (COVID)
  - 2020-29 (Policy improvements)

- Colors represent:
  - Green: Human Capital
  - Blue: Productivity
  - Red: Investment
  - Black: Potential growth
  - Orange: Labor force participation

*EAP Economic Update October 2021*