

# Regional perspective on economic impact of COVID19 in Asia and the Pacific

**ESCAP**

Web-Share 05 on Local Government Actions to Mitigate the  
Economic Impact of COVID-19 in Asia-Pacific Region

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# COVID19 in Asia-Pacific (AP)

## Measures in place:

- Quarantine and social-distancing
- Travel restrictions
- Extensive lockdown preventing most economic activities (the non-essential sectors)
- Beggary-thy-neighbour policies-border closures and limited trading of essential goods

# Economic impact of COVID19 in AP

## **Immediate:**

- Decrease in aggregate demand
- Major impact on service sector (tourism, retail, hospitality and civil aviation)
- Sectors that rely on supply chains (pharmaceutical, automobiles, electronics, renewables)
- Crude oil prices plummeted

## **Medium-term to long-term**

- Possible recession, or a major deceleration of GDP growth
- Price increase (at least temporarily) for daily essentials and medicinal products
- Increased unemployment (service sector, labour-intensive manufacturing hardest hit); SMEs sector and informal economy highly vulnerable
- Decreased government revenues

# Economic impact of COVID19 in AP

## Some positive developments:

Internet-based sector faced increased demand:

E-commerce/online shopping, education, medical services

Oil prices drop -> lower costs for businesses, increase in purchasing power of individual consumers.

Improvement in air-pollution levels due to reduced travel and transportation, energy consumption and congestions

# Socio-economic impact of COVID 19

## Expected increase in national and regional poverty and inequality

AP's recent socio-economic makeup likely to see substantial deterioration:

- Around 400 million people live on less than \$1.90 a day
- 1 billion live on less than \$3.20 a day
- 1/3 of urban dwellers live in slums (29%)
- 1.6 billion lack sanitation
- 260 million lack access to clean water
- 60% of population in AP lack social protection (70% of informal workers)
- 4 in 10 have no access to healthcare
- Massive reverse migration of low skilled/daily wage workers within and between countries due to COVID19

# Health inequities and inequalities

- In absence of universal health care, use of savings
- Only a handful of developing countries have universal health care (Bhutan, China, Maldives, Sri Lanka and Thailand)
- Only 2% of GDP is spent on health in developing countries in AP, compared to the global average of 4.7%
- Without unemployment benefits, many, in particular daily workers have no means to afford adequate health care
- Vulnerable populations the most impacted: women, elderly, people with disabilities, informal workers and low-skilled migrants

# ESCAP's recommended regional response

## Immediate

- Increased fiscal spending (subsidies for medical testing, treatment, emergency response)
- Fiscal measures to support labour - jobs and living standards
- Cash-handouts to relieve the burden on households

AP has ample fiscal space: In 2019, average debt-to GDP ratio at 40%, average fiscal deficit at 3%

- Remove tariffs and unnecessary non-tariff measures on the imports of essential medicines, medical equipment and related inputs (avoid beggar-thy-neighbour policies to the extent possible)
- Monetary easing to support financial liquidity of the banking sector (reducing interest rates) and delivering affordable loans to SMEs
- Facilitate availability of key medicinal products: rationing, prioritizing healthcare sector, cooperation with private sector

# ESCAP's long-term recommendations

## **“Invest in people and planet over and above prosperity” ESCAP 2020**

Estimated cost of building resilience:

- US\$880 million annually until 2030 in emergency preparedness
- \$158 billion annually for universal health coverage in developing Asia and the Pacific
- Estimated 1% of the region's GDP annually by 2030, to ensure minimum income guarantee (i.e. \$ 317 billion) through social protection floor

Regional cooperation

- Public health sub-regional/regional fund
- Coordinate debt relief and/or deferral of debt payments



# Economic impact on local government municipal finance

- Early action is critical to cities and local governments that cannot afford lockdown and where working from home is not an option for most people.
- Generally, COVID19 resources are managed by central government health ministries and do not reach the different local government units required for an integrated response.
- From Ebola and other pandemic experience - countries neglected the role of local governments in the early response and later publicly acknowledged how costly this neglect was → the degrees to which local government are part of the national response, and the absorption capacity of the local government is critical
- Different degrees of centralization across the region:
  - > potential limited power and resources to deliver response in emergencies, and build local resilience/preparedness
  - > possible inefficiencies and slower service delivery during emergency response

Table 1

## Intergovernmental transfers as a revenue source for selected local governments in Asia

Country	Share of transfers in total local revenues (percentage)	Relative importance of type of transfer		
		Revenue sharing	General purpose	Special purpose
 China	60-66%			
 India	90%			
 Indonesia	90%			
 Japan	40%			
 Philippines	70%			
 Republic of Korea	40%			
 Thailand	85%			
 Viet Nam	50%			

 High
  Medium
  Low

# Economic impact on local government municipal finance

## 1. Intergovernmental Fiscal Transfers

- Greater dependence on transfers due to declining own source revenue collection, for both capital and operational expenditure, including for debt servicing.
- Depending on the severity of the lockdown and its economic impact, expenditure on many development or capital projects is slowing down, meaning there may be immediate liquidity under those budget lines.

## 2. Own Source Revenue

- Generally, these resources are reducing significantly.
- Most impacted revenues generated from sales or income taxes; Cities collecting fees on services such as transit and parking, environmental services (trash collection) particularly in cities with high-risk industries.
- Cities relying on property taxes will not experience an immediate impact, although long-term, unemployment will dampen the real estate demand and their value.

## 3. Debt capital

- For those cities able to access the market - ability to service debt may be impacted for those cities affected due to reduction in OSR.

## The most fragile urban economic compositions:

- High employment in high-risk industries – mining/oil, retail, leisure and hospitality, transportation, travel services, employment services
- Cities with large informal economy

# Coordinated local action and strong intergovernmental partnerships are vital

## Immediate response:

- Ensure that national fiscal stimulus packages are complimented with measures for effective devolution of funds for cities affected and that conditions for transfers are transparent and responsive to the needs of cities affected.
  - Funds could be managed by a specific COVID-19 response unit under the mayor or council, or a combination of both.
- Combine interventions by different departments (e.g. complement an ongoing initiative by a local hospital with a follow-up activity by the social services or public works department, such as re-fitting installations to promote social distancing).
- Deploy funds to practically all expenditure categories (e.g. hire (temporary) staff or consultants, purchase fuel or personal protective equipment, or purchase motorcycles for a team of quarantine enforcement officers).
- Consider debt relief measures for local government borrowers unable to service debt.

## Long term: Sustainable cities with investments in resilience and new technologies

Policy measures and investments in cities that are grounded in the commitment to sustainability, in key economic infrastructure areas such as transport, energy and telecommunication, will not only help fighting the COVID-19, but will also enable the region to pursue its sustainable development and address climate change

- Prioritize local economic diversification and “building back better” with the needs of the urban poor and informal workers at the center of recovery efforts.
- Attract initial capital projects that build a broader tax base.
- Enable local governments to exercise more authority, especially in times of crisis.
- Measure urban preparedness for pandemics to evaluate gaps in urban systems
- Scale up public-private partnerships and community schemes to transition to finance solutions for building resilience across urban systems
- Prioritize digital technologies, and infrastructure for people-centered, smart cities
- Introduce congestion- charging and environmental user fees to improve urban air quality and increase domestic revenues

# THANK YOU

References:

**ESCAP's page on COVID19**

<https://www.unescap.org/covid19>

**The Impact and Policy Response for COVID19 in Asia and the Pacific – ESCAP's paper**

<https://www.unescap.org/resources/impact-and-policy-responses-covid-19-asia-and-pacific>

**The Future of Asian & Pacific Cities 2020 – ESCAP Flagship publication**

<https://www.unescap.org/publications/future-asian-and-pacific-cities-2019-transformative-pathways-towards-sustainable-urban>