

East Asia and Pacific in the Time of COVID-19

© 2020 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW, Washington, DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

Some rights reserved

1 2 3 4 23 22 21 20

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions



This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO) <http://creativecommons.org/licenses/by/3.0/igo>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution—Please cite the work as follows: World Bank. 2020. “East Asia and Pacific in the Time of COVID-19” *East Asia and Pacific Economic Update* (April), World Bank, Washington, DC. Doi: 10.1596/978-1-4648-1565-2. License: Creative Commons Attribution CC BY 3.0 IGO

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution: *This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution: *This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.*

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to re-use a component of the work, it is your responsibility to determine whether permission is needed for that re-use and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; e-mail: pubrights@worldbank.org.

ISBN (electronic): 978-1-4648-1565-2

DOI: 10.1596/978-1-4648-1565-2

Cover photo: NICOLAS ASFOURI/AFP via Getty Images.

Contents

List of Abbreviations	xi
Preface and Acknowledgments	xiii
Overview	xv
Part I. COVID-19: Impact and Response	1
1. Chapter I. Synthesis	2
1. The disease	2
2. The immediate impact on China	8
3. The global shock	11
4. The “real” channels of impact	13
5. The financial channels of impact	14
6. Growth projections	17
7. Poverty impact	21
8. Policy actions	22
2. Chapter II. Analysis	36
1. Attributes of the disease	37
2. Real channels of economic impact	39
3. The GVC dimension	42
4. Quantifying the real impact	46
5. Assessing the welfare and poverty impact	58
6. Vulnerability to a global financial shock	70
7. The policy response	77
References	102
Part II. Slowing Growth and Trade Tensions	125
1. Chapter I. Trends in Growth, Poverty, and Policy	126
1. Growth trends	126
2. Policy trends	134
2. Chapter II. The Impact of the China-U.S. Trade Agreement	136
1. Introduction	136
2. The content of the agreement	139
3. The economics of import targets	141
4. Quantifying the trade and income effects	144
5. Making the agreement work for the development	150
References	152

List of Contents continued

Part III. Country Summaries and Key Indicators	159
Cambodia	160
Central Pacific Islands	163
China	166
Fiji	169
Indonesia	172
Lao PDR	175
Malaysia	178
Mongolia	181
Myanmar	184
North Pacific Islands	187
Papua New Guinea	190
Philippines	193
Solomon Islands	196
South Pacific Islands	199
Thailand	202
Timor-Leste	205
Vietnam	208

List of Figures

Part I. COVID-19: Impact and Response

1. Chapter I. Synthesis

Figure I.1.1. COVID-19 has spread rapidly across the world	2
Figure I.1.2. Cases of this highly transmissible disease are declining in China but growing in the rest of the world	3
Figure I.B.1.1. Suppression measures can help lower the death rate of COVID-19	5
Figure I.1.3. Economic activity has declined in China, and the first quarter is likely to see a contraction	9
Figure I.1.4. Indirect evidence suggests that economic activity in China is resuming at a slow pace	10
Box Figure I.B.3.1. High-frequency data suggest that output will decline in China in the first quarter of 2020	11
Figure I.1.5. Global confidence is declining sharply and that could affect the region	12
Figure I.1.6. The virus has hit critical GVC nodes and countries' fortunes have become increasingly intertwined	13
Figure I.1.7. Trade and tourism transmit external shocks to economies in the region	13
Figure I.1.8. Some EAP countries have stronger backward and others stronger forward links in GVCs	14
Figure I.1.9. Global developments are tightening financial conditions	15
Figure I.1.10. Financial institutions are better capitalized today than at the onset of previous crises, but liquidity may be a concern	16
Figure I.1.11. High indebtedness, foreign holdings and foreign denomination of the debt could be sources of concern for some countries in the region	17
Figure I.1.12. Growth is forecast to decline sharply in the region	19
Figure I.1.13. COVID-19 will severely affect East Asian and Pacific countries' ability to reduce poverty	21

List of Figures continued

Figure I.1.14. Households linked to sectors most affected by the COVID-19 shock face an elevated high risk of falling into poverty	22
Figure I.1.15. Flattening the pandemic curve through containment policies is the first objective	23
Figure I.1.16. Flattening the recession curve through macroeconomic policies is the second objective	23
Figure I.1.17. Public health considerations	24
Box Figure I.B.4.1. Infection curve and policy measures	25
Box Figure I.B.5.1. COVID-19 and containment preparedness	27
Figure I.1.18. The “optimal” preventive response would be based on preparedness and vulnerability	28
2. Chapter II. Analysis	
Figure I.2.1. Spread of COVID-19	37
Figure I.2.2. COVID-19 is spreading fast across the globe	38
Figure I.2.3. COVID-19 has a high fatality rate	39
Figure I.2.4. Exposure to the world and China	40
Figure I.2.5. Exposure to the world and China: Specific commodities	41
Figure I.2.6. Position in the global network of intermediate trade of the 17 nations with the highest number of contagions	42
Figure I.2.7. Countries’ economic activities are more synchronized than ever	43
Figure I.2.8. Most Asian countries have high backward linkages, making them highly susceptible to supply shocks, but some of the large economies also have significant forward linkages which make them susceptible to demand shocks	43
Figure I.2.9. China’s importance in the region’s value chains	44
Figure I.2.10. Natural disasters propagate to business partners, with longer-lasting effects	46
Figure I.2.11. Implications of the COVID-19 as implemented in the Envisage model	48
Figure I.2.12. GDP and export implications of the global pandemic scenario (% deviation from the benchmark)	51
Figure I.2.13. GDP and export implications of global pandemic scenario for EAP countries (% deviation from the benchmark)	52
Figure I.2.14. GDP and export implications of amplified global pandemic scenario (% deviation from the benchmark)	53
Figure I.2.15. GDP and export implications of amplified global pandemic scenario for EAP countries (% deviation from the benchmark)	53
Figure I.2.16. Output implications of amplified global pandemic scenario for Thailand (difference and % deviation from the benchmark)	56
Figure I.2.17. COVID-19 will severely slow poverty reduction in the region, and may even reverse the trend	59
Figure I.2.18. COVID-19 will impact people’s economic welfare and poverty through several channels	59
Figure I.2.19. Tourism, retail, and manufacture industries are a significant source of household income in China and Vietnam	61
Figure I.2.20. Demand shocks could have important poverty impacts on selected groups of households	62
Figure I.2.21. Informal and agricultural workers will be more vulnerable to the shock	64
Figure I.2.22. Migrants unable to return to their jobs are particularly vulnerable to the economic effects of COVID-19	64
Figure I.2.23. Remittances are an important source of income to families across the region	65
Figure I.2.24. Aging economies are more at risk of direct health shocks	66
Figure I.2.25. Without compensation or subsidies, some families may fall into poverty due to increase in health costs	67

List of Figures continued

Figure I.2.26. The poor have more limited access to health care services and health insurance	67
Figure I.2.27. Access to Internet is not widespread in the region, particularly among the poor	69
Figure I.2.28. Equity and financial stress indicators	70
Figure I.2.29. EAP region: Global financial and cross-regional integration	71
Figure I.2.30. EAP region: External vulnerabilities	75
Figure I.2.31. EAP region: Debt vulnerabilities	76
Figure I.2.32. EAP region: Fiscal vulnerabilities	77
Figure I.2.33. Flattening the pandemic curve through containment policies is the first objective	78
Figure I.2.34. Flattening the recession curve through macroeconomic policies is the second objective	78
Figure I.2.35. Goals of community mitigation for pandemic influenza	82
Figure I.2.36. Pandemic preparedness and GDP per capita	84
Figure I.2.37. Pandemic preparedness and vulnerability index	84
Figure I.2.38. Dependence on China's tourism and response score	87
Figure I.2.39. Flight and visa restrictions and dependence on China's tourism	88
Figure I.2.40. Screening response and visitors from China	88
Figure I.2.41. The banking system is more stable than in previous crises	94
Figure I.2.42. Export restricting measures of medical supplies	97
Figure I.2.43. Import tariffs on medical products	98

Part II. Slowing Growth and Trade Tensions**1. Chapter I. Trends in Growth, Poverty, and Policy**

Figure II.1.1. Growth in advanced economies and developing EAP economies weakened in 2019	126
Figure II.1.2. Trade and investment growth declined amid increased trade protection and heightened policy uncertainty	127
Figure II.1.3. Steady consumption has supported growth in the region	128
Figure II.1.4. China has been rebalancing its economy	128
Figure II.1.5. Total debt in China has been rising while de-risking curtailed nonbank lending	129
Figure II.1.6. Trade in developing EAP has been declining	129
Figure II.1.7. China is an increasingly important export destination	130
Box Figure II.1.1. The slowdown of investment growth in the East Asia and Pacific region has coincided with a sharp decline in trade	131
Figure II.1.8. Investment decline in the region, exacerbated by the inventory drawdown	132
Figure II.1.9. Growth in smaller economies in the region reflected country-specific factors	133
Figure II.1.10. Actual and projected trends in poverty in developing East Asia and the Pacific	134
Figure II.1.11. Monetary policy has been supportive of growth	135
Figure II.1.12. Fiscal policy in the region has become more expansionary	135

2. Chapter II. The Impact of the China-U.S. Trade Agreement

Figure II.2.1. A timeline of China-U.S. trade tensions	137
Figure II.2.2. Welfare effects of a VIE, two-country model	143
Figure II.2.3. Chinese imports of goods from the United States (\$billion) in 2017–2019 and estimated under the China-U.S. agreement in 2020–2021	145
Figure II.2.4. Impacts of the managed trade scenario as compared to the trade policy status quo scenario (percent)	146
Figure II.2.5. Impacts of the “managed trade” scenario as compared to the “trade war” scenario (percent)	147

List of Figures continued

Figure II.2.6. Impact of the “multilateral liberalization” scenario compared to the “managed trade” scenario (percent)	148
Figure II.2.7. Impacts of the managed trade scenario as compared to the trade policy status quo scenario for East Asian developing countries (percent)	149
Figure II.2.8. Impact of the “multilateral liberalization” scenario compared to the “managed trade” scenario for East Asian developing countries (percent)	150
Annex Figure II.2.9. Chinese imports from top suppliers of goods and services subject to the China-U.S. trade agreement along with the commitments undertaken by China as part of the agreement	155
Part III. Country Summaries and Key Indicators	
Cambodia	
Figure 1. Contributions to real GDP growth (percent)	162
Figure 2. Destination of Cambodia garment, footwear, and travel good exports (year-to-year percent change)	162
Central Pacific Islands	
Figure 1. Sources of revenue—projections to 2021	165
Figure 2. Sovereign wealth fund balances—projections to 2021	165
China	
Figure 1. Annual percentage changes; contributions in percentage points	168
Figure 2. China poverty estimates and projections	168
FIJI	
Figure 1. Real GDP growth and total investment	171
Figure 2. Fiscal balance and public debt (as percent of GDP)	171
Indonesia	
Figure 1. GDP growth remained steady despite weaker domestic demand	174
Figure 2. Indonesia’s extreme poverty rate is projected to fall by more than a third by 2022	174
Lao PDR	
Figure 1. Contributions to GDP growth	177
Figure 2. Actual and projected poverty rates and real GDP per capita	177
Malaysia	
Figure 1. Real GDP growth, contributions to real growth	179
Figure 2. Actual and projected poverty rates and real private consumption per capita	180
Mongolia	
Figure 1. Annual percentage changes; contributions in percentage points	183
Figure 2. Actual and projected poverty rates and real GDP per capita	183
Myanmar	
Figure 1.	186
Figure 2. CPI inflation (year-to-year change)	186

List of Figures continued

North Pacific Islands	
Figure 1. Formal sector employment (index 2008 = 100)	189
Figure 2. Overall fiscal balance (share of GDP)	189
Papua New Guinea	
Figure 1. Real GDP growth and contributions to real GDP growth	192
Figure 2. Key fiscal and debt indicators	192
Philippines	
Figure 1. Philippine economic growth slowed down in 2019	195
Figure 2. Poverty is likely to decline further with sustained growth in real household incomes	195
Solomon Islands	
Figure 1. Real GDP per capita	198
Figure 2. Trade balance	198
South Pacific Islands	
Figure 1. Incidence of poverty at international poverty lines and national hardship thresholds	201
Figure 2. Public and publicly guaranteed external debt	201
Thailand	
Figure 1.	204
Figure 2. Public and publicly guaranteed external debt	204
Timor-Leste	
Figure 1. Real GDP growth, contribution to real growth	207
Figure 2. Fiscal aggregates (percentage of GDP)	207
Vietnam	
Figure 1. Real GDP growth, contribution to real growth	210
Figure 2. Poverty rate and GDP per capita	210

List of Tables

Part I. COVID-19: Impact and Response

1. Chapter I. Synthesis

Table I.1.1. Most countries in the EAP region have pursued sound macroeconomic policies	15
Table I.1.2. Developing East Asia and Pacific: GDP growth projections	20
Table I.1.3. Policy responses to address the COVID-19 challenge	32

2. Chapter II. Analysis

Table I.2.1. GDP implications of various scenarios—cumulative impacts (% deviations from the benchmark)	54
Table I.2.2. Real exports implications of various scenarios—cumulative impacts (% deviations from the benchmark)	55
Table I.2.3. Output implications of amplified global pandemic—cumulative impacts (% deviations from the benchmark)	57
Table I.2.4. EAP’s FDI, portfolio, and banking assets and liabilities	74
Table I.2.5. Nonpharmaceutical interventions (NPI) for personal and community preparedness to prevent pandemic influenza	79
Table I.2.6. Disease transmission control policies adopted at international borders for 194 countries	87
Table I.2.7. Emergent pandemic response as a function of economic linkages, national income, and pandemic preparedness score	89
Table I.2.8. Policy space across developing EAP economies	91
Table I.2.9. Select FSIs at the time of recent crises	93
Annex Table I.2.10. Regional concordance	107
Annex Table I.2.11. Sector concordance	108
Annex Table I.2.12. A literature review on the impacts of COVID-19	109
Annex Table I.2.13. Select policy responses in the aftermath of the recent crises	122

Part II. Slowing Growth and Trade Tensions

2. Chapter II. The Impact of the China-U.S. Trade Agreement

Annex Table II.2.1. Subarea covered in U.S. preferential trade agreements on intellectual property and technology transfer	153
Annex Table II.2.2. A managed trade deal imposed in the pre-trade war setting would have reduced welfare for all countries, except the United States	154
Annex Table II.2.3. Impacts of the “multilateral liberalization” scenario as compared to the “trade war” scenario (percent)	154

List of Boxes

Part 1. COVID-19: Impact and Response

1. Chapter I. Synthesis

Box I.B.1. The potential scale of the disease and containment strategies	3
Box I.B.2. Understanding the shock, its economic implications, and the policy challenge	6
Box I.B.3. Predicting China's growth	10
Box I.B.4. Response to COVID-19 in China	24
Box I.B.5. Investing in health infrastructure for containment	26

Part II. Slowing Growth and Trade Tensions

1. Chapter I. Trends in Growth, Poverty, and Policy

Box II.1.1. Export growth and investment growth in developing EAP	131
---	-----

List of Abbreviations

BOP	Balance of Payments
CBOE	Chicago Board Options Exchange
CGE	Computable general equilibrium
DEC	Development Economics
E&E	Electrical and electronics
EAP	East Asia and the Pacific
EFI	Equitable Growth, Finance, and Institutions
EIS	Employment Insurance Scheme
EMDE	Emerging Markets and Developing Countries
EPF	Employees Provident Fund
GDP	Gross domestic product
GVC	Global Value Chain
HNP	Health, Population, and Nutrition
ICU	Intensive care unit
IMF	International Monetary Fund
MFN	Most favored nation
MOF	Ministry of Finance
NPI	Nonpharmaceutical interventions
NPL	Nonperforming loans
OECD	Organisation for Economic Co-operation and Development

PBOC	People's Bank of China
pp	Percentage point
PTA	Preferential trade agreement
RERF	Revenue Equalisation Reserve Fund
ROW	Rest of the World
RPC	Revenue Processing Centre
SME	Small and medium enterprise
SOE	State-owned enterprise
SPS	Sanitary and phytosanitary
U.S.	United States
USTR	United States Trade Representative
VA	Value added
VER	Voluntary Export Restraint
VIE	Voluntary import expansions
VIX	Volatility Index
VLSS	Vietnam Living Standard Survey
WDR	World Development Report
WTO	World Trade Organization

Regions, World Bank Classification and Country Groups

EAP	East Asia and Pacific
ECA	Eastern Europe and Central Asia

LAC	Latin America and the Caribbean
MNA	Middle East and North Africa
SAR	South Asia
SSA	Sub-Saharan Africa

Country Abbreviations

AUS	Australia
BRA	Brazil
BRN	Brunei Darussalam
CAN	Canada
CHN	China
FJI	Fiji
FSM	Federated States of Micronesia
IDN	Indonesia
IND	India
JPN	Japan
KHM	Cambodia
KIR	Kiribati
KOR	Republic of Korea

LAO	Lao People's Democratic Republic
MEX	Mexico
MNG	Mongolia
MMR	Myanmar
MYS	Malaysia
NRU	Nauru
PHL	Philippines
PLW	Palau
PNG	Papua New Guinea
RMI	Republic of the Marshall Islands
RUS	Russia
SGP	Singapore
SLB	Solomon Islands
THA	Thailand
TLS	Timor-Leste

List of Abbreviations continued

TON	Tonga
TUR	Turkey
TUV	Tuvalu
UK	United Kingdom

USA	United States
VNM	Vietnam
VUT	Vanuatu
WSM	Samoa

<i>Currency Units</i>	
A\$	Australian dollar
\$NZ	New Zealand dollar
B	Thai baht
CR	Cambodian riel
D	Vietnamese dong
F\$	Fiji dollar
K	Myanmar kyat
K	Papua New Guinea kina

Kip	Lao kip
P	Philippine peso
RM	Malaysian ringgit
RMB	Chinese renminbi
Rp	Indonesian rupiah
SIS	Solomon Islands dollar
Tog	Mongolian tugrik
US\$	Timor-Leste (U.S. dollar)
US\$	United States dollar

Preface and Acknowledgments

This report is a collective endeavor and involved several parts of the Bank including DEC, EAP, EFI, and HNP.

It was prepared by a team led by Ergys Islamaj, Aaditya Mattoo, and Ekaterine T. Vashakmadze. Other members of the team were Ana Maria Aviles, Chiara Dell’Aira, Kevin Thomas Garcia Cruz, Damien de Walque, Reno Dewina, Sebastian Eckardt, Caroline Freund, Jed Friedman, Sergiy Kasyanenko, Vera Kehayova, Youyang Li, Maria Ana Lugo, Maryla Maliszewska, Davide Salvatore Mare, Andrew D. Mason, Son Nam Nguyen, Michele Ruta, Fabiola Saavedra Caballero, Maria Filipa Seara e Pereira, Franz Ulrich Ruch, Daria Taglioni, Radu Tatucu, Dominique van der Mensbrugge, Cecile Wodon, Judy Yang, and Luan Zhao.

Victoria Kwakwa and Xiaoqing Yu provided valuable guidance. We are grateful for helpful discussions and suggestions to Alejandro Cedeno, Philip Chang, Kevin Thomas Garcia Cruz, Gabriel Demombynes, Ndiame Diop, Daniel Dulitzky, Achim Fock, Roberta Gatti, David Gould, Birgit Hansl, Claire Honore Hollweg, Sergiy Kasyanenko, Nicholas Keyes, Ayhan Kose, Aart C. Kraay, Norman Loayza, Sodeth Ly, Sitaramachandra Machiraju, Bill Maloney, Andrei Mikhnev, Deepak Mishra, Rinku Murgai, John Nasir, Antonio Nucifora, Philip O’Keefe, Franziska Ohnsorge, Martin Raiser, Franz Ulrich Ruch, Gevorg Sargsyan, Hoon Sahib Soh, Arvind Subramanian, Alexei Volkov, Adam Wagstaff, and Hassan Zaman; and staff of the EAP region who participated in the consultation meetings on the 23rd of January, and 17th and 24th of March 2020 and sent written comments.

Part III was prepared by staff from the Macroeconomics, Trade and Investment Global Practice and the Poverty and Equity Global Practice: Tanida Arayavechkit, Kiatipong Ariyapruchya, Mahama Samir Bandaogo, Davaadalai Batsuuri, Hans Beck, Andrew Blackman, Derek Hung Chiat Chen, Yew Keat Chong, Kevin Chua, Souleymane Coulibaly, Kevin Cruz, Somneuk Davading, Gabriel Demombynes, Reno Dewina, Viet Tuan Dinh, Sebastian Eckardt, Kim Alan Edwards, Annette De Kleine Feige, David Gould, Faya Hayati, Kristen Himelein, Claire Hollweg, Taufik Ramadhan Indrakesuma, Demet Kaya, Chandana Kularatne, Maria Ana Lugo, Xubei Luo, Sodeth Ly, Pedro Miguel Gaspar Martins, Thi Da Myint, Darian Naidoo, Arvind Nair, Jean-Pascal Nguessa Nganou, Chiyu Niu, Clarence Tsimo Nkengne, Emilie Perge, Keomanivone Phimmahasay, Obert Pimhidzai, Sharon Faye Alariao Piza, Ririn Purnamasari, Rong Qian, Richard Record, Alief Aulia Reza, Anna Robinson, Carlos Orton Romero, Frederico Gil Sander, Virgi Agita Sari, Ilyas Sarsenov, Shakira Sharifuddin, Kenneth Simler, Sailesh Tiwari, Kimsun Tong, Ikuko Uochi, Judy Yang, and Luan Zhao. The work was managed by Ndiame Diop and Deepak Mishra for the Macroeconomics, Trade and Investment Global Practice, and by Rinku Murgai for the Poverty and Equity Global Practice. Monika Anna, Benoit Philippe Marcel Campagne, Alexander Haider, and Kristina Catherine Tan Mercado made substantive contributions to the model, table production, and assisting staff with their forecasts. Poonyanuch Chockanapitaksa and Yulita Sari Soepardjo provided technical support.

The report was edited and typeset by Shepherd, Incorporated.

Throughout the report, geographic groupings are defined as follows:

Developing East Asia and Pacific comprises Cambodia, China, Indonesia, Lao People’s Democratic Republic (PDR), Malaysia, Mongolia, Myanmar, Papua New Guinea, the Philippines, Thailand, Timor-Leste, Vietnam, and the Pacific Island Countries.

The Pacific Island Countries comprise Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu.

The **ASEAN** member countries comprise Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

The **ASEAN-5** comprise Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Due to the COVID-19 pandemic, economic circumstances within countries and regions are fluid and change on a day-by-day basis. The analysis in this report is based on the latest country-level data available as of March 27, 2020.

Overview¹

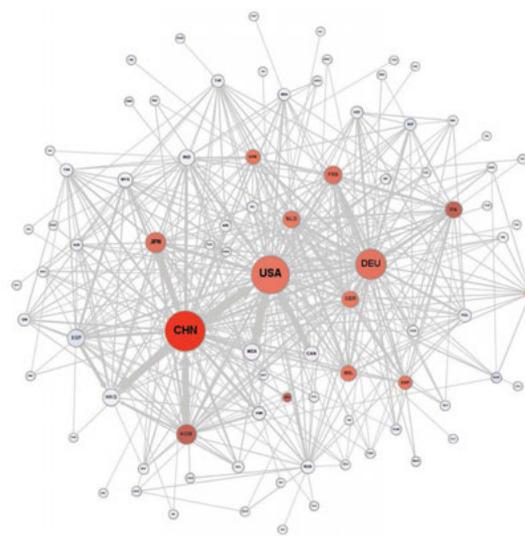
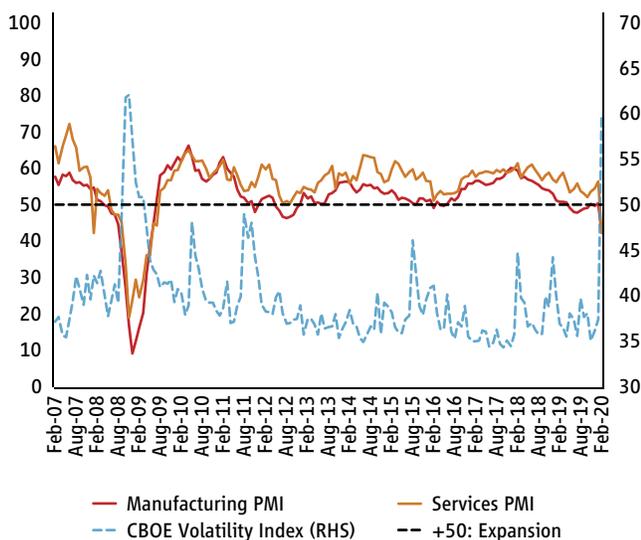
The virus that triggered a supply and demand shock in China has now caused a global shock. Developing economies in East Asia and the Pacific (EAP), recovering from trade tensions and struggling with a viral disease, now face the prospect of a global financial shock and recession. The region’s relative resilience, demonstrated during recent crises, is being tested again. Have the recent trade and health shocks sapped its ability to deal with this third shock? Steady growth, sound macroeconomic policies, and prudent financial regulation have equipped many EAP countries to deal with normal tremors. But we are witnessing an unusual combination of disruptive and mutually reinforcing events. Significant economic pain seems unavoidable in all countries and the risk of financial instability is high, especially in countries with excessive indebtedness. This exceptional situation needs an exceptional response: bold national action, deeper regional and global cooperation, and significant external assistance.

Part I of this update focuses on COVID-19. Because of high transmissibility, low herd immunity and, until recently, significant population mobility, the virus has spread rapidly at a high and increasing human cost. In many countries, the public health system is struggling to cope with the growing need. Since other World Bank work is focusing on the health challenge posed by the pandemic, this update will mostly focus on the economic cost, which is also ultimately a human cost. We recognize that in a rapidly changing environment, any update risks becoming obsolete. Therefore, this update will complement estimates with an analysis of developments, channels of impact and policy choices, which may have a more durable value.

The biggest immediate economic costs of COVID-19 are primarily due to the preventive behavior of individuals and the transmission control policies of governments. These actions first hit the Chinese economy, by disrupting supply and freezing demand, and other partner economies by limiting flows of trade and tourists. As the virus spreads beyond China,

Global confidence is declining sharply . . .

. . . and the virus has hit critical trade nodes



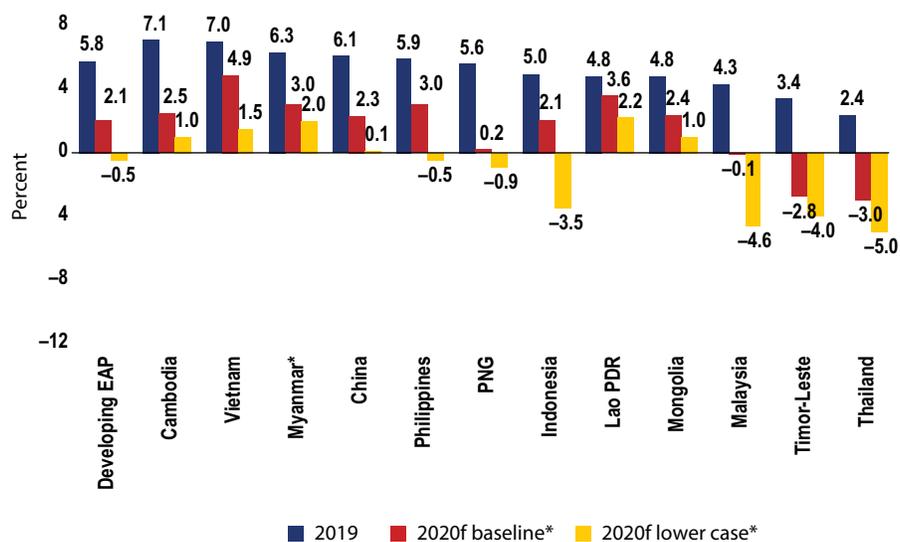
Sources: Haver Analytics; World Development Report 2020 using Comtrade database.
 Note: Right: Critical nodes in the global trade network.

¹ Due to the pandemic, economic circumstances within countries and regions are fluid and change on a day-by-day basis. The analysis in this report is based on the latest country-level data available as of March 27.

citizens and governments of many other countries are reacting by taking similar action, which is hitting demand and supply in these countries in turn. That is amplifying the mutual shocks through not just flows of trade and tourists, but also finance. The EAP region's reliance on these flows magnifies its exposure to the shocks.

The pandemic is profoundly affecting the region's economies, but the depth and duration of the shock are unusually uncertain. This update, presents both a baseline and a lower-case scenario. Growth in China is projected to decline to 2.3 percent in the baseline and 0.1 percent in the lower-case scenario in 2020, from 6.1 percent in 2019. Growth in the rest of the developing EAP region is projected to slow to 1.3 percent in the baseline and to negative 2.8 in the lower-case scenario in 2020, from an estimated 4.7 percent in 2019. Containment of the pandemic would allow recovery, but the risk of durable financial stress is high even beyond 2020. Most vulnerable are countries that have poor disease control and prevention systems; that rely heavily on trade, tourism, and commodities; that are heavily indebted; and that rely on volatile financial flows.

Growth is forecast to decline sharply in the region



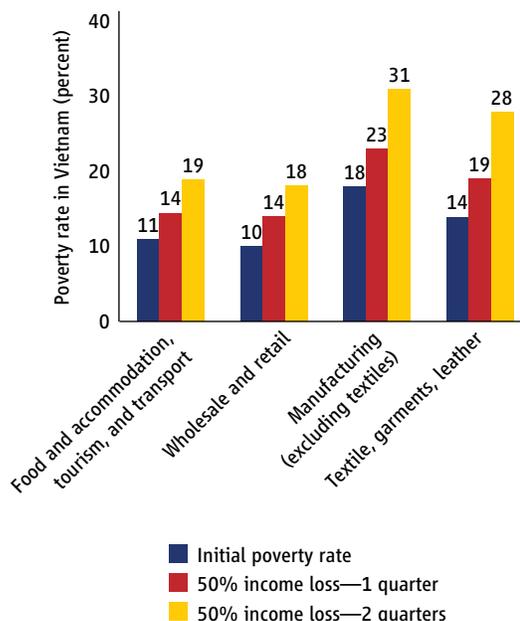
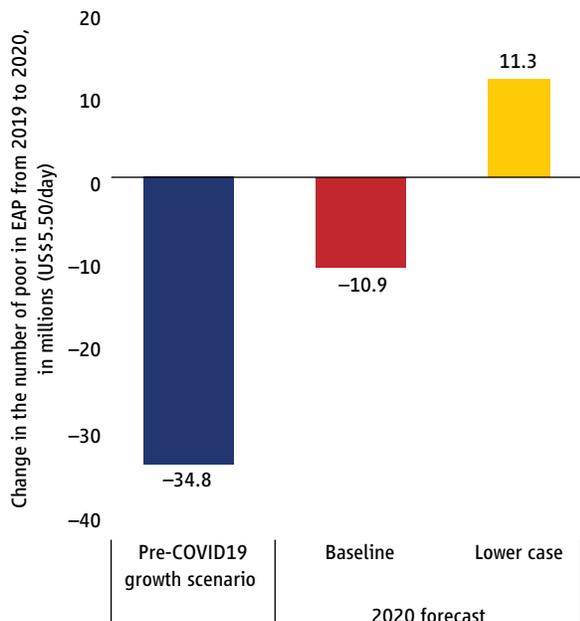
Source: World Bank. World Bank staff calculations.

Note: *Myanmar growth rates refer to the pre- and post-pandemic period for fiscal year from October to September. Baseline refers to a scenario of severe growth slowdown followed by a strong recovery. Lower case refers to a scenario of a deeper contraction followed by a sluggish recovery.

The COVID-19 shock will also have a serious impact on poverty and welfare, through illness, death, and lost incomes. Under the baseline growth scenario, nearly 24 million *fewer* people are estimated to escape poverty across developing EAP in 2020 than would have in the absence of the pandemic. Under the lower-case scenario, poverty is estimated to *increase* by about 11 million people. Households linked to affected sectors will suffer disproportionately. For example, poverty rates could double among households in Vietnam linked to manufacturing reliant on imported inputs, and in some Pacific Islands where tourism is an important source of employment. While these estimates for GDP and poverty are projections, they reveal the magnitude of potential economic distress and the need for urgent action.

COVID-19 will hinder poverty reduction in the region as a whole . . .

. . . and those in the most exposed sectors face a greater poverty risk, e.g., in Vietnam

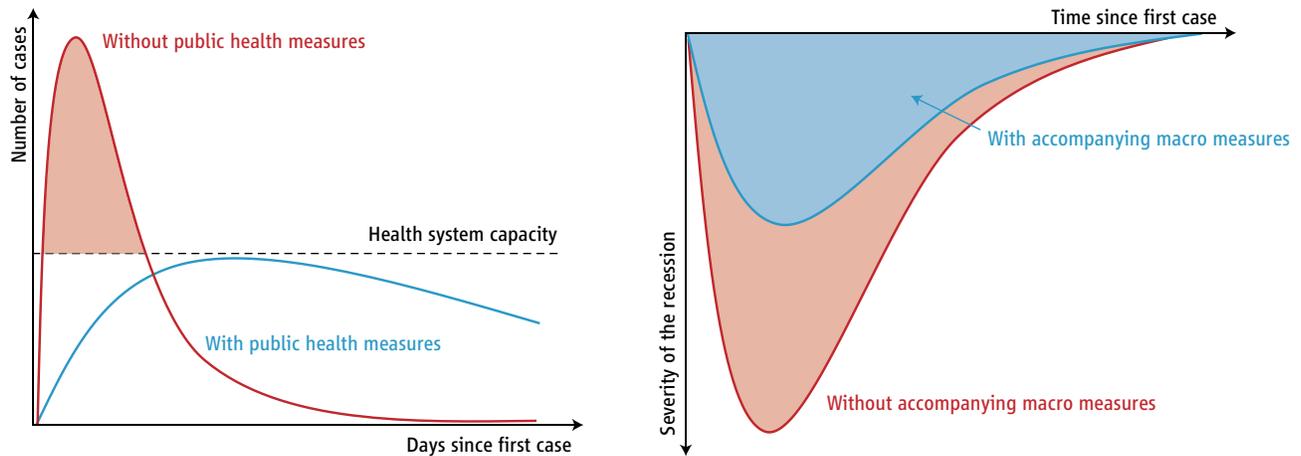


Source: World Bank East Asia and Pacific Team for statistical development.
 Note: Poverty rate using a poverty line of US\$5.50 per person per day (2011 PPP). Right: Projections based on Vietnam Living Standard Survey (VLSS) data.

This unprecedented shock requires a powerful response by countries with strong support from the international community. On policy, six main conclusions emerge from the analysis. First, countries need to adjust both health policies and macroeconomic policies. To prevent the spread of infection, many governments are taking transmission control measures like lockdowns and travel bans to “flatten the pandemic curve.” In parallel, to mitigate the resulting adverse economic impact, governments are taking monetary, fiscal and structural measures to “flatten the recession curve.” But better health and economic outcomes may be achieved through combining policies. For example, countries like Singapore and the Republic of Korea, which learned from the 2003 SARS and the 2015 MERS experience, seem to have achieved more effective containment results with less economically disruptive measures, such as high levels of testing, tracking, and quarantines. Their experience demonstrates that early investments in infectious disease surveillance and response capacity can reduce the need to take costly suppression measures. The sooner other countries create such containment capacity, the sooner they can end the economic pain caused by stringent suppression measures. That could shorten the time to recovery, but could be a challenge particularly for the poorest countries in the region.

Flattening the pandemic curve is the focus of containment policies . . .

. . . and flattening the recession curve the focus of macroeconomic policies



Source: World Bank staff illustrations adapted from Gourinchas (2020).

Second, health capacity needs to be urgently augmented because of the risk of the potentially overwhelming demand for a sustained period. Testing capacity has already been found wanting even in some industrial countries. The number of infected needing treatment is projected to far exceed hospital capacity in the 18 months before a vaccine is likely to become available. Apart from expanding conventional health care facilities and medical equipment factories, innovative measures are being considered and need to be expanded: preparing ordinary hospital beds for potential ICU use; using car factories to make machines to make masks; and training people unable to pursue their normal occupations (e.g., employees of restaurants, hotels, and airlines) to work in basic healthcare. Ensuring adequate access for the poor may require the provision of free or subsidized testing and treatment.

Third, fiscal and monetary policy must be recast in a COVID-19 mold. Expansionary macroeconomic policy is less effective in increasing production and employment during periods when workers are obliged to stay at home because of social distancing requirements, but it can be important for recovery. Initially, fiscal measures should provide social protection to cushion against shocks, especially for the most economically vulnerable. For example, subsidies for sick pay and expenditure on health care could alleviate distress and help support containment. Expanded safety nets could provide temporary relief to families whose earnings have been adversely affected by the outbreak. Transfers in cash or in kind are particularly important for those who work in EAP countries' large informal sectors, as they fall outside the reach of traditional social insurance programs. School feeding and other support to students, as well as employment support to help workers reintegrate into the economy after the outbreak has abated, would ensure that temporary deprivation does not translate into long-term losses of human capital. Firms, especially small and medium enterprises, will need liquidity injections to help them stay in business and maintain beneficial links to Global Value Chains (GVCs). The optimal economic policy response too will change over time and depend on the precise nature and evolution of the shock—to labor supply, aggregate demand or finance. The goal of policy should be to prevent a temporary shock from having permanent effects.

Fourth, in the financial sector, it is urgent to help households to smooth consumption through easier access to credit and firms to survive the disruption through easier access to liquidity. Easing financial conditions and exercising regulatory forbearance are necessary while conditions remain difficult. But regulators must ensure risk disclosure and clearly communicate supervisory expectations to avoid financial instability, especially in economies with high levels of private

indebtedness. For poorer countries, debt relief will be essential, so that critical resources can be focused on managing the economic and health impacts of the pandemic.

Fifth, trade policy must stay open. To retain the production of essential supplies for domestic consumers, several countries have imposed restrictions on exports of medical products. Economics and recent experience show that these measures ultimately hurt all countries, particularly the more fragile. World Trade Organization (WTO) members—or at least the G20 countries—must agree not to restrict exports of coronavirus-related medical products. Consuming countries could do their part too by liberalizing imports.

Avoiding future trade tensions is also of vital macroeconomic significance at the present juncture. The China-U.S. trade agreement at least temporarily averted a damaging trade war and provided relief from the trade tensions that blighted the EAP region's economic performance in 2019, as we discuss in Part II of the update. But it also raised the concern that selective preferential access for the United States to China's markets would erode the multilateral rules against discrimination and divert trade away from third countries in the region—costing them about one-third of a percentage point in gross domestic product (GDP). Now there is a further concern: COVID-19 will make it difficult at least in 2020 to meet the quantitative import expansion commitments made by China because of the contraction in China's demand and the likely contraction in U.S. production.

Instead of renegotiating the bilateral commitments, all countries would benefit if China opens its market to all trading partners. That would provide a much-needed boost of an estimated 0.6 percent to global income. China's income could be nearly 0.5 percent higher. Most developing countries in East Asia would also be better off, despite the partial erosion in their preferential access to the Chinese market.

Sixth, international organizations have a critical role to play in supporting the region's governments in combating the pandemic and in mitigating its health and economic consequences. One immediate contribution could be to help expand the supply of key medical products by facilitating public-private partnerships like the Meningitis Vaccine Project. To generate the greatest benefits, aid-for-production of medical products should be given to countries based not on consumer needs but on producer comparative advantage provided they keep trade completely free. Openness would ensure that essential medical products are produced where it is most efficient and flow to where they are most needed. Providing low-cost access to essential supplies like test kits may require international organizations to procure at scale from suppliers and also to ensure efficient and equitable distribution.

More generally, to support both relief and recovery, the World Bank Group and the International Monetary Fund (IMF) are making available financing, policy advice, and technical assistance. The World Bank Group has already rolled out a \$14 billion fast-track package to strengthen the COVID-19 response in developing countries and shorten the time to recovery. As countries need broader support, the World Bank Group is prepared to deploy up to \$160 billion over 15 months to protect the poor and vulnerable, support businesses, and bolster economic recovery.

In each of these areas, containment, health, macroeconomic policy, finance, trade, and aid, there are self-evident gains from internationally coordinated action that takes an integrated view of policy. But some nations are resorting to unilateral measures and succumbing to scarcity nationalism. All countries in the East Asia and Pacific region and beyond must recognize that, in addition to bold national actions, deeper international cooperation is the most effective vaccine against this virulent threat.

