Regional Perspectives on the Economic Impact of COVID19 in Asia and the Pacific Cities

Omar Siddique, Economic Affairs Officer, Sustainable Urban Development, UNESCAP

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COVID-19 in Asia-Pacific (AP)

Measures in place:

- Quarantine and social-distancing
- Travel restrictions
- Extensive lockdown preventing most economic activities
- Border closures and limited trading of essential goods
Economic impact of COVID19 in AP

Immediate shocks

- 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
Socio-economic impact of COVID19

**Expected increase in national and urban 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 cities due to COVID19
• 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 at the local level (subsidies for medical testing, treatment, emergency response)
- Fiscal measures to support labour - jobs and living standards
- Cash-handouts to relieve the burden on urban poor 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
- 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
• 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 to 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
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.

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.

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
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.

Coordinated local action and strong intergovernmental partnerships are vital
Long term: Sustainable cities with investments in inclusive, economic resilience

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 local solutions for building resilience across urban systems.
- Prioritize digital technologies, and infrastructure for people-centered, smart cities.
- Focus on nature-based solutions in urban infrastructure financing to support co-benefits for people, planet and prosperity.
Long-term actions in cities post COVID-19

- Inclusive
- Cross-cutting: governance
- Green
- Cross-cutting: finance
- Smart
- Cross-cutting: finance
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

The Future of Asian & Pacific Cities 2019 – ESCAP and UN-Habitat Flagship publication