The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in World Economic Situation and Prospects 2022. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries. Aggregate data for Africa, excluding Libya.


Source for COVID-19 data: UN DESA calculations, based on data from Johns Hopkins University.
East Asia: a nascent economic recovery with rising downside risks

• Increasing downside risks and uncertainties cast a shadow on East Asia’s nascent economic recovery.

• The lingering pandemic continues to weigh on progress in achieving the 2030 Agenda for Sustainable Development.

• Macroeconomic policies should remain accommodative and targeted to fostering inclusive and sustainable recovery.

East Asia’s economic performance largely rebounded in 2021. Headline GDP growth was an estimated 6.7 per cent following the sharp deceleration in 2020. The recovery is nascent, however. A resurgence of COVID-19 has disrupted economic performance supported by strong policy stimulus and a recovery in external demand. Economic growth is forecast to moderate to 4.9 per cent in 2022 as base effects disappear. While countries’ reopening could shore up economic activities, the uneven distribution of vaccines, a still low pace of vaccination and unknown vaccine efficacy against new variants of the virus mean that the pandemic will linger and could derail a fragile economic recovery. Additional headwinds come from a possible decline in export demand, prolonged supply-side challenges, rising concerns around financial instability and the possibility of a larger-than-expected slowdown in China’s economy amid lingering trade tensions with the United States. Since pandemic control will continue as a policy priority in the near term, macroeconomic policies should remain accommodative and targeted to fostering an inclusive and sustainable recovery.

The uptick in East Asia’s headline GDP growth masks large divergence in economic performance across countries. Overall, relatively stronger recovery was seen in China, the Republic of Korea and Singapore, due to early COVID-19 containment measures, quick vaccine roll-outs and strong external demand. In contrast, the Delta variant outbreak slowed recovery in many countries in the Association of Southeast Asian Nations (ASEAN), including Indonesia, Malaysia, the Philippines, Thailand and Viet Nam. Tourism-dependent countries, especially the small island developing States in the Pacific, were hit doubly by new waves of COVID-19 and a plunge in tourist arrivals. Ongoing political turmoil has severely weighed on Myanmar’s economy.

Strong global demand for Asian manufacturing and exports has underpinned the region’s headline economic growth. A quick rebound in household spending in the developed countries buoyed demand for electronics, electrical and information technology equipment, and automobiles, which particularly benefited China, the Republic of Korea, Singapore and Taiwan, Province of China (figure III.12). Investment was channelled into machinery and equipment, supporting export manufacturing.

11 Improving external demand also benefited several ASEAN economies (such as Indonesia, Malaysia and Thailand) and commodity exporters (Brunei Darussalam and Mongolia). New waves of COVID-19 cases offset economic gains, however.
Shipment backlogs, surging freight costs and temporary quarantine restrictions in key manufacturing and shipping areas have slowed the region’s export growth. Semiconductor shortages due to adverse weather events, COVID-19-induced production disruptions and shipping congestion have significantly extended delivery times. Ongoing technology and trade tensions between China and the United States have further hampered production and exports of semiconductors. Rising energy prices and electricity shortages are also weakening exports. Power rationing in China, for instance, has impeded production at numerous factories, including those that supply components to large manufacturers of consumer electronics and automobiles. Going forward, demand for manufactured goods from Asia is expected to gradually decline as economies elsewhere heal from the pandemic and restore their local supplies.

As export growth begins to moderate in the region, domestic demand should, in principle, play a bigger role in driving economic growth. Many East Asian countries have observed stronger domestic demand (figure III.12) through continued policy stimulus and reopening. Ongoing domestic demand as a driver...

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**Figure III.12**

Demand-side contributions to growth in select East Asian countries

Percentage points

Source: UN DESA, based on data from CEIC (accessed on 29 November 2021).

Note: For China, the consumption bar covers both the private and government sectors.

...while strong domestic demand recovery is subject to the progress and efficacy of vaccine programmes

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12 Average delivery times for semiconductors increased from 12 weeks in early 2020 to more than 20 weeks in July 2021 (King, 2021).
of growth is contingent on containing the virus, however. New waves of COVID-19 have triggered containment measures over 2021, which heavily weighed on private consumption and investment.

Vaccinations offer some hope, yet despite gathering pace in the second half of 2021, vaccination progress remains highly uneven. By mid-December 2021, Brunei Darussalam, Cambodia, China, Malaysia, the Republic of Korea and Singapore had over 70 per cent of their populations fully vaccinated. In contrast, some least developed countries and small island developing States lagged behind. Vaccination rates in Myanmar, Papua New Guinea, the Solomon Islands and Vanuatu were still less than 30 per cent (figure III.13). Limited access to vaccines and inadequate capacity for vaccine roll-outs further increase the vulnerability of these countries.

Figure III.13
Vaccination progress in East Asia (as of 20 December 2021)

Source: UN DESA, based on data from Our World in Data (accessed on 20 December 2021).
As the pandemic lingers, East Asian countries have started considering long-term strategies to deal with the virus. For instance, while China is sticking with its “zero COVID-19” policy, Indonesia, Malaysia, the Republic of Korea, Singapore and Thailand are pursuing approaches to “coexist” with the virus. No matter which path countries choose, policymakers remain cautious about fully reopening economies; the Delta outbreaks showed the high risks of new and more transmissible variants. While vaccines are assumed to generally reduce the severity and duration of COVID-19 symptoms, their efficacy against new variants is still unknown. This means that some restrictive measures will likely remain in place during the forecast period, with targeted lockdowns and mobility restrictions introduced if infection rates surge again. Border openings are likely to be gradual and come with entry requirements. All such measures will likely further increase social and economic costs and delay full recovery.

China’s “zero COVID-19” policy constrains the economy’s full recovery. Renewed restrictions in response to a surge in infections in the second half of 2021\(^\text{13}\) weighed on consumer spending and weakened the pace of initially strong recovery. At the same time, China’s policy efforts to stabilize the property market have slowed investment.\(^\text{14}\) This will likely sustain China’s long-term resilience for several reasons. First, slower growth in property prices could curb rising inequality and support China’s pursuit of “common prosperity”.\(^\text{15}\) Second, reducing household indebtedness from mortgages, which account for 76 per cent of household debt (People’s Bank of China, 2020), could advance China’s economic restructuring strategy, which prioritizes domestic consumption. Third, limiting the exposure of highly indebted private property developers will likely reduce financial risks. Given that the property sector potentially contributes about a third of China’s GDP (Rogoff and Yang, 2020), a sharp price correction would not only adversely affect investment but also impair household consumption and potentially trigger broader financial instability.

In 2021, China’s economy grew an estimated 7.8 per cent with an expectation of moderating to 5.2 per cent in 2022. The slowdown could have regional and global spillovers. For instance, sharp declines in new construction could reduce demand for raw materials from the rest of the world. At the same time, reining in the property market could lead to defaults by several large private property developers. A default would have wide repercussions on banks and other financial institutions as well as investors who hold these companies’ offshore bonds. While China is cautiously managing the situation, concerns about a spillover are mounting.

Quicker-than-expected tapering of quantitative easing in the United States raises financial stability concerns for East Asia. As the recovery in the region is in the early stages, a sudden change in global financial conditions could trigger capital outflows and increase exchange rate volatility. Over 2021, while foreign direct investment inflows were steady, a few ASEAN economies (including the Philippines and Thailand) experienced capital outflows through portfolio channels amid the Delta wave. Almost all

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\(^{13}\) As of early November 2021, at least 19 of 31 provinces in China have reported infections with the Delta variant. Different provinces re-introduced temporary restrictive measures based on local needs, including mobility restrictions, school closures and quarantines.

\(^{14}\) Investment in construction in China contracted by 1.8 per cent in the third quarter of 2021, compared with an average quarterly growth of 6 per cent during 2015-2019.

\(^{15}\) The concept of “common prosperity” was first put forward by Mao Zedong, Chairperson of the Central Committee of the Communist Party of China, in 1953. China is giving a new push to it in 2021.
currencies in the region depreciated against the United States dollar to some extent, except for China’s renminbi. With domestic economic conditions still weak, countries will be highly sensitive to changes in the interest rates of major developed countries. Countries with high debt levels, especially external debts, will be particularly vulnerable, such as Indonesia, Malaysia and Thailand, where external debt was around or above 150 per cent of GDP in the first two to three quarters of 2021.\footnote{UN DESA estimate, based on data from CEIC (accessed on 29 November 2021).}

The pandemic is threatening to undermine some development progress in East Asia. The adverse impacts are expected to continue and deepen scarring effects. In particular, temporary restrictive measures have disrupted labour market recovery. The ASEAN region may see working-hour losses of an estimated 7.4 per cent in 2021, which implies only limited improvement compared with 2020 (ILO, 2021a). Working-hour and job losses have caused millions of people to lose at least part of their labour income. In the first half of 2021, labour income in the ASEAN region contracted by 5.7 per cent (ILO, 2021a). Job losses are exacerbating already high inequality as women, young workers and informal workers have been affected disproportionately. Around 8.6 million people in East Asia were pushed into extreme poverty in 2019-2021.

The pandemic’s contribution to reducing pollution and emissions due to mobility restriction has proven short-lived. Air pollution (measured by PM2.5 emissions) has exceeded pre-pandemic levels. The recent energy crunch risks derailing the transition to low-carbon energy. Some firms may turn to “dirtier” energy such as diesel. This comes as rising climate risks already threaten the region’s recovery. For instance, Fiji and Papua New Guinea experienced cyclones and floods in early 2021, adding economic costs to recovery. Taiwan, Province of China experienced its worst drought in 56 years in April 2021, which affected semiconductor production. East Asian countries are taking actions to address climate risks, with China and the Republic of Korea announcing they intend to reach carbon neutrality by 2060 and 2050, respectively. The Philippines and Viet Nam have committed to moving away from coal.

Inflation is expected to remain largely in check in East Asia. In 2021, headline inflation was an estimated 1.5 per cent. Most countries had inflation below or within central bank targets (figure III.14) although it trended upward due to rising food and fuel prices and supply-chain disruptions. Some countries observed above-target inflation related to particular factors, such as the Republic of Korea (higher costs of petroleum, housing rentals and services) and the Philippines (a spike in food inflation caused by adverse weather conditions). Going forward, headline inflation is projected at 2 per cent in 2022. While rebounding commodity prices and supply bottlenecks could increase prices, broader inflationary pressure is unlikely as the reopening of economies will be very cautious. Most economies are expected to operate below pre-crisis levels (figure III.15) with low consumer purchasing power likely keeping a surge in producer prices from passing through to consumer prices. Ongoing supply shortages and network disruptions are anticipated to recede over time as more countries reopen and demand shifts away from goods to services.
Supportive fiscal policies are critical to shore up the region’s domestic demand, especially during new waves of COVID-19 and new rounds of restrictive policies. From January to October 2021, total COVID-19 policy responses cost an estimated $266 billion, equivalent to 1.4 per cent of the region’s GDP.\textsuperscript{17} Countries have extended fiscal stimuli introduced in 2020 (such as Indonesia\textsuperscript{18}), implemented new programmes to contain the pandemic and fund social security programmes (Lao People’s Democratic Republic and Malaysia\textsuperscript{19}) and introduced new tax relief to support small firms (China, Malaysia and the Philippines).

\textbf{Fiscal policies could be more targeted to support an inclusive and green recovery}

\textsuperscript{17} In 2020, policy responses totalled about $970 billion in East Asia. The amount of fiscal stimulus is estimated based on the IMF’s Policy Responses to COVID-19 and the Asian Development Bank’s COVID-19 Policy Database (both accessed on 13 November 2021).

\textsuperscript{18} Indonesia increased the budgeted amount of a national economic recovery programme from IDR579.8 trillion in 2020 to IDR699.4 trillion in 2021.

\textsuperscript{19} Lao People’s Democratic Republic allocated LAK100 billion in 2021 for prevention, control and treatment of COVID-19 cases; Malaysia accelerated social security payments and provided additional funds for vaccine procurement.
Increasing public spending and decreasing tax revenue (due to economic output that is below the pre-pandemic level along with tax cuts) have widened fiscal deficits and increased public debt-to-GDP ratios. The region’s median fiscal deficit as a share of GDP increased from 1.7 per cent in 2019 to an estimated 5.8 per cent in 2021. The gross government debt-to-GDP ratio grew from 40.5 to an estimated 47.8 per cent over the same period. While premature fiscal consolidation should be avoided to prevent reversal of recovery gains, shrinking fiscal space requires more targeted public spending that is better aligned with the 2030 Agenda. At the same time, countries could turn to various policy options to better mobilize domestic and international financial resources (box III.3).

20 Calculated based on October 2021 data from the IMF’s World Economic Outlook Database (accessed on 14 November 2021).

21 The United Nations Economic and Social Commission for Asia and the Pacific (2021) points out that only a small share of the stimulus in Asia and the Pacific supported gender equality. A large part of the spending encouraged more production and consumption of fossil fuels without green commitments.
Box III.3
Fiscal policy and financing options to build forward better

The scars of past economic and non-economic shocks could last for a long time in East and South Asia (ESCAP, 2021). The region has high-quality public infrastructure and strong human capital, and even during the pandemic maintained ample fiscal space to help withstand the crisis. Sizeable fiscal stimulus buoyed domestic demand and supported households and companies in need. While accommodative fiscal policies are still required for recovery, however, fiscal space constraints will tighten in some countries. For example, while gross financing needs (the sum of the primary fiscal deficit and maturing debt obligations) in selected East and South Asian economies are expected to fall during 2021-2023 from the level in 2020, projected levels are far higher than in 2019 (figure III.3.a). Public debt sustainability is tenuous in some countries, more so given prospects for tightening global financing conditions and higher borrowing costs.

Figure III.3.a
Gross financing needs in selected East and South Asian countries

Governments are exploring options to mobilize fiscal resources beyond traditional sources of borrowing and to improve public debt management. Tighter fiscal space also means that countries need to consider risk sharing to cope with coming shocks and rely less on fiscal resources. There are several different fiscal and financing policy options in the region.

**Offshore sovereign and diaspora bonds:** During 2013-2020, the Government of Lao People’s Democratic Republic and other public entities issued 43 Thai baht-denominated bonds in Thailand, with an outstanding value of $2.1 billion at the end of 2020. These issuances benefitted from Thailand’s relaxation of investment rules and close economic ties with Lao People’s Democratic Republic. In a similar vein, smaller countries in Asia and the Pacific could tap domestic savings in neighbouring emerging economies with close economic connections. Examples include China for Mongolia, and India for Bhutan and Nepal. Multilateral development partners could support these initiatives by developing common market practices for cross-border bond issuances. In addition to offshore bonds, governments could also consider diaspora bonds, especially in countries with large remittance flows as a share of GDP, such as Nepal and Tonga. To benefit from this type of bond, issuing countries could conduct demand analysis to gauge the willingness and ability of diaspora communities to invest in bonds, offer diversity in bond structures and launch marketing campaigns.

**Debt swaps for development:** Bangladesh, Indonesia, Pakistan and the Philippines engaged in debt swaps during the 1980s and early 2000s. While these agreements were broadly consistent with national development policies, strong frontloading of counterpart payments reduced fiscal space in Indonesia in the first few years. The overall impact on public debt reduction was small given the modest scale of debt relief. Learning from past lessons, countries should conduct independent feasibility studies to identify the amount and profile of swappable public debt, beneficiary projects, co-financing sources and the debt discount rate. Relevant stakeholders could seek to reduce the transaction costs of debt swaps, since elements such as a time-consuming negotiation process, feasibility studies and financial and legal fees can add up to 5 per cent of the debt value. Other efforts can be made to scale up debt swaps and minimize fund fungibility.

**Emergency financing mechanisms:** Many countries in East and South Asia have dedicated reserve funds for natural disasters. But catastrophic risk insurance schemes, based on a risk-transfer modality and especially important during low-frequency, high-impact events, remain uncommon. Some examples of existing schemes include agricultural insurance in Bangladesh, India and Mongolia, earthquake insurance in China and public asset insurance in Indonesia and Viet Nam. Covered losses are mostly small, however. At a subregional level, a catastrophe risk insurance pool for the Pacific islands was set up in 2016 and has so far made three payouts worth $6.7 million to Tonga and Vanuatu. To enhance emergency financing mechanisms, countries need to incorporate sovereign catastrophic risks into government financial planning and explore risk-transfer financial instruments for emergencies. Development partners can help by establishing more regional catastrophic risk-sharing initiatives and coordinating regional emergency funds.

**Sustainable investing by public institutional investors:** Financial assets under management by pension funds and sovereign wealth funds in Asia and the Pacific stood at about $8.5 trillion at the end of 2020. Relative to GDP, these assets are particularly large in Brunei Darussalam, Solomon Islands, Timor-Leste and Tuvalu. Yet the extent of sustainable investing by public institutional investors appears limited. Moving forward, one policy option is to relax investment rules in line with a careful review of the impact on portfolio risk. For example, certain pension funds in India, Pakistan and the Republic of
Korea are not allowed to invest in domestic equities or allowed but with maximum limits. Similarly, there are often maximum portfolio limits on investments in sovereign bonds and requirements to invest only in corporate bonds with certain ratings. Pension funds in India and Indonesia are prohibited from investing in foreign equities and bonds.

Low and relatively stable inflation offers some flexibility for central banks. Most kept accommodative monetary policy stances in 2021, maintaining policy rates at historically low levels after massive rate cuts in 2020. Central banks have also used other tools, including lowering reserve requirement ratios, extending lending operations and purchasing assets. Rising inflationary pressure in some countries has prompted central banks to change policy direction. The Bank of Korea raised its policy rate in August 2021, aiming to cool the real estate sector. The Monetary Authority of Singapore unexpectedly tightened policy in October 2021 to counter imported cost pressures. In 2022, overall monetary stances still need to be accommodative to sustain a fledgling recovery, however. While changing monetary policy stances in major developed countries, especially the tapering of quantitative easing in the United States, may pressure East Asian central banks to begin tightening, a cautious approach is warranted if changes in interest rates are not driven by better economic conditions.