



APIR

**Kansai and the Asia Pacific
Economic Outlook 2021-22
Part I**

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Part I: The Asia-Pacific Region: Current Politico-Economic Situation and Challenges

Chapter 1 Major Issues in the Asia-Pacific Region in 2021-2022

- Section 1 The Process of Recovery and Adjustment of the World Economy from the COVID-19 Pandemic: The Three Main Points
- Section 2 Comparison and Consideration of Fiscal Measures in Response to the COVID-19 Pandemic
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- Section 5 China's Rise as the World's Top Creditor Nation: The Risks and the Outlook
- Section 6 Turmoil in the World Trading Regime and Mega-FTAs in East Asia
- Section 7 Labor Markets in Asia and the Informal Economy during the COVID-19 Pandemic

The Process of Recovery and Adjustment of the World Economy from the COVID-19 Pandemic in three dimensions

1. Examination of the effectiveness of COVID-19 measures
2. Current state of the COVID-19 vaccinations and outlook for the economic recovery
3. Is the pandemic unrelated to climate change?

◆ **Examination of the effectiveness of COVID-19 measures**

1. Example of a US Study

Using big data to analyze the impact of COVID-19 on consumer spending, income, employment

➔ Prolonged COVID-19 pandemic may also extend to educational issues, suggesting stagnation in human capital formation among low-income groups

2. Example of a Japanese Study

Analysis of changes in and impacts on key final demand such as household consumption, lodging, and exports due to COVID-19 using inter-prefecture input-output table

(1) **Household consumption:** While some industries have been severely damaged, others have created new consumer demand

(2) **Accommodation:** The largest factor contributing to the difference in occupancy rates among prefectures is the ratio of international guests.

(3) **Exports:** Japan's total exports fell sharply due to COVID-19 in addition to U.S.-China trade friction, and continued double-digit declines in manufacturing products hurt the domestic economy

◆ Is the pandemic unrelated to climate change?

Concerns that the global spread of COVID-19 is diminishing interest in climate change, a critical issue facing the global economy and human livelihoods

Countries around the world set GHG reduction targets as of 2030 toward carbon neutrality in 2050

➔ It is undeniable that each country has its own method of setting reduction targets, and that the targets are convenient for their own countries

2030 is a milestone year to confirm the seriousness of each country

Table 1-1-5

Greenhouse gas reduction targets for the major countries

Country/ region	Greenhouse gas reduction target		Share of CO ₂ emission in the world (2018)
	Medium-term target	Long-term target	
US	-50% to -52% in 2030 (compared to 2005)	Become carbon neutral by 2050	14.7%
Japan	-46% in FY 2030 (compared to 2013)		3.2%
EU	-55% in 2030 (compared to 1990)		9.4%
UK	-78% in 2035 (compared to 1990)		1.70%
Canada	-40% to -45% in 2030 (compared to 2005)		28.40%
China	- 65% or more in 2030 in CO ₂ emissions per GDP (compared to 2005) - Peak out CO ₂ emissions by 2030	Become carbon neutral by 2060	6.90%
India	-33% to -35% in emissions per GDP in 2030 (compared to 2005)	No remarks at this time	4.70%
Russia	-30% in 2030 (compared to 1990)	No remarks at this time	

Note: Regarding India's "per GDP" target, if GDP grows more than the emissions by the target year, it is possible that emissions are increasing.

Note: Red characters are items whose target has been raised and added due to the climate summit held in April 2021.

Source: Compiled by the author based on materials published by JETRO

Comparison and Consideration of Fiscal Measures in Response to the COVID -19 Pandemic

- ◆ There is a large difference between countries in terms of their ability to increase government expenditure.
- ◆ Advanced economies with larger government debt compared to the pre-pandemic levels have implemented larger off-budget measures (Spain, France, Italy, and Japan).
- ◆ US, which provided direct benefits to individuals three times, the additional spending within the budget accounts for a much larger percentage.
- ◆ In emerging market economies, the higher the stage of economic development, the more flexibly fiscal measures have been taken.

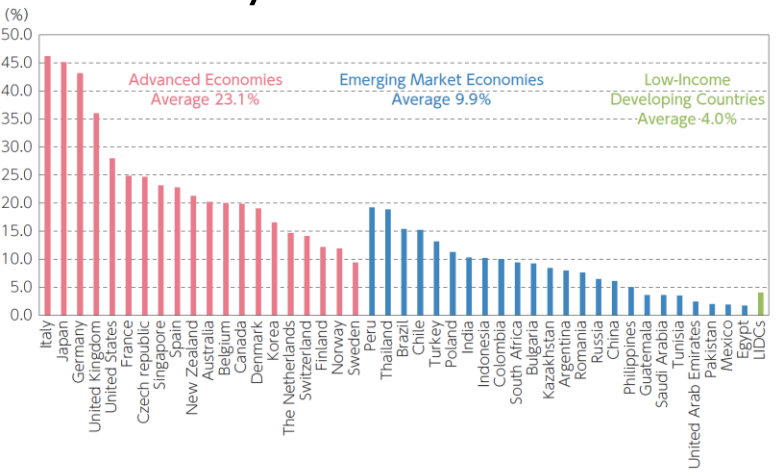


Figure 1 - 2 - 1 Scale of fiscal measures in selected economies (percentage of GDP)
 Note: The classifications of advanced economies, emerging market economies, and low-income developing countries are based on the definitions of the IMF. Ratios are percentages of nominal GDP.
 Source: IMF, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

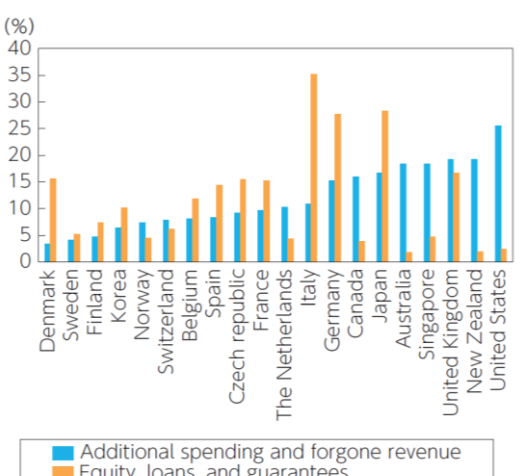


Figure 1 - 2 - 2 Scale of fiscal measures in advanced economies (percentage of GDP)
 Note: Ratios are in percentages of nominal GDP.
 Source: IMF, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

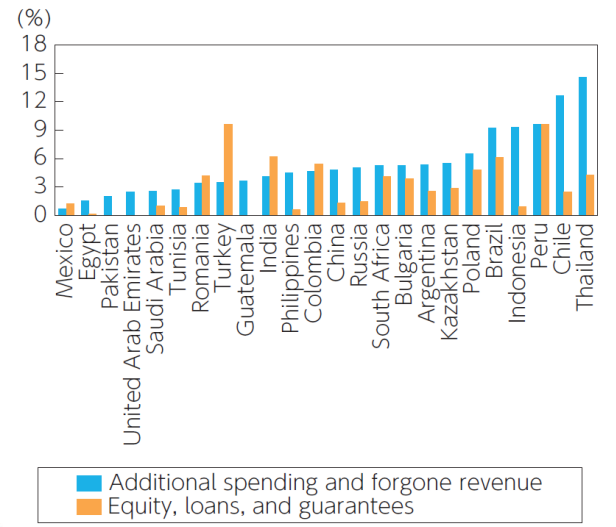


Figure 1 - 2 - 3 Scale of fiscal measures in emerging market economies (percentage of GDP)
 Note: Ratios are percentages of nominal GDP.
 Source: IMF, Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

Comparison and Consideration of Fiscal Measures in Response to the COVID -19 Pandemic

- ◆ Large-scale fiscal measures have become a factor behind the record accumulation of government debt.
- ◆ The IMF predicts that the deficits in most countries will return to their pre-pandemic levels by 2026.

Table 1-2-1 Changes in general governments' fiscal balances (percentage of GDP)

(Percent of GDP)	2016	2017	2018	2019	2020	Projections					
						2021	2022	2023	2024	2025	2026
World	-3.5	-3.0	-3.0	-3.6	-10.2	-7.9	-5.2	-4.2	-3.8	-3.6	-3.5
Advanced Economies	-2.7	-2.4	-2.5	-3.0	-10.8	-8.8	-4.8	-3.6	-3.2	-3.1	-3.0
Canada	-0.5	-0.1	0.3	0.5	-10.9	-7.5	-2.2	-0.5	-0.1	0.2	0.4
France	-3.6	-3.0	-2.3	-3.1	-9.2	-8.9	-4.7	-3.9	-3.6	-3.4	-3.4
Germany	1.2	1.3	1.9	1.5	-4.3	-6.8	-1.8	-0.4	0.0	0.5	0.5
Italy	-2.4	-2.4	-2.2	-1.6	-9.5	-10.2	-4.7	-3.5	-2.9	-2.6	-2.4
Japan	-3.8	-3.3	-2.7	-3.1	-10.3	-9.0	-3.9	-2.1	-2.1	-2.1	-2.2
United Kingdom	-3.3	-2.4	-2.2	-2.3	-12.5	-11.9	-5.6	-3.6	-3.2	-3.1	-2.9
United States	-4.3	-4.6	-5.4	-5.7	-14.9	-10.8	-6.9	-5.7	-5.2	-5.3	-5.3
Emerging Market Economies	-4.8	-4.1	-3.7	-4.7	-9.6	-6.6	-5.8	-5.2	-4.8	-4.4	-4.1
China	-3.7	-3.8	-4.7	-6.3	-11.2	-7.5	-6.8	-6.2	-5.6	-5.0	-4.5
India	-7.1	-6.2	-6.4	-7.4	-12.8	-11.3	-9.7	-8.8	-8.3	-8.1	-7.8
Russian Federation	-3.7	-1.5	2.9	1.9	-4.0	-0.6	0.0	0.2	0.1	-0.2	-0.5
Brazil	-9.0	-7.9	-7.1	-5.9	-13.4	-6.2	-7.4	-6.4	-5.4	-4.8	-4.4
Mexico	-2.8	-1.1	-2.2	-2.3	-4.5	-4.2	-3.5	-3.2	-2.9	-2.8	-2.8
Saudi Arabia	-17.2	-9.2	-5.9	-4.5	-11.3	-3.1	-1.8	-1.4	-1.1	-0.6	0.1
South Africa	-3.7	-4.0	-3.7	-4.8	-10.8	-8.4	-7.0	-6.4	-6.2	-6.5	-6.8
Low-Income Developing Countries	-3.8	-3.6	-3.4	-3.9	-5.2	-5.4	-5.0	-4.5	-4.3	-4.1	-3.9

Note: Ratios are percentages of nominal GDP.
Source: IMF, Fiscal Monitor, October 2021

Table 1-2-2 Changes in general government debt (percentage of GDP)

(Percent of GDP)	2016	2017	2018	2019	2020	Projections					
						2021	2022	2023	2024	2025	2026
World	83.2	82.0	82.3	83.6	98.6	97.8	96.9	97.0	96.9	96.8	96.5
Advanced Economies	105.6	103.2	102.7	103.8	122.7	121.6	119.3	119.3	119.1	118.8	118.6
Canada	91.7	88.8	88.8	86.8	117.5	109.9	103.9	100.2	96.9	93.4	89.7
France	98.0	98.3	98.0	97.6	115.1	115.8	113.5	114.6	115.4	116.2	116.9
Germany	69.3	65.0	61.6	59.2	69.1	72.5	69.8	68.0	65.9	63.4	60.9
Italy	134.8	134.1	134.4	134.6	155.8	154.8	150.4	149.4	148.6	147.5	146.5
Japan	232.5	231.4	232.5	235.4	254.1	256.9	252.3	250.8	251.0	251.3	251.9
United Kingdom	86.8	86.3	85.8	85.2	104.5	108.5	107.1	109.4	110.5	111.2	111.6
United States	106.9	106.0	107.1	108.5	133.9	133.3	130.7	131.1	131.7	132.5	133.5
Emerging Market Economies	48.4	50.5	52.4	54.7	64.0	64.3	65.8	67.1	68.2	69.0	69.8
China	48.2	51.7	53.8	57.1	66.3	68.9	72.1	74.5	76.6	78.5	80.1
India	68.9	69.7	70.4	74.1	89.6	90.6	88.8	88.1	87.3	86.3	85.2
Russian Federation	14.8	14.3	13.6	13.8	19.3	17.9	17.9	17.7	17.8	17.5	17.5
Brazil	78.3	83.6	85.6	87.7	98.9	90.6	90.2	91.7	92.4	92.6	92.4
Mexico	56.7	54.0	53.6	53.3	61.0	59.8	60.1	60.5	60.9	61.2	61.5
Saudi Arabia	13.1	17.2	19.0	22.8	32.5	29.7	30.8	30.4	29.5	28.4	27.2
South Africa	47.1	48.6	51.6	56.3	69.4	68.8	72.3	74.9	77.4	80.2	83.0
Low-Income Developing Countries	39.5	42.1	42.7	44.2	49.9	50.2	49.8	49.0	48.5	48.0	47.3

Note: Ratios are gross debts' percentages of nominal GDP.
Source: IMF, Fiscal Monitor, October 2021

US Economy Aiming at a Stable Growth Path from Recovery

- ◆ The COVID-19 recession in the US is a **combined recession**
- ◆ Interactions between the spread of the disease and people's behaviors
- ◆ Comparison with the Global Financial Crisis(GFC) in 2008
 - The bottom of production index :
GFC = 19 months COVID-19 recession = only 2 months
 - Unemployment rate : COVID19 recession wounds were deep, but recovery was quick
- ◆ Long-term effects
 - ① Direct effects on health
 - ② the corresponding economic effects (indirect effects)

} Inseparable relationship
- ◆ Stopping this negative chain reaction by taking all possible fiscal and monetary policy measures is a top priority issue

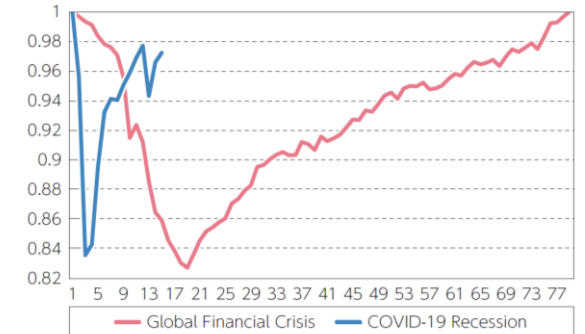


Figure 1-3-1 Global Financial Crisis and the COVID-19 Recession: Production

Source: Federal Reserve Bank of St. Louis

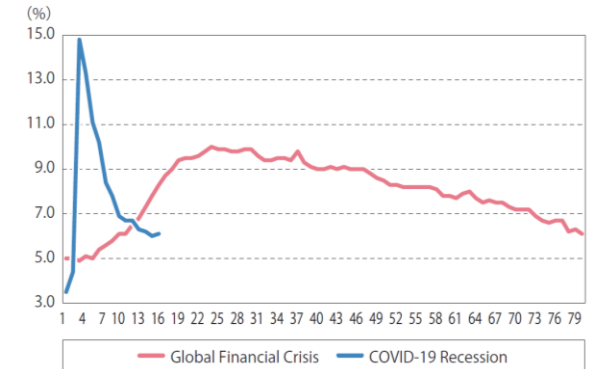


Figure 1-3-2 Global Financial Crisis and the COVID-19 Recession: Unemployment Rate

Source: Federal Reserve Bank of St. Louis

◆ Evaluation of fiscal and monetary policies
【Lawrence H. Summers】

“The USD 1.9trillion ARP could overheat the economy, leading to excessive inflation in the future”



Paul Krugman’s refutation

“If the output gap (the difference between potential GDP and real GDP(point P)) disappears, the FRB should use monetary policy to curb economic overheating”

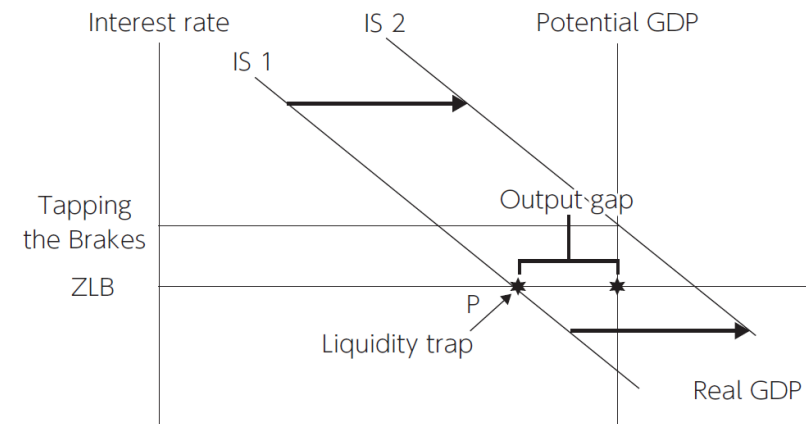


Figure 1-3-4

When an Expansionary fiscal policy Goes Too Far

Source: Krugman (2021b)

The Rapidly Recovering Chinese Economy and Its Presence in the World

◆ COVID-19 measures in China

- Ensured **surveillance and isolation** with the skillful use of IT technology, as well as through physical and human mobilization
 - ➔ Quickly resumed economic activities ahead of other countries
- Direct benefits seem to have been extremely suppressed
- Expected the informal sector would provide unemployed persons with temporary employment opportunities

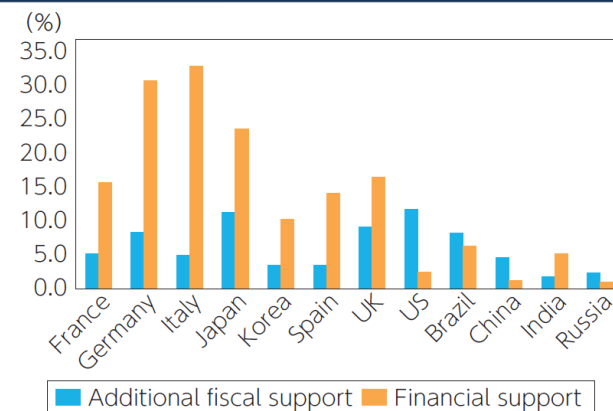


Figure 1-4-1 COVID-19 related fiscal & financial support measures by major governments (GDP ratio)

Source: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic
Note: The values are as of September 11, 2020.

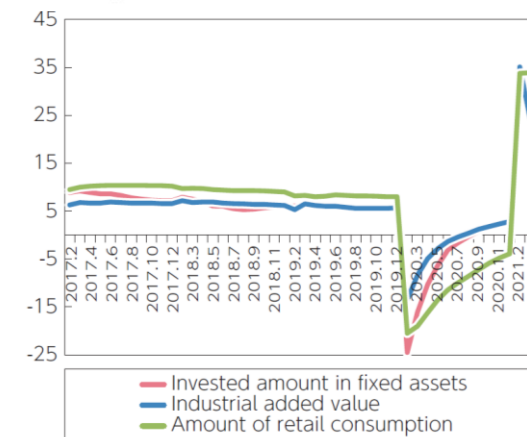


Figure 1-4-2 Changes in various economic indices

Source: Website of the National Bureau of Statistics of China: <http://www.stats.gov.cn/>
Note: All values are cumulative values from the beginning of the year.

◆ Issues faced by the Chinese economy

- The recurrence of the debt problem
- Employment stability
- Constraints on private-sector platformers
- **The US-China tariff battle**
 - ➔ A large hurdle for the trade negotiations the Chinese government's direct support for Chinese companies through industrial policies

China's Rise as the World's Top Creditor Nation: The Risks and the Outlook



- ◆ Expanding investment and lending from China to the rest of the world, China's net international investment was the largest in the world in 2016
- ◆ Several Western governments have accused **the Belt and Road Initiative** of being neocolonial, ensnaring many countries into China's sphere of influence through the means of debt-trap diplomacy
- ◆ The share of bilateral official PPG debt owed by all developing countries to China more than tripled between 2010 and 2019.
 - ➔ According to Horn, Reinhart & Trebesch, this number is vastly underestimated

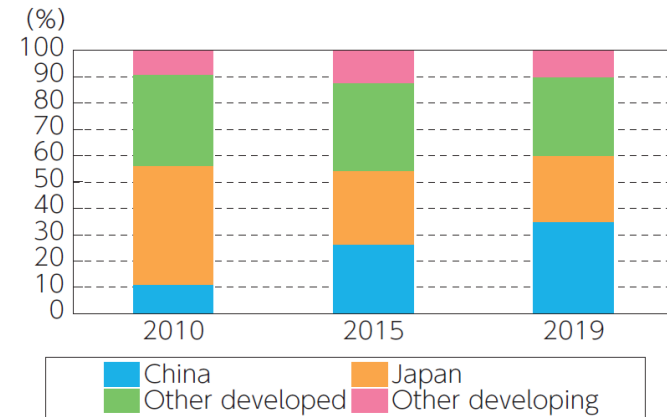


Figure 1-5-2 Creditor composition of debt owed to bilateral by all developing countries

Source: Based on "International Debt Statistics 2021" by the World Bank

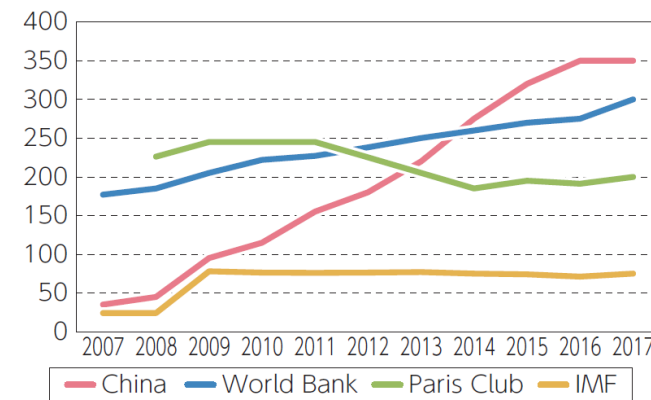


Figure 1-5-4 External debt stock owed to China versus multilateral creditors (Units: Billion USD)

Source: Based on Horn, S., Reinhart, C. M. & Trebesch, C. (2019)

China's Rise as the World's Top Creditor Nation: The Risks and the Outlook

- ◆ Unpayable debt in places of geopolitical interest to the Chinese government and in low-income resource-rich countries
- ➔ The US accused China of engaging in “debt-trap diplomacy”

【Asia】
Pakistan, Laos, Cambodia,
Kyrgyzstan, Tajikistan
(low-income countries)

【Latin America】
Venezuela, Ecuador
(oil-rich countries)

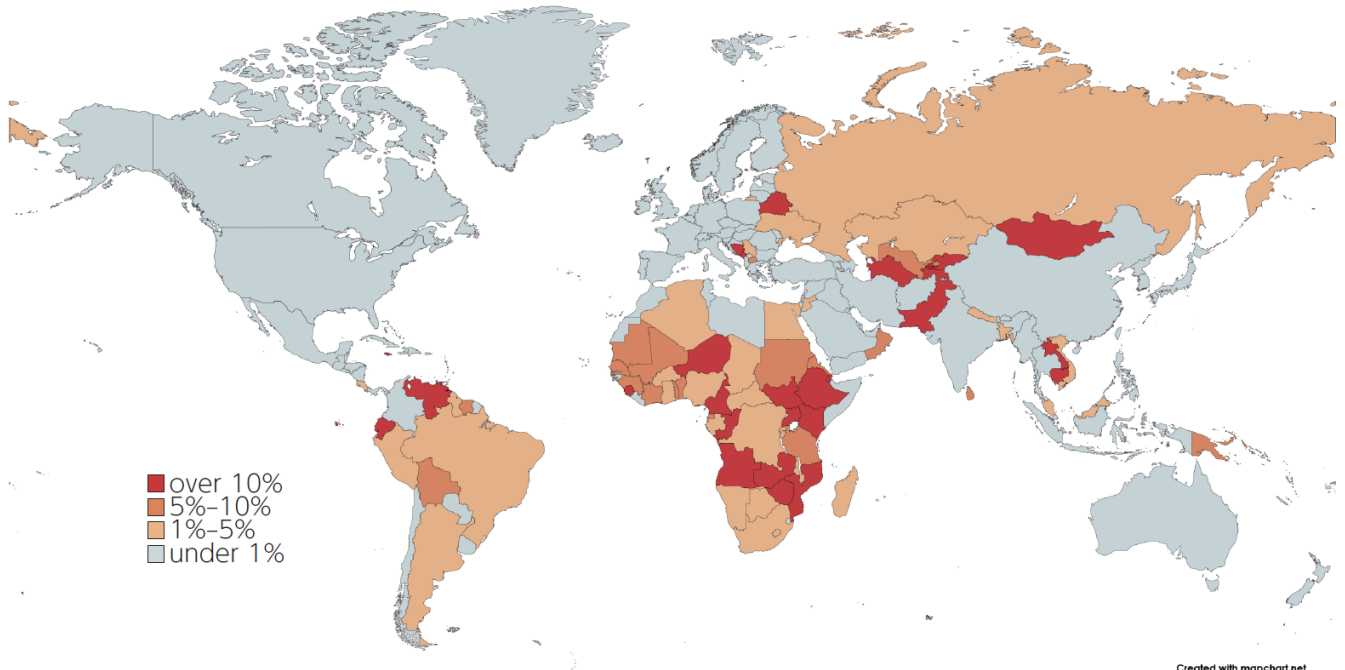


Figure 1-5-5 Debt owed to China by country (% of GDP)

Source: Based on Horn, S., Reinhart, C. M. & Trebesch, C. (2019)

Turmoil in the World Trading Regime and Mega-FTAs in East Asia

- ◆ What fears do middle powers(Japan, South Korea, Taiwan, ASEAN, Australia, New Zealand and India) have?
 - ①To be urged to choose between the US and China
 - ②The US and China will form agreements that are convenient only for themselves
 - ③The rule-based trading regime will weaken
 - ➔Working on these challenge requires **the formation and utilization of mega-Free Trade Agreements (FTAs)**
- ◆ The important point is how to maintain the solid ties within ASEAN
- ◆ Three factors are responsible for these overreactions to COVID19
 - ①Policies such as lockdown did not adequately capture the nature of shocks to the supply chain
 - ② The robustness of IPNs(stored through previous economic crises and disasters) was not fully recognized
 - ③Overreacted to the U.S.-China decoupling

- ◆ Three roles previously assigned to mega-FTAs
 - ① Further liberalization
 - ② International rule making
 - ③ **Maintain the rule-based trading regime**

- ◆ Evaluation of RCEP (Comparison with the above rules)
 - ① Harsh evaluation
 - ➔ Should endeavor to raise the degree of liberalization
 - ② Comprehensively covers various policy modes
 - ➔ Highly evaluated
 - ③ The East Asia including China show their rule-oriented stance, being tied with one trade agreement
 - ➔ Extremely meaningful

Labor Markets in Asia and the Informal Economy during the COVID-19 Pandemic

- ◆ Global working hours in 2020:
 - ▲8.8% on the previous year (four times greater than financial crisis of 2009)
- Global labor income in 2020:
 - ▲8.3%(4.4% of global GDP)
- ◆ Working hours in Asia : ▲7.9%, Labor income: ▲6.6%
 - Especially working hours in South Asia: ▲12.7%

What is the informal economy?

A concept that covers economic activities of unregistered companies, not subject to taxation, and whose work falls outside the frameworks of social security systems and labor laws

- ◆ 61.2% of the global employed population aged 15 years and above made their living in the informal economy
- ◆ The ratio of informal workers is 18.7% in Japan vs. 71.4% in developing Asian countries

Table 1-7-1

Size of informal economy in Asia

	Share of informal economic output (2010-2018 average)	Proportion of informal workers	
		Total employment	Non-agricultural workers
Thailand	46.2	55.8 ^(*)	37.6 ^(*)
Cambodia	40.0	93.1	89.8
Philippines	36.4	n.a.	n.a.
Myanmar	29.2	85.7	82.3
Malaysia	28.1	n.a.	n.a.
Laos	23.6	93.6	78.5
Indonesia	16.3	85.6	80.2
Vietnam	12.6	76.2	57.9
China	9.6	54.4	53.5
Japan	n.a.	18.7	16.3

Note 1: Data regarding employment for each of the countries are from the following years: Thailand (2017), Cambodia (2012), Myanmar (2015), Laos (2010), Indonesia (2016), Vietnam (2008), China (2013), and Japan (2010).

Note 2: "n.a." = Data is not currently available.

Sources: Output = Ohnsorge and Yu (2021); Employment proportion data = ILO (2018), except for Thai data, which is based on WIEGO (2019).

Labor Markets in Asia and the Informal Economy during the COVID-19 Pandemic

- ◆ The proportion of informal workers is higher in low-income countries, but the proportion of informal workers affected by the COVID-19 pandemic is as high as over 75% in all income levels, except for upper-middle-income countries
- ◆ The impact of the Corona disaster on the income of informal workers varies widely by income level:
 - ▲ 28% in upper-middle-income countries, ▲ 82% in lower-middle income and low-income countries, and ▲ 76% in high-income countries
- ◆ Relative poverty among informal workers:
 - The overall increase was 34% compared to the pre-pandemic levels
 - Rose 52% in high-income countries and 56% in lower-middle and low-income countries
- ◆ Relatively large loss of employment in the informal economy; conversely, small decrease in number of hours worked

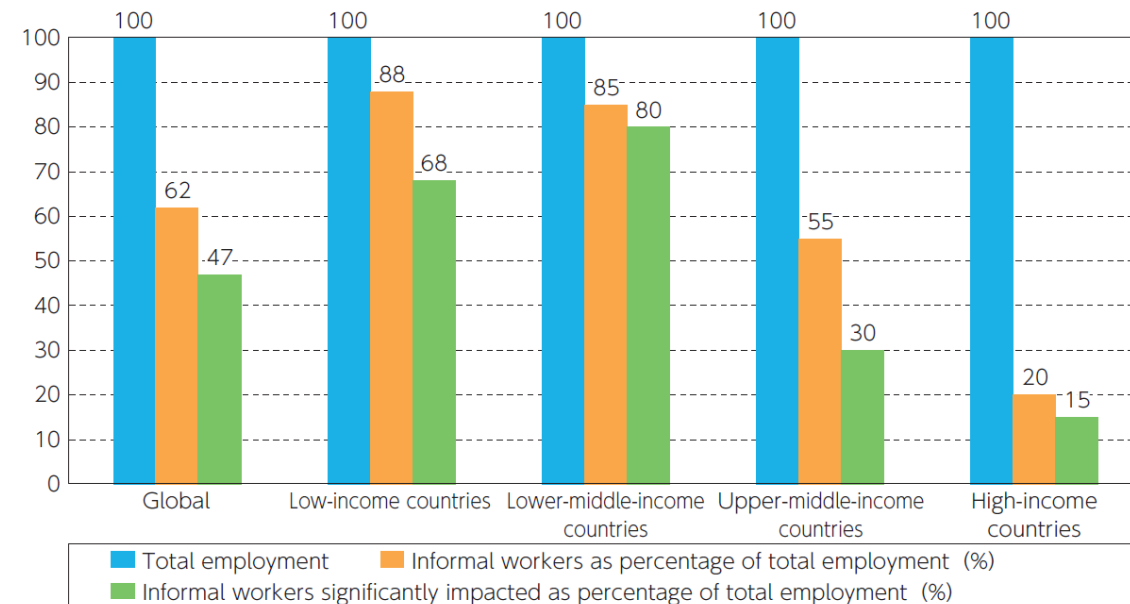


Figure 1-7-1

Proportion of informal employment significantly impacted by the COVID-19 pandemic (April 2020)

Source: ILO (2020a), p. 8, figure 3

Labor Markets in Asia and the Informal Economy during the COVID-19 Pandemic

- ◆ The impact of COVID-19 on output based on the ISIC: 1,245 billion people (37.5% of the total employment) are employed in high-risk sectors
Particularly, 480 million people are employed in the "wholesale and retail trade" sector
- ◆ 75% of informal workers are engaged in microenterprises with less than 10 employees
- ◆ 77% of all young workers (328 million) are engaged in informal jobs

Table 1-7-3 Number and percentages of informal workers by at-risk group of sectors

	Risk level					Total
	High	Medium-High	Medium	Low-Medium	Low	
Total employment (millions)	1,245	384	331	880	484	3,324
Informal workers (millions), of which:	712	213	213	795	128	2,060
<i>Own account workers (%)</i>	43	44	43	57	12	47
<i>2-9 workers (%)</i>	26	31	28	31	22	28
<i>10-49 (%)</i>	10	6	11	4	11	7
<i>Over 50 (%)</i>	22	19	18	8	56	18
Highly impacted informal workers (millions)	626	194	176	515	54	1,564
% highly impacted	88	91	83	65	42	76

Source: ILO (2020b), Table A3, p. 15. (Japanese translation by author)

Table 1-7-2 Economic sectors classified by risk level

Risk level	Economic sector (based on ISIC rev. 4)	Total employment (thousands)	Sector employment as percentage of total employment (worldwide) (%)	Percentage of women (%)
Low	Education	176,560	5.3	61.8
	Health and social work	136,244	4.1	70.4
	Public administration and defense; compulsory social security	144,241	4.3	31.5
	Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities (*1)	26,589	0.8	18.8
Low-Medium	Agriculture, forestry and fishing	880,373	26.5	37.1
Medium	Construction	257,041	7.7	7.3
	Financial and insurance activities	52,237	1.6	47.1
	Mining and quarrying	21,714	0.7	15.1
Medium-High	Arts, entertainment and recreation; Other service activities	179,857	5.4	57.2
	Transportation and storage; Information and communication	204,217	6.1	14.3
High	Accommodation and food service activities	143,661	4.3	54.1
	Real estate activities; Administrative and support service activities; Professional, scientific and technical activities	156,878	4.7	38.2
	Manufacturing	463,091	13.9	38.7
	Wholesale and retail trade; repair of motor vehicles and motorcycles	481,951	14.5	43.6

Note 1: "Utilities" in the ILO report were translated as in (*1) above in accordance with the Japanese version of the International Standard Industrial Classification of All Economic Activities (ISIC).

Source: ILO (2020a), Table 2, pp. 4-5 (Japanese translation by author)



**Thank you for your
attention!**

APIR