

How will COVID-19 shape economic policy landscape and regional cooperation? Some initial thoughts

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- The world economy is expected to contract by approximately 5 percent. The forecast for ECO countries is around half of this figure.
- It looks like COVID-19 is a shock to growth rates—has a different nature than other crises—that can partially explain this gap.
- For unemployment rate forecasts, the story is flipped: developing countries have been hit the hardest.
- Tax revenues are declining (up to 20 percent in the US), huge fiscal expansion inflates public expenditures. Borrowing and debt stocks have increased. Full picture is still hard to see at this stage; but it looks like a full-fledged global economic meltdown.
- What are some of the less obvious but more serious challenges?

- Informality has always been a policy challenge. But this time it is different: informal economy, by definition, is out of the COVID-19 support coverage.
- The socio-economic damage of COVID-19 may be strongly correlated with the size of informal economy.
- Macro perspective: the GDP forecasts would be upward biased in countries with high rates of informality.
- Micro perspective: the informally employed households are out of the state-guaranteed job security programs.

- Informally employed ones are more likely to lose their jobs → increased poverty and inequality (poor gets poorer) → immediate inequality consequences. ECO countries are more likely to suffer from this dangerous spiral.
- Major sectoral shifts in demand → major shifts in employment across sectors → huge erosion of sector- and firm-specific human capital → flatter wage trajectories for the low-skilled.
- Access to basic education has become more strictly tied to access to internet and technology → widening future inequalities.

- Automation was already a policy priority before COVID-19. Unemployment implications were discussed. But, it was still discussed as a medium-to-long-term phenomenon.
- COVID-19 has become a catalyst that increases the pace of diffusion of automation into production technologies.
- It looks like “the negative impact of automation and digitization on employment prospects of manual and low-skilled” would be a more urgent issue to address than we previously think. A serious challenge for ECO countries.

- As our world gets a more crowded place and human mobility goes up, risk of future global epidemic diseases will persist, if not increase.
- Changing policy priorities may lead to fundamental trade-offs about spending taxpayers' money. Health policy will have a higher share from public expenditures (especially true for countries with less effective public health systems).
- This may lead to a reduction in fiscal policy effectiveness at least in the short-term.

- Measuring and addressing the needs of the “hidden” (informal) group of vulnerable economic agents.
- Planning remedial policies for widening education gaps.
- Accelerating the policy agenda on mitigating the negative impacts of automation/digitization.
- Reforming the agenda on public health policy.
- Supporting and empowering sectoral unions to preserve small enterprises.

Increased need for regional cooperation

- Enhancing regional cooperation for addressing technical capacity building needs of the Member Countries.
- Designing programs for exchange of best practices and expertise through virtual events, trainings, workshops, etc.
- Starting regional initiatives for trade facilitation and enhancing transportation (within circumstances of the “new normal”).
- Supporting SMEs especially by helping them in digitalization and e-commerce.