

The background of the cover features a silhouette of several large tower cranes against a sunset sky. A large, semi-transparent circular graphic with concentric rings is overlaid on the scene. Faint text in the upper left corner reads 'Coronavirus COVID' and 'Total Confirmed'.

# Capital Investments the Centre Piece for post COVID Recovery Policy

A Policy Dialogue Paper

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This crisis will need to be dealt with in two phases:  
a phase of containment and stabilization followed  
by the recovery phase

IMF World Economic Outlook June 2020

## Forward

This policy dialogue paper has been generated to highlight the essential need for investments at scale in the COVID-19 recovery strategies. The role of investments is presented as a technical cross-cutting requisite that supports and contributes to the UN Framework for the immediate socio-economic response to COVID-19.

The UN framework puts in to practice the UN Secretary-Generals Shared Responsibility, Global Solidarity report through five workstreams;

- 1) Health First; Protecting Health Services and Systems during the Crisis;
- 2) Protecting People; Social Protection and Social Services;
- 3) Economic Response and Recovery; Protecting Jobs, Small and Medium Enterprises and Informal Sector Workers;
- 4) Macro-economic Response and Multilateral Collaboration;
- 5) Social Cohesion and Community Resilience.

These workstreams are connected by a strong environmental sustainability and gender equality imperative to *"build back better"*, the guiding principle for COVID-19 socio-economic recovery.

Across all five workstreams, investments will be required, in some spheres such as Health First and Protecting People and the Macro-economic Response large scale finance packages are already being provided by the IFIs to support government COVID 19 policy responses and to shore up public budgets. By June the International Monetary Fund has injected US\$ 25 billion into the global economy.

The purpose of this paper is to offer a complimentary discussion topic to support the opening of new policy spaces in the terms of economic transformation and regaining growth trajectories for development financing. It diversifies the current discourse by applying an investment lens to stimulate the five workstreams. Using published data and data projections its advocates that investments provide one of the center pieces for recovery strategies having the value-addition to create explicit linkages between the COVID-19 socio-economic recovery response, SDG commitments, climate and human rights.

In this context analysis of country economic structures and growth impacts are discussed and basic investment requirements highlighted. Concepts for catalytic investments that pave the way to enhanced resilience against shocks through a mix of circular economy and the development of domestic and near neighborhood value chains are presented for extending investment policy discussion to address the new normal.

MONGOLIA

CHINA

LAOS

THAILAND

VIETNAM

Bangkok

Phnom Penh

Kuala Lumpur  
Singapore

Chengde

Hanoi

Hong Kong



UNLOCKING PUBLIC AND PRIVATE FINANCE FOR THE POOR

1

# The Immediate Response



Capital investments need to be at the center of COVID-19 recovery strategies, promoting a mix of national and sub national investments.

## Background

The immediate impact of COVID-19 on urban and peri urban communities has been devastating. With the initial focus being placed on public health, governments and the international community have taken unprecedented policy decisions in the context of containing the spread of the virus and treating and testing large segments of the populations.

These policies include enhanced emergency spending in health sectors, multi-purpose and multi-faceted economic stimulus packages and social behaviour modifiers that have included travel restrictions, community lockdowns, essential service delivery and social distancing (ref to [IMF COVID policy tracker](#)).

As being witnessed across the globe, the tide of the pandemic appears turning with the reported general flattening of new cases of infections and associated recorded deaths. Governments in the region have developed a phased policy approach to re-opening economies, borders and air travel.

Given that immediate policy responses are in more or less in place and are being implemented by governments. The focus of the international community is moving towards the recovery phase, using the opportunity that recovery provides in addressing SDG and climate commitments, and to build back better, ushering in a new normal that promotes and facilitates greater levels of sustainability, inclusiveness within societies that leaves no one behind.

This paper looks at the immediate past in the context of response policy and explains why capital investments need be central to post COVID recovery strategies.

## An Immediate Response

The pandemic rapidly brought about a slew of new and untried policies, as government's chose to take unprecedented decisions nominally without a solid evidence base. A short review of these policy actions being discussed below.

### Financial Stimulus Policy

Many governments and international organizations have taken on board immediate policy and budget responses to reverse the negative socio-economic impact attributed to COVID-19. A majority of these initiatives, which are being driven through national central government finance architectures, address the critical issues of easing financial flows and providing temporary financial concessions to large and small business, domestic banks and protecting citizens through social protection packages.

Most policies and financial stimulus are following similar trajectories that attempt to buoy sinking business segments of the economy, offering injections of capital to ensure large and to some extent small businesses to maintain the ability to operate, i.e. to cover fixed costs, and in some cases repurposing of production has occurred. Tax concessions that include deferral and waiver, as well as similar assistance on Interest payments, have additionally been introduced. For example, to aid small businesses many governments are deferring tax payments and providing cash grants / accessible loans.

In addition, large cash pay-outs to families and individuals are being implemented through extended social protection systems. The underlying principle being to minimise social cohesion impacts and to part stimulate domestic economies as the cash pay-outs are intended to be used for local consumption.

Similar responses are being practiced across many countries in ASEAN irrespective of, economic structure, economic status, geographical location and macro-economic characteristics.

Globally the financial stimulus models have been, in the main, supported by central banks and the IFIs. The IMF has established (i) the Rapid Credit Facility (RCF) providing concessional finance to the low-income countries (LICs), (ii) the Rapid Financing Instrument (RFI) that is open to all IMF member countries and specifically addresses urgent balance of payment needs and (iii) the Catastrophe Containment and Relief Trust (CCRT), that provides immediate debt service relief for the LDCs affected by natural disasters, including the current COVID-19 pandemic and any future pandemics.

While IMF stimulus packages for 69 countries have amounted to US\$ 24.726 billion in emergency financing through the RCF and RFI, Asia Pacific countries accounting for just 6% of this assistance package.

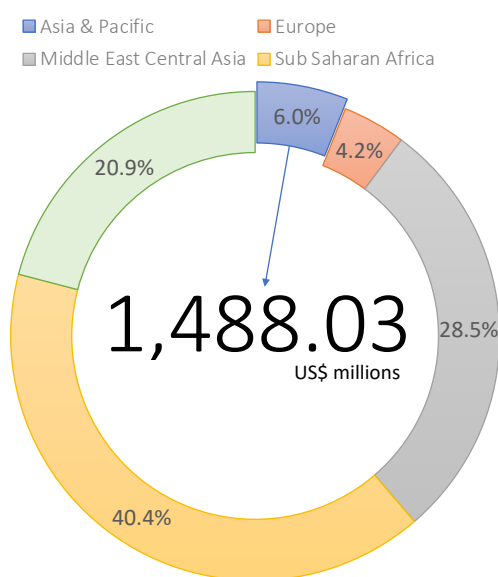


Chart 1: IMF COVID Response Global Financing

## Shaping ASEAN Recovery Policy

Many countries in the region are following a similar policy approach to provide an immediate response, containment response and creating a longer-term signature socio-economic response. The core ingredients for the policy models include (i) fiscal stimulus,

related to public sector revenue and expenditures, (ii) monetary and macro-financial packages to assure and potentially improve liquidity of domestic finance and (iii) stabilizing the balance of payments and exchange rates.

- a Fiscal Stimulus
  - i Increase in health sector expenditures
  - ii Introduction of social protection measures
  - iii Tax and tariff concessions
  - iv Rationalization of public sector capital spending
- b Business support packages
  - i Monetary and Macro Packages
  - ii Reduction in national bank interest rates
  - iii Lowering minimum banking reserves
  - iv Lowering overnight deposit rates
  - v Moratoriums on bank loans
  - vi Reduced capital adequacy ratio
- c Balance of Payments
  - i Export restrictions

## Generating Imbalances

As governments in the region implement their response policies triggering several positive results, it is important to consider the potential imbalances caused by such policy options. Although many governments have attempted to balance their policy against public finance envelopes, debt sustainability policy, and GDP forecasts, the global architecture of the recovery policy is yet to be defined.

In general, four assumptions are being applied to national recovery policy options (i) the global economy, once fully restarted, will within a short time period return to its pre COVID-19 state, (ii) commentators are predicting a V shaped recovery, whilst some are suggesting, at best, a U-shaped recovery, (iii) a longer sustained global downturn cannot be ruled out and (iv) global manufacturing systems as defined by the global value chains (GVC) and the associated regional production networks (RPN) will return to a pre COVID-19 state.

The perspective in the region suggest that GDP growth is likely to be volatile, and previous sub sector drivers of growth may no longer remain to be key economic drivers in a post COVID-19 environment while external factors impact the global production network and the reconfiguring of the GVCs and RPNs occur. Indeed, in this context, the demand from the pre COVID-19 markets is likely to be much lower, as also on the supply side, the impacts on employment and remittances associated to GVCs are expected to scar the economic landscape.

The depth and scale of temporary and permanent scarring of the economies is yet to be determined, and this in part will contribute to or place barriers to the concept of a V-shaped recovery. It is this combination of the permanence of scarring and the unknown speed of recovery that will differ across countries, for which unique policies and financial solutions will need to address.

Given that a majority of countries, including the LDCs and LMICs have taken up on the concessional debt finance packages offered by IFIs, they have, in parallel, introduced COVID-19 response policies that reduce government revenues i.e. tax payment deferrals and tariff concessions. Policies that reduce available public budgets and potentially create new deficits are coupled with increased and perhaps unsustainable public sector spending on health and social protection. It is within this context that fiscal and economic imbalance is being incurred, which will lead to higher indebtedness that will translate into lowering of public sector fiscal space.

Likewise, as public sector spending accelerates as a result of COVID-19 rapid response policies, capital investments are facing decline. Cambodia, for example, has trimmed back public sector capital expenditure (-3.5% GDP), as a component of their budget rebalancing strategy, to off-set increased health expenditures and reduced revenues.

## Capital Markets

Capital markets have been negatively impacted by COVID-19<sup>i</sup>, creating an environment that has seen a decline in Foreign Direct Investment (FDI) and higher cost of credit. Equities fell sharply in parallel with global oil prices. Credit market spreads widened in risky segments such as high yield bonds, leveraged loans and private debt, paralyzing the issuance of new debt – especially in emerging markets that often provide FDI to LDCs and LMICs. These features combined with volatility of commodities and the stalling of the GVCs added a further leg to the deterioration in risk appetite (IMF April 2020).

There has been a very rapid and sharp tightening of global financial conditions, as strains on short term funding markets (global markets for US\$), the deterioration of market liquidity and leveraged investors retreating from long term equity positions. Investors, who previously led the final frontier FDI charge in emerging economies have reconfigured investments towards safe havens such as quality bonds, gold and silver.

Potentially, the greatest impacts and long-term scarring may be seen in the emerging and frontier market economies. In the region, lagging economies and the traditional growth centers are experiencing reversals in capital flows, both in dollar terms and as a share of emerging and frontier market GDP.

The loss or reduction of external sustainable debt financing, amplified by COVID-19 response policies that initiate cuts in capital expenditures, lower revenue collections and in some cases increased public sector expenditure, is likely to put greater pressure on more leveraged and less creditworthy borrowers<sup>ii</sup> (countries) as debt expands. As highlighted by the IMF, a rise in debt restructurings (that includes sovereigns and the private sector), is very likely to test existing debt resolution frameworks.

## Impacts to Emerging Economies

The IMF concludes that the economic fallout depends on the unpredictable interaction of various factors that includes: the life cycle pathway of the pandemic, the intensity and efficacy of containment, the extent and duration of supply disruptions, and the investment repercussions due to the substantial tightening in global financial conditions.

Globally, countries commonly face a set of multi layered shocks that include public health, domestic economic disruptions, GDP contraction, plummeting external demand, and capital flow reversals. COVID-19 policy response impacts also within themselves, as highlighted within this paper, carry the potential to add another shock layer, especially low-income and developing countries, as the rapid COVID 19 response polices are potentially reducing fiscal space by increasing debt levels and reducing revenues.

In summary, the policy actions taken will possibly place additional stress on the economies in the context of sustainable GDP growth and recovery.

## The Recovery Policy in ASEAN

The explicit economic relationship between GDP growth and investments, defined by incremental capital output ratio (ICOR), rationalizes that investments are needed drive growth.

As highlighted, the conditions for investment into the region’s economies need to consider that (i) the implications of rapid response COVID-19 policy has not been data nor evidence driven, (ii) the tightening of global financial conditions, (iii) lower energy and commodity prices and (iv) stalled GVCs are not promising in the short-term.

In this context, shifts in policy environments that start to mitigate reductions and cancelations in public sector capital spending, and address the rapid expansion of government socio-economic expenditure, is linked to the attraction of deferred loans repayments for a wide variety of uses are sought to create new fiscal space.

## Growth Perspectives

There are numerous banded predictions of sovereign and global growth perspectives, each providing its own uniqueness. Given the many unknowns, it is practically impossible that a common set of economic predictions can be agreed on. However, most commentators agree that almost all economies in the ASEAN region will see a contraction (negative growth) of GDP.

International development agencies have predicted a contraction of global GDP the region of a 5.2 percent, with most emerging and developing economies likewise shrinking. The following table provides an over-view of the projected contraction of GDP of ASEAN member states (AMS) +1.

|             | 2019 | 2020 | Con  | 2021 |
|-------------|------|------|------|------|
|             | %(e) | (f)  | %    | (f)  |
| Cambodia    | 7.1  | -1.0 | -8.1 | 6.0  |
| Indonesia   | 5.0  | 0.0  | -5.0 | 4.8  |
| Lao PDR     | 4.7  | 1.0  | -3.7 | 4.6  |
| Malaysia    | 4.3  | -3.1 | -7.4 | 6.9  |
| Myanmar     | 6.3  | 1.5  | -4.8 | 6.0  |
| Philippines | 6.0  | -1.9 | -7.9 | 6.2  |
| Thailand    | 2.4  | -5   | -7.4 | 4.1  |
| Viet Nam    | 7.0  | 2.8  | -4.2 | 6.8  |
| China       | 6.1  | 1.0  | -5.1 | 6.9  |

Table 1 - GDP Projections - SOURCE: IMF (June 2020)  
Global Economic Prospects

The average contraction of growth rates across the AMS is -5.9 percent, the range being 4.4 percent. When considering the economies below and above the -5.9 percentage, two groups can be formed; G1: consisting of Cambodia, Philippines, Malaysia and Thailand, and G2: Indonesia, Myanmar, Viet Nam and Lao PDR, with G1 having service sector dominated economies.

Policymakers need to maintain a balance between safeguarding financial stability and supporting economic activity



# 2

## Regional Case Lao PDR

## Regional Case – Lao PDR

Data<sup>iii</sup> suggests that the economy will see a significant contraction of GDP growth by 3.7 points (2020) as a direct result of COVID-19. However, his impact is fairly limited when compared to neighbouring LDCs such as Thailand and Cambodia. The Laos economy is not only narrow but it is fiscally small when compared to ASEAN member states. These two features contribute to a fragile economy that is subsequently vulnerable to external demand and supply side shocks.

The main drivers of economy are financial services, mining, construction and tourism. Manufacturing is limited to lower value inputs into regional value chains are in general most export-oriented manufacturing is clustered in the Savannakhet province. The narrowness of the economy and the large engagement within the low value, labour intensive GVCs has been a factor in terms of impact.

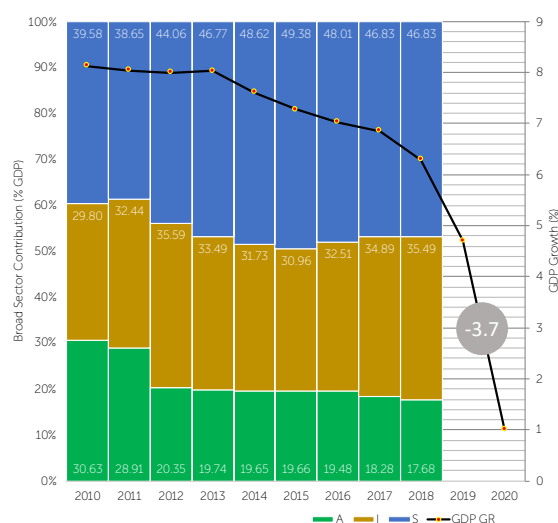


Chart 2 Lao GDP Snap Shot

As illustrated, a fairly balanced structure is being sought with relative growth of the services and industry sectors replacing the halving of the agricultural sector over a 10-year period. The contribution of the industry sector has remained constant over the same period of time averaging 21 percent, which is the lowest amongst ASEAN member states.

The critical issue with the industry sector has been previously identified (2017) in that although the industry sector contributes more to economic growth, the sector remains dominated by resource-based products, that are unable to yield decent job opportunities.

The services sector, where the main employment is within the tourism industries has provided decent work opportunity, such opportunities have in the main been restricted to low value-added services.

Lao PDR Myanmar and Cambodia, as ASEAN lagging economies offer useful comparisons. Data (table 1) indicates that Cambodia is expected to see a 8.1-point drop in GDP growth between 2019 and 2020 whilst Myanmar will see a 4.8-point drop, compared to a 3.7 point drop for Lao PDR (roughly half of that of Cambodia). Interestingly both Lao PDR and Myanmar are projected to continue to see positive growth, albeit at a lower level, with growth being projected at +1.0 percent and +1,5 percent for 2020 respectively. Of note is that the structure of all three economies are fairly balanced with agriculture sector proving double digit contribution to the GDP.

The most affected economies in the region are the Philippines and Thailand, that are both expecting a large contraction of the economies. The Philippines a is estimating a 7.9-point drop in GDP growth with Thailand projecting a 7.4-point drop.

The Laos economy which is reliant on resource-based industry, tourism, energy supply and the emerging construction sector is in most part de-coupled from global value chains. This feature inbuilds a level of resilience to global shocks and disrupters.

## Investment Requirement

The indicated loss of GDP and the reduction of GDP growth rates will take considerable effort to reverse in the short-term, especially given the lack of fiscal space available.

Although a v-shaped recovery is being touted by some, a more conservative estimate is probably prudent, especially so, in countries that have a reliance on services and a resource-based manufacturing sector that is not labour intensive. production, especially in low value segments. Since it can be assumed Lao PDR fits into the latter scenario (a conservative u-shaped recovery), it would be pertinent to reflect on policy assumptions

- The return to the old normal will not occur, the limitation of migrant work opportunities in neighbouring countries will impact Lao households, lowering consumption that will dovetail into a slowing of the national economy and the potential for higher levels of inflation.
- Rapid policy implementation, in the wake of the COVID 19 response phase, has the ability to reduce fiscal space that will increase the cost of capital
- The development of policy pathways that can sustainably support Lao PDR recovery and vulnerable groups should provide the necessary balance between consumption / production investments
- Permanent and or long-term scarring of the economy is likely to be witnessed within various channels that include; unemployment, as a result of dips in demand and new pattern of consumption. On-shoring, currently being practiced by OECD economies, will not only have some direct impacts, but will generate additionalities (that may be either positive or negative) related to the reconfiguration of the GVCs and production networks.
- The impact of COVID-19 in neighbouring countries where previously Lao day wage and longer-term migrants found employment will reduce such opportunity in the short to medium term.

## Regaining the Past

Typically, GDP growth within the regions emerging economies has been linked to the transition of these economies from an agrarian base to a services sector orientation via tourism and financial services.

These transition features have been driven through intra-ASEAN convergence and FDI inflows, the latter being consolidated through public sector policy and financial investments to increase competitiveness, possibly at the cost of sustainability

Contrary, the development of Laos to-date has been achieved through FDI that has (i) opened up a large regional electrical energy export market position (ii) developed a set of resource-based industries, (iii) created a niche financial services industry.

As previously mentioned growth and investments are explicitly linked. Given that data sets differ, especially in relation to the economic forecasting of the broad impact of pandemic only a very basic estimate of investment requirements for Laos can be considered.

In this context, this paper presents two core investment scenarios; (i) the investment requirement to return to the pre-COVID GDP levels and (ii) investment requirements to return to forecasted 2021 GDP growth and the development trajectory set out in the 8<sup>th</sup> national socio-economic development plan

The following variables for the investment modelling are considered being based on ADB, UNDP and World Bank forecasts and associated data sets;

Specifically, projected growth data has been sourced from the IMF World Economic Outlook (June 2020) with GDP data sets being sourced from ADB. Incremental Output Ratios are referenced from various World Bank publications and in the main utilise the norm being applied by national Governments.

Key Assumptions:

1. Banded ICOR estimate ranging from 3.6 to 4.0 (7<sup>th</sup> NESDP base)<sup>iv</sup>.
2. Banded GDP growth rates from 2019 GDP estimate ranging from -2 % percent (contraction) to 7% (as set by the 8<sup>th</sup> NESDP).
3. Nominal IMF projected COVID-19 impacted GDP growth rate (2020).

Further analysis, that enquired about indicative investment requirements to place GDP growth on track at 7% (2021) reveals the need in excess of 25% of GDP to be invested into the economy.

This requirement suggest that recovery will need be implemented on a long-term horizon, that may provide a natural spilt for policy makers in the context of designing mixed-term recovery strategies.

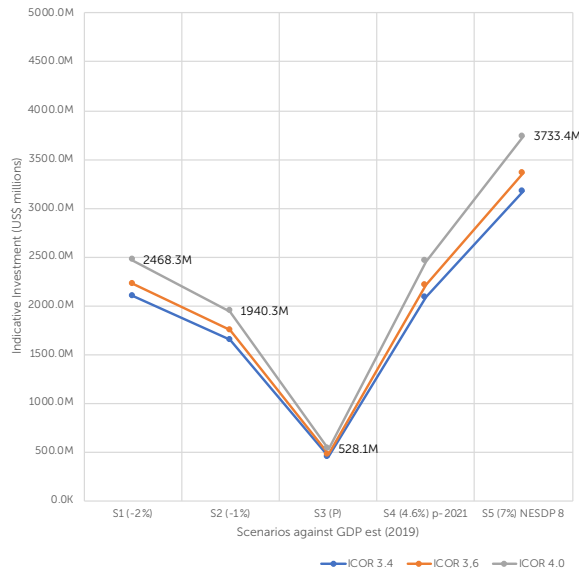


Chart 3: Indicative Investment Scenarios (2019 GDP)

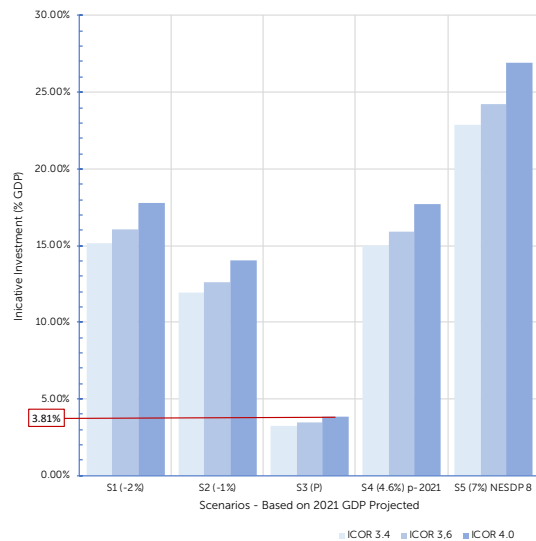


Chart 4: Investment Requirement - NESDP Trajectory

As illustrated, the nominal investment requirements for Lao PDR to attain the IMF projected growth rate of 1% will require just over US\$ 500 million. Investment scenarios that consider the following projects indicative minimum investment of US\$ 528 million to a maximum of US\$ 2,453 million to attain the 4.6% projected growth in 2021. To return growth to the 8<sup>th</sup> NESDP norm investment requirements will be in excess of US\$ 3,700 million

The level of investments that are required to regain lost GDP and to return to the pre COVID-19 development trajectory suggest that a mix of short-term policies that dovetail into a longer term recover strategy (5 to 10 years) provides policy makers with the optimum choice.

Given the predictability issues of forecasts and especially ICOR values, which ideally need to be calculated for each broad sector and or sub sectors a banded ICOR solution is presented. This provides lower, medium and upper investment profiles that are assessed against GDP performance as defined by growth (US\$ constant 2010) applying a 10-year time series.



# 3

## The Case for Capital Investments

## Case for Capital Investments

The infrastructure demands across AMS pre COVID-19 remain, with the initial premise related to: enhance connectivity, more efficiency in transport and logistics, the creation of new economic opportunities and enhancing competitiveness on both regional and national levels remain.

Pre-COVID, it was estimated that US\$ 110 billion was needed to close the financing gap for regional infrastructure <sup>v</sup>. Capital remains more affordable with interest rates being at all-time lows and in some cases remaining in negative territory, strengthening this concept.

Given the abundance of IFI finance and the rapid injection of capital to stabilize macro-economic environments, advantageous conditions exist for capital expenditure using affordable and sizable debt finance. Additionally, as the cost of finance is at an all-time low thereby lowering debt sustainability risks, especially as grace periods for repayments are being extended. This scenario allows for adjustments to be made to existing fiscal rules that can have a net effect of increasing fiscal space.

Post COVID recovery strategies will by influence the direction of infrastructure investments. Changes in patterns of work, travel, leisure social practices and public health will shape new investments. In essence national and local governments will have to re-visit development plans and project pipelines to assure their relevance and access their impacts towards post COVID recovery.

However, even within an era of low borrowing costs, productivity gains as a result of infrastructure development is dependent upon what is built and how the investment is effectively managed. It is within this context that projects under a specified cap should be devolved to

municipalities and local governments. It is at the local government level where government to people relations are the closest and better investment choices can be made.

## New Characteristics

In a post COVID environment, public sector capital investments and PPPs take on new roles that include; providing a positive return on investment, contributing to the broadening of narrow economies through diversification and technology, induce social good via amenity value and promote social cohesion. To build back better the following investment characteristics need be considered and applied.

- Public infrastructure investments should not only provide economic returns but must also factor in material social benefit i.e. amenity value.
- Local and small projects have a capacity, when designed and run through local governments and communities, to produce better outcomes through higher rates of return. Such projects are also labour intensive as in many cases machinery costs are not viable. Employment opportunities can be immediately generated and can form a part of any stimulus package to mitigate employment lost through COVID-19.
- Capital expenditure and local projects should also support the pre-crisis development agenda. Climate investments that seek to establish a zero net carbon emission economy, investments into education and health to support HDI and connectivity projects need be retained or become part of a portfolio of projects i.e. converting factory roof space for solar, connectivity infrastructure, waste to energy facilities. This will require that existing investment pipelines be examined and re-packaged.

Productivity gains as a result of infrastructure development is dependent upon what is built and how the investment is effectively managed.

## Transformative Investments

Investments in the post COVID-19 era need to be significantly transformative in nature and usher in solutions, developing new pathways to “*build back better*”. Thus, in a post COVID-19 policy environment, the transformative impacts of investments need be considered that may include;

- Facilitation of structural transformation that provides a better balance to support domestic resilience;
- Creation of new or the expansion of domestic value chains;
- Promotes a strengthened circular economy that links to climate and environmental commitments and funds;
- Clusters investments around growth poles, applying agglomeration models that provide spill over dividends;
- A balanced level of investments should be made at the sub-national level and not necessarily confined to the national level;
- Sub-national investments can be capped thus limiting investments to ideally sized infrastructure projects that have a greater opportunity to provide a return on investments stimulate local economic growth and opportunity.

## Investing into Localities

The variations of response and containment and stabilization policies that have shaped public health governance, academia, public and private sector perceptions alike can be compartmentalised at global and national levels. Policies and practice being somewhat more inter-fitting and less codified have allowed, especially within countries, policy flexibility that in turn has supported innovation.

The complimentary inter-fitment is found to be even stronger between national and local governments, as the latter institutions have sought and introduced localised innovations to address containment and stabilization. Such practices exhibit a fungible policy solution that can equally address the recovery phase.

Large scale mega projects should not be considered as being appropriate for economic stimulus given; (i) the general long project cycle, (ii) productivity rewards that will only be seen over a lengthy time period and (iii) the lagged employment opportunities as projects are prepared.



4

Circular  
Economy  
Investments

Creating Domestic  
Economic Opportunity

An opportunity to rethink our economic future, in which today's goods are tomorrow's resources, forming a virtuous cycle that fosters prosperity in a world of finite resources.

## Circular Economy Finance

Post COVID-19 recovery strategies and plans are being developed by the international community that consists of a multitude of different stakeholders. Governments, the development banks, private sector, banking and finance sector, non-state actors and the development community are bringing together policy concepts in an attempt to facilitate a global coalition to support recovery through a “*Build Back Better*” approach that is inclusive and addresses the needs of the most vulnerable groups.

As highlighted, investments need to be at the core of the policy framework as a cross-cutting enabler. However, investments need to aim at inducing a systematic socio-economic transformation that promotes equitable development and which strategically addresses pre COVID 19 issues and national development plans. The latter includes the maintenance of efforts and finance to meet the challenges of SDG commitments, climate change and human rights.

Although not being a new concept circular economy investment can provide a suitable conduit to address a majority of such issues whilst accelerating SDGs through an “*earmarked*” finance model.

Today's linear economy simply extracts resources, transnationally transports these unprocessed resources, processes the resources into components or unfinished products, transport these products to a final production / assembly location usually across national borders and finally transnationally ships finished products to market where they are consumed or part consumed, and finally the left over is commonly dumped.

The circular economy re-invents and re-models the linear economy in a manner that modifies current goods through design, production, transportation and use to;

- Create no waste or pollution in their manufacture process, use and disposal;
- Retain the usefulness of goods and products for longer life cycles;
- Facilitate efficient recycling at each stage of the life-cycle process (design to disposal)
- Create innovative solutions that open up new economic opportunities for the natural environment to regenerate or convert waste throughout the product life-cycle.

### Making it a Reality

A sustainable economic system that drives COVID-19 recovery investments can yield enormous environmental, socio-economic benefits across the world.<sup>vi</sup> The following general principles provide the rationale to link circular economy investments to the “*build back better*” COVID-19 recovery response.

These concepts explicitly use investments to implement innovations that drive economic diversification. Thereby creating a catalytic investment model that can address existing development challenges and provide COVID-19 socio-economic recovery opportunities.

### Redefine Waste

The linear economy model generates considerable amounts of different waste that include byproducts and emissions from the resource extraction and manufacturing process, and the use of single-use packaging, transport and ending with often underutilized, finished products that become discarded in landfills.

Note: investments have to be country and location specific, building on to local endowments and comparative advantage that can leverage the circular economy policy components through new PPP models.

Circular economy-based investments seek to eliminate waste throughout the system. Emphasis is placed on the creation of “closed loops” – for waste that convert waste materials and by products to a usable form within the system to provide or part replace system inputs. Examples include renewable energy and sources from waste. Investments also can seek technology and local solutions that form new domestic value chains to create new production models that contribute to the following;

### Retention of the Value of Products

By extending product life through design and use, the underutilization of the products can be mitigated, such examples include; (i) Repair and Refurbish, (ii) Reuse and (iii) Recycle.

### Plastics

Plastics is a well-known problem that is receiving global attention in terms of system redesign that includes targets for recycling, use of recycled content and post-consumer recovery.

The demand and associated revenues for plastic re-cycling and re-use is significant. Estimates suggest that the demand for recycled plastics could reach 75 million tons by 2030 with a potential revenue opportunity of US\$ 120 billion (USA and Canada alone).

Plastics recycling and reuse carry huge of investment potential. With only 14 percent of plastic packaging being collected and only 2 percent of this 14 percent being recycled to a similar quality, alternative reusables such as refillable high-end packaging (bottles and cups) offers new viable opportunities for investments.

### Circular Cities

Municipal investments into circular technology and services will drive the new urban economies. Waste to Energy systems or Waste to Fertilizers are such systems that are often favored. Urban transport provides another example of investable solutions whereby sound investment to reduce traffic congestion are being practiced. Such investments consider hard and soft infrastructures to improve traffic flows, parking and public transport systems.

Circular cities also offer the ability for local governments to reshape energy consumption through the adaptation of roof space to generate solar, or the application of new water treatment technologies that also have the ability to provide electricity.

## Typical Investments

### Urban Transport Sector

- The conversion to electric vehicles especially those that provide public transport;
- Introduction of traffic flow systems (soft) to mitigate congestion;
- Development of urban road infrastructures to reduce congestion and eliminate traffic hotspots such as road junctions etc;
- Development of multi-modal rapid transport solutions.

### Urban Waste

- Investment into sorting facilities for municipal and light industrial waste;
- Establishment of conversion units for organic waste, recycle, incineration and land fill;
- Establishment of auto plastic bottle banks that provide cash payments.

### Urban Housing

- Require buildings be designed as a component of urban planning to make efficient use of resources (construction materials) and energy;
- Incentivize urban constructions to apply and use modular process and be able to generate energy for the building’s consumption;
- Investments into passive housing that is able to generate energy cost recovery up to 90%.

### Urban Energy

- Cities and municipalities can plan to power themselves using bio energy from recycled food;
- A study on residual waste in Amsterdam found that such systems can save in excess of US\$ 150 million+ in addition to savings on emissions and land use.

## Conclusion

Asia is known as the global production hub<sup>vii</sup> with many countries having successfully transformed from an agrarian base to low cost manufactures that have displaced products and goods produced in Europe and the United States. The final transition being a service and export/import dominated economy (Singapore, Thailand).

These transitions have been achieved by applying low cost import/export-based growth strategies. One of the successes of the region has been the development of a fully integrated fragmented production model, based on cost and comparative advantage, that has supplied global value chains meeting western consumption patterns and demands. In some cases, this has paved a pathway of a “*race to the bottom*” especially in terms of sustainable and inclusive development. The underlying strategy has led to the formation of narrow specialized economies that are highly dependent on externalities be it the GVCs, tourism, or labor markets.

In part, due to this feature, all of the region’s economies have been hit to varying degrees by the COVID-19 pandemic. The depth of impact and the type of scarring being in alignment to their integration and reliance of the RPNs and GVCs. Analysis would indicate that countries that have high value services sectors have been impacted much more than those with balanced economies that exhibit double digit contribution of the anticultural sector to GDP.

Lao PDR having only limited exposure to GVCs and RPNs has not impacted by the COVID-19 pandemic as hard as other ASEAN member states. However, with the loss of economic opportunity for migrant workers in the neighboring countries, impacts to the national economy due to a loss of household purchasing power may be significant.

The impact on GDP and the stimulus policies that have been put into place will reduce fiscal space and the available public sector budget. The government have re-budgeted since COVID-19 pandemic, allocating more finance towards social protection payments

and the health sector. However, fiscal prudence has been maintained as an underlying policy, resulting in the government maintaining a neutral budget balance through reallocation and taking up concessional loans.

To off-set expenditures in health and social protection, other government expenditures such as inter-governmental transfers, capital investments have been cut.

At this juncture, the government need consider a reversal of some of the immediate COVID-19 response policy initiatives. By doing so, new fiscal space can be created.

Investments need also seek to induce transformation of the broad sectors with a focus to re-invigorate the agricultural sector and to create an industry and services sector that offers higher value-addition and which create employment opportunity. This will require a shift away from capital intensive investments such as hydro.

Lao is also ideally positioned geographically and in context of its human capital stock to realize its full potential and a regional transport and logistics hub.

As indicated in this paper, investments into the economy are required to create new fiscal space and growth. To return growth to the 8<sup>th</sup> NESDP norm investment requirements will be in excess of US\$ 3,700 million

Capital investments therefore need to be at the center of COVID-19 recovery strategies, promoting a mix of national and sub national investments. A recovery pipeline of “*build back better*” investments that sustainability transforms and rebalances economies, establishing new domestic value chains that harness inbuilt resilience’s. Investments that to continue to address pre-COVID problems such as climate, plastics, energy and contribute to the SDG commitments can be repackage accordingly.



# A

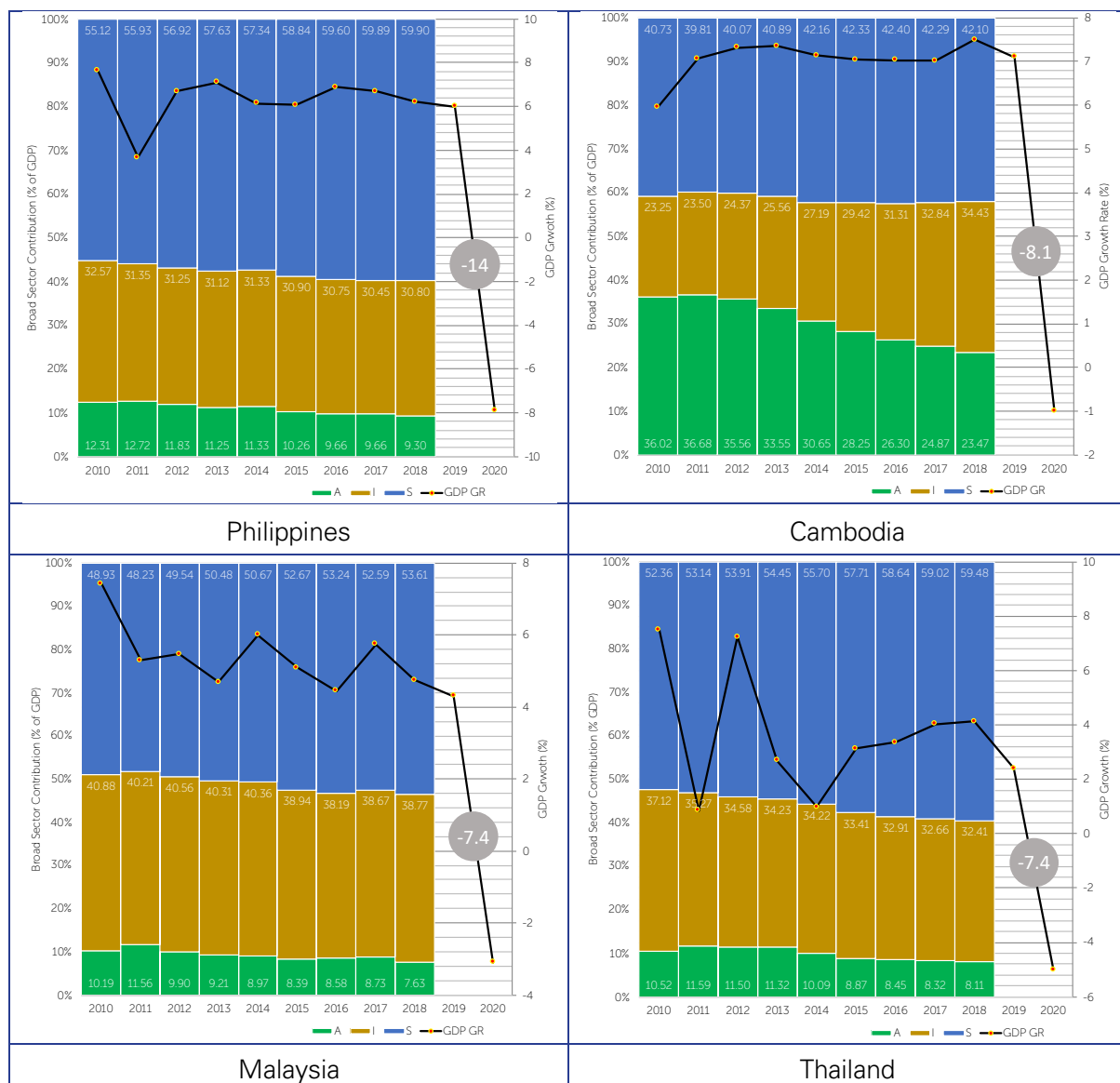
Annex  
Data comparisons

## Group- 1 Countries – Contracting Economies

The following charts illustrate the GDP composition based on a 10-year time series and GDP growth. GDP growth rates for 2019 are forecasted whilst the 2020 growth is an estimate based on the impact of the COVID – 19 pandemic. Two sources are utilized; (i) GDP growth rate - IMF and (ii) Broad Sector Contribution (% of GDP) – ABD Stats.

### Key Observations:

In group 1 countries (those that are witnessing high impacts of COVID on GDP growth and size of the economy all exhibit dominant services sector, that in most cases accounts for over 50% of GDP. All four countries have their manufacturing sectors linked directly to global value chains that include low value labor intensive productions (garments, 3<sup>rd</sup> and 4<sup>th</sup> tier automotive and electrical manufacturing and part assembly). Of note is that all four countries have high levels of tourism and associated tourist value added.



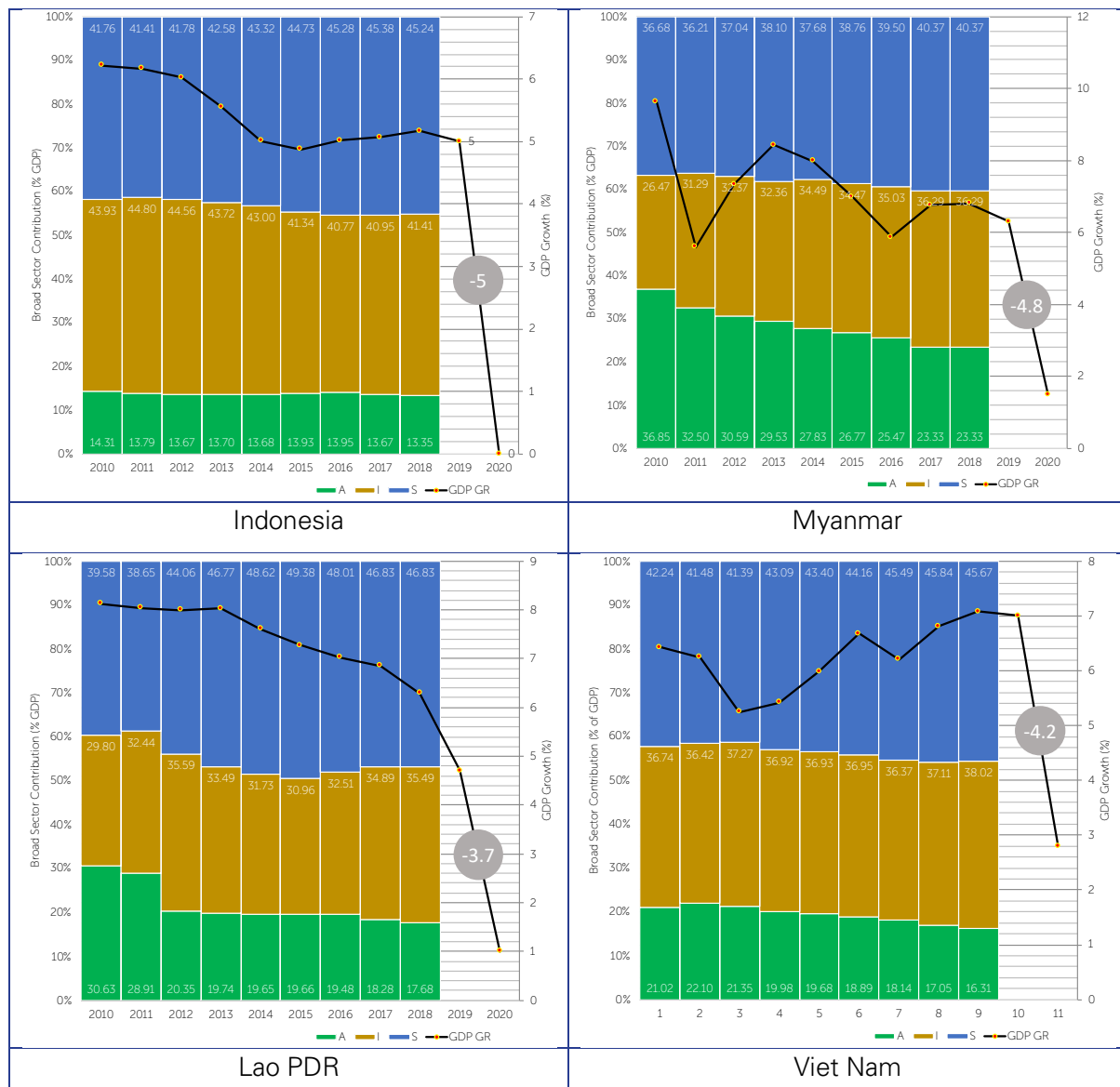
## Group- 2 Countries – Stable but Declining GDP Growth

The following charts illustrate the GDP composition based on a 10-year time series and GDP growth. GDP growth rates for 2019 are forecasted whilst the 2020 growth is an estimate based on the impact of the COVID – 19 pandemic. Two sources are utilized; (i) GDP growth rate - IMF and (ii) Broad Sector Contribution (% of GDP) – ABD Stats.

### Key Observations:

In group 2 countries although there is a massive slowdown of GDP growth rates these do not slip into negative territories, the economies in this context are projected not to contract. Indeed Myanmar, Lao PDR and Viet Nam are expecting growth albeit at a lower level ranging from 0 percent to a high of 2.8 percent.

All four countries have “balanced” economies with all sectors contributing in double digits. The higher levels of agricultural contribution suggest that there is strong domestic demands for products and that the economies have more limited exposure to global economy. This has translated into an economic performance that has been more robust than those of neighboring countries that are engaged in low value GVC and RPN activities. Of note is the anomaly of Viet Nam in terms of growth based on higher value manufacturers associated with electronics.



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<sup>i</sup> IMF (April 2020) Global Financial Stability Report: Markets in the Time of COVID-19

<sup>ii</sup> Lao PDR credit rating - Singapore, June 19, 2020 – Moody's Investors Service, ("Moody's") has today placed the Government of Laos's B3 issuer ratings on review for downgrade.

<sup>iii</sup> World Bank (June 2020) Global Economic Prospects

<sup>iv</sup> ADB (2012) An Illustrative Fiscal Strategy Consistent with the Seventh National Socio-Economic Development Plan

<sup>v</sup> Reference ASEAN (2015) Master Plan for ASEAN Connectivity (MPAC)

<sup>vi</sup> Reference: E McArthur Foundation (2013) Towards the Circular Economy

<sup>vii</sup> Reference: <https://www.forbes.com/sites/peterpham/2017/11/13/how-asia-has-become-the-worlds-manufacturing-hub>