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A vendor at a mall in Jakarta. Many formal sector businesses in South-east Asia have benefited from stimulus packages. Yet, casual, contract and informal labourers, including street vendors, couriers, migrant workers or suppliers for garment factories, have often fallen between the cracks. PHOTO: EPA-EFE

Covid-19 'new deal' needed for Asean's recovery

Debt amnesties and better social safety nets are required in a region reliant on informal sector workers, but many of them are falling into poverty and taking on heavy debts to survive the economic wipe-out

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For The Straits Times

As the roll-out of vaccines signals a light at the end of the pandemic tunnel, a "new deal" for South-east Asia's informal workers which expands safety nets and forgives survival debt is needed to ensure a robust and fair regional economic recovery.

As governments have responded to economic wipe-outs, many formal sector businesses within South-east Asia have benefited from stimulus packages.

Yet, casual, contract and informal labourers, including street vendors, couriers, migrant labourers or local suppliers for garment factories, have often fallen between the cracks.

Informal workers comprise around 60 per cent of the regional workforce and they have little access to unemployment insurance, medical leave or health insurance from their employers.

Most instead rely on often patchy government social schemes and support, which Asean governments have expanded little during 2020 – spending around 1 per cent of gross domestic product on average on Covid-19 social stimulus compared with more than 16 per cent in Europe.

Households that rely on the informal sector have thus faced a terrible choice throughout the pandemic: go hungry or take on new debt to survive.

Many households across Asean have been doing both. In Thailand, already dire household debt has worsened considerably, with scores resorting to borrowing from loan sharks. In Indonesia, the downturn is driving millions of people back into poverty and pushing many into deeper debt. In Myanmar, 80 per cent of households in recent surveys say they have reduced meals while more than half have taken new debt to pay for food and survival.

Household survival debt poses a threat both to economic recovery and stability as it feeds a phenomenon economists have termed "indebted demand": People who take high-interest loans to survive Covid-19 must repay them before they can make discretionary purchases or rebuild their businesses, delaying macroeconomic recovery.

Recent modelling on Asia by the International Monetary Fund suggests household debt could hold back post-pandemic bounce more than corporate debt. Meanwhile, a recent analysis by the Asian Development Bank suggests private debt is a stronger driver of economic volatility than government debt.

Given that many Asian countries already saw major spikes in household debt after the 2008 global financial crisis, the accrual of survival debt across Asean could suppress growth and increase financial volatility in the years ahead.

BOLD EFFORTS FOR RECOVERY

Despite these risks, Asean's recovery strategy has not yet prioritised the problem of household indebtedness. The recent Regional Comprehensive Economic Partnership "mega" trade deal, for instance, lowers tariffs in the hope of stimulating industry growth.

Yet, for recovery to be robust and fair, bold efforts must be taken to expand social safety nets for Asean's workers – both formal and informal – who have carried the region through the pandemic.

There are political risks to letting informal sector workers fall between the cracks. The Asian financial crisis of 1997/1998, which was driven partly by mounting private indebtedness, provoked a regionwide popular backlash against established political and economic elites.

More than two decades on and anger is growing about the vulnerability many workers face. In Indonesia, tens of thousands of workers took to the streets in October to protest against regressive labour laws designed to restrict the rights of workers technically employed in the formal sector.

Meanwhile, a remarkable protest movement against Thailand's established order and growing inequality has taken shape. Similar popular resurgences are foreseeable across the region, especially given that so many informal workers are excluded from Covid-19 stimulus spending.

To avert financial and political instability, a "new deal" is needed to structurally reduce household indebtedness, especially for people employed in the informal sector. The World Bank forecasts that 38 million people across East Asia and the Pacific will fall below the poverty line as a result of the pandemic and expects recovery to pre-pandemic growth levels to take a decade or more.

To build back better and ensure a robust and fair recovery, investments in job creation must be coupled with structural improvements to social safety nets and reduce household survival debt.

Social spending has so far been a small part of Asian pandemic stimulus. This is not surprising, given South-east Asia's preference to spend on "productive" sectors such as education and health rather than social protection. Yet, given the barriers private indebtedness poses to economic recovery and stability, a new approach is needed.

Throughout the pandemic, governments around the world, including in Asean, have extended the generosity and regularity of social payments to people already registered to receive support due to poverty, disability, old age or following childbirth.

Yet, the number of households receiving and fully using these schemes has expanded very little due to constraints both of resourcing and targeting, despite millions falling further into poverty.

Indonesia's largest scheme, for example, was slated to grow from 9.2 million to 10 million recipients over the past year – an impressive expansion in a pandemic context but objectively insufficient given that an additional five million or so people are projected to fall below the poverty line as a result of the pandemic downturn.

REDUCING INDEBTEDNESS

Plans must be drawn up to expand both the magnitude and breadth of social schemes to ensure households are not going into dire debt to pay for social basics like healthcare or sustaining the elderly in the future.

To make these plans fair, action on the spending side – for example, boosting public health funding – must be linked to progressive revenue measures that do not see the poor simply paying more consumption tax.

To reduce the risks of household indebtedness, governments should also take action to absolve those who have accrued survival debt. Debt jubilees of this kind have biblical origins; in Old Testament law, every 50 years, trumpets were to be blown and all personal debts cancelled to mark the Year of the Lord. Researchers of the ancient Near East suggest these amnesties actually did occur as they were often used by new kings to prevent debt bondage among their subjects and discourage debt-related flight to other kingdoms – measures which ensured a loyal populace and a stable labour force.

Debt jubilees have also been used in more modern times, including to ease the pressure on heavily indebted Indian farmers following a rash of suicides in the wake of the 2008 financial crisis. Studies of Indian farmers who received these debt waivers found that forgiveness significantly lowered the rate of later default among indebted households.

This suggests targeted loan relief, funded either by governments, loans from international organisations or by creditors themselves, can be implemented following economic disasters while avoiding systemic moral hazards.

Micro-finance institutions (MFIs), which lend to millions of people across Asean, have already been deferring payments or restructuring loans throughout the pandemic, according to the Consultative Group to Assist the Poor, a global MFI alliance that is dedicated to expanding access to finance for poor people.

Yet, without government leadership across Asean, few lenders – formal or informal – are going to write off debt entirely.

In the months ahead, South-east Asian governments and organisations need to assess the depth of household survival debt across the region and price the risks it poses to recovery.

The economic, political and social dividends of debt amnesties and more comprehensive safety nets may far exceed the systemic risks household indebtedness could pose to economic and social stability.

Given how much cheaper it is for governments to borrow than households, expanding state social schemes and forgiving survival debt must be on the table if Asean is to chart a path towards robust post-pandemic recovery.

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