

**HIV/AIDS AND DEVELOPMENT IN ASIA AND THE PACIFIC**

**A LENGTHENING SHADOW**

THE POTENTIAL  
ECONOMIC IMPACT OF AIDS  
IN ASIA AND THE PACIFIC

ASIA PACIFIC  
MINISTERIAL MEETING

9-10 OCTOBER 2001 MELBOURNE AUSTRALIA

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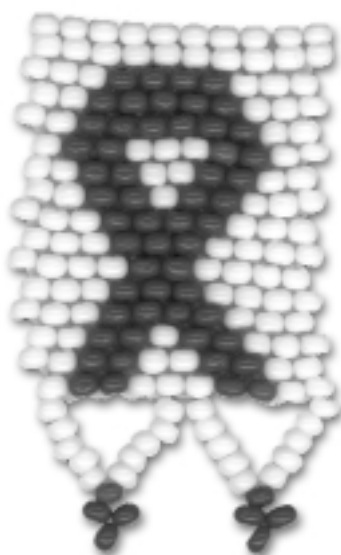
The Australian Government's Overseas Aid Program

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## Introduction

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This paper discusses the economic impact of HIV/AIDS in the Asia Pacific region – home to one in five people living with the disease. It considers the many ways in which the disease affects the economies of households and countries across the region. The sheer scale of these effects presents a strong case for action by governments and the private sector. And it argues that such action must take place now, while the costs are still manageable and the damage still containable.

The paper addresses the entire region. In doing so, it cannot evade a degree of generalisation. It also draws in part on the region which has seen the greatest damage from the AIDS virus – sub-Saharan Africa. This too is unavoidable; many of the key insights which exist are derived from that region. But, by drawing on these generalisations and regional examples, the paper pulls together not only plausible, but likely scenarios for the region. By looking into the future, the paper draws the reader's attention to the present and to what can be done to minimise the impact of HIV/AIDS.

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## Devastating impacts

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The scale of the economic impact of HIV/AIDS is hard to comprehend. The disease is reversing annual economic growth by one to two percentage points in the worst affected countries.<sup>1</sup> Economic wealth in the form of gross national product could drop in some areas by as much as 40 per cent by 2020.<sup>2</sup> Translated to a country like Malaysia, Thailand or Indonesia this is a sum worth billions of dollars.

What does this macro-level picture mean in a region with more than 500 million people living below an annual poverty line of a few hundred dollars? It is useful to start with smaller quantumms and to look at the impact of the disease at the level of the household.

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## Household impacts

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The impact of HIV/AIDS on a household's income is disastrous. Those who contract the virus are generally from the most productive age groups in society – between 15 and 40 years of age. At these ages, people are usually earning at the peak of their capacities, so the loss of their income has a major impact on the household.

At the same time family incomes are eroded because other family members stop working to care for the sick. One study shows how Thai families can spend the equivalent of a single person's entire average annual income during the last year of a patient's life. Another indicates that the incomes of households with a person living with HIV/AIDS can fall by as much as 80 per cent.<sup>3</sup>

Standards of living fall sharply as household savings are eroded to meet the health care costs associated with HIV/AIDS. Studies in the region suggest that over half of all households affected

by HIV/AIDS reduced their consumption of goods and services by 40–60 per cent to help meet health care costs. About 60 per cent of Thai households with an AIDS-affected member have to draw down on their savings.<sup>4</sup>

## **Beyond the household – the impact on business**

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These devastating impacts are not confined to the household. They have knock-on effects on the broader economy. The death and incapacitation of workers reduces household incomes and leads to reduced spending and lower demand for goods and services. As a consequence, the business sector can suffer decreasing sales, profits and employment. Nationally, reduced business output and income can inhibit economic growth.

Another effect is felt through an impact on the supply of labour. HIV/AIDS is devastating entire generations of young people. In sub-Saharan Africa the size of the labour force could drop by up to 30 per cent by the year 2020. Losing skilled and experienced workers through HIV/AIDS compromises labour productivity and directly threatens the region's business prosperity. The need to re-skill or re-train staff, high turnover rates and absenteeism result in substantial productivity losses. Some firms will replace labour with capital equipment, reducing job opportunities. Others will move their operations to areas where HIV/AIDS prevalence is lower, also restraining employment options.

For companies, the costs of HIV/AIDS are becoming increasingly important to their ability to remain in business. Studies indicate that HIV/AIDS-related costs can rise to as much as 7 per cent of the total salary bill.<sup>5</sup>

Ultimately, countries' international competitiveness declines, reducing investment and job opportunities. Labour shortages lead to higher wages and increased workforce turnover, resulting in higher domestic production costs. Firms may have to close or they may be unable to attract new investment.

Set in the context of the years of social, political and economic struggle which the region has experienced over the past 30 years, the conclusion is stark: unchecked, HIV/AIDS has the potential to wipe out many of these hard-won gains.

## **Leading the way?**

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There are, however, some important lessons emerging from the business community itself about working with HIV/AIDS. In some countries, the private sector itself has taken a proactive approach. Daimler Chrysler and Coca-Cola have minimised the potentially devastating impact of HIV/AIDS on their workers and, ultimately, their productive capacity and profitability. Both companies have developed policies to specifically address the issue. In the case of Coca-Cola, the company has

signed a three-year partnership with UNAIDS to combat the spread of the disease. The company currently pays for AIDS drugs for its own employees and their families.

HIV/AIDS is not just an issue for governments but also a critical issue for private sector businesses. It makes sound economic sense for companies to invest in measures to restrain the disease, and to complement public investments in this area. But businesses alone can have little impact. As we will see later, concerted action by the state is the key to effective reductions in infection rates, and therefore to the costs imposed by the disease.

## Impacts on different sectors

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HIV/AIDS has different types of impact on different sectors. Education and health are particularly susceptible.

### Education

As is now widely accepted, education is crucial to economic growth. A population's education and skill level directly impacts on income growth, labour productivity and, ultimately, economic prosperity. Lower education levels lead to declining labour force quality, which in turn lowers productivity and slows improvements in living standards.

It is largely through the lowering of demand for education that HIV/AIDS will impact on education levels. Children's education suffers when a family member is infected with the HIV virus, because they are likely to be kept home to care for sick family members or take over their domestic duties. Children are forced to drop out of school because reduced household income means that families can no longer pay school fees. Girls' education may be placed at particular risk in this context. World Bank studies show that school attendance by young people is reduced by half if the household has lost an adult family member to HIV/AIDS in the previous year.

The virus also affects the supply of education, notably through teacher numbers. Teacher mortality and absence due to illness with HIV/AIDS has substantially reduced the quality of education in some African countries. Some report a tenfold increase in teacher mortality and absence.<sup>6</sup> In Botswana, death rates among primary school teachers have risen from fewer than seven per thousand to 71 per thousand between 1994 and 1999. In Zambia, the entire current output of teacher training colleges will not be enough to replace teachers lost to AIDS.

Again, HIV/AIDS threatens the progress of the past 30 years in the region. The vast investments made by countries in their education systems, and the great benefits which have been won through those investments, are now under threat. All countries, particularly those with overwhelmingly young populations, have only to look at the social gains made by the likes of Korea and Singapore to see what can be achieved through investment in education. Unless the disease is addressed, these gains will not materialise.

## Health

The most dramatic impact of HIV/AIDS is on the capacity of health systems. Research conducted in PNG found that, even when HIV/AIDS affected just 0.2 per cent of the population, related illnesses accounted for 5 per cent of beds in Port Moresby General Hospital. In Africa, where rates are of course much higher, some figures suggest that up to half of all hospital resources are absorbed by HIV/AIDS patients.<sup>7</sup>

The United Nations estimated that the average annual health care cost for a person living with HIV/AIDS in the Pacific islands was about US\$5,000 in 1996, compared to average spending of between US\$20 and US\$30 per person on health by Pacific island governments. In this context, even a moderate HIV/AIDS epidemic will put huge strains on government budgets in these countries, and on household health care spending.

As with teachers, so there is a supply-side impact through the impact of HIV/AIDS on health professionals.

A healthy population is essential to economic growth and development. Even before HIV/AIDS, fragile health systems were struggling to maintain basic health services in the poorest countries. Now, preventing the spread of HIV/AIDS is the key health care challenge.

## Rural areas

A recent study of HIV/AIDS in Papua New Guinea has tried to model the impact of the disease on different sectors. In the rural sector, the study suggests that there will be impacts on the plantation sector – including oil palm and coffee, as the availability of workers declines and their costs increase. Projections suggest a decline in income of up to 8 per cent by 2020 in the worst case scenario. The effects on smallholder agriculture are expected to be more pronounced, with the possibility of declines in output as high as 24 per cent over the same period.<sup>8</sup>

## Government revenue

For governments, the impact of HIV/AIDS is felt in numerous ways. At the most basic level, there is pressure for higher health spending to cope with the increased pressure on health resources. Such pressures are likely to draw resources away from other key government investments in, say, education, infrastructure and governance. In addition, governments may well face falling revenues as the changing structure of production changes tax revenues.

A less well documented but nonetheless critical area of impact will be felt through the changes wrought by the disease in the ranks of professional staff. As with teachers and health professionals, HIV/AIDS has reduced numbers and effectiveness of other professional groups, including lawyers, police and defence forces. With these declines comes a further deterioration in services.



These are just a sample of the many types of impact which HIV/AIDS will have on the economies of the region. It is clear that the disease has the potential to produce significant cutbacks in economic growth and, therefore, in the capacity for governments to attack poverty and enhance the welfare of its citizens.

### **The mixed blessing of mobility**

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Better transport, more employment opportunities in towns and cities, improved schooling and enhanced agricultural productivity have led to greater levels of mobility. This increased mobility is good for economic progress. China provides an example: estimates show that nearly 100 million Chinese have either temporarily or permanently moved from their registered residences. This mobility has led to the halving of the number of people living in poverty. But such levels of mobility, which are repeated throughout the region, has generated conditions conducive to spreading HIV/AIDS.

A further consideration is the development of commercial hubs coinciding with increased business in the region. People from many countries come together, forming an economic hub serving as a trade centre. Improved transportation has helped hubs develop. The experience of countries of the Mekong sub-region shows that hubs bring different nationalities together for business, but they also boost the spread of the disease.

Countries as diverse as Sri Lanka, the Philippines, Kiribati and Tuvalu encourage the export of semi-skilled and skilled workers. These workers remit funds to their families and provide crucial capital for development. Other countries are dependent on extended family links in third countries – for example, Samoa has high concentrations of its people living in the United States and New Zealand. Such groups regularly travel back and forth between these countries, increasing the risks of HIV/AIDS transmission.

Tourism – an increasingly important sector in many countries in the region – provides another example which encourages the movement of people and raises concern about HIV/AIDS transmission rates.

### **Hard times, hard decisions**

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With some predicting that the spread of HIV/AIDS in Asia will soon surpass sub-Saharan Africa to become the largest infected area of the world,<sup>9</sup> there can be no doubt that the challenge posed by HIV/AIDS is one of the most serious facing the regions' decision-makers.

No parts of the region are safe from the threat of the disease. In the Pacific islands, the potential economic cost of the loss of a life to HIV/AIDS is 15–20 times greater than the annual income generated by that person.<sup>10</sup> The United Nations reports that in the Pacific islands a moderate

epidemic could decrease economic growth by half to 1 per cent of GDP each year.<sup>11</sup> The worst affected countries could see their economies shrink by much more if the epidemic is left untreated.

At the household level, where much of the burden currently falls, the choices are few. Resources have to be found to care for the person living with HIV/AIDS and, in the event of death, to finance the funeral and other arrangements. Some, particularly the wealthier members of society, may be able to finance this from savings, and others may be in a position to increase their income-earning activities to cover these burdens. But most will simply be driven deeper into poverty as a result of the disease.

The response of government decision-makers in limiting the spread of the disease and therefore its cost is crucial. A growing number of studies is illustrating that prevention is the most cost effective approach.<sup>12</sup> This is true even in areas which have a high prevalence of the disease. Where incidence is less high, the targeting of high risk groups has quick and effective pay-offs.

A strong political commitment to fight against HIV/AIDS is crucial. The potential economic impact that the epidemic could have on all countries, not just those with a high prevalence of HIV/AIDS, is significant. Countries most proactive in the fight have programs strongly supported by political leaders.

Nor is it sufficient for there to be action on national levels alone. Increasing global inter-dependency is such that all countries in the region will be affected by each other's difficulties. Estimates suggest that the Thai HIV/AIDS epidemic could be costing the Japanese economy from 1-2 per cent of its annual GNP through losses in trade and potential markets.<sup>13</sup>

The costs of an unchecked spread of the disease will quite simply be unaffordable for all countries in the region. That is why it is essential that – across the region – all countries must invest now in preventive measures. Just as the Asian Tigers invested in governance, education and infrastructure in the 60s, 70s and 80s, so must the region invest now in preventing the spread of HIV/AIDS. Only then can countries be confident of achieving sustained social and economic growth for all.

## FOOTNOTES

- 1 Paper prepared for the Special Session of the General Assembly on HIV/AIDS, Round table 3, *Socio-economic impact of the epidemic and the strengthening of national capacities to combat HIV/AIDS*.
- 2 UNDP (2001), *HIV/AIDS: Implications for Poverty Reduction*, background paper prepared for UN General Assembly, Special Session on HIV/AIDS, 25-27 June 2001.
- 3 Paper prepared for the Special Session of the General Assembly on HIV/AIDS, Round table 3, *Socio-economic impact of the epidemic and the strengthening of national capacities to combat HIV/AIDS*.
- 4 Kimball and Thant (1996), *A role for businesses in HIV prevention in Asia*.
- 5 UNDP (2001), *HIV/AIDS: Implications for Poverty Reduction*, background paper prepared for UN General Assembly, Special Session on HIV/AIDS, 25-27 June 2001.
- 6 Loewenson and Whiteside (1998) quoted in CIE (2001) *The Economic Impact of HIV/AIDS in PNG* (draft)
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- 10 United Nations, 1996, *Time to Act: The Pacific Response to HIV and AIDS*, United Nations.
- 11 United Nations, 1996, *Time to Act: The Pacific Response to HIV and AIDS*, United Nations.
- 12 Ainsworth and Teokul (2000), Breaking the Silence: setting realistic priorities for AIDS control in less developed countries, in *The Lancet* vol. 356, pp 55-60.
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