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UN Economic and Social Survey of Asia and the Pacific

An LKI Roundtable with Zhenqian Huang, Associate Economic Affairs Officer,
United Nations Economic and Social Commission for Asia and Pacific
(UN ESCAP)

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Three key takeaways from the round table discussion with Zhenqian Huang -

- 1. The Asia-Pacific region should use the current period of robust economic growth to secure the funds needed to make future growth sustainable, resilient and inclusive.**
 - 2. Three potential ways for governments in the region to mobilise additional financial resources are: (1) strengthening tax revenues; (2) prudent sovereign borrowing from financial markets; and (3) leveraging private capital.**
 - 3. Given Sri Lanka's high government debt burden, adopting policies to facilitate the development of local financial markets may be a good way to mobilise greater private financial resources for development.**
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Introduction

- Zhenqian Huang, Associate Economic Affairs Officer at the United Nations Economic and Social Commission for Asia and Pacific (UN ESCAP) addressed a Foreign Policy Round Table on the “Economic Outlook for the Asia-Pacific and Mobilising Finance to Sustain Growth,” on 3 July 2018 at the Lakshman Kadirgamar Institute (LKI).
- Ms. Huang's presentation was followed by a panel discussion moderated by Dr. Ganeshan Wignaraja, Chair of the Global Economy Programme at LKI, featuring Deshal De Mel, Advisor to the Ministry of Finance; Shiran Fernando, Chief Economist at the Ceylon Chamber of Commerce; and Eshini Ekanayake, Economist at JB Securities.
- The round table was attended by senior representatives of the Ministry of Foreign Affairs, Ministry of Development Strategies and International Trade, the Defence Services Command and Staff College, and the Australian High Commission. Representatives from the UN Resident Coordinator's Office and a number of United Nations agencies, as well as the private sector and the media, were also present.

Takeaways from Ms. Huang's Presentation:

The Economic Outlook for the Asia-Pacific and Policy Challenges

- Economic growth in the Asia-Pacific region picked up to 5.8 per cent in 2017. This was driven by stronger growth in consumption, trade and investment.
- Debt levels are stable and most countries can afford an expansionary fiscal policy.
- Monetary policy should focus on keeping inflation down as oil prices have increased.
- The estimated cost of making economic growth sustainable, inclusive and resilient is USD 2.5 trillion per annum globally. Between international reserves, assets of listed companies and financial institutions, global financial resources amount to USD 56 trillion. As such, it is simply a matter of appropriating the funds needed for development.

Mobilising Finance for Sustained, Inclusive and Sustainable Growth

Strengthening Tax Revenues

- Two ways to strengthen tax revenues were discussed: (1) improving tax administration, and (2) expanding the tax base.
- UN ESCAP has proposed a Tax Administration Index, a measure designed to assess the efficiency of a country's tax administration functions. A one point increase in the value of the index is associated with additional tax revenue equivalent to about 0.5 per cent of Gross Domestic Product (GDP).
- Tax-to-GDP ratios in developing Asia Pacific countries tend to be lower than in countries elsewhere with a similar quality tax administration. This is due to the existence of large informal sectors and low tax rates in countries like Malaysia and Singapore.
- Alternatively, a country can strengthen tax revenues via the expansion of the tax base by: (1) rationalising existing tax incentives, and (2) introducing new tax instruments.
- Restructuring tax incentives used to attract foreign investment and introducing a new carbon tax, for example, could ultimately generate USD 60 billion per year in additional tax revenue for the Asia-Pacific.

Prudent Sovereign Borrowings from Financial Markets

- Prudent sovereign borrowings is another important way for governments to finance greater spending as long as it does not compromise the sustainability of public debt.
- Of the 40 countries for which the UN has data, 20 have never issued government bonds. Most countries in the region are part of the low-risk category for debt levels.
- In contrast, Sri Lanka's public debt is around 80 per cent of GDP, which is higher than the regional average. It has also issued both domestic and international bonds.

Leveraging Private Capital

- The total value of Public-Private Partnerships (PPP) infrastructure investment in the region has been declining since 2010.
- UN ESCAP has introduced a PPP Enabling Environment Index, a measure that examines the key factors that facilitate PPP projects.
- A single unit increase in the index, for example, due to a better policy environment, corresponds to a 5 per cent increase in PPP infrastructure investments.
- However, potential risks from engaging in PPPs include increased contingent financial liabilities and compromising medium-term fiscal flexibility due to the ongoing financial commitments often included in PPP projects.

Points from the Discussion:

The economic impact of a global trade war

- The UN ESCAP survey did not factor a potential trade war between the United States and China into its forecasts. However, it highlights that between 2014 and 2017, for every trade liberalising policy an average of 3.7 restrictive measures were adopted — suggesting there is a broader trend away from free trade.
- It is the view of UN ESCAP that, while the international trading system is imperfect, organisations like the World Trade Organization should be used to resolve conflicts. Bypassing or actively eroding multilateral dispute settlement systems is not helpful.

The impact of China's economic slowdown on the Asia-Pacific region

- The Chinese government could try to offset the gradual slowdown in its economy by investing more in green energy, social inclusivity and the technology sector.
- As China makes a transition from a manufacturing to a service-based economy, commodity-exporting countries in the region may see a fall in Chinese demand for their exports. Technology exporters like Japan and Korea could also face more competition as China moves up the value chain, but other countries like Bangladesh and Vietnam may benefit from the transfer of manufacturing jobs out of China.

Sri Lanka's financial markets & high level of public debt

- Ms. Ekanayake highlighted that Sri Lanka's local equity market is small and suffers from a lack of liquidity. Similarly, while there is a significant supply of government bonds, the market for corporate debt securities is underdeveloped as local companies tend to favour borrowing directly from banks.
- She also noted Sri Lanka also does not currently have a market for socially-responsible investment instruments, such as green bonds, which tend to be especially attractive to women and millennials seeking both a social and economic return.
- Mr. Fernando pointed to the high level of Sri Lanka's public debt compared to other countries in the Asia-Pacific region as a key issue for the government. He cautioned that it is important for fiscal policy to continue focusing on reducing the public debt-to-GDP ratio, while also ensuring that future borrowing contributes to productive assets.
- Due to the high government debt burden, Mr. De Mel argued that private investment must take a greater role in driving economic growth in Sri Lanka. To this end, the government is pursuing reforms to improve the local business environment, while also negotiating additional free trade agreements to encourage foreign investment.

Suggested Readings:

United Nations ESCAP. (2018). *Economic and Social Survey of Asia and the Pacific 2018*. [online] Available at: <https://www.unescap.org/publications/economic-and-social-survey-%20asia-and-pacific-2018> [Accessed 10 July 2018].

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