

Economic and Social Survey of Asia and the Pacific 2018



Mobilizing Finance for Sustained, Inclusive and Sustainable Economic Growth

Dhaka, Bangladesh
5 June 2018



74th COMMISSION SESSION

INEQUALITY

in the era of the 2030 Agenda
for Sustainable Development



MAIN MESSAGES



- Economic growth is steady and broad-based, while inflation is stable.
- Monetary/financial policies should focus on macro-financial stability. Fiscal policies should support productivity and reduce inequalities.
- Strengthening social protection and mainstreaming resource efficiency considerations can improve the region's economic dynamism and prospects for sustainable development.
- Implementing several policies will require mobilizing considerable financial resources of both the public and the private sectors.
- Examples include: strengthening tax revenues; prudent sovereign borrowing from financial markets; and leveraging private capital.



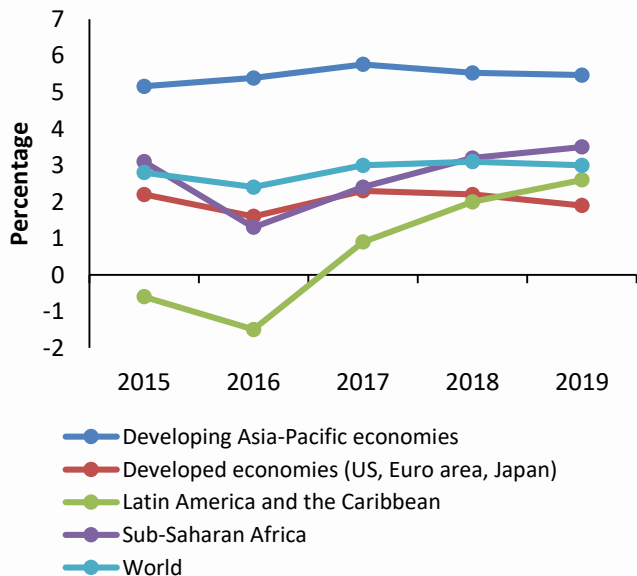
ECONOMIC OUTLOOK AND POLICY CHALLENGES



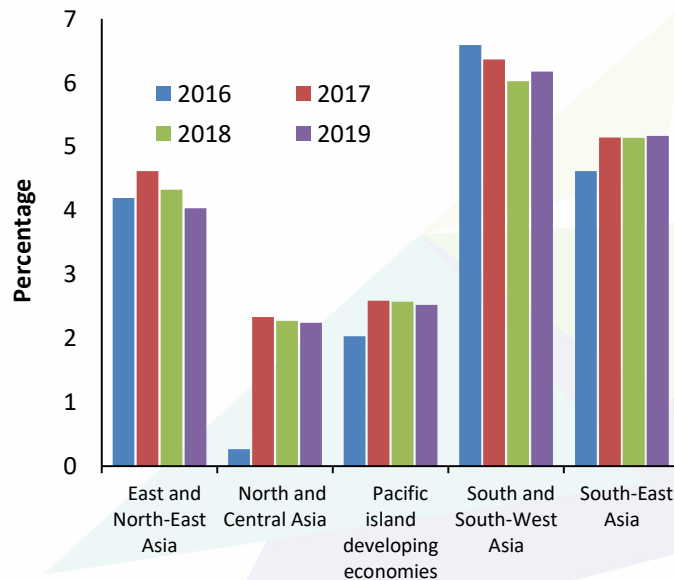
ECONOMIC GROWTH INCREASED STEADILY AND IS BROAD-BASED

Economic growth accelerated in two-thirds of economies, accounting for 80 percent of the region's GDP.

Global and regional growth



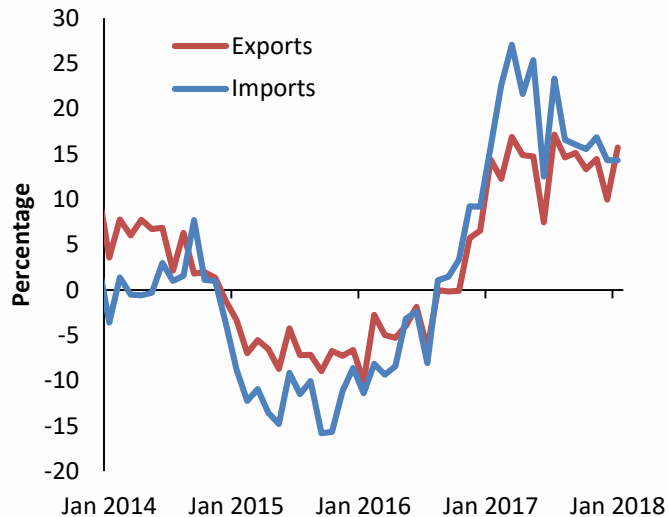
Subregional growth



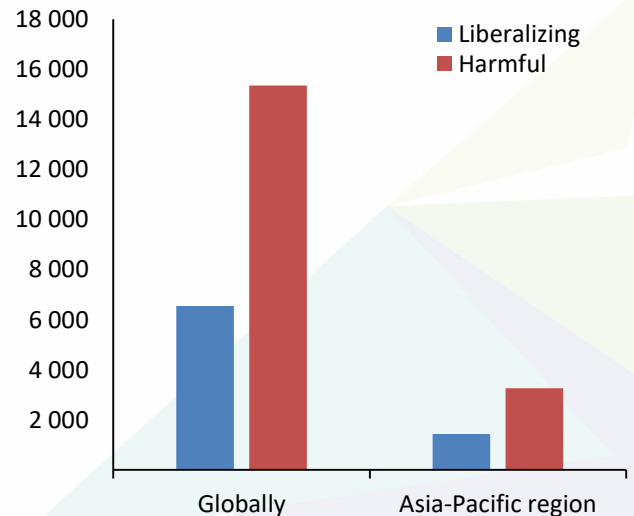
TRADE VOLUMES INCREASED, SUPPORTED BY GLOBAL ECONOMIC RECOVERY AND STRONG GROWTH IN CHINA

Policy focus: reducing trade protectionism and promoting trade facilitation measures.

Monthly export and import value growth



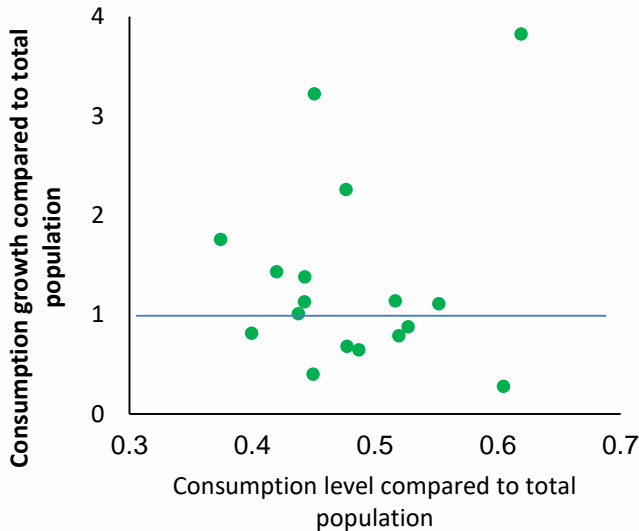
Number of interventions implemented, between 2014 and 2017



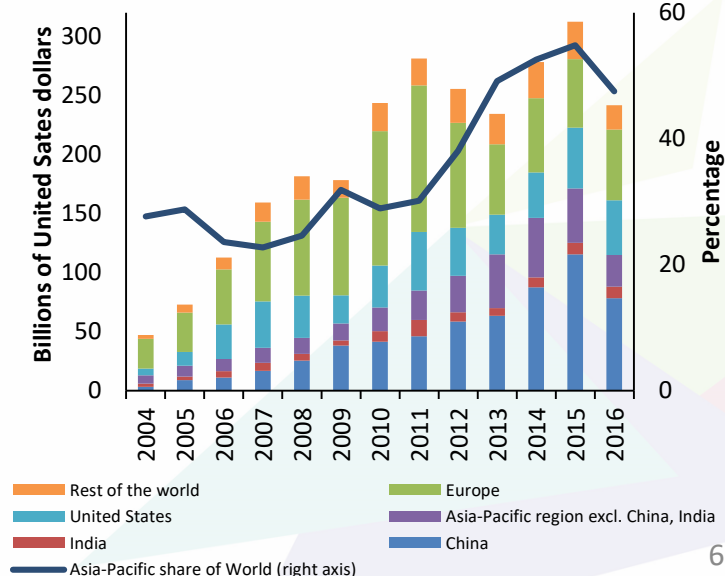
ALONGSIDE ROBUST DOMESTIC CONSUMPTION, FIXED INVESTMENT ALSO INCREASED

Policy focus: increasing real wage/productivity growth for consumption; and promoting financial development, trade openness and regulatory quality for investments

Consumption by bottom 40 per cent



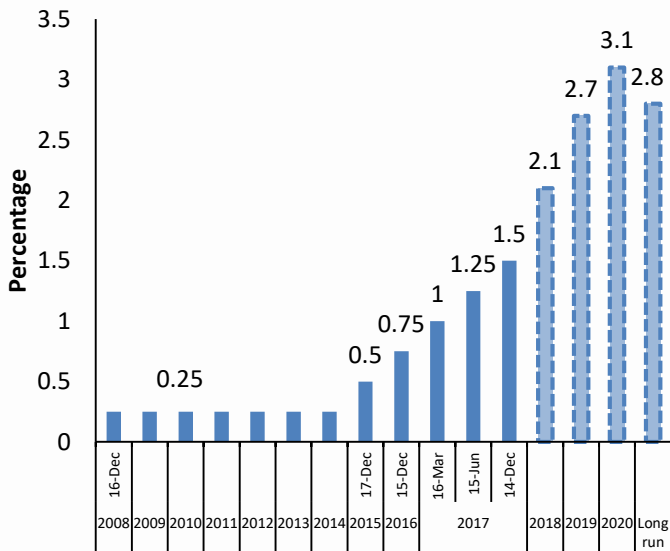
Investment in renewables



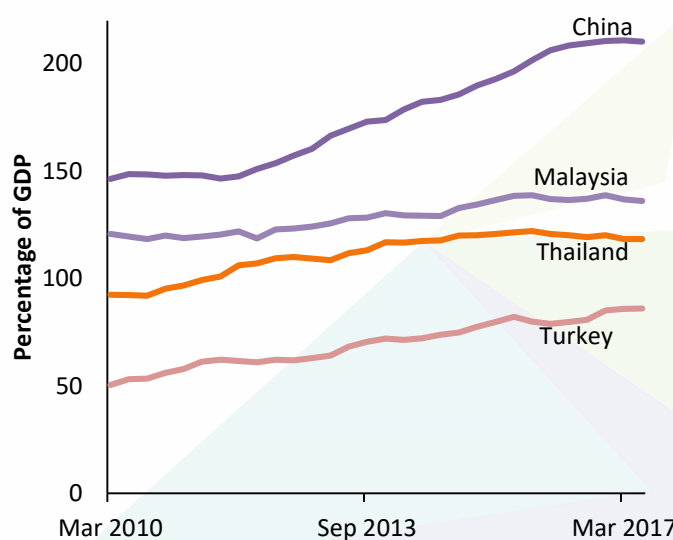
MONETARY AND FINANCIAL POLICIES SHOULD FOCUS ON ENSURING MACROECONOMIC AND FINANCIAL STABILITY

Risks: recent uptick in oil prices, financial sector/balance sheet risks and faster-than-expected increases in interest rates in the US and eurozone.

US Federal funds rate



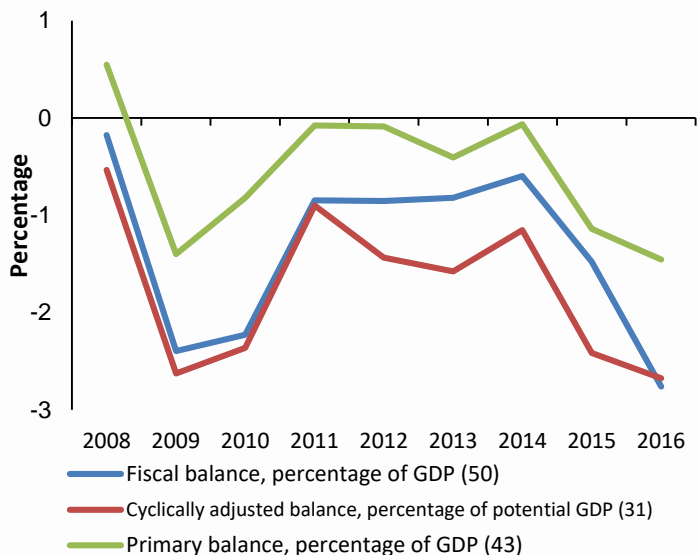
Private non-financial sector debt



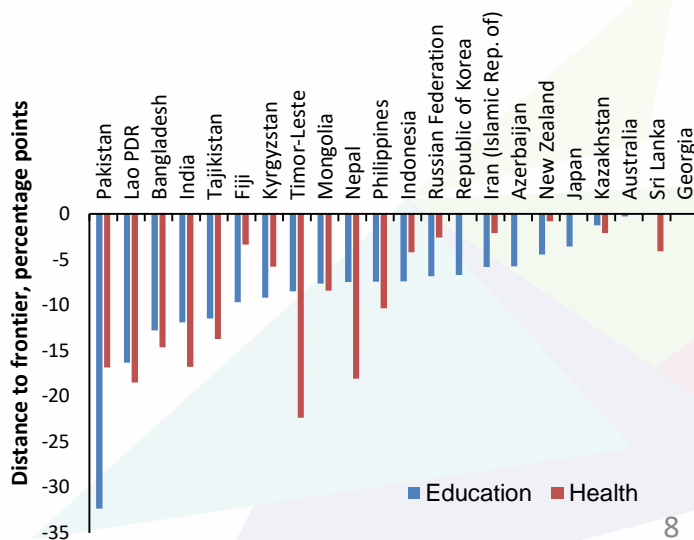
FISCAL POLICIES SHOULD FOCUS ON LONG-TERM ECONOMIC GROWTH AND REDUCING INEQUALITIES

Policy focus: higher development spending, increased expenditure efficiency, ensure equal access to public services, and consider progressive taxation.

Fiscal balance (percentage of (potential) GDP)



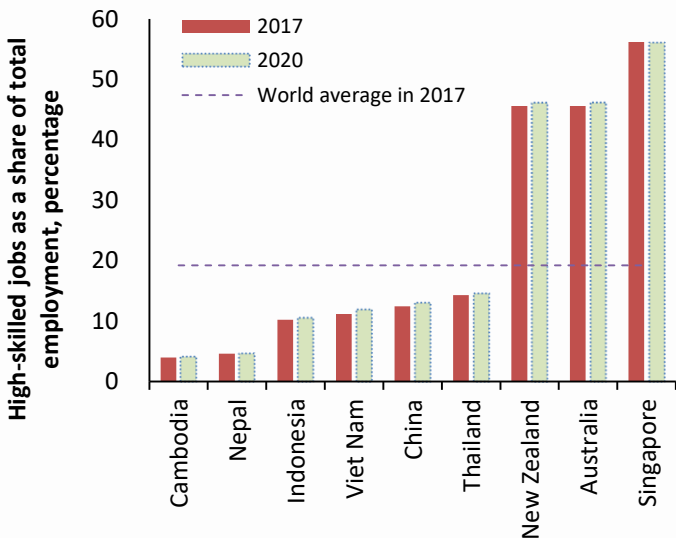
Expenditure efficiency in education and health



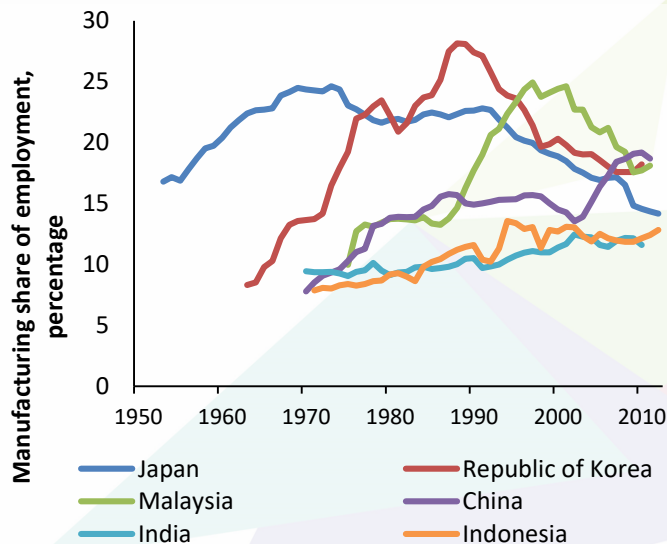
REFORMS TO FOSTER INCLUSIVE INNOVATION CAN HELP HARNESS POTENTIAL OF TECHNOLOGY

Policy focus: a ‘whole-of-Government approach’ for fostering STI and improving skills and infrastructure, and measures to mitigate risks of technology-induced inequality and unemployment.

Low share of high-skilled jobs



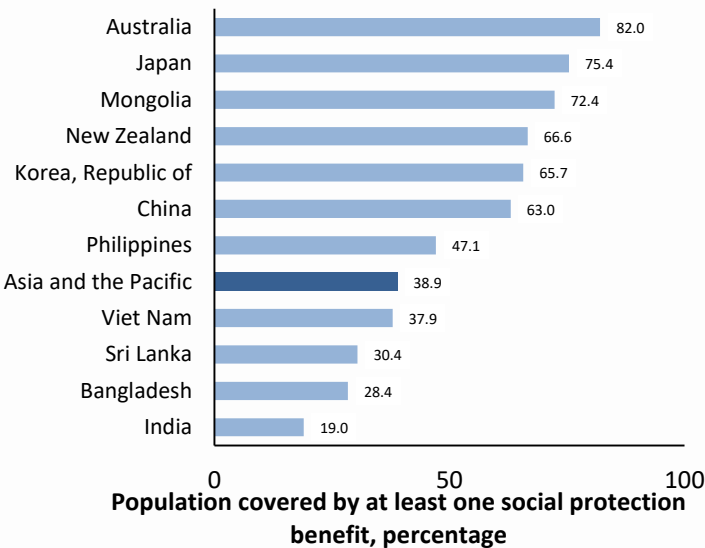
Manufacturing share of employment



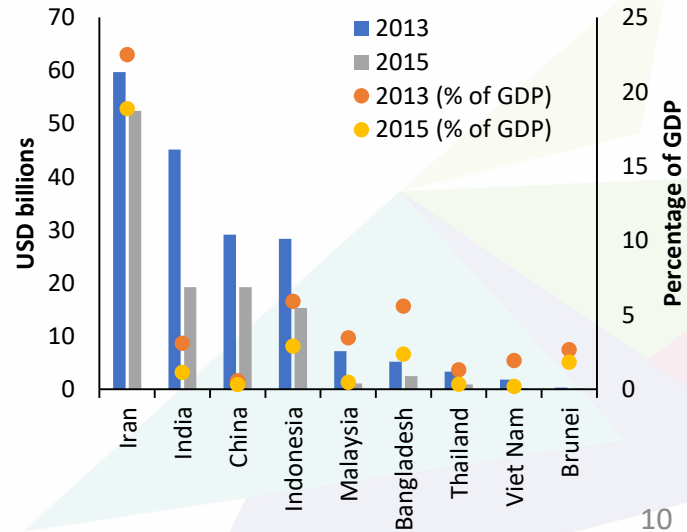
STRENGTHENING SOCIAL PROTECTION AND INTERNALIZING ENVIRONMENTAL COSTS CAN ENHANCE ECONOMIC RESILIENCE

Policy focus: expanding coverage, raising benefit levels and enhancing financial sustainability of social protection systems, and mainstreaming resource efficiency targets into national plans and budgets.

Social protection coverage



Fossil fuel subsidies





MOBILIZING FINANCE FOR SUSTAINED, INCLUSIVE AND
SUSTAINABLE ECONOMIC GROWTH

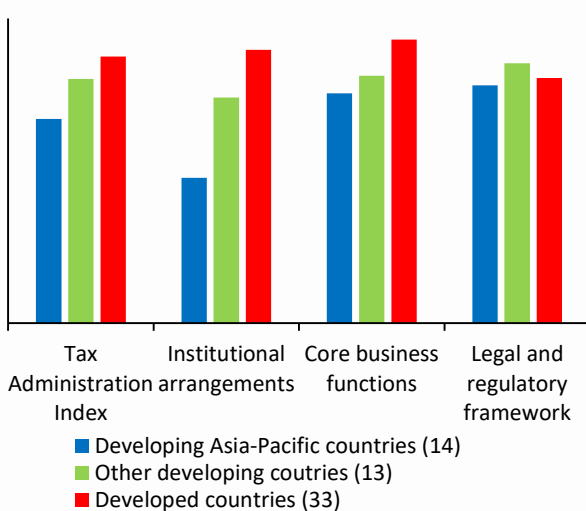
MOBILIZING DOMESTIC PUBLIC FINANCIAL RESOURCES AND LEVERAGING PRIVATE CAPITAL

- **Implementation of several policy measures would require not only effectively utilizing existing financial resources, of both the public and the private sectors, but also creating additional financial means as well.**
- **Strengthening tax revenues**
 - Improving tax administration
 - Expanding the tax base
- **Prudent sovereign borrowing from financial markets**
 - Ensuring sustainability of public debt
 - Keeping an eye on contingent liabilities
- **Leveraging private capital**
 - Enhancing policy environment for public-private partnerships
 - Deepening financial intermediation
 - Other possibilities (blended finance, responsible business conduct, and impact investment)

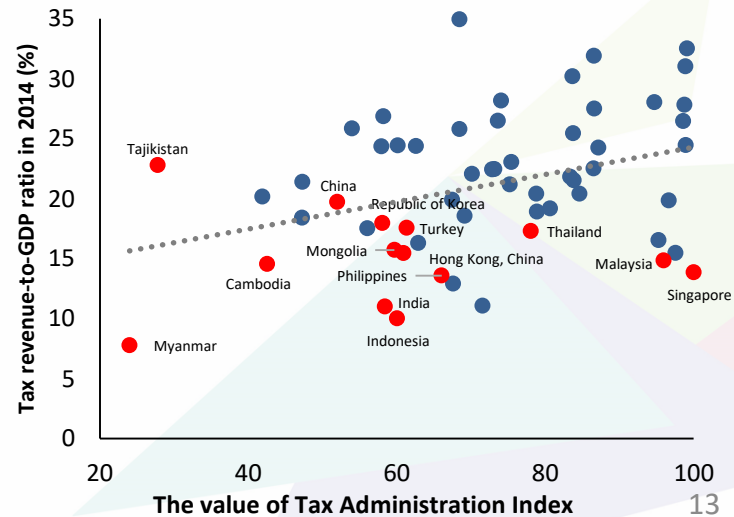
STRENGTHENING TAX REVENUES BY IMPROVING TAX ADMINISTRATION

Potential revenue impact of better tax administration is sizeable – about 0.15% of GDP for 1-point increase in the value of the Tax Administration Index.

The Tax Administration Index in developing Asia-Pacific economies and beyond



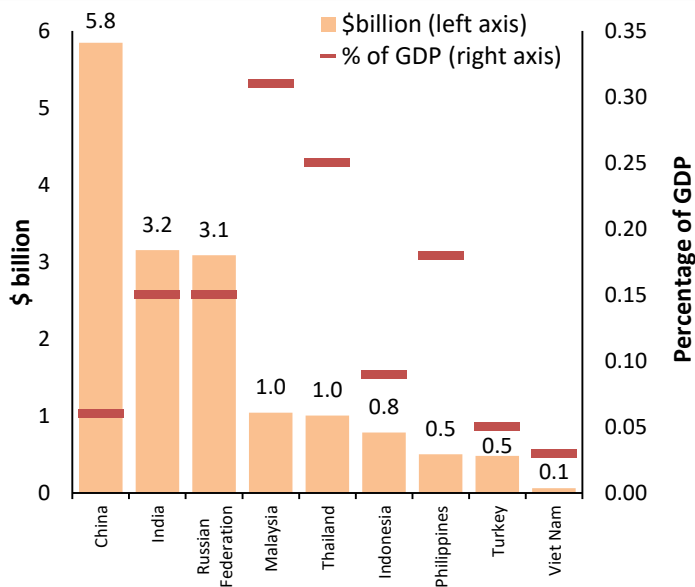
Scatter plot between Tax Administration Index and tax revenue-to-GDP ratio



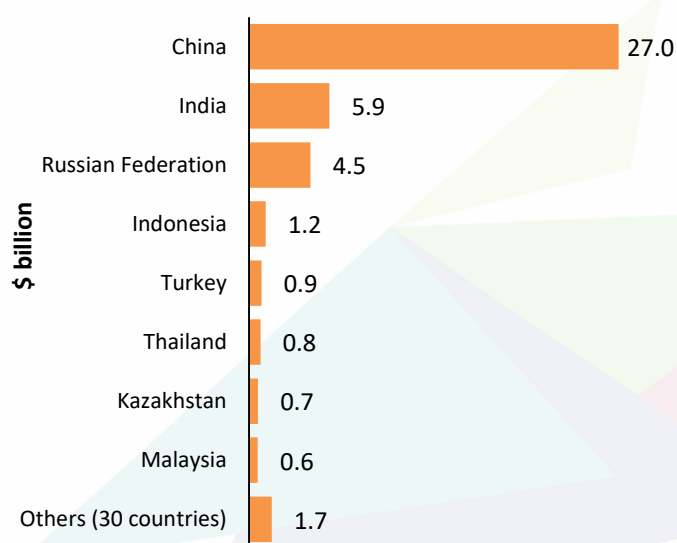
STRENGTHENING TAX REVENUES BY EXPANDING TAX BASE

Examples studied: rationalizing FDI tax incentives and introducing a carbon tax; the combined effect could be close to \$60 billion.

Potential Tax expenditure on FDI incentives



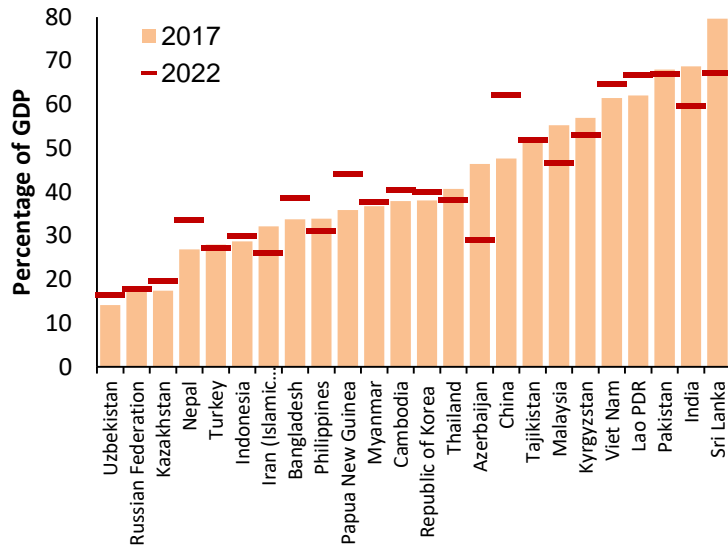
Potential tax revenue from introducing a carbon tax in selected economies (\$ billion)



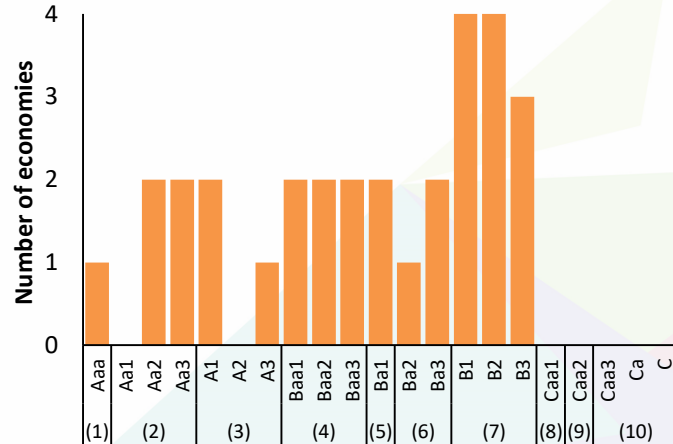
PRUDENT SOVEREIGN BORROWING FROM FINANCIAL MARKET

Key determinants: public revenue collection capacity, macroeconomic stability, external account vulnerability, and quality of regulatory and institutional framework.

Public debt levels in 2017 and 2022



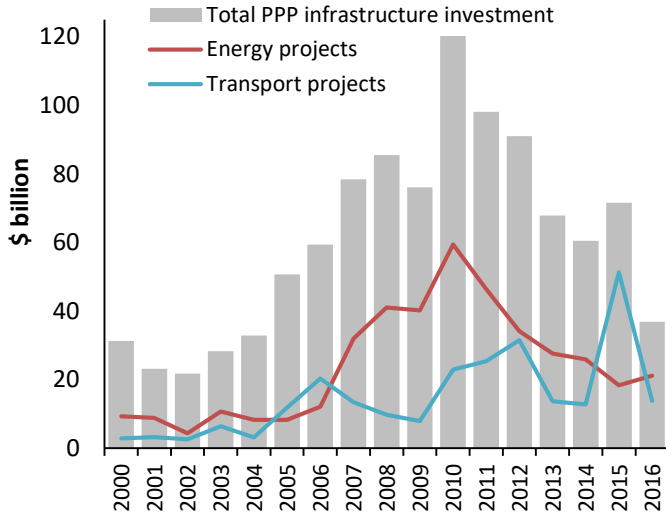
Sovereign credit risk ratings across developing Asia-Pacific economies



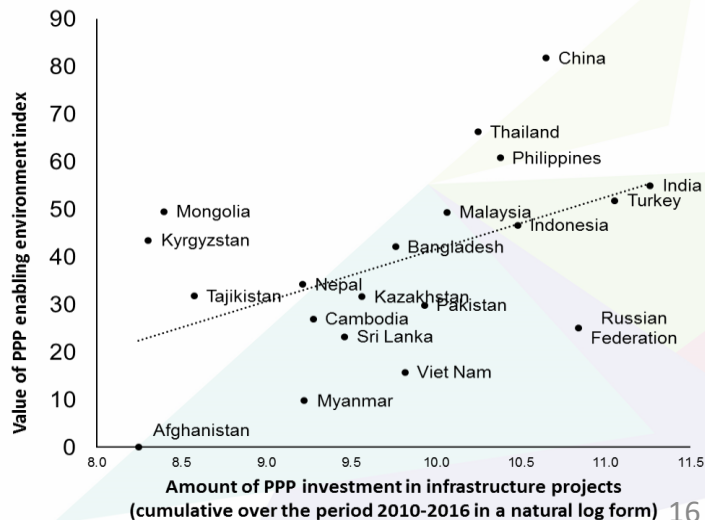
LEVERAGING PRIVATE FINANCE: ROLE OF ENABLING POLICY ENVIRONMENT AND DEVELOPED DOMESTIC FINANCIAL MARKETS

Infrastructure investments under PPP increase by 5% due to a 1-unit increase in PPP Enabling Environment Index.

Total infrastructure investment under PPP projects in Asia-Pacific



PPP Enabling Environment Index and PPP infrastructure investment



CONCLUDING REMARKS

- Asia-Pacific countries should take advantage of the steady economic performance to ensure that it is sustained over time, benefits everyone, and has minimal environmental implications.
- While considering various policies, diversity of region's economies must be kept in view, and specific circumstances of countries with special needs should be considered.
- Financing is a key means to effectively pursue the 2030 Agenda and should remain a priority in the Asia-Pacific region.
- Our assessment shows that the prospects for mobilizing financing for development purposes are promising.

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