Economic and Social Survey of Asia and the Pacific 2023

Macroeconomic performance and outlook Asia and the Pacific

Discussion by Yothin Jinjarak
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29 November 2022

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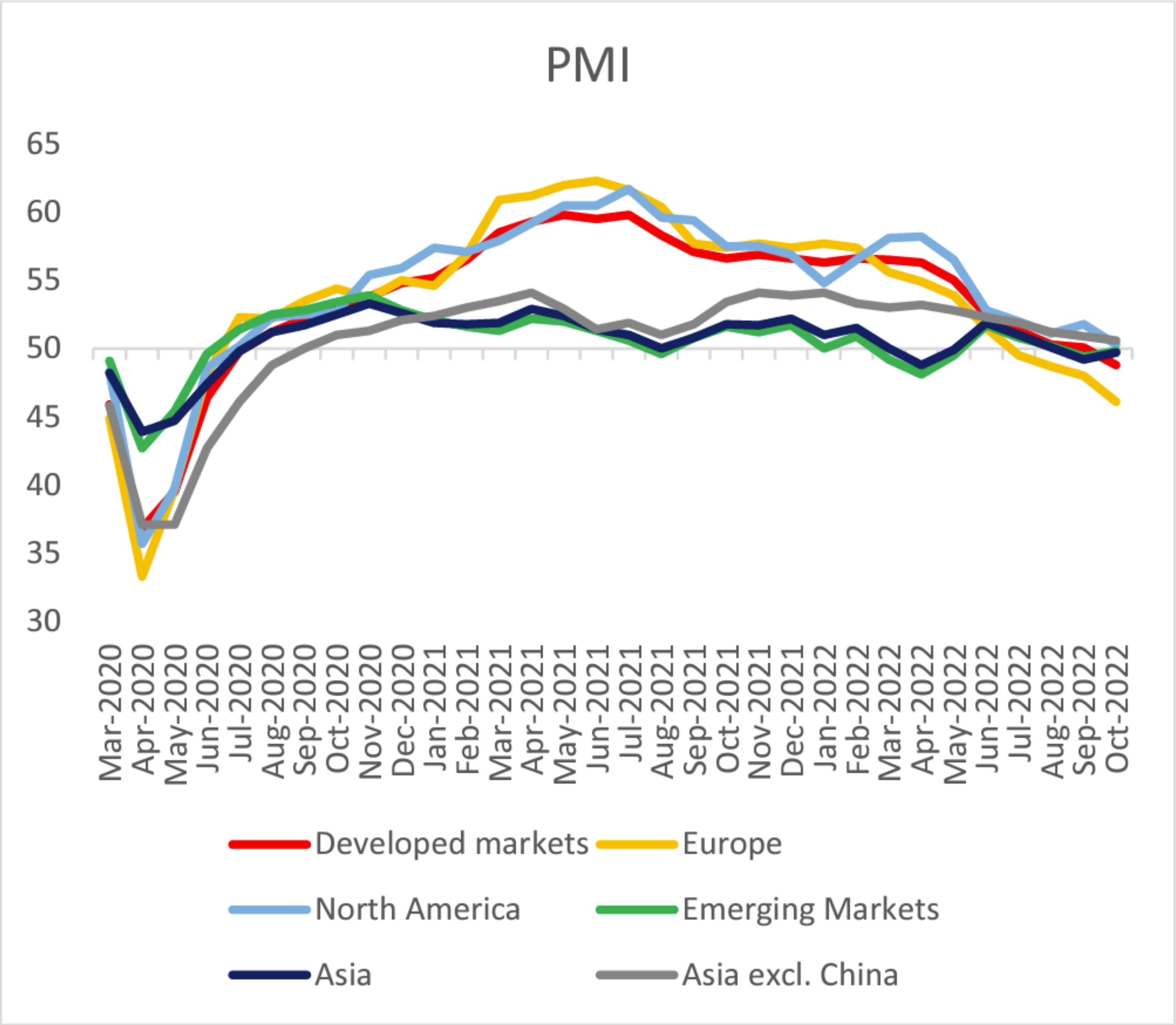
Figure 10. PMI indicates a slowdown in 2022



Source: CEIC

"Production has been subdued since the start of the war due to higher prices and tighter monetary policy stance which are a drag on manufacturing."

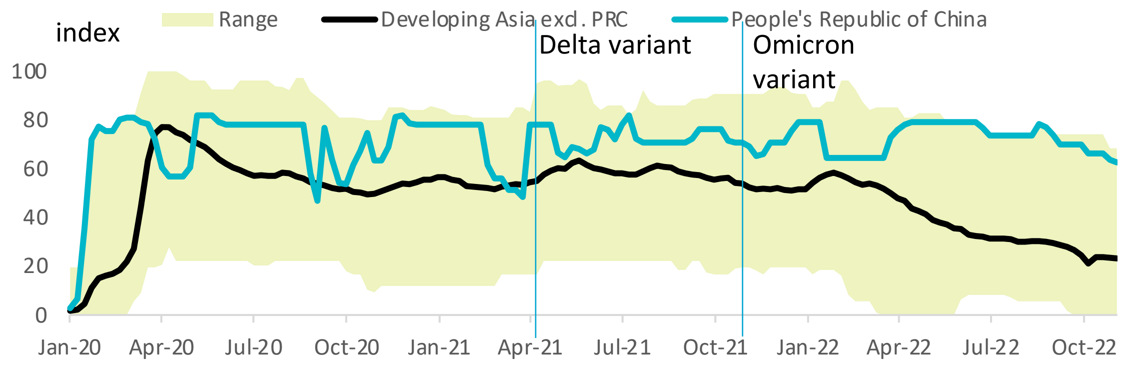
(Draft Survey 2023, page 13)

The pandemic is fading, and declining COVID-19 mortality risk, allowing more flexible containment policies, supporting economic activity

- After surging globally early this year, COVID-19 cases have fallen and are at low levels in developing Asia.
- Confirmed COVID-19 fatality rates fell across the world this year.
- Increased immunity and Omicron's less severe health impact allowed developing Asian economies to reopen, with PRC also starting to ease restrictions.
- The easing of restrictions has meant that economic activity in many economies has continued expanding in 2022, as indicated by the purchasing manager indices.
- Since April, for India and Southeast Asia, PMI's above 50 or in expansionary territory. PMI's falling below 50—in the PRC and HKG due to lockdowns, and in ROK and TAP as external demand weakened.

More flexible pandemic containment measures are being rolled out, with the PRC starting to ease restrictions.

Government stringency index



COVID-19 = Coronavirus Disease 2019, PRC = People's Republic of China.
Note: The government stringency index measures on a 0-100 scale the degree of containment and closure policies. A higher score indicates a stricter response. Developing Asia line plots the average for all economies with data.
Source: Our World in Data (accessed 16 November 2022).

Reopening is supporting expansion of manufacturing and services.

Purchasing managers' index (>50 improving; <50 worsening)

Manufacturing PMI, seasonally adjusted

Economy	2021												2022									
	Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
India	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6	55.5	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3
Indonesia	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2	57.2	53.9	53.5	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8
Malaysia	48.9	47.7	49.9	53.9	51.3	39.9	40.1	43.4	48.1	52.2	52.3	52.8	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7
Philippines	55.5	55.5	55.2	52.0	52.9	53.8	53.4	49.4	53.9	54.0	54.7	54.8	50.0	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6
PRC	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0	50.6	49.9	50.9	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5	48.1	49.2
Republic of Korea	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2	52.4	50.2	50.9	51.9	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2
Taipei,China	60.2	60.4	60.8	62.4	62.0	57.6	59.7	58.5	54.7	55.2	54.9	55.5	55.1	54.3	54.1	51.7	50.0	49.8	44.6	42.7	42.2	41.5
Thailand	49.0	47.2	48.8	50.7	47.8	49.5	48.7	48.3	48.9	50.9	50.6	49.5	51.7	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6
Viet Nam	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2	40.2	52.1	52.2	52.5	53.7	54.3	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6

Services PMI, seasonally adjusted

India	52.8	55.3	54.6	54.0	46.4	41.2	45.4	56.7	55.2	58.4	58.1	55.5	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2	54.3	55.1
PRC	52.0	51.5	54.3	56.3	55.1	50.3	54.9	46.7	53.4	53.8	52.1	53.1	51.4	50.2	42.0	36.2	41.4	54.5	55.5	55.0	49.3	48.4

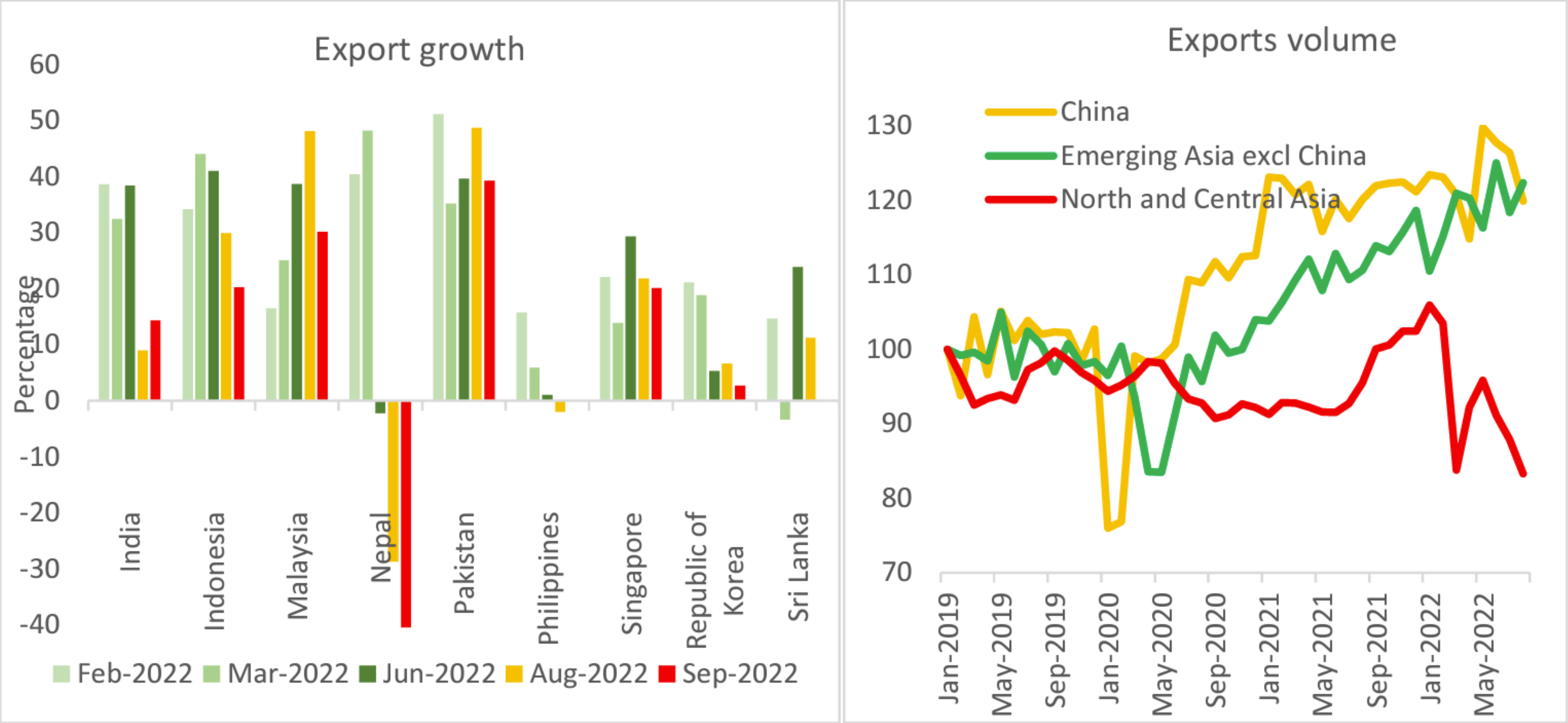
Whole Economy PMI, seasonally adjusted

Hong Kong, China	47.8	50.2	50.5	50.3	52.5	51.4	51.3	53.3	51.7	50.8	52.6	50.8	48.9	42.9	42.0	51.7	54.9	52.4	52.3	51.2	48.0	49.3
Singapore	52.9	54.9	53.5	51.8	54.4	50.1	56.7	52.1	53.8	52.3	52.0	55.1	54.4	52.5	52.9	56.7	59.4	57.5	58.0	56.0	57.5	57.7

Delta COVID-19 variant **Omicron COVID-19 variant**

PMI = Purchasing managers' index PRC = People's Republic of China, Q = quarter.
Notes: The PMI is an indicator of business activity. Pink to red indicates deterioration (<50), and white to green indicat
Source: CEIC Data Company (accessed 16 November 2022).

Figure 8. Export continued to expand in the first half but at a slower pace than in 2021



Source: Based on CEIC and CPB Netherlands Bureau for Economic Policy Analysis

"Exports from developing Asia-Pacific continued to expand at a slower pace compared to the previous year and are facing considerable headwinds."

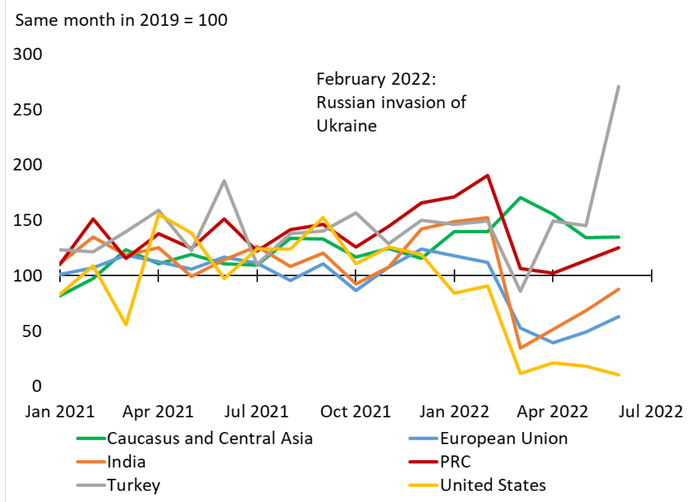
(Draft Survey 2023, page 12)

The Russian invasion of Ukraine has had unexpectedly benign growth impacts on the CCA

- Caucasus and Central Asia (CCA) growth generally remained robust in the first half of 2022, with double-digit growth in Armenia and Georgia.
- Exports to Russia from the CCA region rose until March, before stabilizing back to the pre-invasion level and staying above the pre-pandemic level thereafter.
- Issue of "parallel exports", re-exports of sanctioned goods (e.g., chips)
- Monthly money transfers to some CCA countries rose significantly with the start of the Russian invasion of Ukraine, often in association with an influx of people, and stayed above the pre-pandemic level.
- Exports by some CCA hydrocarbon exporters thrived, having stayed significantly above the pre-pandemic level.

CCA's exports to Russia remained robust.

Exports to the Russian Federation

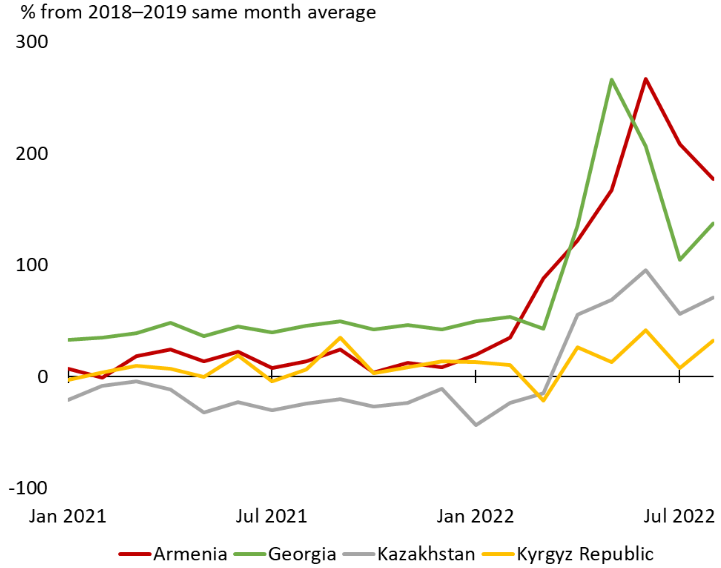


Caucasus and Central Asia = Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan. To generate the series for the Caucasus and Central Asia, country series are weighted by their GDP in purchasing power parity terms as of 2020.

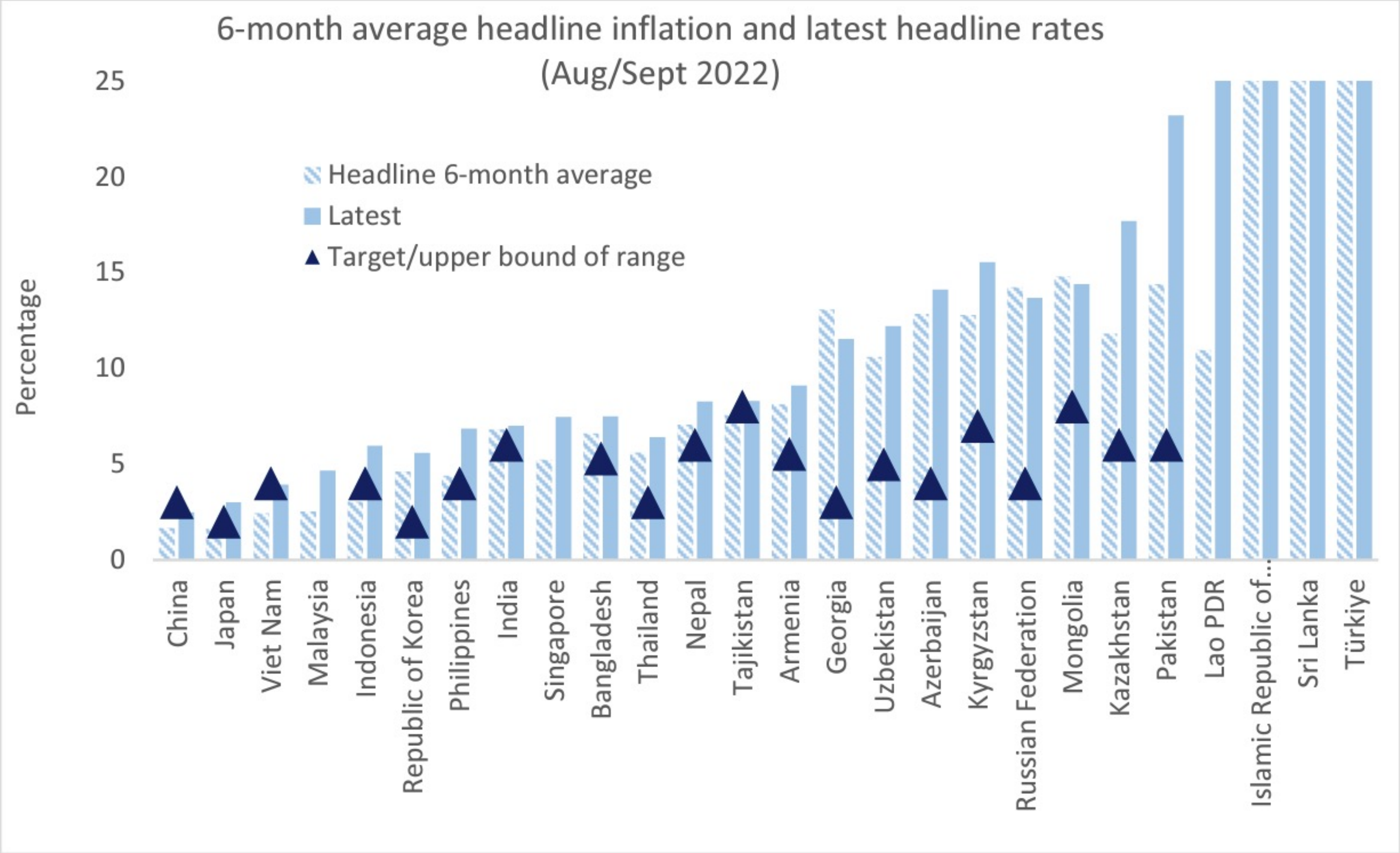
Source: IMF. Direction of Trade Statistics.

Monetary inflows to some CCA countries increased sharply.

Monthly Money Transfers



Source: National sources.



“The main driver of inflation over the past year was the pass-through of international food and energy price to domestic inflation.”

(Draft Survey 2023, page 18)

Source: CEIC

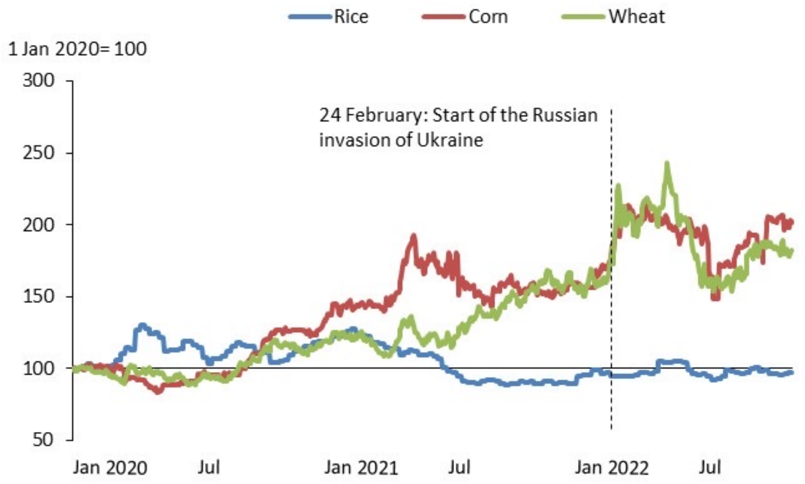
Note: 6-month average and latest headline rate for Lao PDR = 11% and 34.1%; Sri Lanka 32.3% and 70.2%; and Türkiye 64.4% and 83.5%.

Food prices (except for rice) and oil prices remain elevated, and natural gas prices have surged

- As exemplified by corn and wheat, food prices remain elevated but fell from their peaks earlier this year, on weaker demand prospects and improved crop expectations. Rice prices, which were one factor responsible for Asia's low inflation in 2021, have remained broadly constant so far this year.
- Inflation in developing Asia increased from 3.0% in January to 5.6% in September. While it rose above the pre-pandemic 5yr average of 2.8% over 2015-2019 it remained below rates experienced by advanced economies such as the US and Euro area.
- There are significant differences across subregions. The Caucasus and Central Asia had the highest inflation rate in September, at 15.3%, whereas inflation in East Asia stood at just 3.1%.
- Even these subregional figures hides differences across economies due to domestic drivers—including for example very high inflation in Sri Lanka driven by supply disruptions and foreign currency shortages; fuel subsidy withdrawals in Pakistan; and currency depreciation in Lao PDR.

Food prices remain high, but have fallen from their peaks on weaker demand prospects and improved crop expectations.

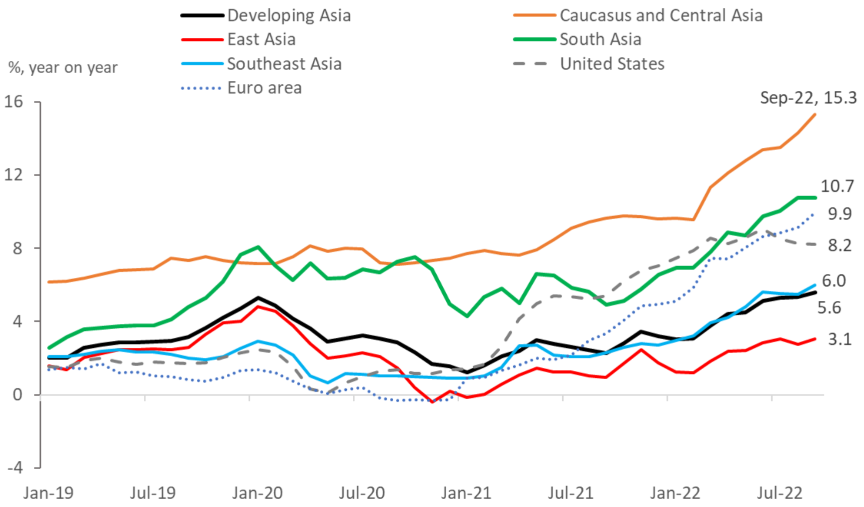
Prices of key agricultural products



For food, data refer to prices of Thailand 5% rice (weekly data), Gulf Hard Red Winter wheat, Gulf No. 2 Yellow corn (US).
Source: Bloomberg (accessed 16 November 2022)..

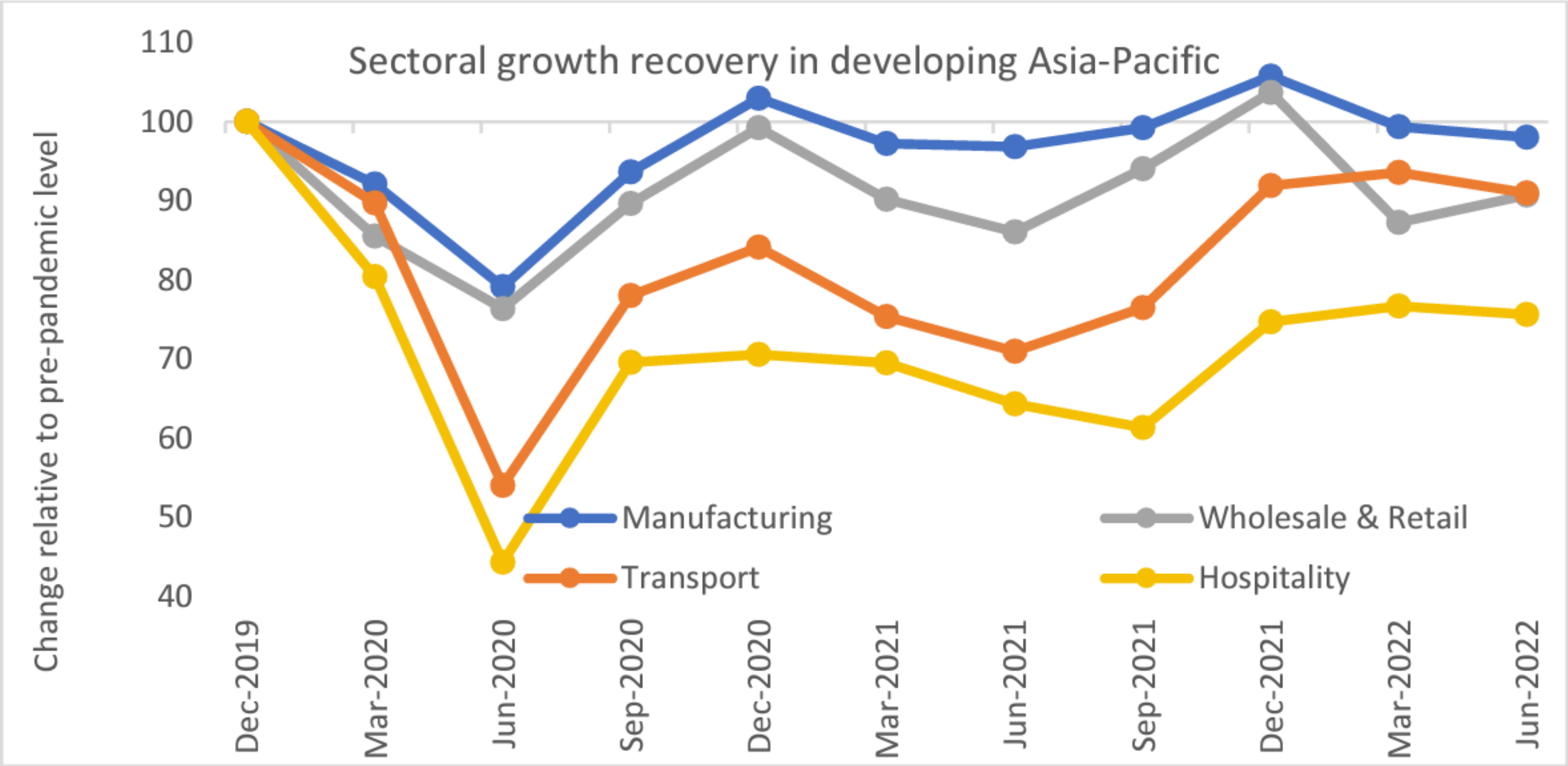
Prices in developing Asia increased less than in the US and euro area this year, but to varying degrees across subregions.

Headline inflation



Sources: CEIC Data Company and Haver Analytics (both accessed 16 November 2022).

Figure 11. Sectoral growth recovery in developing AP



Source: Based on CEIC.

"Growth is still uneven across sectors and recover of key sectors remains below pre-pandemic levels."

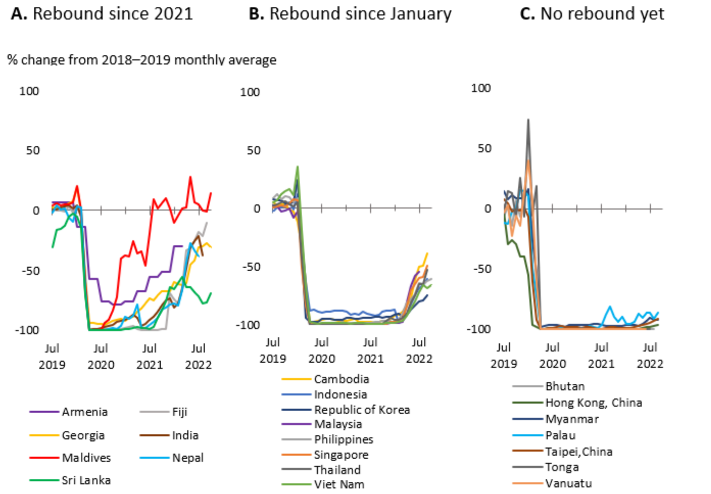
(Draft Survey 2023, page 13)

The tourism recovery broadens, remittances remain healthy

- Regarding tourism, the pace of recoveries reflects the timing of border reopening.
- Several economies where the rebound began last year: Armenia, Georgia, Fiji, Nepal, and Maldives, where tourism is back to normal.
- Some economies' rebound started this year, all in Southeast Asia, where the absence of tourists from East Asia remains a challenge.
- For some economies where tourism has not rebounded. This includes East Asian economies and most Pacific islands.
- The remittances remained healthy in the first quarter of the year; robust in Bangladesh, Pakistan, and the Philippines—three of the region's largest recipients; strong in economies where they are the largest shares of GDP: including Armenia, Georgia, Nepal, and Uzbekistan.

Tourism rebounded in 14 regional economies, but remains at a standstill in East Asia and in most of the Pacific.

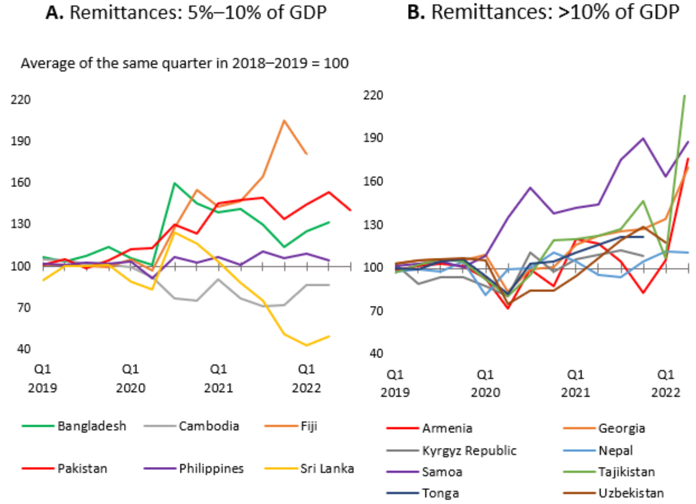
International tourist arrivals



Sources: CEIC Data Company; national sources (all accessed 17 November 2022).

Remittances remained resilient in the first quarter of the year.

Remittances



GDP = gross domestic product, Q = quarter.
Sources: CEIC Data Company; IMF. Balance of Payments and International Investment Position Statistics; World Bank. World Development Indicators database (all accessed 17 November 2022).

Source: National sources.

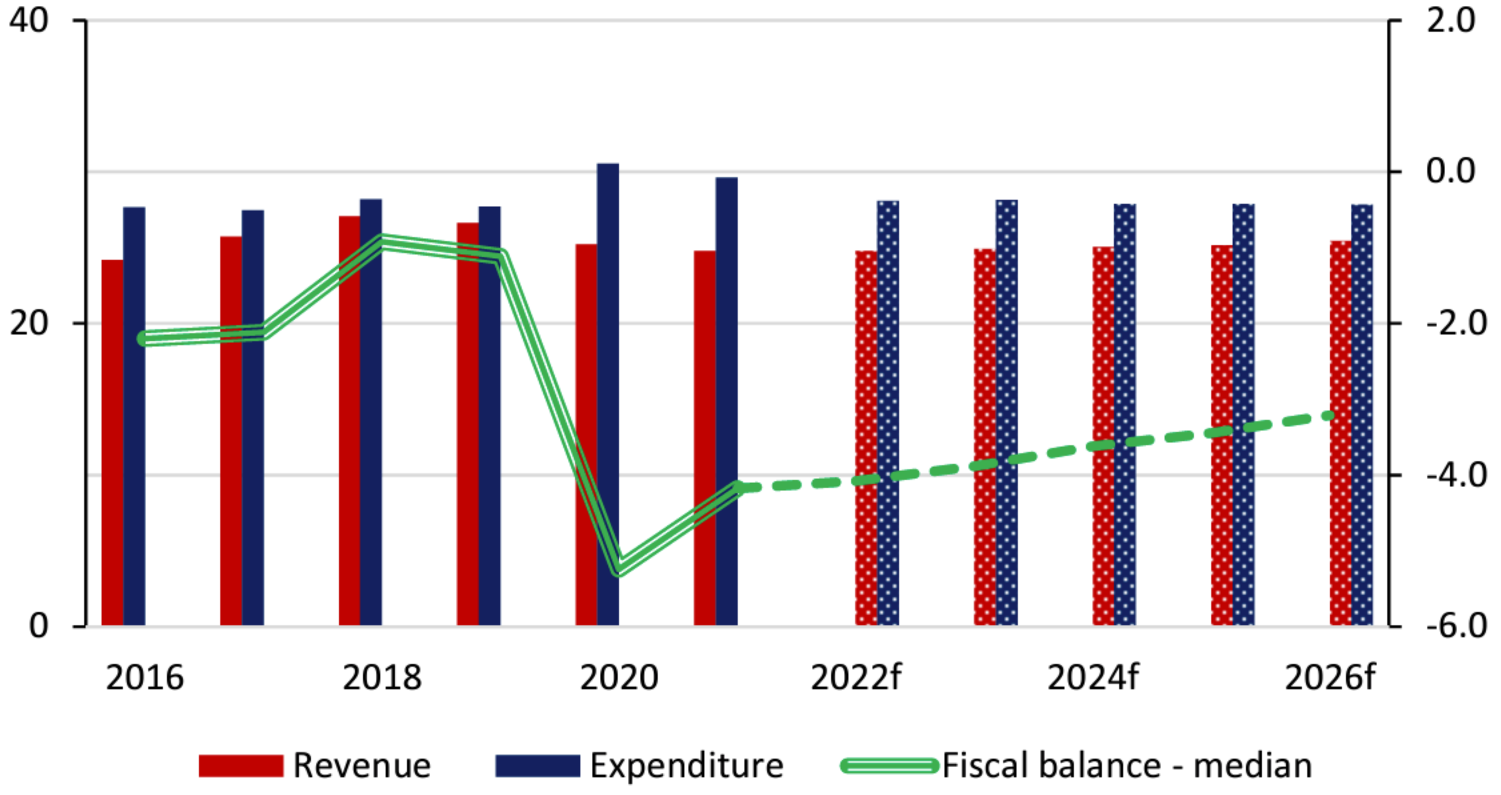
Mobilizing Tax Revenues in Developing Asia

Presentation by Yothin Jinjarak, Macroeconomics Research Division, ADB

29 November 2022

Image Credits: marcus-woodbridge-EhcI5FPSZs8-unsplash

Figure 1.1A: Fiscal space, developing Asia-Pacific, per cent of GDP
Percentage



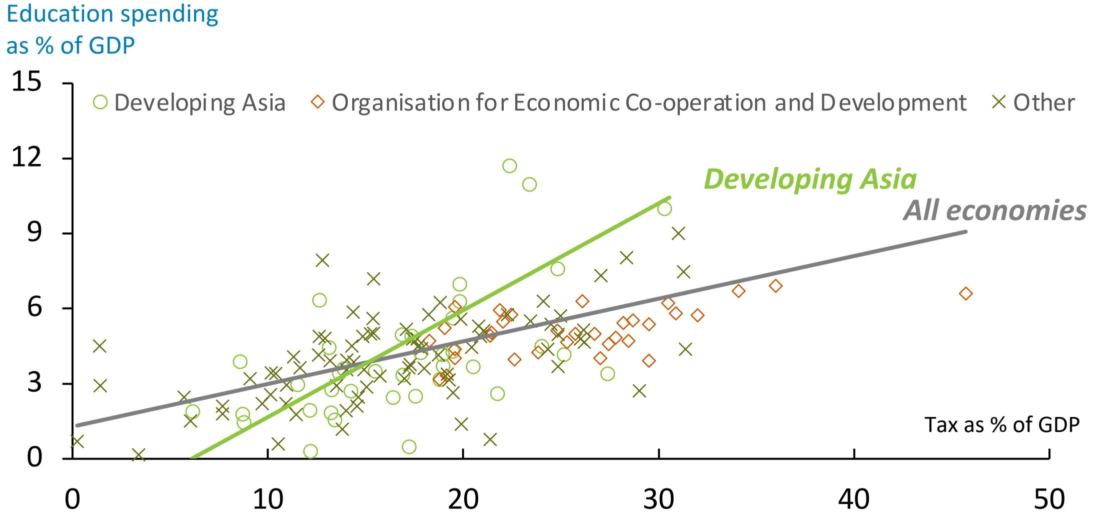
"Fiscal space remains tight in 2023, with still much deeper fiscal balances than before COVID-19 crisis."

(Draft Survey 2023, page 27)

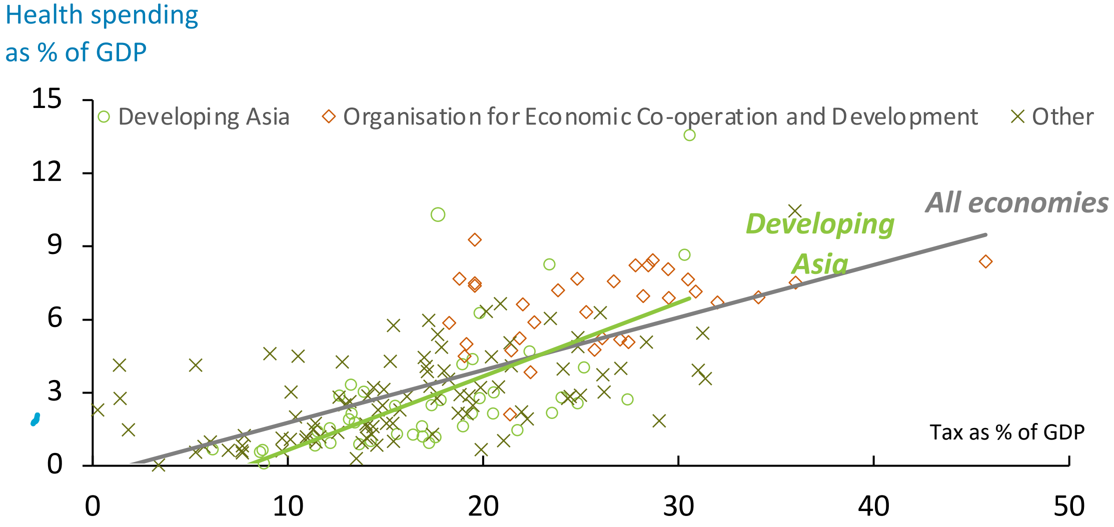
Tax mobilization is required to fund vast spending needs

- The support for development in the medium to long term demands the mobilization of domestic resources, particularly the fiscal resources.
- A positive correlation is readily observed between taxes and expenditures globally but also within Developing Asia region.
- This positive correlation is not observed for all types of government spending, including for example defense spending.
- Simple correlations don't infer causation but they're suggestive that as countries increase their tax revenues, they'll also spend more in development promoting areas.
- Of course, the improved efficiency of public spending can help free up fiscal space, and private finance has a critical role to play.

Higher tax revenue associated with greater development...



...and promote spending.



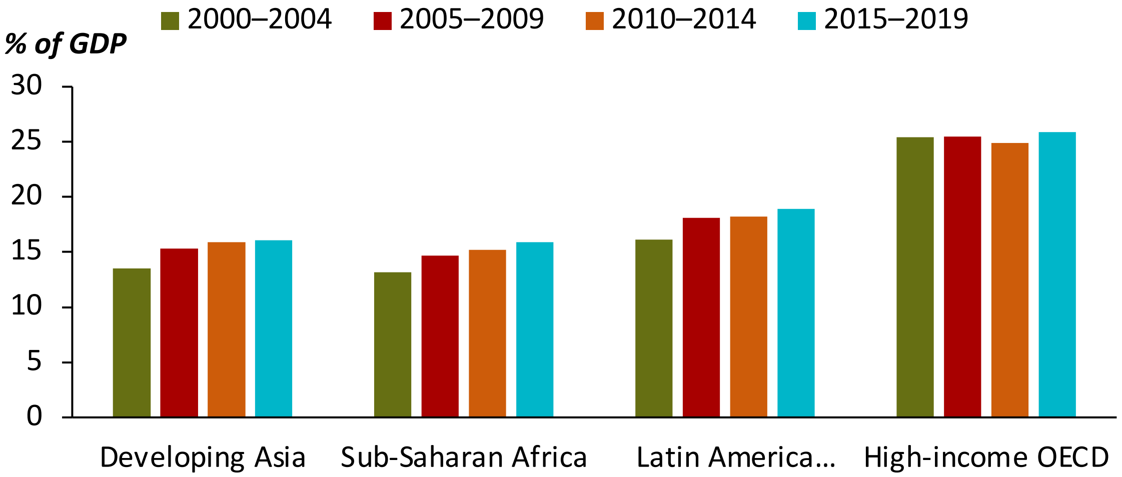
Notes: Tax revenue, education, and health expenditure (% of GDP) represent average for 2015-2019.
Sources: Organisation for Economic Co-operation and Development Revenue statistics (accessed 15 Sept 2021); International Monetary Fund Government Finance Statistics (accessed 22 Oct 2021);

Before COVID-19 tax revenue increased but subsequently declined

- Before the pandemic, the region's tax revenue increased but remained low, around 16% of GDP.
- That level was a little below Latin America and well below OECD economies.
- Within the region, average tax revenues of the South and the Southeast Asia tend to be lower than others.
- Generally, the developing economies in Asia depend heavily on consumption taxes, especially the value added tax and corporate income taxes. Little revenue is generated from personal income, property, health, and environmental taxes.
- After the COVID-19 crisis, the tax revenues have declined across Asia, even more than expected from the previous episodes of economic slowdown.

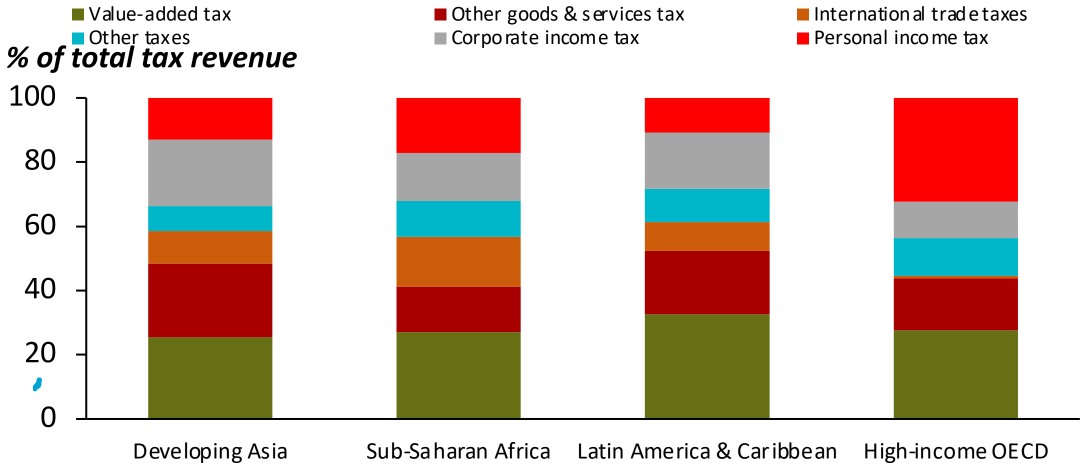
In developing Asia tax revenue rose before COVID-19 but remained comparatively low.

Tax revenue



Asia is reliant on consumption taxes and, to a lesser extent, corporate income taxes.

Tax revenue (2015-19 average), by source, select regions



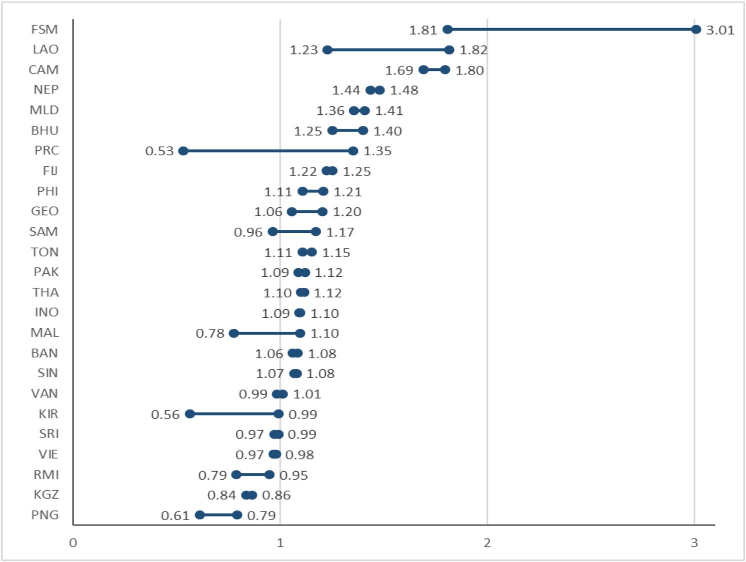
Note: 26 economies in Developing Asia, 28 in Sub-Saharan Africa, 27 in Latin America and the Caribbean, and 33 among high-income OECD members.
Sources: OECD, Global Revenue Statistics Database; IMF, Government Finance Statistics. (accessed 31 January 2022). ADB staff estimates.

Where fiscal spending is already low, tax policy and its sustainability are critical.

- Tax buoyancy measures the response of tax revenues to gross domestic product (GDP) and is therefore a key metric for understanding the short to medium-term outlook for revenues.
- A buoyancy coefficient greater than one implies that tax revenues grow faster than GDP, and less than one is the opposite.
- The estimated long-run tax buoyancy is greater than one in most economies, indicative of fiscal sustainability.
- Southeast Asia exhibits tax buoyancy in the long-run; a broadly mixed pattern in South Asia; and the low long-run tax buoyancy for several economies in Central Asia and in the Pacific.
- Developing Asian economies endured excess lost tax revenues in 2020, over and above what was expected because of the decline in GDP, equal to half a percentage point of 2019 GDP because of COVID-19.

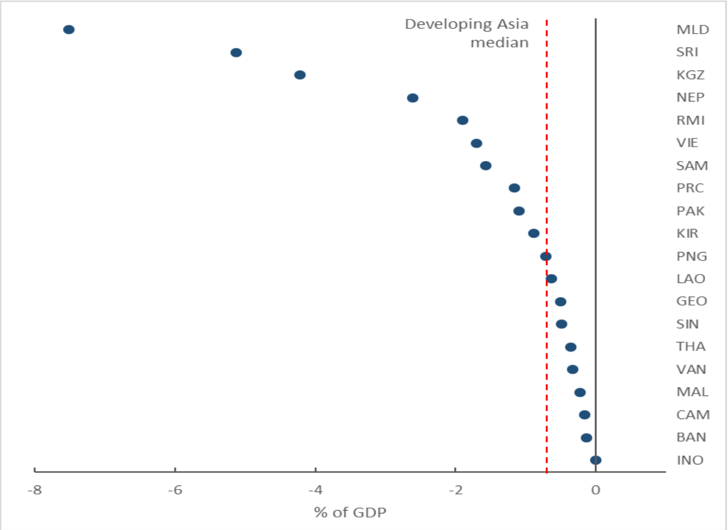
Long-run tax buoyancy coefficients

Tax Buoyancy coefficients



COVID-19 Crisis and Excess Tax Losses

Excess Tax Losses as % of GDP



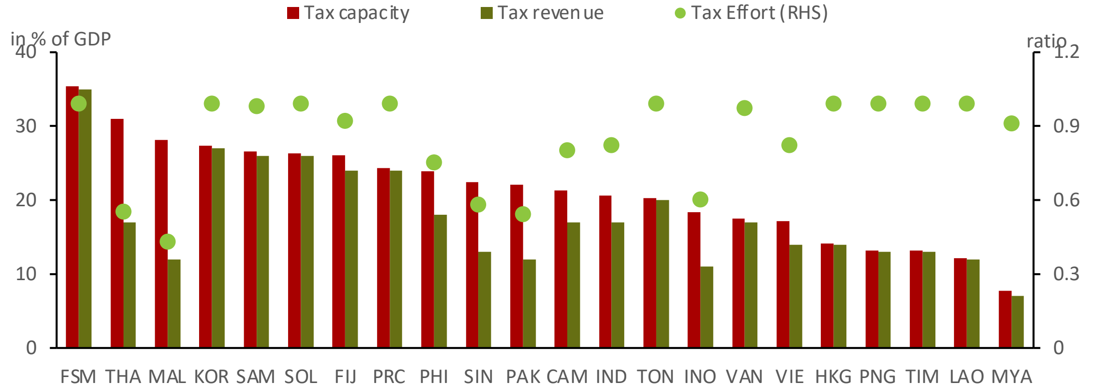
Source: Authors' calculations. Negative values are tax loss beyond what would normally be expected in the GDP downturn. Excludes Federated States of Micronesia whose revenue loss is estimated at 19.8% of GDP.

Tax policy priorities need to reflect country-specific factors

- Benchmarking tax revenue with each economy's structure and economic activities, the estimated potential to increase tax revenue is 3¬-4% of GDP in the region.
- How best to prioritize and mobilize taxes depends on several factors.
- Consider the tax expenditures. These are special tax concessions; for instance, the tax breaks designed to attract foreign direct investment. Forego revenue equal to about 14% of total tax revenue in developing Asia.
- These tax expenditures are not reported and scrutinized like other fiscal items; they are difficult to remove; and they yield somewhat hard-to-measure benefits.
- For example, the surveys of foreign investors suggest that these fiscal incentives are less important than other factors in attracting the foreign investment.

Tax effort is lower and tax potential greater in SA and SE, in contrast to EA and some PAC.

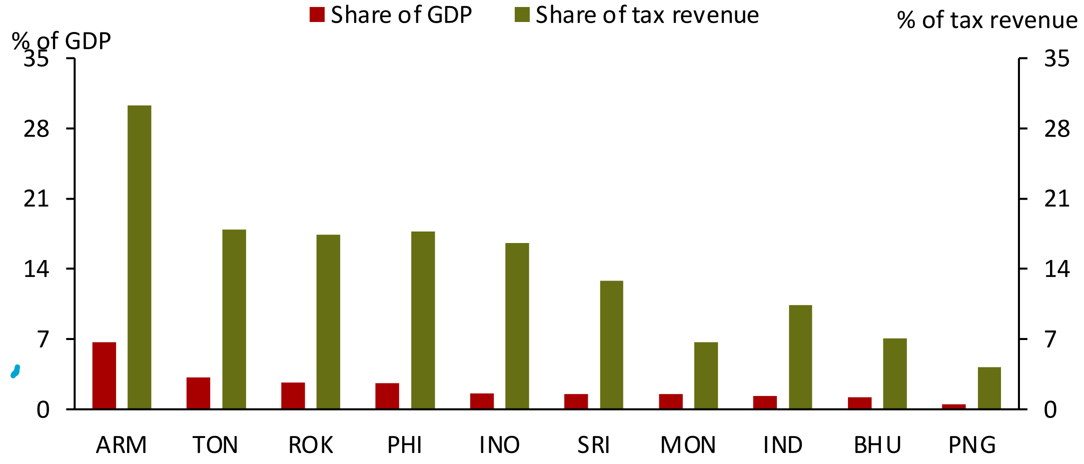
Tax potential in % of GDP, latest year



Source: Gupta and Jalles (2022).

Tax expenditures need to be optimized.

Foregone revenue due to tax expenditures



Source: Global Tax Expenditure Database. https://gted.net (accessed 1 Dec 2021)

Additional Issues for Mobilizing Taxes in Developing Asia

- Value-added tax is a revenue mainstay and must be better utilized.
- Personal income and property taxes can support higher revenue and progressivity.
- Multilateral initiatives can help address corporate income tax challenges.
- Environment-related taxes are expanding in the region; remain underutilized.
- Corrective health taxes can improve health and raise revenue.
- Strengthening tax administration is essential for tax mobilization and can be complemented by improving tax morale.
- Reform to mobilizing tax revenues is difficult but feasible.

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