

2013 Sri Lanka Economic Summit

Asia in the 21st Century The Potential for Sri Lanka



July 13

Anoop Singh
Sri Lanka
July 9, 2013

INTERNATIONAL MONETARY FUND

Outline

I. Asia in the 21st Century

II. Ingredients for Sustaining Rapid Growth

- i. Macroeconomic and Financial Stability
- ii. Outward Orientation
- iii. Enhancing Productivity Growth
- iv. Investment in Physical Capital
- v. Robust Labour Contribution
- vi. Strong Institutions and Good Governance
- vii. Inclusive Economic Growth

III. Sri Lanka's Potential

I. Asia in the 21st Century

- Asia's role in the global economy is rising
- Increasing share of global GDP, trade and finance
- Supported by sustained robust growth and productivity



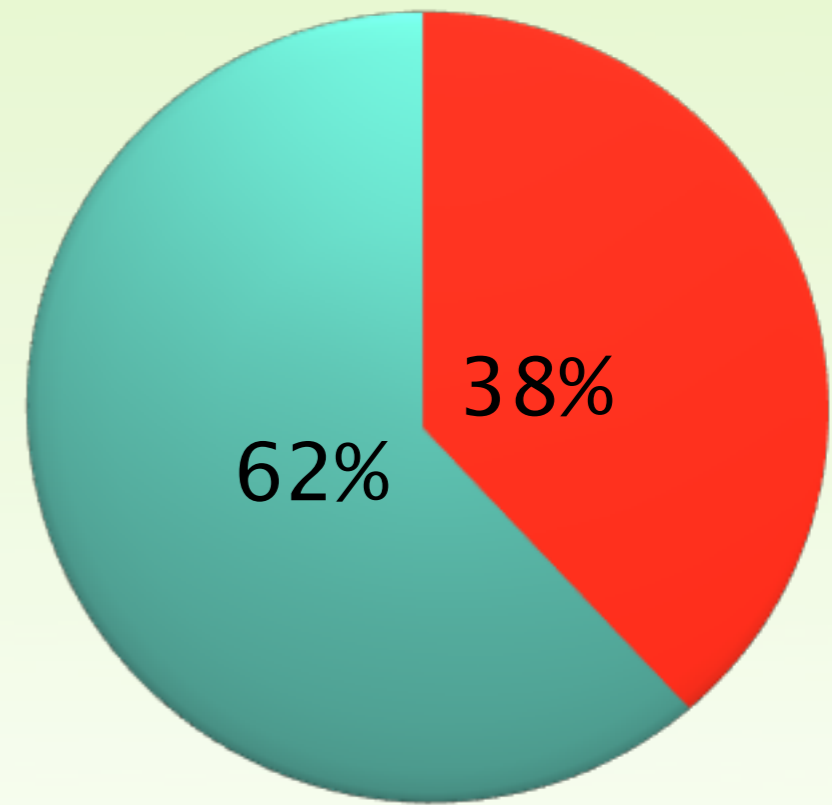
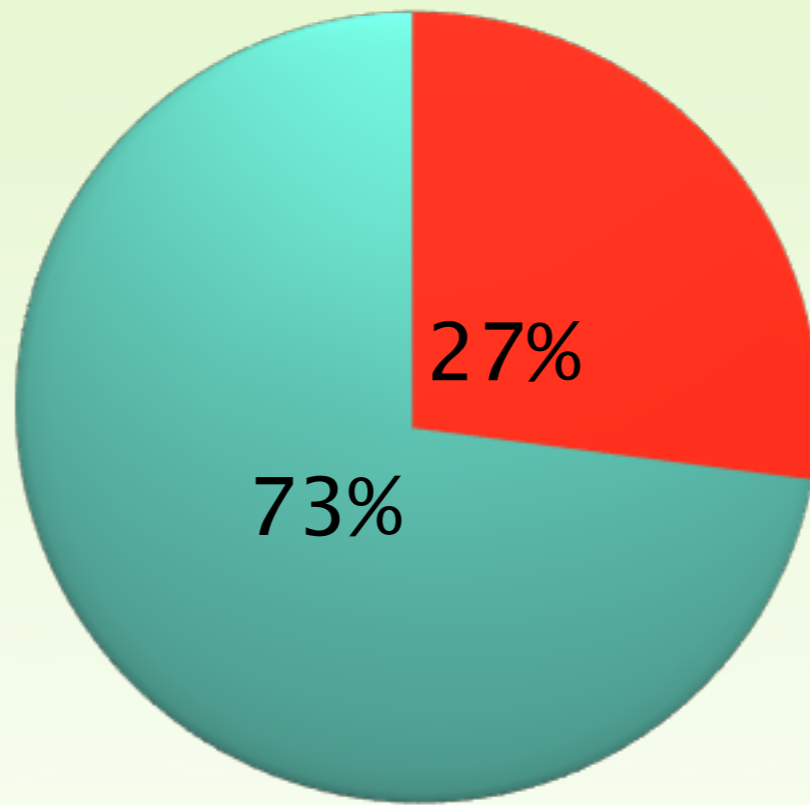
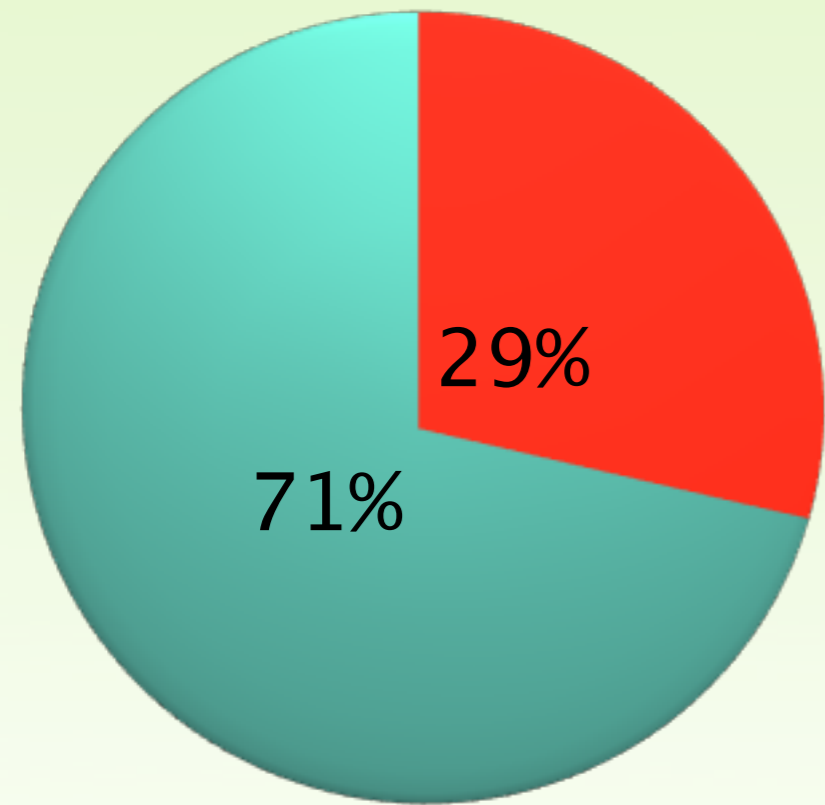


Asia: Rising role in the global economy

**Share of world GDP,
2000**

**Share of world trade,
2000**

**Share of world finance,
2000**



● Asia ● Non-Asia

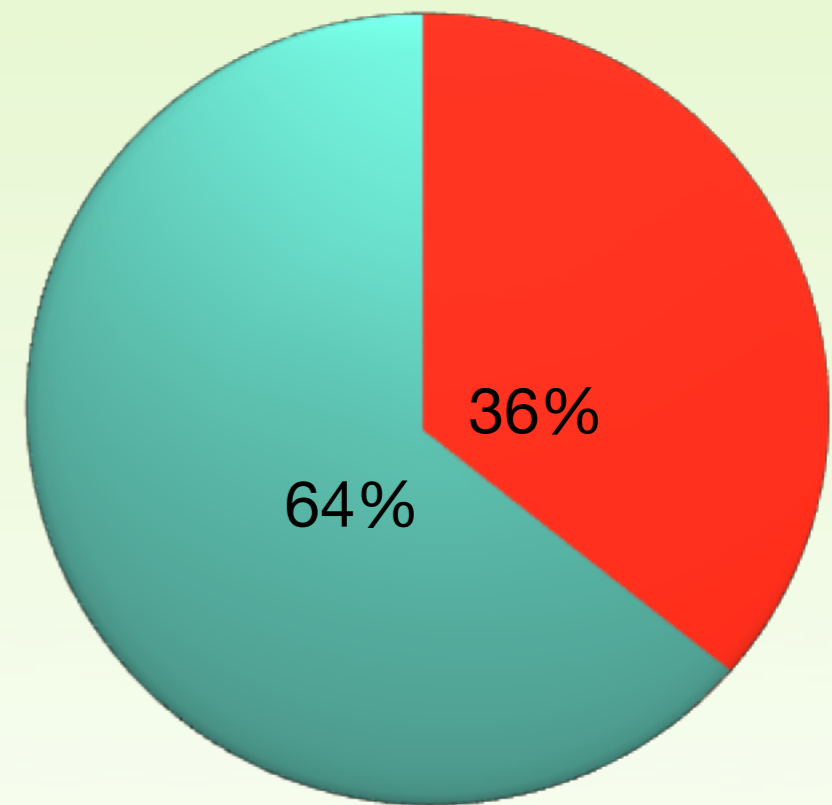
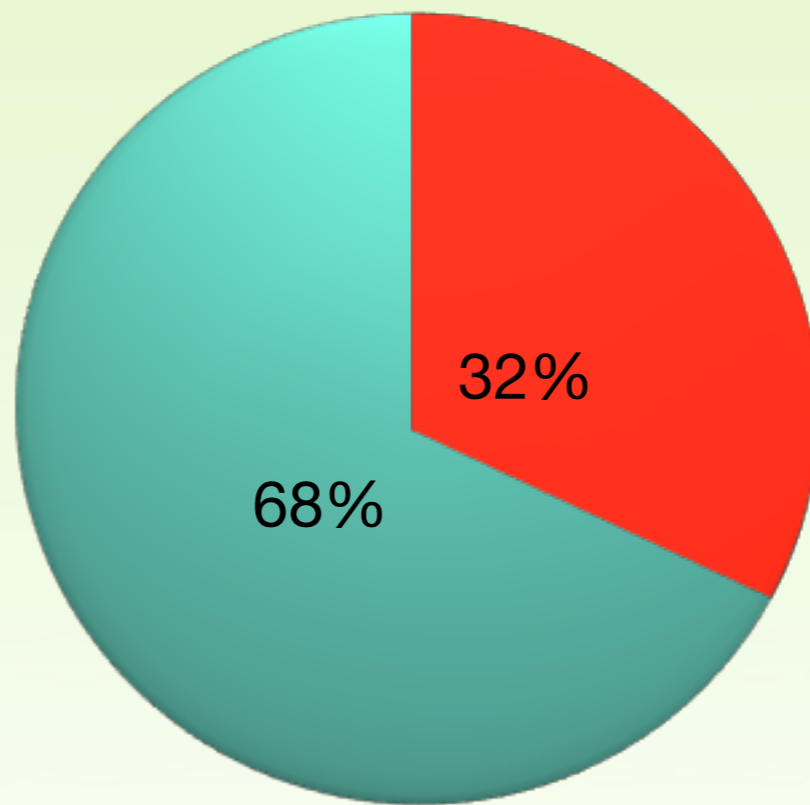
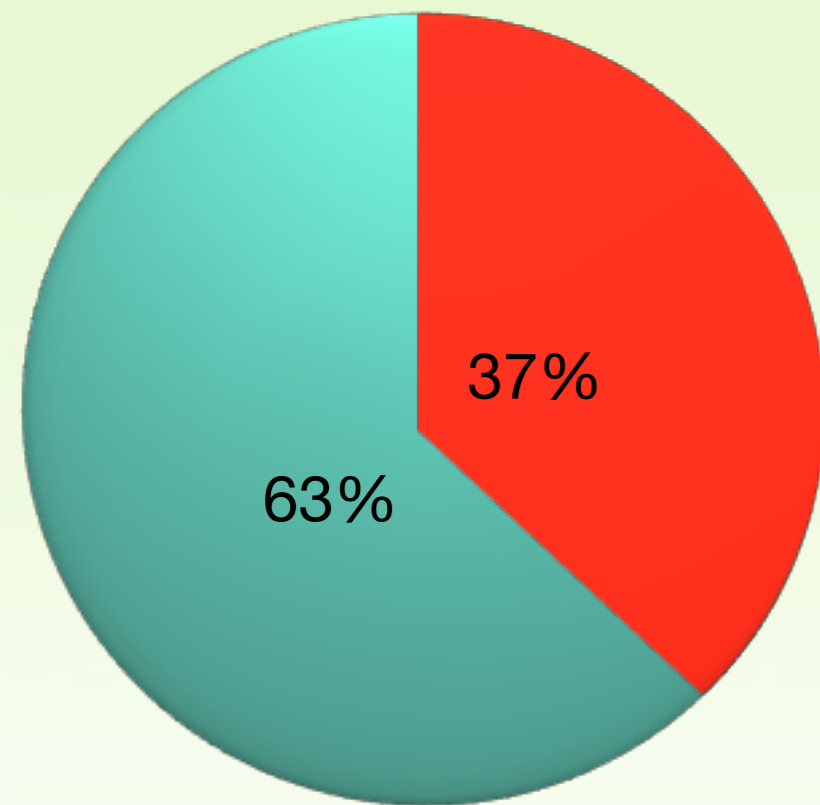


Asia: Rising role in the global economy

**Share of world GDP,
2012**

**Share of world trade,
2012**

**Share of world finance,
2012**



● Asia ● Non-Asia

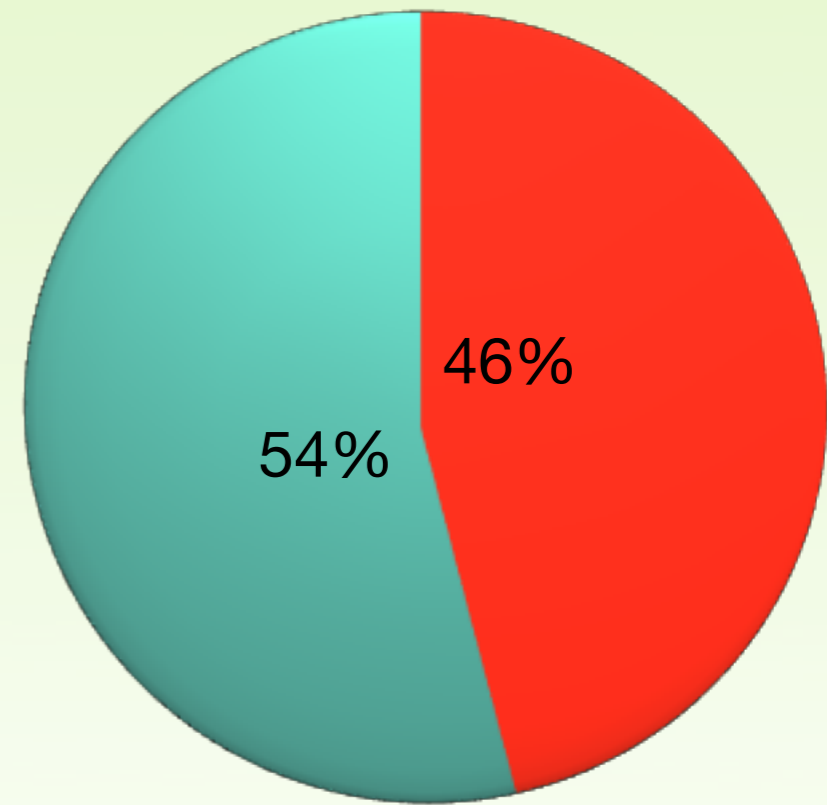
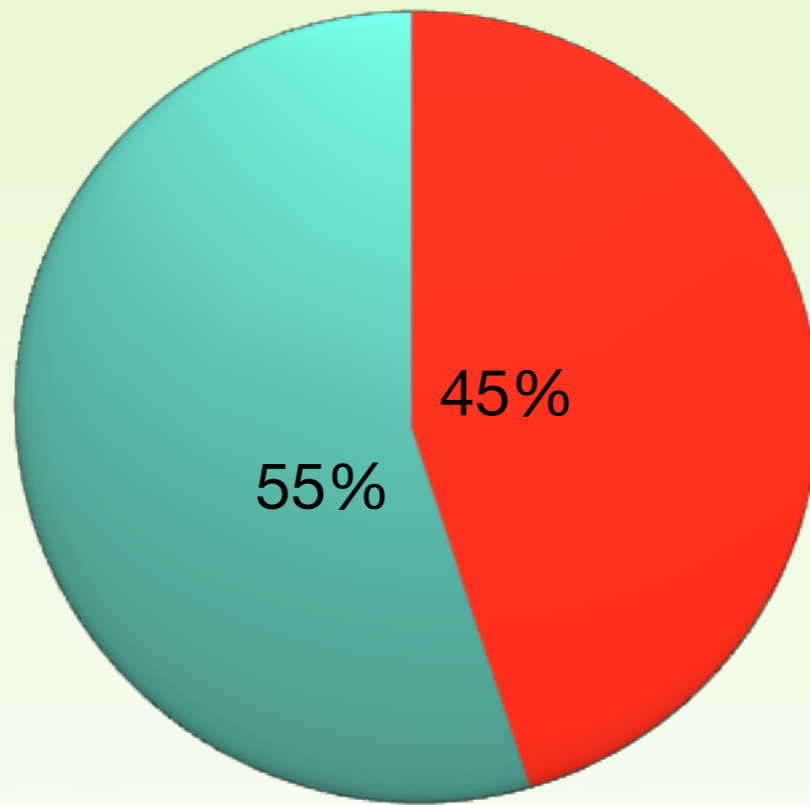
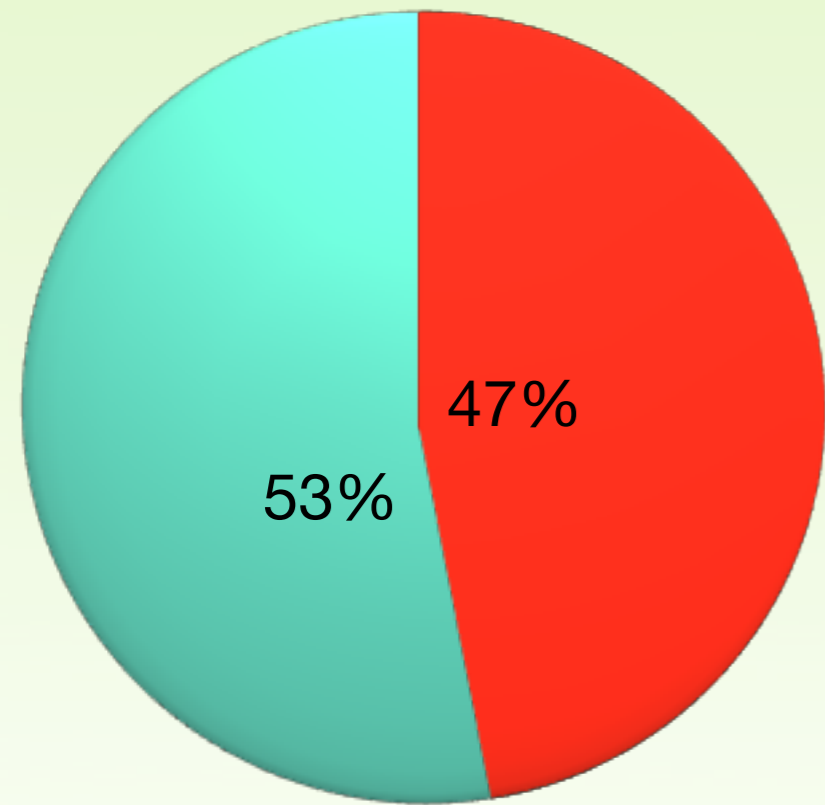


Asia: Rising role in the global economy

**Share of world GDP,
2023**

**Share of world trade,
2023**

**Share of world finance,
2023**



● Asia ● Non-Asia



Asia's growth and productivity: Robust and sustained

Trend Growth

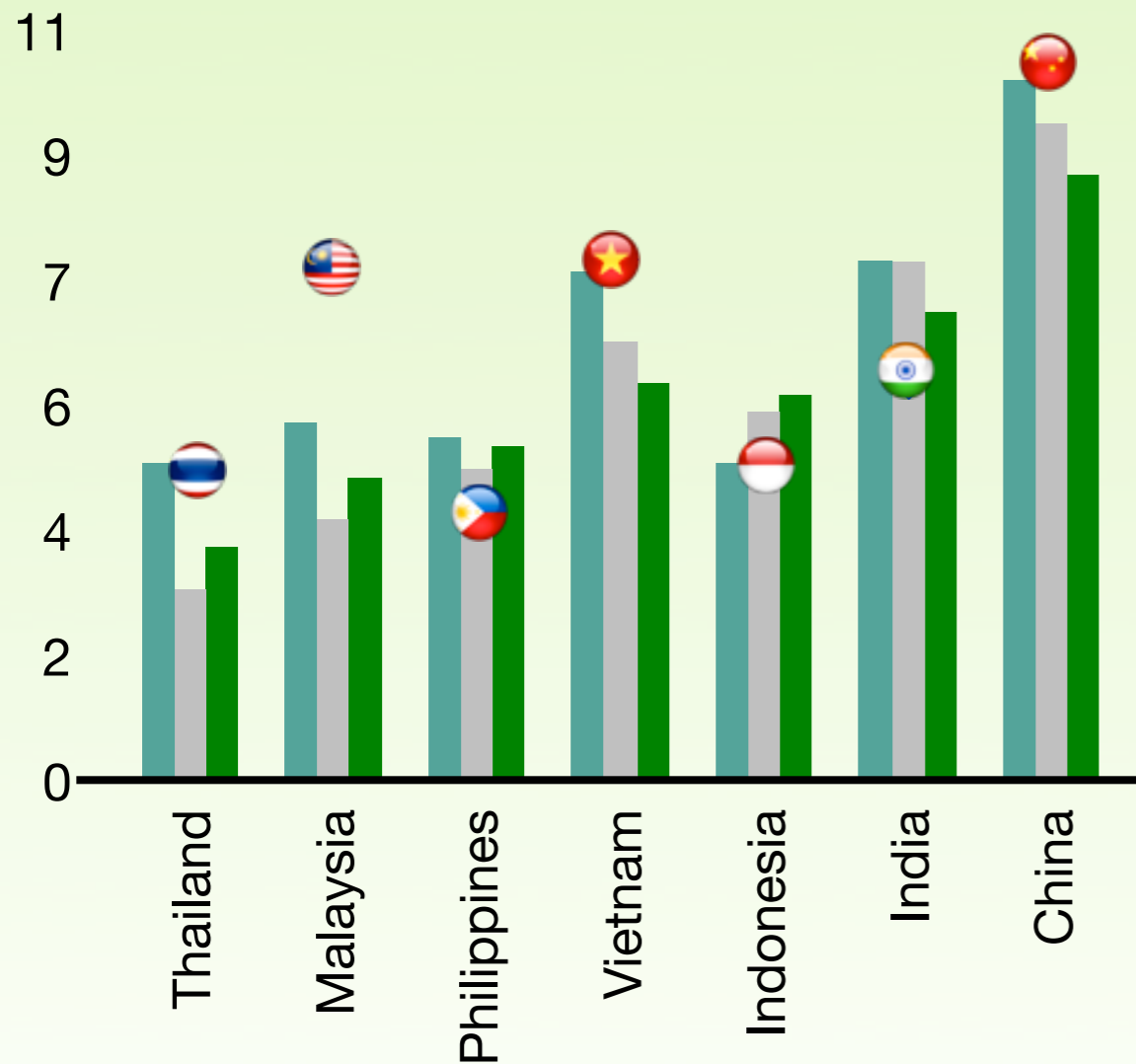
(In percent)

Country flag = 1994-1997

2003-2007

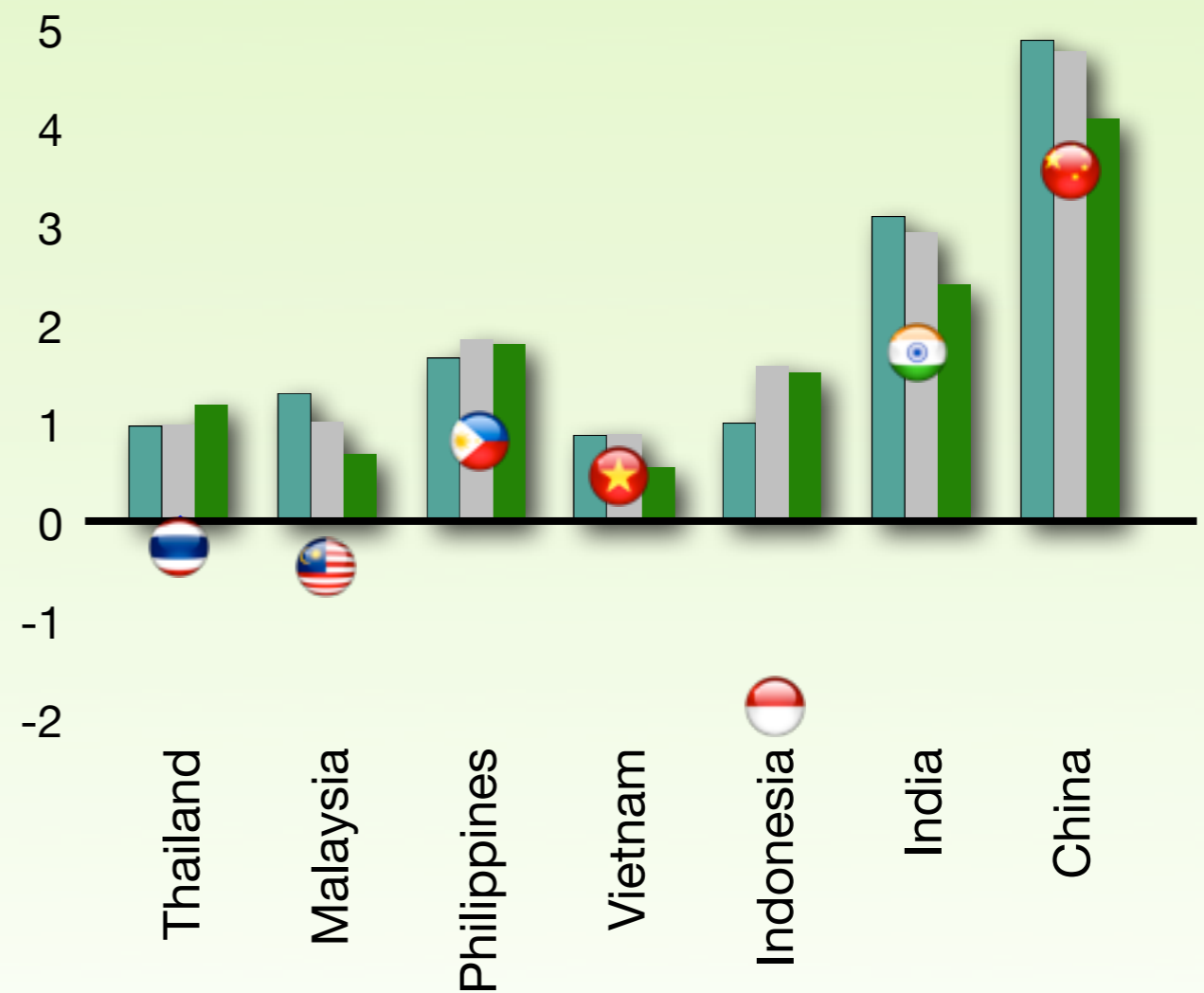
2008-2010

2011-2012



Growth of Total Factor Productivity

(In percent)



Source: World Economic Outlook; WDI; CEIC Data Co. Ltd; Haver Analytics; and IMF staff estimates

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- vii. Inclusive Economic Growth

III. Sri Lanka's Potential

II. Ingredients for Sustaining Rapid Growth

- Significant body of research on growth successes
- Common ingredients identified



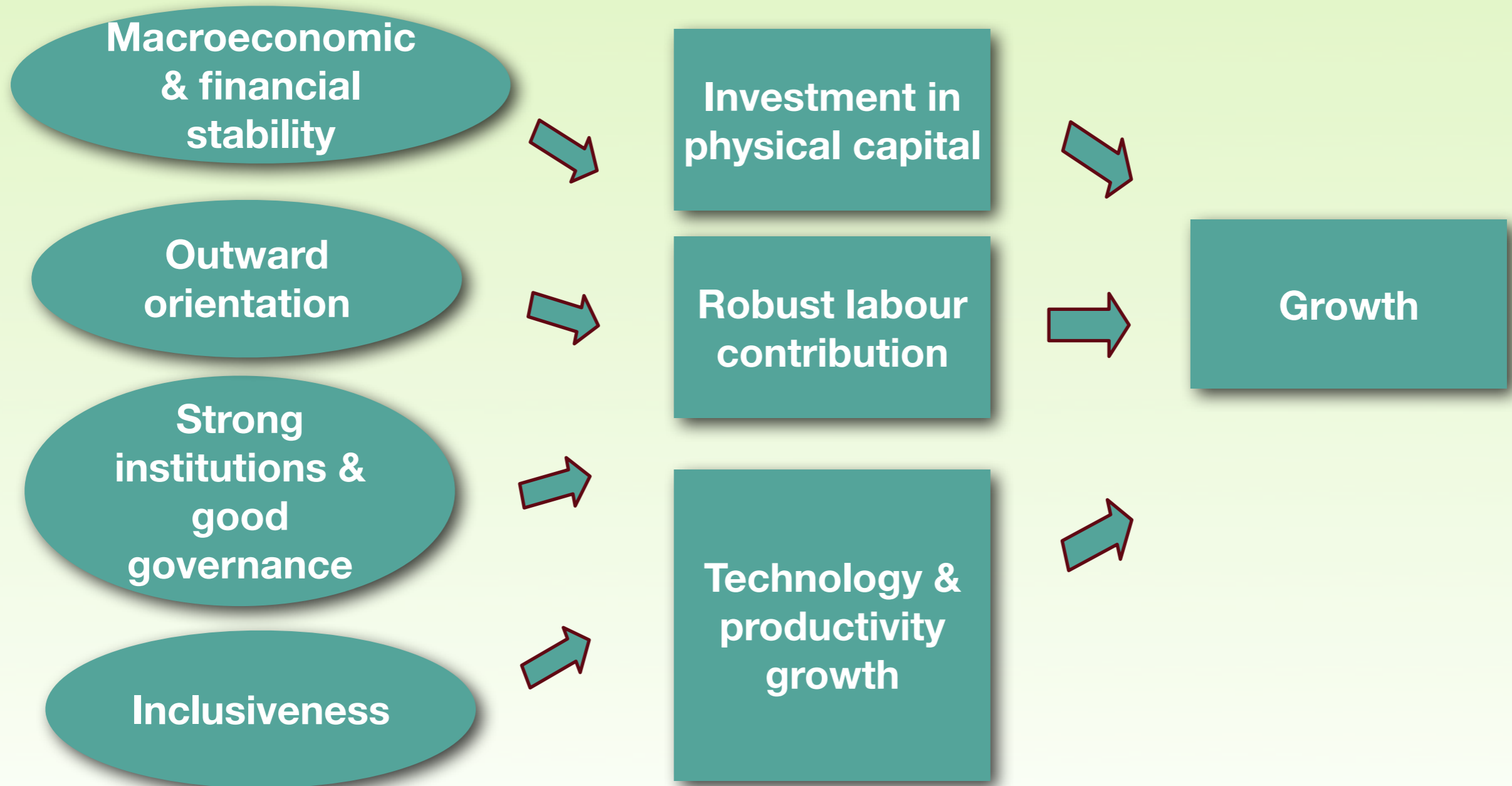


Research on growth successes

- The Commission on Growth and Development, Spence et al. 2008
- “What Makes Growth Sustained”, Berg et al., Journal of Development Economics, 2012
- “The Quest for Prosperity: How Developing Economies Can Take Off”, Lin, Princeton University Press, 2012
- “Growth Strategies”, Rodrik, NBER 2003
- Breaking Through The Frontier: Can Today’s Dynamic Low Income Countries Make It?”, World Economic Outlook, IMF 2013



Common ingredients



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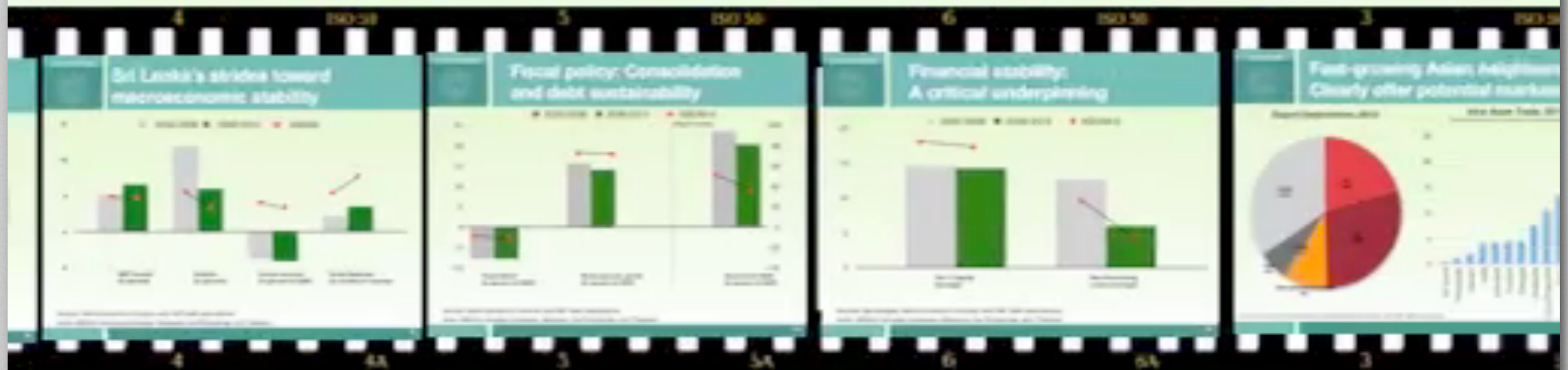
vii. Inclusive Economic Growth

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II. Ingredients for Sustaining Rapid Growth

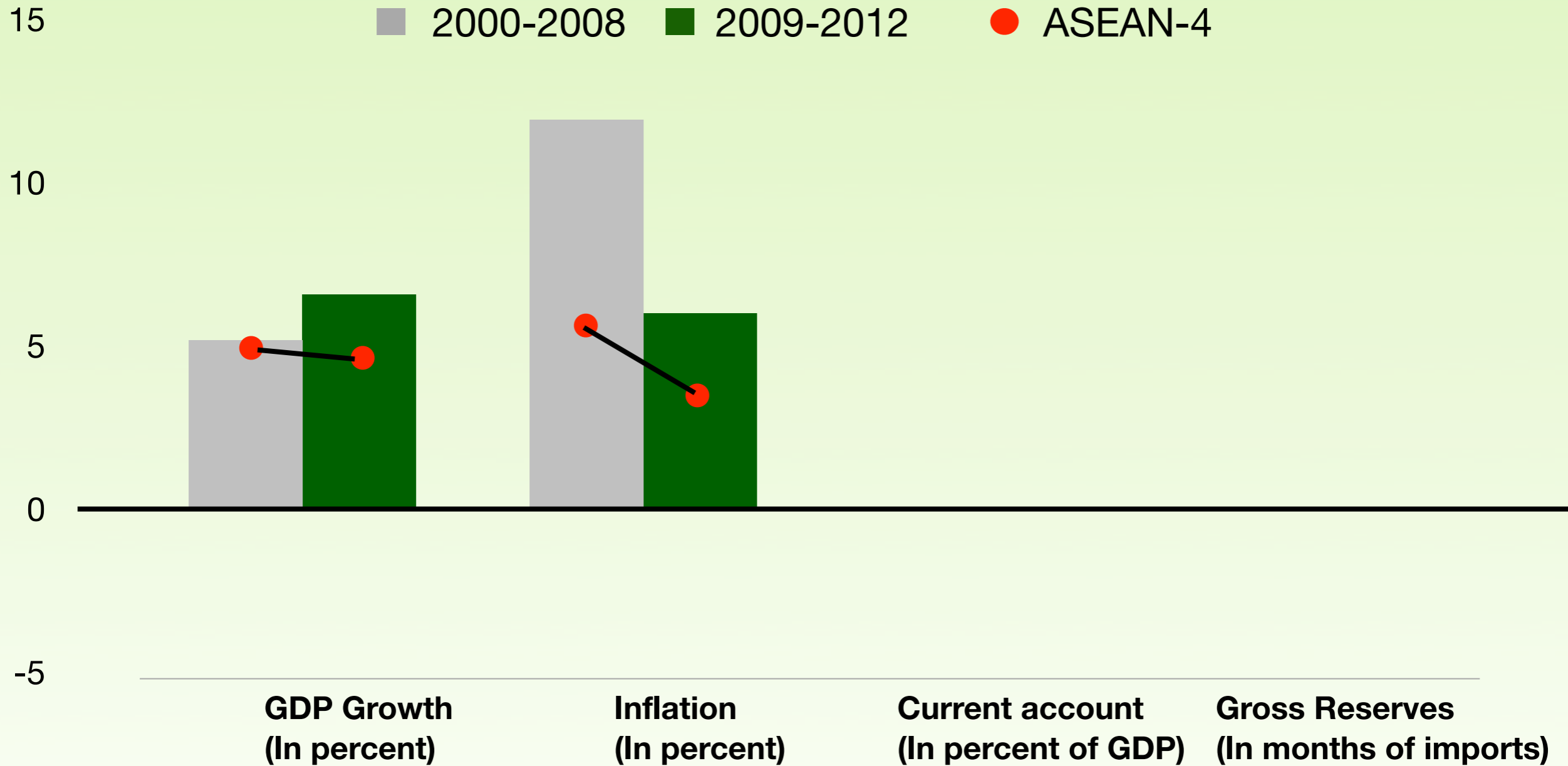
i. Macroeconomic and Financial Stability

- A prerequisite for growth success
- Progress achieved on a number of fronts
- Further fiscal and external strengthening needed





Sri Lanka's strides toward macroeconomic stability

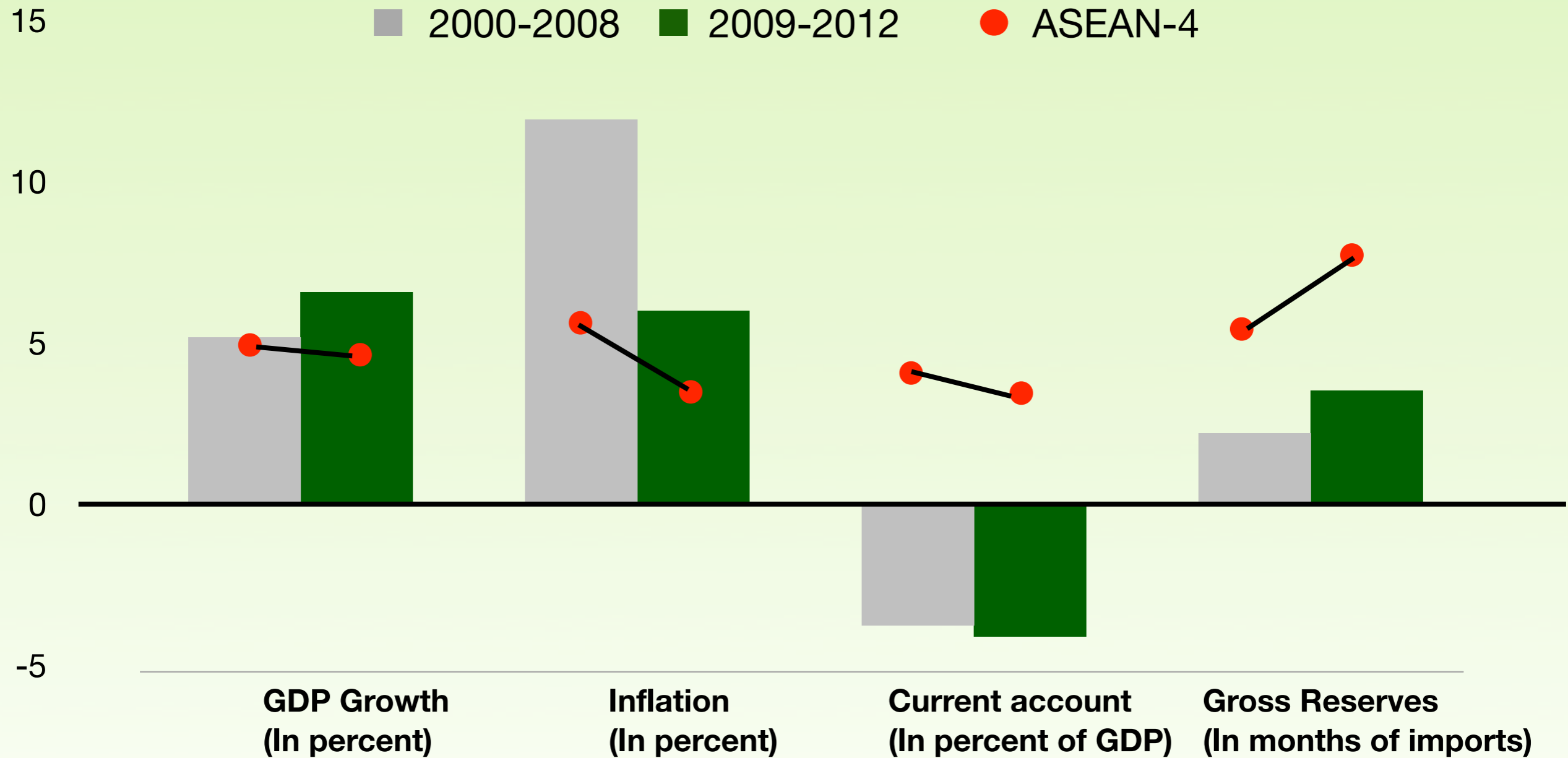


Sources: World Economic Outlook; and IMF staff calculations.

Note: ASEAN includes Indonesia, Malaysia, the Philippines, and Thailand.



Sri Lanka's strides toward macroeconomic stability

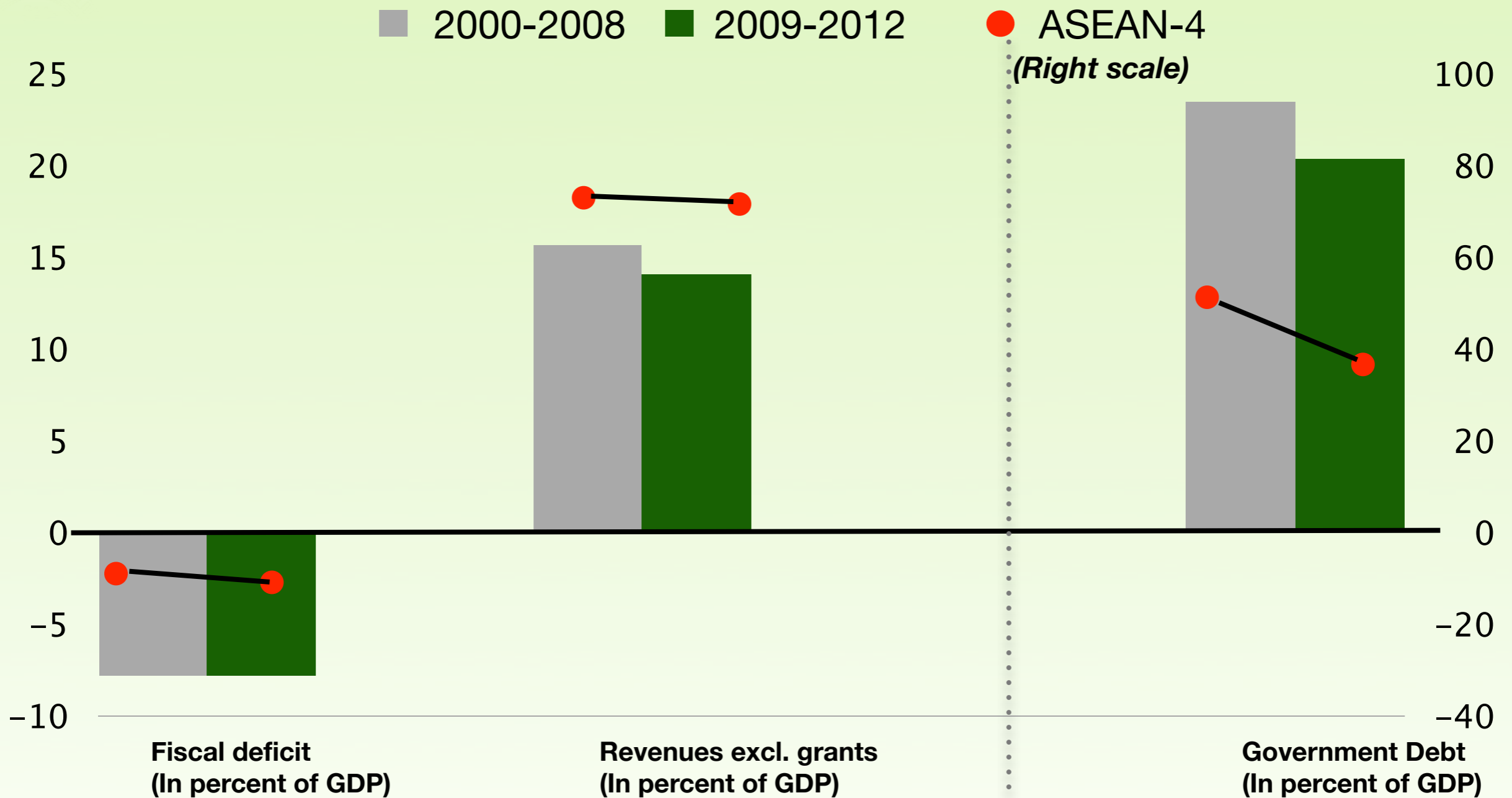


Sources: World Economic Outlook; and IMF staff calculations.

Note: ASEAN includes Indonesia, Malaysia, the Philippines, and Thailand.



Fiscal policy: Consolidation and debt sustainability

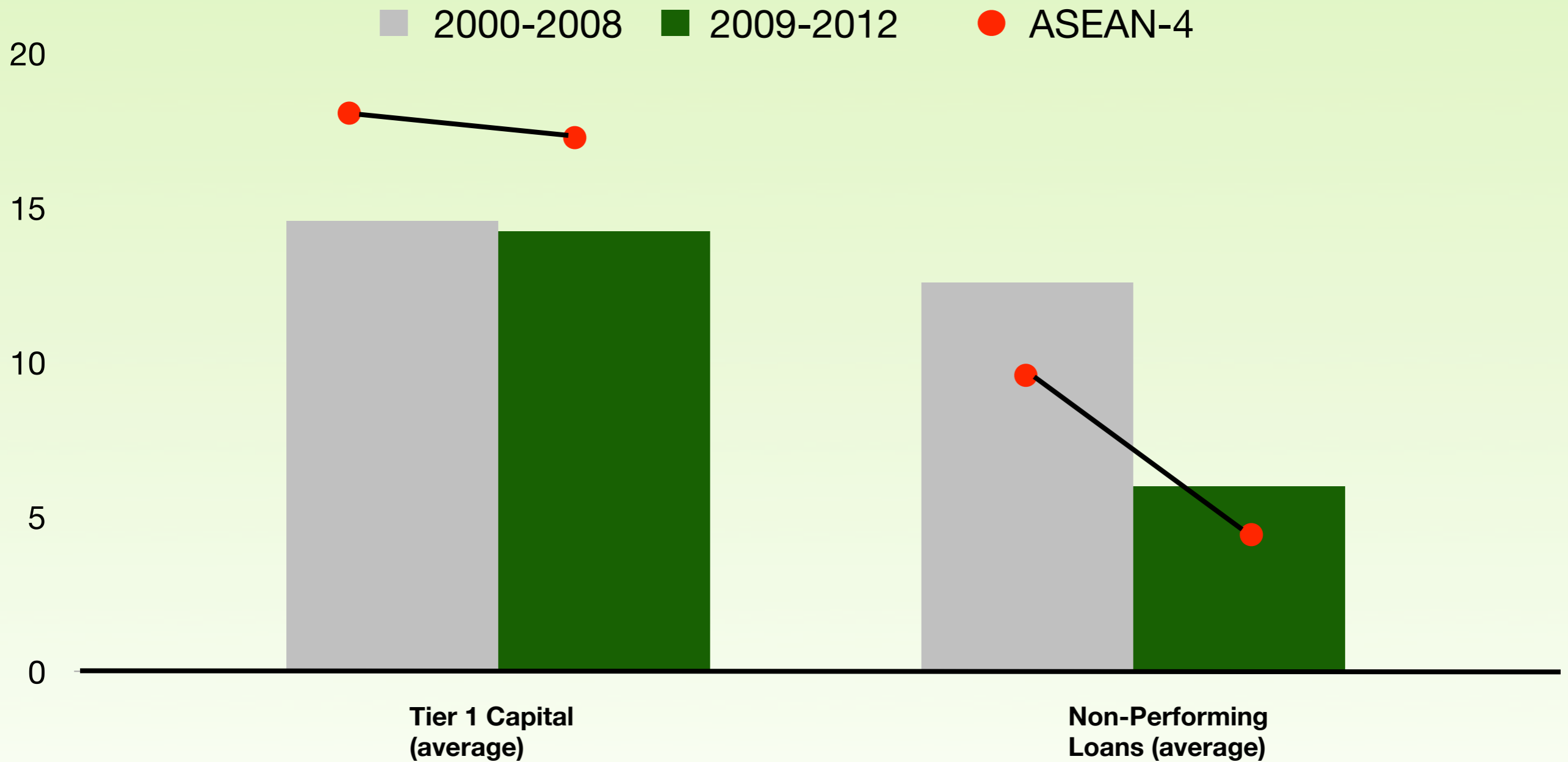


Sources: World Economic Outlook; and IMF staff calculations.

Note: ASEAN includes Indonesia, Malaysia, the Philippines, and Thailand.



Financial stability: A critical underpinning



Sources: Bankscope; World Economic Outlook; and IMF staff calculations.

Note: ASEAN includes Indonesia, Malaysia, the Philippines, and Thailand.



Lasting macro stability: Key policy priorities

- Stabilize inflation in mid-single digits
- Growth-friendly fiscal consolidation, though greater revenue effort, for debt sustainability
- Strengthen the external sector
- Continue safeguarding financial-sector soundness

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II. Ingredients for Sustaining Rapid Growth

ii. Outward Orientation

- Openness supports growth and productivity
- Sri Lanka needs to turn decisively outward
- Fast-growing Asian neighbours, and upgrading exports represent significant potential

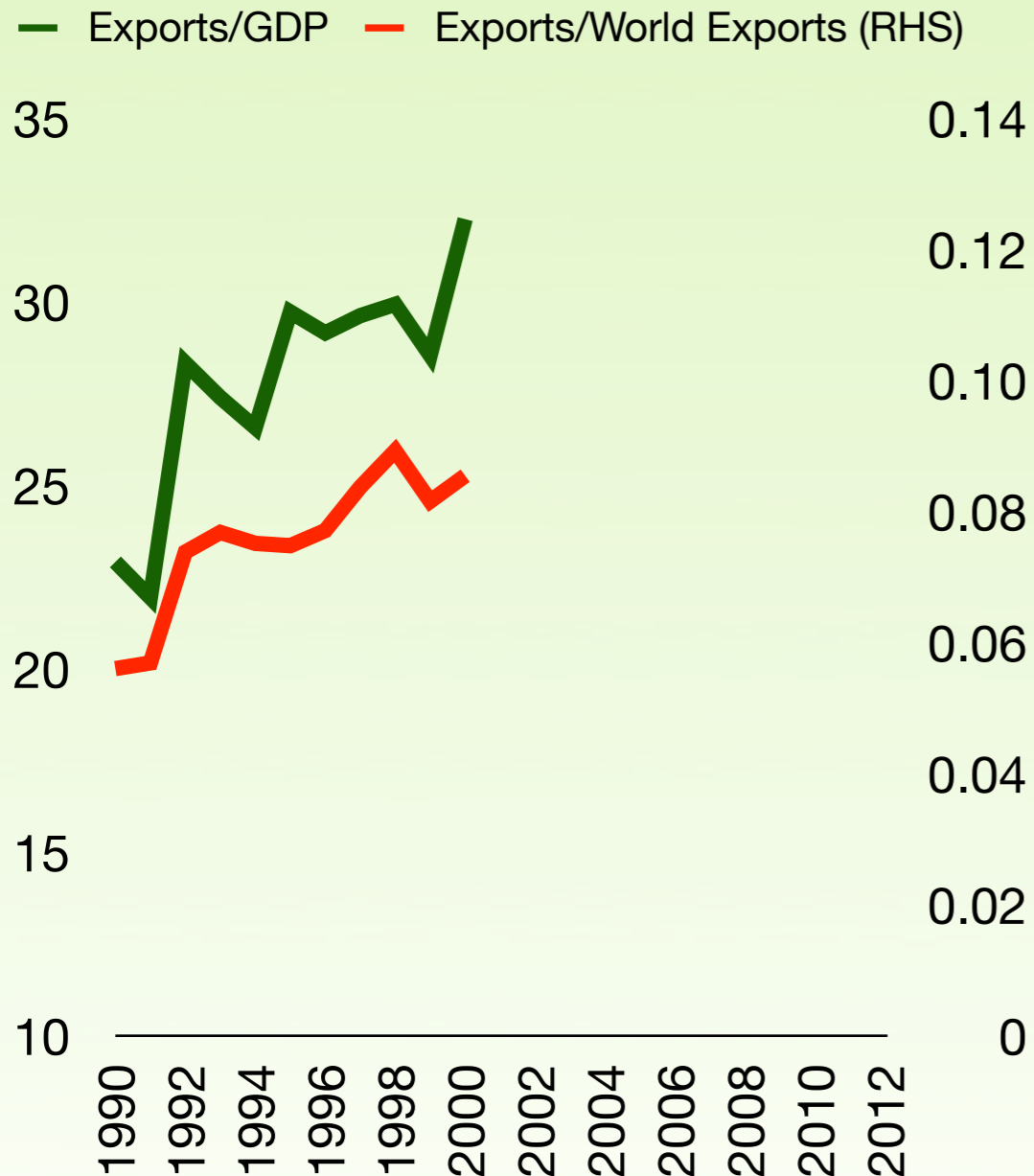




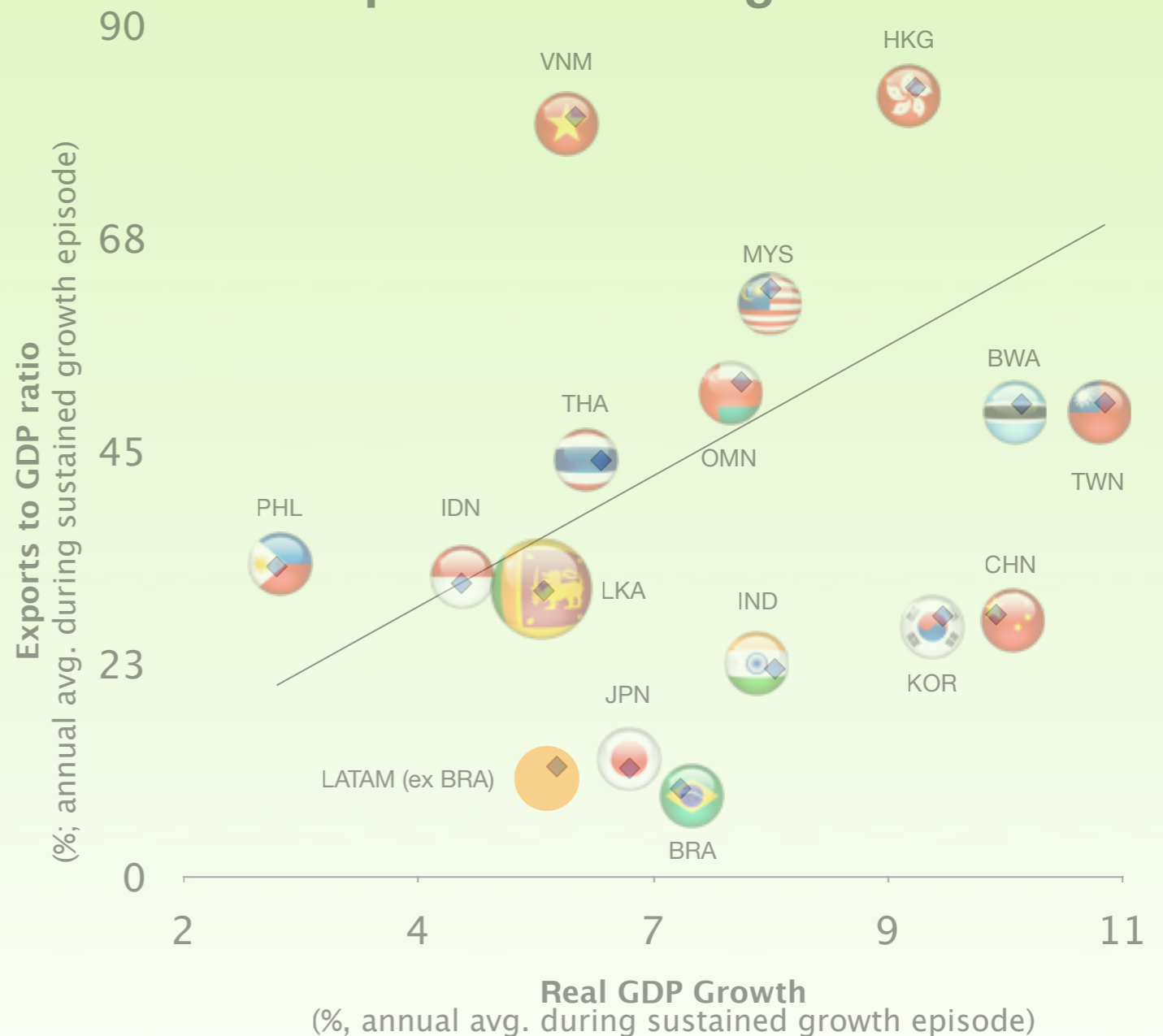
Sri Lanka: The need to turn decisively outwards

Exports

(In percent)



Exports and GDP growth



Sources: Penn World Tables; World Economic Outlook; and IMF staff estimates.

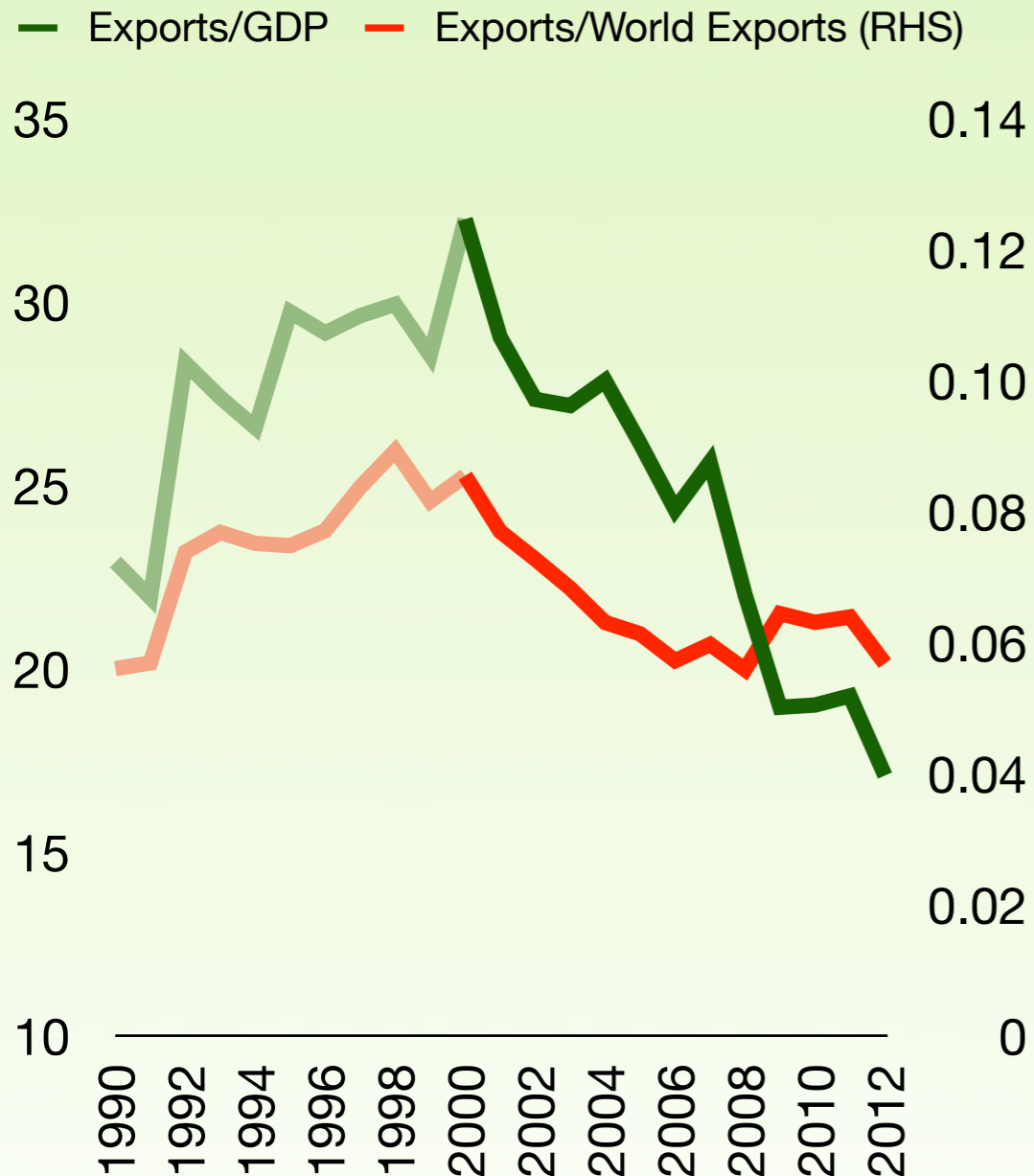
Note: Sustained growth episode defined as a period of 25 years after attaining \$2500 constant PPP GDP/capita.



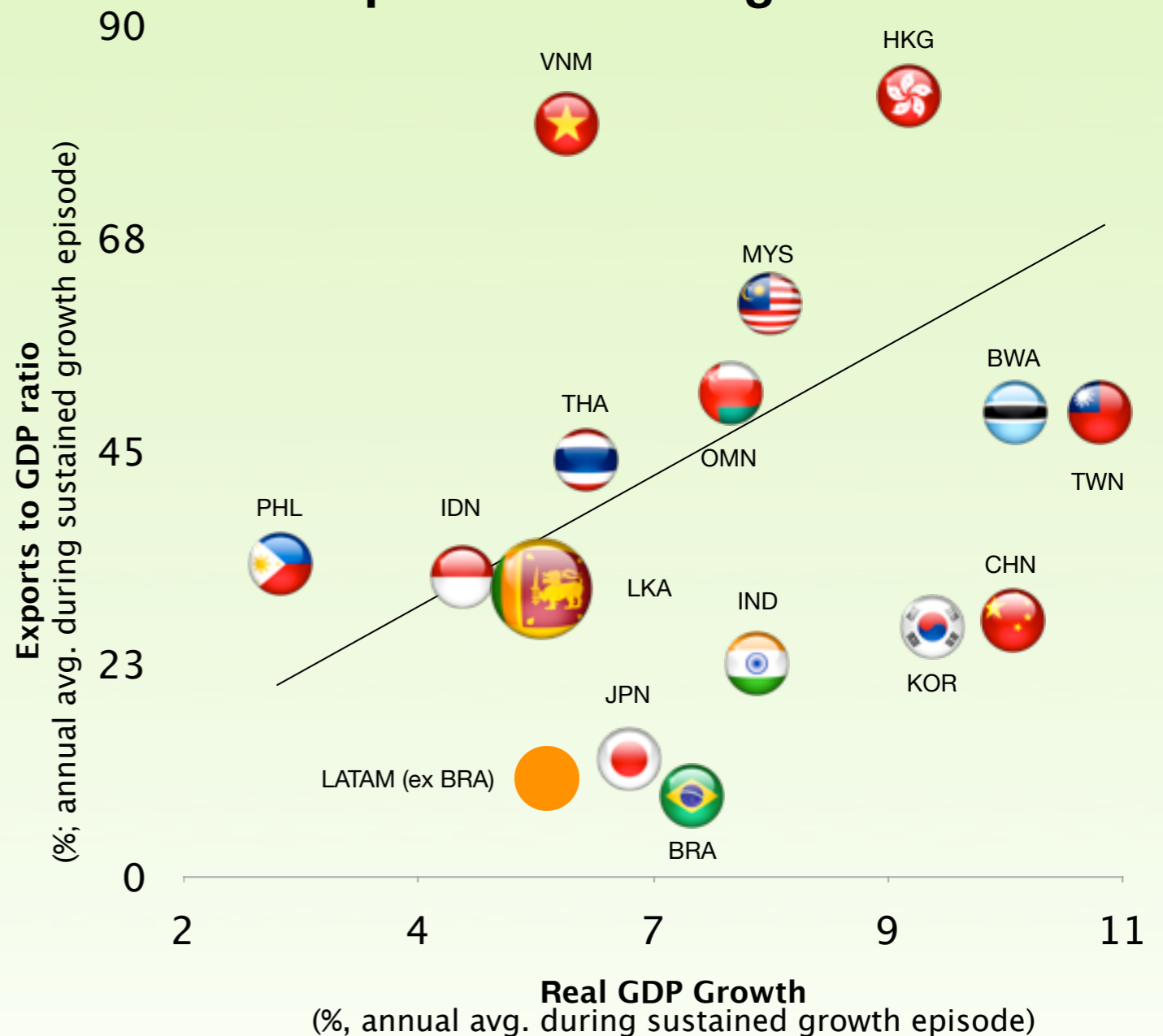
Sri Lanka: The need to turn decisively outwards

Exports

(In percent)



Exports and GDP growth



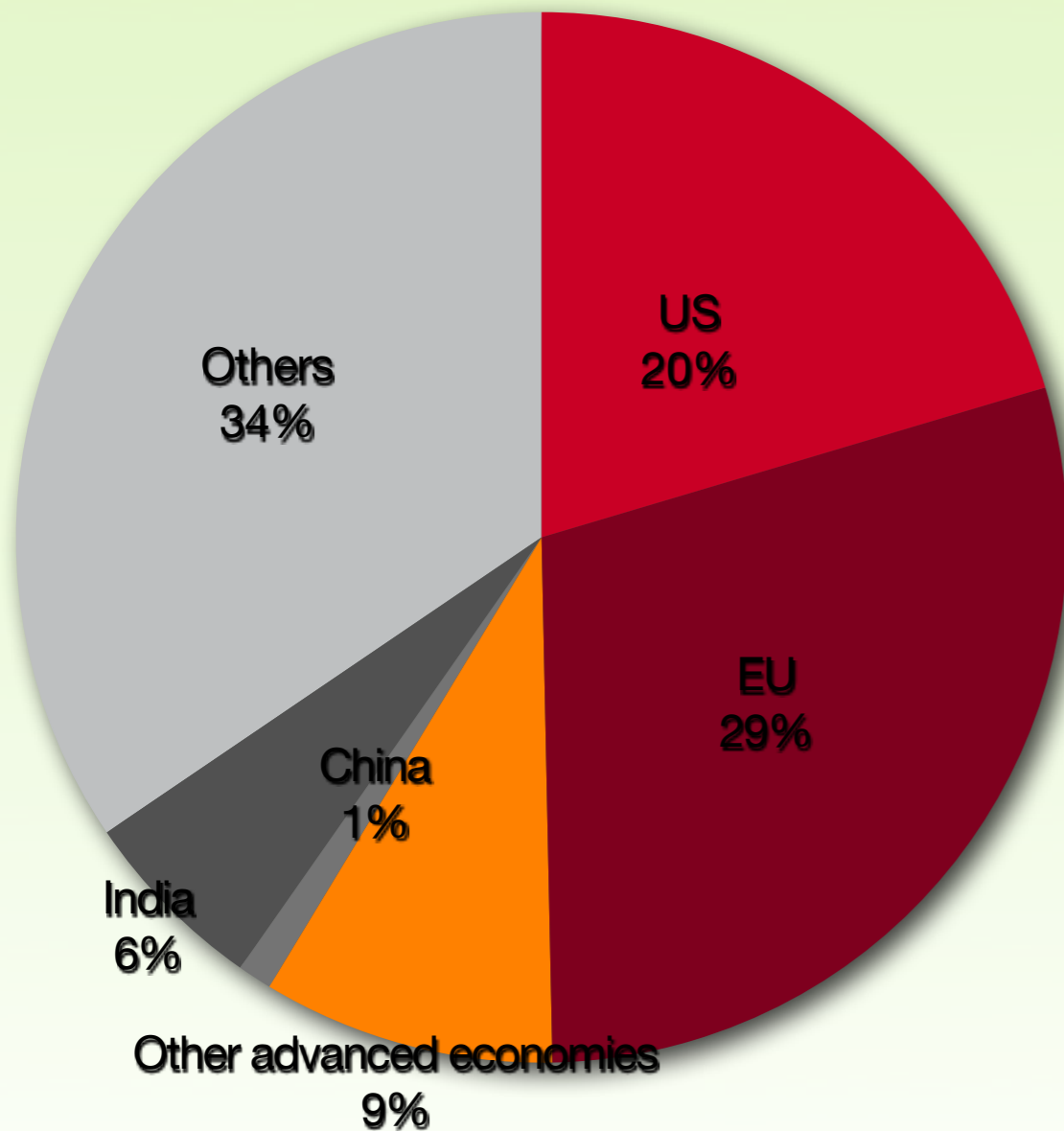
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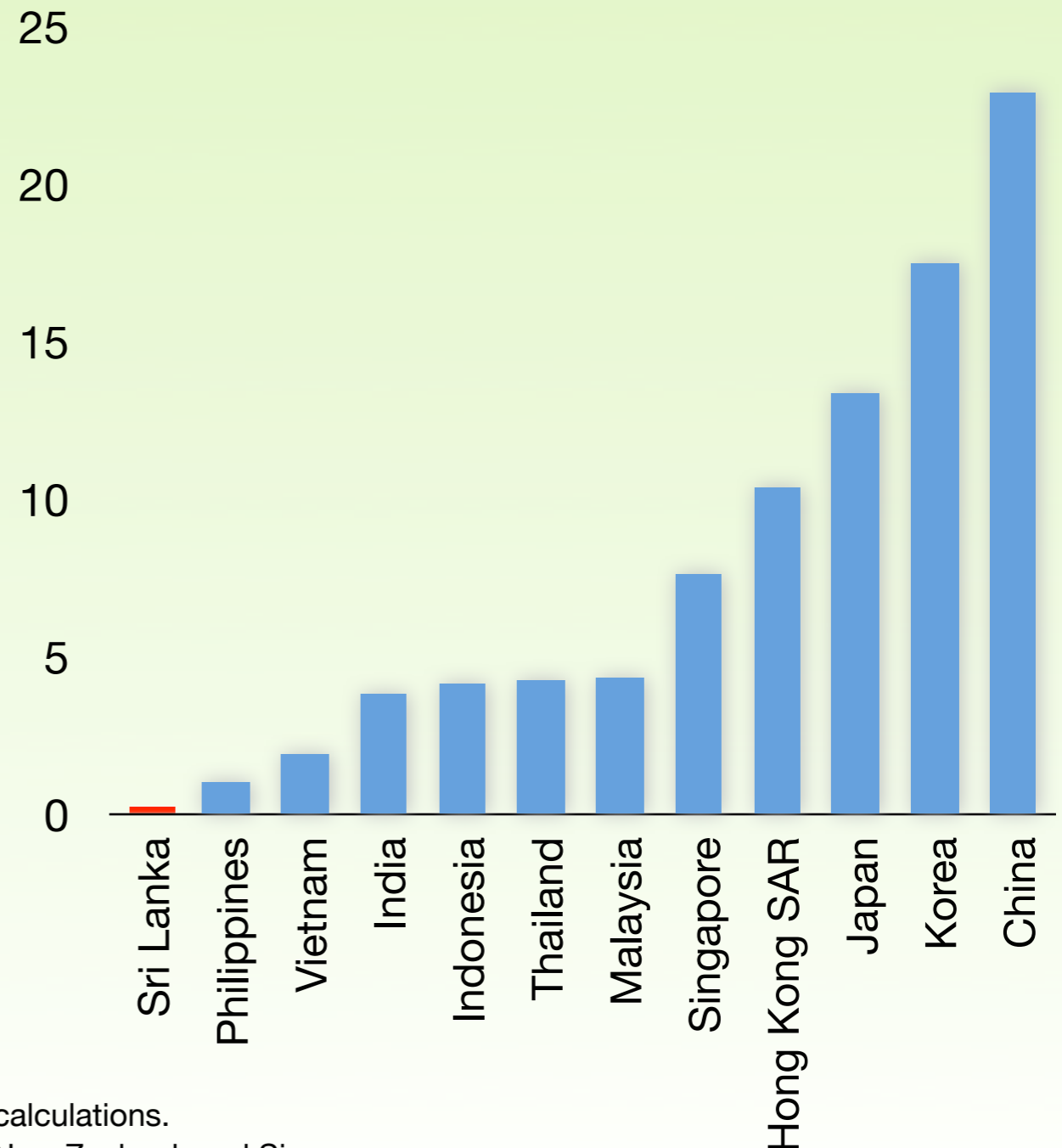
Fast-growing Asian neighbors: Clearly offer potential markets

Sri Lanka's Export Destinations, 2012



Intra-Asian Trade, 2011

(Exports plus imports, in percent of total intra-Asian trade)



Sources: Direction of Trade Statistics; World Economic Outlook; and IMF staff calculations.

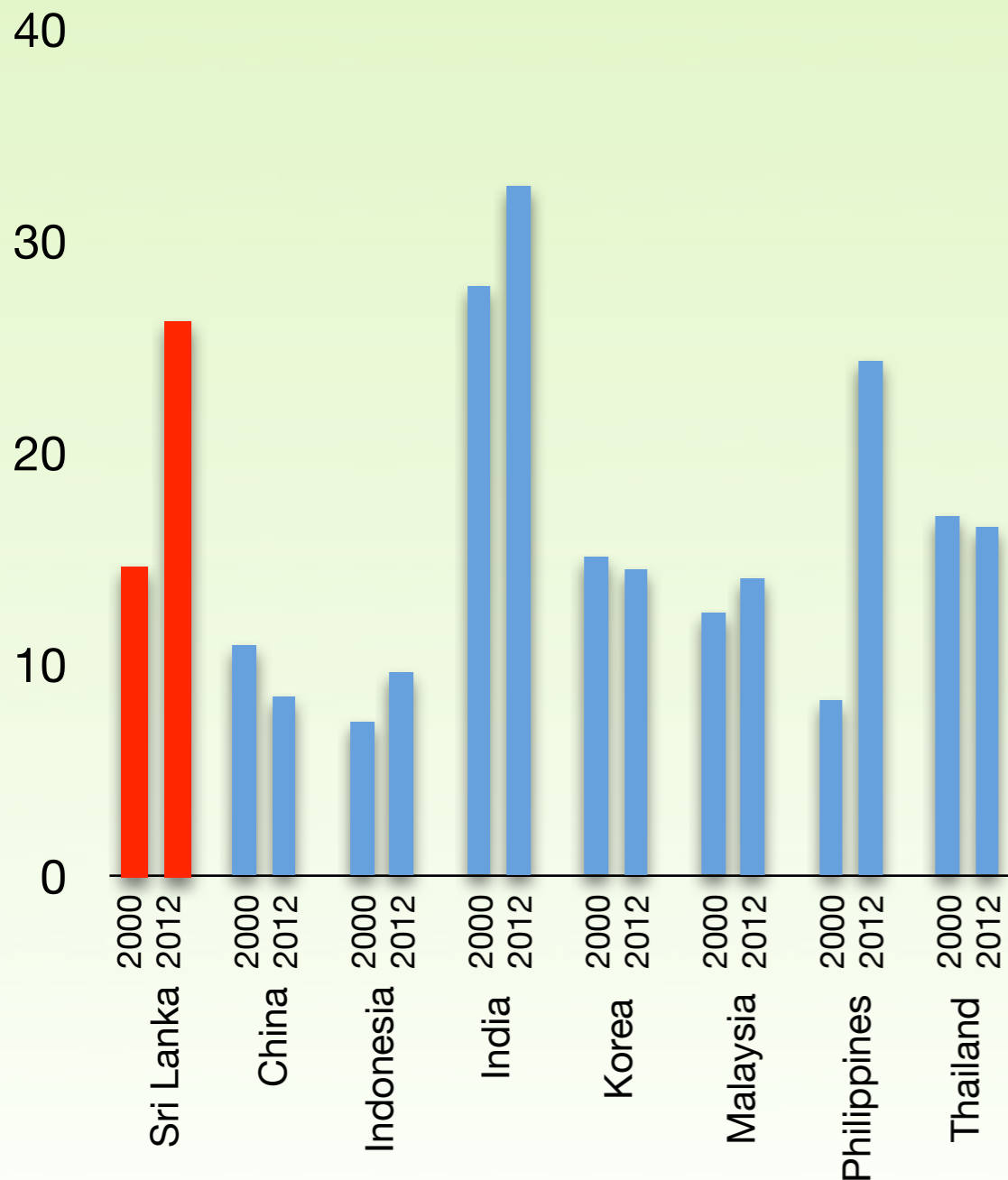
Note: Intra-Asia sample includes developing Asia, East Asia, Australia, Japan, New Zealand, and Singapore.



Sri Lanka's service exports: Modern services required

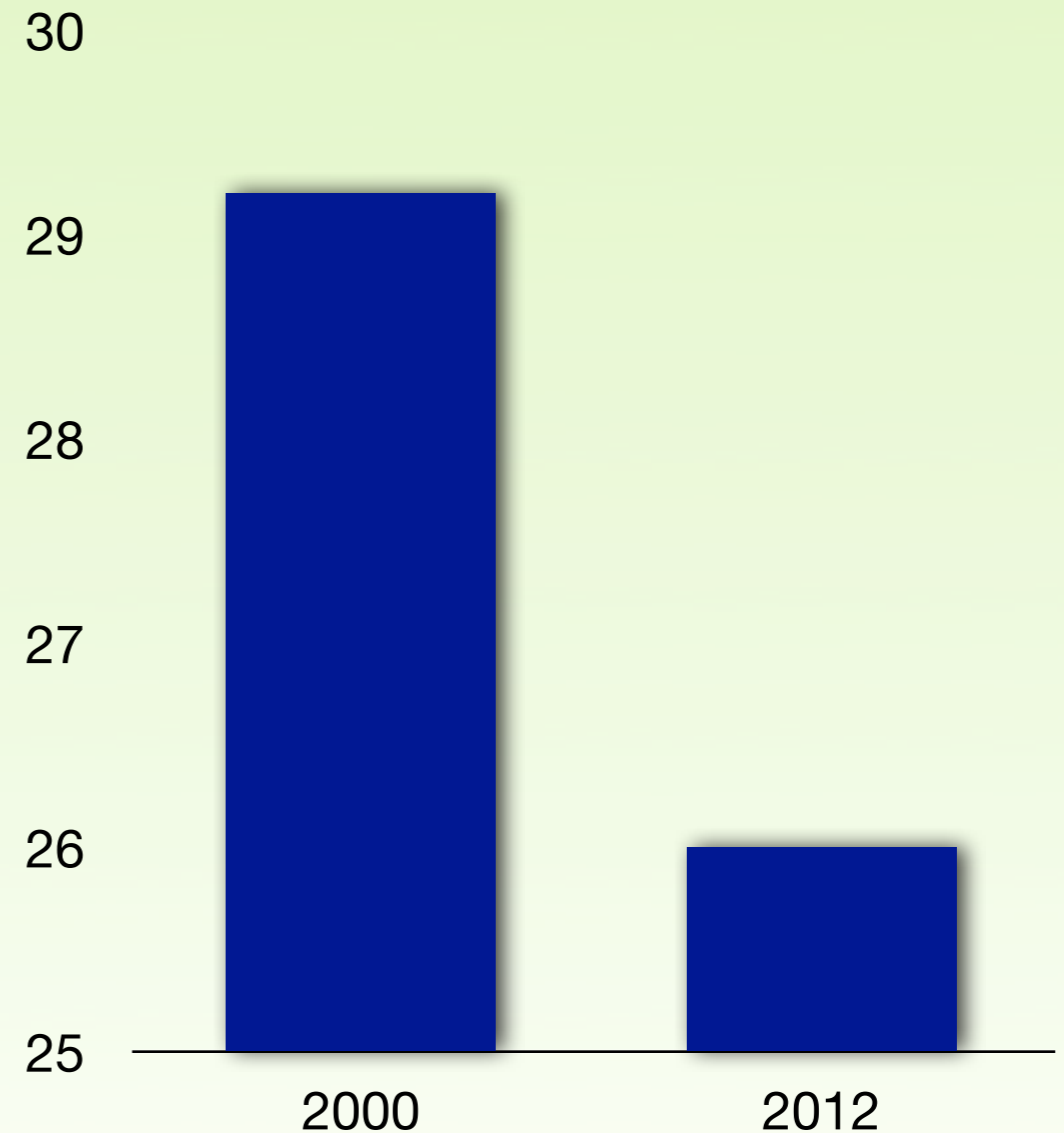
Share of Services Exports

(In percent of total exports)



Share of Modern Services Exports

(In percent of total services exports)

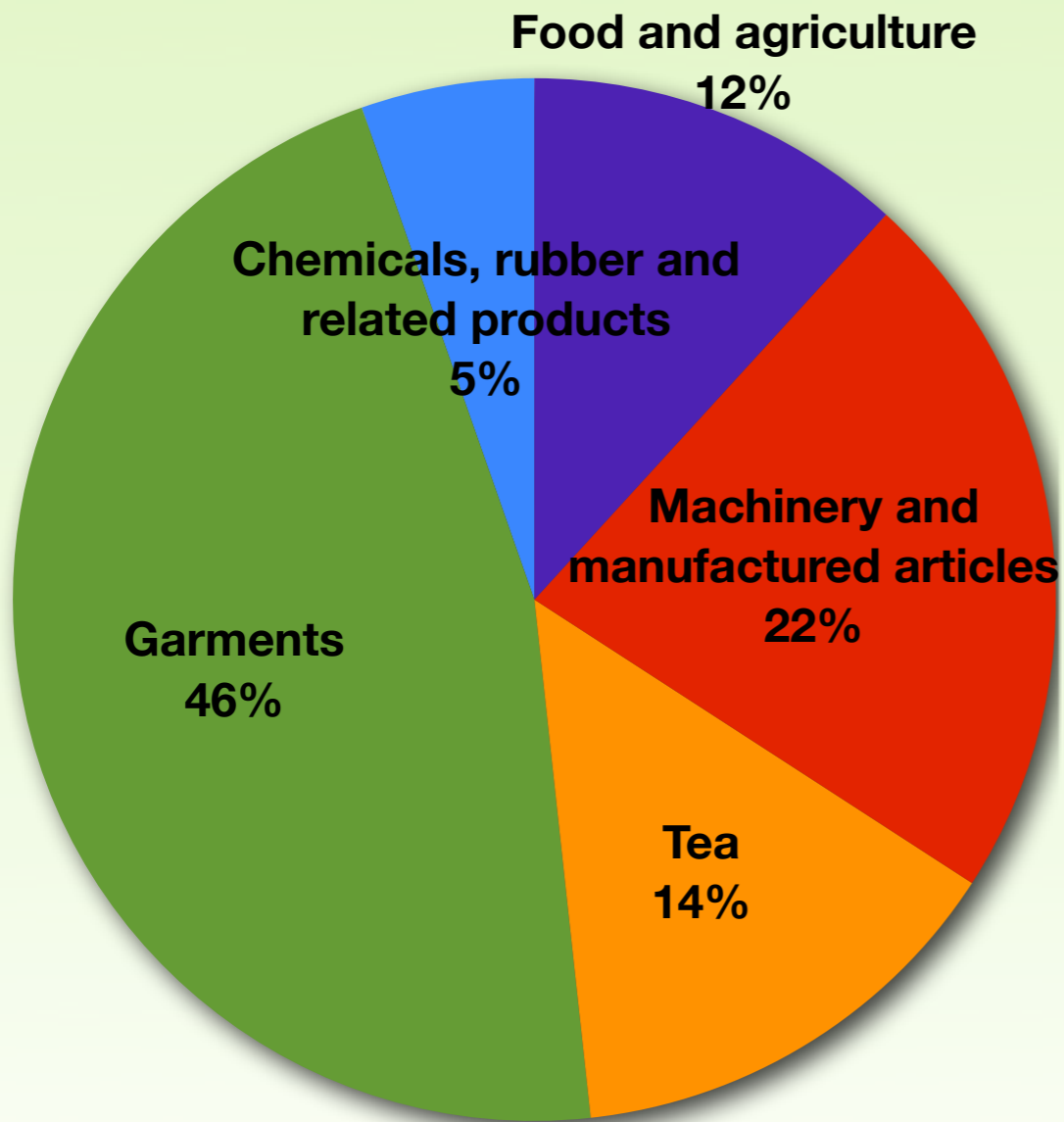


Sources: World Bank, WITS; UN comtrade Database; and IMF staff calculations.

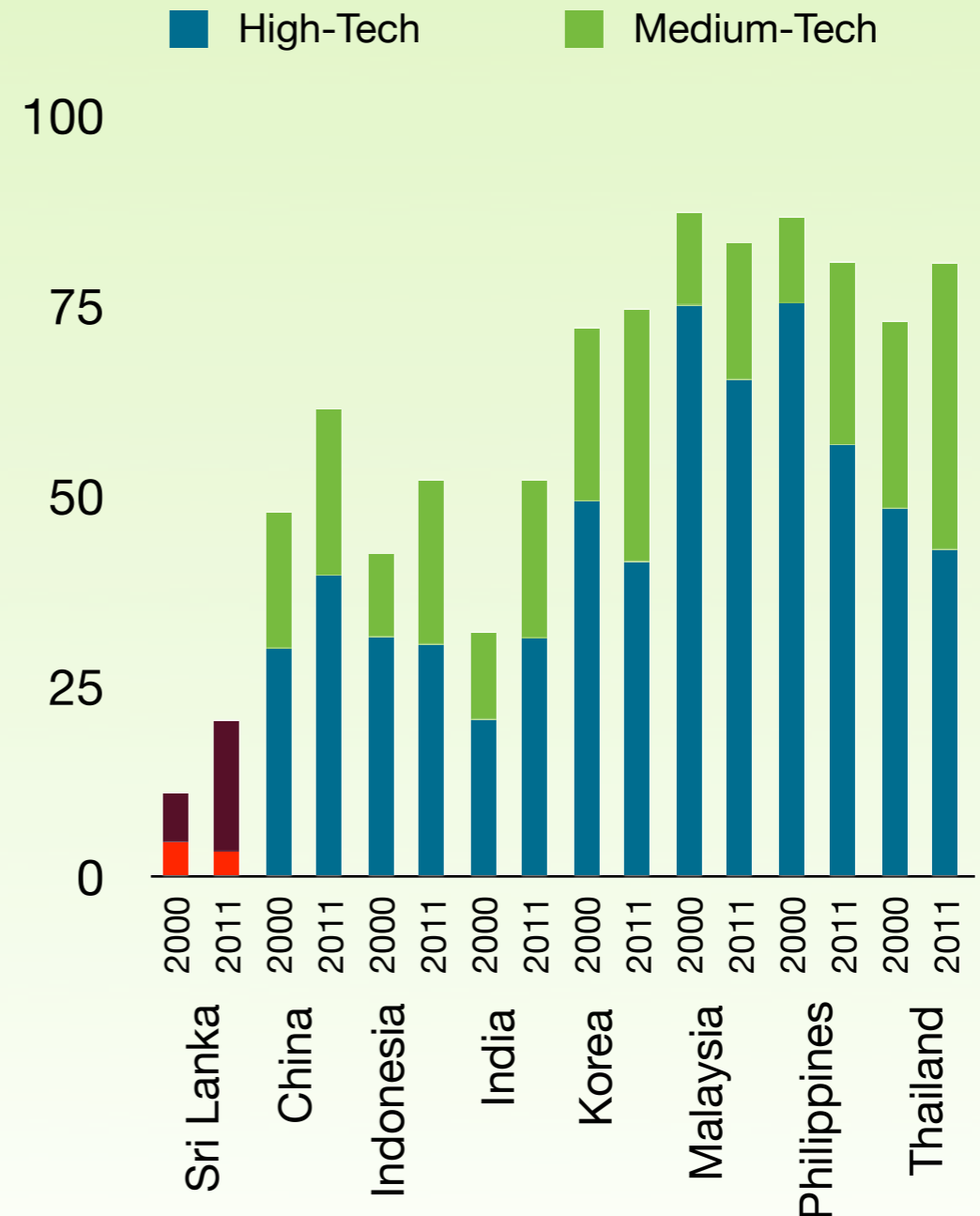


Sri Lanka's goods exports: Diversify and upgrade

Goods Export Shares, Latest
(In percent of total exports)



Share of High-tech Manufacturing Exports
(In percent of total manufacturing exports)

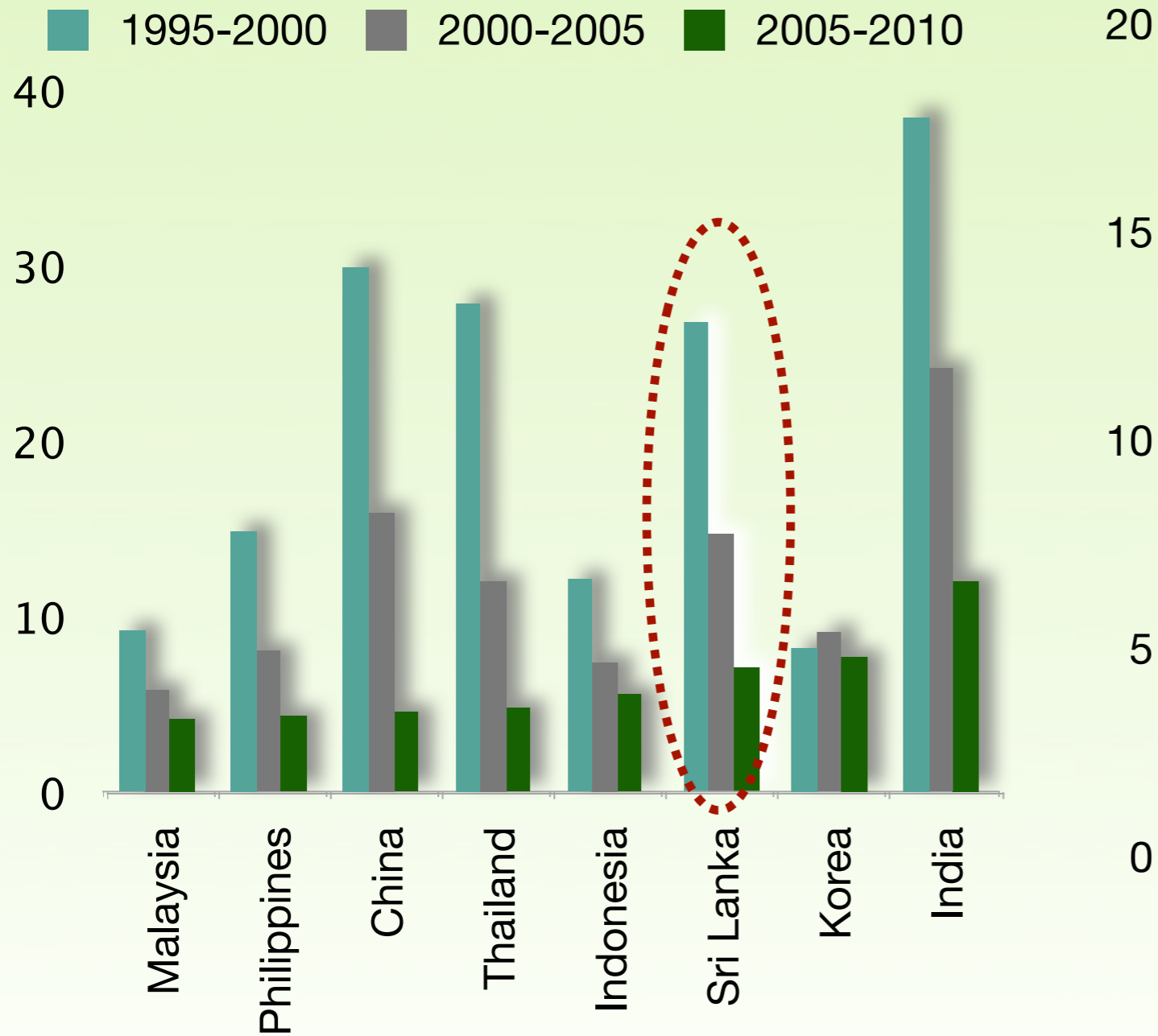


Sources: World Bank, WITS; UN, Comtrade; World Economic Outlook; and IMF staff calculations

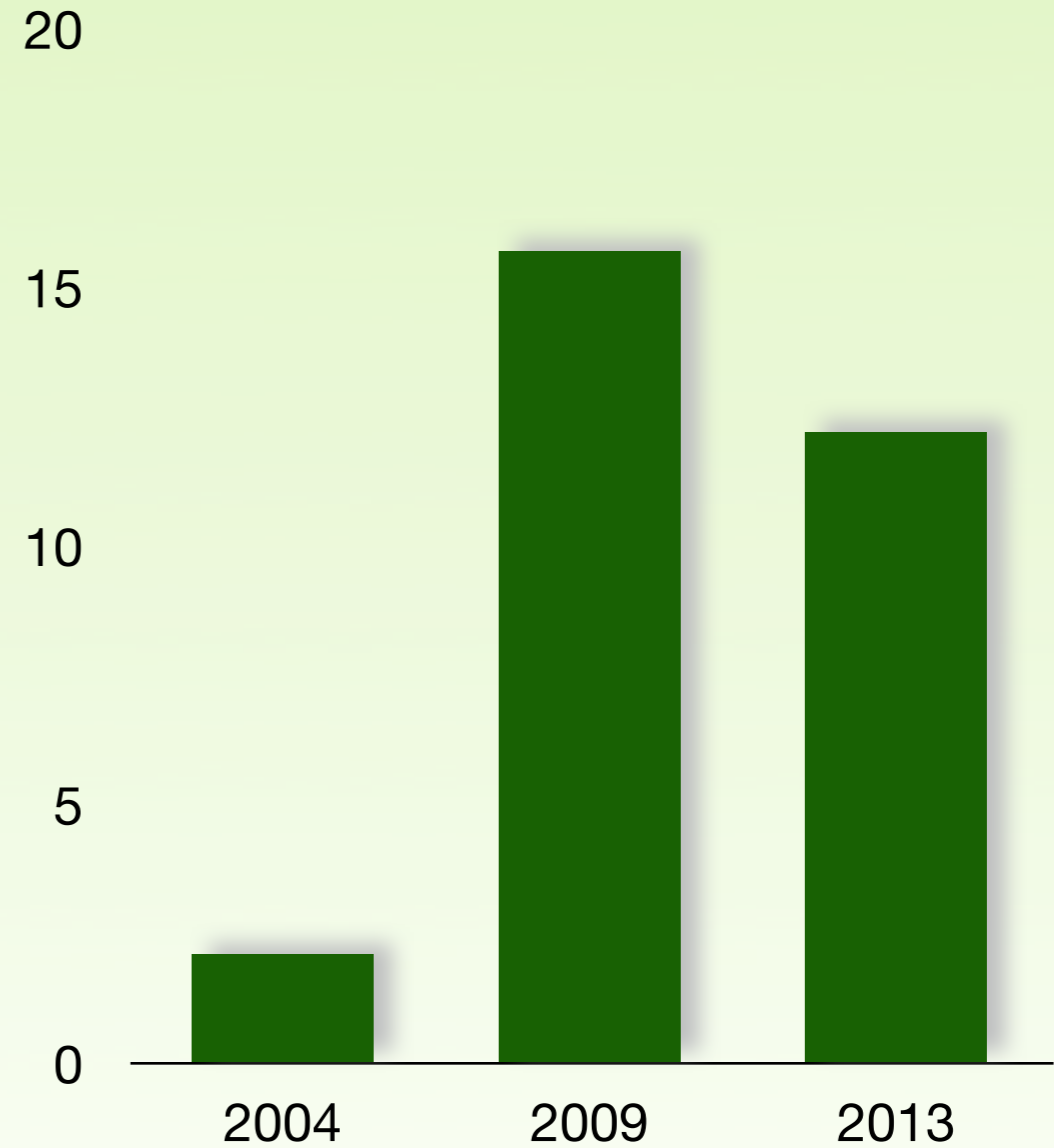


Tariff and para-tariff structures require reforms

Weighted Average Tariff
(In percent; 5 year average)



Sri Lanka: Para Tariff Rates
(In percent)



Source: World Bank, WITS

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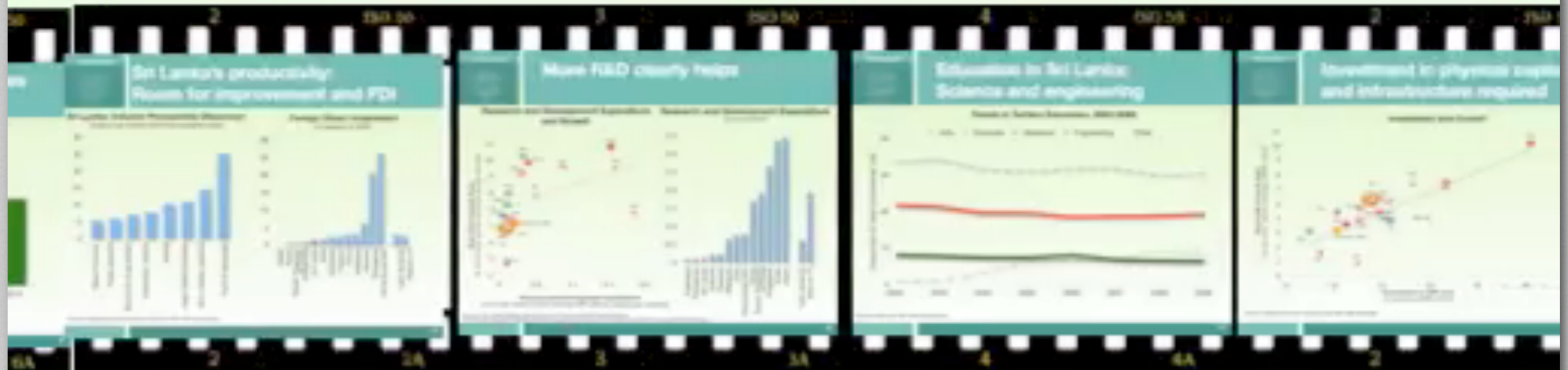
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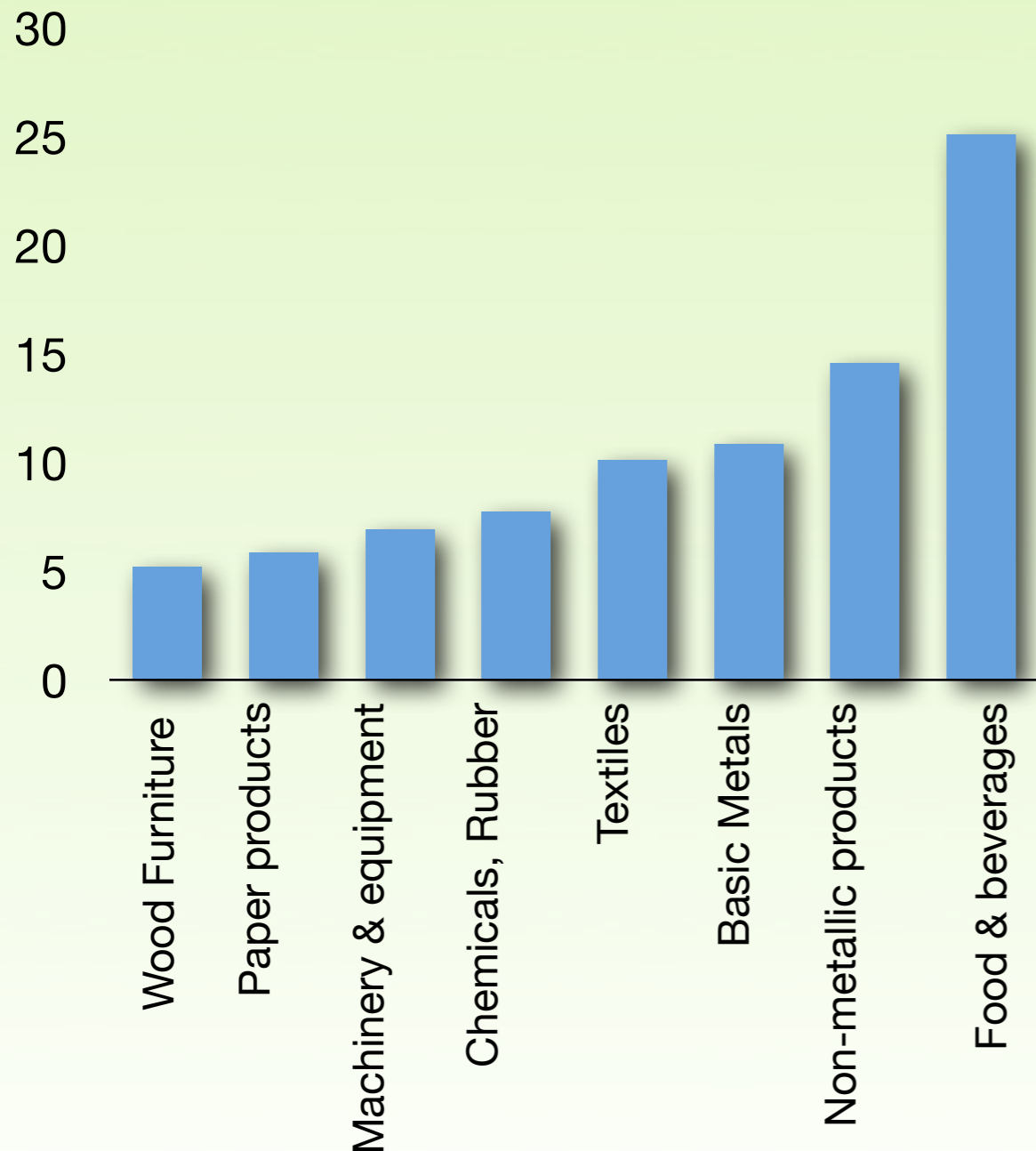
- Sri Lankan industries not at the productivity frontier
- More FDI, R&D, high-tech education required



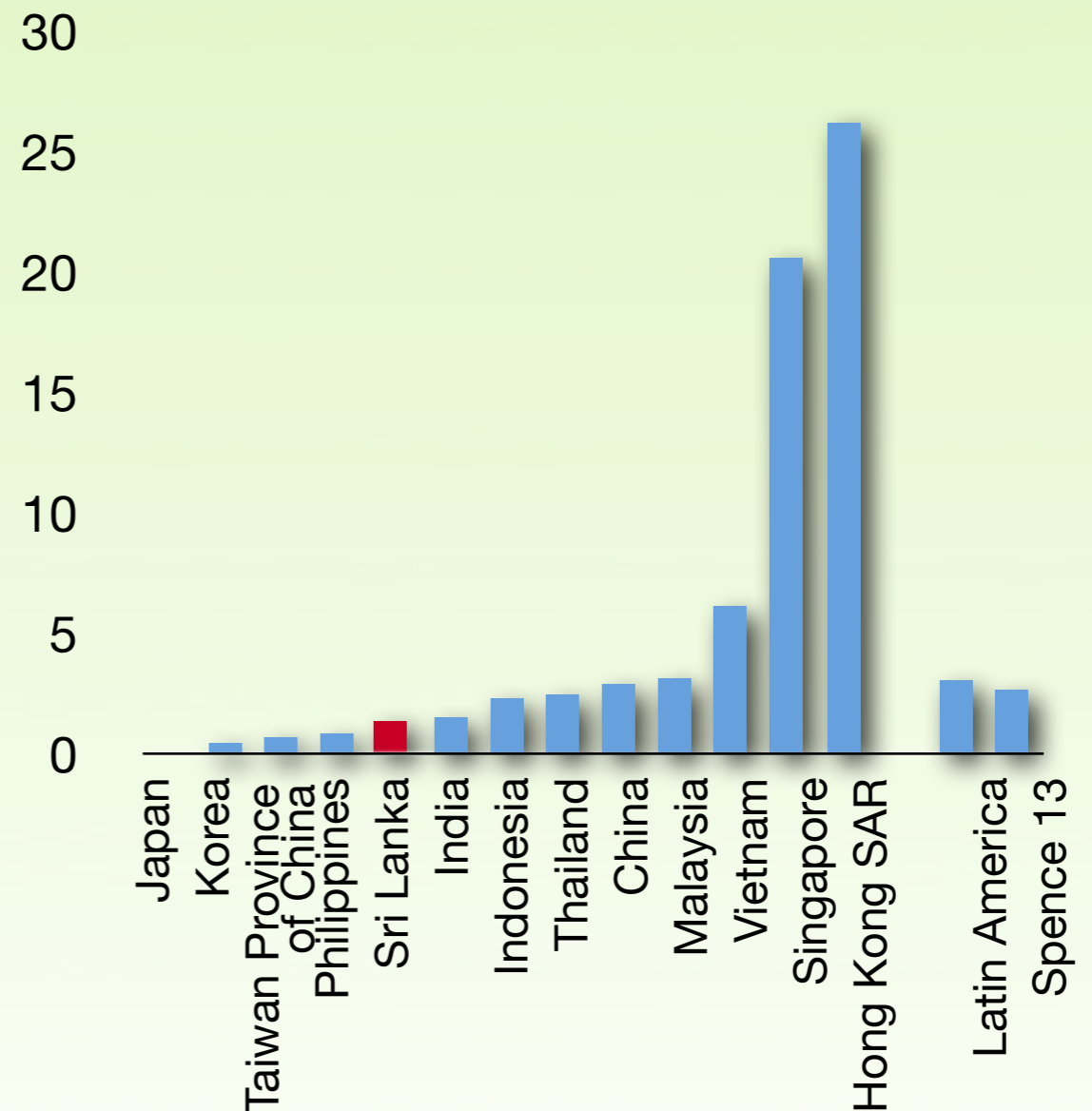


Sri Lanka's productivity: Room for improvement and FDI

Sri Lanka: Industry Productivity Dispersion
(Output per worker 90th/10th percentile ratio)



Foreign Direct Investment
(In percent of GDP)

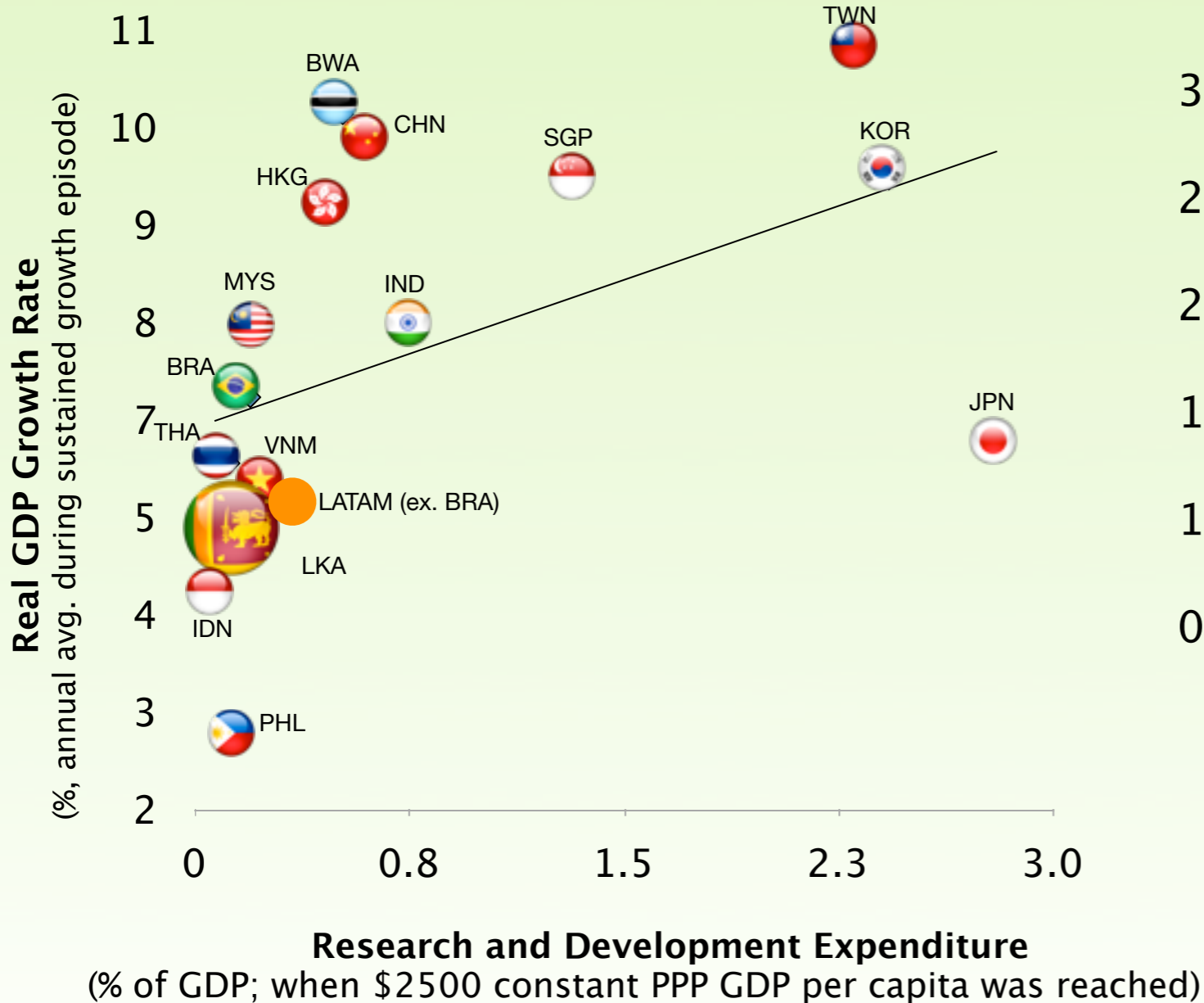


Sources: World Economic Outlook; WDI; and IMF staff calculations.

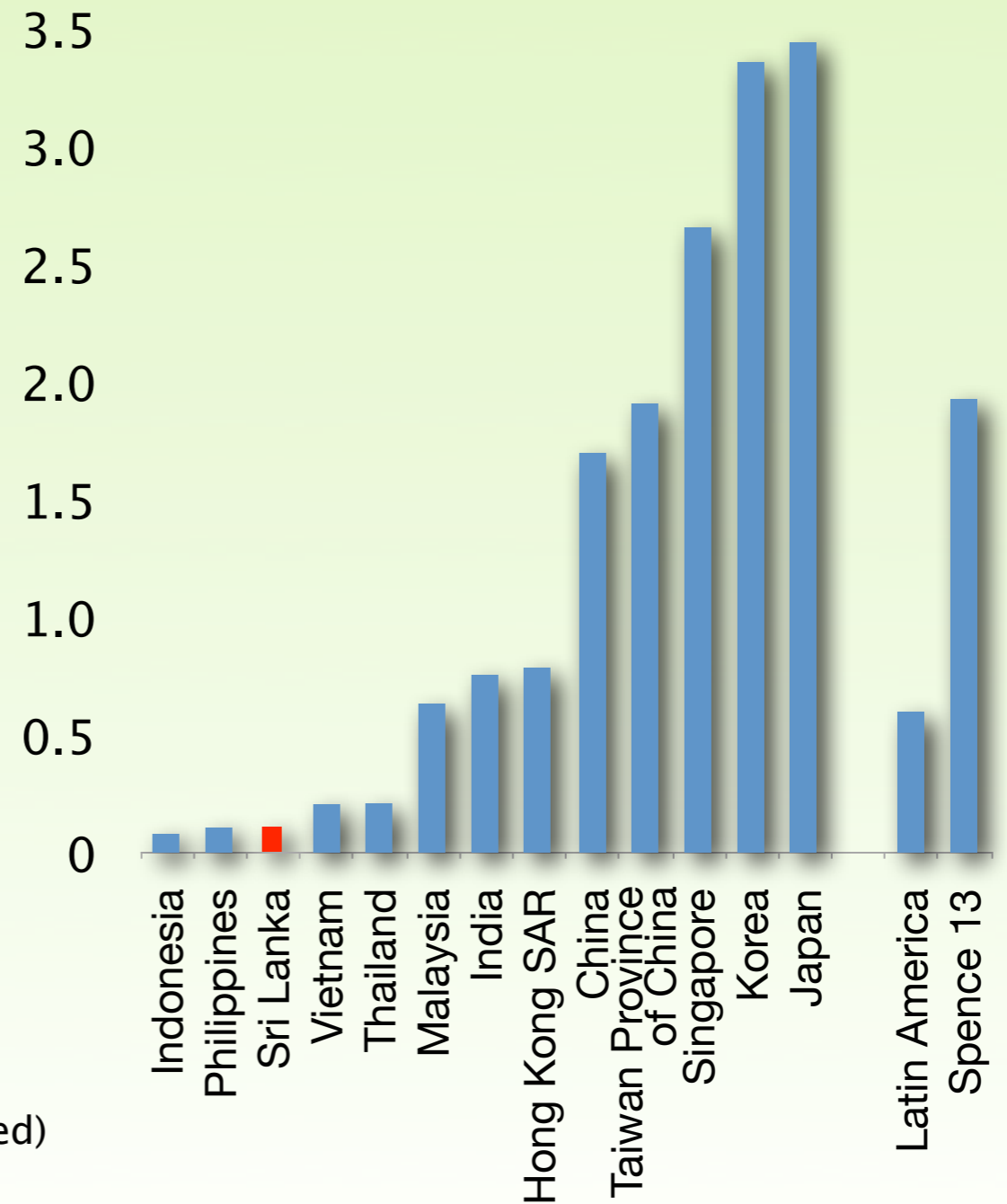


More R&D clearly helps

Research and Development Expenditure and Growth



Research and Development Expenditure (In percent of GDP)

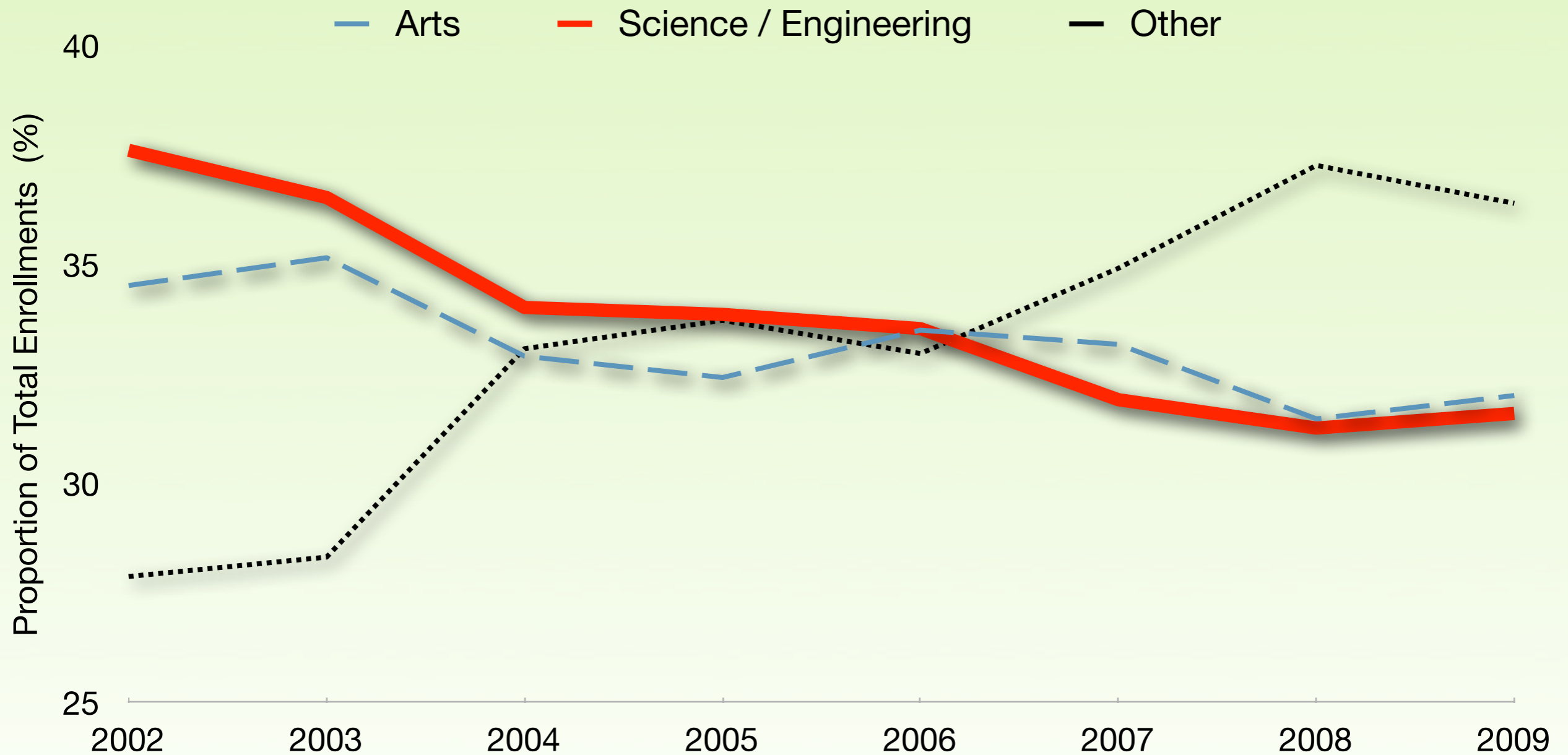


Sources: Penn World Tables; World Economic Outlook; and IMF staff estimates.
 Note: Sustained growth episode defined as a period of 25 years after attaining \$2500 constant PPP GDP/capita.



Education: Falling share in science and engineering

Sri Lanka: Trends in Tertiary Education, 2002-2009



Sources: Chelleraj 2012; and IMF staff calculations.
 Note: Other includes management, law, agriculture, and others.

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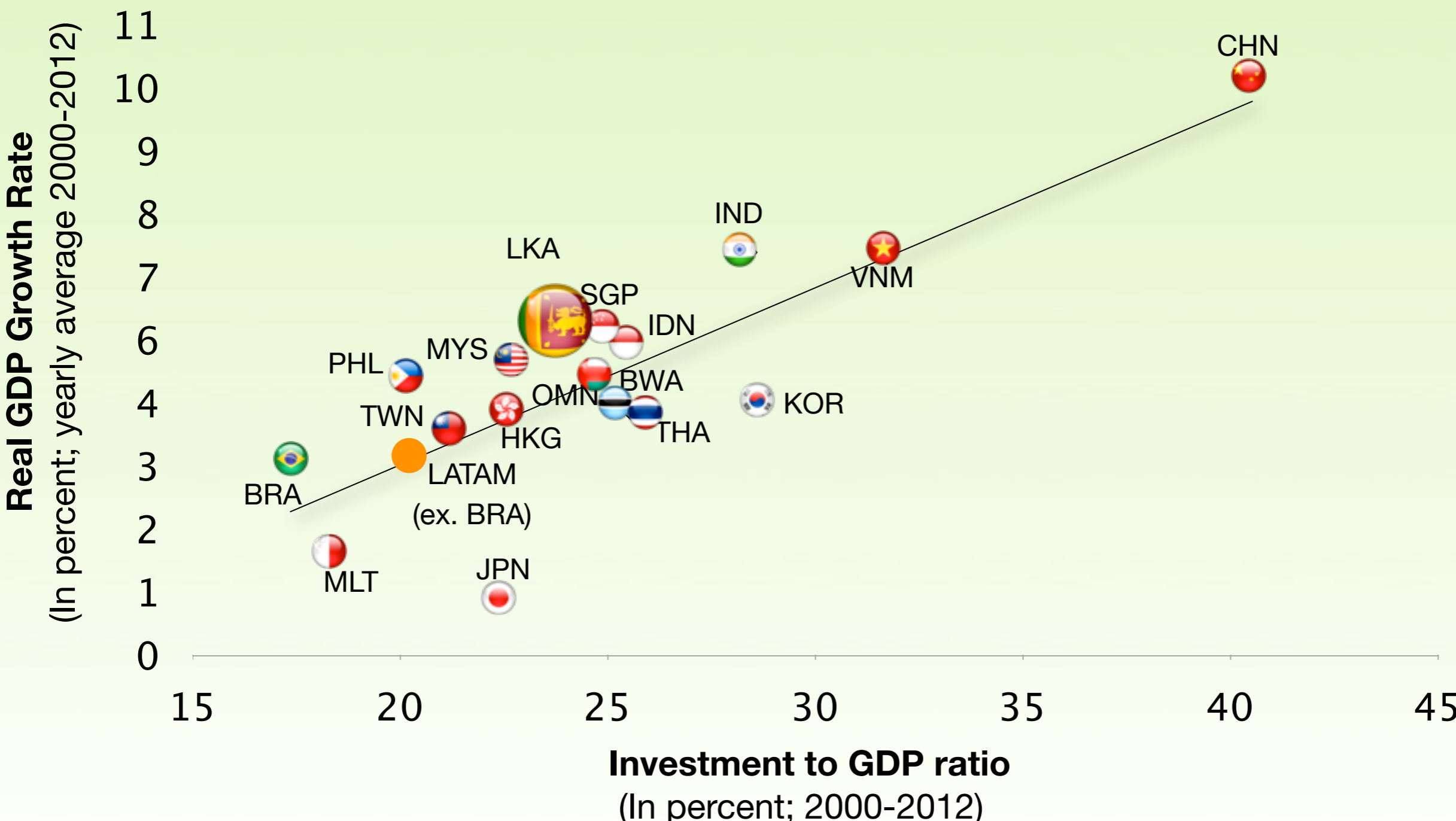
- Investment is key to sustained robust growth
- Sri Lanka's public investment can be increased, but savings must also rise
- Financial deepening will facilitate private savings/investment



Investment in physical capital and infrastructure spurs growth



Investment and Growth



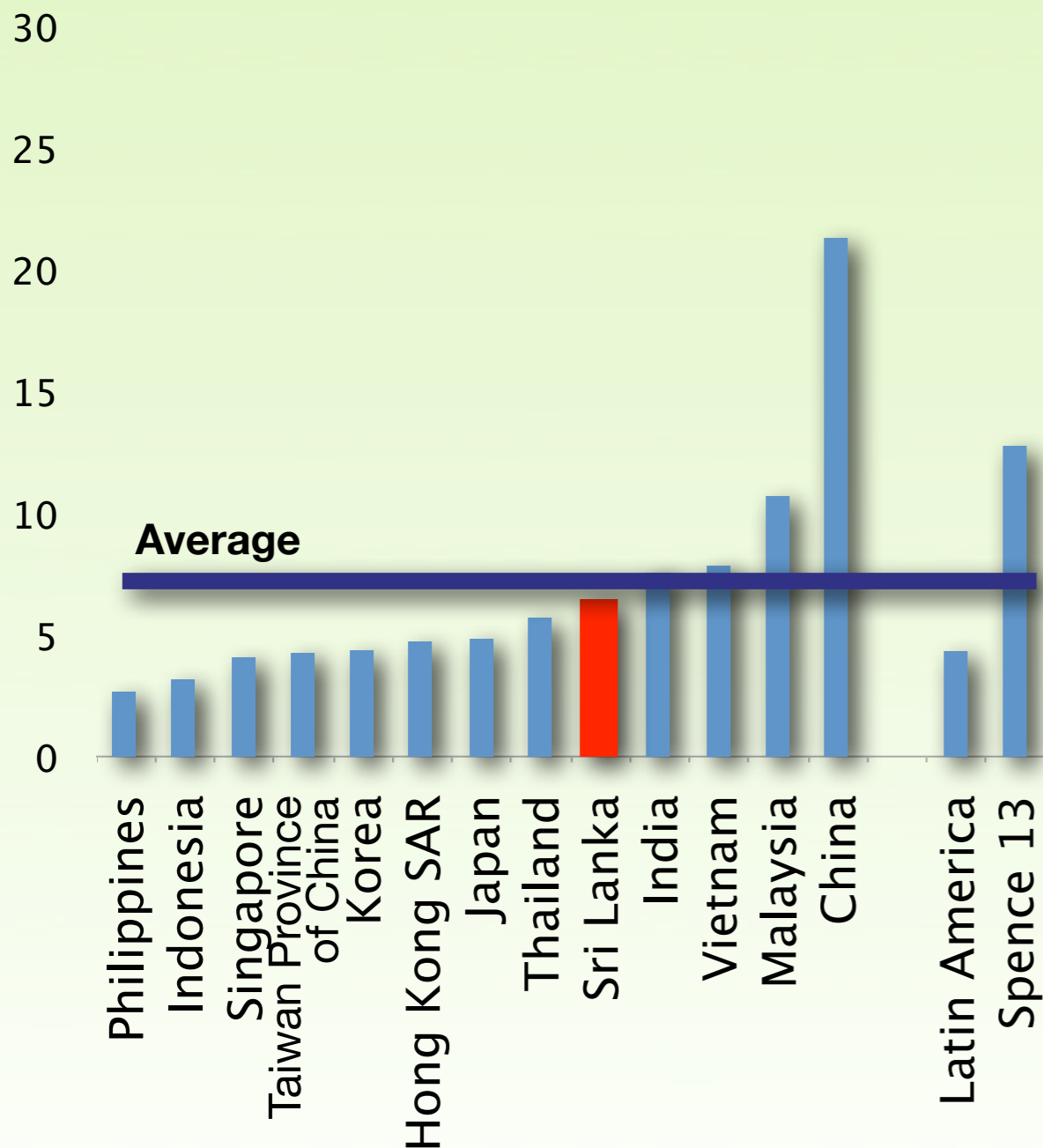
Sources: World Economic Outlook; and IMF staff estimates.



The government's role in raising investment

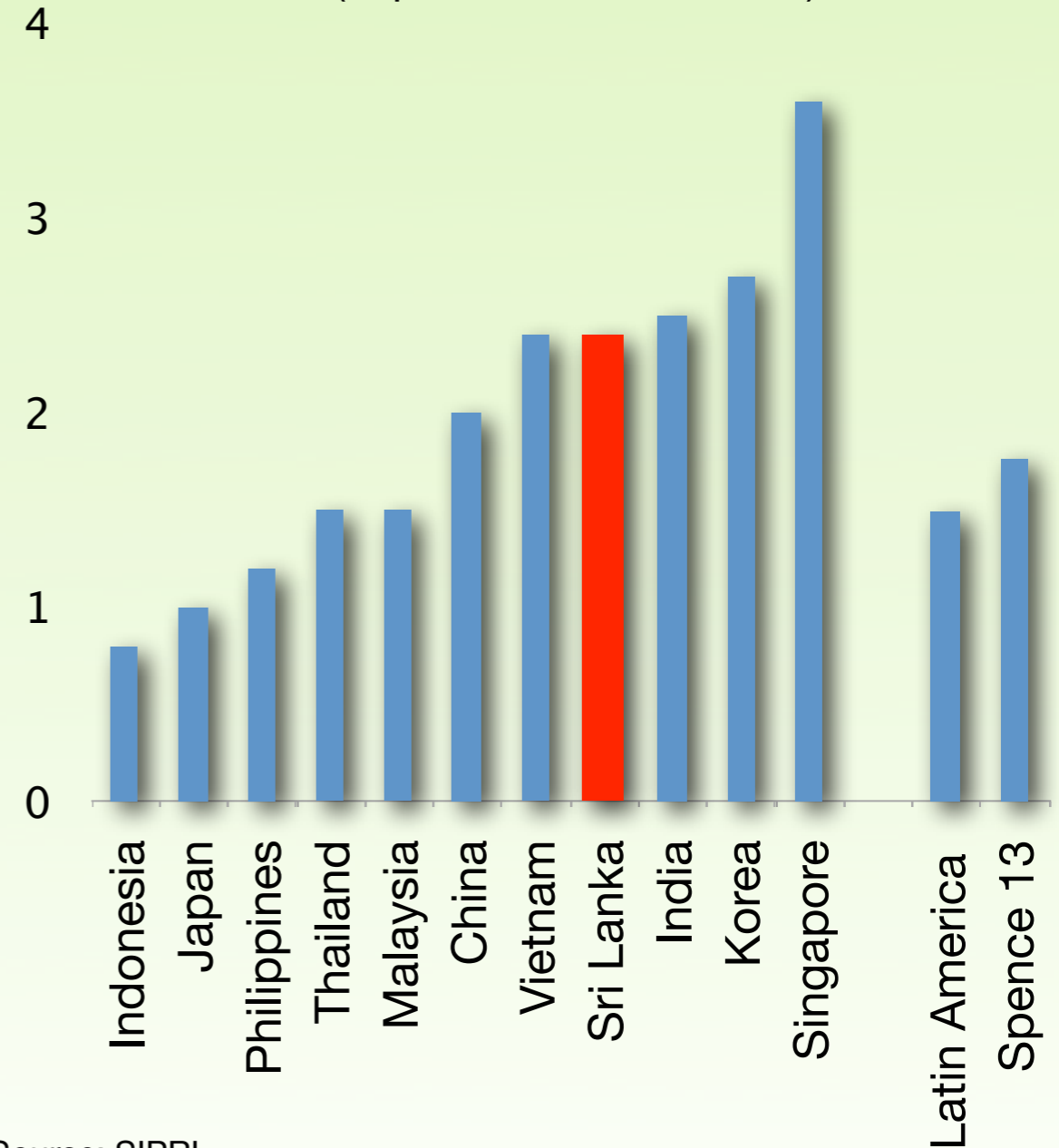
Public Investment Ratio

(In percent of GDP; latest)



Military Expenditure¹

(In percent of GDP, 2012)



Source: SIPRI

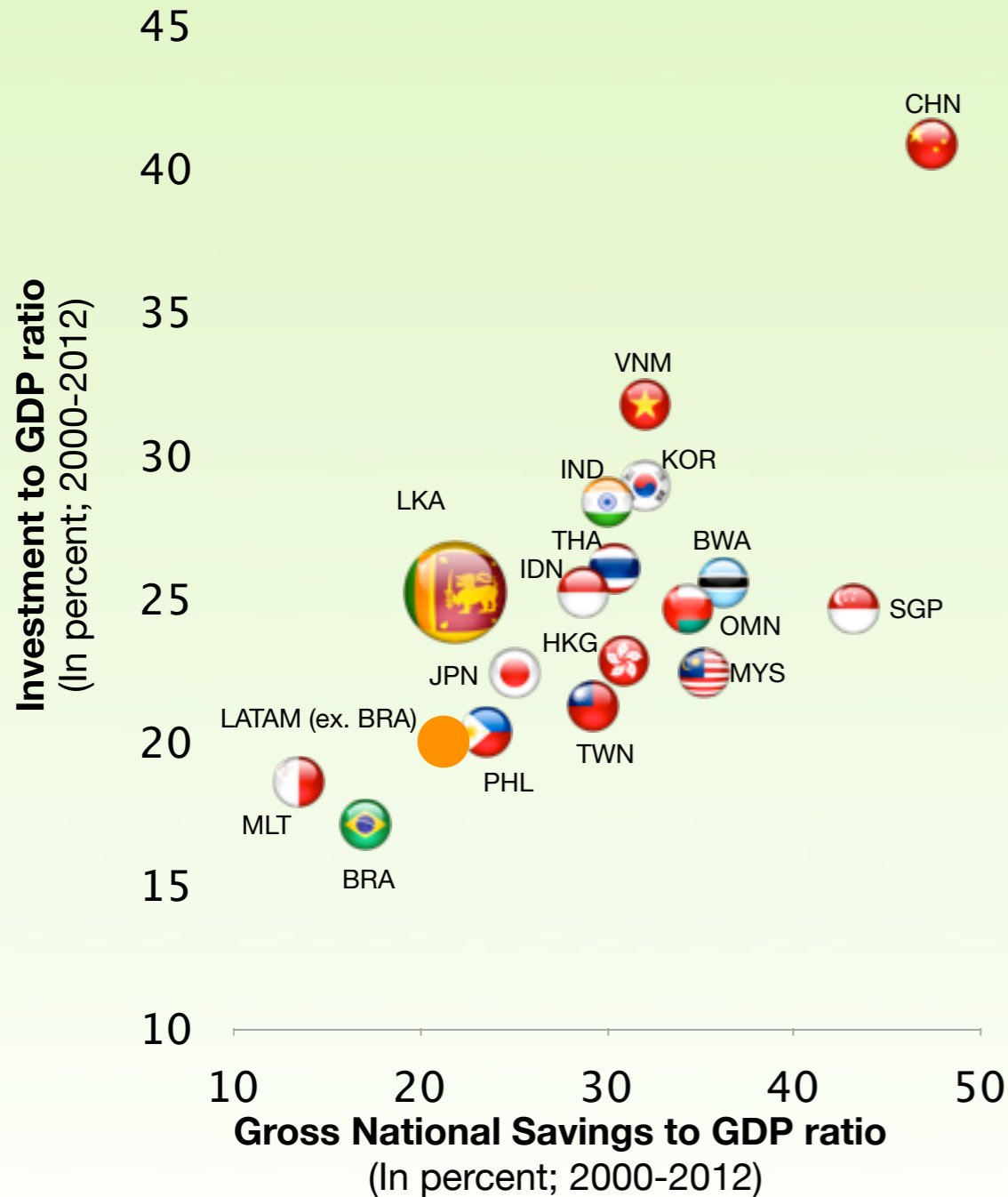
¹ Based on NATO definition - includes all current & capital expenditures on armed forces, including peacekeeping forces; defense ministries & other defense related government agencies

Sources: World Economic Outlook; and IMF staff calculations.



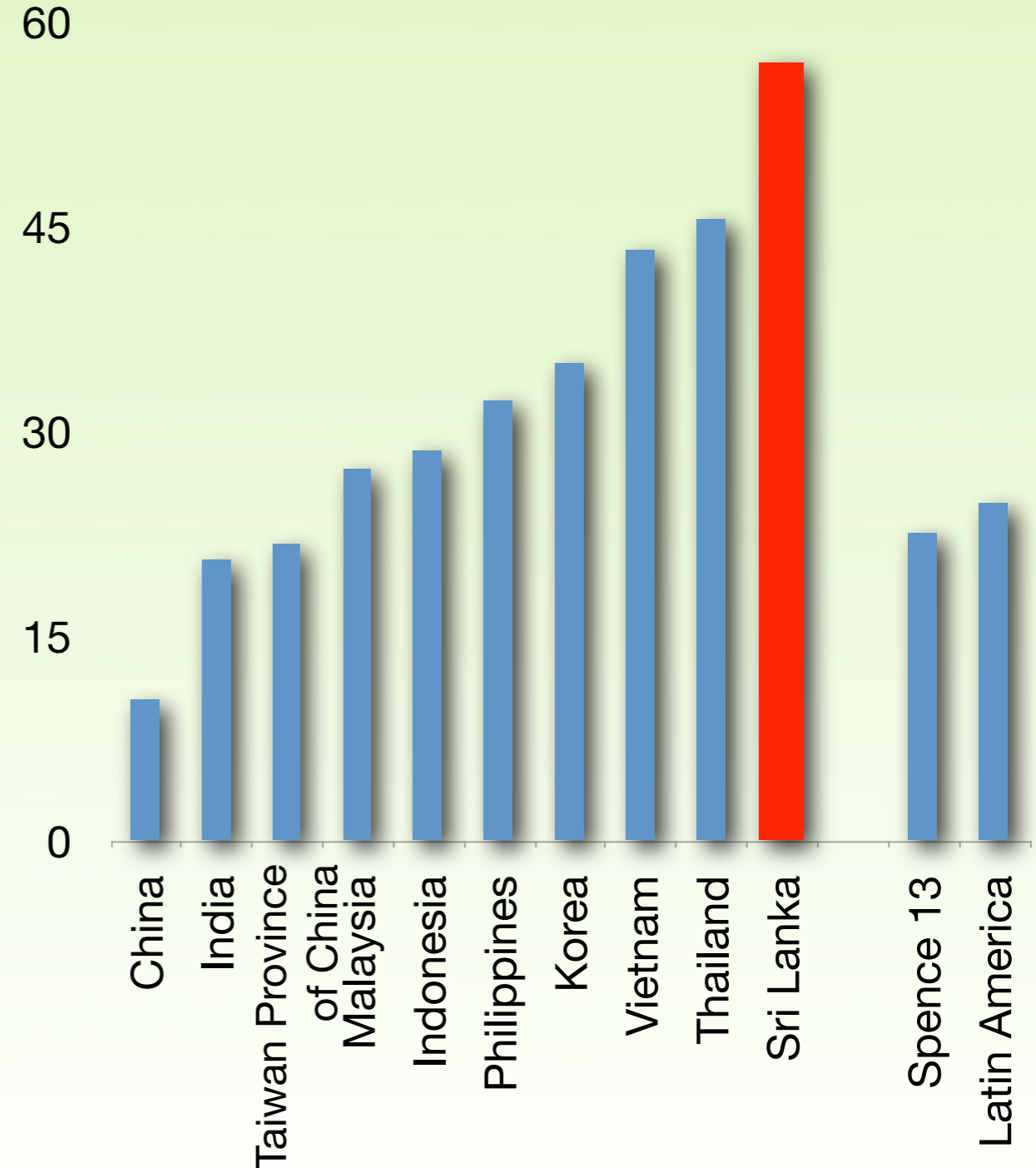
Higher national savings needed

Investment and Savings



Total External Debt Ratio

(In percent of GDP; 2012)



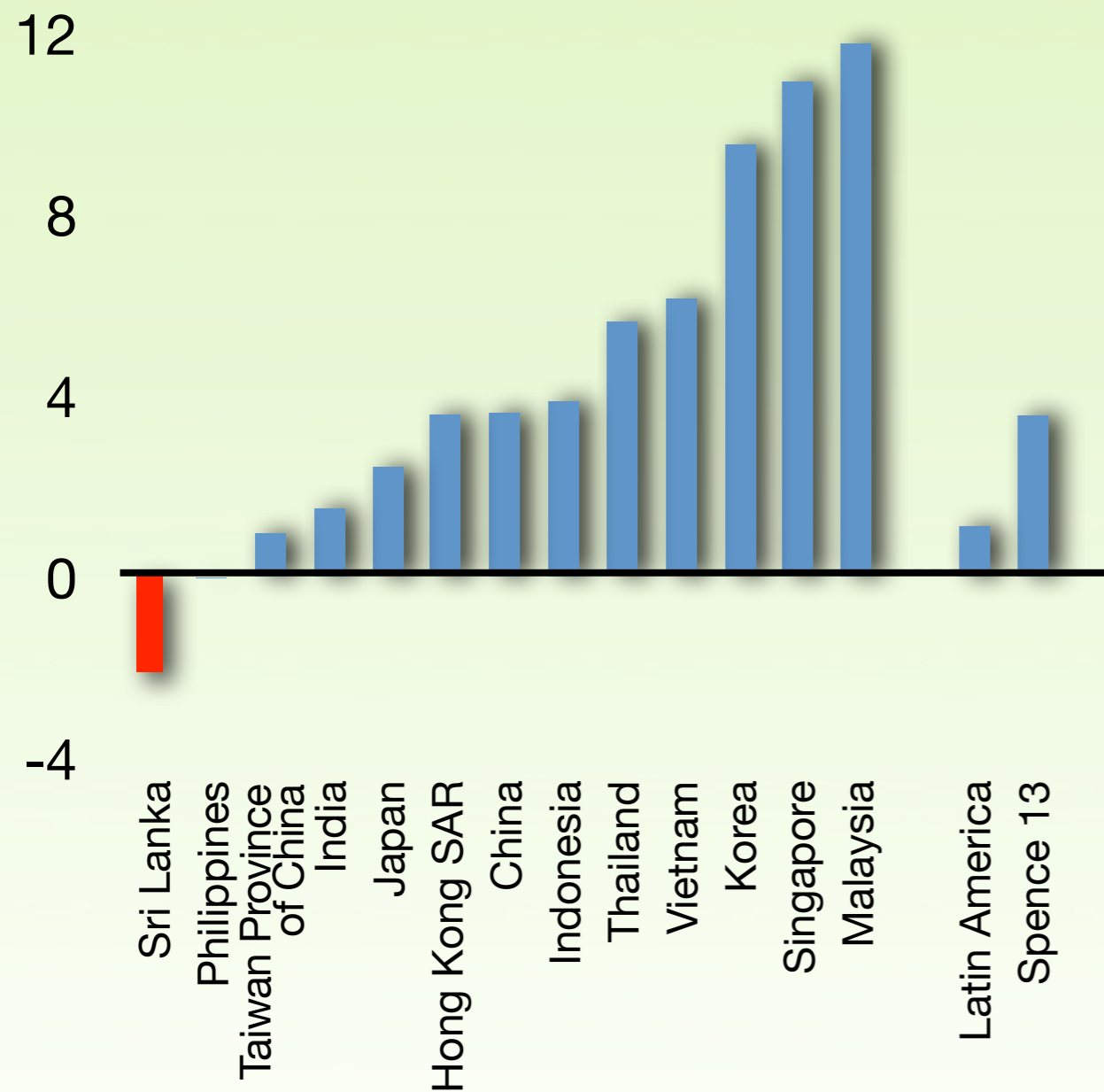
Sources: World Economic Outlook; and IMF staff calculations.

Public savings must rise



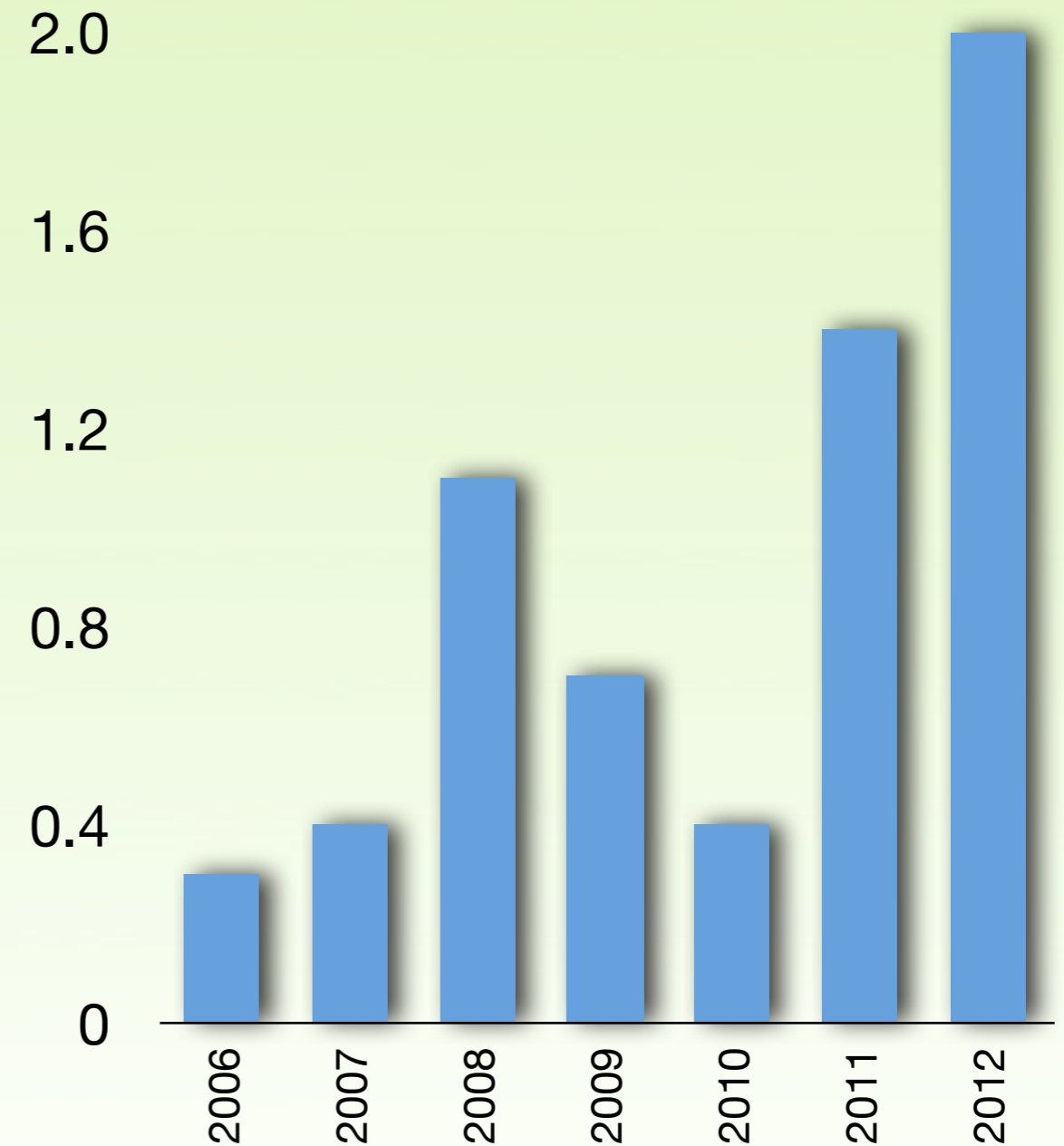
Public Savings Ratio

(In percent of GDP; average 2000-2012)



CEB/CPC Losses

(In percent of GDP)

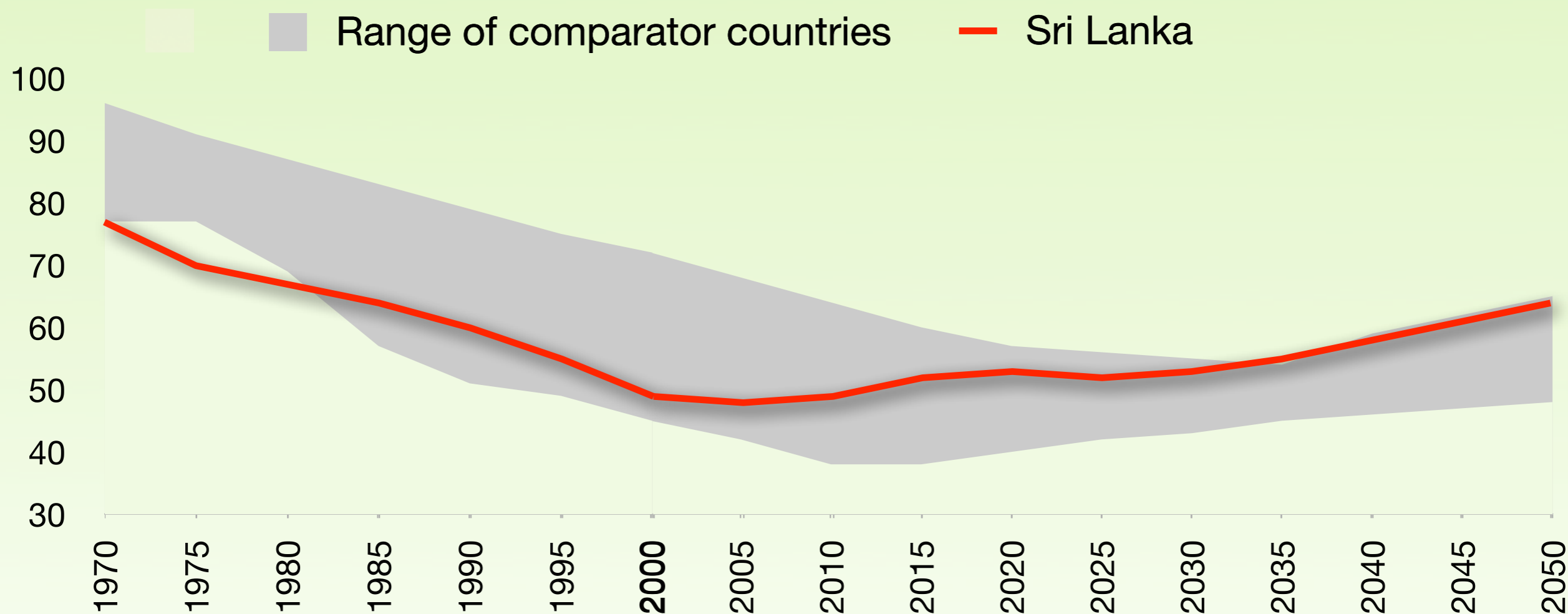




Sri Lanka's demographics: A challenge for savings

Sri Lanka's Overall Dependency Ratio¹

(Ratio of population aged 0-14 and 65+ to aged 15-64; in percent)



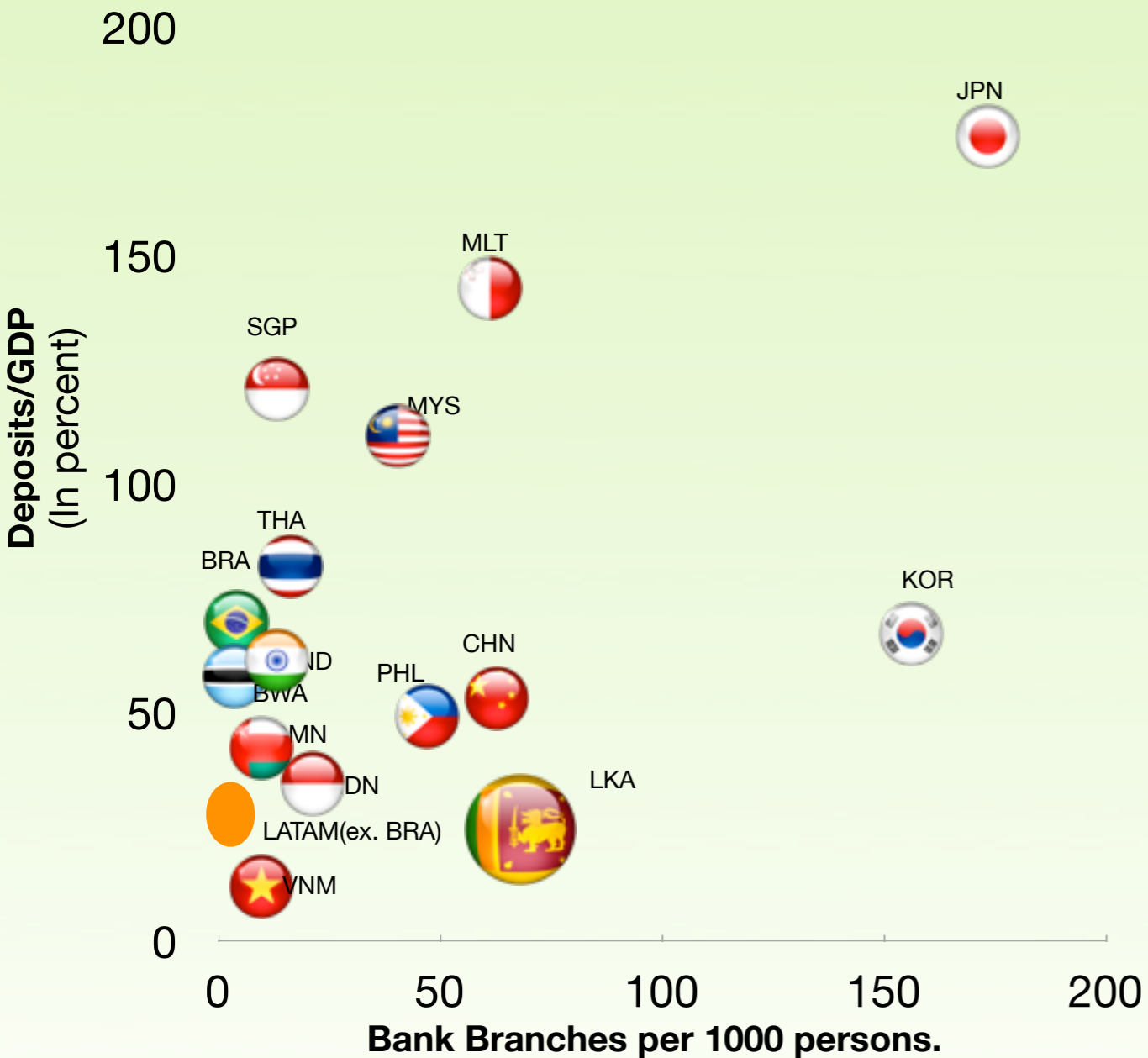
Sources: UN Database; and IMF staff calculations.

¹ Dependency ratio projected using the U.N. medium fertility scenario. Comparator countries include China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.



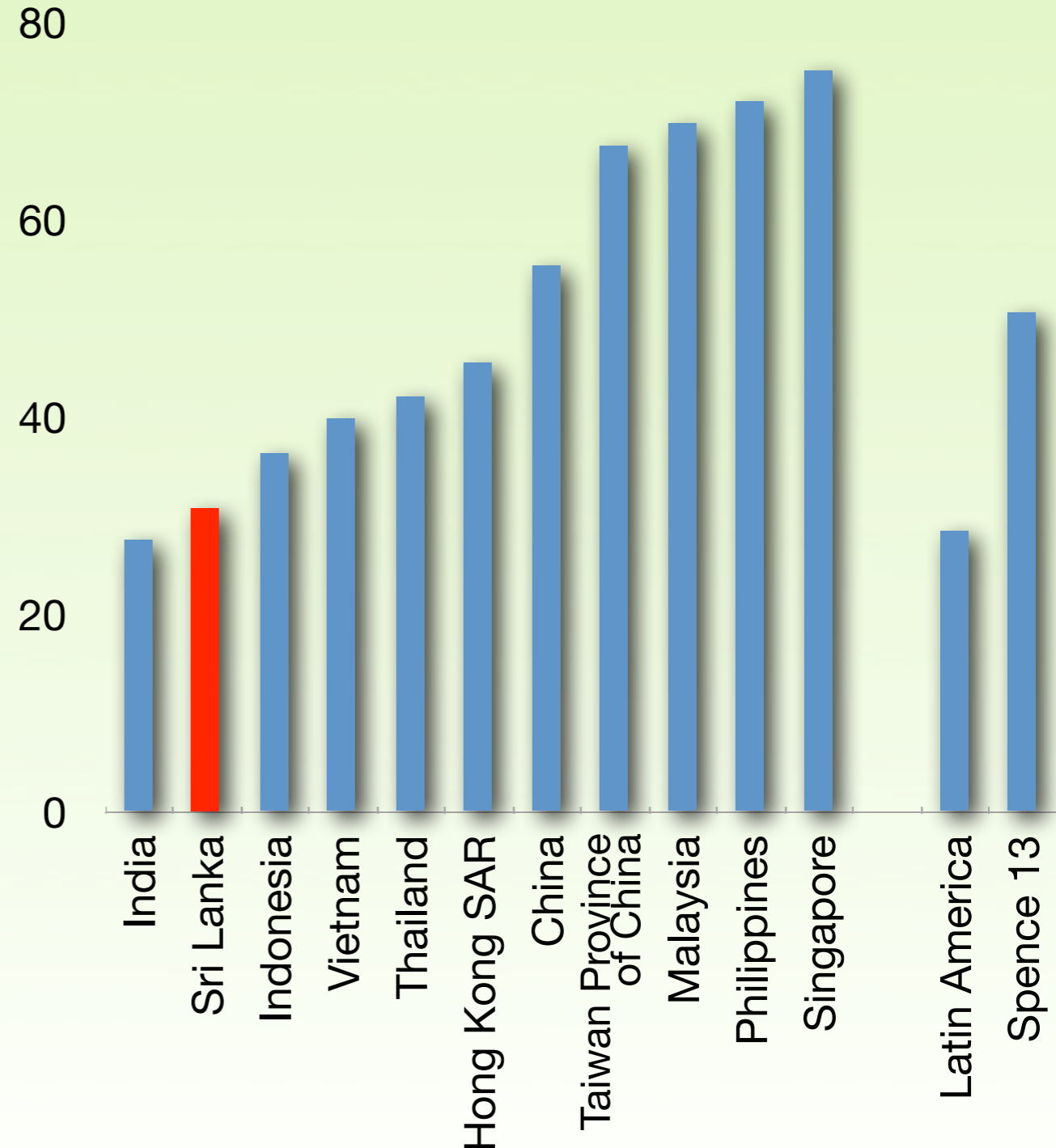
Financial deepening: To boost savings and investment

Deposits and Bank Branches



Loans greater than 5 years

(In percent of total loans)



Sources: Bankscope; and IMF staff calculations.

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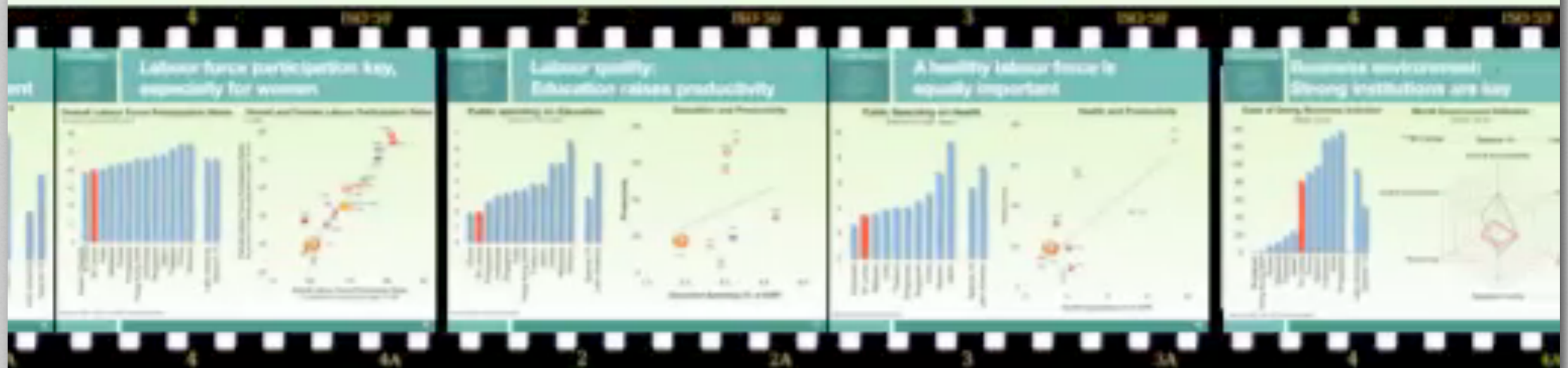
vi. Strong Institutions and Good Governance

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II. Ingredients for Sustaining Rapid Growth v. Robust Labour Contribution

- Higher labour force participation, particularly for women, is needed
- A healthy and educated labour force boosts productivity

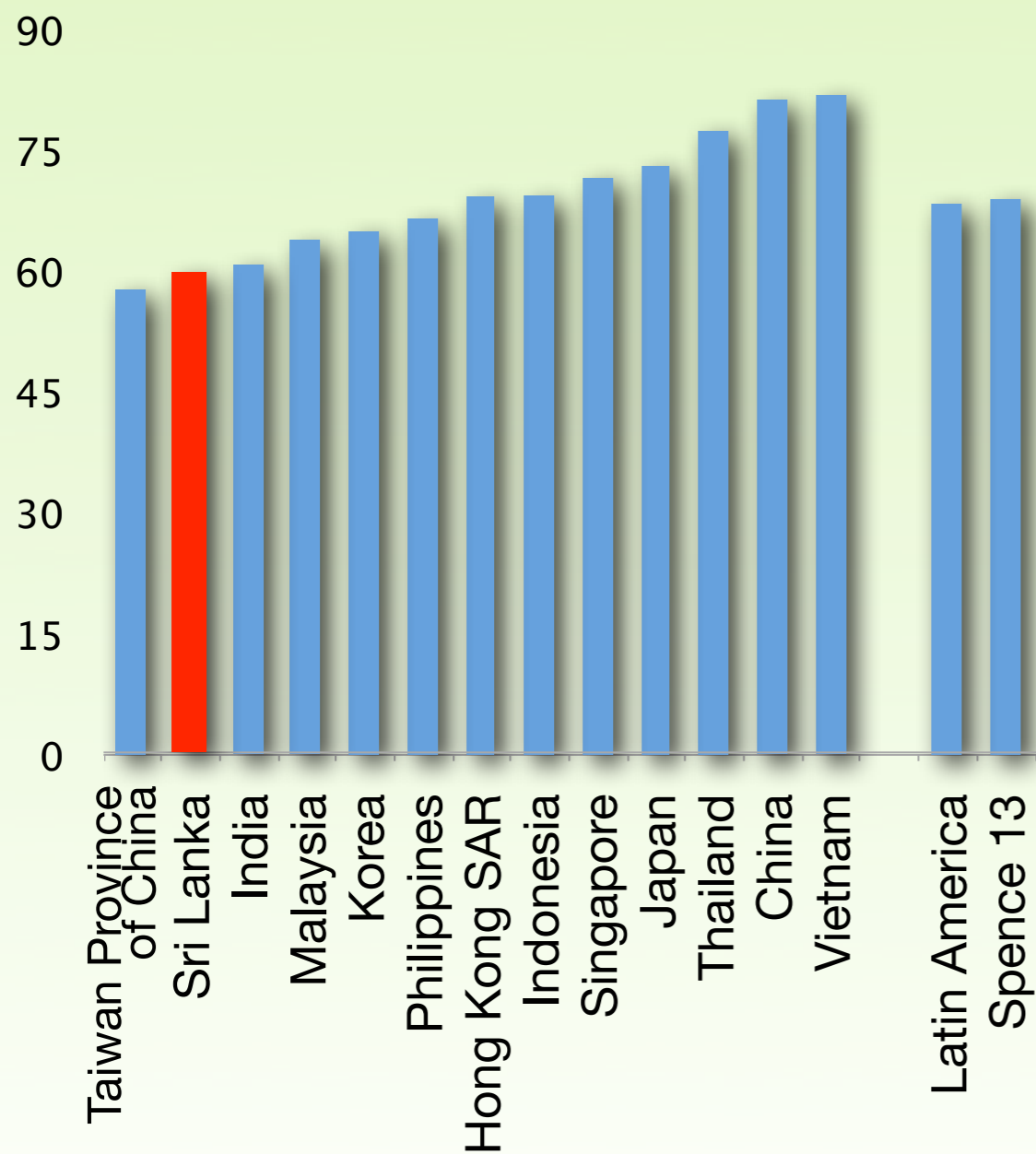




Labour force participation key, especially for women

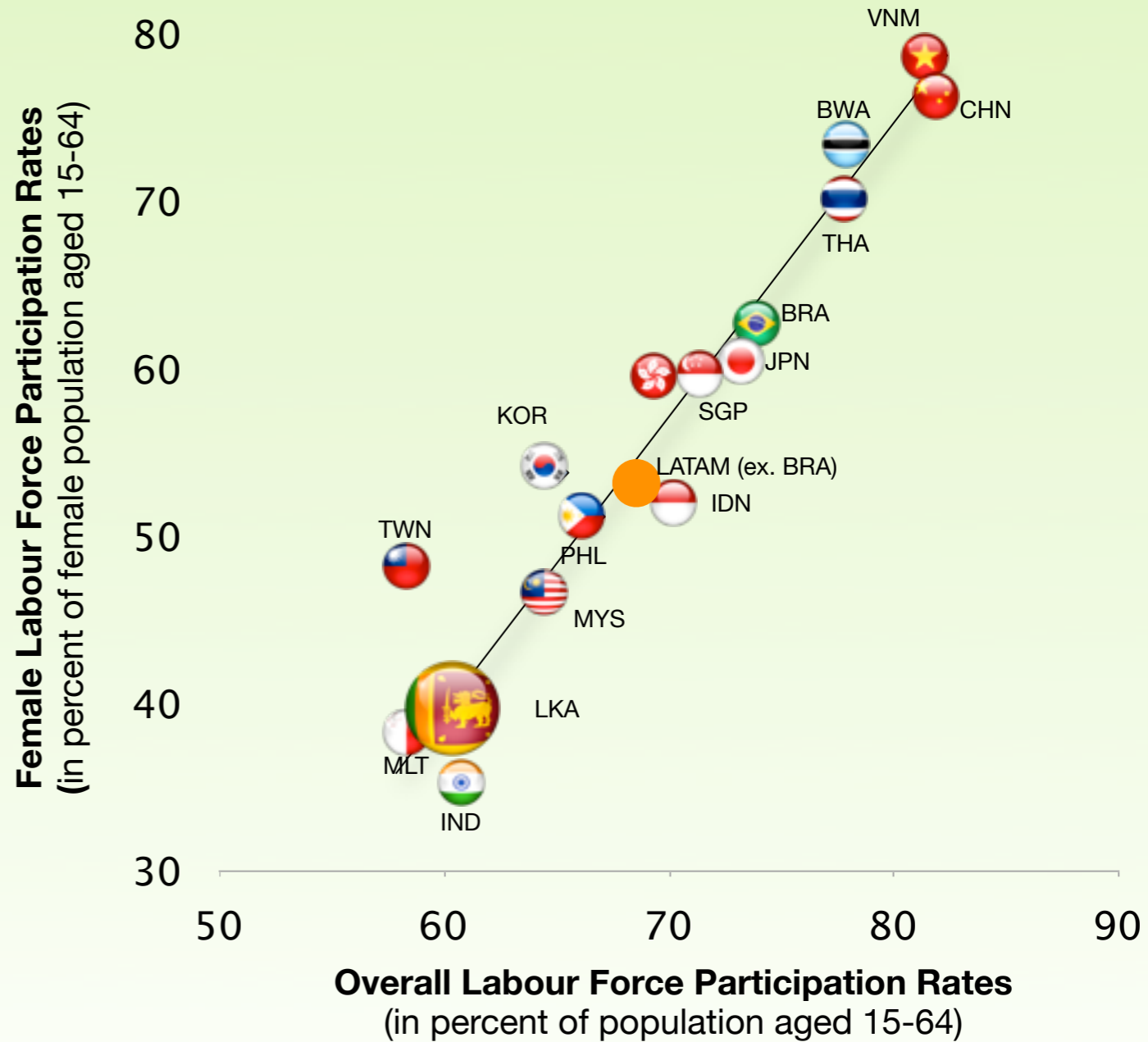
Overall Labour Force Participation Rates

(In percent; average 2000-2012)



Overall and Female Labour Participation Rates

(Latest)



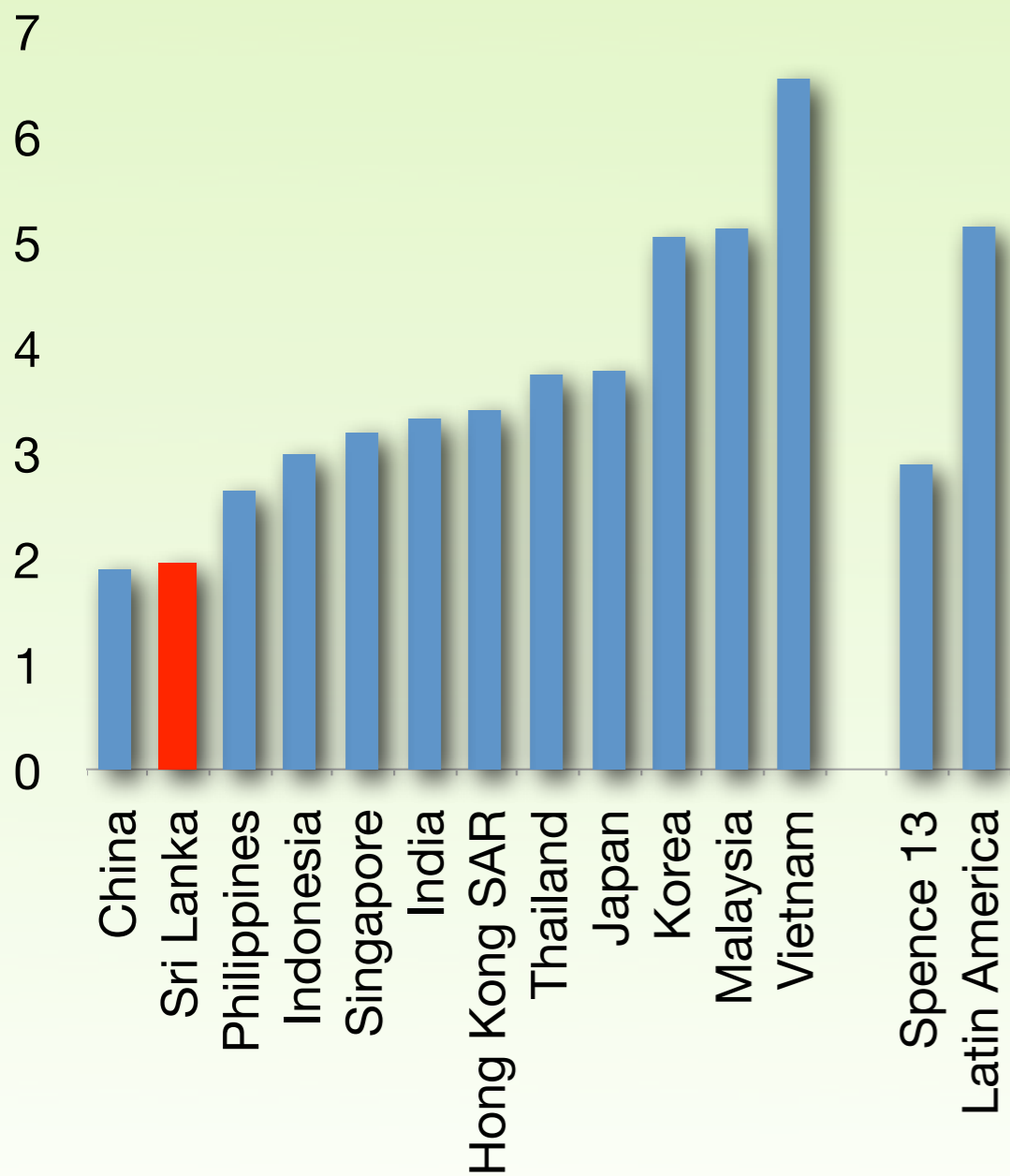
Sources: WDI; CEIC; and IMF staff calculations.



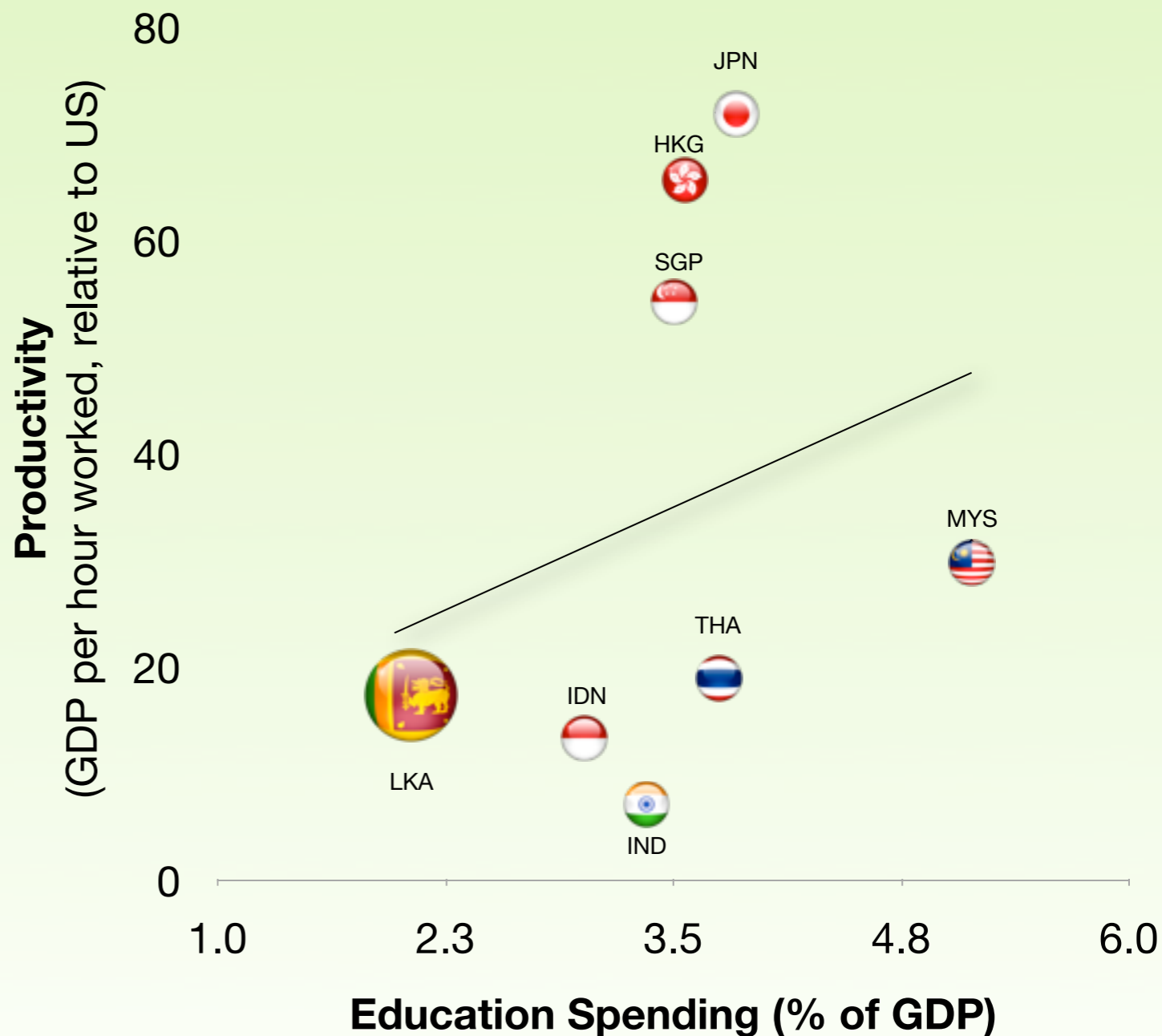
Labour quality: Education raises productivity

Public Spending on Education

(In percent of GDP; latest)



Education and Productivity



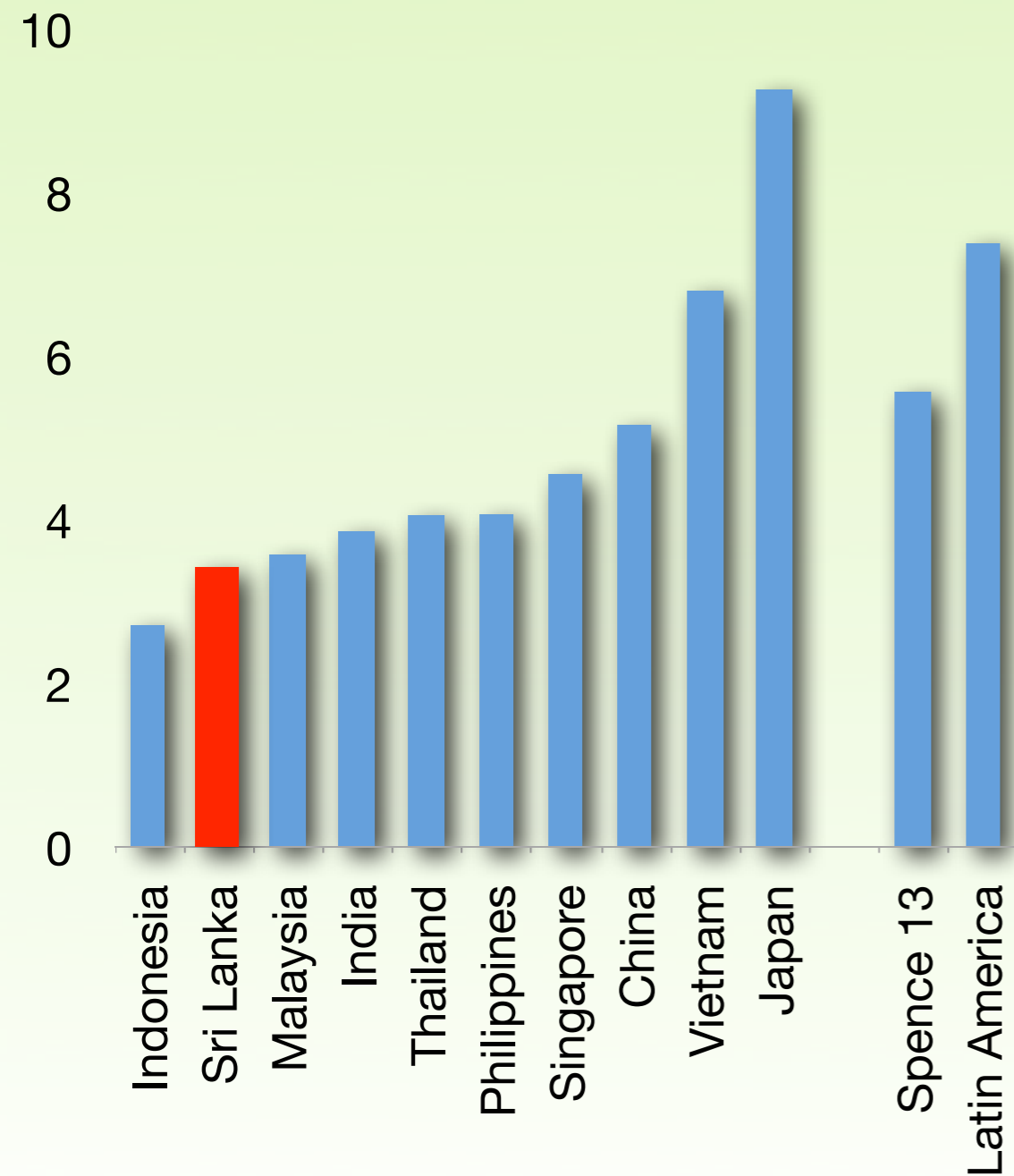
Sources: WDI; Ark & McGuckin.



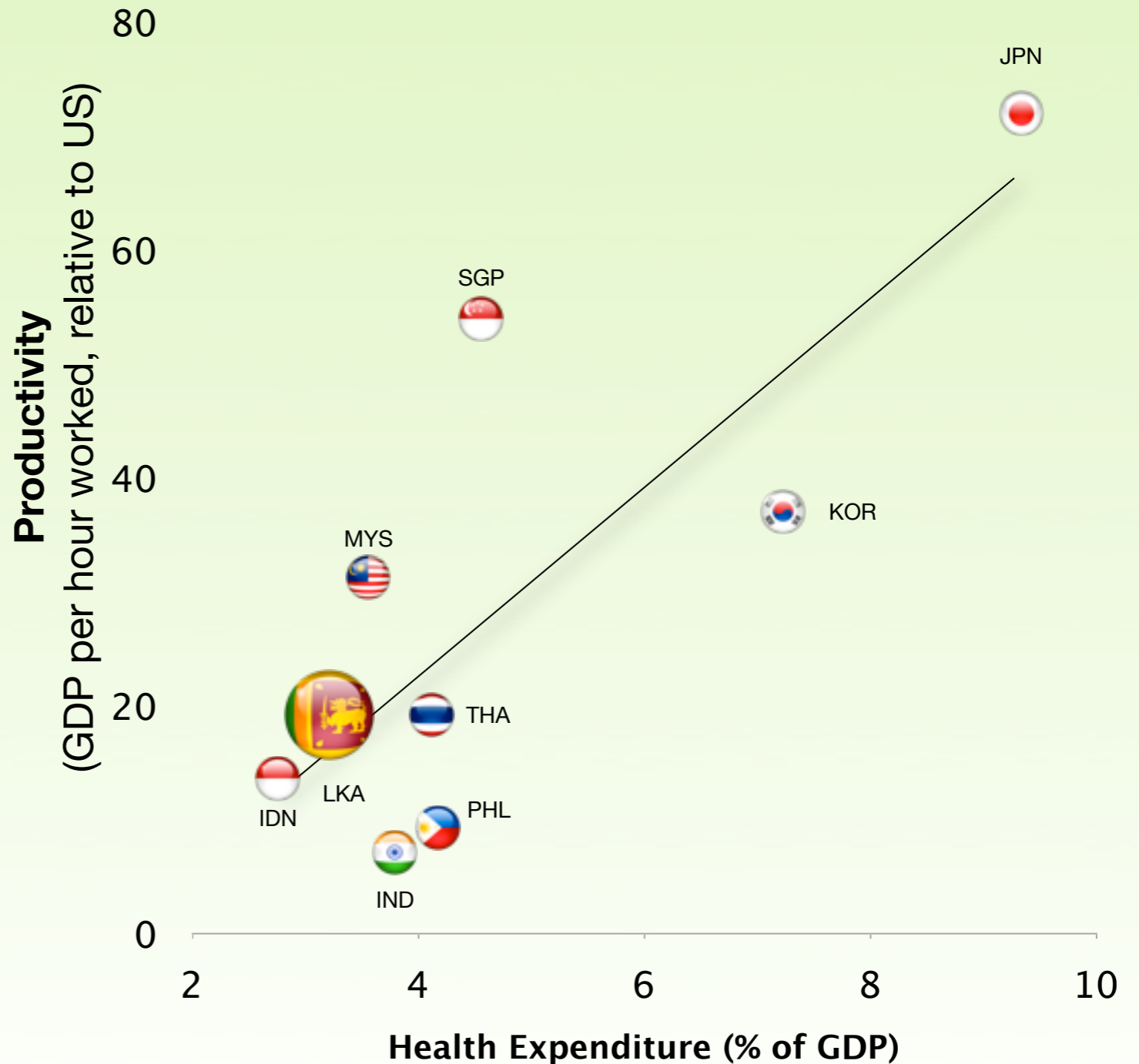
A healthy labour force is equally important

Public Spending on Health

(In percent of GDP; latest)



Health and Productivity



Sources: WDI; Ark & McGuckin.

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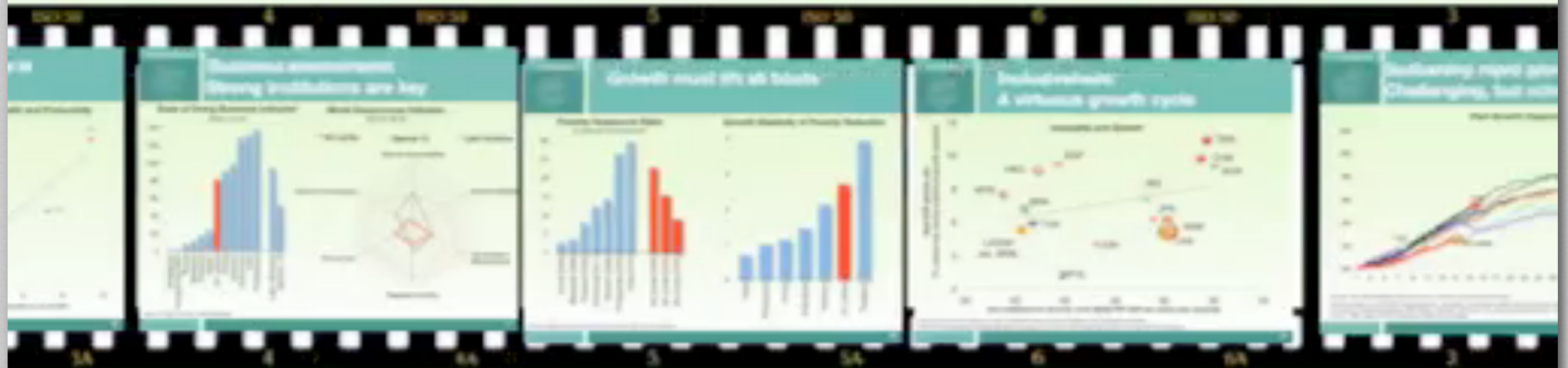
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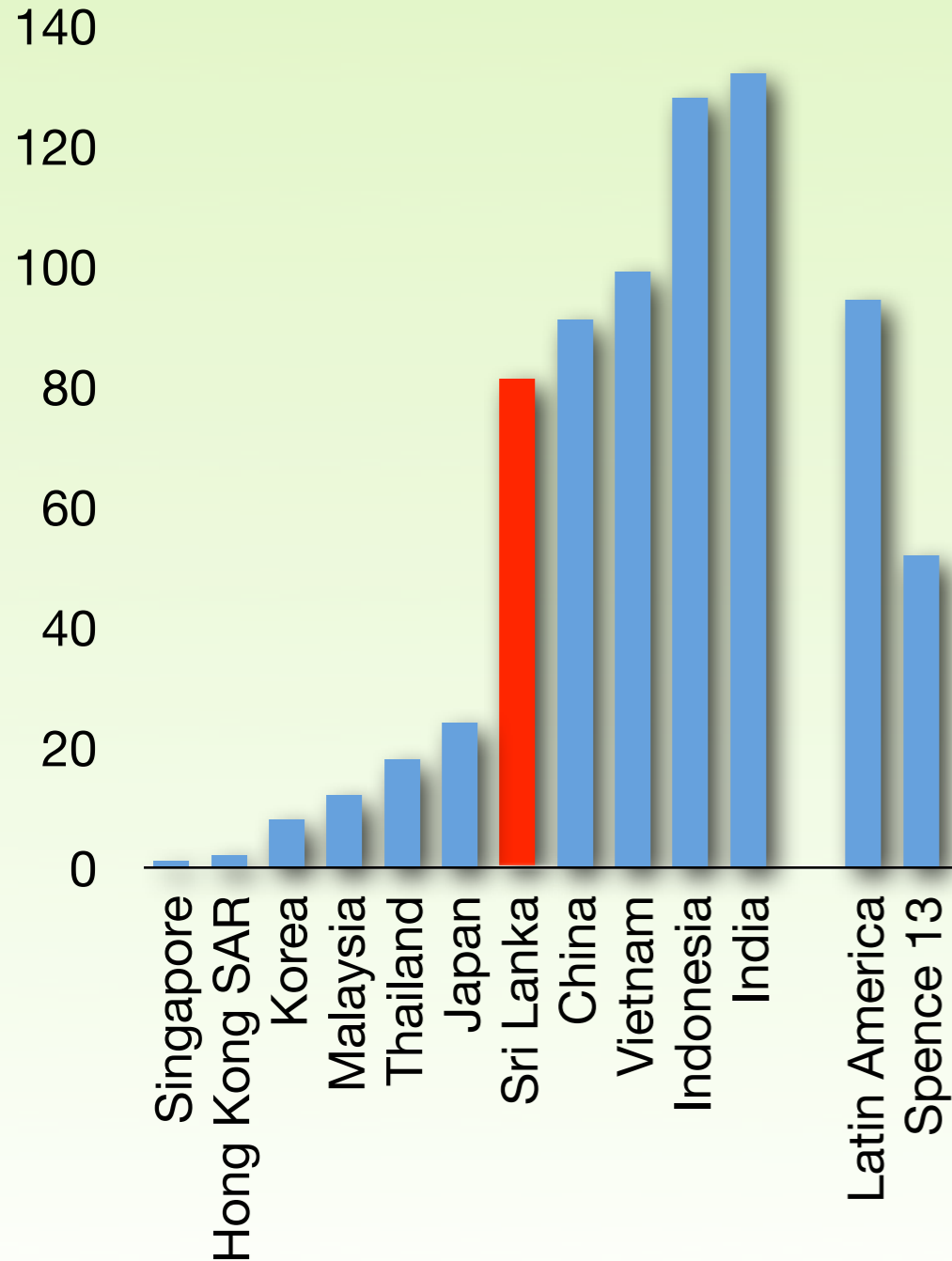
- A sound business environment requires strong institutions and governance
- Room for improvement in a number of areas



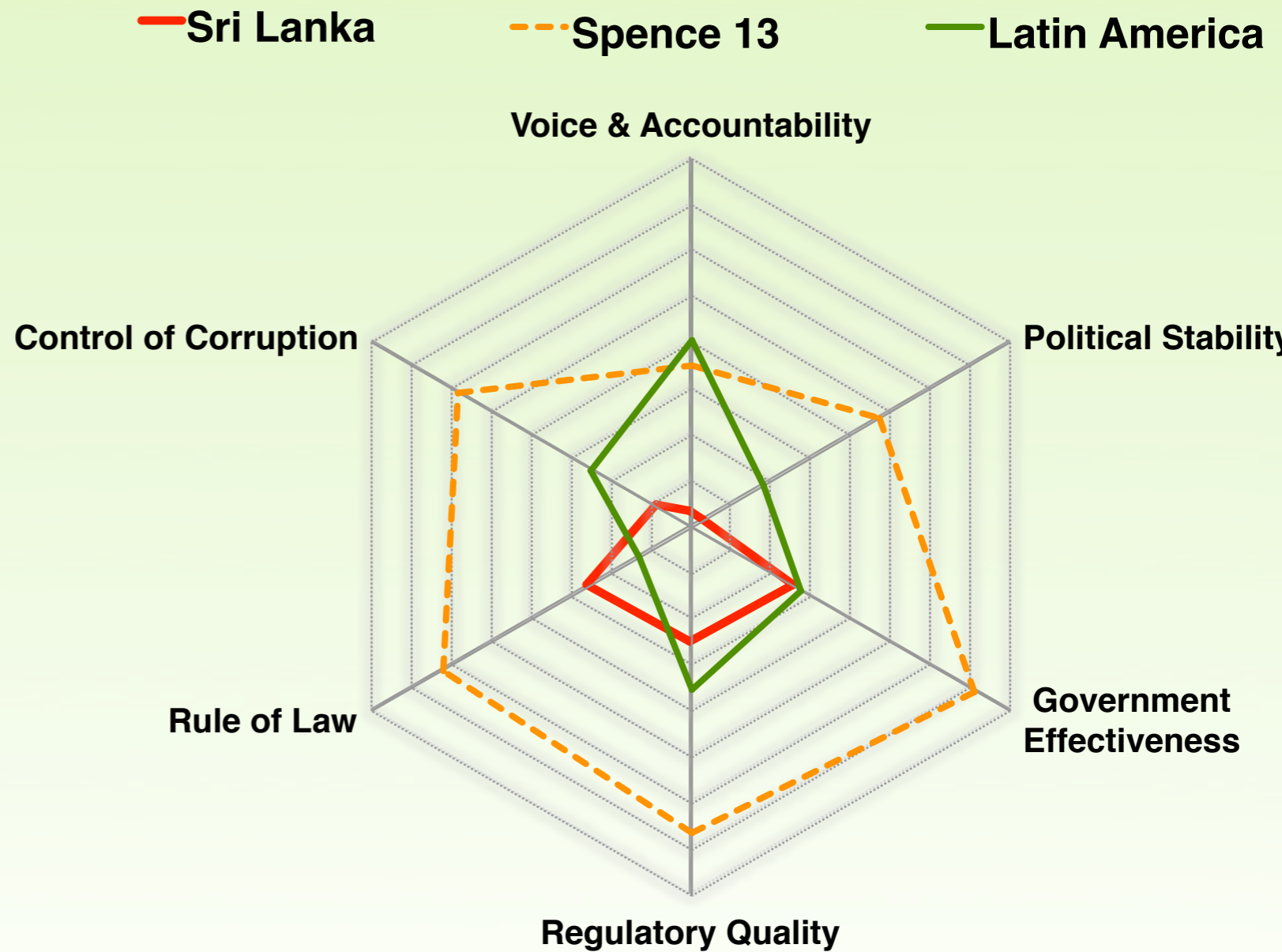


Business environment: Strong institutions are key

Ease of Doing Business Indicator
(Rank, 2012)



World Governance Indicator
(Score, 2012)



Sources: WDI; and IMF staff calculations.



Policy initiatives

- Strong rule of law
- Restrained government involvement
- Focused and concise regulatory environment
- Basic social protection
- Political and economic inclusiveness

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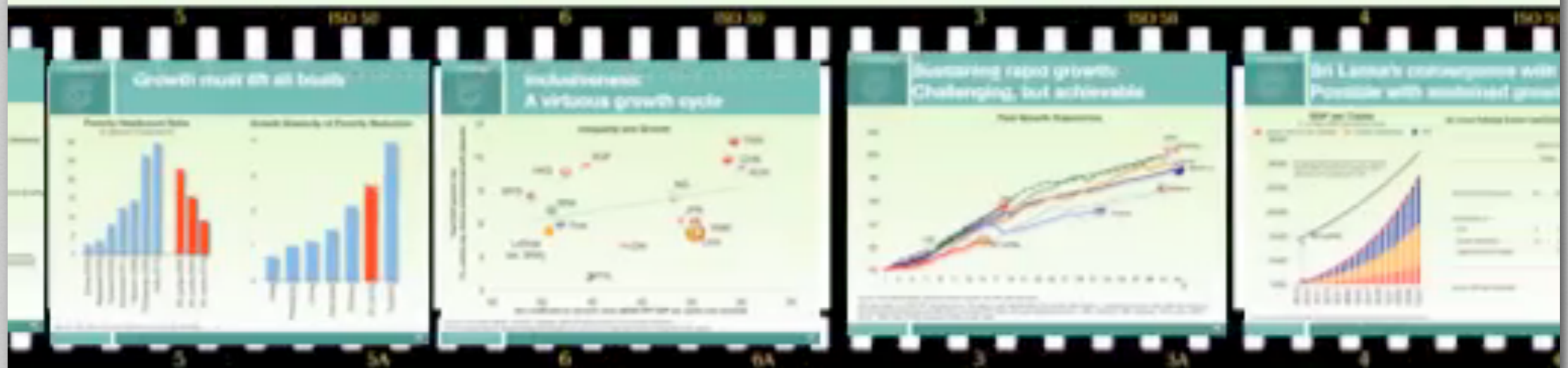
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- Sri Lanka's poverty reduction is commendable
- Inclusiveness will reinforce sustained growth

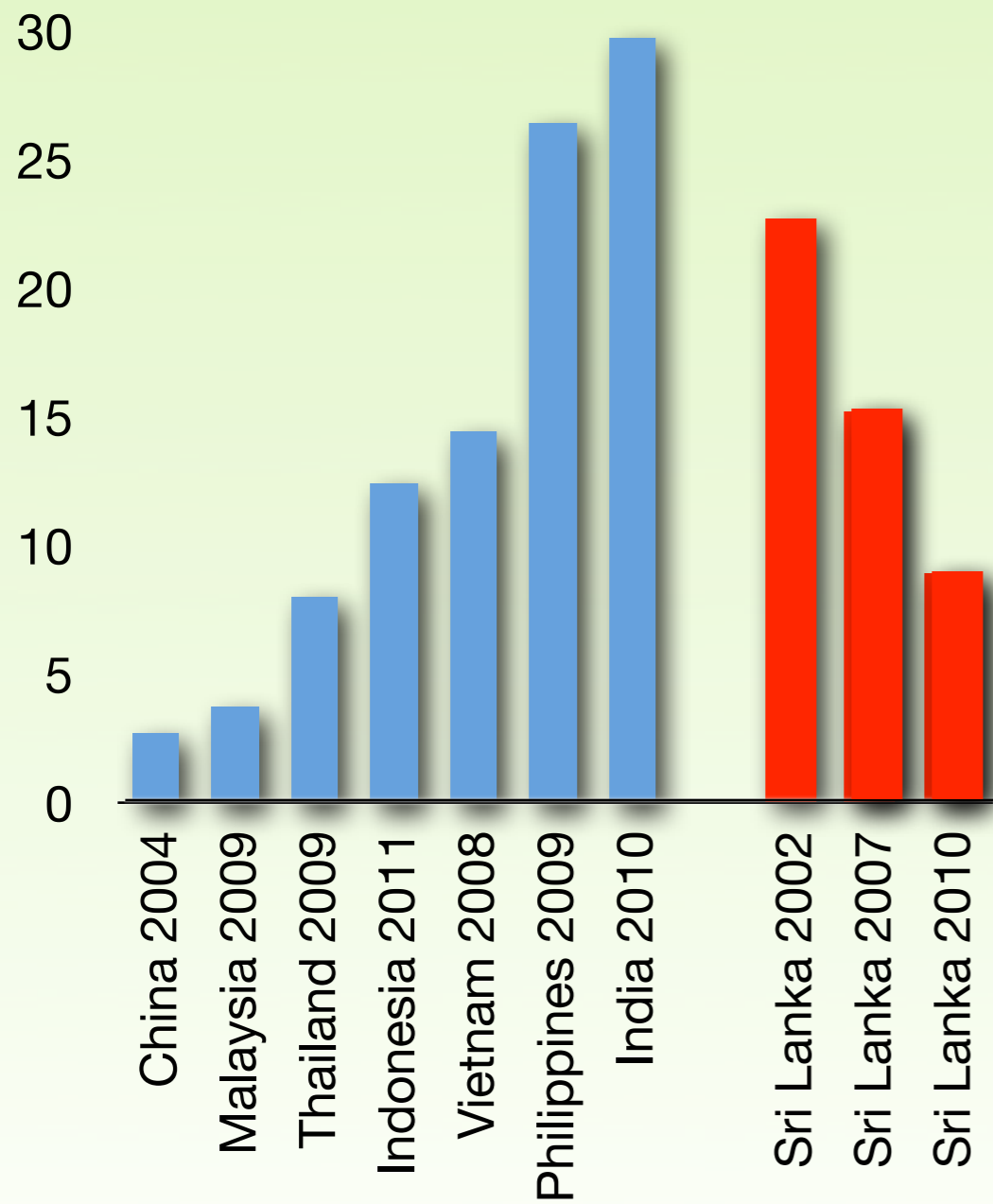


Growth must lift all boats



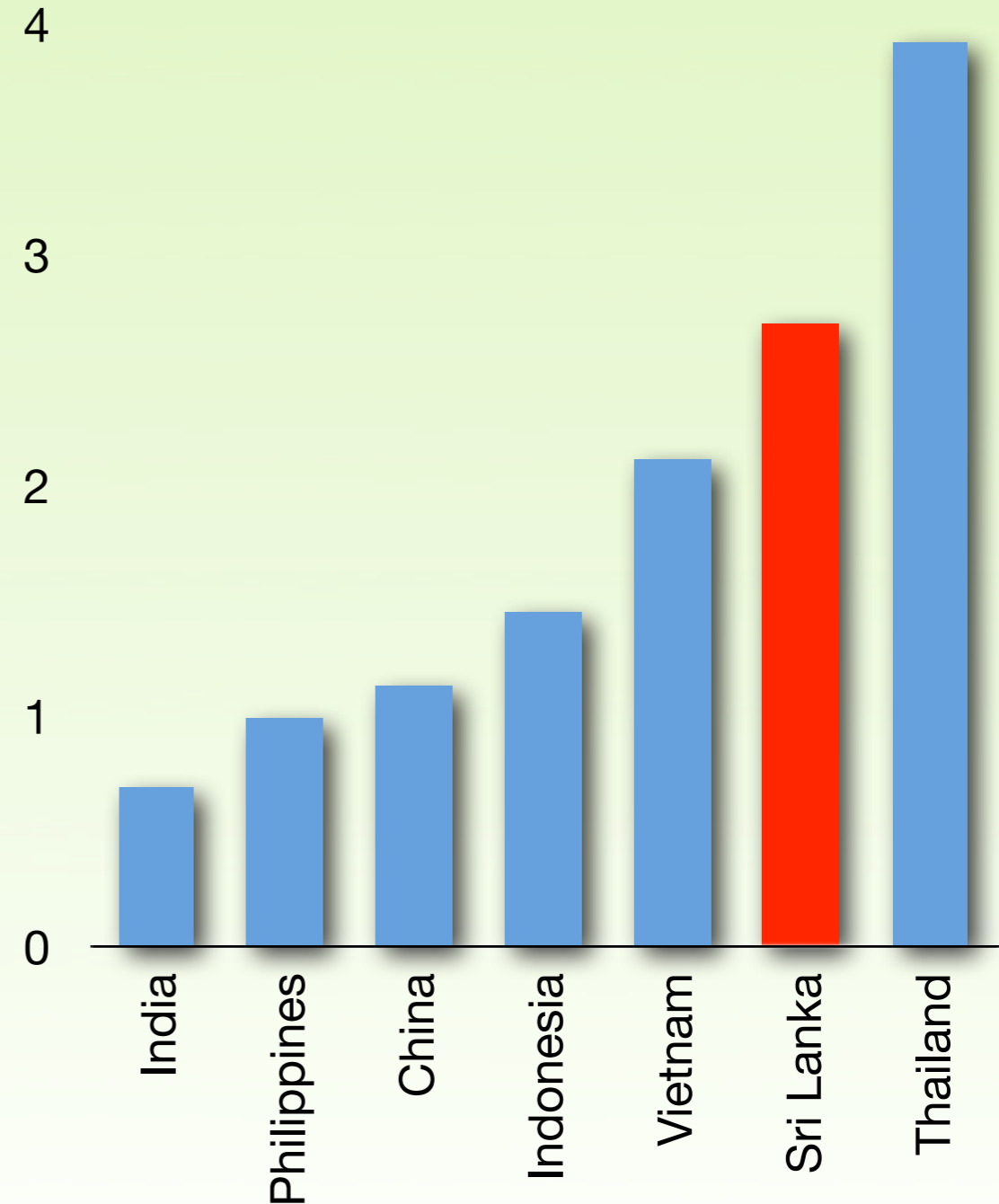
Poverty Headcount Ratio

(In percent of population)



Growth Elasticity of Poverty Reduction

(Average, 2000-2010)

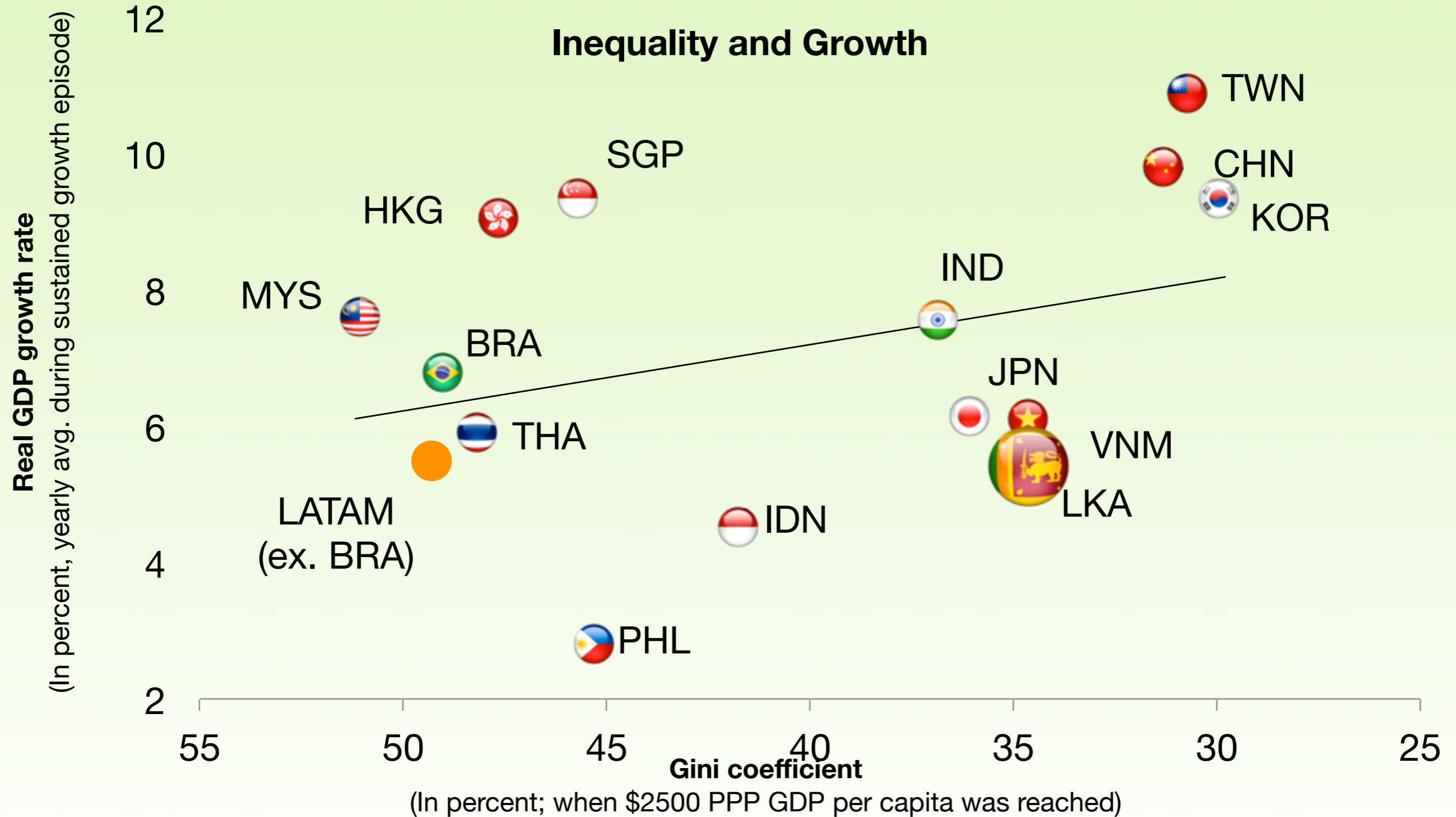


Source: WDI; World Economic Outlook; and IMF staff estimates



Inclusiveness: A virtuous growth cycle

Inequality and Growth



Sources: Penn World Tables; UN Wider Database; World Economic Outlook; and IMF staff estimates.
 Note: Sustained growth episode defined as a period of 25 years after attaining \$2500 constant PPP GDP/capita.

Outline

I. Asia in the 21st Century

II. Ingredients for Sustaining Rapid Growth

- i. Macroeconomic and Financial Stability
- ii. Outward Orientation
- iii. Enhancing Productivity Growth
- iv. Investment in Physical Capital
- v. Robust Labour Contribution
- vi. Strong Institutions and Good Governance
- vii. Inclusive Economic Growth

III. Sri Lanka's Potential

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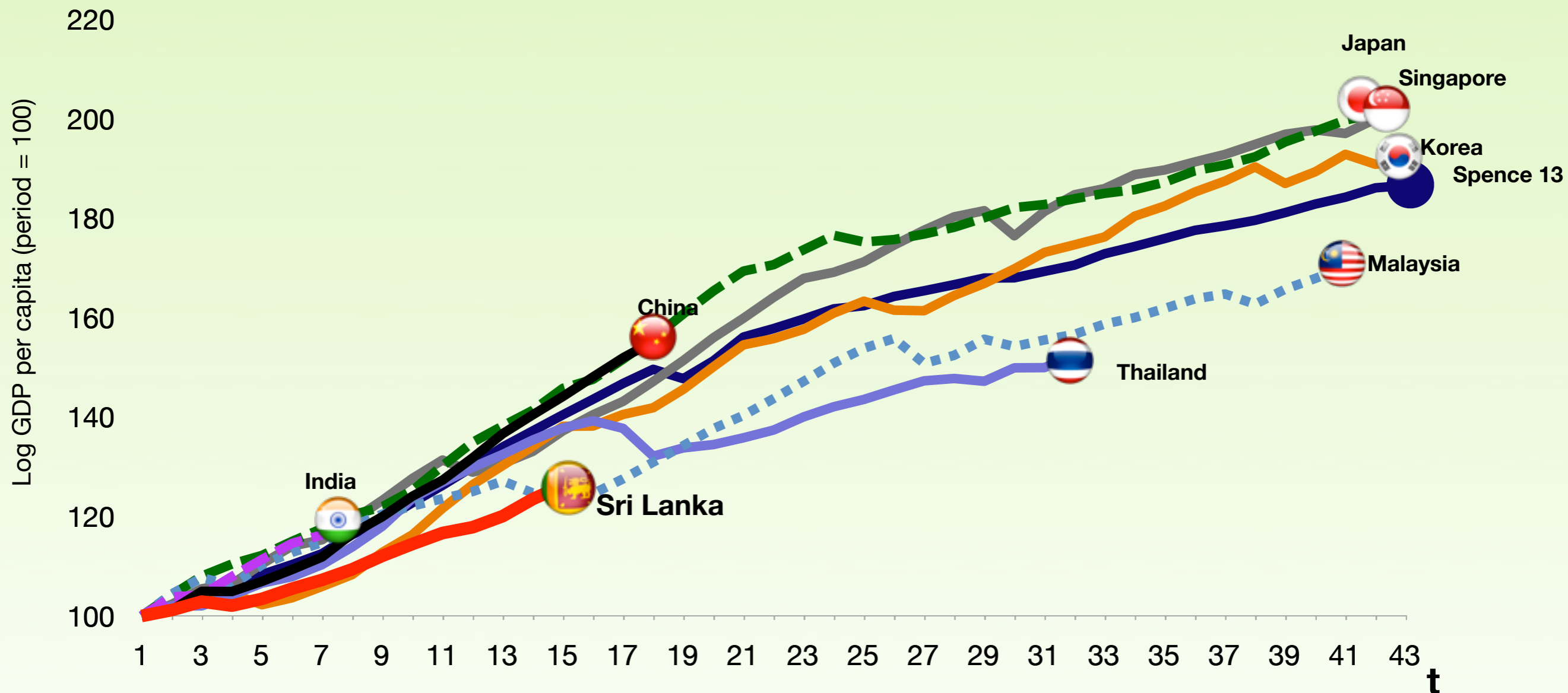
- Sustained rapid growth over prolonged periods is achievable
- If Sri Lanka follows the key ingredients for growth success, it can narrow the gap with Asian emerging market economies





Sustaining rapid growth: Challenging, but achievable

Past Growth Trajectories



Source: Penn World Tables; World Economic Outlook; and IMF staff estimates

Note: GDP per capita is in 2005 PPP adjusted terms. The slope of each series reflects the growth rate. Period = 1 defined as the year when GDP per capita for the country considered reached US\$ 2500. Sri Lanka reached this level in 1998 ; Thailand - 1981; Malaysia - 1972; India - 2006; China - 1995; Japan - 1950; Singapore -1960; Korea -1969.

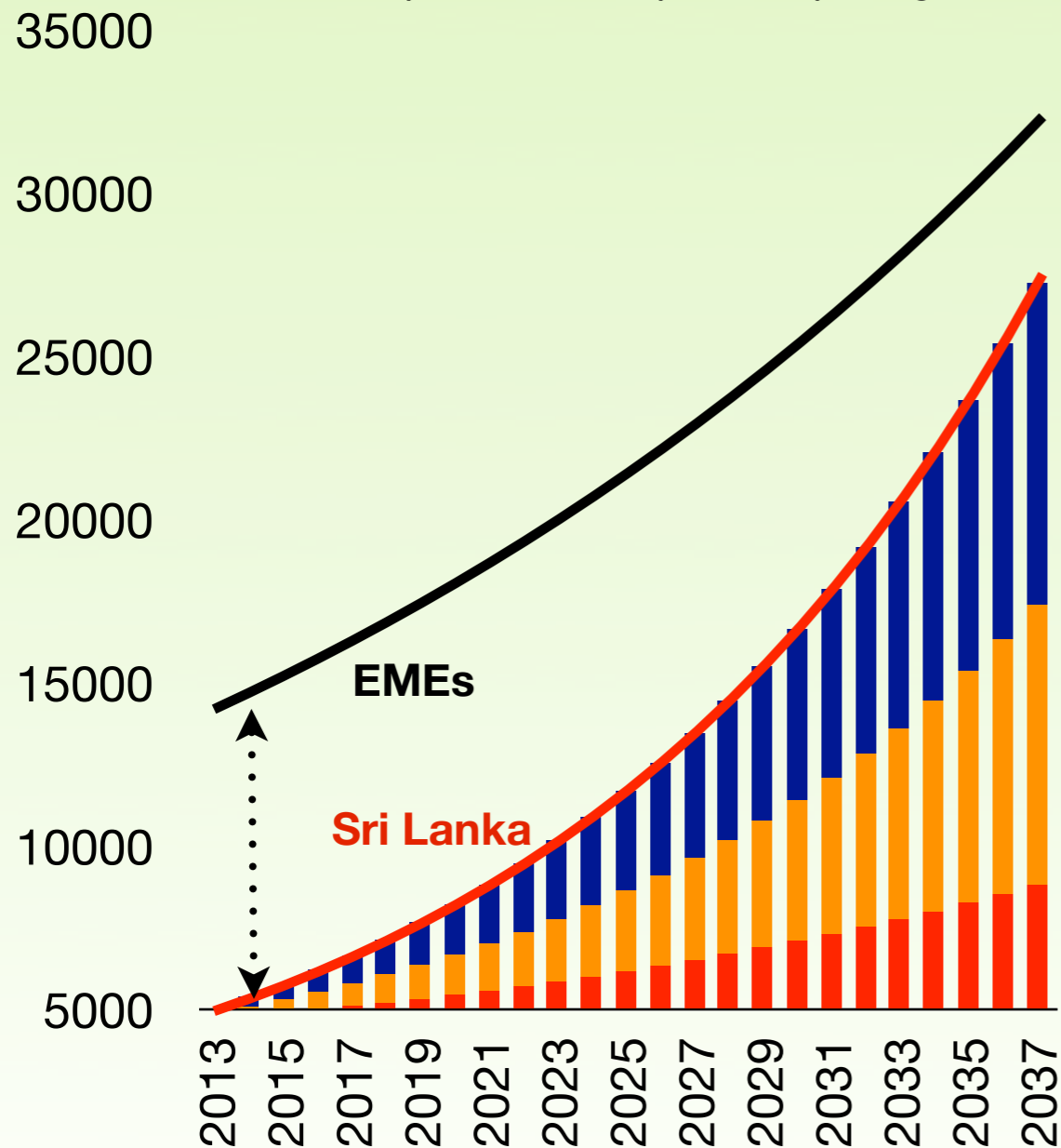


Sri Lanka's convergence with EMEs: Possible with sustained growth

GDP per Capita

(In constant 2005 international dollars)

■ Labour and Human Capital ■ Capital Deepening ■ TFP



Sri Lanka: Potential Growth: Last Decade and Future Target

	2003-2012	Possible
	Range	Future
Potential Growth (percent)	4½ - 6½	8
<i>Contribution of:</i>		
TFP	2 - 3	3½
Capital deepening	1½ - 2	3
Labor and human capital	1 - 1½	1½

Source: IMF staff estimates.

Source: Penn World Tables; World Economic Outlook; and IMF staff estimates

Note: Emerging Market Economy, with real per capita GDP 3 times Sri Lanka's in 2011, growing at 4.5 percent per year.



Thank You