REGIONAL CONGRUENCE : HARMONIZING POLICY AND ECONOMIC PROSPERITY - ECONOMIC AND FISCAL POLICY

Dr. Ranee Jayamaha
Lead Consultant - South Asia
World Bank Group

Preamble

The early part of 2018 witnessed some increased financial market volatility, moderately strong growth and trade, accommodative financial policies and muted inflationary pressures. Notwithstanding these disturbances, the world economy continues to perform well during the rest of the year. Driven partly by the pro-cyclical tax stimulus in the United States (US), near-term economic prospects for both the world and Asia with Chinese led infrastructure development in several regions[1] , a favourable outlook was predicted for Asia and the Pacific (APAC). Asia was expected to grow by around 5.5% in 2017, accounting for nearly two-thirds of global growth, and the region continues to be the world's most dynamic growth centre by a considerable margin. This favourable outlook has been marred by recent protectionist strategies announced by the US together with several rounds of interest rate increases planned in the next 1-2 years. The policy makers must therefore remain vigilant because of the skewed downside risks over the medium term partly due to protectionist trade and investment sentiments of the US, geo-political tensions in Asia arising from the Indo-China power struggle in the Indian Ocean (IO), the nation states' adjustments to global financial market corrections, especially flight of capital in response to the raising of US interest rates and rising oil prices. With output gaps closing in much of the region, untamed fiscal policies especially in South Asia (SA) are likely to insert pressure on domestic economic management, monetary policy in particular. The policy makers and regulators, especially central banks,should focus on sustainability while ensuring stability[2].

Many Asian economies face medium-term challenges, including aging populations and declining productivity growth, requiring structural reforms, complemented in some cases by fiscal support. Currently, geo-political tensions are escalating and that has made small islands as well as land-locked nations in SA and South East Asia (SEA) beholden to India, China and the US. All SA nations bordering IO are dependent on sea lanes for their external trade and these

[1] Regional Economic Outlook Update: Asia and Pacific in October 2017
[2] I am very grateful to Mr Dhammike Amerasinghe who reviewed and meticulously edited this article

nations aspire to be part of the globalized supply chains and distribution networks across the IO, which handles about 30% of global trade. These nations need to be connected to the production centres through sea and air routes and China has been trying to promote this aspiration through the Belt and Road Initiative (BRI) and has embarked on a number of port development projects, under the "string of pearls strategy". In this context, the security and political stability of small island nations in the IO or those nations which are bordering IO are critical for regional stability and economic prosperity. APAC was also looking towards this new prosperity as the small states in the Pacific Ocean haven't had much prosperity by operating in the existing trading blocks or by themselves. In this background, prospects for regional policy congruence happening on its own in the near future are bleak and therefore the region cannot avoid meticulous policy planning that include harmonious regional trade and investment policies.

The global economy is becoming increasingly digitalized, and some of the emerging technologies have the potential to be truly transformative, even as they pose new challenges. The APAC is already a leader of the digital revolution, but to remain at the cutting edge and reap the full benefits from technological advances, policy congruence is needed in many areas, including information and communication technology (ICT), trade and investment, labour markets, skills upgrading and education. While digitalization and automation are not new, their pace of evolution has accelerated over the past few years. The latest wave of digital innovations was triggered by advances in artificial intelligence, robotics, computing power, cryptography, the explosion of big data, 3-D printing, the ubiquitous reach of the Internet, and the precipitous decline in data storage costs. The unprecedented pace of these advances may continue due to the advent of the"Internet of things" thus resulting in exponential increases in cognitive capability and further advances in robotics and artificial intelligence. More importantly regional cooperation is critical at this stage of digitization to be in line with others and also to avoid wasteful expenditure on the path to digitization. This paper concentrates on policy congruence in economic and fiscal policy integration in APAC and some of its sub-regions.

Executive Summary

The economic outlook for APAC remains strong, and the region continues to be the most dynamic growth centre of the global economy. Near-term prospects have improved and risks around the forecast are broadly balanced for now. Over the medium term, however, downside risks dominate, including from a tightening of global financial conditions, a shift toward protectionist policies, and an increase in geopolitical tensions. Given the many uncertainties, macroeconomic policies should be conservative and aimed at building buffers and increasing resilience. Policy makers should also push ahead with structural reforms to address medium- and long-term challenges, such as population aging and declining productivity growth, and ensure that APAC is able to reap the full benefits of increasing digitalization in the global economy.

Growth in Asia is forecast around 5.6 percent in 2018 and 2019, while inflation is projected to be subdued. Strong and broad-based global growth and trade, reinforced by the US fiscal stimulus, are expected to support Asia's exports and investment, while accommodative financial

conditions should support domestic demand. Yet, US led protectionist policies will adversely impact the region's trade and investment potential due to imposition of unprecedentedly detrimental tariff rates on imports to the US. China, being one of the major trading partners of US will be mostly impacted by the US protectionist policies unless both countries amicably solve their trade and investment stances. Among the leading nations in APAC, China's growth is projected to ease to 6.6% for 2018, partly reflecting the Chinese authorities' financial, housing, and fiscal tightening measures. Growth in Japan has been above potential for eight consecutive quarters and was expected to remain strong at 1.2% in 2017. The Korean economy is expected to grow at the same pace of around 2.6- 3%, while India's growth is projected to rebound to 7.4%, despite temporary disruptions caused by exchange rate volatility and the rollout of the Goods and Services Tax (GST). In the Pacific, Australia has successfully come out of recessionary conditions after many years and New Zealand is still on its steady growth path.

At present, risks around the outlook for APAC are balanced, but tilted downwards over the medium term. On the upside, the global recovery could again prove stronger than expected, and over time the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and successful implementation of the BRI,assuming debt sustainability and project quality being maintained—could both support trade, investment and growth in APAC. Among the downside risks that have emerged, trade and investment protectionism seems to rank first. Secondly, the gains from globalization have not been shared equally, and as highlighted by recent tariff actions and announcements, a tendency to shift toward inward-looking policies with the potential to disrupt international trade and financial markets is visible. Thirdly, geopolitical tensions remain another critical source of risk and, fourthly, cyber security breaches and cyber-attacks are on the rise globally. Finally, climate change and natural disasters could continue to have a significant impact on the region. Domestically, the factors controllable by the nations themselves, such as political uncertainty, persistent fiscal deficits and resultant high inflation coupled with financial system instability in some countries, could be exacerbated by excessive risk taking by individual countries thus aggravating external risks.

Key Macro Economic Indicators and Policies

GDP Growth

Global growth in 2017 was the highest since 2011 and is expected to strengthen further in 2018–19, supported by broad-based momentum across countries and fiscal expansion in the US. At present, Asia as a whole is in relatively good shape in terms of economic, financial and market positions and there does not seem to be an urgency for a rapid change in economic and fiscal policies in the near future, except in a few countries in which fiscal drag continues to be a major threat to economic stability. It is hard to generalize this situation due to apparent regional diversity especially in economic and fiscal policy differences.

There are a number of heterogeneous sub-regions within APAC and it is necessary to analyse the growth prospects, economic policy and prosperity in them. To stay on course with the regional policy congruence, this paper concentrates on APAC as a whole, and the sub-groupings and sub regions such as Association of South East Asian Nations (ASEAN)[3] , ASEAN+5 (wider ASEAN), wider ASEAN+3[4] ,wider ASEAN+6[5] , and SA[6] .

The strength and growth of the wider ASEAN+3, coupled with the groupings' political stability and their proposed regional economic integration initiatives, should provide these countries the best possible grounding to begin repositioning their core businesses as well as launching new ones. With an estimated GDP growth of close to 5% a year and a combined GDP larger than that of India, the wider ASEAN+3(ASEAN+China, Japan and Korea) group represents one of the most dynamic and promising growth centres in the world today. Blessed with a rich endowment of natural resources and a young and dynamic workforce, the ASEAN (the five core economies)[7] have the potential not only to raise their own income levels significantly in the medium term, but also to become a major growth engine in the region and help maintain East Asia's pivotal position in the global economy.

The Pacific region is a mix of the big and the small and also developed and developing economies, being mainly a string of tiny islands, some of which have, if at all, a marginal impact on the economic policies in the APAC. SA, on the other hand,is home to a quarter of the world's population and accounts for 36% of the world's poor and nearly 50% of the world's malnourished children. The sub-region remains plagued by political uncertainties, terrorism and major development gaps in regard to which greater regional integration can help devise joint solutions. One important challenge that envelops the whole of APAC is population aging, as many economies in the region face the risk of "growing old before they grow rich," and the adverse effects of aging on growth and fiscal positions could be substantial. A second challenge is slowing productivity growth in the recent months. Finally, the global economy is becoming increasingly digitalized with new challenges, including those related to the future of the work force. Asia is embracing the digital revolution, albeit with significant heterogeneity across the region.

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[3] The ASEAN came into being on 8 August 1967 with five founding nations – Indonesia, Malaysia, Philippines, Singapore and Thailand. Since then, Brunei Darussalam (1984), Vietnam (1995), Lao PDR and Myanmar (1997) and Cambodia (1999) joined ASEAN and gradually formed the wider ASEAN.

[4] Wider ASEAN plus 3= wider ASEAN plus China, Korea and Japan

[5] Wider ASEAN+6 = wider ASEAN plus Australia, China, India, Japan, New Zealand and Republic of Korea

[6] India, Pakistan, Sri Lanka, Afghanistan, Nepal, Bhutan, Bangladesh and the Maldives

[7] Singapore, Malaysia, Thailand, Indonesia and the Philippines

Table 1: Asia's Real GDP Growth

	October 2017 projections			Estimate and Latest projection	
	2015	2016	2017	2018	2019
Asia	**5.6**	**5.4**	**5.7**		
Advanced economies (AEs)	**1.8**	**1.7**	**2.3**	**2.0**	**1.9**
Australia	2.5	2.6	2.3	3.0	3.1
New Zealand	4.2	4.2	3.0	2.9	2.9
Japan	1.4	0.9	1.7	1.2	0.9
Hong Kong SAR	2.4	2.1	3.8	3.6	3.2
Korea	2.8	2.8	3.1	3.0	2.9
Taiwan Province of China	0.8	1.4	2.8	1.9	2.0
Singapore	2.2	2.4	3.6	2.9	2.7
Emerging market and developing economies (EMDEs)[1]	**6.8**	**6.5**	**6.5**	**6.5**	**6.6**
Bangladesh	6.8	7.2	7.1	7.0	7.0
Brunei Darussalam			0.5	1.0	8.0
Cambodia	7.2	7.0	6.9	6.9	6.8
China	6.9	6.7	6.9	6.6	6.4
India[2]	8.2	7.1	6.7	7.4	7.8
Indonesia	4.9	5.0	5.1	5.3	5.5
Lao P.D.R.	7.3	7.0	6.8	6.8	7.0
Malaysia	5.0	4.2	5.9	5.3	5.0
Myanmar	7.0	5.9	6.7	6.9	7.0
Mongolia	2.4	1.2	5.1	5.0	6.3
Nepal	3.3	0.4	7.5	5.0	4.0
Philippines	6.1	6.9	6.7	6.7	6.8
Sri Lanka	5.0	4.5	3.1	4.0	4.5
Thailand	3.0	3.3	3.9	3.9	3.8
Vietnam	6.7	6.2	6.8	6.6	6.5
Pacific island countries and other small states	**5.8**	**3.2**	**3.0**	**3.7**	**3.9**
Bhutan	6.1	6.3	6.0	7.1	7.6
Fiji	3.8	0.4	3.8	3.5	3.4
Kiribati	10.3	1.1	3.1	2.3	2.4
Maldives	2.2	4.5	4.8	5.0	5.0
Marshall Islands	1.9	2.0	1.9	1.8	1.7
Micronesia	3.9	2.9	2.0	1.4	0.9
Nauru	2.8	10.4	4.0	23.0	0.0
Palau	11.4	0.5	21.0	1.0	4.0
Papua New Guinea	8.0	2.4	2.5	2.9	2.6
Samoa	1.6	7.1	2.4	2.5	2.8
Solomon Islands	2.5	3.5	3.2	3.0	2.9
Timor-Leste	4.0	5.3		2.8	5.7
Tonga	3.5	3.1	3.1	3.2	2.9
Tuvalu	9.1	3.0	3.2	3.5	3.1
Vanuatu	0.2	3.5	4.2	3.8	3.5
ASEAN[3]	**4.8**	**4.8**	**5.3**	**5.3**	**5.3**
ASEAN-5[4]	**4.5**	**4.6**	**5.1**	**5.0**	**5.1**

Source: The Asia-Pacific Department, IMF

As shown in Table 1, growth prospects for APAC are mixed primarily because of the mix of developed and developing countries as well as their size differences. Long-term growth prospects for APAC are impacted by demographics, slowing productivity growth, and more recently by the rise of the digital economy. As was in 2018, the same rate of growth is predicted in 2019 for advanced countries in APAC (5.6%), while emerging APAC countries as a group is expected to grow marginally from 6.5% to 6.6% in 2019. In the wider ASEAN, Brunei is predicted to achieve an unusual growth in 2019 due to increased oil and gas exports and the Pacific islands and small states are likely to grow marginally from 7.1 to 7.5% in 2019. In South Asia, India and Bangladesh are predicted to secure higher growth rates around 7-8% in 2019.

Low Inflation in APAC

Asia has been in a sweet spot of strong growth and benign inflation. While GDP growth forecasts for 2017–18 have been repeatedly revised upwards over the last two years, inflation forecasts have been kept constant or revised downwards. Core inflation remains below inflation targets in commodity importer countries, especially in Thailand and China (Figure 1), while Chinese, Vietnamese and the Philippine commodity importers have accounted for much of the credit growth surpassing the average credit growth during 2008-2014 period (Figure 2).

Figure1: Inflation in ASEAN

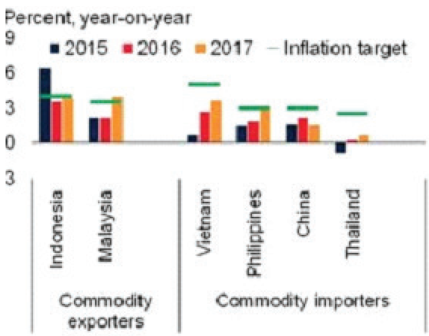
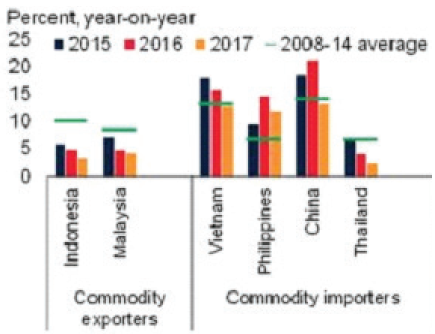


Figure 2: Credit growth in ASEAN



Sources: Central Bank News, Haver Analytics, International Monetary Fund, J.P. Morgan, World Bank

How long the low inflation and strong growth in APAC would last is the critical issue. Many research findings highlight that temporary global factors, including imported inflation, have been the key drivers of low inflation. However,the recent upturn in oil prices have pushed up headline inflation in the APAC, while core inflation has remained subdued and below target in many economies. Second, while inflation expectations are generally well anchored to targets, the influence of expectations in driving inflation has declined, as the inflation process has instead become more backward looking. Third, there is some evidence that the sensitivity of inflation to economic slack has diminished, in short, the Phillips curve has flattened[8].

Inflation in the APAC region may increase once global factors, including US inflation and commodity prices, become less favourable, and policy makers should stand ready to act. Accordingly, policy makers should be vigilant in responding to early signs of inflationary pressure, though the response to commodity price shocks should be to accommodate first- but not second-round effects. Improved monetary policy frameworks and central bank communications could increase the role of expectations in driving inflation and thus making inflation less sticky. More flexible exchange rates could mitigate the role of imported inflation, and macro prudential policies can help address financial stability risks. It is also noted that some of the Asian countries have moved towards "Flexible Inflation Targeting" (FIT), with a few tolerable slippages. In APAC,

[8] Asia Pacific Region- Regional Economic Outlook: Asia Pacific-IMF, May 2018

New Zealand has been one of the most successful inflation targeting countries with effective implementation while Thailand has shown some impressive results in the league. The Central Bank of Sri Lanka(CBSL) has announced FIT two years ago, although Sri Lanka has to deal with a number of downside risks to achieve inflation targets.

Accordingly, some key features have emerged from the inflation analysis in the APAC:

- Recent low inflation has been driven mainly by temporary forces, including imported inflation. In addition, China seems to have played an important role in driving both global and regional inflation. More generally, the temporary and trend components suggest that temporary shocks have accounted for the bulk of the recent reduction in inflation.
- The inflation process has become more backward-looking. While inflation expectations are generally relatively well anchored, especially in advanced Asia and in economies with inflation-targeting frameworks, the importance of expectations in driving inflation has declined in recent years.
- The sensitivity of inflation to the unemployment gap has declined. There seems to be a flattening of the Phillips curve compared to the 1990s in advanced Asia and a similar but more continuous flattening in emerging Asia.

Looking to the future, these findings suggest that inflation may well rise in Asia as commodity prices and other temporary factors reverse themselves. Higher inflation in the rest of the world and weaker currencies in the region (Indonesia, India and Sri Lanka) could pose upside risks to inflation in APAC. If such risks materialize, higher inflation may well persist, given the stickiness of the inflation process. In this context, the appropriate prescriptions for policy congruence across APAC would be:

- Central banks should be vigilant in responding to early signs of inflationary pressure, including from global factors.
- Central banks should strengthen monetary policy frameworks and improve central bank communications in order both to increase the role of expectations in driving inflation and to maintain expectations at anchored targets. Emerging economies in SA should take extra precaution as fiscal policy is not in line with other polices in Sri Lanka, Pakistan and the Maldives.
- To mitigate the role of imported inflation, exchange rates should be allowed to adjust more flexibly with central bank intervention to stabilize rates as and when appropriate. Given the persistent current account deficits, the exchange rates have been under continuous pressure in some of these economies, while India,Sri Lanka and Indonesia have had periodic attacks on their exchange rates vis-a-vis the US Dollar. In principle, the monetary policy response to commodity price shocks should be to accommodate first- round effects but not the second-round effects.

Economic and Financial Strategies among Sub Groups and Success Factors for Indigenous Economic Development and Prosperity

The wider ASEAN+3 work plan serves as a principal guide to enhance cooperation over the next five years towards achieving the long-term goal of establishing an Asian Economic Community (AEC). Consistent with existing regional mechanisms, this sub group recognises ASEAN centrality as the driving force in the regional economic policy package. Building on the achievements of the previous work plan and taking into account the recommendations of the East Asia Vision Group (EAVG) II, including the vision to realise an AEC by 2020, the present work plan will help wider ASEAN+3 realise the goals of its Community Vision 2025 as well as further strengthen the group's partnerships. The "development gap" among the wider ASEAN is manifested not only in the difference between the average per capita income of the five older ASEAN member states and that of the newer five(wider ASEAN)against plus 3 (China, Korea and Japan) but also in terms of human resources, institutional capacity, the state of the infrastructure and the level of competitiveness.

Against this backdrop, at the ASEAN Foreign Ministers forum, in July 2000, the "Hanoi Declaration on Narrowing the Development Gap for Closer ASEAN Integration" was adopted and the ASEAN Heads of State/Government, at their Summit meeting in November 2000 in Singapore, adopted a special programme for narrowing the development gap, called the "Initiative for ASEAN Integration" (IAI). The declaration expressed the ASEAN members' resolve to "promote, through concerted efforts, effective cooperation and mutual assistance to narrow the development gap among wider ASEAN+3 members and, between this group and the rest of the world," with infrastructure, human resource development, information and communications.

The ASEAN Leaders in their 2003 Declaration of the ASEAN Concord (Bali Concord II) stressed that the deepening and broadening of wider ASEAN integration shall be accompanied by technical and development cooperation to address the development divide and accelerate the economic integration of Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) through the road map for the integration of ASEAN to enable all member states to move forward in a unified manner and that the benefits of ASEAN integration are shared. In this regard, the Vientiane Action Programme 2004-2010, a medium-term development plan aimed to realise wider ASEAN Vision 2020, highlighted the strategic importance of narrowing the development gap and strengthening IAI to address the needs of CLMV.

Economic Policy Cooperation IAI Work Plan-III, 2018 – 2022 for Wider ASEAN+3

The IAI Work Plan III (2016-2020) was adopted by Leaders at the 28th ASEAN Summit in September 2016 as an integral part of the ASEAN 2025: "Forging Ahead Together" to support the implementation of the three Community Blueprints. The Work Plan is designed to assist CLMV countries to meet wider ASEAN targets and commitments towards realising the goals of the ASEAN Community. Wider ASEAN +3 have accepted the critical importance of setting an appropriate environment for policy congruence in the region and have taken a number of important initiatives to ensure that each of the sub regions and sub groups in the region fall in line with a doable work plan consisting of a wide range of objectives. IAI supports the implementation of the wider ASEAN to narrow the development gap within the group and accelerate regional integration among its member states focusing on: promoting trade and investment maintaining financial market stability in the region promoting sustainable tourism,energy security and cooperation enhancing cooperation in mineral resources; promoting sustainable development of medium and small enterprises and markets; and strengthening cooperation in science and technology innovation.

The important and striking feature of the IAI is the integration of highly focused objectives included in multiple agreements that are in existence among participating countries. These regional economic integration and urbanization could further boost wider ASEAN+3's growth momentum. The implementation of AEC initiatives, the Chinese- led BRI, and other regional economic groupings could significantly expand trade and investment and unleash powerful forces of competition in the region,thus raising productivity levels and infrastructure growth in the wider ASEAN. Continued urbanization in the ASEAN+3 region will create demand for infrastructure investment and many digitized service industries especially financial, education, healthcare, logistics, transportation, and telecommunication, etc.

A Single East Asian Free Trade Agreement (FTA) to Replace Multiple and Overlapping FTAs and Institutional Support

The surge in FTAs in East Asia since the Asian financial crisis has prompted a lively debate on the characteristics, impact and future path of FTAs in the region. To continue strengthening the wider ASEAN+3 Cooperation Fund, the ASEAN Secretariat will develop a schedule and time frame for implementation of the work plan on institutional support as a means to inform and monitor activities implemented to address measures under this plan. To develop and implement projects in congruence within the wider ASEAN's project management framework, action is initiated to review the work plan through the existing mechanisms at the wider ASEAN+3, through China, Japan and the Korea Centres to exchange ideas, experiences and explore possible joint projects to promote trade, investment, tourism, cultural exchanges, and people-to-people contact between wider ASEAN+3 countries. It appears that consolidation of multiple and overlapping FTAs into a few East Asian FTAs could help mitigate the harmful "noodle bowl" effects of different rules of origin and standards and that consolidation at the wider ASEAN+6 level would yield the largest gains to East Asia—while the losses to non-members would be relatively small. In this respect too, wider ASEAN +3 have taken necessary steps to ensure policy congruence within the region and also to link up with the Pacific league.

Growth momentum is moderating in the region's two largest economies of China and Japan, but is so far in line with macroeconomic expectations. In China, the policy stance has shifted towards easing a departure from the previous singular focus on containing financial risks. It appears, so far, that policy easing will fall short of a full-scale credit stimulus, which the authorities appear eager to avoid. Additional easing over time could put downward pressure on China's 'A+'/stable sovereign rating if it contributes to rising imbalances. More broadly, economic activity across the APAC region held up through the first half of 2018 on strong domestic demand and robust exports.

BRI – A Regional Congruence Initiative

China's economy grew at an unsustainably rapid rate during the past three decades, resulting from developments in technology, lowering transaction and market entry costs (allowing China to take advantage of its labour resources) and high government investment. This growth strategy, however, has shown signs of running its course, with government investment reaching over 50% of GDP, and a narrowing technological gap between China and developed countries. This rapidly changing environment has prompted a transition toward a more balanced economic approach - a slower, more sustainable "new normal"-with an increased focus on global integration. The BRI is a pillar of this change[9]. BRI aims to reduce China's domestic economic slowdown, build infrastructure to connect Asia for trading, and strengthen China's regional influence thereby utilizing the overcapacity in Chinese firms.

Figure 3 shows the contour of the land-based Silk Road Economic Belt and the sea-based 21st Century Maritime Silk Route.

Figure 3: The Land-based Silk Road Economic Belt and the Sea-Based 21st Century Maritime Silk Route

Source: World Journal of Social Sciences and Humanities, Vol. 2, No. 1, 2016, pp 10-14.: 10.12691/wjssh-2-1-2 | Research Article

The BRI was unveiled by President Xi Jinping in September 2013 in Kazakhstan and the New Maritime Silk Road was announced before the Indonesian Parliament in October 2013. The scope and content of the BRI is ambitious. It is designed to promote five major goals among its constituent nation states: (i) policy coordination, (ii) facilitating connectivity, (iii) unimpeded trade, (iv) financial integration and (v) people-to-people bonds. The initiative to jointly build the

[9] Kanenga Haggai, One belt One Road Strategy in China and Economic Development in Concerning Countries,-World Journal of Social Sciences and Humanities, Vol 2, No 1, 2016 , Science, pub.com/wjssh/2/1/2, School of Economics and Management, South East University, Nanjing , China

Belt and Road, embracing the trend towards a multipolar world, economic globalization, cultural diversity and greater IT application, is designed to uphold the global free trade regime and the open world economy in the spirit of open regional cooperation. It is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets, encouraging BRI countries to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all. In terms of geographic coverage, the initiative involves over 70 countries across three continents. The BRI also aims at redirecting China's domestic over capacity and capital for regional infrastructure development to improve trade and relations with wider ASEAN, Central Asian and European countries. The initiative is unprecedented in terms of China's financial engagement and the innovative network-based project design which is intended to contribute to a more inclusive global governance. In terms of policy congruence, it is significant to note that BRI and IAI have a number of similarities in respect of growth and development of wider ASEAN+3 and that has helped countries to embrace BRI from the beginning of the project.

The proposed infrastructure spending under BRI is diversified across a range of sectors. The China Development Bank (CDB) promised to invest in more than 900 projects- covering coal and gas, mining, electricity, telecommunications, infrastructure and agriculture in BRI participant countries. This development could simultaneously narrow the annual $ 1.7 tn gap between the supply and demand for infrastructure spending in Asia, while helping to offset the effects of falling investment and rising over capacity within China. Domestically, road projects of the BRI will promote growth in underdeveloped central and western regions of China. For example, under the Chinese –Pakistan Economic Corridor (CPEC-BRI) 22 projects have been listed of which 9 projects completed with a value addition of 1-2% for the country's growth and with a creating of nearly 70,000 jobs.

Table 2: Financial Commitments Pledged to the BRI

Items	Amount
Silk Road Fund (additional injection)	RMB100 billion
Overseas Fund Business in RMB for promotion of RMB usage	RMB300 billion
China-Russia Regional Cooperation Development Investment Fund	Initial capital of RMB10 billion; total size RMB100 billion
CDB to establish Belt and Road (B&R) Multi-currency Special Lending Scheme for Infrastructure Development	RMB 100 billion equivalent
CDB to establish B&R Multi-Currency Special Lending Scheme for Industrial Cooperation	RMB 100 billion equivalent

Items	Amount
CDB to establish B&R Multi- Currency Special Credit Lines for Overseas Financial Institutions	RMB 50 billion equivalent
EXIM to set up B&R Multi- currency Special Lending Scheme	RMB 100 billion equivalent
EXIM to set up B&R Multi-currency Special Lending Scheme for Infrastructure Development	RMB 30 billion equivalent
Increased assistance to developing countries along the B&R	At least RMB60 billion from 2017-2020
Emergency food aid to countries along the B&R	RMB2 billion
Replenishment of the South-South Cooperation Assistance Fund	US$1 billion

Source: yidaiyilu.gov.cn

The financial commitments pledged to the BRI underscore the funding gap with regard to Asia's infrastructure needs. According to an ADB estimate,developing Asia needs to invest US$ 1.7 trillion to secure basic infrastructure, institutional set up and to establish necessary legal frameworks. BRI countries also need to bridge the infrastructure investment gap since they are rapidly urbanizing like China, generating significant demand for infrastructure. Conceptually, the BRI is expected to affect aggregate output in two main ways: (i) directly, considering the sector contribution to GDP formation and as an additional input in the production process of other sectors; and (ii) indirectly, raising total factor productivity by reducing transaction and other costs thus allowing a more efficient use of conventional productive inputs. Infrastructure can be considered as a complementary factor for economic growth. Already more than 70 countries from Asia, Europe and Africa have signed up to participate in BRI and this would not only reshape global trade but also will raise living standards of the recipient countries, covering half the world population[10]. BRI has a potential to enhance human capital, for example by improving access to markets and increasing connectivity between and among the concerning countries. Leading banks in China and their overseas branch network are already providing e-commerce services and e-payment services through Fintech and start- up companies to customers, through multi-channel links to core banking systems. The APAC, especially the smaller nations live in hope of benefiting from BRI.

The wider ASEAN+3 will be impacted by BRI in two ways: First, it is expected that RMB settlement and investment will continue to increase in tandem with the expansion in

[10] A Schauer (1990), Why is infrastructure important? Federal Reserve, Boston, New England Economic Review, Jan/Feb, pp 21-48 1990

China's trade and investment in the BRI region in the next few years. Along with the trade and investment enhancement, internationalization of the RMB is on course although it will depend on the progress in financial reforms and capital account liberalization in the BRI participating countries. Second, the BRI will help address Asia's infrastructure deficit and lift economic and social development in the region. The wider ASEAN and small Pacific island member nations are struggling to fund major infrastructural projects themselves as they are unable to mobilize the finance and expertise needed to tackle their infrastructure problems.

Policy Congruence in the Pacific, East Asia and South Asia

Australia being the most powerful large economy in the pacific has stormed ahead to its best growth in six years, marking a clear departure from the previous years' recession. Apparently, China's continuous appetite for Australia's rich resources appears to have driven this healthy growth. During Q1 and Q2 of 2018, the Australian economy grew by 1.1 % and 0.9% (GDP amounting to ASD1.84 tn) respectively. The GDP was 3.4% higher than a year earlier, way above the US GDP growth of 2.9%. The significant population growth of 1.6% (partly due to more migrant population) coupled with consumer led growth was evident throughout 2017/18, while home building and net exports have also contributed to the GDP increase. Allowing the growth to take its natural course of action, the Reserve Bank of Australia kept its interest rates at an all-time low of 1.5%[11].

Unlike in the ASEAN and the wider ASEAN +3 group, there is no serious initiatives taken by the more developed Australia and New Zealand to harmonize economic and fiscal policies in the Pacific region. Hence there is a visible enthusiasm of the Pacific island small states to join up with the wider ASEAN+3 and other sub groups in Asia for regional and indigenous economic prosperity. The smaller Pacific islands and the East Asian countries both have formed alliances in the East Asia and the Pacific (EAP) forum. Growth in developing EAP is expected to remain strong and reach 6.3 percent in 2018. According to the World Bank findings, prospects for a continued broad-based global recovery and robust domestic demand underpin this positive outlook. Still, emerging risks to stability and sustained growth require close attention due to the following:

- After growing faster than anticipated in 2017, China is expected to slow moderately to 6.5 percent in 2018 as its economy continues to rebalance away from investment and towards domestic consumption with policies that focus more on slowing credit expansion and improving the quality of growth.
- Excluding China, growth in developing EAP is expected to remain stable in 2018 at 5.4 percent, reflecting continued robust domestic and external demand.
- With continued threats to the global trading system, developing EAP can respond by deepening its own trade integration and facilitation, through such mechanisms as the AEC, the CPATPP, and the BRI. These measures will be even more important as countries adapt their manufacturing-led development strategies to the emerging challenges of labour saving technologies and automation.

[11] World Bank regional economic forecast-2018.

- Improving competitiveness through reforming the business environment will be important for countries in the region as they seek to adjust to the ongoing changes in the manufacturing landscape with the evolution of technology.
- As technologies continue to evolve, basic numeracy and literacy and familiarity with digital technology will be essential. In this regard, improving the effectiveness of schools and education systems is a priority in many countries in the region where most students are in school but many are not learning.
- Strengthened social assistance, insurance programs and increased resilience to systemic shocks will be key to ensure that the economically insecure are not left behind.
- Economic resilience is particularly important in the Pacific island countries, and can be helped by building up sovereign wealth funds as well as improving access to temporary migration schemes

Downside Risks to BRI and Impact on Economic Policy Congruence in APAC

The response to China's regional integration vision has been mixed. While the idea of enhancing connectivity has drawn considerable interest, given the huge infrastructure gaps across Asia, scepticism regarding China's potential hegemonic ambitions has prevailed notably among regional rivals, India and Japan as well as USA. These three countries are planning to create another rival economic zone for Asia to undermine China led BRI, which has aroused many geo-political tensions in the IO. Many of the small nations in the APAC appear to be sandwiched between high powered political and economic competitors in the Indian and Pacific Oceans.

Impact of Buoying US Dollar on APAC

The US Fed raised interest rates on Wednesday (26, September 2018) and 'announced its plans to steadily tighten monetary policy, as it forecast that the US economy would enjoy at least three or more years of growth. Ending the accommodative monetary policy, the US Fed lifted its benchmark overnight lending rate by a quarter of a percentage point to a range of 2.00- 2.25%. The Fed also justifies the move by stating that the US economy is growing faster than at 3.1% this year and will be continuing to expand moderately another three years from now with a stable inflation at around 2%. The Fed indicated that it foresees another rate hike in Dec 2018 and three more next year, followed by one more time in 2020. This bright economic outlook and forecasts have driven Treasury yields to their highest level during early October, adding further pressures on Asian currencies. The rapid rise in the USD has resulted in the draw away of foreign investments from emerging markets, especially with those with ballooning current account deficits, such as India, Indonesia and Sri Lanka, largely due to oil imports. All these countries have tried to shore up their local currencies by defending them with limited foreign resources. The Indonesian Rupiah has weakened by more than 10% so far this year, thus making the country the biggest loser in the APAC after India and Sri Lanka which have fallen to record low levels thus forcing central banks to intervene to defend the currency. Bank Indonesia has shown a greater focus on currency stability and has been more active in counteracting external pressures. It has raised interest rates by 125bp since May, and has intervened aggressively in the foreign-exchange market and its external finances are stronger than during 2013, due to a disciplined monetary policy stance and macro-prudential measures that have helped curb a sharp rise in external corporate borrowing and encouraged stronger hedging practices. The Reserve Bank of India (RBI) has raised its policy rates 3 times so far this year and is expected to raise rates again as the Indian Rupee hit its record low rates. The Indian Rupee (INR)fell to 73.82 per USD on 3rd Oct but recovered slowly due to RBI intervention. INR has depreciated by 13.3% by the first week of Oct 2018. The CBSL has retained its policy rates despite nearly a record depreciation of the Rupee by over 11%, citing the low inflationary situation for retaining the rates. Policy rates were increased in mid November 2018, albeit a late move by CBSL. Many more stock markets in the APAC have been hit badly by the USD rate increase.

Impact of US-China Trade Wars on the Policy Congruence Across APAC

Reduced tensions on US-China trade would shore up trade indices of Asia. MSCI's broadest emerging markets' index has fallen more than 20% from its peak in January 2018, entering bear market territory and investors are fleeing to minimize risks. APAC shares outside Japan has been at 14 months low due to US-China tensions and the Index has been heavily bruised by the continuing sell off during October 2018. The Yuan fell past the psychologically important 6.96 level to the Dollar touching the lowest since 2016 (Shanghai Reuters- 26, October 2018).

The US has already imposed a 25% tariff on USD 50 bn worth of Chinese goods, mostly industrial machinery and intermediate electronic parts other than cell phones. The US tariffs on Chinese goods have escalated far beyond expectations, at USD 200bn worth of Chinese goods, hitting a wide array of internet technology and consumer products. More recently US threatened to impose higher tariffs on an additional USD 267 bn, (a total of USD 517bn) worth of goods from China. Already Chinese and Korean manufacturing have begun to feel the pinch of this trade war between US and China which means that indirectly APAC will also be affected. Although many countries are hoping that US may not be that relentless, this type of protectionist trade barriers are pushing countries towards inward looking trade and investment policies. These positions are likely to significantly impact APAC growth as a whole and more aggressively on small and weaker economies in the region. Realizing the adverse impact of US trade sanctions, Japan and China have signed up for a broad range of agreements, including a 30 bn currency swap(Beijing Reuters 26, Oct 2018). Singapore, Korea and Taiwan - trade-dependent economies with close supply chain linkages with China - would also be hit, but some other economies might benefit from lower oil prices and a shift in manufacturing away from China.

In light of the trade protectionist move by major trading partners, the inward looking policies have begun to surface in that New Zealand and Australia have brought in legislation restricting land sales to foreigners. Australia being the major trading partner of China is now not so open to Chinese land and property acquisitions. The worrying aspect is the cancellation or postponement of some of the large BRI projects by participating countries. For example, Malaysian Prime Minister Mahathir Mohammad in August 2018 shelved some of the big BRI projects, including a USD 20 bn Eastern Railway project. Pakistan's newly elected PM Imran Khan indicated fears of the country's inability to repay large Chinese loans relating to CPEC. In Sri Lanka, the Hambantota port development project had to be handed over to China Merchants Port Holdings on a 99 year lease and for a financial consideration of USD 1.12bn due to Sri Lanka's inability to repay debt. Similar sentiments have been expressed by the exiled leader of the Maldives stating that 80% of the Maldives' debt is owed to China.

In spite of these moves, the BRI alone seems to be a novel initiative to the Asian region and potential benefits appear to be greater than the conventional one-to-one treaties that have been entered into in the past. In time to come, BRI may be perceived as a threat to the nation's state, because the beneficiaries might consider seamless connectivity superior to the status of isolated nation states. BRI is seen as an equivalent to the Marshall Plan launched by the US to help Europe to prop up their economies following World War II[12]. Celebrating the five year anniversary of the BRI, President Xi-Jinping said that BRI is an "open and inclusive project" in that China's trade with member countries has exceeded USD 5 trillion while outward investment towards Africa has surpassed USD 60 bn. However, critiques point out that due to BRI projects and the receipt of Silk Route funds, the sovereign debt situation in eight countries have aggravated[13].

Regional disparities between wider ASEAN and South Asia

The demarcation of SA does not correspond with any geographical or political formation. SA is highly populated, accounting for 1/5th of the world population but it is one of the least integrated regions in the world. The mere 5% of its intra-regional trade out of the total trade in SA, reflects its lower integration in intra-regional activity. The South Asian Association for Regional Cooperation (SAARC) initiative has been in limbo for many years due to continuous disputes between India and Pakistan, the two main constituents of the SAARC. Similarly the neighbours of India continued to be cautious of India's geopolitical moves which have been aggravated by the BRI as the two big powers are trying to show their might in the IO.

SA regionalism has turned a new face over the last two decades despite inactive SAARC. The emergence of new trade associations like BIMSTEC[14] and Indian Ocean Rim Association (IORA) was seen. The efforts by BIMSTEC have been supported by the China led BRI, which helps to forge links between SA and SEA. BIMSTEC is now working on the Bangladesh - India – Myanmar - China Corridor (BIMSTEC-EC) aiming to build up economic cooperation among these countries. Unlike in wider ASEAN+3, the absence of an acceptable development champion

[12] Frank Holmes , CEO and Chief Investment Officer , US Global Investors, "BRI opens up unprecedented opportunities"

[13] Pakistan, Djibouti, the Maldives, Mongolia, Lao-PRD, Montenegro, Tajikistan and Kyrgyzstan, Centre for Global development , a US think tank

[14] Bangladesh, India, Thailand.

or a regional policy consensus is a critical issue in SA. Such a harmonized move is unlikely to surface in the near future due to political tensions between the two main countries in SA.

Fiscal Policy Disparities in Sub-Groupings and Sub-Regions in APAC

As per the APAC Sovereign Credit Overview, external environment facing APAC in Q3 2018 is becoming more difficult, but is unlikely as yet to have a significant impact on sovereign credit profiles[15]. For the second time during 2018, the US has raised interest rates and increasing global risk aversion towards emerging-market assets, thus generating capital outflows and exerting downward pressure on most Asian currencies, particularly the Indonesian rupiah and the Indian rupee. Nevertheless, strong fiscal and external buffers, along with flexible policy frameworks, should allow most of the region's economies to weather these challenges. Recent sell-offs in Indian and Indonesian currency markets underline their sensitivity to shifts in global sentiment, and further pressures are likely as global monetary tightening progresses. India's sovereign credit profile, for example, benefits from relatively strong external finances, especially a low level of external and foreign-currency debt. Moreover, the risk of currency pressures triggering a policy-induced spike in domestic borrowing costs is mitigated by the RBI's relatively narrow focus on its inflation objective. Indonesia also has healthy fiscal buffers and its sovereign rating at 'BBB'/Stable has been affirmed by Fitch in September 2018.

According to Fitch Rating, except for Pakistan, all APAC countries have a stable outlook for both long term foreign currency and local currency ratings after recent upgrades in Vietnam and Mongolia, except Pakistan, where the newly elected government is under immediate pressure to arrest deteriorating external finances and address fiscal challenges, as well as to attract external funding necessary to meet its financing. Pakistan's rating has been mainly determined by the fact that its present government is new and therefore there is lack of information about its policy direction. In the APAC, the sub group SA has the lowest ratings while Maldives and Sri Lanka in that sub group have secured only B+ rating (other than Pakistan) compared to most other countries. A new government has also taken office in Malaysia and moved ahead on many of its key election promises, notably repealing the GST. The new leadership has also shown signs of adhering to fiscal deficit reduction and improving governance, and recently Malaysia's rating with a stable outlook has been affirmed[16]

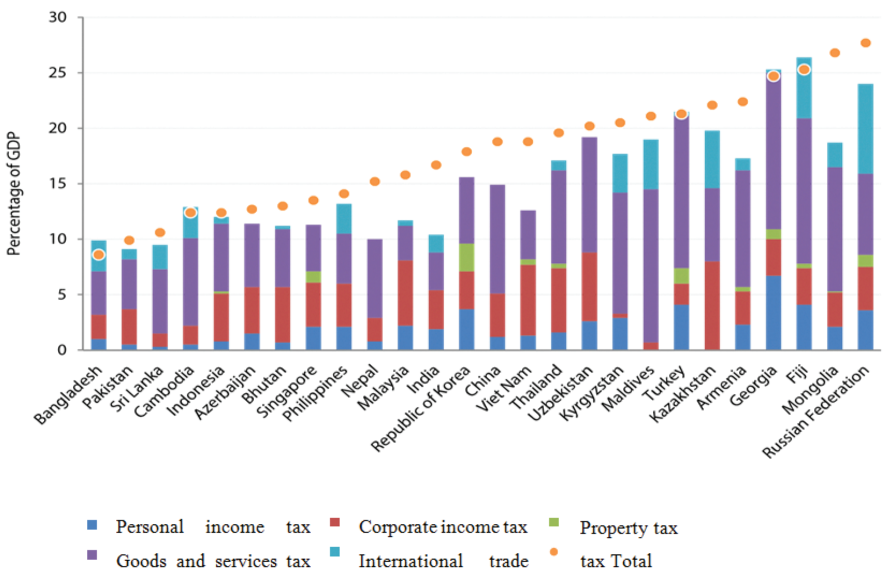
Fiscal policies are supporting increases in infrastructure spending, and monetary conditions remain accommodative, even after recent tightening in some economies. The smaller island economies and land locked countries in APAC have a clear demand for financing infrastructure projects. Although BRI is supportive of such infrastructure development, some countries have failed to list essential or revenue earning projects under BRI, while some others have not considered the debt/equity implications of borrowing under BRI. This has created a number of

[15] Fitch Ratings-Hong Kong/Singapore-03 September 2018
[16] Fitch Ratings: APAC Sovereigns Face Rising External Challenges, 3, Sep 2018

internal issues in some of the APAC countries, SA in particular. Indeed geo-political tensions in the IO have aggravated these issues.

Figure 4 below plots corporate income tax revenue in Asia as a percent of GDP. It shows that Malaysia and Viet Nam, at 8.1% and 7.7%, have the highest level of corporate income tax revenue, while Indonesia, Cambodia and Bangladesh have the lowest, at 1.0%, 0.9%, and 0.7%, respectively. Corporate tax collection is low in Indonesia and Bangladesh despite relatively high tax rates partly because of various tax incentives and concessions that governments often provide for attracting investment and for activities seen as having social or economic merit. Some of its constituents will find it very hard to deal with their mounting external debt situations. In this context, formulating harmonious fiscal policy planning that would lead to regional policy congruence is a rare possibility. The fiscal situation in the ASEAN and the wider ASEAN appears to be manageable compared to that of SA.

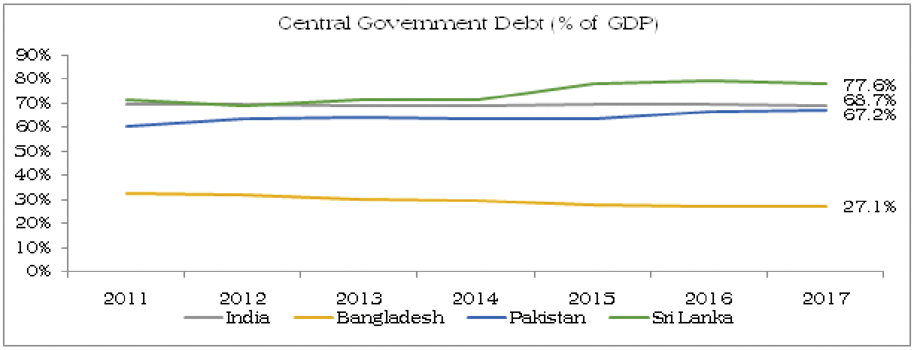
Figure 4: Tax Composition and Revenues in Selected Asia- Pacific Countries (% of GDP)



Source: ESCAP, based on IMF (2017) and national sources.

2014 or latest available year. Differences between the 'total' and the sum may arise from gaps in data and definitional issues. For instance, countries such as: India and Viet Nam have various goods and sales taxes in addition to standard VAT, as well as excise taxes that are not captured under 'indirect tax'.

Figure 5: Central Government Debt / GDP Ratio in Selected SA Countries

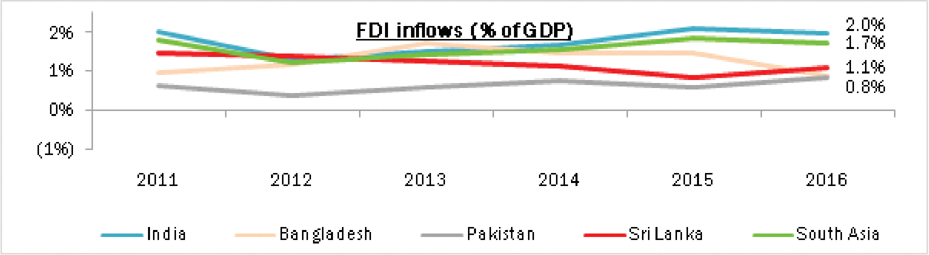


Source: Fitch Rating

As seen in Figure 5, debt/GDP ratio in the larger SA countries are at two extreme positions, in that Bangladesh's debt/GDP ratio shows a steady declining trend from 30 to 27 %, while Sri Lanka's debt/GDP ratio has accelerated from 70 to 77.6% during 2011-2017 period. According to latest estimates, Sri Lanka has to deal with its debt repayment peaks falling due during 2019-2022.

Figure 6 portrays an equally disturbing trend for Sri Lanka as its FDI inflows/GDP ratio recorded a steady decline from 1.6 % to 1.1% during 2011-2016 period, ranking only above Pakistan. Both countries have been suffering from frequent regime changes and terrorist issues.

Figure 6: FDI Inflows/GDP Ratio



Source: Fitch Rating

For all the challenges originating from the internationalization of taxation, effective regional and global tax cooperation and joint action by all stakeholders is a precondition for any viable solution. Cooperation can also be an important catalyst for national efforts to enhance public revenue mobilization and deploy conducive tax and spending policies through broad knowledge exchange, policy debate, peer learning and targeted technical and security dialogue through: (a) high level consultations and annual summits; (b) promotion of good governance, rule of law and promotion of human rights; (c) support for the implementation of the ASEAN Human

Rights Declaration (AHRD) and the Phnom Penh Statement on the Adoption of the AHRD ("Phnom Penh Statement"); (d) Exchange of information and active participation on regional efforts to advance human rights and fundamental freedoms in the wider ASEAN with the view to ensuring peace, security and stability.

In addition to economic and prosperity considerations, wider APAC has been focusing on other critical factors that help economic policy congruence across its member states. They include: political and security cooperation for regional congruence and socio-cultural cooperation. The Asia –Pacific as a whole and wider ASEAN+3 are committed to cooperate on the deepening of political congruence in the region: (a) enhancing multilateral and regional cooperation in disarmament and nonproliferation of weapons of mass destruction; (b) implementing measures to combat money laundering and terrorist financing, to better detect, analyse, investigate and prosecute, in accordance with the Financial Action Task Force(FATF)'s recommendations; and (c)enhance maritime operations through cooperative activities, such as safety of navigation.

As to the social–cultural cooperation, APAC is keen to protect and conserve the environment and promote sustainable use of natural resources through closer cooperation in the following areas: (i) support ASEAN efforts in the prevention and reduction of environmental pollution, particularly marine and coastal pollution, trans boundary movement of hazardous wastes and trans boundary haze pollution through ASEAN agreements and decisions, (ii) support APAC environment cooperation mechanisms and related environmental meetings; (iii) conservation of biological diversity and natural heritage and sustainable management, (iv) application of advanced and environment-friendly technologies and best practices, (v)sustainable water resource management, including groundwater, (vi) sustainable management of coastal and marine environment, (vii) management and governance of urban environment, especially the ASEAN initiative on environmentally sustainable cities, (viii) public awareness and education for sustainable development including environmental education, and (ix) implementation of multilateral environmental agreements, in particular climate change, chemical and chemical waste- related conventions and partnerships; (x)capacity building among member countries; and promote cooperation on labour and migrant workers through the implementation of the ASEAN Labour Ministers' work programme 2016-2020; and support efforts to protect and promote labour rights.

Sri Lanka to Fall in Line with APAC Regional Policy Congruence

Compared to the ASEAN, the wider ASEAN+3, the APAC and some SA countries, Sri Lanka's trade and investment climate appears to be experiencing some rigidities in terms of constant policy changes and non-honouring of contractual agreements. The unique problem in Sri Lanka is the policy uncertainty especially in regard to attracting FDIs into the country. The non-honouring of government to government (GtG) obligations in commercial contracts and constantly changing government policies due to frequent changes in political regimes have brought in chaos to national policy formulation. Contract negotiation have become a source of unethical money earning. FTAs, commercial and GtG contracts should be aligned with national economic development policies. In the process of contract evaluation, it is worth pointing out that each and every citizen in the country should adopt "Country First" attitude although many compromises may have to be made due to country's poor macro economic fundamentals.

In terms of economic growth however, Sri Lanka may benefit if funding sources can be found for two areas of which the potential value addition has not yet been exploited. They are the sustainable use of living and mineral resources in the IO and the protection of the IO marine and maritime operations. In this regard, the fishing industry and aquaculture remain closely related to essential human needs as well as a source of much needed foreign exchange resources. These two areas of economic activity are also disturbed by illegal fishing within the earmarked economic zone of Sri Lanka, drug trafficking, terrorist activities, piracy etc. A new window of opportunity has been opened for Sri Lanka under the BRI project although as a consequence and due to its geographical location, the country may be beholden to a few super powers. This has been the outcome of the country's nearly 30 year devastating war and lack of a comprehensive national policy framework. This is where super diplomacy is a sine qua non for Sri Lanka, given its unique situation.

Geographically, Sri Lanka is in the SA region and the SAARC sub group. After long years of being a SAARC member, Sri Lanka has realized the bleak future of SAARC and its widening diversity. Yet, being an outlier, it is not easy for Sri Lanka to get membership in the ASEAN. The leaning towards Chinese BRI could be one of the outcomes of this realization as Sri Lanka may be able to connect to the APAC through BRI. As BRI is under serious geo political pressure from the other super powers in the IO, there may be difficulties in realizing this dream. All these are tough issues to be handled, especially when the country's macroeconomic fundamentals are not very conducive to support the achievement of its objectives.

Concluding Remarks

The analysis in this paper has provided an in-depth background of the criticality of regional policy congruence in the APAC and its sub regions and sub groupings. The region is faced with numerous challenges and risks that are looming large in the present context of trade and investment protectionism and geo political tensions in the region, but the strong economic outlook for the APAC however, provides an opportunity to pursue tough reforms. One of the practical difficulties that has delayed work towards the reduction of the"development gap" among the sub regions and sub groupings in the wider ASEAN+3 is the large number of multi- lateral and bi-lateral agreements that have been signed by member countries. This implementation difficulty has been addressed by harmonizing most of such sub regional agreements and work plans into the IAI framework but implementation appears to be rather difficult due to country differences. IAI is expected to work towards the formation of an integrated market; development of seamless connectivity in the region; enhancing financial cooperation; and increasing economic cooperation to address shared vulnerabilities and risks. The APAC as a whole and its sub regions in particular have paid attention to tailored measures that are needed to boost productivity and investment, narrow gender gaps in labour force participation, the demographic transition, address climate change, and support the marginalised people affected by shifts in technology and trade, and finally, to reap full benefits of the digital revolution. APAC will need a comprehensive and integrated policy response covering ICT, infrastructure, trade, labour markets and education.

These attempts are well meshed with the regional policy congruence aspects of BRI and it has brought in new aspirations for the economic prosperity of the wider Asia and the Pacific. As expected, some of the impressive measures initiated for policy congruence seem to have encountered implementation delays which may add to existing challenges and risks. The paper also highlighted the need for international support (including trade-supporting infrastructure) to facilitate the participation of poorer SA and ASEAN countries. SA is also facing numerous geo-political tensions as IO is becoming a battleground for naval and maritime rivals. The small island nations are concerned about these developments and in this context, diplomacy should prevail as the first and last line of defence for these countries.

Even with favourable prospects, policy makers in the region need to attend to the short-term risks associated with a faster-than-expected rise in interest rates in advanced economies and possible escalation of trade tensions. To address risks to macroeconomic stability, countries will need to consider tightening monetary policies, further strengthening macro prudential regulations and building fiscal buffers. In addition, to reverse moderating growth prospects across the region in the medium term, countries will need to find ways of raising their long-term potential growth, including improvements to public spending and infrastructure provision, deepening trade integration and improving trade facilitation, implementing reforms to enhance competitiveness, and building human capital.

The wider ASEAN+3 is expected to be positively and significantly impacted by BRI through RMB settlement and investment that will continue to increase in tandem with the expansion in China's trade and investment in the BRI region in the next few years; the BRI will help address Asia's infrastructure deficit and lift economic and social development in the region; and the option of accessing capital market financing may be expanded for countries with the largest funding gaps such as Indonesia, Philippines and Vietnam. BRI is marred with new risks and the participating countries have to be resilient to invasive and intrusive types of intervention by the Chinese entrepreneurs who drive the BRI in more than 70 member states. It is time for some of the countries to shed their internal political differences and draw up a clear national agenda to deal with such overtures by foreign donors and investors and adopt more transparent governance practices as a safeguard against threats to national integrity and for long term economic prosperity. Countries like Sri Lanka and Pakistan in SA are plagued with heavy debt burdens which have compelled them to borrow more to retain their creditworthiness in global debt markets. These countries need to implement austerity measures before their economic management gets out of hand thus resulting in harmful effects on long term economic prosperity.

Compared to SA, peace, political stability and economic policy congruence are well established in the wider ASEAN+3 group and that enables them to engage in longer term planning to realize their enormous economic potential. Indonesia and the Philippines, with their young and growing workforce, are particularly well-positioned to become the next Asian growth centres. Singapore and Korea in the wider ASEAN with well-articulated technology based development plans are already implementing their plans for reaching regional technology hub status. Australia, New Zealand and Japan have recorded better than expected growth trends in recent times and are poised for further growth. The CMLV countries,and smaller islands in the Pacific and the countries in SA are yet to get their internal policies aligned to others in the region to benefit from regional economic development plans. Handling human resources and trade unions is relatively easier in the wider ASEAN+ 3 than in SA, which is heavily entangled in party politics. The wider ASEAN+3 should act as the "leading regional hub" by further deepening regional economic integration and the members collaborating more closely with each other, while the regional heavy weights like India, China, Australia and Japan pursue further structural reforms and work in harmony with their respective neighbouring countries.

Abbreviations

APAC	Asia and the Pacific
ASEAN	Association of South East Asian Nations
AHRD	ASEAN Human Rights Declaration
BRI	Belt and Road Initiative
BIMSTEC-EC	Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal Economic Corridor
CBSL	Central Bank of Sri Lanka
CDB	China Development Bank
CLMV	Cambodia, Lao PDR, Myanmar and Viet Nam
CPEC	Chinese –Pakistan Economic Corridor
CPTPP	Progressive Agreement for Trans-Pacific Partnership
FATF	Financial Action Task Force
FIT	Flexible Inflation Targeting
FTA	Free Trade Agreements
GST	Goods and Services Tax
GtG	Government to Government
IAI	Initiative for ASEAN Integration
ICT	Information and Communication Technology
IO	Indian Ocean
IORA	Indian Ocean Rim Association
INR	Indian Rupee
OECD	Organization of Economic Cooperation and Development
RBI	Reserve Bank of India
SA	South Asia
SAARC	South Asia Association for Regional Cooperation
SEA	South East Asia
US	United States

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