



# ASIA-PACIFIC SUSTAINABLE DEVELOPMENT JOURNAL

Vol. 25, No. 1, June 2018

## IN THIS ISSUE:

What impedes structural transformation in Asia?

Kunal Sen

External sector liberalization, financial development and income in South Asia

Guna Raj Bhatta

The impact of foreign direct investment on income inequality: a panel Autoregressive Distributed Lag approach for the Asia-Pacific Economic Cooperation developing economies

Kalaichelvi Ravinthirakumaran and Navaratnam Ravinthirakumaran

Envisioning tax policy for accelerated development in India

M. Govinda Rao and Sudhanshu Kumar

Contract farming, agriculture productivity and poverty reduction: evidence from tea estates in Viet Nam

Anh Tru Nguyen, Janet Dzator and Andrew Nadolny





*The shaded areas of the map indicate ESCAP members and associate members.\**

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 Member States and 9 Associate Members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

*\*The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.*

# ASIA-PACIFIC SUSTAINABLE DEVELOPMENT JOURNAL



**United Nations**  
New York, 2019

# ASIA-PACIFIC SUSTAINABLE DEVELOPMENT JOURNAL

Vol. 25, No. 1, June 2018

United Nations publication

Sales No. E.19.II.F.98

Copyright © United Nations 2019

All rights reserved

Printed in Thailand

ISBN: 978-92-1-120782-8

e-ISBN: 978-92-1-047571-6

ISSN (print): 2617-8400

ISSN (online): 2617-8419

ST/ESCAP/2845

Cover design: Nina Loncar

This publication may be reproduced in whole or in part for educational or non-profit purposes without special permission from the copyright holder, provided that the source is acknowledged. The ESCAP Publications Office would appreciate receiving a copy of any publication that uses this publication as a source.

No use may be made of this publication for resale or any other commercial purpose whatsoever without prior permission. Applications for such permission, with a statement of the purpose and extent of reproduction, should be addressed to the Secretary of the Publications Board, United Nations, New York.

## **Editorial Advisory Board**

Kaushik Basu

Professor of Economics and C. Marks Professor of International Studies  
Department of Economics, Cornell University

Martin Ravallion

Edmond D. Villani Professor of Economics  
Georgetown University

Sabina Alkire

Director of the Oxford Poverty and Human Development Initiative (OPHI)  
Oxford Department of International Development, University of Oxford

Naila Kabeer

Professor of Gender and Development, Department of Gender Studies  
London School of Economics and Political Science

Li Xiaoyun

Chief Senior Advisor at the International Poverty Reduction Centre in China, and  
Director of OECD/China-DAC Study Group, Chair of the Network of Southern  
Think Tanks (NeST) and Chair of China International Development Research  
network

Shigeo Katsu

President, Nazarbayev University

Ehtisham Ahmad

Visiting Senior Fellow  
Asia Research Centre, London School of Economics and Political Science

Myrna S. Austria

School of Economics, De La Salle University

## **Chief Editors**

Nagesh Kumar

Director, Social Development Division (SDD) of ESCAP

Hamza Ali Malik

Director, Macroeconomic Policy and Financing for Development Division (MPFD)  
of ESCAP

## **Editors**

Patrik Andersson

Chief, Sustainable Socioeconomic Transformation Section, SDD

Cai Cai

Chief, Gender Equality and Social Inclusion Section, SDD

Sabine Henning

Chief, Sustainable Demographic Transition Section, SDD

Oliver Paddison

Chief, Countries with Special Needs Section, MPFD

Sweta Saxena

Chief, Macroeconomic Policy and Analysis Section, MPFD

Tientip Subhanij

Chief, Financing for Development Section, MPFD

## **Editorial Assistants**

Gabriela Spaizmann

Pannipa Jangvithaya

**Manuscripts should be sent to:**

Chief Editors  
Asia-Pacific Sustainable Development Journal

Social Development Division and  
Macroeconomic Policy and Financing for Development Division  
United Nations Economic and Social Commission for Asia and the Pacific

United Nations Building, Rajadamnern Nok Avenue  
Bangkok 10200, Thailand  
Email: [escap-apsdj@un.org](mailto:escap-apsdj@un.org)

For more details, please visit [www.unescap.org/apsdj](http://www.unescap.org/apsdj).

# ASIA-PACIFIC SUSTAINABLE DEVELOPMENT JOURNAL

Vol. 25, No. 1, June 2018

## CONTENTS

		<i>Page</i>
	Editors' introduction	vii
Kunal Sen	What impedes structural transformation in Asia?	1
Guna Raj Bhatta	External sector liberalization, financial development and income in South Asia	37
Kalaichelvi Ravinthirakumaran and Navaratnam Ravinthirakumaran	The impact of foreign direct investment on income inequality: a panel Autogressive Distributed Lag approach for the Asia-Pacific Economic Cooperation developing economies	57
M. Govinda Rao and Sudhanshu Kumar	Envisioning tax policy for accelerated development in India	85
Anh Tru Nguyen, Janet Dzator and Andrew Nadolny	Contract farming, agriculture productivity and poverty reduction: evidence from tea estates in Viet Nam	109

## Explanatory notes

References to dollars (\$) are to United States dollars, unless otherwise stated.

References to “tons” are to metric tons, unless otherwise specified.

A solidus (/) between dates (e.g. 1980/81) indicates a financial year, a crop year or an academic year.

Use of a hyphen between dates (e.g. 1980-1985) indicates the full period involved, including the beginning and end years.

The following symbols have been used in the tables throughout the journal:

Two dots (..) indicate that data are not available or are not separately reported.

An em-dash (—) indicates that the amount is nil or negligible.

A hyphen (-) indicates that the item is not applicable.

A point (.) is used to indicate decimals.

A space is used to distinguish thousands and millions.

Totals may not add precisely because of rounding.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Where the designation “country or area” appears, it covers countries, territories, cities or areas.

Bibliographical and other references have, wherever possible, been verified. The United Nations bears no responsibility for the availability or functioning of URLs belonging to outside entities.

The opinions, figures and estimates set forth in this publication are the responsibility of the authors and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations. Mention of firm names and commercial products does not imply the endorsement of the United Nations.



## EDITORS' INTRODUCTION

The 2030 Agenda for Sustainable Development, which includes 17 Sustainable Development Goals and many targets, offers a decidedly ambitious, comprehensive and universal framework for global development policymaking. In essence, it promotes a broad and holistic concept of well-being and prosperity; one that recognizes that the welfare of people, countries and the planet encompasses much more than just expansion of economic output and emphasizes the importance of social inclusiveness and environment sustainability.

The Asia-Pacific region holds the key to the success of the 2030 Agenda. It is home to almost 60 per cent of humanity and has some of the world's largest and most dynamic and innovative economies. Changes in the economic conditions and direction of policies in those countries have notable implications for its regional counterparts and beyond. At the same time, the region is home to several small countries that are dependent on and influenced by larger economies in the region.

The region has experienced unprecedented economic growth in the past few decades. However, this rapid economic growth, facilitated by globalization and technological advances, has led to rising inequalities and environmental degradation. To think afresh and to make a conceptual transition, policymakers of the region can benefit considerably from research that provides in-depth analysis of various sustainable development challenges and offers evidence-based policy solutions. To that end, we have decided to revisit the mission of the journals produced by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

The *Asia-Pacific Sustainable Development Journal* (APSDJ) builds on the success of two previous ESCAP journals, the *Asia-Pacific Development Journal* and the *Asia-Pacific Population Journal*, which have been merged in recognition of the interconnected and multidisciplinary nature of sustainable development. Backed by the reconstituted Editorial Advisory Board comprising eminent development experts from around the world, *APSDJ* will be published biannually in English by ESCAP.

This inaugural issue comprises five contributions covering different aspects of development. *Kunal Sen* reviews evidence on why the pace of structural transformation has differed widely across countries in Asia, with a specific focus on China, India and Thailand. Observing that government and market failures can negatively affect the demand for labour from high productivity sectors and the supply of labour from low productivity sectors, Sen suggests that governments in developing Asian countries enact a set of complementary policies that affect both the demand side and supply side of labour to accelerate the pace of structural transformation.

*Guna Raj Bhatta* analyses the impact of external sector openness and financial sector development on per capita income in the South Asian economies of Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka. Observing that although external liberalization contributes substantially to per capita income, financial development is a prerequisite

to realize the benefits, and that premature external liberalization in small and poor economies tend to be very beneficial to the large neighbouring economy and leads to resource exploitation. Bhatta advises that unless financial markets and institutions are strong enough to effectively deal with domestic resource mobilization, liberalizing the external sector alone may impede the economic development process.

*Kalaichelvi Ravinthirakumaran and Navaratnam Ravinthirakumaran* investigate the effect of foreign direct investment (FDI) inflows on income inequality in Asia-Pacific Economic Cooperation (APEC) economies by using panel data for the period 1990–2015. Confirming that FDI inflows narrow the level of income inequality in APEC economies, the authors suggest that policymakers and government authorities in those economies initiate appropriate policies and provide various types of financial and non-financial support to help domestic firms continue to reap benefits from multinational enterprises. However, as frequent economic policy changes relevant to FDI inflows in host APEC economies can foster an unstable environment for attracting more FDI into the region, policymakers and government authorities need to be aware of the effects of such changes.

*M. Govinda Rao and Sudhanshu Kumar* examine under-taxation in India and the best practice approach to tax reforms to raise the revenue productivity of the Indian tax system. They argue that the tax-GDP ratio must be raised to enhance allocations to education, health care and physical infrastructure to ensure demographic dividends by making the increasing workforce more productive, and that the best practice approach to tax policy and reform is to broaden the base, reduce rates and their differentiation, and develop a simple and transparent system.

*Anh Tru Nguyen, Janet Dzator and Andrew Nadolny* analyse the determinants of tea productivity, in particular, the impacts of contract participation in the rural areas of Viet Nam. Noting that tea productivity significantly affects poverty reduction, employment generation and income improvement for farm households, the authors recommend that factors that influence tea productivity, foster technical innovations to reduce technical inefficiency, and affect the volatility associated with agricultural production inputs be considered to improve the income and livelihood of tea growers.

It is our hope that APSDJ can enrich the policy debate and support policymaking in the region towards the successful implementation of the 2030 Agenda. Contributions as per the editorial guidelines are welcome.

Nagesh Kumar  
Hamza Ali Malik

Chief Editors