Recycling Regional Savings for Closing Asia-Pacific’s Infrastructure Gaps

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Key messages

- Closing infrastructure gaps holds the key to sustaining Asia-Pacific countries’ dynamism and inclusive and balanced development in a post-crisis scenario.

- It would require huge investments.

- Asia-Pacific region is generating huge savings and foreign exchange reserves. However, bulk of these resources are invested outside the region given the lack of a well developed regional financial architecture.

- In the recent years a number of initiatives have been taken to foster regional financial cooperation.

- Efficient institutional intermediation between Asian savings and unmet investment needs a more developed regional financial architecture commensurate with its stature as a growth pole of the world economy.

- Regional financial cooperation would also help the region play its due role in a development-friendly reform of international financial architecture.
The 2008/09 Crisis represents a structural break in the world economy

- A return to business-as-usual would be difficult due to compulsions of restraining debt-fuelled consumption
Need for rebalancing Asian economies towards domestic and regional demand

– Generating new aggregate demand through greater consumption and investments through inclusive policies

– Closing infrastructure gaps

– Exploiting the full potential of regional economic integration

– Strengthening connectivity
Infrastructure gaps in Asia-Pacific

- Wide gaps across countries in terms of infrastructure availability as shown by
  - ESCAP’s composite infrastructure development index based on indicators of transport infrastructure (air passengers, road transport infrastructure, railway infrastructure), ICT infrastructure (tele-density and internet users), energy availability, banking infrastructure, finds very wide gaps across countries.
- Poor regional connectivity
Closing the infrastructure gaps

- Huge investments needed for infrastructure development in Asia-Pacific region:
  - US$ 8 trillion needed over 10 years [ADB-ADBI study]
  - Additional investment of US$ 290 billion for regional projects
  - Annual aggregate investment of US$ 800 billion
    - In line with an earlier estimate of ESCAP for US$ 600 billion p.a.
- Considerable shortfall in the existing mechanisms to provide this scale of investments
- If provided at that scale, besides generating additional aggregate demand, infrastructure development will help in fostering balanced and inclusive development
- Development of regional connectivity infrastructure will help in exploiting the full potential of regional economic integration.
Asian enigma

- Asian countries have excess savings and foreign exchange reserves of around US$ 5 trillion
- Asian foreign exchange reserves are largely invested in the western securities in the absence of a well developed regional financial architecture
- Foreign exchange requirements of Asian investors are also met by borrowings and capital raisings in the western markets
- Institutional intermediation of Asian savings is done by western capital markets
Initiatives for regional financial cooperation

- Asian Clearing Union
- Asian Development Bank
- ASEAN+3 Chiang-Mai Initiative – Multilateralization
- Asian Bond Fund and Asian Bond Market Initiative
- Asian Cooperation Dialogue (ACD)
- Financial cooperation in the framework of East Asia Summit
- SAARC Development Fund (SDF)
- SAARCFinance
- ASEAN Infrastructure Fund (AIF)
- Asian Exim Banks Forum
- Associations of central banks viz. SEANZA, SEACEN, EMEAP

• Most initiatives at early stages and generally with limited scope and coverage
Elements of a regional architecture to exploit the potential of financial cooperation

• Covering different financing needs of the diverse and growing region
  – Crisis prevention and management
  – Mechanism to mobilize regional savings to foster a programme of infrastructure development
  – Regional capital markets integration
  – Deeper cooperation among the trade financing agencies
  – Exchange rate cooperation
  – Evolving a regional perspective on reform of international financial architecture
Crisis prevention and management

- Chiang-Mai Initiative Multilateralization (CMIM)
  - US$ 120 billion,
  - AMRO
  - Credit Guarantee and Investment Facility (CGIF)
  - Limited to ASEAN+3 countries
  - Lending linked to IMF conditionalities

- Need for expanding the scope and coverage to evolve into a truly regional emergency response mechanism
Mechanism for infrastructure development

• Existing mechanisms (AIF, SDF) relatively small and with limited scope for the region’s needs
  – Facility creating a regional fund with a large capital base backed by region’s governments with the ability to issue secure and liquid securities
  – Ability to provide technical assistance for development of viable projects for attracting co-financing by other financial institutions and private sector
Regional capital markets integration

- Well developed equity and bond markets in a number of countries
- No facilitation of cross-border listings
- SWFs and private equity funds make cross-border short-term investments in a number of emerging markets
  - Deepening equity and bond markets
  - Facilitation of cross-border listings
  - Establishment of regional stock exchanges
  - Regional mutual funds
Evolving a regional perspective on reform of international financial architecture

- New global reserve currency
- Reform of IMF’s conditionality to make it less pro-cyclical
- Enhancing the scale of development financing
- International financial transactions tax
- Governance reform of the international financial institutions
Way forward

• As per mandate given by the ESCAP 66th Session held in Incheon, May 2010, the ESCAP secretariat is elaborating the form and structure of such an architecture to facilitate infrastructure investments

• Will begin a consultative process

• Not a substitute but a complement of international financial architecture

• Would evolve in a gradual manner
• Thank you