



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

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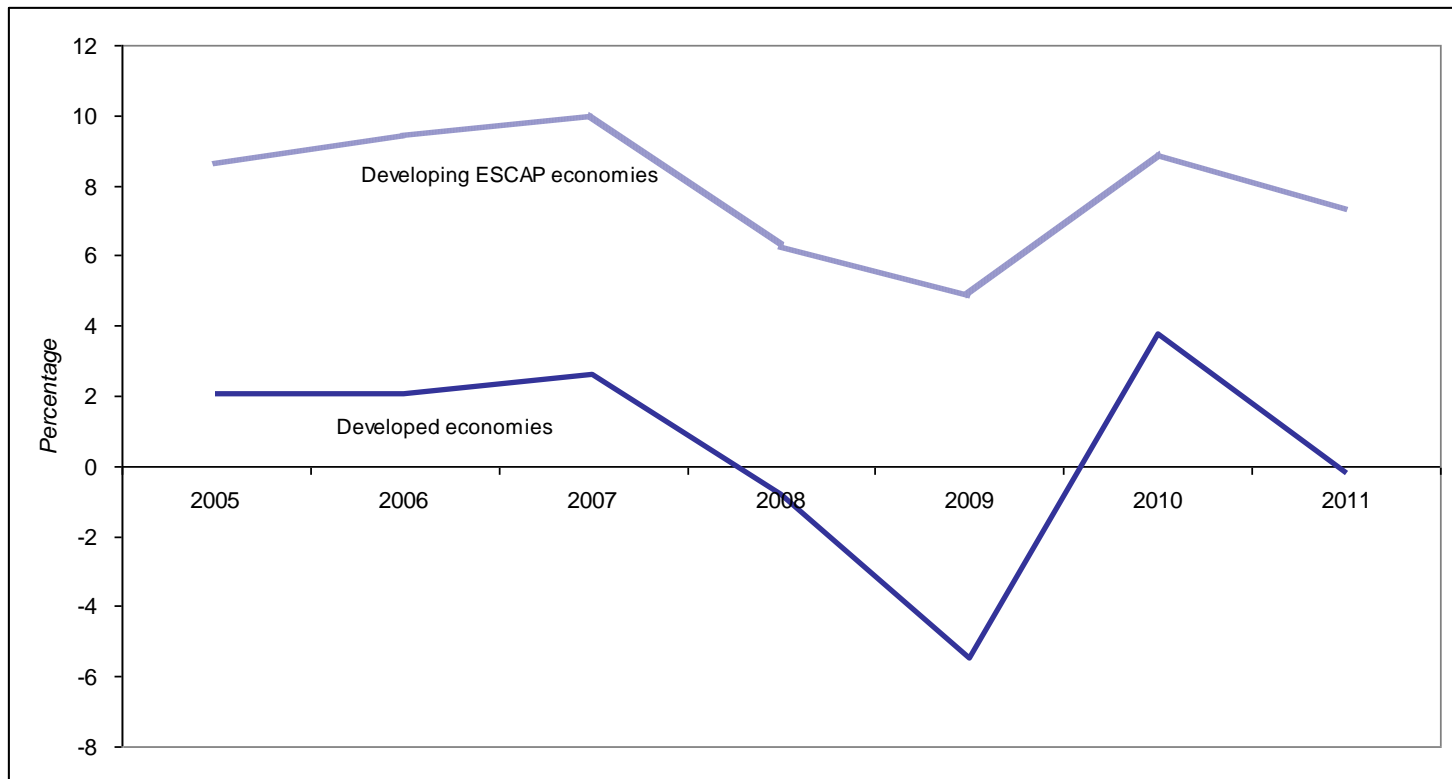
Key messages

- 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

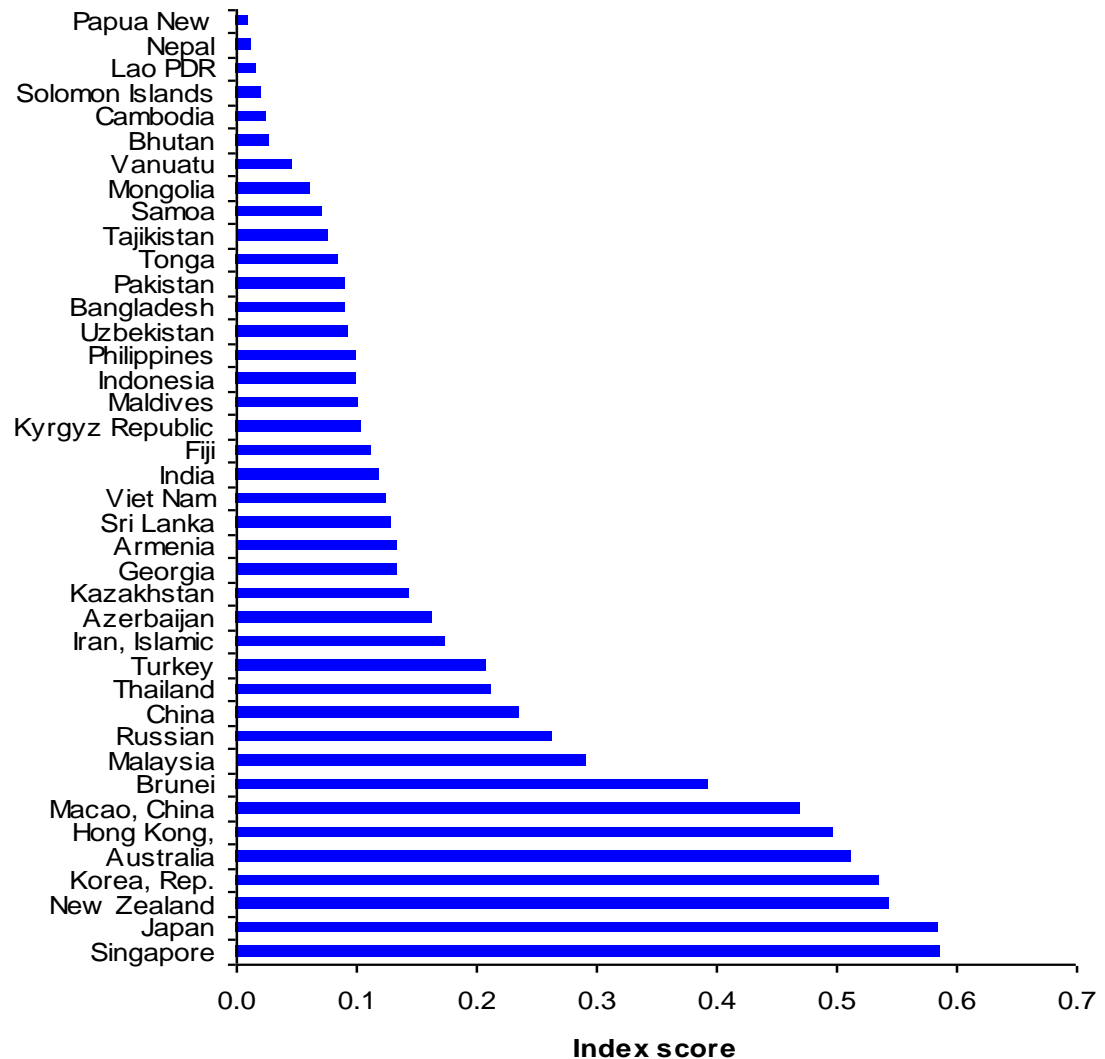
- Generating new aggregate demand through greater consumption and investments through inclusive policies
- Closing infrastructure gaps
- Exploiting the full potential of regional economic integration
- Strengthening connectivity



Infrastructure gaps in Asia-Pacific

Infrastructure Composite Scores in Asia-Pacific, 2007

- 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+3Chiang-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