Accessing improved and stable sources of development finance: Growing opportunities for Asia-Pacific LDCs

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Outline

• Regional Trends
  – Enhancing regional economic integration to realise the Asia-Pacific Century
  – Towards an integrated regional market
  – Creating seamless connectivity
  – Reviving the Silk Route

• LDCs: Exploiting the emerging opportunities
  – Setting the stage
  – Framework for mobilizing resources and trends
  – Effectiveness
  – Prospects for financing
  – Possible policy options
Resolution 70/1: Implementation of the Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific

- Four expert working groups - Two meetings each (Output: technical report with analysis and recommendations)
- Two preparatory meetings (Output: Draft declaration / roadmap containing actions and commitments)
- Ministerial conference (Output: Ministerial declaration / roadmap)

- Four areas: trade, connectivity, financial cooperation, shared vulnerabilities
- Four working groups, one for each area
- Working groups include up to 20 national experts + 2 or 3 resource persons
- Working groups will meet twice: November/December 2014 and March 2015
- Each working group will prepare a technical report that will be discussed by member States between July and September 2015 in preparation for the 2nd Ministerial Conference on Regional Economic Cooperation and Integration planned for December 2015
- National experts were nominated by ESCAP member States
Key messages

- The building blocks for an integrated Asia-Pacific largely in place
- Regional integration is a key component in reducing vulnerability and boosting economic growth
- In the dramatically altered post-global crisis AP region, intra-regional trade and investment expanding
- The region has many underexploited opportunities in harnessing connectivity and infrastructure development
- LDCs falling behind in comparison to the others in the region
- Significant opportunities to expand resource base in LDCs and improve trade and aid effectiveness
Key elements in enhancing regional economic integration include the following:

- An integrated Asia-Pacific Market
- Seamless Connectivity for goods, energy and people
- Financial cooperation to facilitate redeployment of region’s savings
- Addressing shared vulnerabilities such as energy and food security, natural disasters and environmental sustainability

- Adopting a long-term vision of Economic community of Asia-Pacific
• Intraregional trade expanding fast; can grow faster with some facilitation

• Potential with in sub-regions as well as across sub-regions

• Potential of intraregional trade in services remains unexploited

• Intraregional FDI flows growing with China, India, Hong Kong, China, Singapore, Malaysia, Thailand as new sources of FDI
### Table 1. Savings and Investment Ratios in Asia

<table>
<thead>
<tr>
<th>Economy</th>
<th>Savings/GDP Ratio (%)</th>
<th>Investment/GDP ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRC Mainland</td>
<td>51.9</td>
<td>53.4</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>33.3</td>
<td>29.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>27.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Japan</td>
<td>28.5</td>
<td>23.8</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>31.5</td>
<td>31.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>37.5</td>
<td>32.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>22.1</td>
<td>24.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>48.4</td>
<td>46.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>32.8</td>
<td>30.6</td>
</tr>
</tbody>
</table>

Note: Savings rate = gross national saving/GDP; Investment rate = gross capital formation/GDP.

Source: IMF, *World Economic Outlook Database.*
Figure 1. Portfolio Investment from the Asian Region to the World and Vice Versa
Direction of Portfolio Investment

From Asia

Europe; 37.2%
Asia; 18.9%
USA; 42.8%
Others; 11.8%

To Asia

Europe; 30.7%
USA; 37.1%
Others; 13.3%

From Europe

Europe; 68.6%
USA; 15.7%
Asia; 7.7%
Others; 11.1%

Source: IMF, Coordinated Portfolio Investment Survey (CIPS).
Fostering seamless connectivity

- Maritime and aviation links relatively better with advanced countries and often poor with neighboring countries
  - Especially for Pacific island developing economies
- Land transport important for regional integration and balanced regional development
  - Simulation results show that improving connectivity has potential to increase economic growth especially for relatively poorer areas
  - Critical for the landlocked developing countries
- Asian Highway and Trans-Asian Railway networks not fully completed
  - Asian Highway routes: even though no missing links but uneven quality a constraint to connectivity
  - Significant missing links and non-standardized routes in Trans-Asian railway
- Countries can make greater use of these networks by:
  - Improving transport facilitation measures
  - Investing in intermodal facilities such as dry ports
    - Dry ports can build synergies by linking different modes of transport, also promote balanced spatial development because they help to relocate industries to inland areas from coastal zones
    - Network externalities grow disproportionately with bigger and versatile networks
Reviving the Silk Route

- Some recent developments in terms of railway connectivity:
  - Under ECO a container trains runs between Istanbul-Tehran-Islamabad; also demo runs between Istanbul and Almaty
  - Proposed Kunming-Singapore Railway link
  - Recent agreement on Bangladesh-India-Nepal rail link
    - Connecting these links could revive a new silk route
      Kazakhstan-Turkey-Iran-Pakistan-India-Bangladesh-Myanmar-China-Laos-Thailand
      Malaysia-Singapore but also Afghanistan, Nepal and Bhutan and Cambodia and Vietnam

- To facilitate development of connectivity
  - Work with Asian Development Bank and other financial institutions for financing the construction of missing links in TAR and upgrading the AH links

- To set up
  - Asian-Pacific Ministerial Council on Transport (to replace ESCAP Ministerial Conference on Transport)
  - Asia Highway Authority as a regional association of national highway bodies for standard setting for transit facilitation and coordination, and take up projects
  - TransAsian Railway Authority as a regional association of national railway bodies for standard setting and coordination and facilitation, and take up projects
LDCs: Exploiting the Emerging Opportunities
Divergence in GNI

Per capita GNI gap of 57 times between LDCs and Developed Countries in Asia-Pacific

Per capita GNI gap of 25 times between LDCs and Developed Countries in Asia-Pacific

Source: ESCAP calculations
Note: LDCs-AP consists of 12 countries (US Dollars current prices) and Developed-AP consists of Australia, Japan and New Zealand
Health and infrastructure

Health expenditure

<table>
<thead>
<tr>
<th>Per cent of GDP</th>
<th>Developed</th>
<th>Developing</th>
<th>LDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.3</td>
<td>5.1</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Logistics performance

LPI (1=low to 5=high)

<table>
<thead>
<tr>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>Turkey</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>Thailand</td>
</tr>
<tr>
<td>Bangladesh</td>
</tr>
<tr>
<td>Lao PDR</td>
</tr>
<tr>
<td>Bhutan</td>
</tr>
<tr>
<td>Cambodia</td>
</tr>
<tr>
<td>Myanmar</td>
</tr>
<tr>
<td>Solomon Islands</td>
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<tr>
<td>Afghanistan</td>
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<tr>
<td>Nepal</td>
</tr>
<tr>
<td>Timor-Leste</td>
</tr>
</tbody>
</table>
### Framework for mobilizing resources

**A schematic view of mobilizing financing resources**

<table>
<thead>
<tr>
<th>Sources</th>
<th>Institutions, agents &amp; tools</th>
<th>Graduation to SD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic sources</strong></td>
<td>-Taxation &amp; expenditure</td>
<td>-Low-income criteria</td>
</tr>
<tr>
<td>Public</td>
<td>-Financial inclusion and trade finance for SMEs</td>
<td></td>
</tr>
<tr>
<td>-Government tax revenue</td>
<td>-Carbon taxes</td>
<td>• GNI per capita</td>
</tr>
<tr>
<td>Private</td>
<td>-Capital markets</td>
<td>-Human Assets Index</td>
</tr>
<tr>
<td>-Households</td>
<td>-Institutional investors</td>
<td>• Nutrition (% undernourishment)</td>
</tr>
<tr>
<td>-Corporations</td>
<td>-Public-Private Partnership</td>
<td>• Health (mortality rate)</td>
</tr>
<tr>
<td><strong>External sources</strong></td>
<td>-Climate finance</td>
<td>• Education (gross secondary enrolment and adult literacy rate)</td>
</tr>
<tr>
<td>Public</td>
<td>-Official development assistance</td>
<td>- Economic Vulnerability Index</td>
</tr>
<tr>
<td>-Bilateral and multilateral donors</td>
<td>-Foreign direct investment</td>
<td>• Population size</td>
</tr>
<tr>
<td>-Multilateral development financial institutions</td>
<td>-Remittances</td>
<td>• Remoteness</td>
</tr>
<tr>
<td>Private</td>
<td>-South-South Cooperation &amp; Triangular cooperation</td>
<td>• Merchandise export concentration</td>
</tr>
<tr>
<td>-Multinational corporations</td>
<td></td>
<td>• Share of agriculture, forestry and fisheries in gross domestic product</td>
</tr>
<tr>
<td>-Migrant workers</td>
<td></td>
<td>• Share of population living in low elevated coastal zones</td>
</tr>
</tbody>
</table>

- **United Nations ESCAP**

Economic and Social Commission for Asia and the Pacific
Domestic resources: tax revenues

Tax-to-GDP ratio in selected Asia-Pacific countries, 2011

New Zealand
Japan
Australia
Kazakhstan
Papua New Guinea
Fiji
Georgia
Mongolia
Russian Federation
Kiribati
Vanuatu
Nepal
Bhutan
Cambodia
Bangladesh
Afghanistan
Myanmar
Timor-Leste

% GDP

Other A-P countries

LDCs

Source: ESCAP 2014
Domestic private resources: Credit

Domestic credit to private sector as percentage of GDP in selected LDCs

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic credit to private sector as percentage of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>158%</td>
</tr>
<tr>
<td>World</td>
<td>133%</td>
</tr>
<tr>
<td>EAP**</td>
<td>129%</td>
</tr>
<tr>
<td>UMI**</td>
<td>99%</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>68%</td>
</tr>
<tr>
<td>Nepal</td>
<td>58%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>48%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>45%</td>
</tr>
<tr>
<td>Bhutan</td>
<td>44%</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>34%</td>
</tr>
<tr>
<td>All LDCs</td>
<td>25%</td>
</tr>
<tr>
<td>Lao PDR*</td>
<td>21%</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>11%</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>4%</td>
</tr>
</tbody>
</table>

UMI refers to upper middle income countries; EAP refers to developing countries of East Asia and the Pacific. Source: WDI database
**Domestic private resources: Credit and equity**

**Financial inclusion**
- low access to financial services and low financial literacy and capability in LDCs.

**Equity markets**
Stock markets have emerged in several LDCs.

**Bangladesh:**
- 2 stock exchanges
- 542 traded securities
- $80 billion market cap.

*Source: ESCAP, based on World Bank, G20 Financial Inclusion Indicators dataset (accessed 10 March 2014). Note: (1) Most of the data was collected in 2010-2011 period*
External resources: Official Development Assistance

Source: ESCAP

Note: * UMI refers to upper middle income countries.
Source: WDI database
External resources: FDI

- ESCAP developing economies ex LDC
- ESCAP LDC

Per cent of GDP

External resources: FDI

FDI

FDI/GDP

2020


0 0.5 1 1.5 2 2.5 3 3.5

Per cent of GDP

0 1 2 3 4 5 6 7

in $ billions

$- $100,000 $200,000 $300,000 $400,000 $500,000 $600,000

External resources: remittances

Migrant remittances in Asia-Pacific economies

- Timor-Leste: 21.0%
- Bangladesh: 6.2%
- Afghanistan: 3.5%
- Nepal: 1.7%
- Bhutan: 1.0%
- Myanmar: 0.7%
- Tuvalu: 0.1%
- Solomon Islands: 0.1%

Remit and Remit/GDP over the years from 2000 to 2012.
Private infrastructure investment in selected Asia Pacific LDCs, 2008-2012

Source: ESCAP, based on data from the World Bank
Knowledge building, capacity-assistance and sharing development experiences

- New opportunities for South-South cooperation (SSC) and triangular development cooperation (TDC)

- China and Turkey have spent over $2.8 billion and $2.5 billion respectively on SSC related activities in recent years

- Other important contributors to SSC activities in the region include the Republic of Korea, India, the Russian Federation, Thailand and Indonesia.

- Key areas to enable LDCs graduation efforts: poverty alleviation, gender, agriculture and rural development, food security, infrastructure projects, ICT, environment, disaster relief and reconstruction, debt relief, banking, training of civil servants, governance, capacity-building and advisory services, and humanitarian aid
Average tariffs imposed by developed markets on agricultural, clothing and textiles products, selected country groups

Source: ESCAP/ADB/UNDP: Regional MDGs Report 2012/13
Effectiveness ODA

ODA per poor person in the region and countries with special needs

Source: ESCAP/ADB/UNDP: Regional MDGs Report 2012/13
Possible Policy Options

1. Smart use of trade and investment opportunities
2. Invest in connectivity
3. Raise tax-to-GDP ratios
4. Strengthen banking sector, and deepen financial sector.
5. Strengthen legal and regulatory framework for FDI inflows.
6. Expand the use of remittances for productive activities.
7. Blended finance for development
8. Promote complimentary role of South-South cooperation.
9. Strategic use of ODA flows.
Thank you!
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