



Financing for Development in Asia and the Pacific: Opportunities and Challenges

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**Dialogue of the Executive Secretaries of the Regional
Commissions
with the UN General Assembly Second Committee**

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Asia-Pacific financing landscape

- Asia-Pacific is well-placed to finance Agenda 2030 despite its large financing requirement
- Strong economic growth and fiscal position together with high savings rate provide an enabling environment to finance sustainable development goals
- Some countries fare well on tax front, but by and large tax/GDP remain underexploited and tax policies do not incentivize reduction of inequalities or effectively incentivize
- High trade integration and increasing intra-regional trade and investment are catalysts for inclusive economic growth and sustainable development
- Despite immense opportunities, challenges remain:
 - The existence of non-trade barriers remain the trade obstacles
 - Low tax rate and large informal economy put constraints to domestic resource mobilization
 - Rising Asian middle class implies greater tension on public services and infrastructure needs
 - Greater risk of financial instability with increasing level of corporate and household debts

Asia-Pacific sustainable development financing needs

Total: Up to \$2.5 trillion a year

Economic & Social investment needs per year:

\$500 - \$800 billion

- Payment for safety nets
- Old age pension
- Income security to all persons with disabilities
- Universal access to health and education
- Modern energy access for all

Infrastructure investment needs per year:

\$1.6 - \$1.7 trillion

- Energy
- Transport
- Telecommunications
- Water & Sanitation

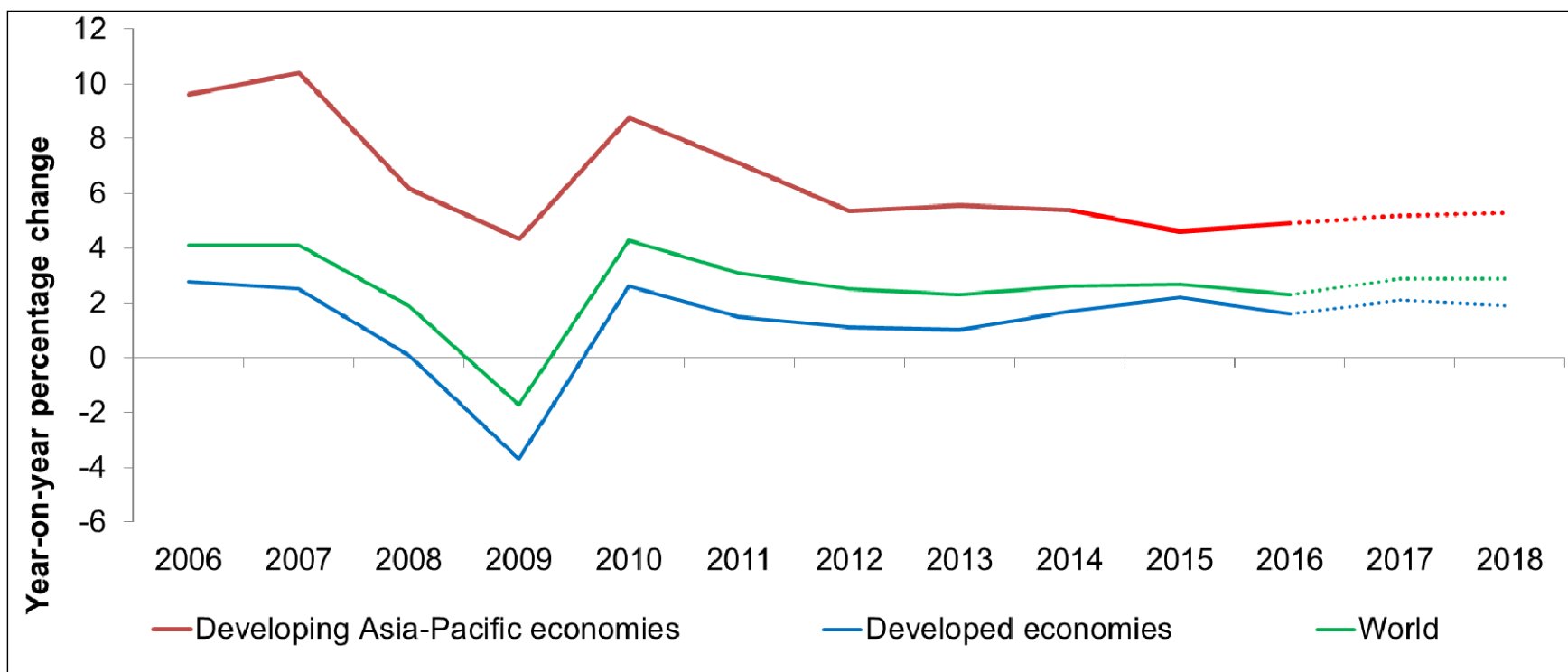
Source: ESCAP (2015): Financing for Transformation: from agenda to action on sustainable development in Asia and the Pacific. and ADB (2017) - meeting Asia's infrastructure needs



Strong and sustained economic growth

Developing Asia-Pacific economies are growing twice as fast as the world and the region now accounts for more than 30% of world GDP

Real GDP growth: Developing Asia and the Pacific and advanced economies

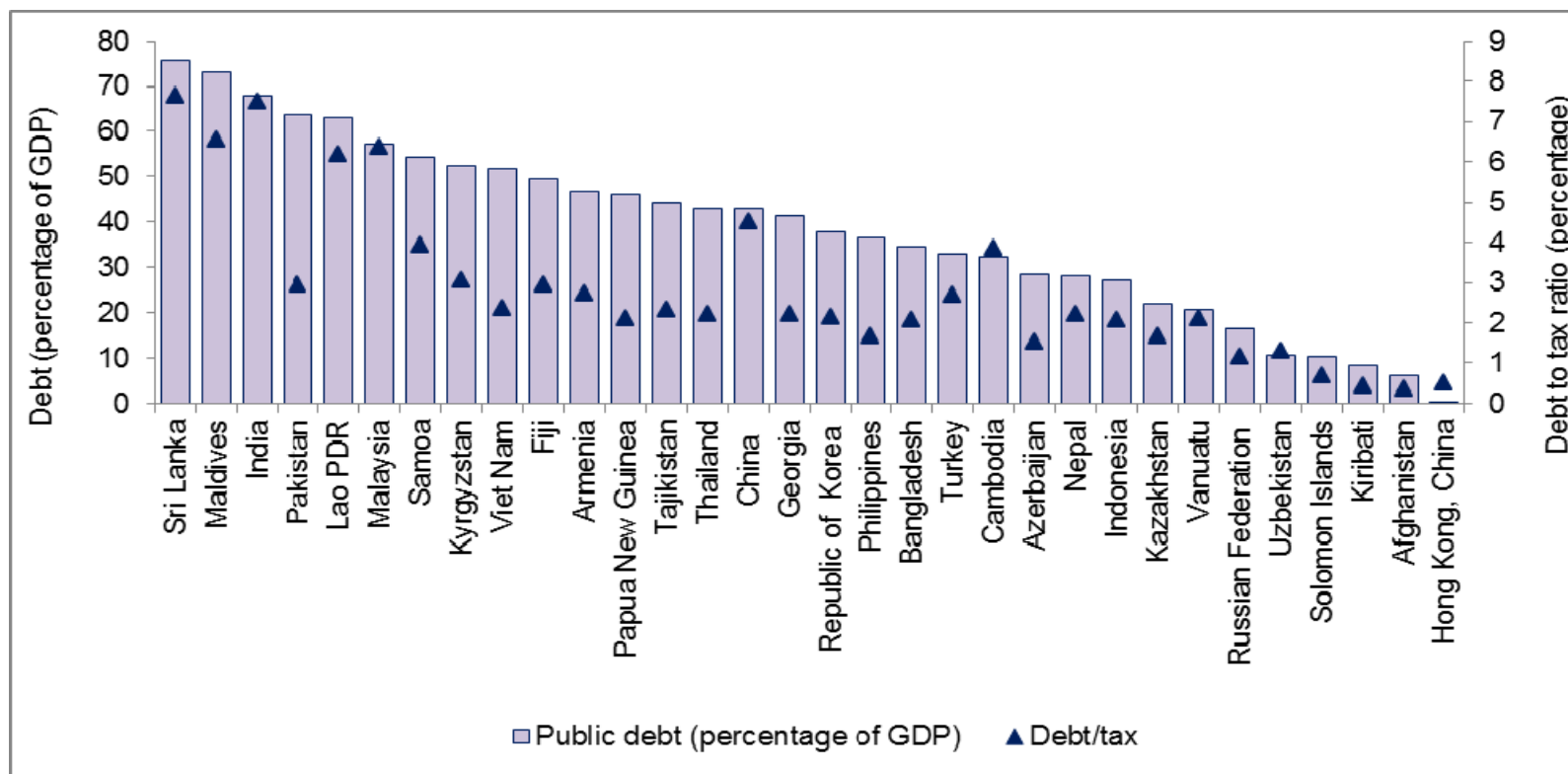


Source: ESCAP forecast and UN-DESA, WESP several issues



Good fiscal positions in most countries: manageable debt levels compared to GDP and tax revenues

General government debt, compared with GDP and tax revenues

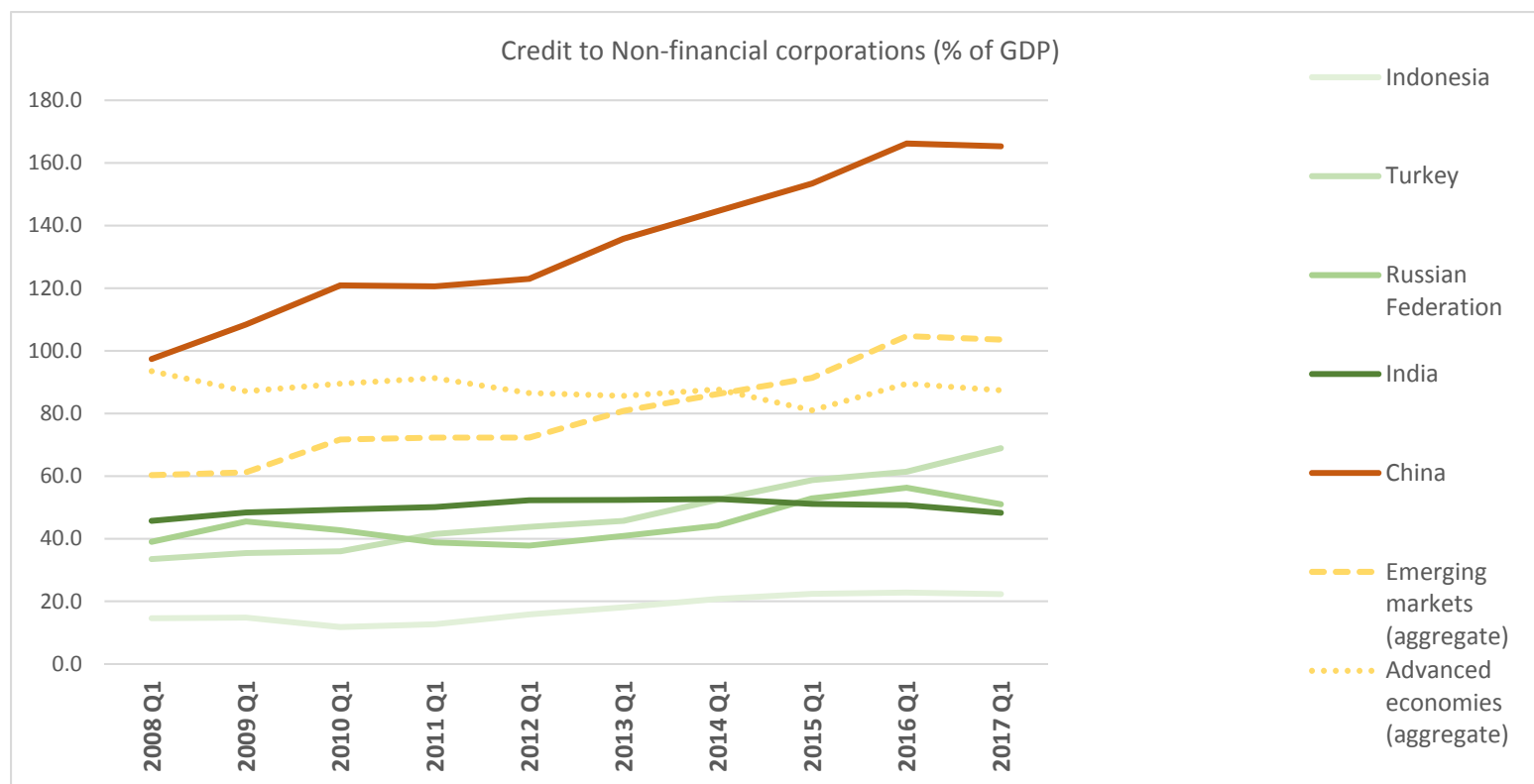


Source: IMF, Fiscal Monitor database and International Financial Statistics database; and World Bank, World Development Indicators database.



Sharp corporate debt increase risk financial and economic stability

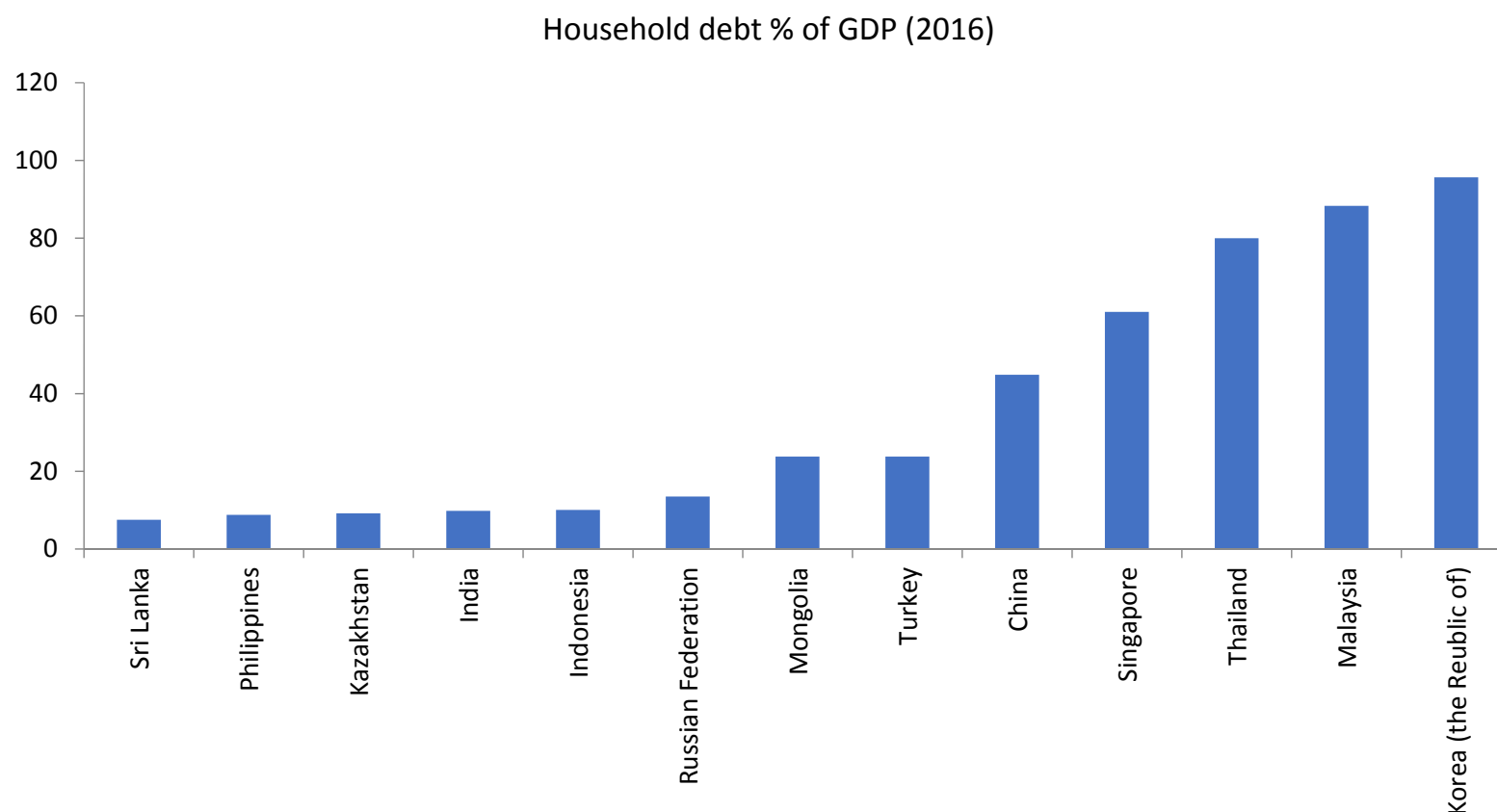
Corporate debt exposure in China has led to growing concern over private debt sustainability. Although at less significant level, other economies like Russian Federation and Turkey also experienced large growth in total corporate debt after the 2007-08 crisis.



Source: ESCAP based on IMF data

Accumulating household debt is another potential risk factor

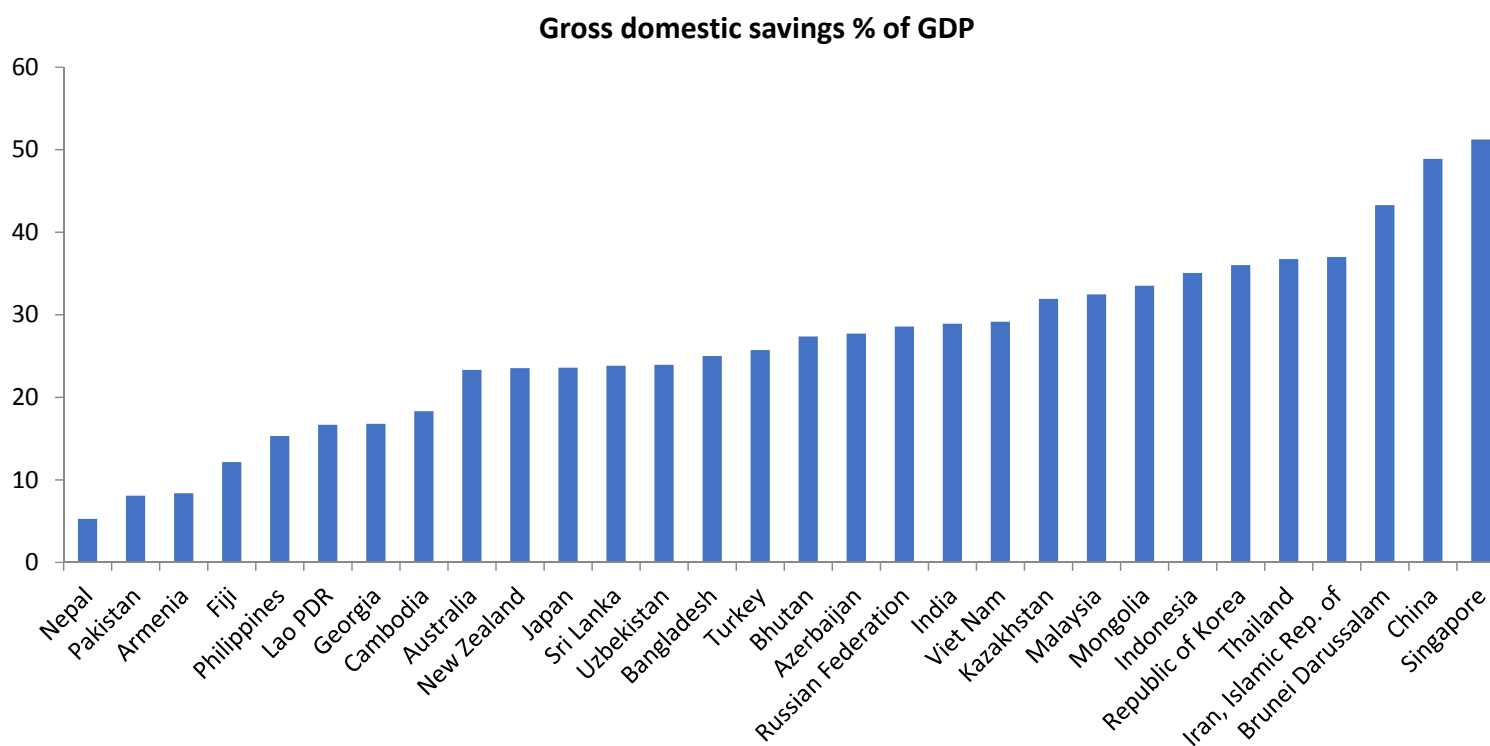
In some emerging market countries of the region, accumulating household debt could also be a potential risk factor.



Source: ESCAP based on IMF data

Region pool of domestic savings is large

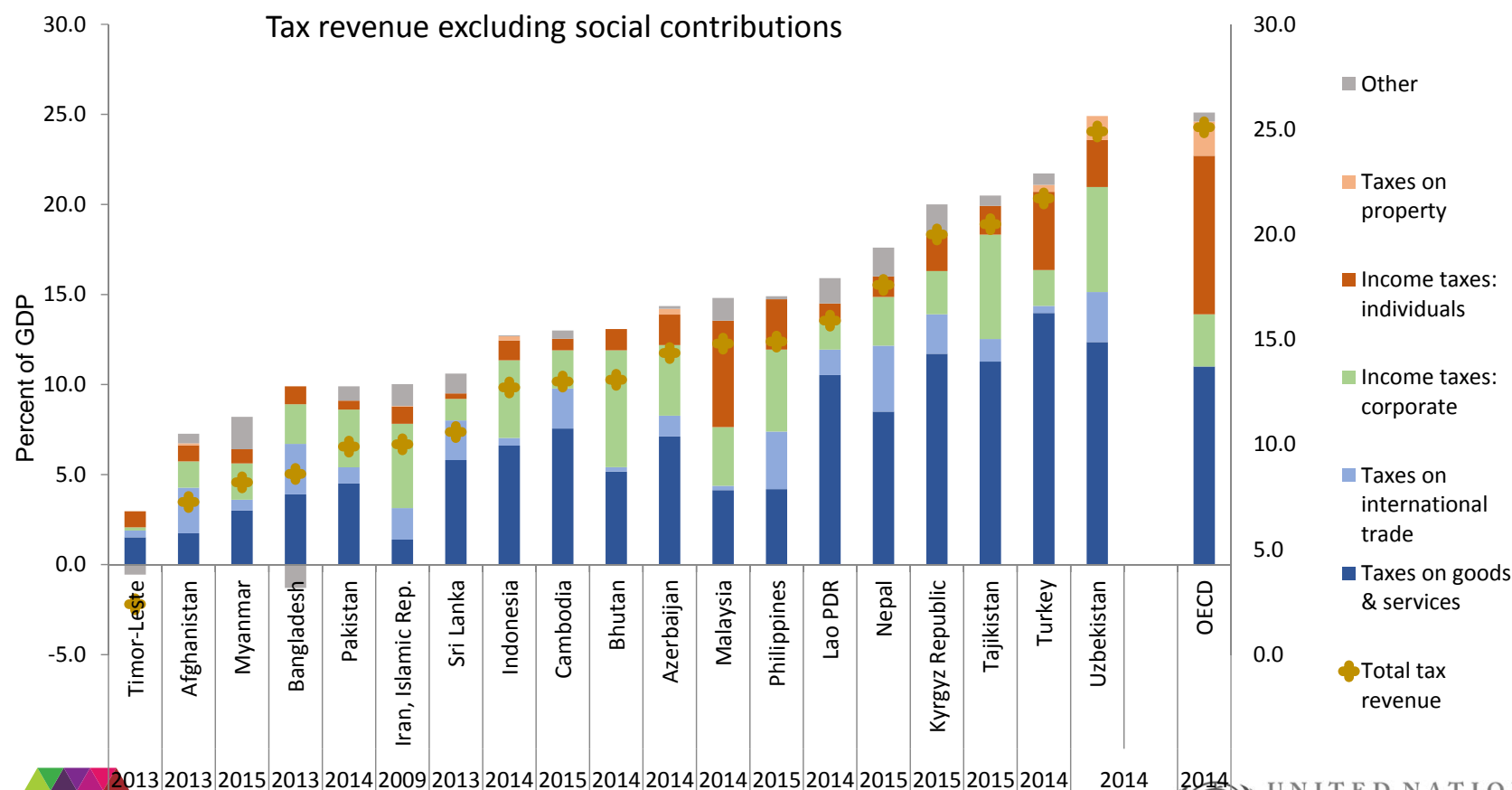
Savings rate in many Asia-Pacific countries are among the highest in the world, averaging over 40 percent of GDP as compared to 22 percent in the EU and 19 percent in the United States



Source: ESCAP based on data from World Bank, WDI
Note: Data shown is for latest year available 2015-2016

Tax revenue levels in developing Asia

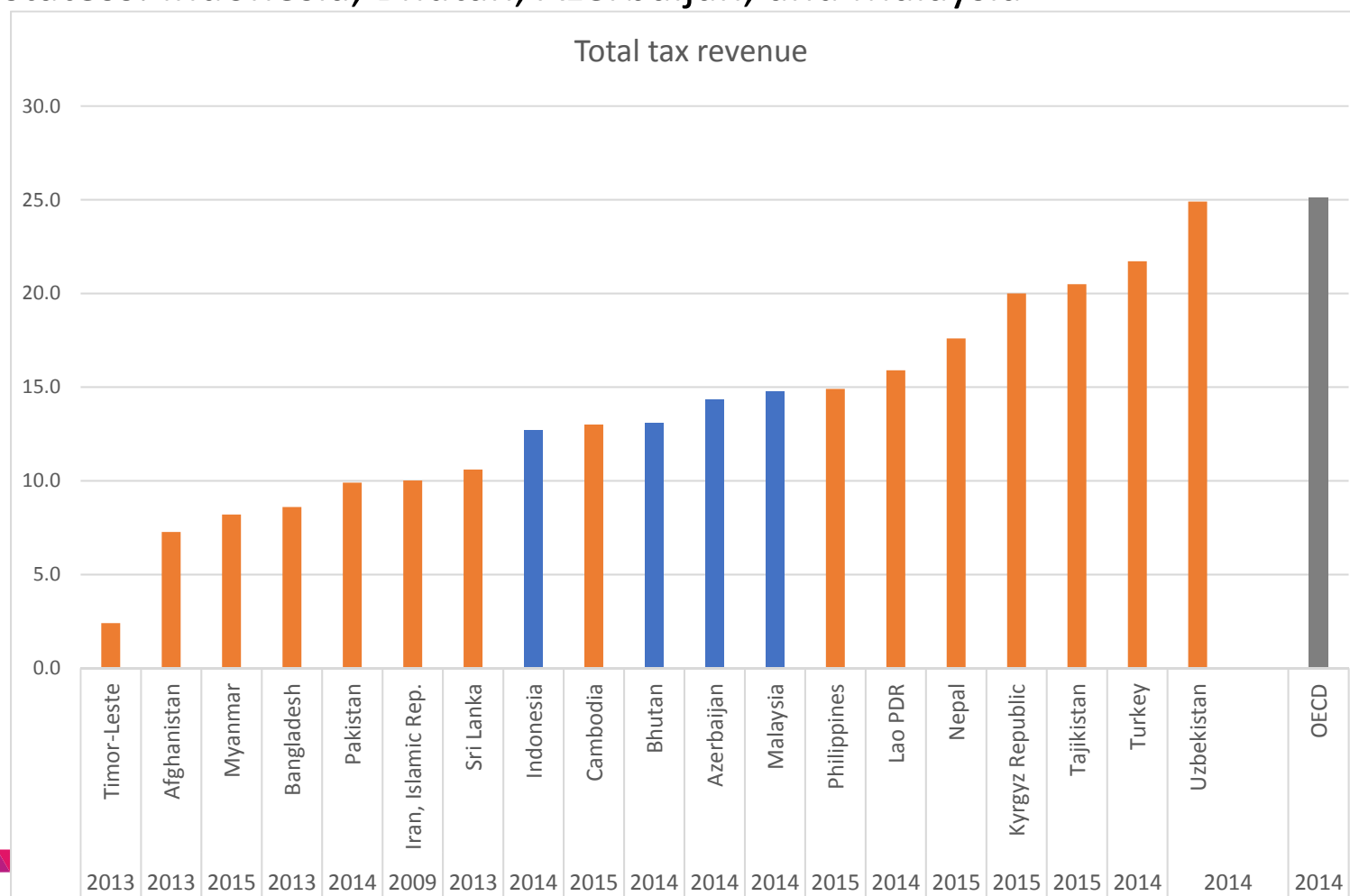
Tax revenues (excluding social contributions) in developing East, South-East and South Asia average 14.2% of GDP, which is lower than other developing regions and fall behind the OECD level of 25.1% of GDP.



Source: ESCAP based on IMF GFS and various sources

Tax revenue levels in fragile states

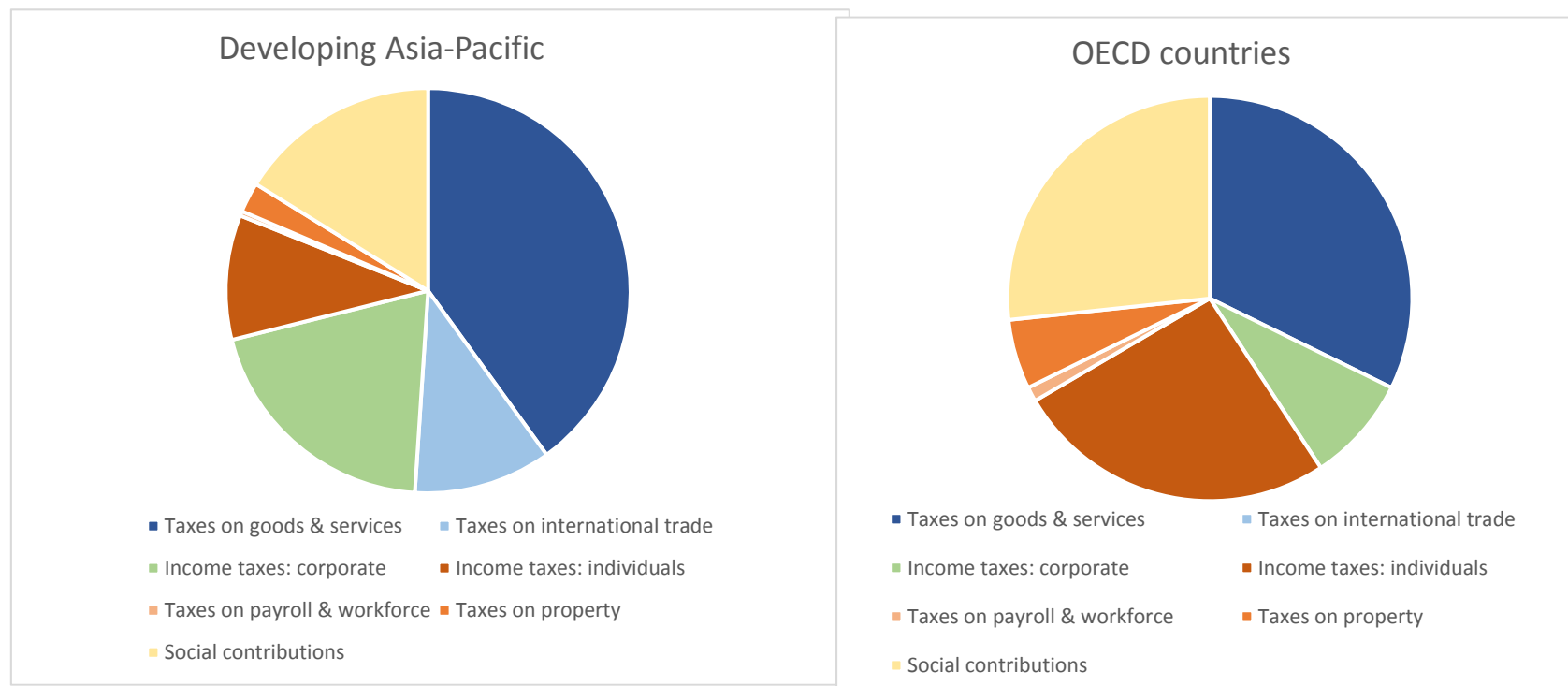
Seven fragile states have tax-to-GDP ratios below or close to 10%. Fourteen countries have tax-to-GDP ratios below or close to 15%, including four non-fragile states: Indonesia, Bhutan, Azerbaijan, and Malaysia



Source: ESCAP based on IMF GFS and various sources

Indirect and corporate taxes still dominate

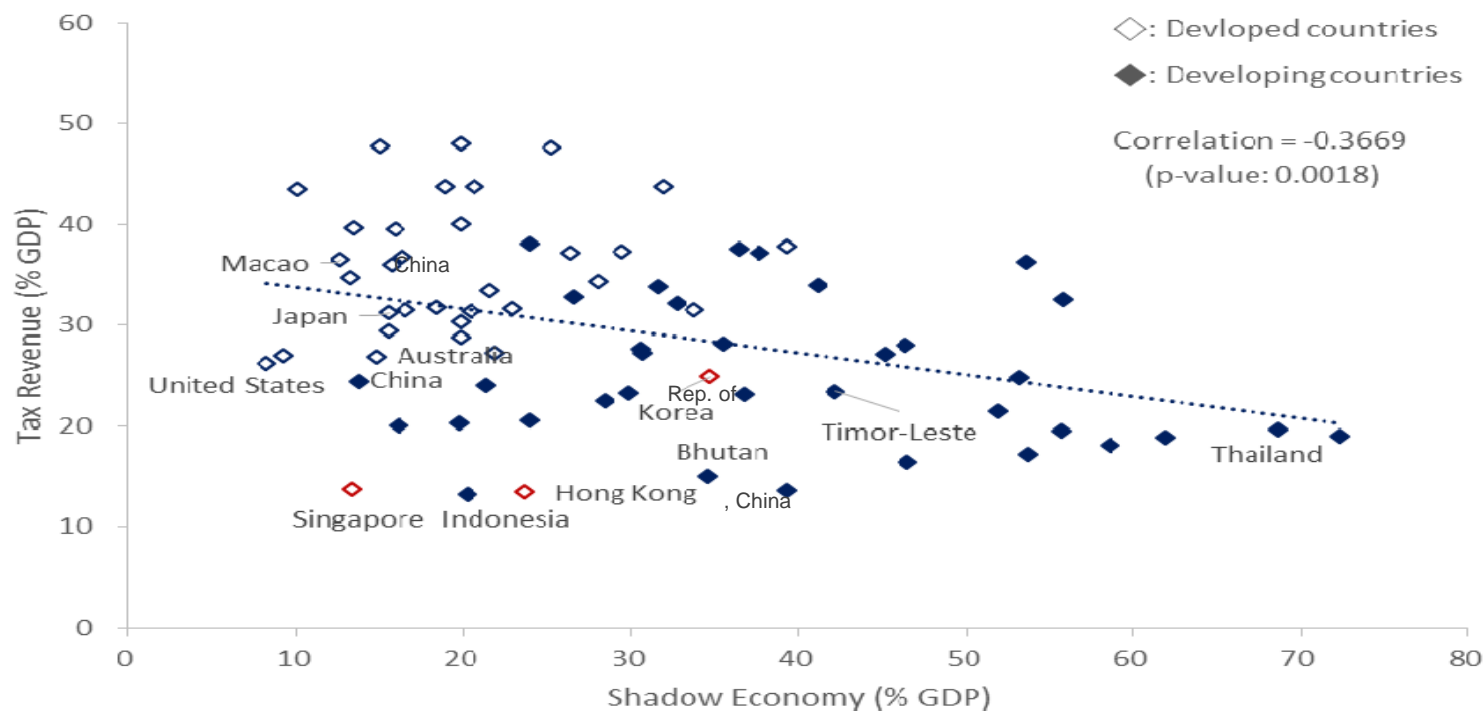
Personal Income taxes, and property/wealth taxes remain small. Corporate income tax revenue averages 3.9% of GDP, and social contributions account for a large part of total tax revenues in China, Islamic Republic of Iran, Mongolia, Russian Federation, Uzbekistan, among others.



Source: ESCAP based on IMF GFS

Shadow Economy makes tax revenue mobilization more challenging

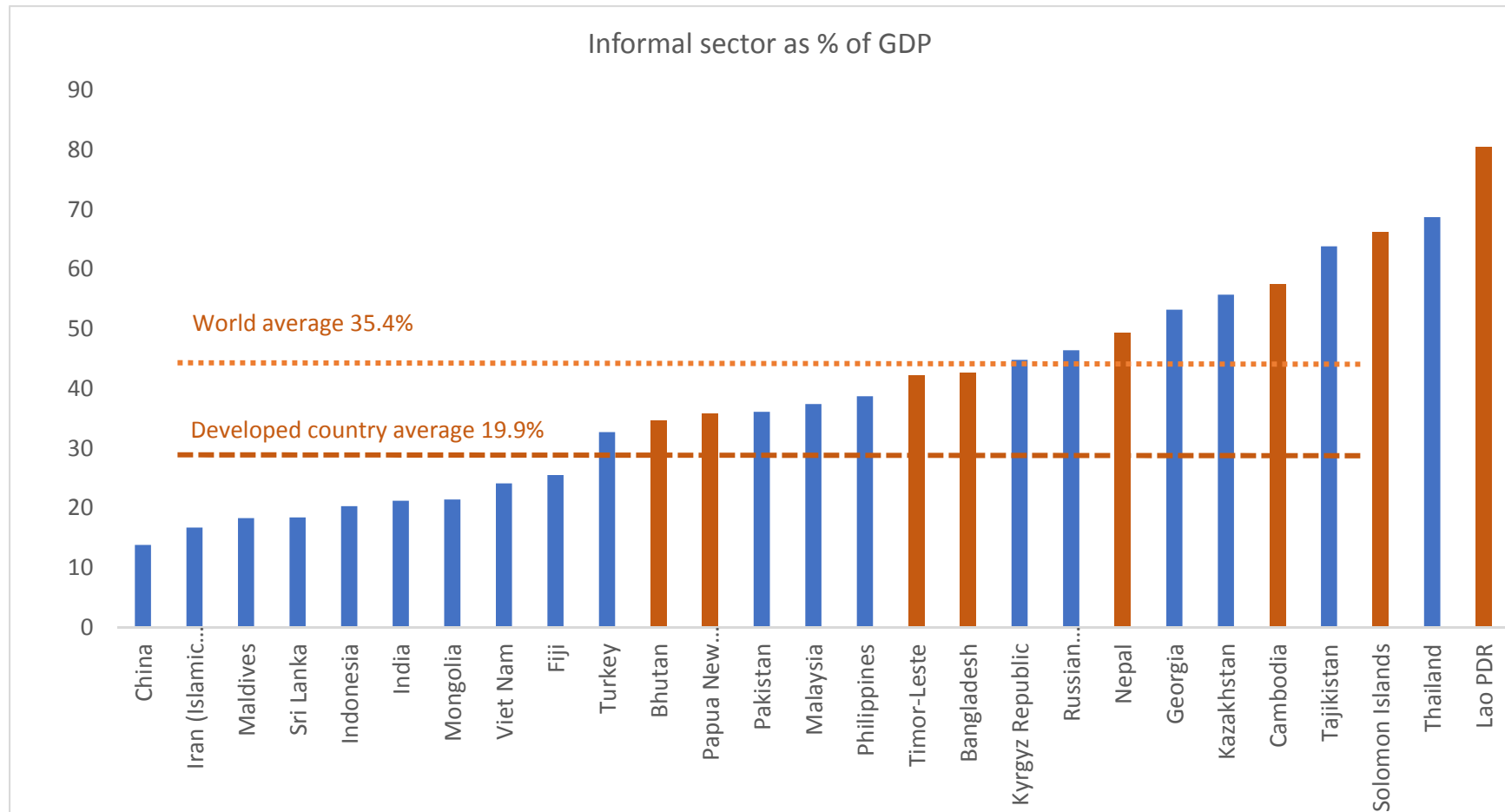
The presence of large informal sector is main obstacle for tax revenue mobilization. It not only erodes overall tax base but also creates pressure on tax authorities to provide undesirable reduced rates or exemptions to formal sector firms as incentive for them to stay formal and tax registered.



Source: IMF, Government Finance Statistics; Hassan and Schneider (2016)

Tapping resources a challenge in presence of large informal sector

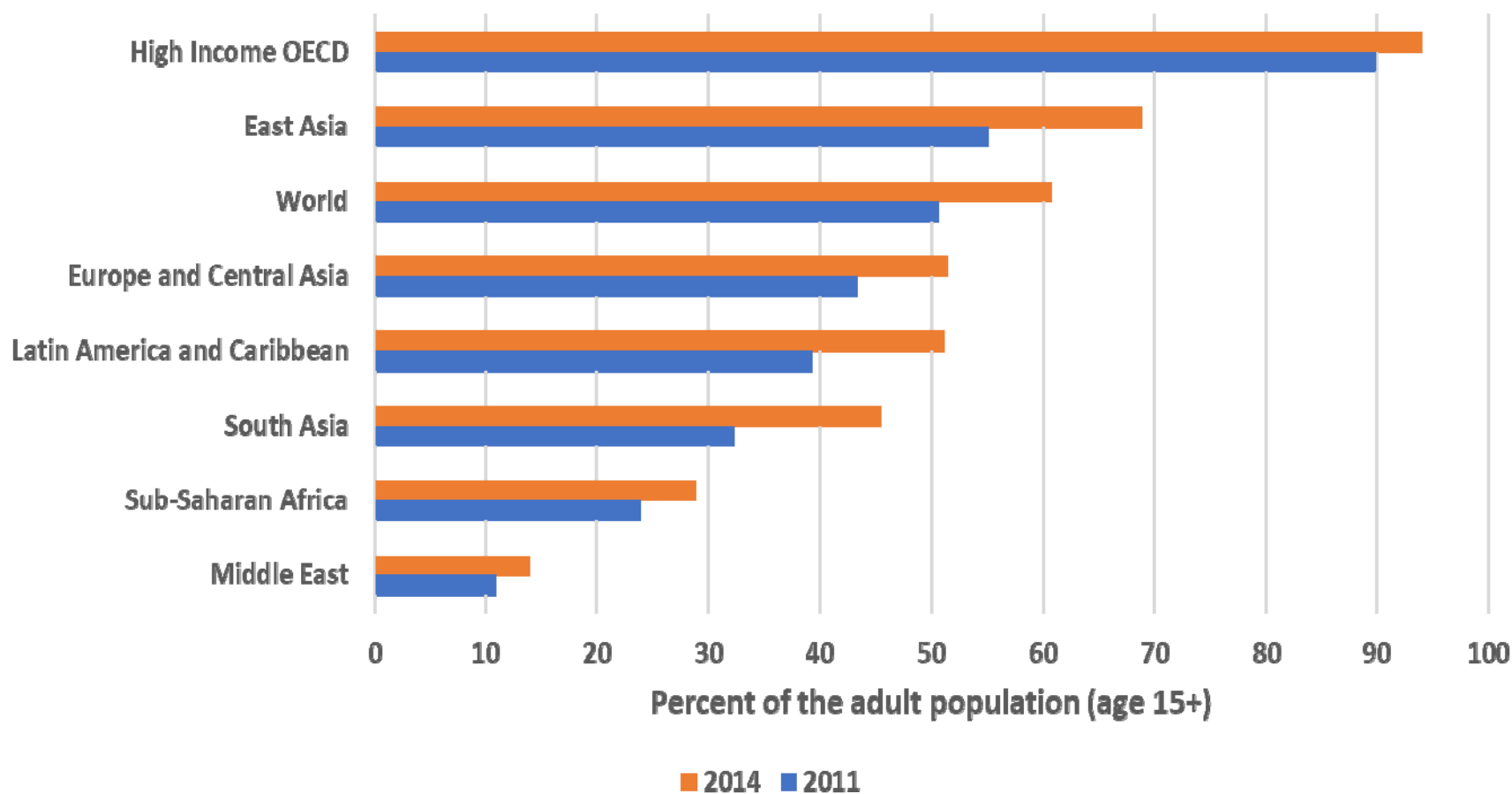
In the least developed countries of the region (highlighted in red), the shadow economy is a major obstacle for effective taxation.



Source: Hassan and Schneider (2016)

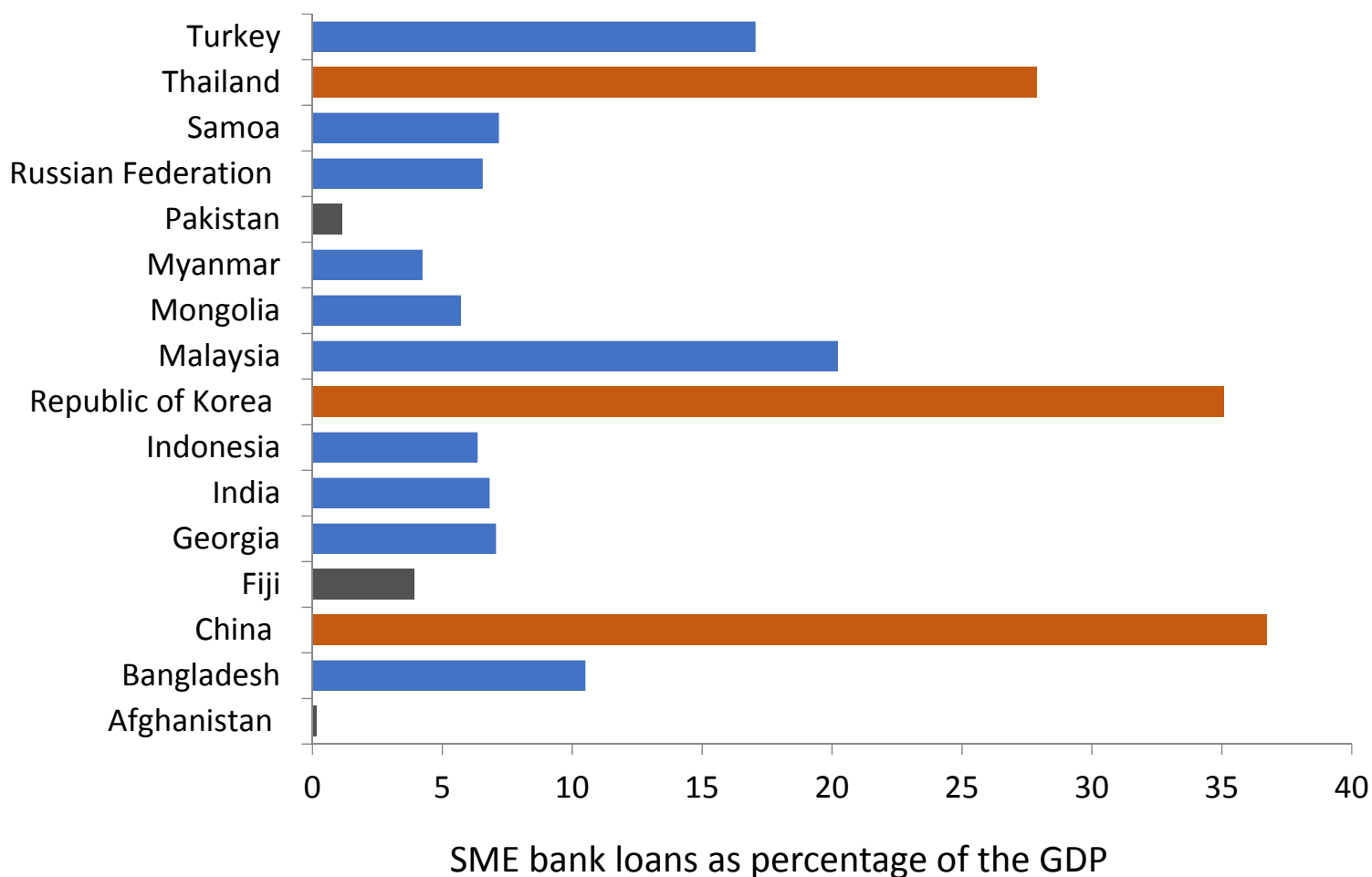
Access to financial services is high in East Asia and is gaining momentum in South Asia

Access to an account in a financial institution



Source: World Bank. 2015. The Little Data Book on Financial Inclusion 2015

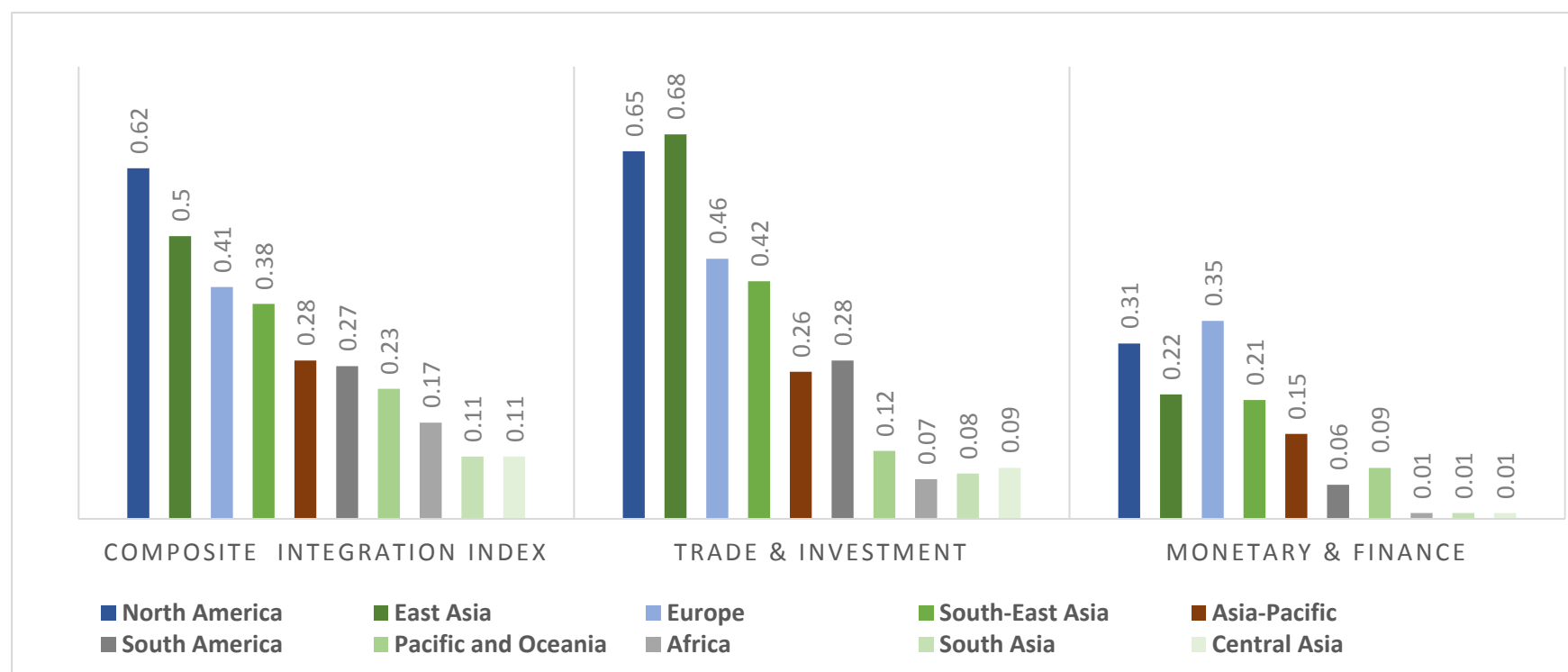
SME access to credit in Asia and the Pacific varies much across countries



Source: IFC Enterprise Finance Gap Database. Data for 2014

Higher trade integration relatively to financial integration

East and South-East Asia are on par with developed regions in trade and investment integration, but fall short in monetary and financial integration. Central Asia, South Asia and the Pacific remain far behind in sub-regional integration levels



Source: ESCAP based on Madhur (2016), based on Naeher (2015).

Intraregional trade a source of strength and is increasing

Intraregional merchandise imports and exports increased in all Asia-Pacific subregions between 1990 and 2015. North and Central Asia registered the highest growth in both intraregional imports and exports in this period.

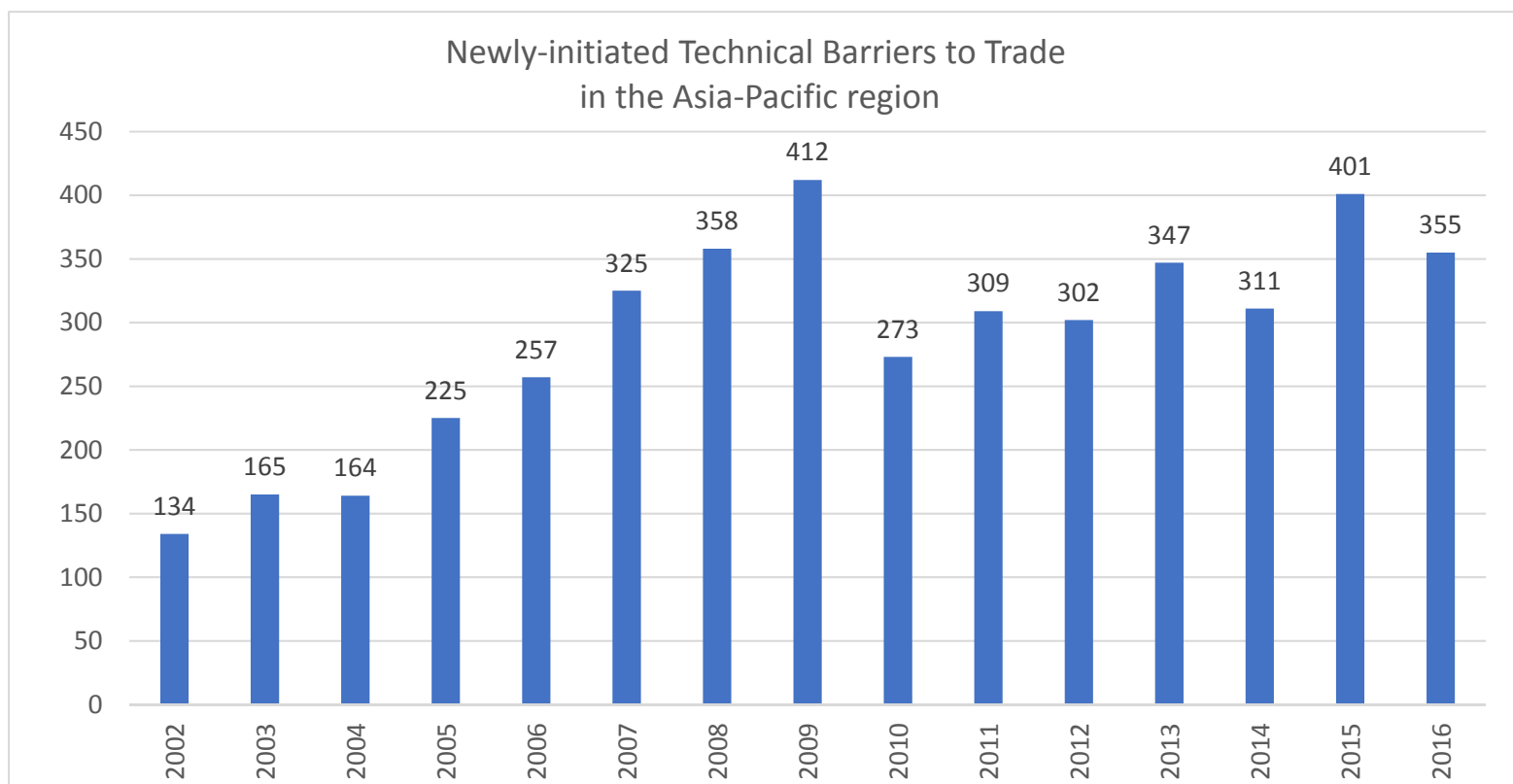
Subregion	Intraregional merchandise imports		Intraregional merchandise exports	
	As % of GDP	As % of total imports	As % of GDP	As % of total exports
East and North-East Asia				
1990	6.7	50.3	6.1	42.3
2000	7.9	53.8	7.3	44.3
2015	9.6	58.4	11.9	55.5
North and Central Asia				
1990	2.3	21.4	3.3	22.1
2000	4.4	30.3	8	21
2015	7.9	48.9	8.9	36.5
The Pacific				
1990	5.8	41.7	7.4	54.4
2000	8.7	48.4	10.3	60.6
2015	11.6	62.2	12.5	75.4
South and South-West Asia				
1990	3.6	33.3	2.4	29.5
2000	4.8	31.9	2.9	23.8
2015	9.7	44.3	4.2	29.5
South-East Asia				
1990	28.7	60.8	27.3	65.6
2000	37.1	61.7	41.5	59.6
2015	34.6	72.6	32.9	68.6



Source: ESCAP (2016); IMF (2017).

Non-tariff barriers contributing to trade obstacles

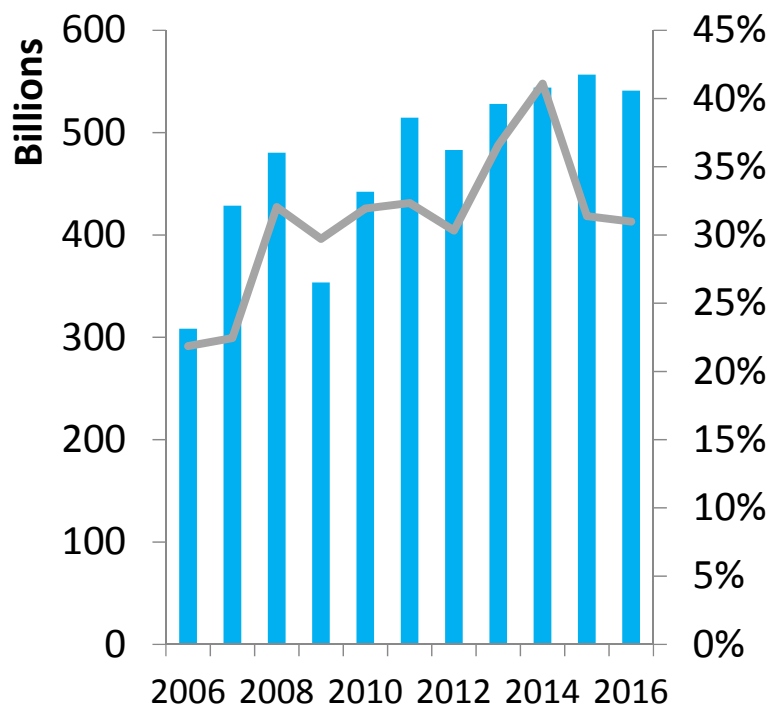
Non-tariff barriers remain the main obstacles for trade and investment in the region.



Source: ESCAP based on UNCTAD data.

Large Inward FDI Flows

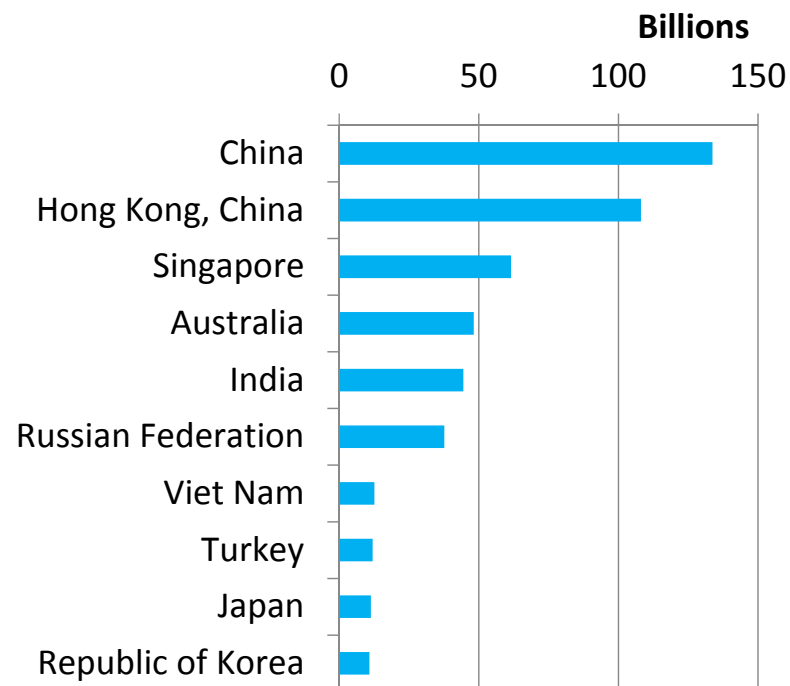
Asia-Pacific receives a significant amount of FDI inflows (over \$500 billion) or one third of world inflows



■ Asia-Pacific FDI inflows

— Asia-Pacific share in world FDI inflows

Top 10 FDI inflows in Asia and the Pacific (2016)

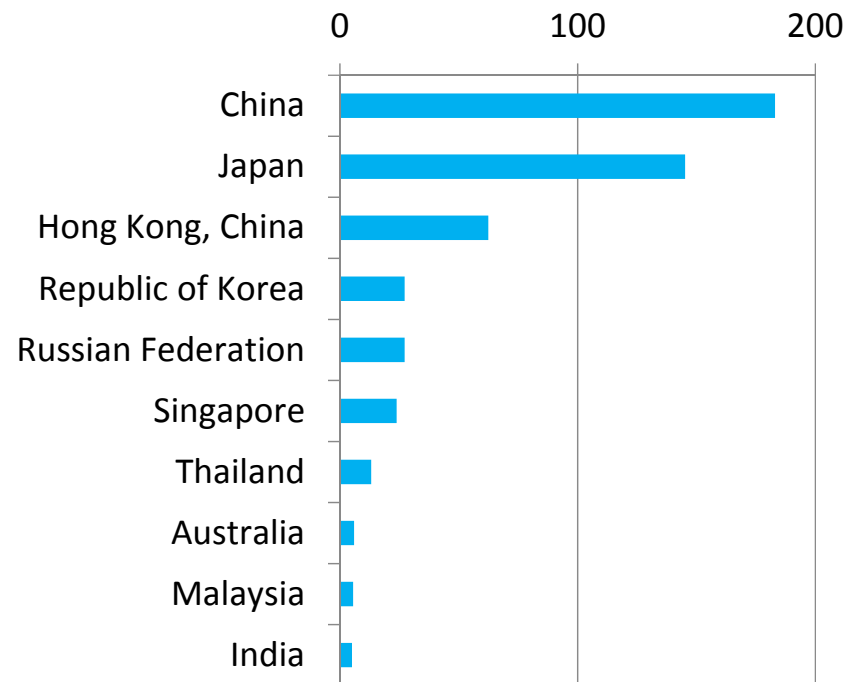
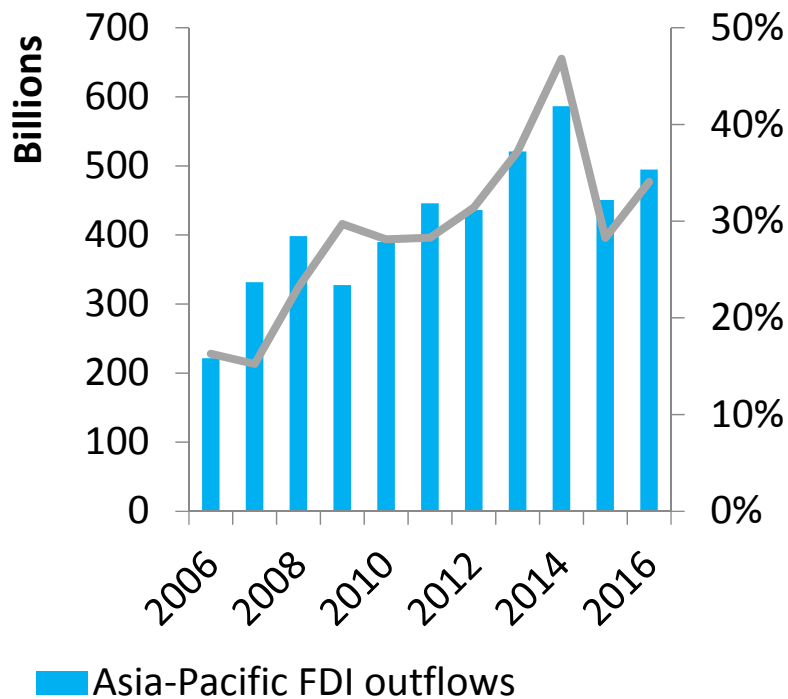


Source: ESCAP calculation based on UNCTAD data

Large Outward FDI flows

The Asia-Pacific region also contribute to close to \$500 billion of FDI outflows, which also represents around a 1/3 of global FDI outflows

Top 10 FDI outflows from Asia and the Pacific (2016)

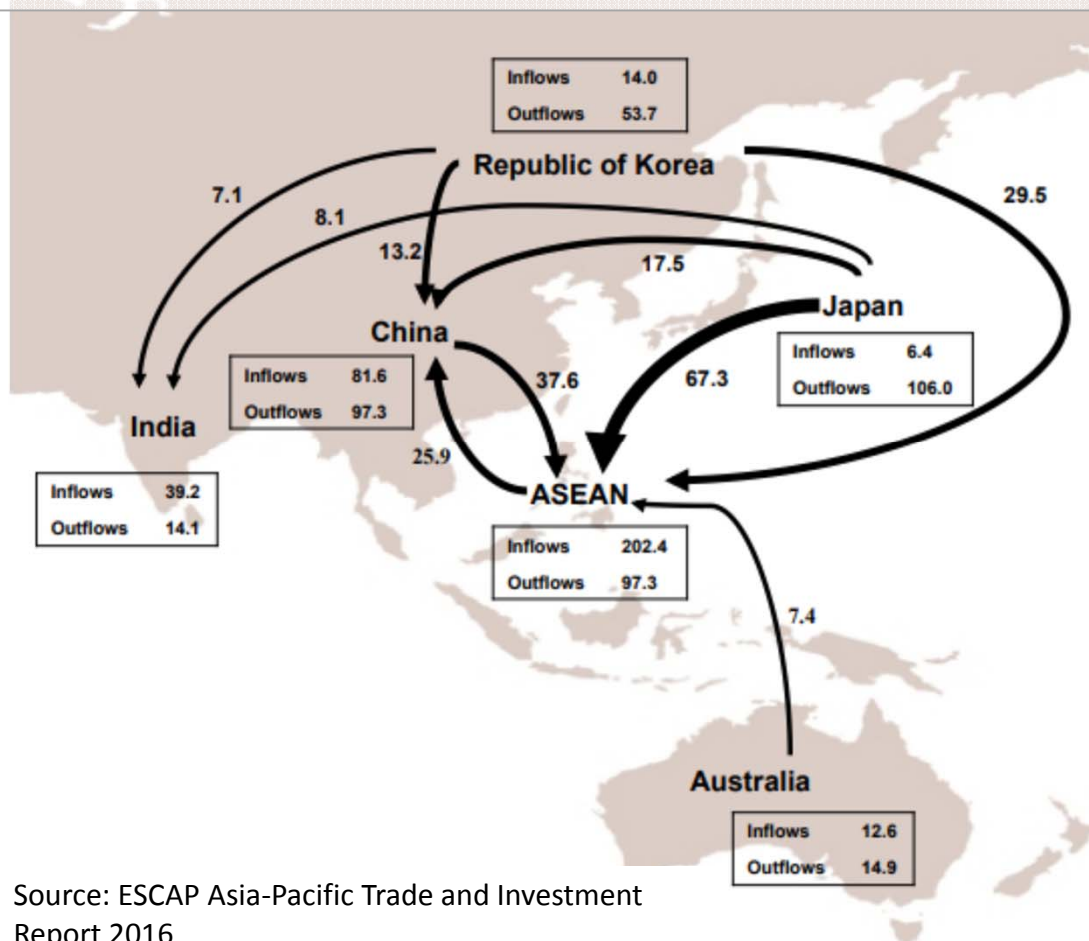


Source: ESCAP's calculation based on UNCTAD data

Growing Importance of Intraregional FDI

Intraregional greenfield FDI flows are gradually replacing those from the traditional big investors in Europe

Intraregional greenfield FDI flows btw selected economies, and total intraregional inflows/outflows to and from those economies, 2013-2015

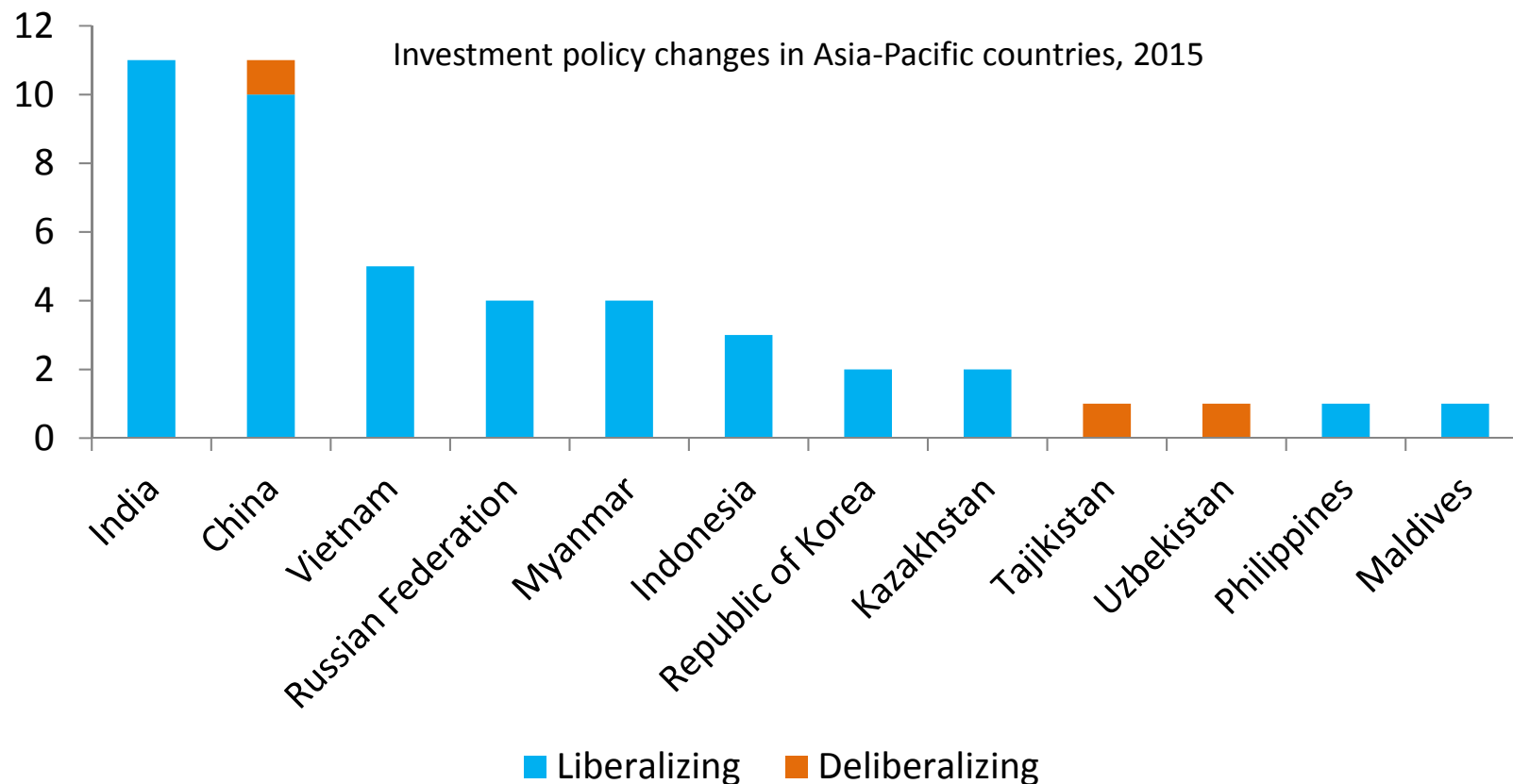


- The share of intraregional greenfield FDI inflows in total greenfield FDI inflows to the Asia-Pacific region has continuously increased during the past few years, accounting for 52% in 2015
- While FDI inflows to China are slowing down, more FDI is directed towards economies in ASEAN instead

Source: ESCAP Asia-Pacific Trade and Investment Report 2016

Asia-Pacific a leader in investment liberalization

Asia-Pacific countries lead with investment liberalization and promotion policies accounting for almost half of such measures adopted in 2015



Source: ESCAP's calculation based on the UNCTAD Investment Policy Monitor Database, 2016

Remittances remain stable as percentage of GDP

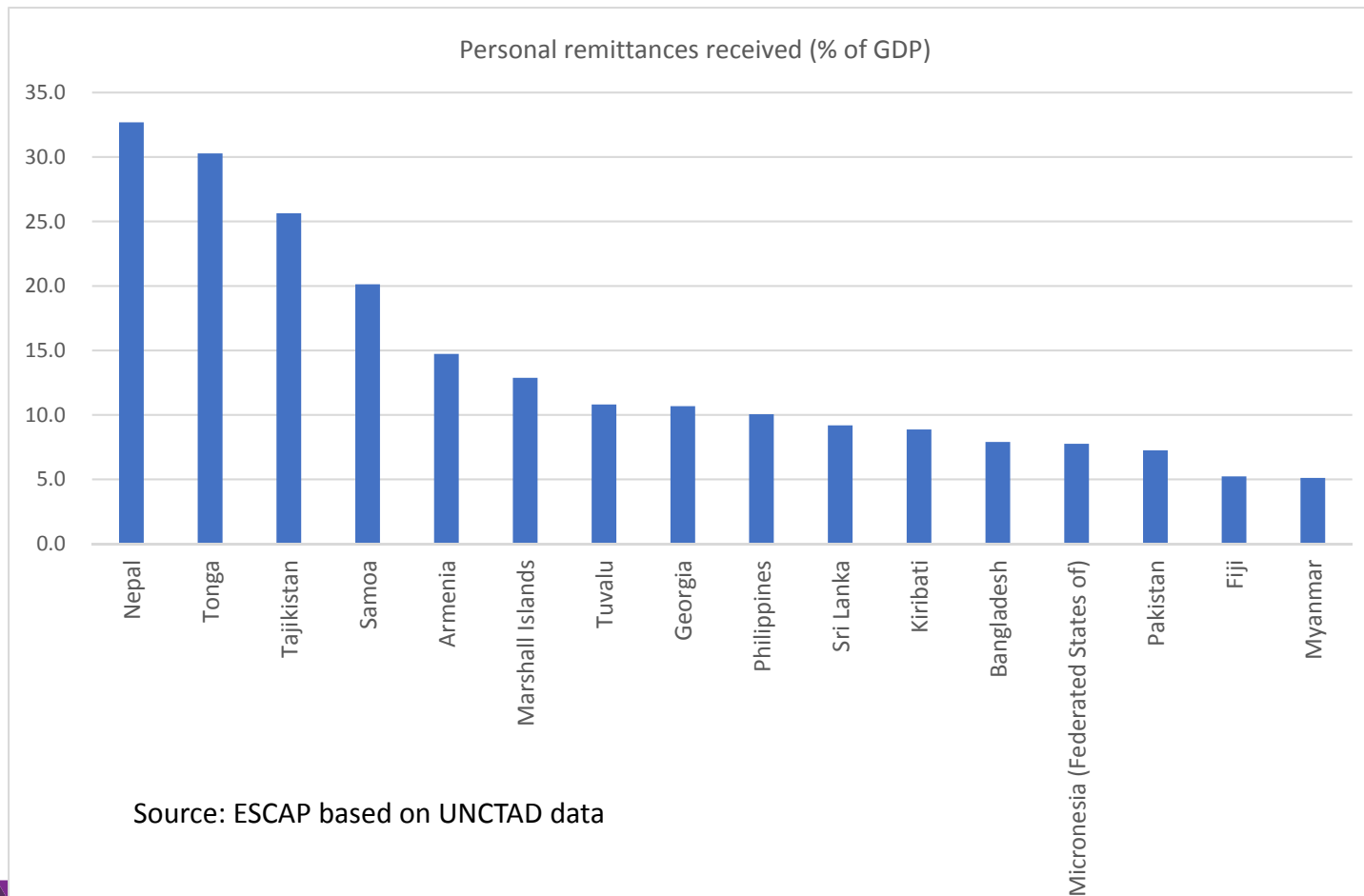
Personal remittances received by Asia-Pacific countries grew from \$157 billion to \$192 billion between 2011 and 2015. However, total remittances received as percent of GDP largely remained unchanged in the five years.



Source: ESCAP based on UNCTAD data

Remittances could be vital for LDCs and SIDS

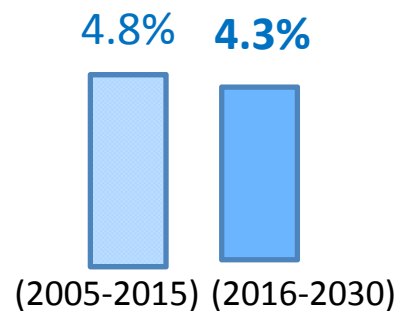
Remittances are of vital importance in development financing for least developed and small island states in the region.



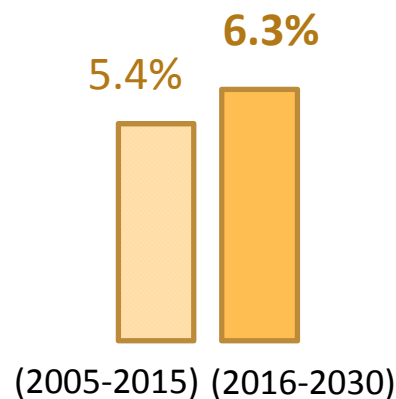
Infrastructure Gaps in Asia and the Pacific

Over the last 15 years, AP countries have spent around 5.5% of GDP on infrastructure. From 2016-2030, it is estimated this level should increase to 7.4% BUT requirements much larger in a number of countries.

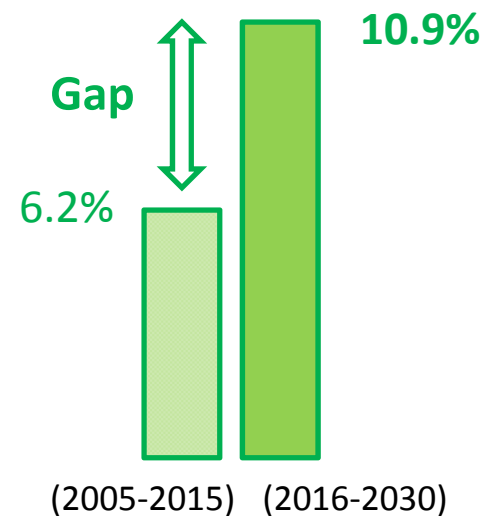
Advanced economies



Emerging markets



Low-income developing countries

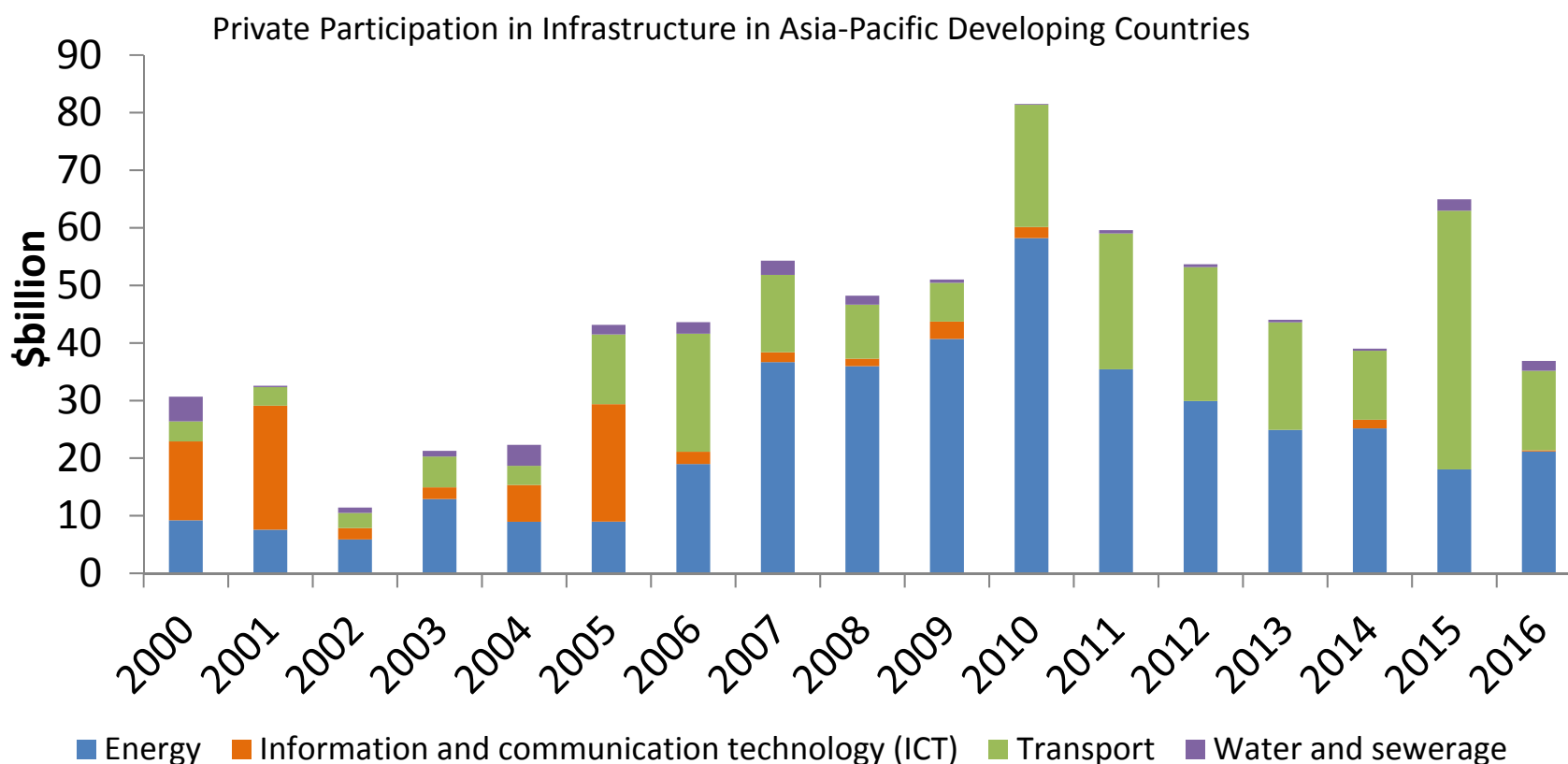


Source: ESCAP research (work-in-progress) / Asia-Pacific countries only



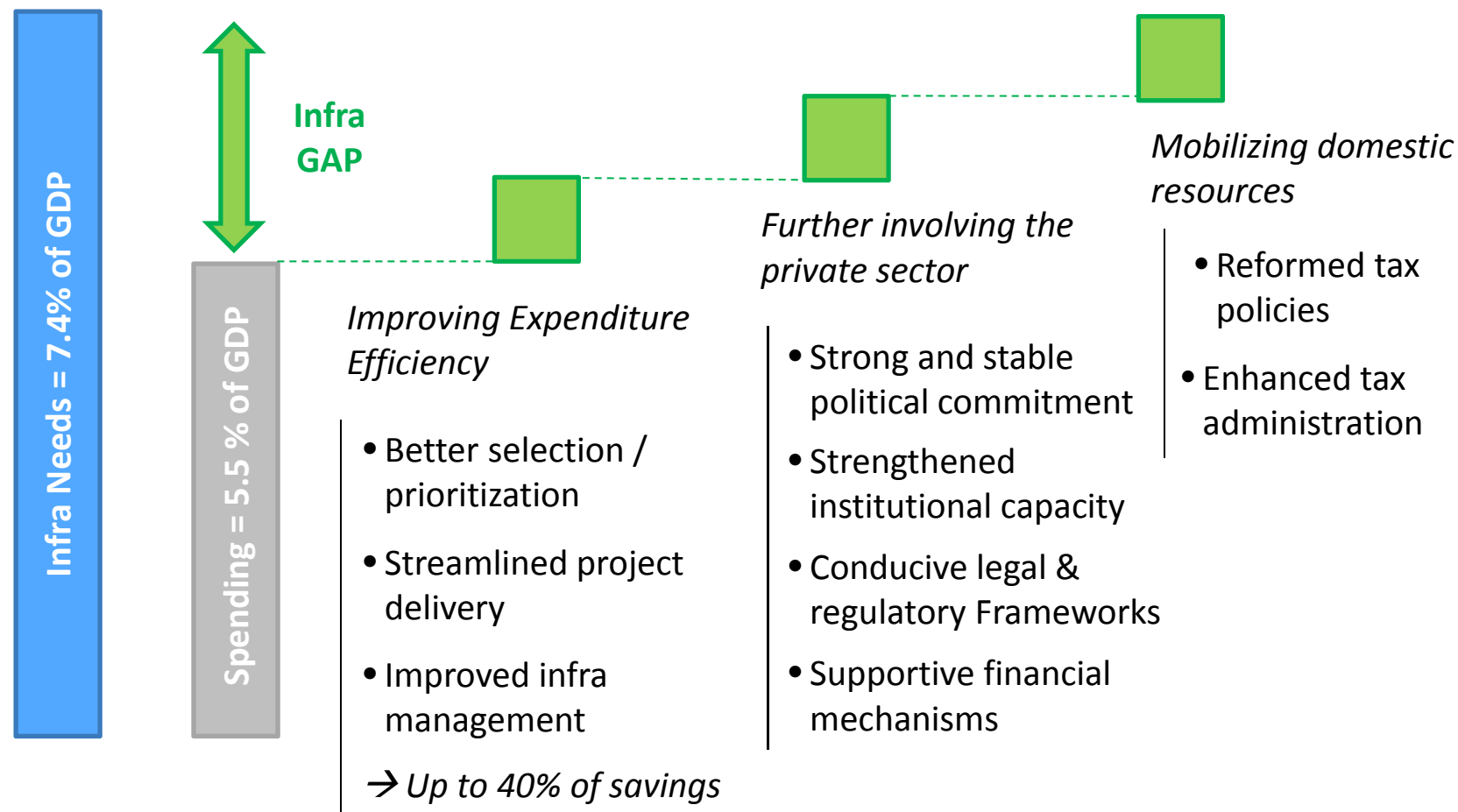
Scaling-up private investment in infrastructure is critical

To address infrastructure gaps, it is estimated that private investments should increase from around \$50 billion a year to as high as \$250 billion



Source: World Bank's PPI Database
ADB (2017) - meeting Asia's infrastructure needs

Meeting infrastructure needs requires combined strategies



Growing demand from rising middle-class will enhance service gaps but also contribute to economy

140 million of people are joining the middle class annually

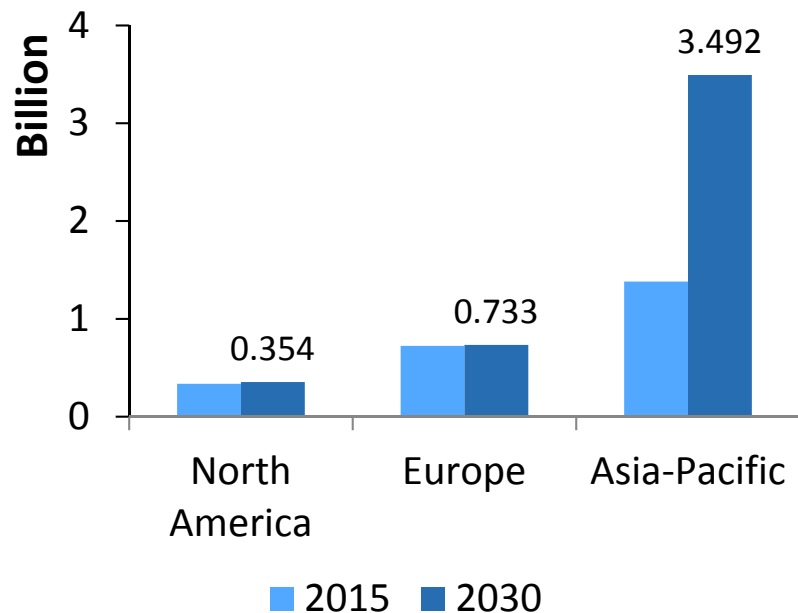
88 % of new entrants from Asia (mainly India and China) – geographical shift from Europe / North America to Asia-Pacific, the latter could represent 2/3 of the global middle-class by 2030

A growing middle class means:

- Greater expectation for public services (e.g. healthcare, pensions), possibly creating tensions on public finance
- Increased demand for shared prosperity from globalization

Source: Brookings – Working Paper 100 (February 2017)

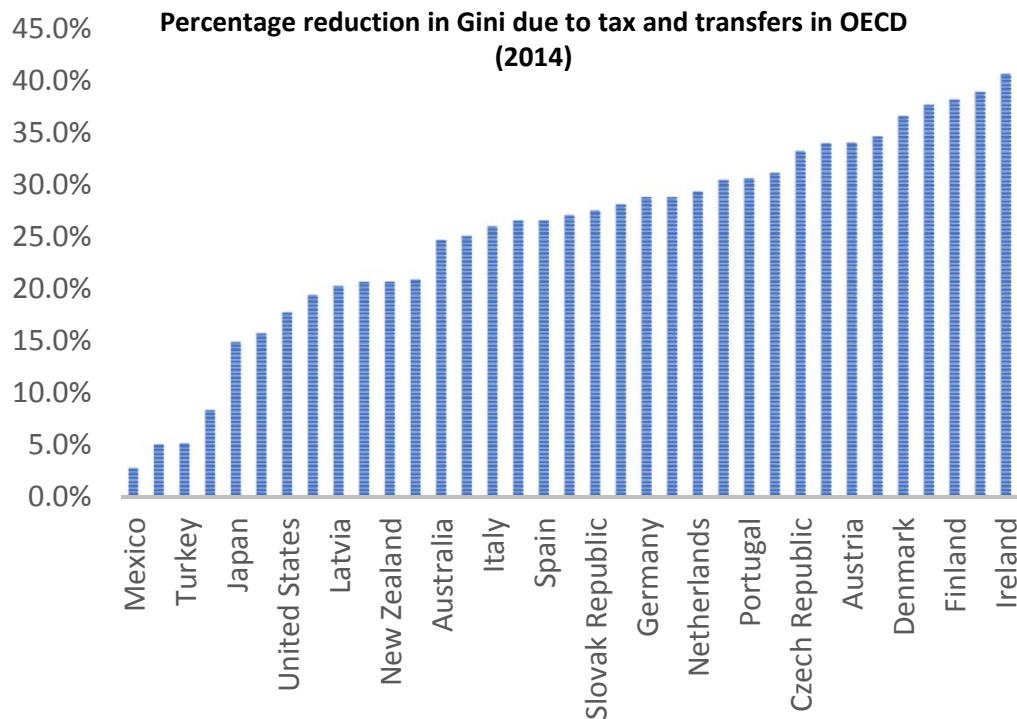
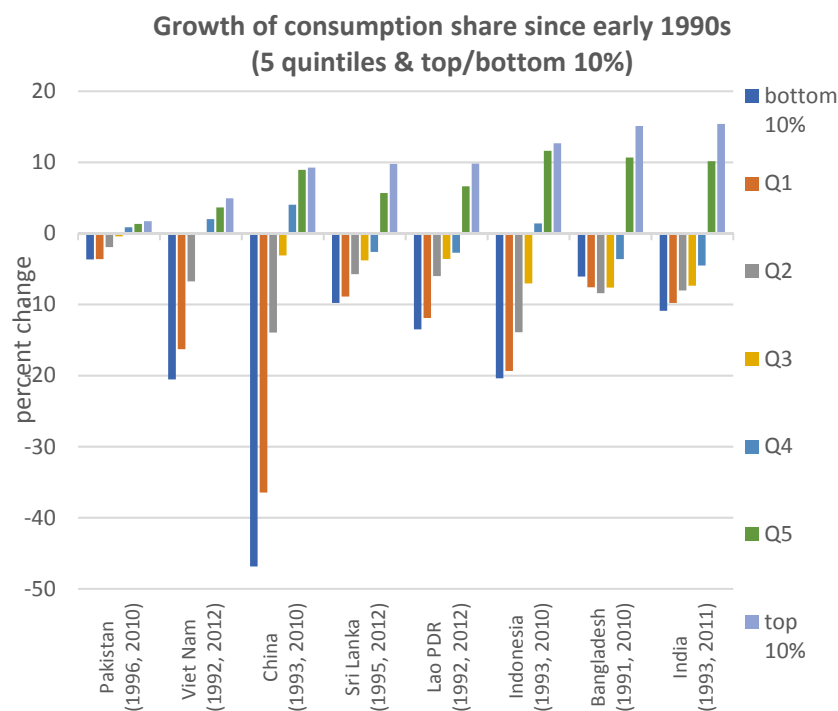
Number of people in the middle-class



Progressive tax and fiscal policies can play a significant role in addressing the widening income gaps in Asia and the Pacific

Bottom income groups were further marginalized in the past two decades.

Taxes and transfers on average help reduce income inequality by a third in OECD



Source: ESCAP based on OECD and WDI

Public finance policies will need to be adjusted – enhancing tax bases, tax progressivity to deal with growing inequalities and expanding social safety net

Asia-Pacific falls far behind in progressive taxation and proactive public spending to address inequality.

	Developing Asia-Pacific	OECD
Personal income tax	2%	8.80%
Property tax	0.50%	1.90%
Social contributions	3.20%	9.10%
Public education	3%	5.30%
Public healthcare	2.40%	8.10%
Social protection	6.20%	20.00%



Source: ESCAP based on IMF GFS and Estrada et al (2014).



Looking ahead: To implement the 2030 Agenda

- Encourage more private sector participation and channeling of the region's large savings to finance the 2030 Agenda
- Sustain the level of trade and investment integration in the region, while improving financial integration through regional cooperation
- Support tax policies that take into account economic, social and environmental considerations and increase tax morale
- Ensure combined strategies to meet infrastructure needs
- Promote more financial inclusion through proper design of regulations, business models and lending infrastructure, market-friendly government support and Fin Tech
- Leverage on ESCAP inter-governmental platform to identify specific entry points for ESCAP engagement in collaboration with UN country team
- Establish FfD-related working groups in Asia and the Pacific, covering three focused areas of infrastructure financing, tax policies and financial inclusion

