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経済の強靭性を高める
強いアジアの域内協力と投資
“Strong Asian Intraregional Trade and
Investment Improve Economic Resilience”

(ASIAN ECONOMIC INTEGRATION REPORT 2017より)

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Key messages

- Asia leads the global trade growth recovery amid uncertain global economic and trade policy environment
 - Asia’s intraregional trade share hits record high in 2016, while intraregional FDI also rises in both absolute value and share
- Asian financial markets continue to be integrated more globally than regionally, with the trend further accelerating
- Composite regional cooperation and integration index shows Asia’s regional integration is driven by geographic mobility of goods and people
- Despite much improved financial health, Asia continues to face challenges associated with increasing financial interconnectedness; Empirical results suggest the need for strengthening macroprudential regulation and supervision, regional cooperation for financial regulation and multilayered financial safety nets.
- As a medium-term issue, public-private partnership can be further leveraged to meet Asia’s infrastructure needs.

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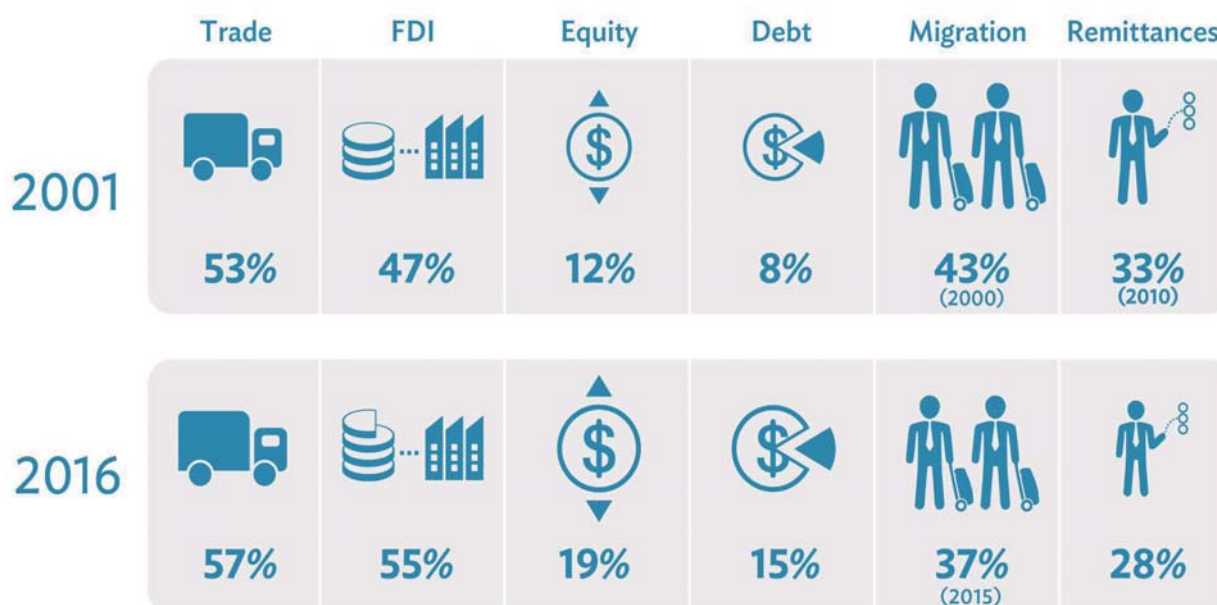
Progress of Regional Cooperation and Integration in Asia and the Pacific

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Asia's integration trends at a glance

Intraregional Shares (% of total)



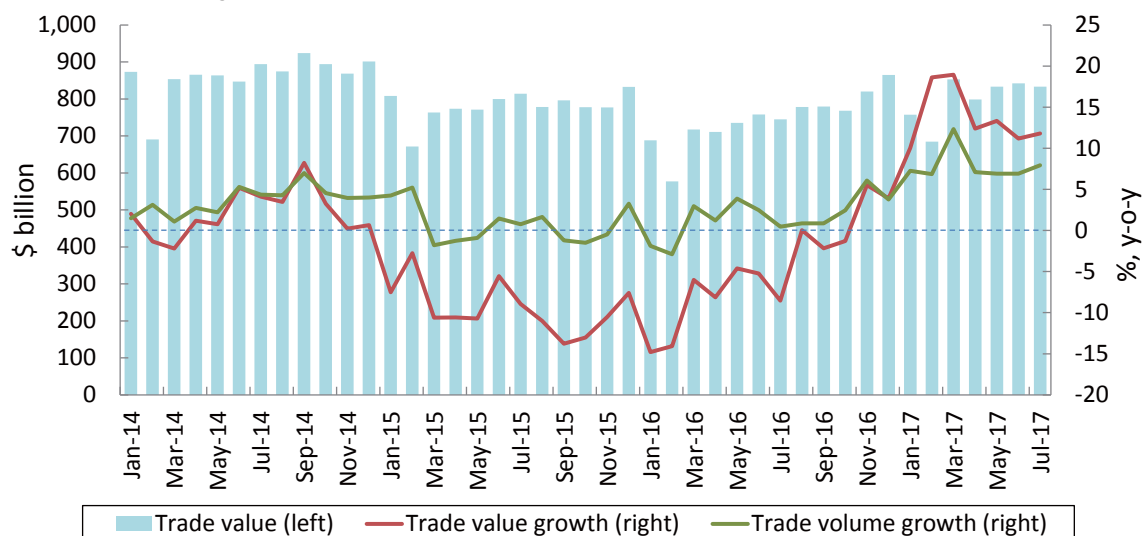
— = data unavailable; FDI = foreign direct investment (flows data); Equity = equity asset holdings (stock data); Debt = debt asset holdings (stock data).
 Note: Where 2016 data is not available, the latest year for available data is indicated in parenthesis (year).
 Source: ADB calculations using data from ADB. *Asian Economic Integration Report 2017* (forthcoming).

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Recent data point to a trade recovery

Asia's Monthly Trade Value and Volume



y-o-y = year-on-year.

Note: Asia includes the People's Republic of China; Hong Kong, China; India; Indonesia; Japan; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

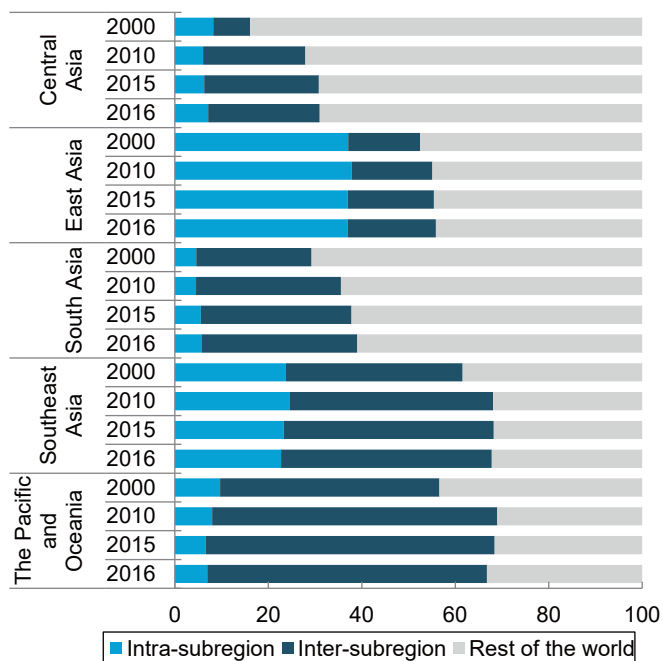
Source: ADB calculations using data from CEIC; CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor.

<https://www.cpb.nl/en/data> (accessed October 2017).

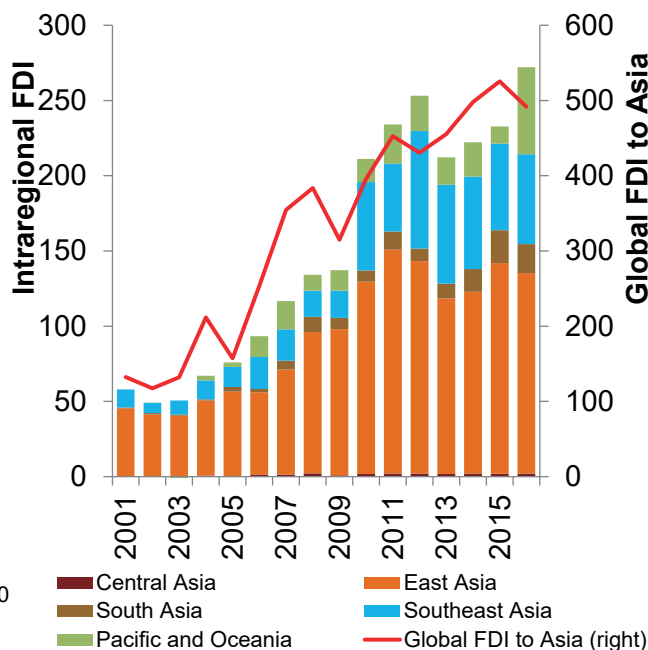


Intraregional Trade and Investment Linkages Deepen

Asia's intra- and inter-subregional trade shares (%)

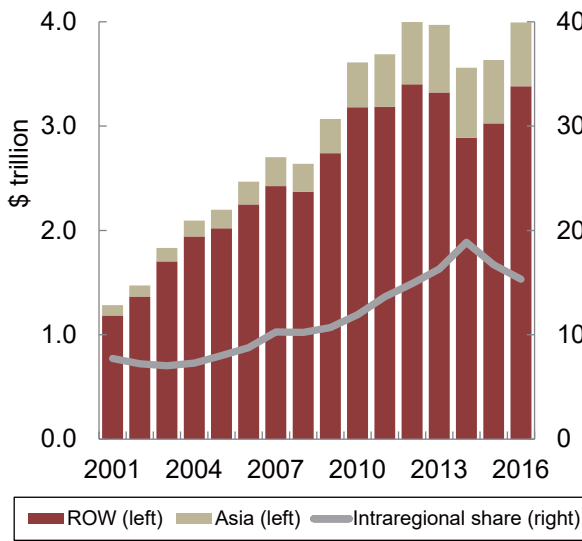


FDI inflows—Asia (\$ billion)

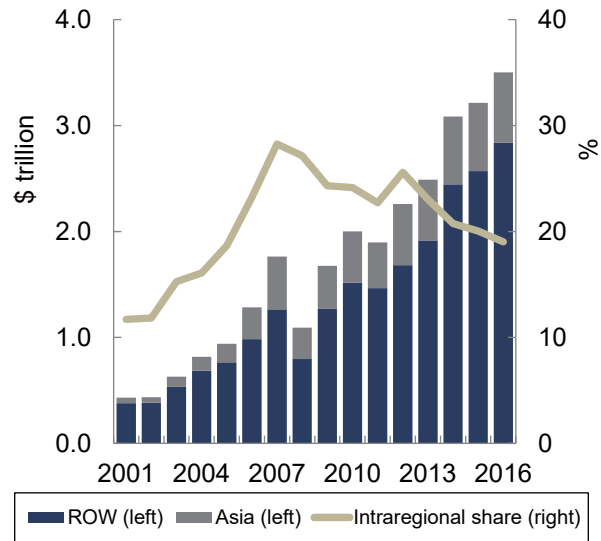


Asia's portfolio investors continue to invest outside the region

Asia's Outward Debt Investment



Asia's Outward Equity Investment



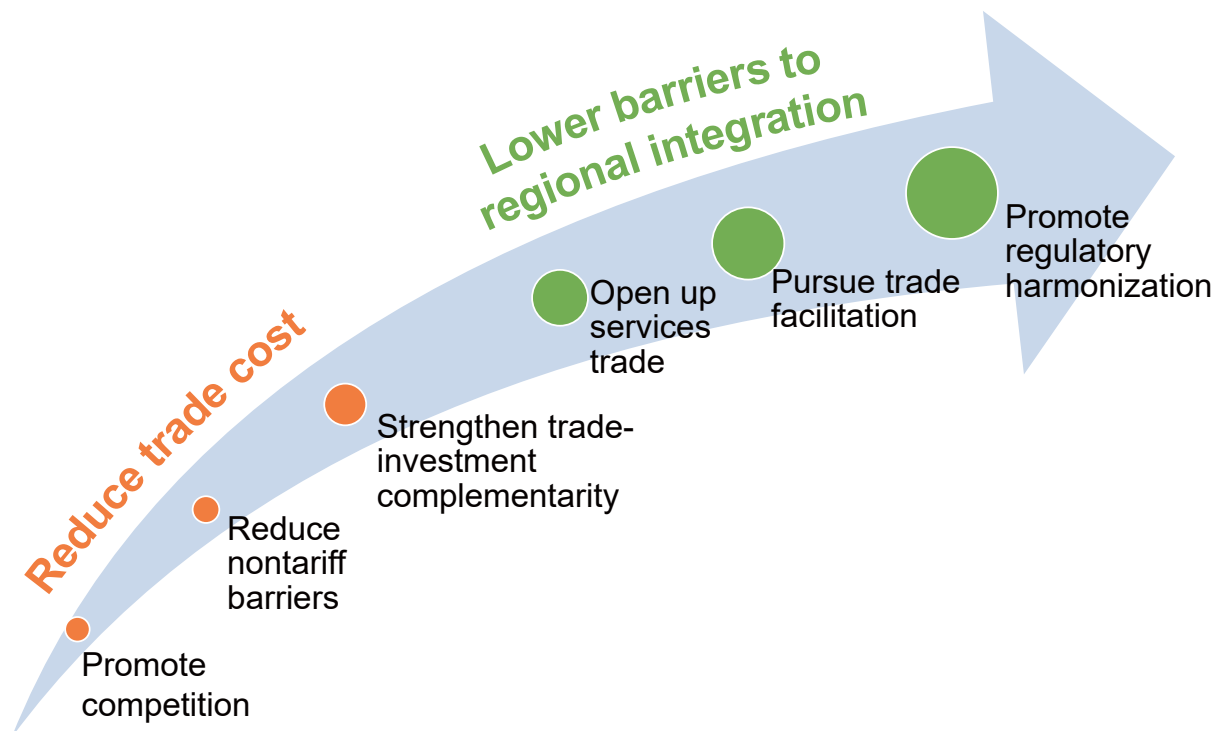
ROW = rest of the world.

Note: Asia includes all 48 ADB regional members for which data are available as of December 2016.

Source: ADB calculations using data from International Monetary Fund, Coordinated Portfolio Investment Survey (accessed September 2017).



Reinvigorating Regional Trade Growth and Integration



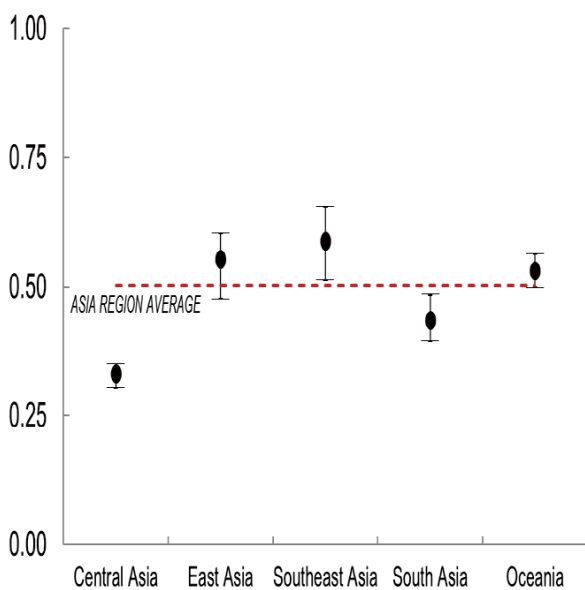


Asia-Pacific Regional Cooperation and Integration Index

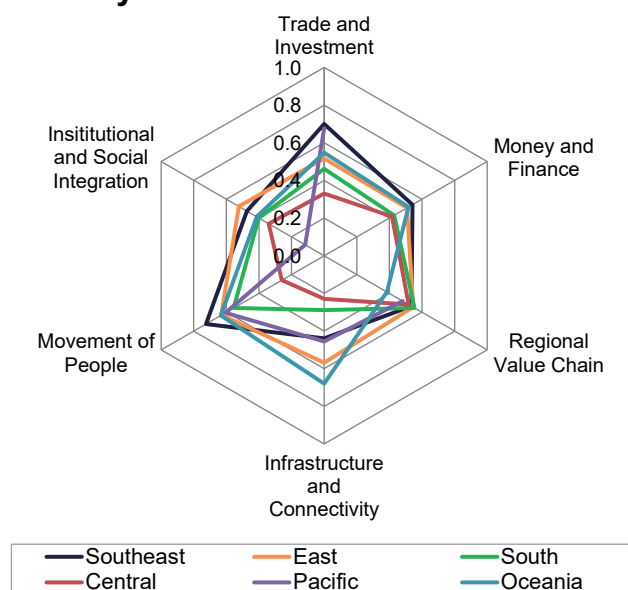


Asia-Pacific Regional Cooperation and Integration Index

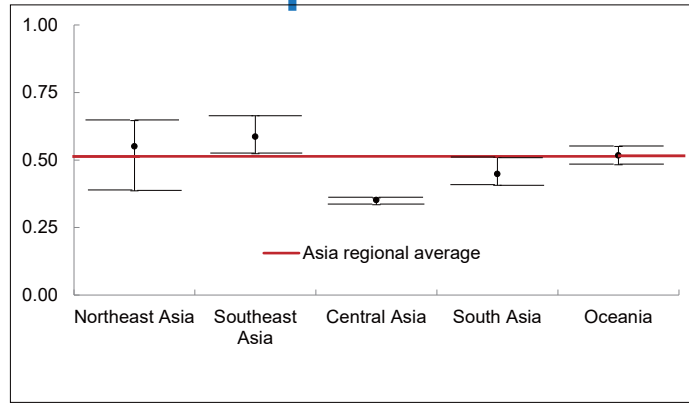
Overall ARCII



ARCII by Dimension



Asian sub-regions: Overall performance

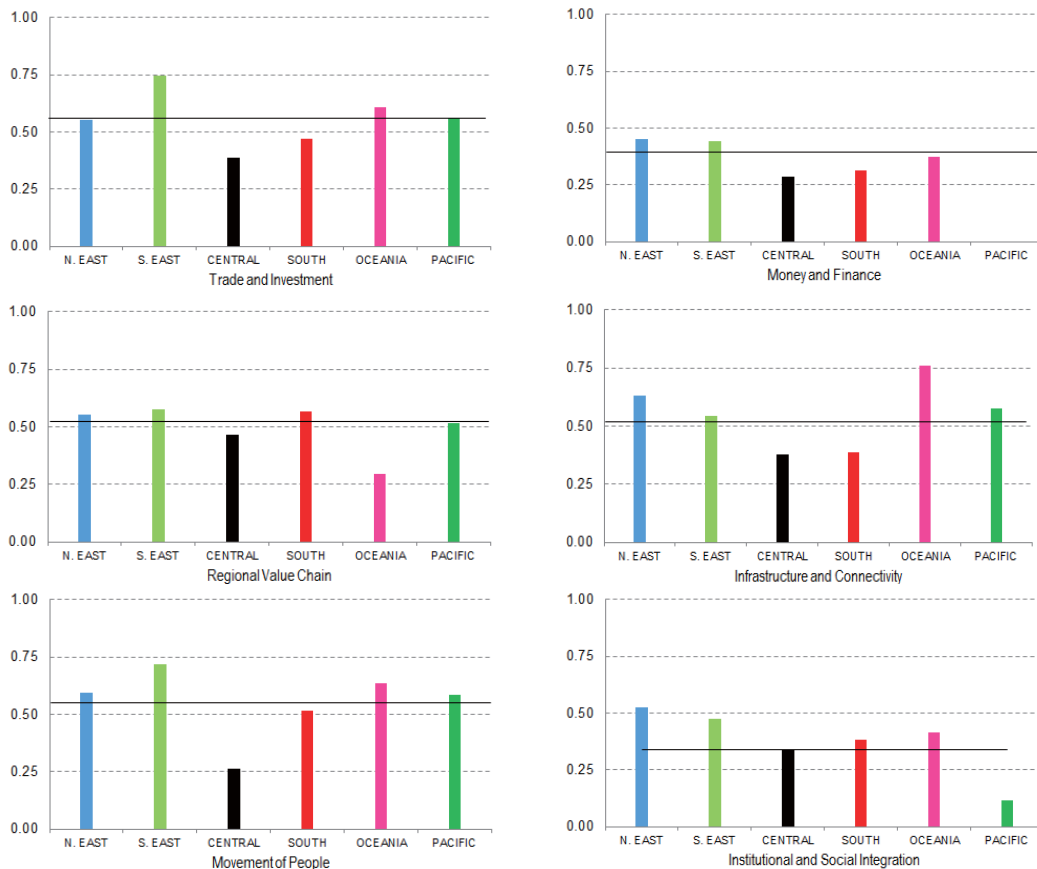


Northeast Asia	Southeast Asia	Central Asia	South Asia	Oceania	The Pacific*
PRC Hong Kong, China Japan Republic of Korea Mongolia Taipei, China Russian Federation	Brunei Darussalam Cambodia Indonesia Lao PDR Malaysia Myanmar Philippines Singapore Thailand Viet Nam	Armenia Azerbaijan Georgia Kazakhstan Kyrgyz Republic Tajikistan Turkmenistan Uzbekistan	Afghanistan Bangladesh Bhutan India Maldives Nepal Pakistan Sri Lanka	Australia New Zealand	Cook Islands Fiji Kiribati Marshall Islands Fed. States of Micronesia Nauru Palau Papua New Guinea Samoa Solomon Islands Timor Leste Tonga Tuvalu Vanuatu



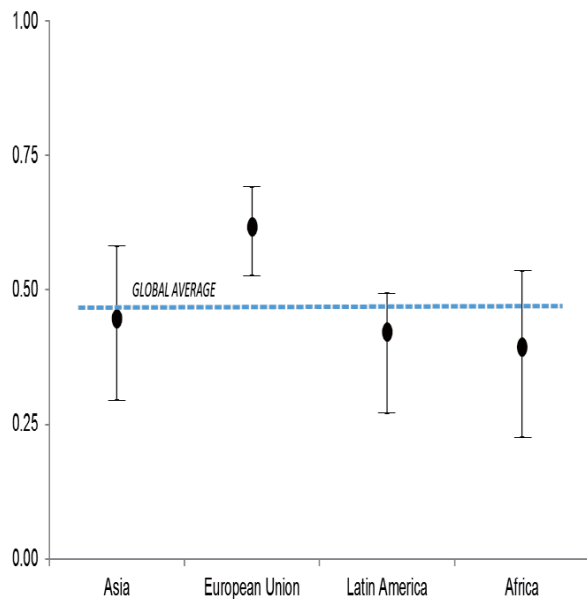
*Overall index cannot be computed for the Pacific due to lack of data

Dimensional Performance by Subregion

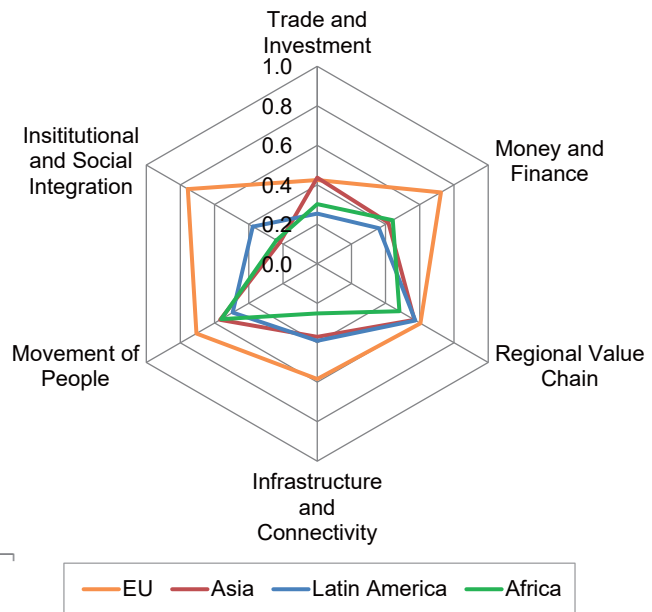


Regional Cooperation and Integration Index: Worldwide Normalization

Overall Indexes



By Dimension



Special Chapter

The Era of Financial Interconnectedness: How Can Asia Strengthen Financial Resilience?



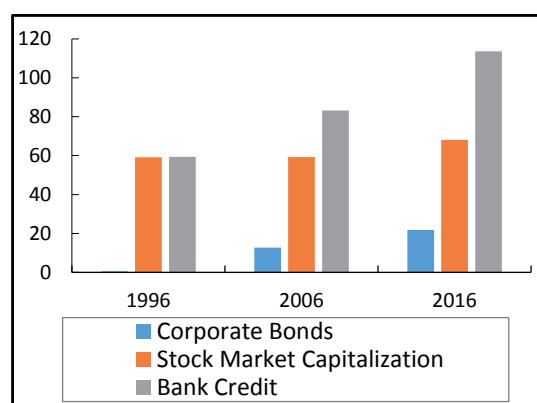
Asia's financial health improved but pockets of vulnerability remain

- Structural weaknesses plus new challenges
- Remaining regulatory policy gaps also leave room for a buildup of financial vulnerability
- Asia's policy makers must remain vigilant, while continuing to deepen financial reforms

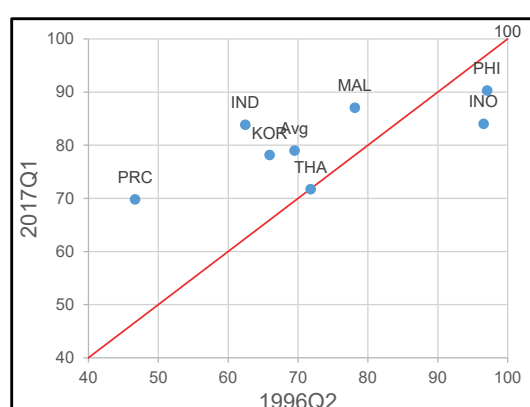
Structural weaknesses remain

- **Limited capital market-based financing solutions** such as long-term local currency bond markets
- **Continued heavy reliance on foreign currency- (US dollar-) denominated debt**

Corporate Financing as % of GDP—Emerging Asia (excluding HKG and SIN)



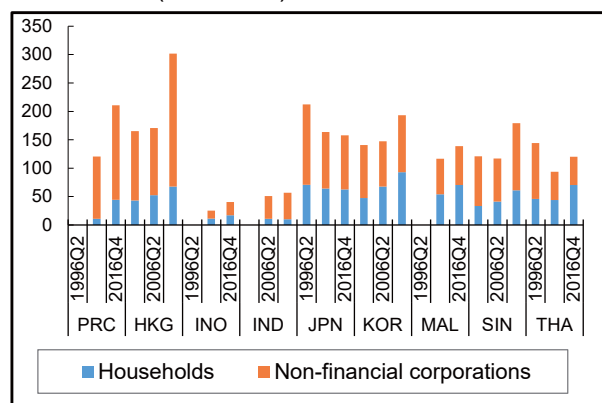
Share of outstanding international debt securities denominated in US dollars, Pre- AFC vs. latest (%)



Recent trends to signal financial fragility

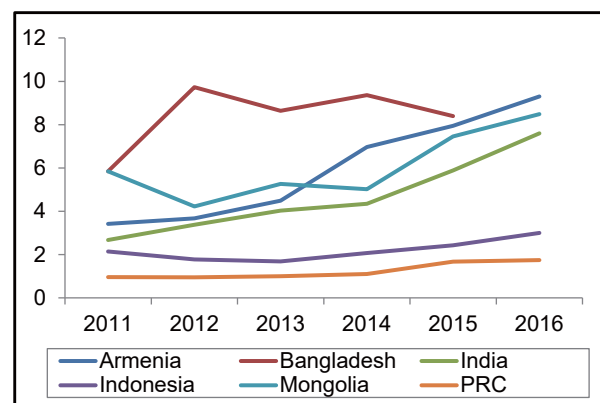
- **Rising private-sector debt and leverage**—combined with the rapid growth of shadow banking—increased financial fragility
- **Deteriorating bank asset quality** can have potential macrofinancial feedback effects

Credit to Private Sector—Selected Asian Economies (% of GDP)



Source: Bank for International Settlements.

NPL Ratios of Selected Asian Economies (%)



Source: ADB calculations using data from Bank of Mongolia; and World Bank. World Development Indicators.

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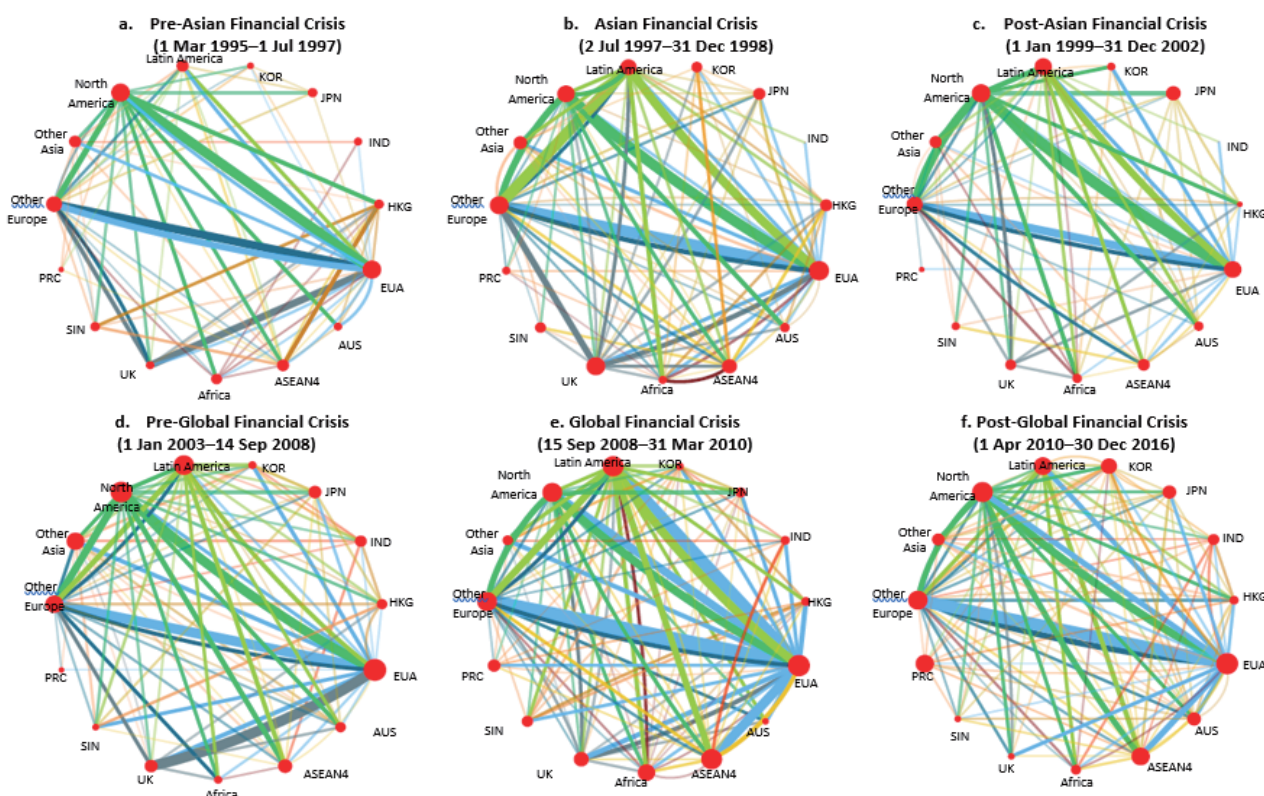
New challenges to Asia's financial stability

- Asian financial markets have grown more interconnected both intra-regionally and globally over the past 20 years
- A more interlinked global banking network can spur transmission of financial risk from advanced to emerging economies
- A buildup in NPLs can have macro-financial feedback effects, with possible spillover through increasingly interconnected financial markets



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Asian financial markets have become more interconnected regionally and globally



A heightened financial interconnectedness can transmit shocks across borders

Impact of direct and indirect banking exposures to the crisis-affected countries on capital outflows during the GFC

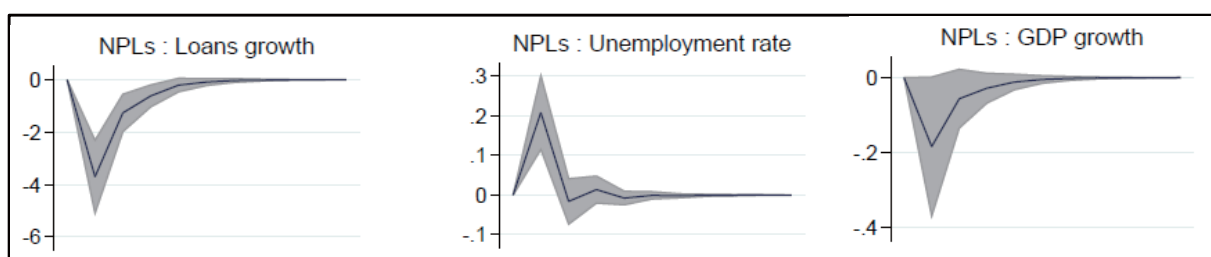
Variables	Without Control Variables		With Control Variables	
	(1) Outflows	(2) Outflows	(3) Outflows	(4) Outflows
Direct exposure of banking sector	0.257*** (0.075)	0.282*** (0.078)	0.228** (0.085)	0.253*** (0.086)
Indirect exposure of banking sector		0.722** (0.285)		0.359 (0.269)

*** = significant at 1%, ** = significant at 5%. Robust standard errors in parenthesis. Coefficients for the control variables are not shown for brevity.
Source: Park and Shin (2017).

Buildup of NPLs can affect real sector and spill over through macrofinancial linkages

- **Macrofinancial feedback effects:** Empirical findings show that an increase in NPLs leads to a reduction in credit supply, a rise in unemployment, and slowdown in overall economic activity
- **Systemic implications:** NPL shocks can transmit across borders through macrofinancial linkages

Estimated Impulse Response Functions to a Shock in the NPL Ratio



Source: Lee and Rosenkranz (2017)



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Policy considerations to enhance financial resilience

- A key lesson drawn from recent crises is the urgent need to strengthen macroprudential regulation and supervision
- Further developing local currency bond markets across the region is key to enhancing financial resilience and mobilizing long-term finance
- Growing regional banking activities and institutions—possibly of systemic importance—underpin the need to discuss regional regulatory cooperation, including resolution mechanisms for interconnected regional banks
- The region should consider reviewing and strengthening existing financial safety nets against potential contagion and spillover effects



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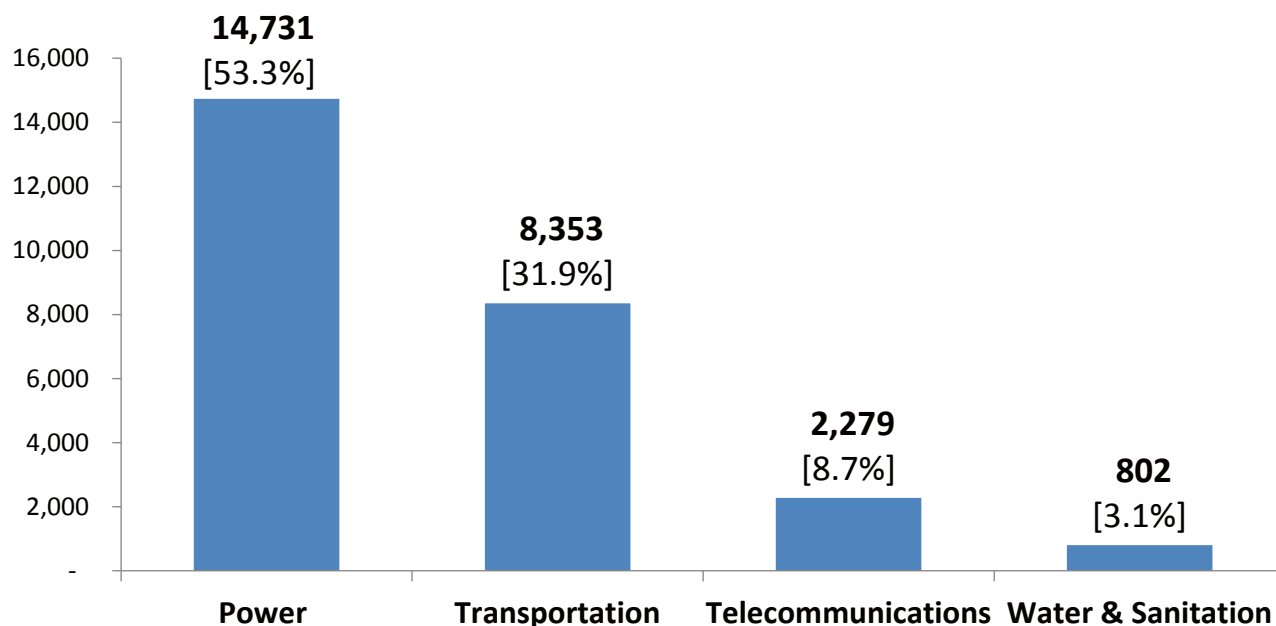


Sustaining Development through Public-Private Partnership

Infrastructure investment needs, 2016–2030 (\$ billion in 2015 prices)

	Baseline		Climate adjusted	
	Total	% of GDP	Total	% of GDP
Central Asia	492	6.8	565	7.8
East Asia	13,781	4.5	16,062	5.2
South Asia	5,477	7.6	6,347	8.8
Southeast Asia	2,759	5	3,147	5.7
The Pacific	42	8.2	46	9.1
Asia and the Pacific	22,551	5.1	26,166	5.9
Annual Average	1,503		1,744	

Infrastructure investment needs by sector, 2016–2030 (\$ billion in 2015 prices)

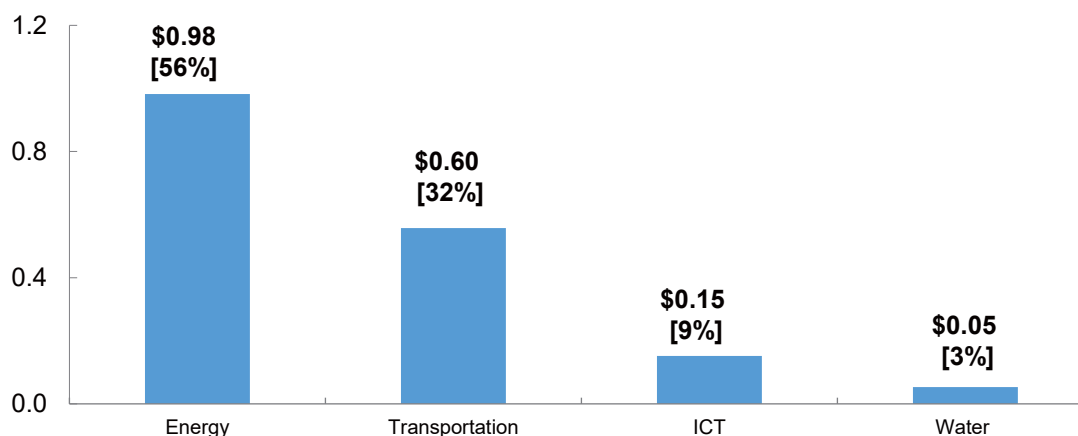


Note: Figures inside the brackets are percentage shares of total.
Source: ADB estimates.

Asia's infrastructure needs exceed traditional funding sources

\$1.7 trillion annual investment needed through 2030

\$ trillion in 2015 prices



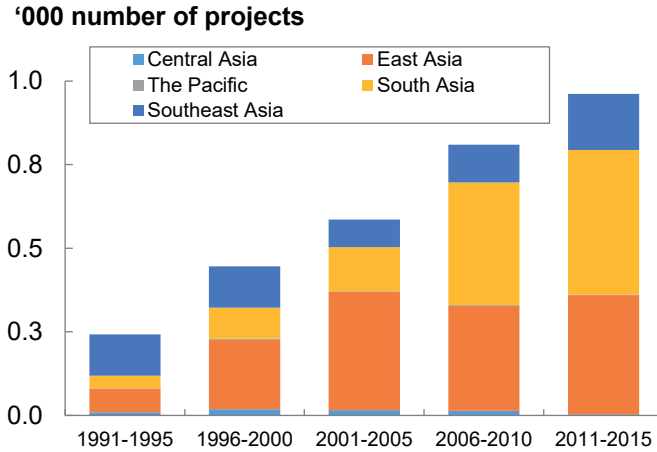
ICT = Information and Communication Technology

Source: ADB estimates based on national sources; World Bank. Private Participation in Infrastructure Database; and World Bank. World Development Indicators.

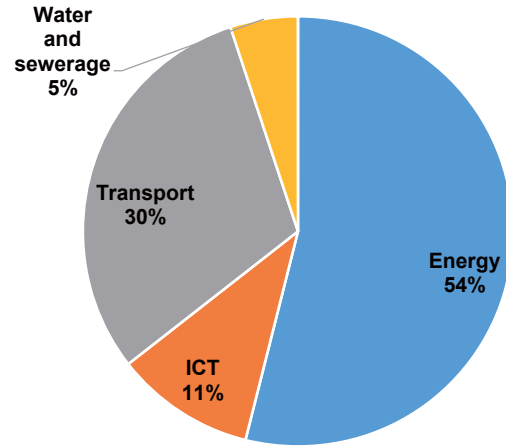


Public-private partnership has potential to fill the infrastructure gap

PPPs in Asia rose fourfold in 25 years



PPP committed investments by sector, 1991–2015 (\$700 billion)



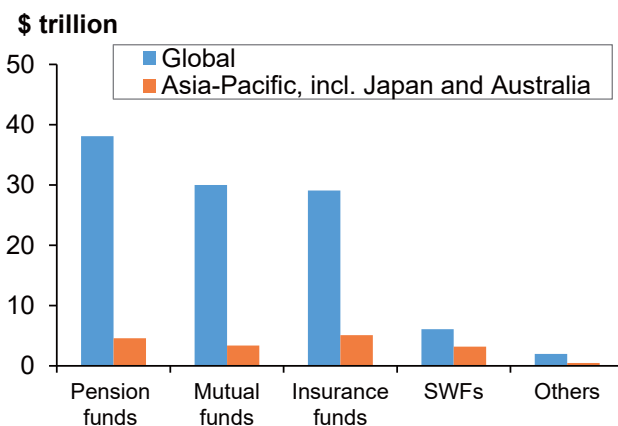
ICT = Information and Communication Technology

Source: ADB estimates based on national sources; World Bank. Private Participation in Infrastructure Database; and World Bank. World Development Indicators.



New finance sources need to be tapped...

Institutional investors: assets under management, \$ trillion, end-2013



SWF = Sovereign Wealth Funds.

Note: Others include family offices, foundation, endowments, and other institutions.

Source: Estimates based from World Bank 2014, The CityUK 2014, OECD 2016, Inderst 2016.

- Conventional:
 - Equity and bank loans
- Emerging:
 - Bonds
- Underutilized:
 - Institutional investors
 - \$100 trillion globally



How can Asia tap institutional investors?



...which entails bridging the “risk gap”

Credit Enhancement

- Partial credit or revenue guarantee
- Project bond credit enhancement
- Project completion or political risk guarantee
- Mezzanine and subordinated debt

Multilateral Development Banks

- Provide credit-enhancement facilities
- Improve investment climate
- Facilitate capital market development
- Support quality project preparation

There are hurdles to PPP success

Project cancellation

- \$41.6 billion in Developing Asia are cancelled (6.3% of all committed PPP investment)

Factors that boost PPP survival

- **Project design**
 - Solicited proposals with competitive bidding more likely to survive than unsolicited
 - Green field projects more likely to survive than brown field
 - Risk allocation: optimal risk sharing between government and private partner.
- **Institutional arrangements**
 - Dedicated PPP units makes PPP more likely to survive
- **Macroeconomic environment**
 - Macroeconomic performance
 - Fiscal balance
- **Socioeconomic stability**
 - Law and order
 - Degree of corruption



Thank you!

