



THE MULTIPLE DIMENSIONS OF ECONOMIC ENGAGEMENT WITH THE INDO-PACIFIC REGION

Queen's Institute on Trade Policy

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MAJOR THEMES

- I. Foundations and Premises – The economy, domestic and beyond
 - II. Indo-Pacific Economic Architecture
 - III. A Deeper Dive
 - IV. Lessons for Engagement
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FOUNDATIONS AND PREMISES

1. The Indo-Pacific is a heterogeneous region:

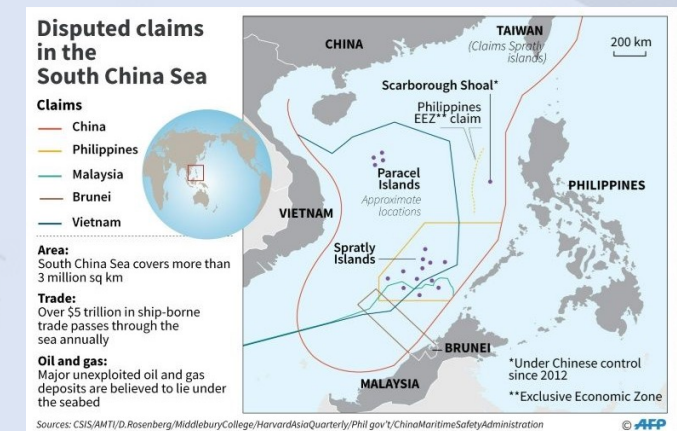
- LDCs, middle-income, and the second, third, and tenth largest economies in the world

2. With tensions both within and between countries

3. Most fundamentally, peace is a precondition to development and growth...

4. The defence and security dynamic, both land and sea, is a separate discussion

Against this backdrop, a well-functioning economy is necessary to provide jobs, growth and an improved standard of living for citizens – sustainable development!



FOUNDATIONS AND PREMISES, CONT'D

A well-functioning economy depends on

1. an enabling environment that provides:

- **public goods: health, education, nutrition, public safety and defence**
- **Regulatory certainty and predictability**
- **Reliable facilitative sectors: transport, finance, energy, communications**
- **Inclusion: broader participation (e.g., rural, gender) and moving the grey economy into the mainstream; and**

2. engagement with others:

- **for LDCs and developing countries, financing and capital, ODA and fair trade access**
 - **for middle income countries and beyond, trade, investment and capital flows**
-

FOUNDATIONS AND PREMISES, CONT'D

Strategies to Achieve Sustainable Growth

Finance

- Prudent monetary policy
- Strong and stable financial sector
- Effective and efficient fiscal policy

Governance

- Provide security and public goods
- Enhance economic infrastructure
- Improve social inclusivity and equality

Trade

- Build on trade's contribution to GDP
 - Promote value chains
 - Deepen trade integration
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FOUNDATIONS AND PREMISES, CONT'D

Challenges to Sustainable Growth:

Finance

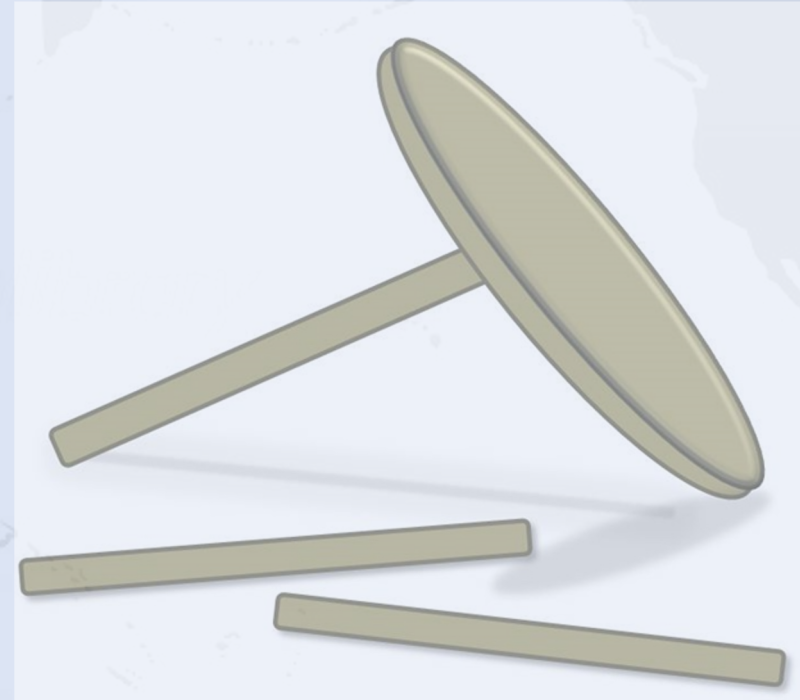
- Volatility and capital flight
- Decreasing growth
- Unsustainable debt

Governance

- Inadequate governance
- Lagging structural reforms
- Internal political and social tensions

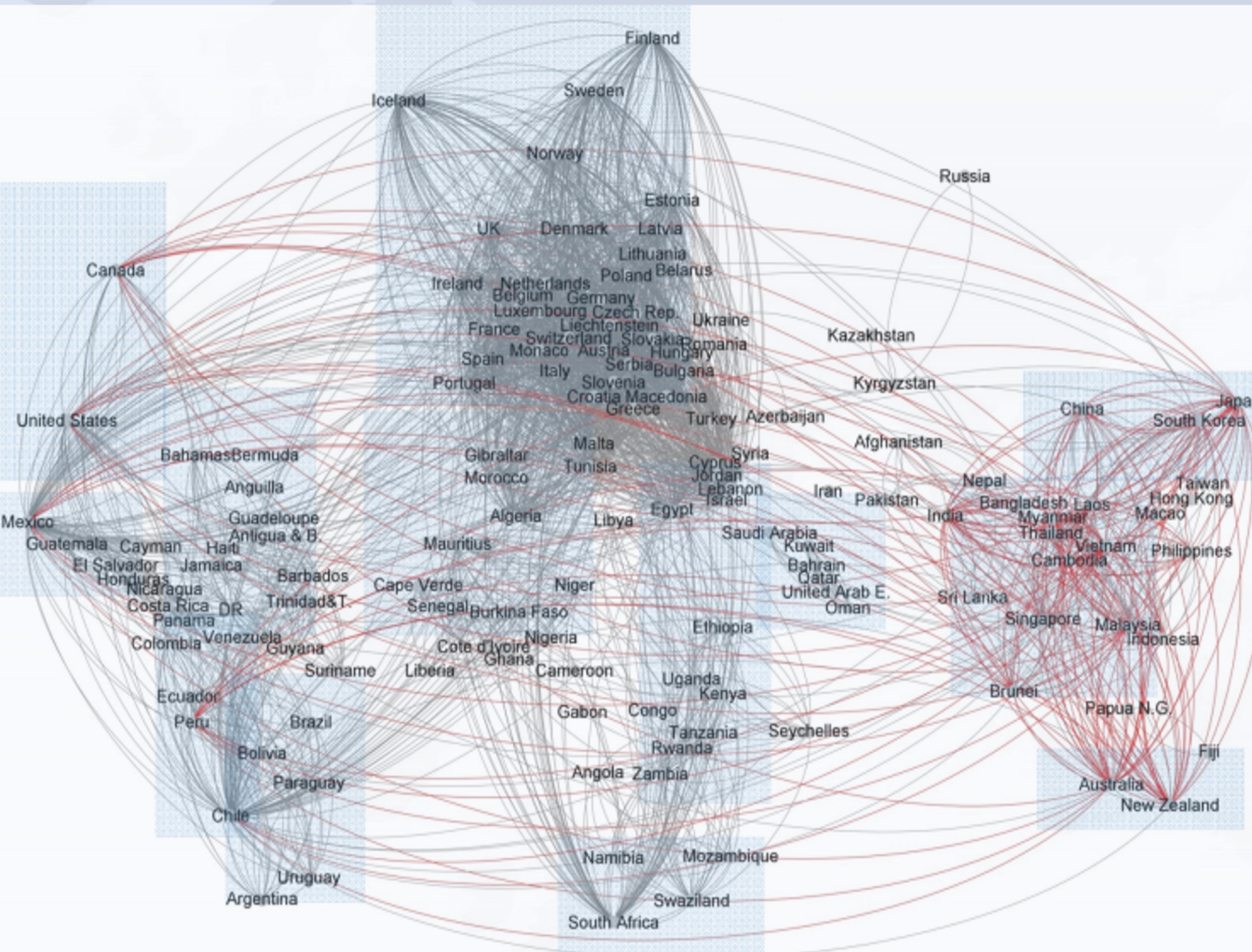
Trade

- 'Noodle-Bowl' of FTAs
 - Protectionism
 - Lack of competitiveness
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INDO-PACIFIC ECONOMIC ARCHITECTURE – TRADE

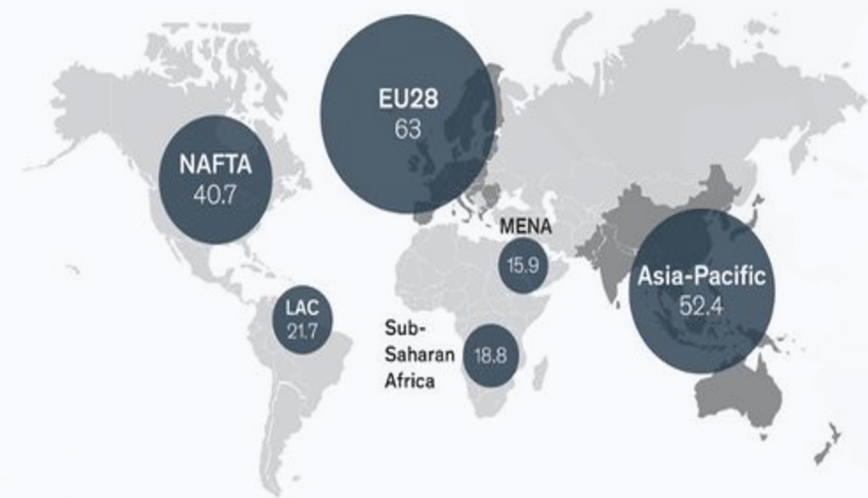
Intra- and Inter-regional trade intensity



IDB Integration and Trade Sector based on INTrade.

More than half of
goods trade in the
Asia-Pacific region
is intraregional.

Share of intraregional goods trade by region, 2017
Percent



Source: McKinsey Global Institute analysis

McKinsey
& Company

INDO-PACIFIC ECONOMIC ARCHITECTURE – TRADE, CONT'D

Economic blocs in the Indo-Pacific region

* means ASEAN members

IPEF (13 members)

United States
India

South Korea

Japan

Australia

New Zealand

Singapore*

Brunei*

Malaysia*

Vietnam*

The Philippines*

Thailand*

Indonesia*

RCEP (15 members)

China

Laos*

Myanmar*

Cambodia*

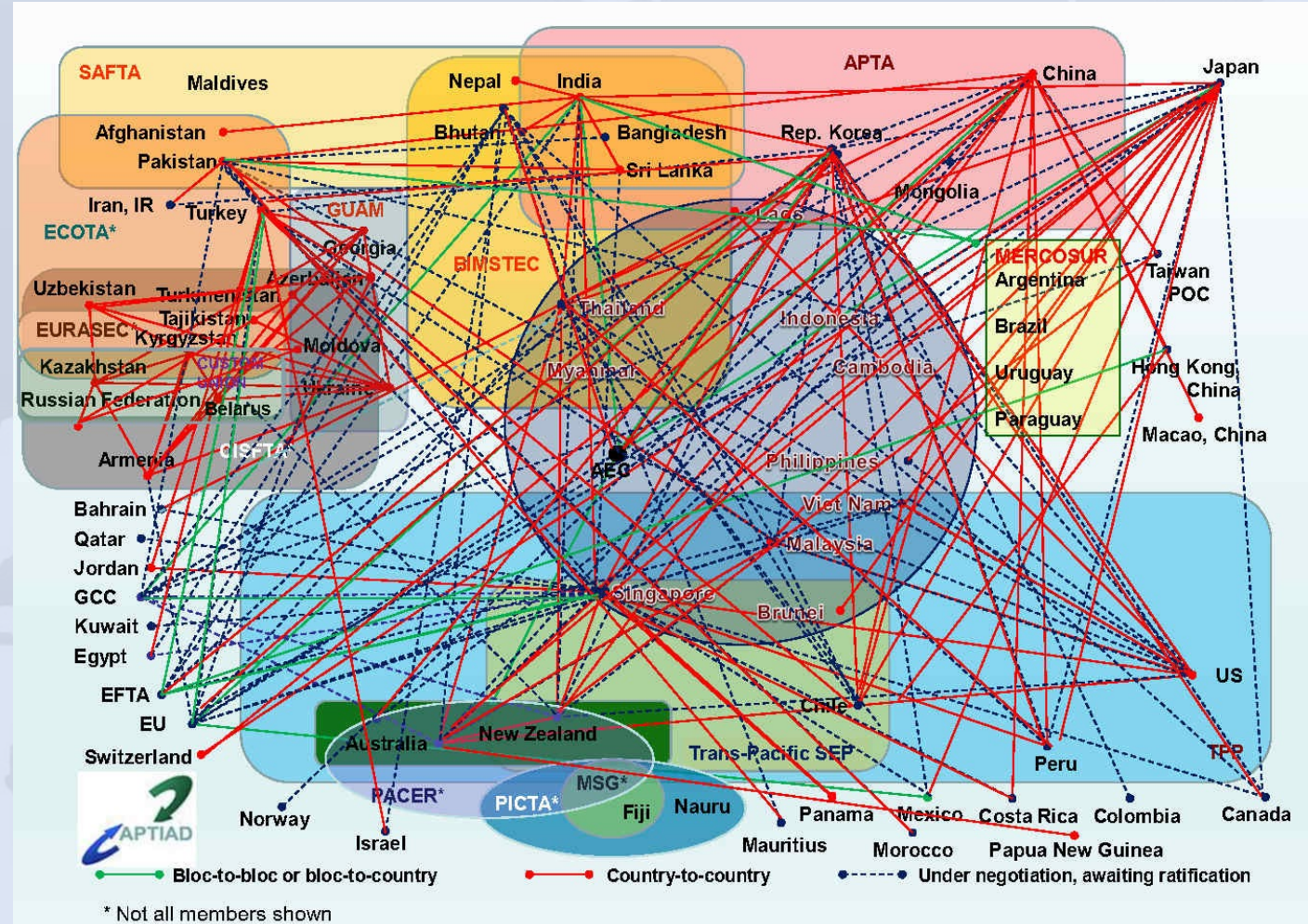
TPP (11 members)

Canada

Mexico

Peru

Chile



INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE

Debts and Deficits:

- Governments must have the capacity to manage their budgets
- Deficits require borrowing, which creates and accumulates debt
- The IMF remains the lender of last resort

indicator \ countries by region	public debt / gross domestic product	trend ¹	public debt / annual government revenues	trend ¹	external debt / gross domestic product	trend ¹	external debt / annual export earnings	trend ¹	debt service / annual export earnings	trend ¹	risk of debt distress according to IMF ²
South Asia, Southeast Asia, Pacific											
Afghanistan*	7.5	—	28.7	—	15.2	—	176.9	—	2.7	▼	
Bangladesh*	38.9	▲	397.1	▲	20.0	▲	173.7	▲	9.9	▲	
Bhutan*	120.7	—	409.3	—	130.7	▲	351.5	—	7.1	▼	
Cambodia*	34.2	▲	142.0	—	72.3	▲	87.5	▲	7.4	▲	
China	66.3	▲	261.7	▲	16.1	▲	79.0	▲	9.2	▲	
Fiji*	70.8	▲	347.0	▲	36.9	▲	117.4	▲	21.3	▲	
India	89.6	▲	489.8	▲	21.7	▲	111.2	▲	15.0	▲	
Indonesia	36.6	▲	296.2	▲	40.5	▲	227.6	▲	36.7	▲	
Kiribati*	k. A.		k. A.		k. A.		k. A.		k. A.		
Laos*	68.2	▲	533.6	▲	94.9	—	262.3	—	15.8	▲	
Malaysia	67.4	▲	334.1	▲	69.3	—	115.7	▲	14.5	—	
Maldives*	146.0	▲	536.2	▲	90.5	▲	189.7	▲	15.9	▲	
Marshall Islands*	27.5	—	40.6	—	29.9		112.0		10.9		
Micronesia*	16.5		23.8		16.1		67.1		6.7		
Mongolia*	91.3	—	327.2	▲	241.6	▼	420.7	—	23.8	▼	
Myanmar*	39.3	—	245.0	▲	18.1	—	56.6	▼	2.5	▼	
Nauru	59.3	▼	35.7	▼	k. A.		k. A.		k. A.		
Nepal*	42.2	—	190.8	▲	23.2	▲	344.2	▲	12.0	▲	
Pakistan*	92.8	▲	614.6	▲	42.1	▲	390.5	▲	52.3	▲	
Papua New Guinea*	49.2	▲	329.5	▲	77.7	—	191.8	▲	14.1	▼	
Philippines	51.7	▲	250.3	▲	25.3	▲	108.9	▲	10.2	▼	
Solomon Islands*	14.0	▲	42.2	▲	27.0	—	88.4	▲	1.9	▼	
Samoa*	46.5	—	121.3	▼	55.8	—	347.8	▲	18.7	▲	
Sri Lanka	101.0	▲	1,103.7	▲	71.8	▲	424.2	▲	39.3	▲	
Thailand	49.6	▲	240.9	▲	41.9	▲	75.9	▲	6.3	▲	
Tonga*	43.3	—	98.7	—	38.9	—	129.8	—	4.0	—	
Tuvalu*	14.3	▲	10.8	—	5.5	▼	5.7	▼	1.3	▼	
Vanuatu*	50.1	—	113.3	▼	50.6	—	229.2	▲	21.1	▲	
Vietnam	46.3	—	249.8	—	48.7	—	43.1	—	5.6	—	

INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

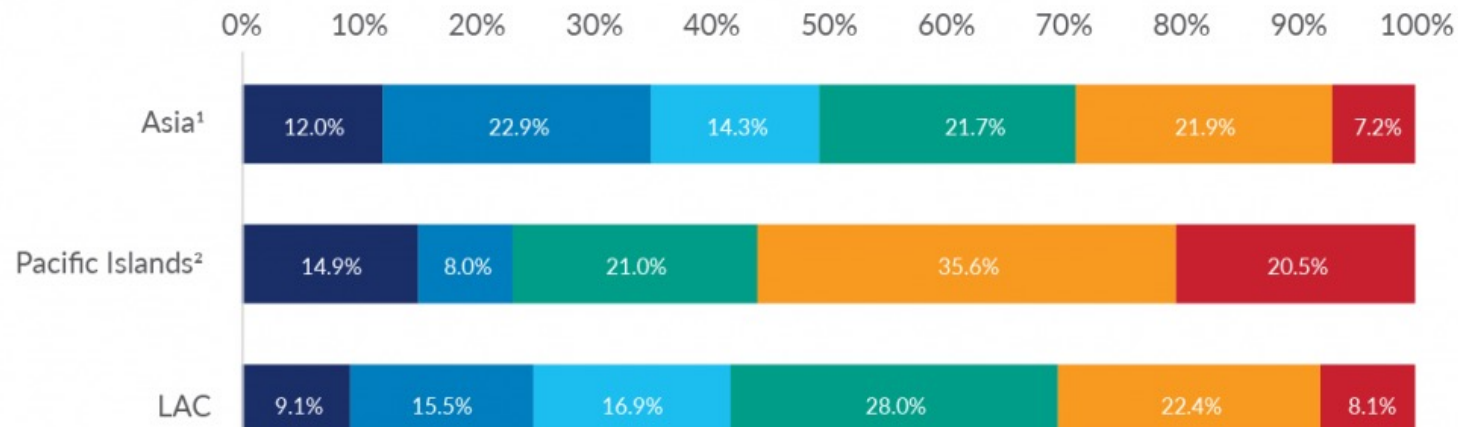
Fiscal Policy to manage budgets is a question of both revenue and expenditure

- Many countries of the region have a narrow tax base and are overly dependent on consumption taxes, rather than corporate or personal income tax
- No OECD to provide policy guidance, but ADB established a tax hub in 2020

Tax Revenue Sources Differ Significantly across Asian and Pacific Countries

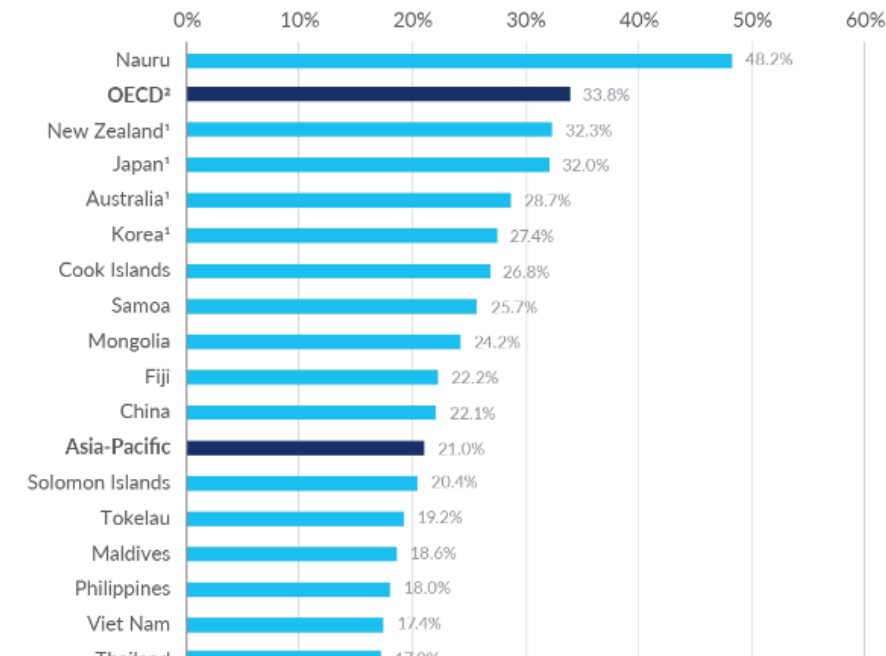
Sources of Tax Revenue, 2019

Individual Income Taxes Corporate Income Taxes Social Security Contributions
Value-Added Taxes Other taxes Other Taxes on Goods and Services



Tax-to-GDP Ratio Varies Significantly across the Asian and Pacific Countries

Tax-to-GDP Ratios, 2019



INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

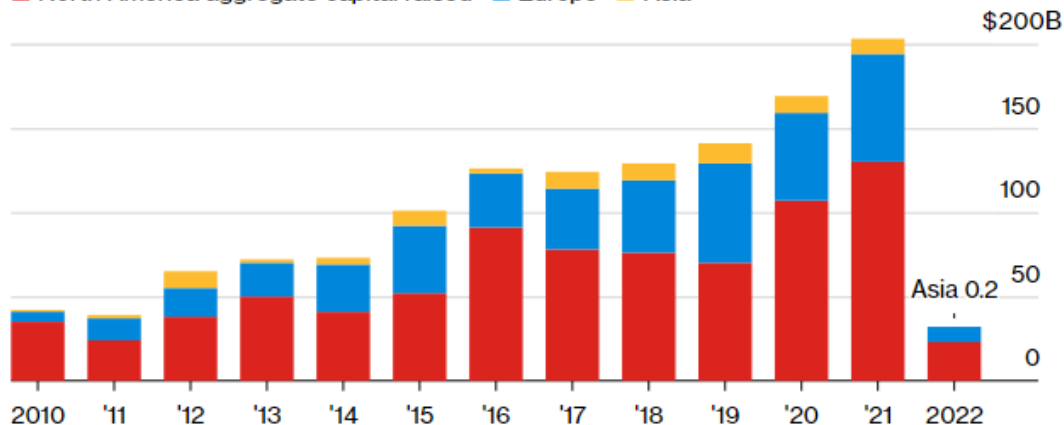
Private Sector

- Finance depends on banking, equity, debt, payments, F/X, and thus engagement with others
- In the Indo-Pacific, connecting and integrating relevant equity markets remains a work in progress and private equity lags

Tiny Share

Asia lags the U.S. and Europe in private credit fund raising

■ North America aggregate capital raised ■ Europe ■ Asia



Source: Preqin Pro
Note: Data as of March 29, 2022

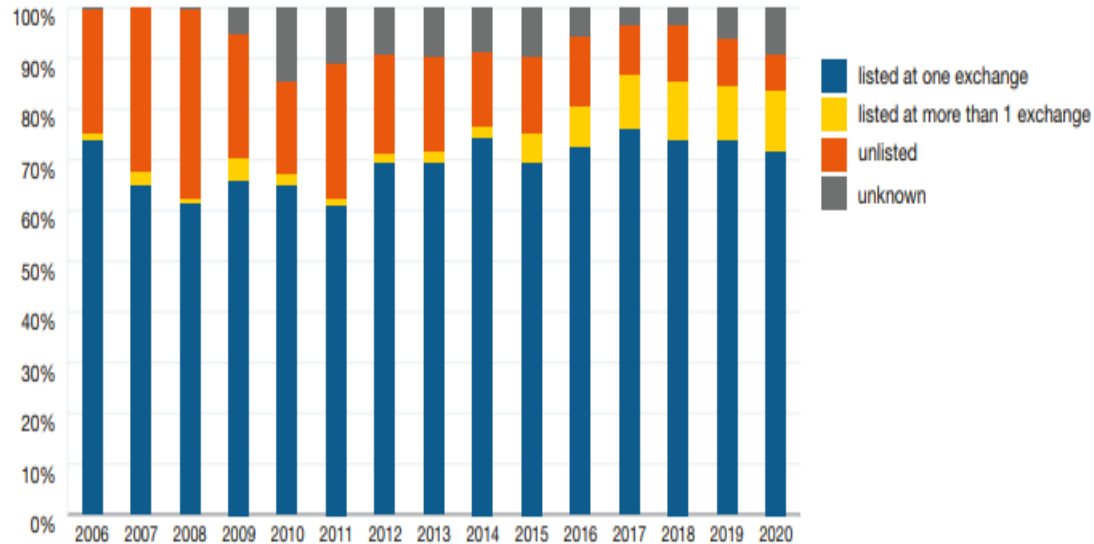
Hong Kong Stock Exchange List of Recognized Exchanges

- (a) The Amsterdam Stock Exchange (NYSE Euronext – Amsterdam);
- (b) The Australian Securities Exchange (ASX);
- (c) The Brazilian Securities, Commodities and Futures Exchange (BM&FBOVESPA);
- (d) The Frankfurt Stock Exchange (Deutsche Börse);
- (e) The Italian Stock Exchange (Borsa Italiana);
- (f) The London Stock Exchange (LSE);
- (g) The Madrid Stock Exchange (Bolsa de Madrid).
- (h) NASDAQ OMX (US);
- (i) The New York Stock Exchange (NYSE Euronext (US));
- (j) The Paris Stock Exchange (NYSE Euronext – Paris);
- (k) The Singapore Exchange (SGX);
- (l) The Stockholm Stock Exchange (NASDAQ OMX – Stockholm);
- (m) The Swiss Exchange (SIX Swiss Exchange);
- (n) The Tokyo Stock Exchange (TSE); and
- (o) The Toronto Stock Exchange (TMX).

INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

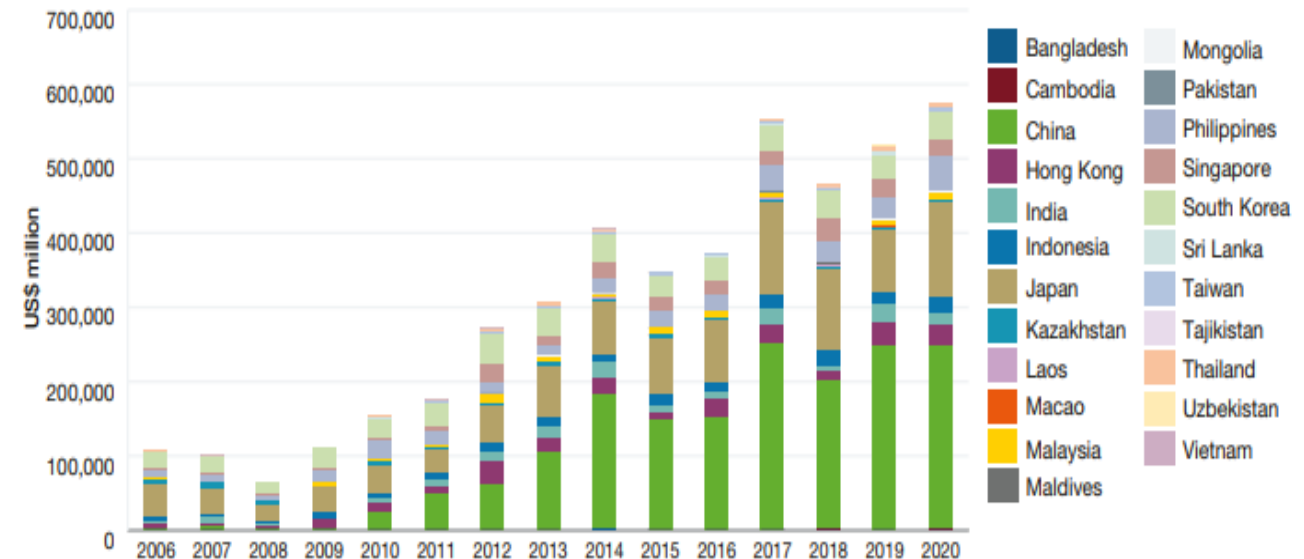
...and the bond markets, too, are less connected than in other regions

Figure 4: International bond issuances in Asia (deal nationality) - listed or not



Source: ICMA analysis using Dealogic data (January 2021)

Figure 6: International bond issuance in Asia - by deal nationality



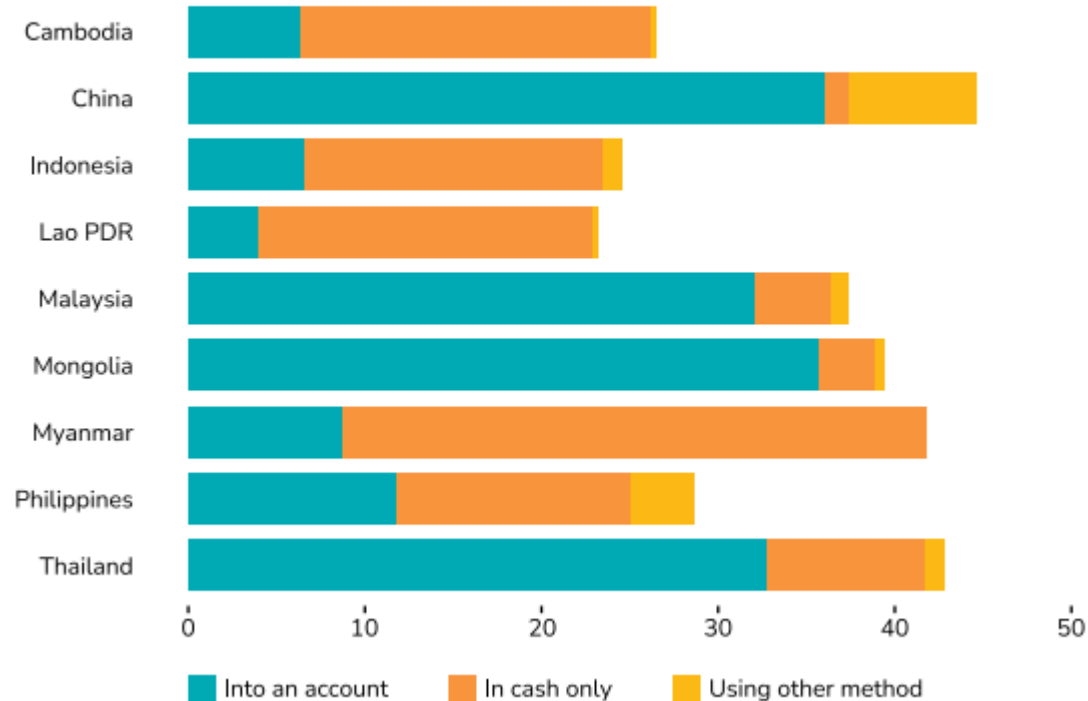
Source: ICMA analysis using Dealogic data (January 2021)

INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

Small business, and the consumer, remain under-served, too

Digitalization of private sector wage payments varied across economies in the East Asia and Pacific region

Adults receiving private sector wages in the past year (%), 2021



Source: Global Findex Database 2021.

57%

CASH

BANK TRANSFER/
INTERNET
BANKING

12%

PHYSICAL
CREDIT CARD

4%

PHYSICAL
DEBIT CARD

12%

E-WALLETS/
MOBILE
WALLETS

2%

CONTACTLESS
PAYMENT
VIA CARDS

1%

CONTACTLESS
PAYMENT
VIA MOBILE

MOST OFTEN USED PAYMENT METHODS IN ASIA

CASH

TRADITIONAL PAYMENT METHODS

NEW PAYMENT METHODS

57%
ASIA

75%
INDIA

75%
PHILIPPINES

44%
HONG KONG

25%
CHINA

73%
INDONESIA

70%
THAILAND

43%
SINGAPORE

Note: Findings from a 2017 Paypal study covering 4000 consumers and 1400 merchants across seven markets in Asia – China, Hong Kong, India, Indonesia, the Philippines, Singapore & Thailand.



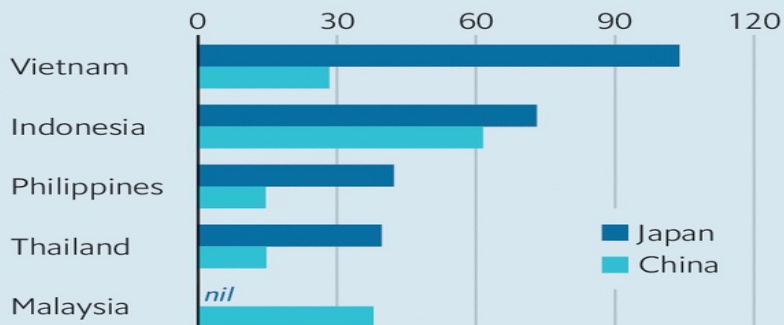
INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

Infrastructure

- Unmet infrastructure demand (e.g., power, water, transport, connectivity) estimated to be \$US 26 trillion by 2030
- The regional infrastructure market is expected to grow 7 - 8% a year over the next decade, reaching US\$5.36 trillion/yr by 2025 representing 60% of the world total (PWC)
- Support characterized by competition **and** cooperation: WB, ADB and AIIB; Bilateral funding; Public-private partnerships and blended finance

Project power

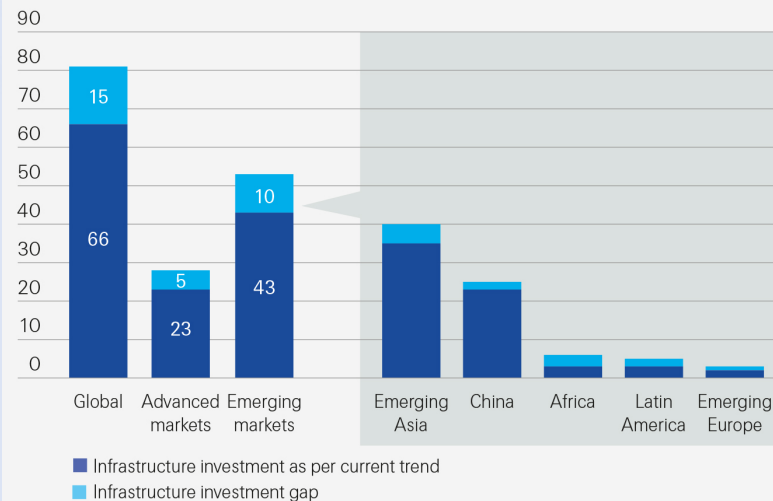
Stock of investment in infrastructure projects*
July 2021, \$bn



Source: Fitch Solutions

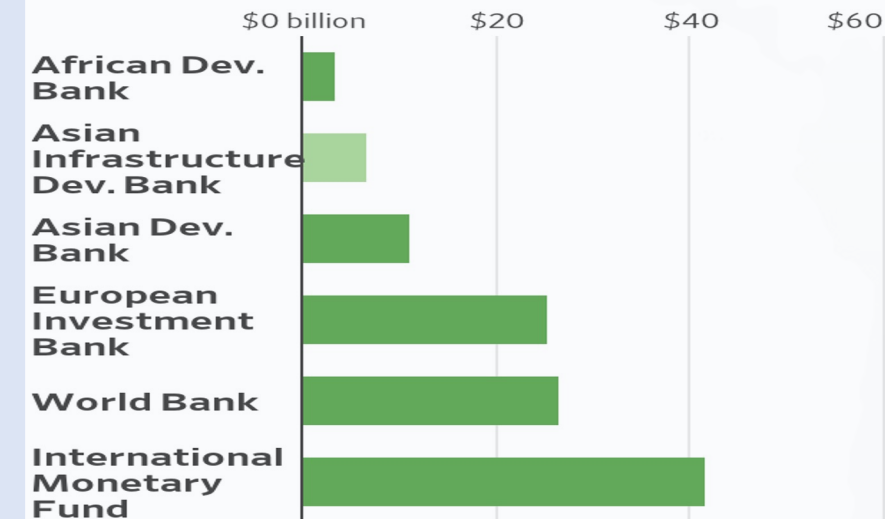
*Excludes completed and cancelled projects

Figure 1: Estimated total infrastructure investments and gap in emerging markets, 2021–2040, in USD trillion



Source: Swiss Re Institute estimates, based on data from Global Infrastructure Hub and Oxford Economics

Disbursed lending by international financial institutions in 2020



Source: Center for Strategic & International Studies

INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

BRI and “B3W” related Infrastructure Initiatives

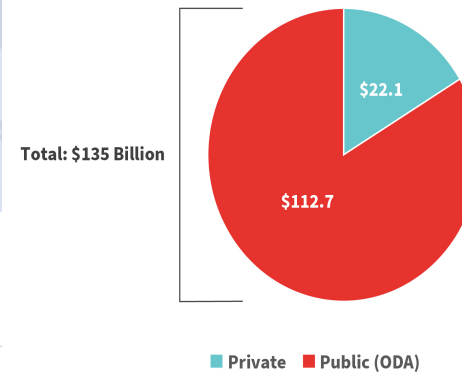
China's Belt and Road Investment Map

Chinese BRI investments by world region in 2020
(in billion U.S. dollars)

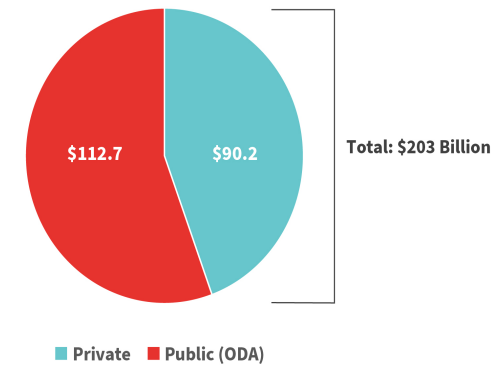


Source: Green Belt and Road Initiative Center
(Central University of Finance and Economics Beijing)

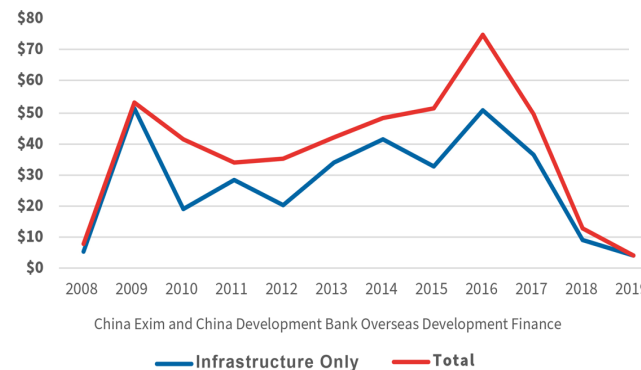
G7 Infrastructure Spending in Developing Markets



If Private Spending Reached 80% of ODA



China's Belt and Road Pulls Back



Source: Rebecca Ray, Kevin P. Gallagher, William Kring, Joshua Pitts, and B. Alexander Simmons. "Geolocated Dataset of Chinese Overseas Development Finance." Boston, MA: Boston University Global Development Policy Center. Online database. doi: 10.17605/OSF.IO/7WUXV.

Source: OECD, "OECD.Stat," Online Database, <https://stats.oecd.org/>;
World Bank Group, "PPI Data," Online Database,
<https://ppi.worldbank.org/en/ppidata>.

INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

ODA (DAC)
2019-2020

ODA

	2019	2020	Change 2019/20 %
Current (USD m)	151,720.9	162,200.4	6.9
Constant (2020 USD m)	155,927.3	162,200.4	4.0
National Currency * (million)			
ODA/GNI (%)	0.30	0.33	
Bilateral share (%)	72	71	

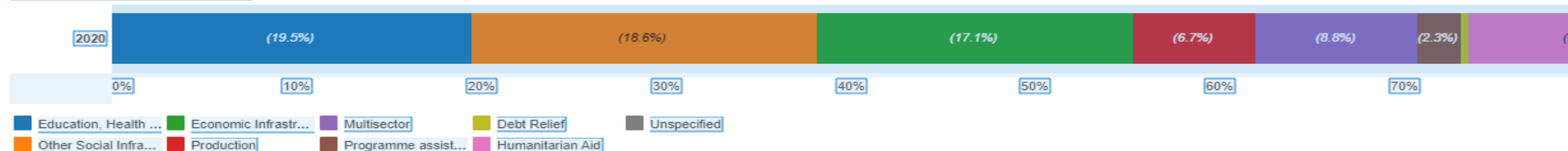
Top Ten Recipients of Gross ODA (USD million)

1	India	4,005
2	Bangladesh	3,004
3	Afghanistan	2,721
4	Syrian Arab Republic	2,387
5	Jordan	2,322
6	Indonesia	2,319
7	Ethiopia	2,284
8	Iraq	1,981
9	Myanmar	1,720
10	Philippines	1,650

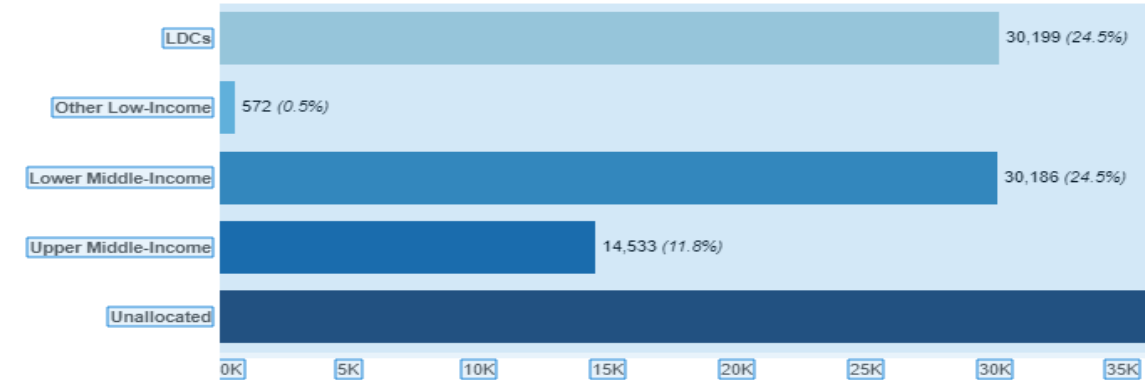
Memo: Share of gross bilateral ODA

Top 20 recipients	32%
Top 10 recipients	20%
Top 5 recipients	12%

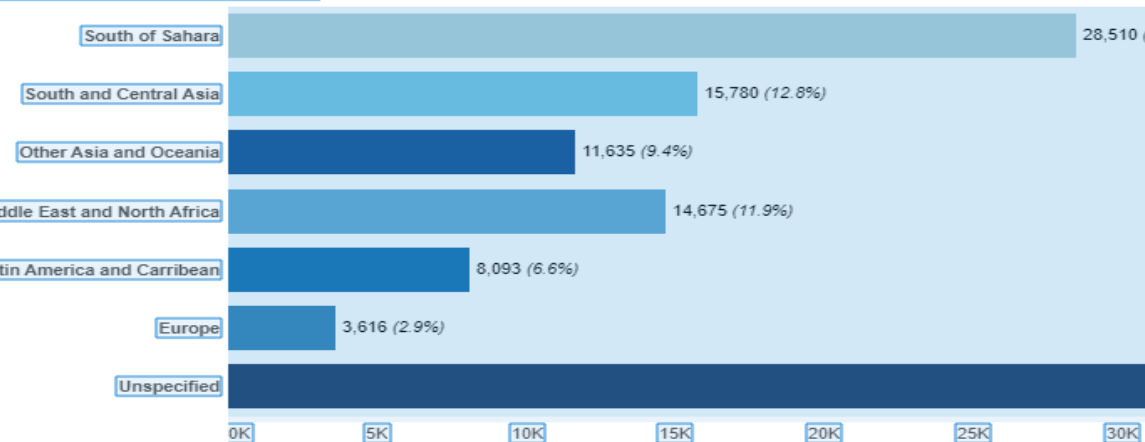
By Sector (commitments)



By Income Group (USD million)



By Region (USD million)



INDO-PACIFIC ECONOMIC ARCHITECTURE – FINANCE, CONT'D

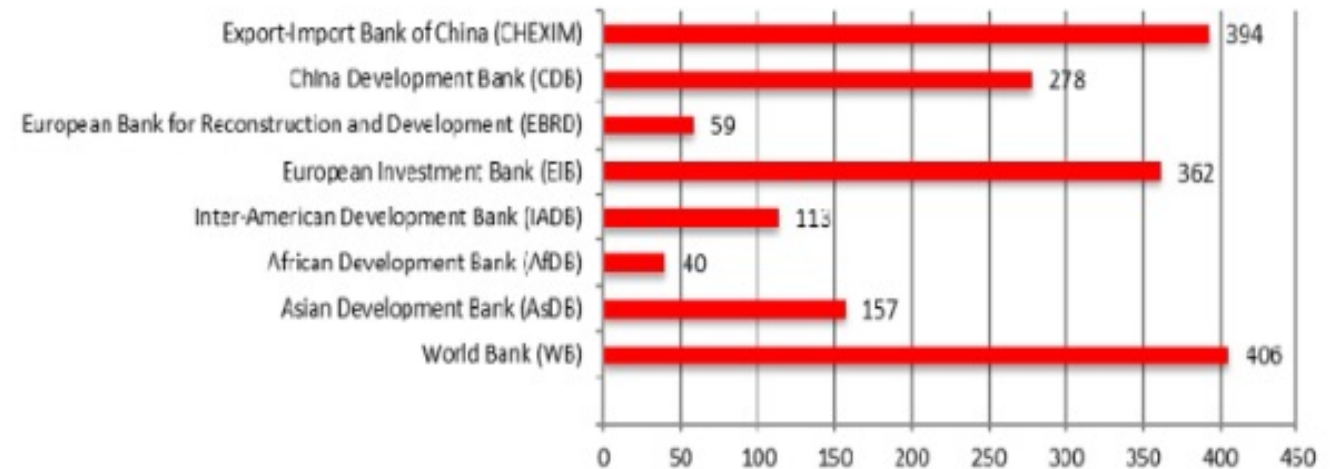
CHINA – DEVELOPMENT ASSISTANCE AND CONCESSIONAL FINANCING

Table 2: China development funds in the world economy (\$ billion)

Region	\$USB
Asia	
Silk Road Fund	40
The Green Silk Road Fund	4.8
China-ASEAN Fund	1
Eurasia	
China-Central and Eastern Europe Investment Fund	4
Russia-China Investment Fund	2
Latin America and Caribbean	
CELAC-China Investment Fund	20
China-LAC Industrial Cooperation Fund	10
China-LAC Investment Fund	5
China-Mexico Investment Fund	2.4
Africa	
China -Africa Development Fund	2
Africa Growing Together Fund	2
China-Africa Industrial Capacity Cooperation Fund Company Limited (CAICCF)	-
Global South	
South-South Climate Fund	3.2
South-South Cooperation Fund	2
Total	98.4

China's National Development Banks in Context:

Global Assets (bn 2016USD)



/ A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT'D

Multilateral Institutions

- WTO, WIPO, ITU, ICAO, IMO, WCO, IEA, etc.
- UN: especially UNCTAD, UNDP, ESCAP, but also WHO, COP, etc.
- Bretton Woods: IMF, World Bank (IFC and IDA), BIS

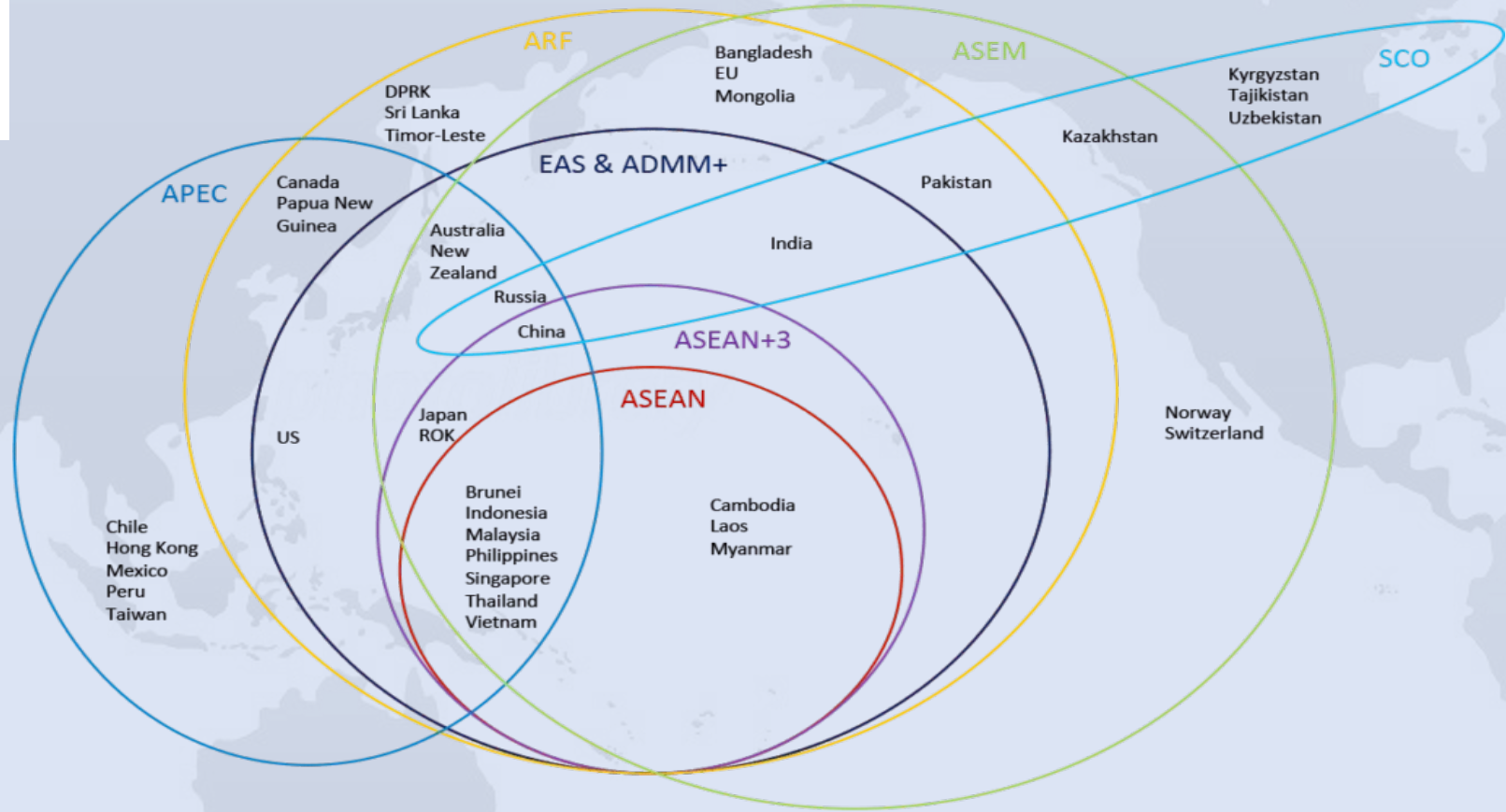


A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT'D



PLUS

- PIF
- BRICS
- ADB, AIIB
- [OECD]



A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT'D

Forums

1. Trade-related, e.g.,

- Ottawa Group, G20, APEC, CPTPP, RCEP, etc.

2. Finance-related, e.g.,

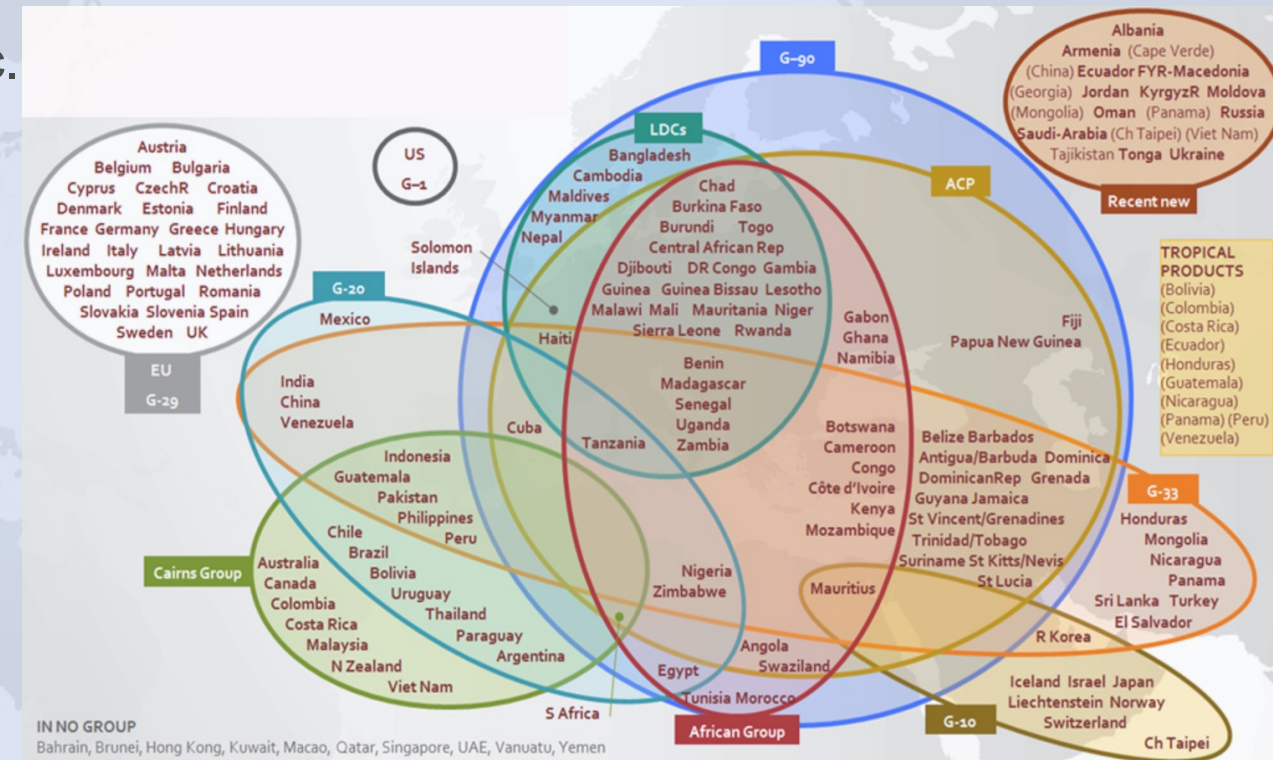
- G20, G24, APEC, ASEAN

3. Sectoral, e.g.,

- ICAO/IATA; IMO; ITU; Codex/OIE/IPCC; IEA and IRENA, etc.

4. “Friends” and Caucuses, e.g.,

- Quad, IPEF, Cairns Group, etc.



/ A DEEPER DIVE: THE BROADER PLAYING FIELD, CONT'D

Analysis and Influence

1. **Secretariats, e.g.,**

- ADB, OECD, ASEAN

2. **Public Policy Centres, e.g.,**

- ERIA, RIETI
- At home: APF, Munk School, etc.

3. **Business Communities: omnibus and sectoral**

LESSONS FOR ENGAGEMENT

1. **Think horizontal**

- Consensus emerges from “caucusing” and gestation period in non-negotiating forums
- Thus, stay current with and integrate such discussions, e.g., APEC, G20

2. **Develop and maintain relations with Finance, and sectoral Departments**

3. **Your Mission reps are more than messengers and implementers**

- Including our ED's to the IMF, WB, ADB and AIIB

4. **Engage stakeholders abroad as you would at home**

- Business community voice is relevant, influential in many/most countries
- Sectoral groups matter, e.g., automotive

5. **Read and follow up: think tanks and academia, media and editorial writers**

