

# Economic Growth and FDI

## FDI and PPPs Experiences in Asia

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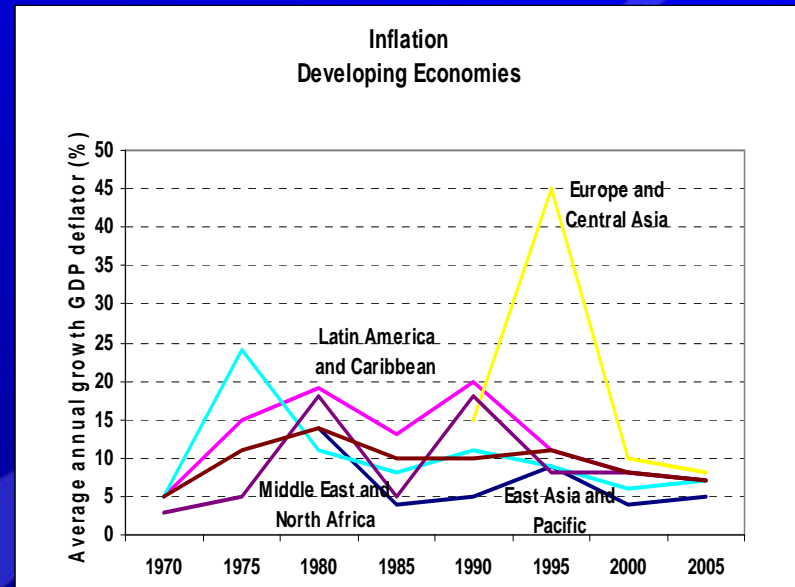
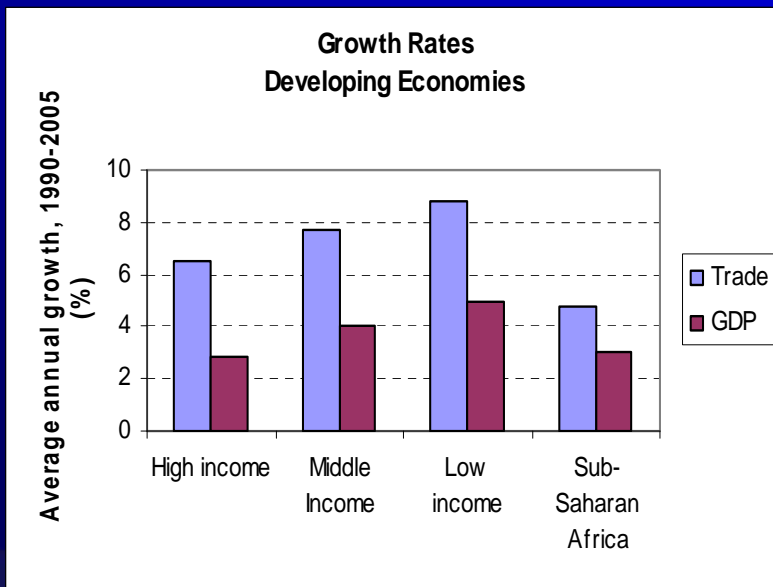
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The logo of the Asian Development Bank (ADB), consisting of the letters "ADB" in a white serif font on a dark green square background.

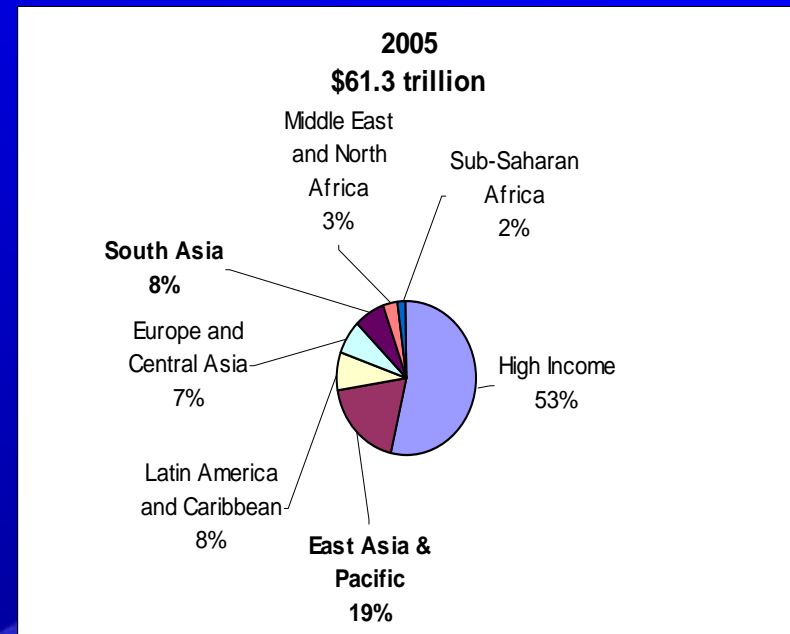
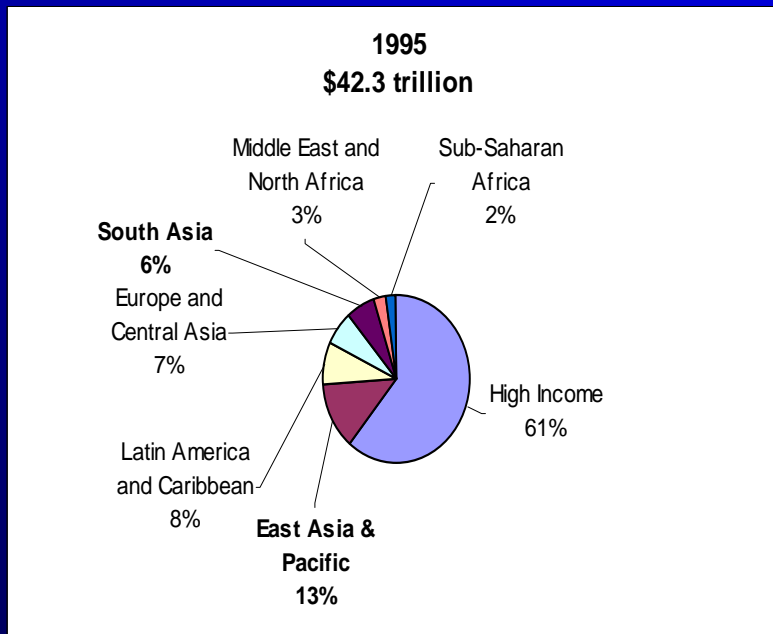
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# Developing economies are benefiting from rapid rates of growth – growth is being driven by factors such as macroeconomic stability and increasing role of the private sector and international trade



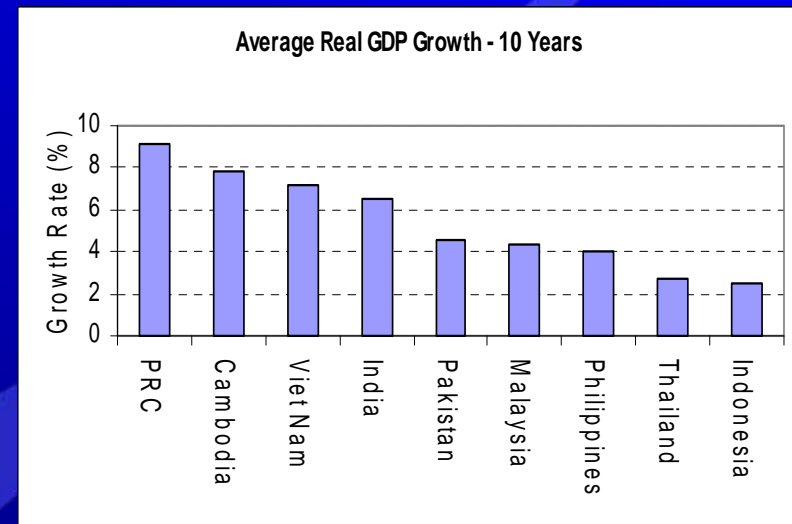
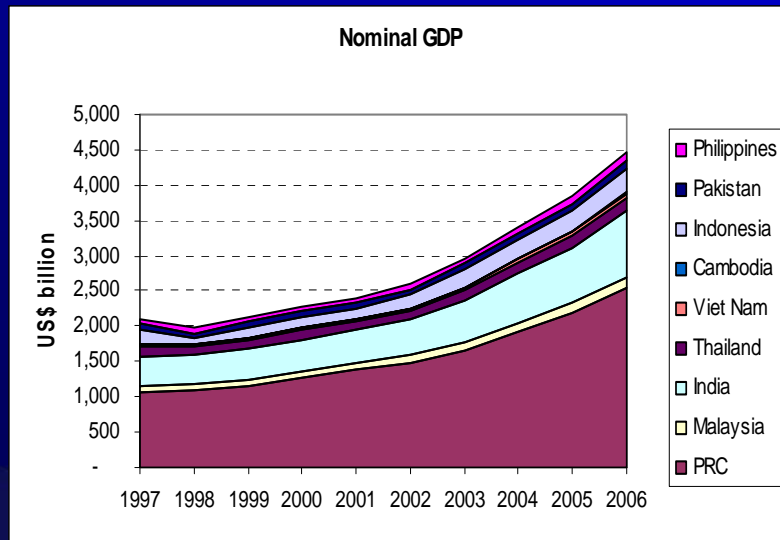
Source: *World Development Indicators*, 2007

# Asia has benefited from high growth rates and continues to expand its presence in the global economy



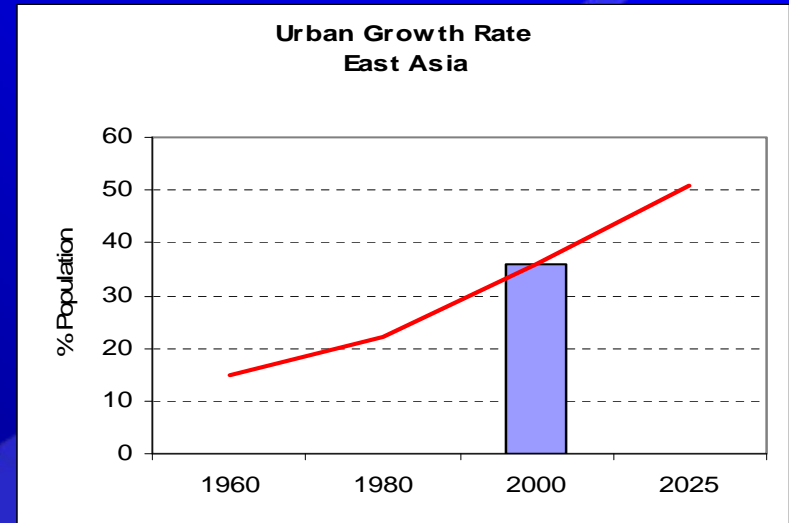
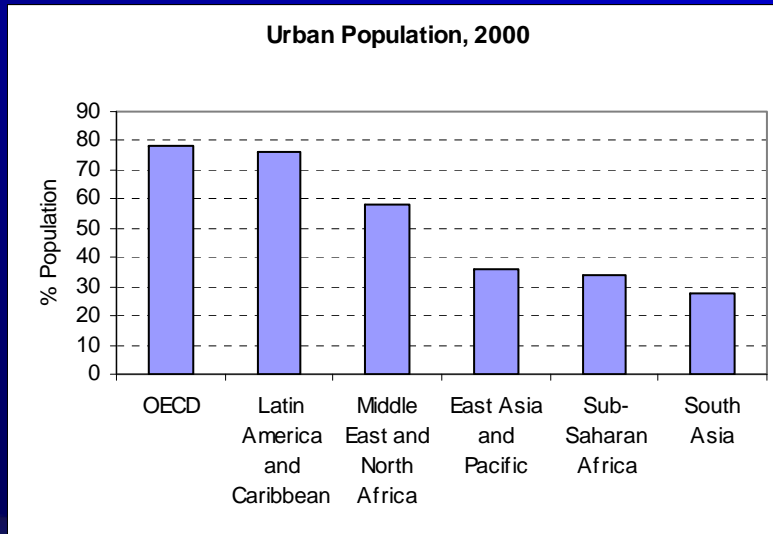
Source: *World Development Indicators*, 2007

# Asian economy overwhelmingly dominated by People's Republic of China (PRC), and to a lesser extent India in terms of size and rate of growth – elephants can dance



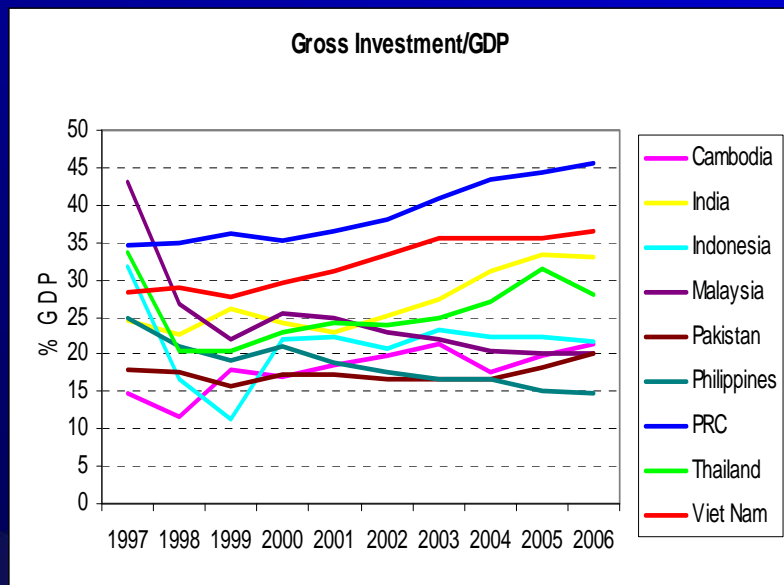
Source: IMF International Financial Statistics

# Underpinning high growth, there has been rapid rates of urbanization and industrialization – in East Asia urbanization rates are expected to reach 50% by 2025



Source: *Connecting East Asia*, ADB, World Bank, JBIC

# Growth in Asia is a function of high investment rates – infrastructure investment has been an important component of this expenditure



Infrastructure Investment % GDP		
0%-4%	4%-7%	Over 7%
<b>Cambodia</b>	<b>India</b>	<b>PRC</b>
<b>Indonesia</b>	<b>Lao PDR</b>	<b>Thailand</b>
<b>Philippines</b>	<b>Mongolia</b>	<b>Viet Nam</b>

Source: *Key Indicators*, ADB

Source: *Connecting East Asia*, ADB, World Bank, JBIC;  
*India Infrastructure Report*, 2006

## Asian governments have traditionally invested heavily in infrastructure and they have been the main sources of finance for this sector

Country	Total Road Network (millions kilometers)			Electricity Generating Capacity (Gigawatts)			Annual average GDP Growth (%)
	1990	2000	Growth (%)	1990	2000	Growth (%)	
<b>PRC</b>	1.03	1.68	<b>63</b>	127	299	<b>136</b>	<b>9</b>
<b>India</b>	2.00	3.32	<b>66</b>	72	108	<b>51</b>	<b>5</b>
<b>Indonesia</b>	0.29	0.36	<b>23</b>	13	25	<b>98</b>	<b>4</b>
<b>Lao PDR</b>	0.01	0.02	<b>71</b>	0	0	<b>92</b>	<b>6</b>
<b>Philippines</b>	0.16	0.20	<b>26</b>	7	12	<b>81</b>	<b>3</b>
<b>Thailand</b>	0.05	0.06	<b>15</b>	8	19	<b>125</b>	<b>4</b>
<b>Viet Nam</b>	0.11	0.22	<b>104</b>	2	6	<b>180</b>	<b>7</b>

Source: *Connecting East Asia*, ADB, World Bank, JBIC;  
*India Infrastructure Report*, 2006

## Despite substantial investments, standards of infrastructure in Asia continue to be low, especially in South Asia

Indicators	OECD Average	East Asia and Pacific Average	South Asia Average	Low income Countries
Gross National Income per capita, Atlas method (current US\$)	33,470	1,640	806	411
Access to electricity (% of population)	-	63	33	25
Electric power consumption (kilowatt hour per capita)	8,769	971	241	401
Improved water source (% of population with access)	99	74	72	64
Improved sanitation facilities (% of population with access)	-	58	48	38
Total telephone subscribers (per 100 inhabitants)	-	22	11	8

Source: PPIAF

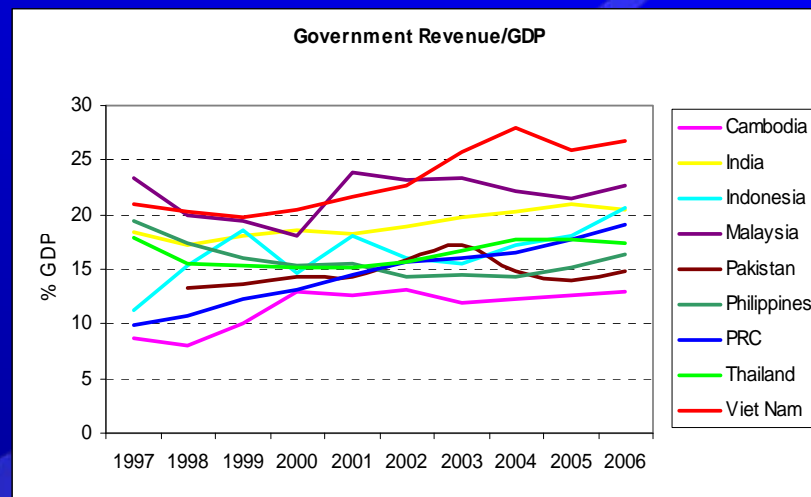
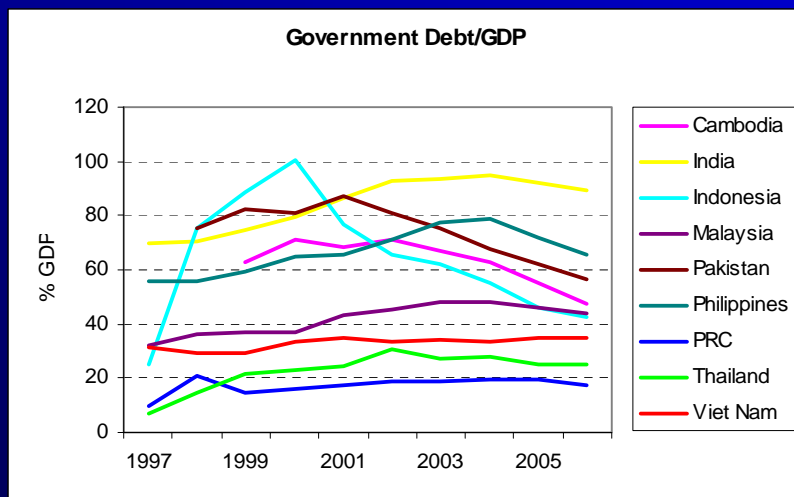
# Many businesses in Asia perceive inadequate infrastructure to be the dominant constraint on growth

Country	% Respondents	Rank
India	24.0	1
Indonesia	20.5	1
Philippines	17.8	2
Pakistan	14.3	1
Viet Nam	14.1	2
PRC	9.1	5
Cambodia	9.0	4
Malaysia	7.2	7
Thailand	5.9	8

Source: *World Competitiveness Report, 2007*

It has been estimated developing Asian and the Pacific countries will require \$300 billion pa over the period 2006-2010 to meet infrastructure needs (World Bank-UNESCAP). How will this development be financed?

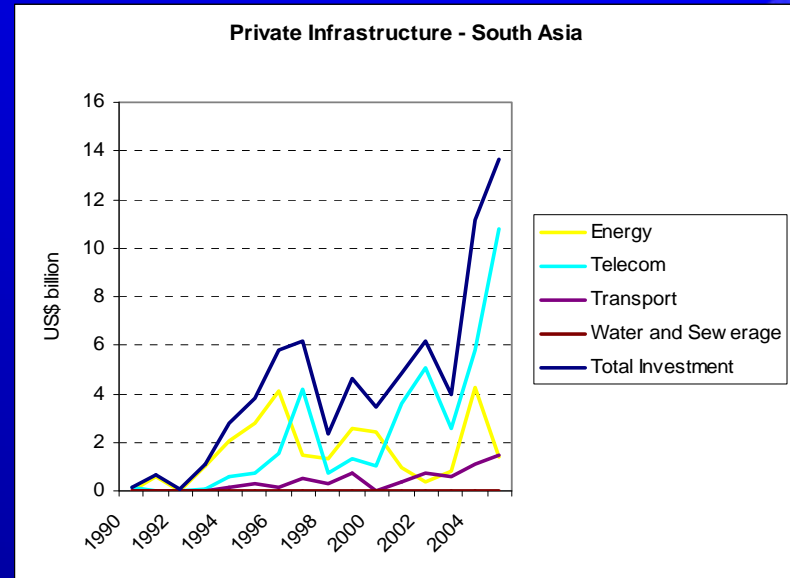
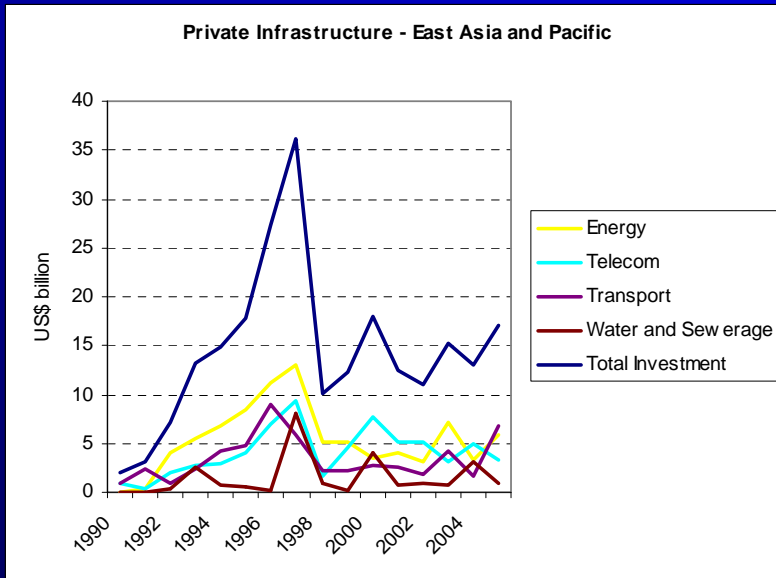
# Governments have been seeking to reduce debt, tax revenues are static, and there are competing expenditure priorities



Source: *Key Indicators*, ADB

There are opportunities to expand the level of private sector participation in infrastructure

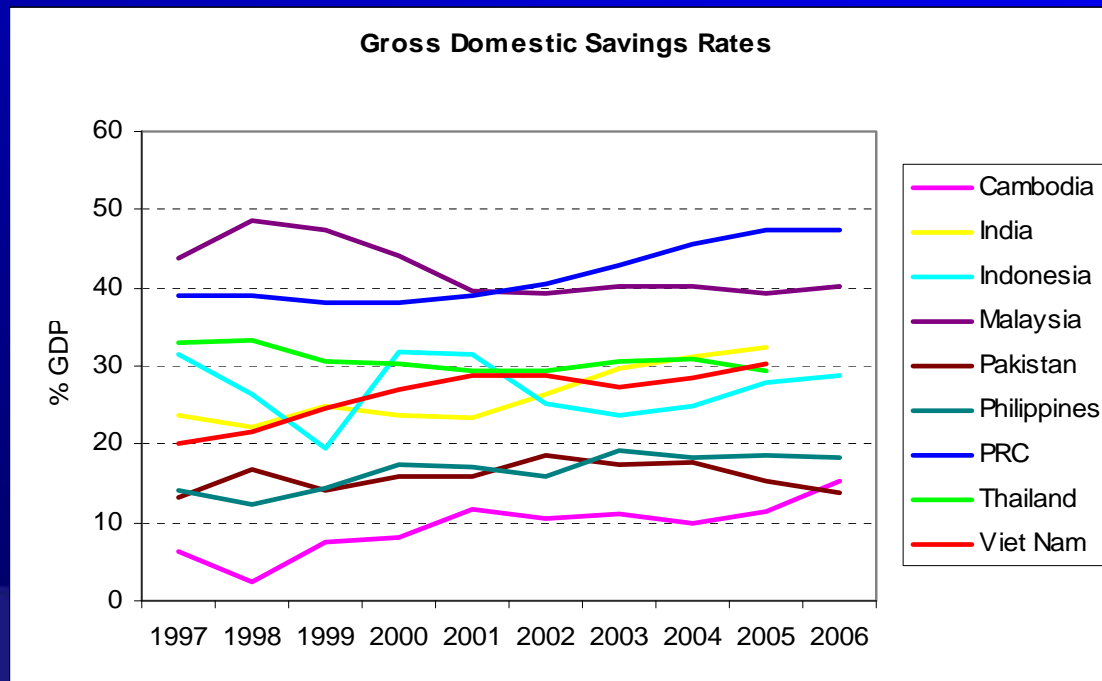
# East Asia has been the main region for private infrastructure investment but South Asia is now catching up – particularly in the telecom sector



Source: PPIAF

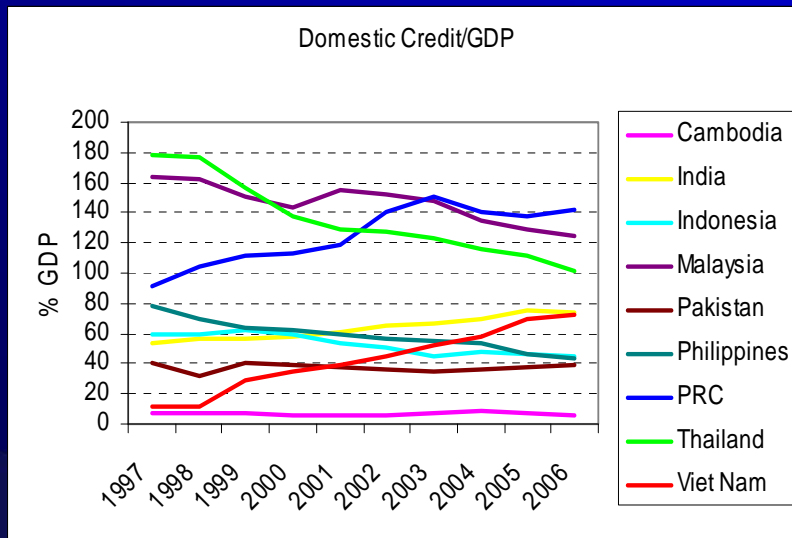
Despite these developments, total private infrastructure investment of about \$30 billion in 2005 is still far short of the total investment needs of the Asian Pacific region

**A critical problem is the ability of the private sector to access finance. Domestic savings have been a primary source of funds. Apart from PRC, and to a lesser extent India and Viet Nam, savings are static or declining as a share of GDP**

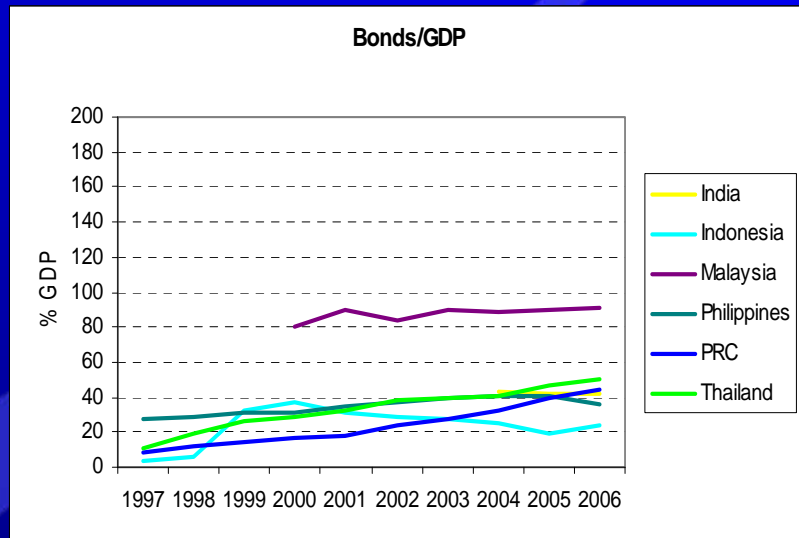


Source: *Key Indicators*, ADB

# In most Asian markets domestic credit is stagnant or declining as proportion of GDP and bond markets are small and sporadic, although they are growing

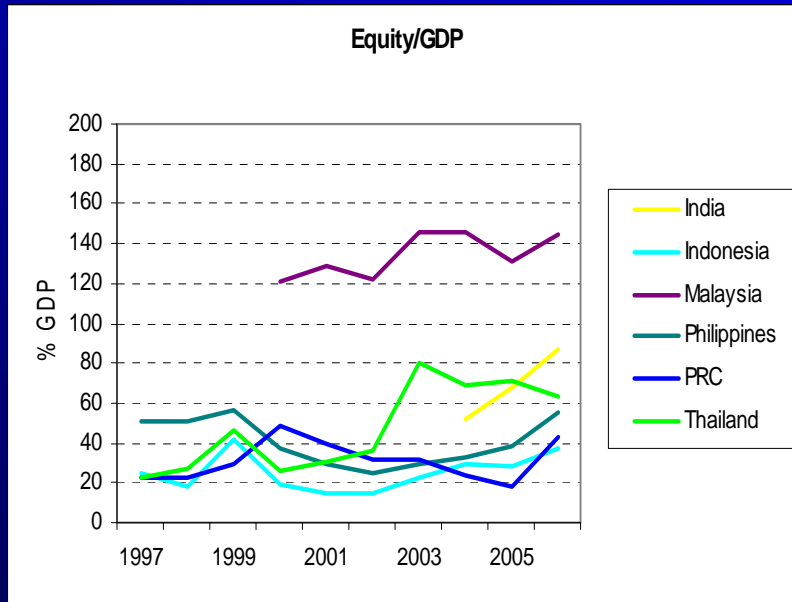


Source: IMF International Financial Statistics

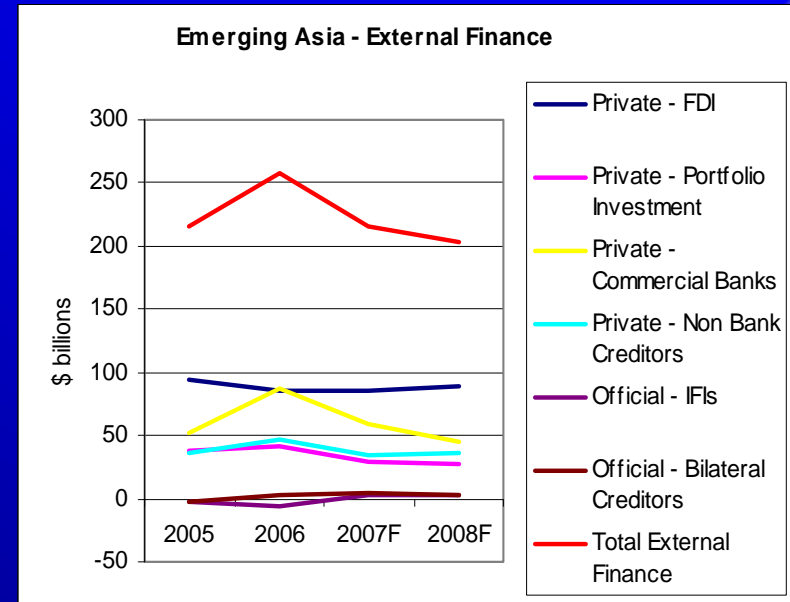


Source: Asianbondsonline

# Equity markets continue to be under-developed in most Asian countries and external capital flows are forecast to decline



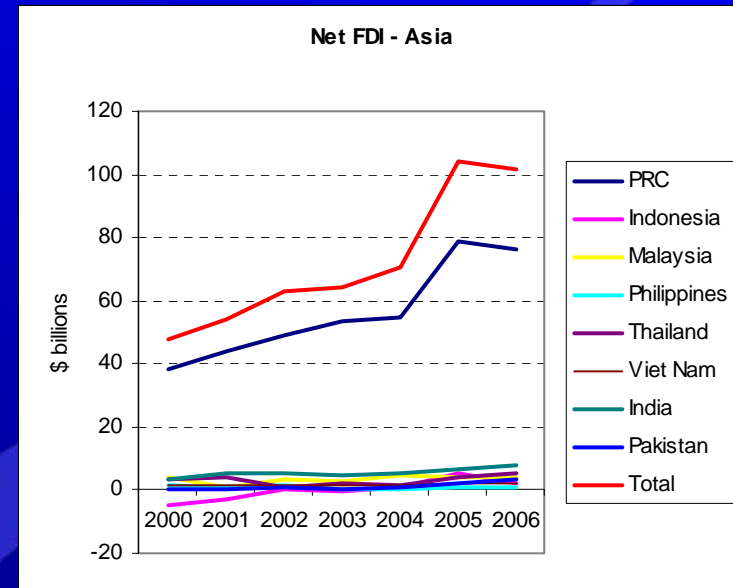
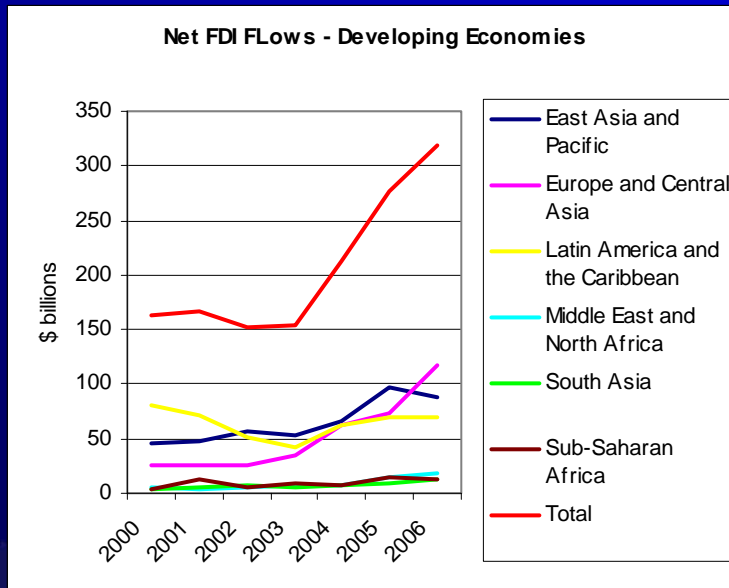
Source: *Asianbondsonline*



Source: *Institute of International Finance*

Foreign debt is expected to contract due to the global credit crunch

# While net FDI is the main source of external capital in emerging economies, it has recently started to contract in Asia, mainly due to changes in PRC and limited opportunities elsewhere



Source: *Global Development Finance, 2007*

PRC is investing offshore and the domestic market has lost some of its attractiveness due to exchange rate movements and asset appreciation

## Conclusion - demand for private infrastructure in Asia is rising but access to finance is a problem

- Asia Pacific will require **\$300 billion pa** over the next five years in infrastructure to support growth
- In Asia infrastructure is typically owned and managed by the **state**
- **Governments are financially constrained**, creating risks for growth
- **Private sector** starting to become an important supplier but total investment in the order of \$30 billion pa is far short of demand
- There are **problems accessing local finance** and historically infrastructure returns in the region have been mixed
- **FDI for infrastructure** is only just starting to recover in Asia
- **Local private investors based in Asia** are becoming increasingly important but often unwilling to invest long term
- Probably the single most important constraint is the quality of the **enabling environment** for infrastructure, which is focused on accessing funds, with limited attention being given to efficiency and risk mitigation
- **PPPs** a key mechanism for managing risks and stimulating local and foreign investment