Building Connectivity for Sustainable Growth in ASEAN

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Asian Development Bank

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ASEAN Economic Outlook
ASEAN growth remains solid

<table>
<thead>
<tr>
<th>Economy</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>5.9</td>
<td>5.7</td>
<td>5.6</td>
</tr>
<tr>
<td>ASEAN</td>
<td>5.1</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>-1.0</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Cambodia</td>
<td>7.3</td>
<td>7.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.2</td>
<td>5.2</td>
<td>5.3</td>
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<tr>
<td>Lao PDR</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.7</td>
<td>4.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Myanmar</td>
<td>6.2</td>
<td>6.6</td>
<td>6.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>6.2</td>
<td>6.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.2</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>4.1</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>7.1</td>
<td>6.8</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Green = increase from previous year, Red = decline.
Sources: ADB, Asian Development Outlook 2019; and national sources.
Up/Downside risks to the outlook

- Better-than-expected domestic consumption and investment can still boost growth in some ASEAN economies. But downside risks remain significant:
  - Continuing US-PRC trade tensions
  - Potential financial volatility due to excessive leverage
  - Evolving political situations
  - A sharper-than-expected slowdown in Europe on the heels of a disorderly Brexit
  - Uncertainties in advanced economies’ monetary policies
Manage the escalating trade conflict

- Enhance customs cooperation
- Promote market competition
- Leverage e-commerce and tourism
- Reduce nontariff barriers

Streamline and harmonize trade regulations and customs procedures
Remove red tape; facilitate new entry; and improve business procedures
Lift restrictions on services
Maintain open trade and investment policies
Unlock ASEAN’s tourism potential

Tourism Receipts (% of GDP)

Tourist Arrivals (number of people, million)

Source: ADB calculations using data from World Bank, World Development Indicators and International Monetary Fund, World Economic Outlook (accessed March 2019).
Promote sustainable tourism to support inclusive growth

- Adopt and implement ASEAN tourism guidelines and standards
- Invest in infrastructure to connect tourism corridors
- Support the ASEAN Single Aviation Market
- Improve travel facilitation such as visa free entry for tourists
- Build knowledge and skills of ASEAN tourism professionals
- Ensure guidelines and regulations to protect environment and local communities
What ADB is doing to deepen ASEAN connectivity
ADB sovereign lending to ASEAN is expanding

Sovereign Loan Commitments to ASEAN ($ million)

ADB sovereign loans and grants for ASEAN infrastructure

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>RECENT SUPPORT FOR SUSTAINABLE INFRASTRUCTURE</th>
<th>SUPPORT PLANNED FOR 2019-2022</th>
</tr>
</thead>
</table>
| CAMBODIA     | • Safe and climate resilient rural and national roads  
               • Improved water supply and sanitation (WSS)  
               • Upgraded tourism infrastructure  
               • Climate resilient irrigation | • Renewable energy (solar parks)  
                                           • Rural and urban WSS  
                                           • GMS economic corridors |
| INDONESIA    | • Energy and connectivity reforms  
               • Electricity transmission and distribution  
               • Rural and urban WSS  
               • Climate resilient irrigation | • Renewable power generation, transmission, and distribution  
                                           • Carbon capture and storage solutions  
                                           • PPP in transport  
                                           • Green and climate finance |
| LAO PDR      | • GMS road corridor improvement  
               • Urban WSS and transport  
               • Tourism infrastructure | • Climate resilient rural infrastructure and WSS |
| MYANMAR      | • Improvement of electricity access  
               • Transport connectivity; highway modernization; climate resilient rural roads improvement  
               • Urban WSS | • Continued support to fill infrastructure access gaps in all of these areas |
<table>
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<th>SUPPORT PLANNED FOR 2019-2022</th>
</tr>
</thead>
</table>
| PHILIPPINES  | • Mindanao road and highway rehabilitation  
• Rebuilding of critical infrastructure in Marawi City  
• Water security for Metro Manila                                                                                                                                                                                                 | • Significant expansion in ADB support for the Build-Build-Build Program  
• Metro Manila-Clark Railway  
• Roads, bridges and greenways  
• Water security and irrigation                                                                                                                                                                                                 |
| THAILAND     | • GMS Highway expansion                                                                                                                                                                                                                   | • Urban transport  
• Highway expansion  
• Airports and national railways  
• Green and Innovative Finance Facility                                                                                                                                                                                                 |
| VIET NAM     | • Climate resilient road infrastructure and GMS connectivity  
• Power transmission improvement  
• Urban transport systems  
• Tourism infrastructure  
• WSS and water resource management                                                                                                                                                                                                 | • Climate resilient rural infrastructure  
• Expanding urban transport systems  
• Flood risk management                                                                                                                                                                                                 |
| REGIONAL     | • Significant TA support for Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area, Indonesia-Malaysia-Thailand Growth Triangle, and GMS programs  
• Promoting Economic Corridors and Regional Power Trade Cooperation  
• ASEAN Infrastructure Fund (expanded with two new facilities)                                                                                                                                                                                                                    | no support planned for 2019-2022                                                                                                                                                                                                                           |
Nonsovereign financing also picked up significantly in 2018

Nonsovereign Commitments to ASEAN
($ million)

## ADB nonsovereign investment in ASEAN infrastructure

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>RECENT SUPPORT FOR SUSTAINABLE INFRASTRUCTURE</th>
<th>SECTORS OF INTEREST FOR FUTURE OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAMBODIA</td>
<td>• First utility-scale solar project</td>
<td>• Solar parks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Rooftop solar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Battery energy storage</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>• Geothermal power plant project financing</td>
<td>• Renewable power generation, battery</td>
</tr>
<tr>
<td></td>
<td>• Wind/Solar portfolio project financing</td>
<td>storage projects</td>
</tr>
<tr>
<td></td>
<td>• Gas combined cycle power plant project</td>
<td>• Remote islands broadband internet</td>
</tr>
<tr>
<td></td>
<td>financing</td>
<td>connectivity project</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• PPP in transport</td>
</tr>
<tr>
<td>LAO PDR</td>
<td>• Hydropower for development of cost-</td>
<td>• Utility-scale solar power</td>
</tr>
<tr>
<td></td>
<td>efficient energy resources</td>
<td>• Run of river hydropower</td>
</tr>
<tr>
<td>MYANMAR</td>
<td>• Mobile telecommunications network</td>
<td>• Transportation</td>
</tr>
<tr>
<td></td>
<td>• Urban renewal and district cooling</td>
<td>• Run of river hydropower</td>
</tr>
<tr>
<td></td>
<td>• Natural gas power generation to increase</td>
<td>• Wind and solar power</td>
</tr>
<tr>
<td></td>
<td>energy supply</td>
<td>• Battery energy storage</td>
</tr>
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<td></td>
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### ADB nonsovereign investment in ASEAN infrastructure (continued…)

<table>
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<tr>
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</thead>
</table>
| PHILIPPINES | • First publicly listed climate bond to finance a regional expansion in renewable energy projects for a Philippine company | • Green bonds  
• Battery energy storage  
• Waste to energy projects |
| THAILAND  | • First certified climate bond supporting solar power projects  
• Expanded mass rapid transit network to improve urban connectivity  
• Southern Thailand renewable waste-to-energy project  
• Support for roll out of utility-scale wind and solar sector | • Supporting government initiatives for PPP projects in the Eastern Economic Corridor  
• Urban transport  
• Green bonds  
• Battery energy storage  
• Rooftop solar |
| VIET NAM  | • Municipal waste-to-energy  
• Floating solar power | • Utility-scale wind and solar projects  
• Rooftop solar  
• Green bonds |
| REGIONAL  | • Green bonds to support renewable energy | • Support existing clients investing in other ASEAN countries |
Diversify sources of infrastructure finance

Public sector
- Policy support helps mobilize tax revenue, improves investment climate, and promotes use of PPP
  - $300M policy-based loan (PBL) to PHI to facilitate PPP project implementation through policy reforms
  - $40M PBL to LAO to modernize its tax systems, leading to more efficient tax revenue collection

Private sector
- Credit guarantees for local currency-denominated bonds
  - 31 bond guarantees were provided by CGIF for bonds issued by 22 companies since 2013 as of March 2019.

Regional mechanisms
- ASEAN Infrastructure Fund: Inclusive Finance Facility offers concessional financing for low-income ASEAN
  - ASEAN Green Bond Standards to attract green infrastructure investment
Policy-based loans supporting infrastructure financing

Philippines: Expanding Private Participation in Infrastructure, Subprogram 2 ($300 million)

Focusing on PPP reforms, it covers 3 main areas:

- Government financial support to PPPs
- Expands PPP pipeline and helps implement projects
- Strengthens the legal and regulatory PPP framework

Lao PDR: Strengthening Public Finance Management Program, Subprogram 1 ($40 million)

One reform area under the 1st subprogram deals with passing 3 new tax laws:

- income tax law;
- excise tax law; and
- tax administration law.

Together, these laws will modernize Lao PDR’s tax systems and lead to more efficient tax revenue collection.
ADB support to the ASEAN Infrastructure Fund

Two New Facilities Created (2019–2021)

Inclusive Finance Facility (IFF)

ASEAN Catalytic Green Finance Facility (ACGF)

• De-risks green infrastructure projects;
• Catalyzes private capital for projects; and
• Structures bankable projects

Provides concessional financing to Cambodia, the Lao PDR, and Myanmar
Ensuring debt sustainability

- Public debt could be used for productive investments
- Maintain debt at prudent level to ensure macro stability
- Curb excessive risk-taking and external borrowing

Public debt (% of GDP)

- LAO
- VIE
- MAL
- THA
- PHI
- MYA
- CAM
- INO
- BRU

Note: Based on general government gross debt. Red line denotes 40% benchmark based on IMF, 2010. From Stimulus to Consolidation: Revenue and Expenditure Policies in Advanced and Emerging Economies.
Establishing environmentally sound projects

- **ADB’s Strategy 2030:** Climate change—climate/disaster resilience and enhancing environmental sustainability (one of 7 ADB operational priorities)
  - By 2030, **75% of committed operations** will support climate change mitigation/adaptation

- **ASEAN Catalytic Green Finance Facility:** bridges the viability gap for green infrastructure projects and attracts private and public capital, helping DMCs achieve their environmental and climate change targets

- **ASEAN Green Bond Standards:** 8 corporate issuances have been aligned since its launch in 2017.
Integrating digital technology into ADB operations (1)

With ADB support, Cantilan Bank became the first Central Bank regulated financial institution to leverage cloud technology in delivering financial services.

**Challenge**

Financial inclusion

- Only 3 out of 10 Filipinos have a bank account
- Lack of efficient technology infrastructure in rural and remote areas
- Higher costs of reaching and servicing clients for rural banks in high-risk frontier areas

Digital finance

- **Offer** new opportunities to save, pay, get small business loans, send remittances, or buy insurance.
- **Provide** personalized and efficient services
- **Mitigate** IT, strategic, and operational risks
- **Reach** the underserved and unbanked
- **Reduce** major IT capital expenses

With ADB support, Cantilan Bank became the first Central Bank regulated financial institution to leverage cloud technology in delivering financial services.
In Bangladesh, ADB completed a Pilot Project on Weather Index-Based Crop Insurance

- Parametric insurance products developed
  - Provide payouts when pre-agreed triggers of a risk (excess rainfall or drought) are met
  - Indexes developed from weather data determine the trigger points and approximate incurred losses for payout
- 20 automatic weather stations were installed to ensure timely claim payouts
- Mobile banking was used for claim settlements
- This was a $2 million grant funded by JFPR
Strategy 2030: ADB’s holistic and integrative approach