



BOAO FORUM FOR ASIA

Highlights of the Asian Financial Development Report on Infrastructure Finance

Asia has become the fastest growing region, accounting for almost 60% of the world's GDP growth. In the course of socioeconomic development, infrastructure plays a vital role in trade facilitation, overall growth catch-up and poverty reduction. Furthermore, rapid economic growth, demographic shifts, new technological advancements and higher standards on environmental protection are combining to drive up the demand for sustainable infrastructure in Asia (Table 1). Asia needs to mobilize the region's excess savings and coordinate the development plans among various nations and regions, including China's Belt and Road Initiative (BRI), ASEAN's Master Plan Connectivity 2025 (MPAC), Eurasian Economic Union and EU-Asia Connectivity Strategy (Table 2) in order to promote the "Smart, Green and Sustainable Infrastructure construction".

At the current stage, public finance is still the dominant source for Asia's infrastructure finance, while public-private partnership (PPP) and various financial instruments are catching up. Bank loan is still the leading form for infrastructure finance, while capital market is exhibiting great potential. More equity investment vehicles are put into use albeit at a marginal base. Multilateral development banks (MDBs) and national development banks (NDBs) have been playing a very important role in infrastructure finance in Asia. Infrastructure projects are also popular targets for FDI inflows. The common challenges of Asian economies on infrastructure finance include fiscal constraints and rising public debts, local financial market deficiencies, under-developed regulatory framework for PPP, as well as exchange rate, credit and geopolitical risks.

Despite the high growth and economic dynamics, East Asia (ASEAN+3) too has underinvested in infrastructure since the Asian Financial Crisis, partially because

the global environment in the past two decades has been unfavourable to long-term investment. Regional Initiatives are gaining momentum in infrastructure in the region, with the biggest contribution from China, Japan and Korea. A look at several projects within outside and ASEAN shines the spotlight on several critical issues: economic viability, debt sustainability, overall policy coherence, ownership and prioritization, and attention to operational issues. In addition, East Asia has benefited very much from regional economic and financial hubs such as Singapore and Hong Kong, which add value to infrastructure financing activities in several ways.

Central Asia Republics (CARs) unique in their geographical peculiarities and institutional makeup are facing financing challenges and deficits in the area of the sustainable infrastructure development. Poor and inadequate infrastructure with low logistics efficiency not only restraints the economic competitiveness of the region but also affects the standards of living and sustainable development of CARs. The extrinsic factors that limit infrastructure finance are two-folded – insufficient options of bankable project from the supply side, and lack of regulatory regime and underdevelopment financial markets from the demand side. In addition to public investment, PPP is the most important policy tool in CARs, yet there exists gaps between CAR's current PPP policy and international good practices.

For South Asia, in order to unleash the great growth potential, South Asian Association for Regional Cooperation (SAARC) countries need to substantially boost investment in infrastructure in the emerging Asia. Countries such as India and Bangladesh made concerted efforts to set up facilitating institutions and increase fiscal expenditure. National development banks and multilateral development banks are critical in regional cooperation and technical assistance for SAARC countries. PPP model is well-established but private capital needs to play a bigger role in infrastructure investment. Policy takeaways include developing multi-layer infrastructure finance system, upgrading regional policy coordination and cooperation, and making government spending practices more prudent.

West Asian countries with heterogeneities in terms of economic development and institutional setups exhibit wide disparities in their existing infrastructure stocks. The financial markets are fairly thin and least integrated. The exchange rate fluctuations (Petro-dollar) and geopolitical situations continue to influence the financing capacity of West Asia, giving rise to the 'country risk', 'financial risk' and 'credit risk' of the region. Regional financial hubs like Dubai can play more active

role in regional policy cooperation. Other suggestions include the standardization of PPP framework on regional basis.

The flagship projects in each sub-region could serve as role models. The report outlines findings from in-depth studies for seven cases that are both current and relevant, reflecting either the most representative or most applauded practices on infrastructure investment in each region. For East Asia, the cases are the Belt and Road Initiative and the role of Singapore and Hong Kong as regional financial hubs. For Central Asia, the Almaty-Bishkek Economic Corridor and the CASA-1000 Project. For South Asia, the TAPI Pipelines and the South Asia Market for Electricity. For West Asia, the Ankara-Istanbul High-speed Railway II.

The Asian Financial Development Report marks the first flagship report of the Boao Forum for Asia Institute (BFAI), in partnership with the ASEAN+3 Macroeconomic Research Office (AMRO), Asia Financial Cooperation Association (AFCA) and Central Asia Regional Economic Cooperation Institute (CARECI). By leveraging on each institution's expertise and networks, the report serves not only as an update on the latest progress of infrastructure initiatives in Asia, but also a reflection on the financing framework which could turn into practical suggestions for policy-making. The report received valuable support and guidance from the advisory group, composed of Mr. HE Dong from International Monetary Fund, Madame WANG Yuan, from China Development Bank, Mr. Richard JONES from European Bank for Reconstruction and Development and Mr. Jangping THIA and Ms. HAN Xuehui from the Asian Infrastructure Investment Bank.

Table 1 Estimated Infrastructure Investment Needs by Economy

Economy	Projected Annual GDP Growth	2030 UN Population Projection (billion)	2030 Projected GDP Per Capita (2015 USD)	Investment Needs	Annual Average	Investment Needs (% of GDP)
Central Asia	3.1	0.096	6,202	492	33	6.8
East Asia	5.1	1.503	18,602	13,781	919	4.5
South Asia	6.5	2.059	3,446	5,477	365	7.6
Southeast Asia	5.1	0.723	7,040	2,759	184	5
The Pacific	3.1	0.014	2,889	42	2.8	8.2
Total Asia Pacific	5.3	4.396	9,277	22,551	1,503	5.1

Note: Afghanistan are included in South Asia. Climate change adjusted figures include climate mitigation and climate proofing costs, but do not include other adaptation costs, especially those associated with sea level rise. 2017 (45 DMCs, 2016-2030), Baseline Estimates.

Sources: ADB: 2017 and Revision of World Population Prospects, United Nations: 2015.

Table 2 Asian Connectivity Initiatives

Program Name	Main Content	Initiation Time	Initiator Economy	Participating Economies
Belt and Road Initiative (BRI)	The Belt and Road Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multitiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries.	2013	China	65 economies
ASEAN Connectivity Plan	Master Plan on ASEAN Connectivity 2025 (MPAC 2025) focuses on five strategic areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility.	2018	ASEAN	Malaysia, Indonesia, Thailand, the Philippines, Singapore, Brunei, Vietnam, Laos, Myanmar and Cambodia
Eurasian Economic Union	The Eurasian Economic Union is designed to reach a number of macroeconomic objectives such as reducing commodity prices by reducing the cost of transportation of raw materials, increasing return on new technologies and products due to the increased market volume, and promoting "healthy" competition in the common market. It is also designed to lower food prices, increase employment in industries and increase production capacity.	2015	Belarus, Kazakhstan and Russia	Armenia, Kyrgyzstan, Belarus, Kazakhstan and Russia
Japan's Partnership for Quality Infrastructure	In collaboration with the strengthened Asian Development Bank, Japan will provide approximately USD110 billion for "quality infrastructure development" in Asia over the next 5 years.	2015	Japan	
EU-Asia Connectivity Strategy	It embodies a "sustainable, comprehensive and rules-based approach" towards Euro-Asian connectivity.	2018	EU	
Korea's Eurasia Initiative & New Southern Policy	Under the watchwords of "one continent, creative continent, and peaceful continent", the initiative projects a unified system of transport, energy, and trade networks across the vast Eurasian continent.	2013	Korea, Republic of	
Lancang-Mekong Cooperation	The six countries actively promote the pragmatic cooperation in political security, economic, sustainable development, social and culture.	2014	China	China, Cambodia, Laos, Myanmar, Thailand and Vietnam