

Towards Seamless Connectivity: Transforming Multi-modal Transport System into Economic Corridor – Cutting to the Chase

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1. Much research and scholarly work has been done on the topic of 'Infrastructure for a seamless Asia'. These include the extensive work done by ADB and ADBI as reflected by the numerous publications on this topic. The 2012 publication, 'Infrastructure for Asian Connectivity', edited by B.N Bhattacharyay, et al, covers comprehensively the various issues by researchers under three parts:
 - a) Demand and benefits of national and regional infrastructure
 - b) Policies and institutions of effective infrastructure
 - c) Addressing infrastructure financing needs.

In it, Fan Zhai provided an empirical analysis of the benefits of infrastructure investment with reference to Asian interconnectivity by using the CGE (Computable General Equilibrium) model. The publication also drew on lessons learnt from European Union and South America in their collective efforts to forge regional infrastructure interconnectivity. Though Asia may be different from Europe in so many aspects, in particular the absence of a large common market and a common currency as in the EU, nonetheless many of the lessons are relevant to the context of the Asian region and its aspiration to bring about greater infrastructure connectivity. Asia already has many sub-regional infrastructure cooperation initiatives, some being more successful than others. Even within Asia, useful lessons can be drawn from these successful regional cooperation initiatives.

2. There is also a recent work by ERIA (Economic Research institute for ASEAN and East Asia on 'Financing ASEAN Connectivity, published in November 2014. It is a fairly comprehensive report and covers the potential sources of financing for infrastructure projects in ASEAN, and shares the experiences of some of the member countries in developing the Enabling Environment that allows the mobilisation of private funds through various forms of PPP (Public Private Partnerships). Many governments have constraints in their public finances to be able to fund national infrastructure projects, let alone regional ones even though the latter can be proved to bring significant socioeconomic benefits to the population. It is also interesting to note some statistics that were presented at a recent meeting on SDG (Sustainable Development Goal) meeting in Dhaka:
 - a) ODAs (Official Development Assistance) in 2014 were \$135billion, reflecting a declining trend (only 5 out of 28 OECD-DAC countries met the pledged-target of 0.7% of GNI in 2014).
 - b) Asia has high household saving rates (up to 40% in some countries). These savings could be used to fund many of the infrastructure projects if a mechanism is developed to allow the flow of these funds to these public goods. For example, the total annual infrastructure need of South Asia and SEA is estimated at \$385 billion whilst the estimated total annual household savings is \$1.3 trillion, which is almost 3 times of the estimated need.
 - c) Global Remittance in 2014 was \$583 billion which was more than ODA and FDIs combined.

- d) New sources of financing are being developed for possible financing of infrastructure projects, for example the CPBD (Community Based Participatory Development) Programme where emphasis could be placed on smaller actors in the field of infrastructure development; and the new CSR programme in India which will be development-focused rather than Business-focused supported by the new Indian Companies Act 2013 which requires large corporations to allocate a percentage of their net profits for CSR projects. This is expected to generate some \$1.8 billion of funds annually.
3. There is no intention, at this juncture, to repeat the detailed findings, conclusions and recommendations contained in these publications, which have succinctly encapsulated the various issues faced by Asia in achieving greater interconnectivity. The 2009 ADB and ADBI publication, 'Infrastructure for a Seamless Asia', has detailed the key issues pertaining to infrastructure for Asian interconnectivity, and covers, inter alia,
- a) The rationale and *raison d'être* for regional interconnectivity
 - b) The estimated investments required, based on demand-driver estimates, though these do not include the possible projects of demand-inducing nature (that is, 'build first and they will come')
 - c) The policies and institutions needed to make this work
 - d) Examples drawn from EU and South America
 - e) Possible financing mechanisms
 - f) Way Forward

In the 2010 ADBI publication, 'Institutions for Asian Connectivity', Bhattacharyay succinctly described the institutions and institutional framework for a Seamless Asian Connectivity.

Cutting to the chase – the key issues

4. There is a plethora of issues that need to be addressed for Asian interconnectivity to pick up momentum. However the key issues can be surmised through three questions:
- a) How to convince the countries that they need the interconnectivity for their economic growth and to prioritise the relevant projects in their development planning?
 - b) How to finance the development of these projects?
 - c) How to create the Enabling Environment to facilitate the flow of excess funds to these projects?
5. Countries have to juggle their priorities, deciding between national and regional projects. Though the gain from interconnectivity with pan-Asian connectivity is estimated at \$13 trillion, extra efforts are needed to convince governments that these projects will give their countries 'a bigger bang for their buck', compare to equally-pressing national projects. These countries have to be convinced to think beyond *market-driven* infrastructure to **market-inducing** infrastructure. The role of supranational institutions like the ADB is important, not least to play the role of 'honest broker' in convincing the countries of the economic benefits of interconnectivity infrastructure projects, and perhaps help to provide bridging financing to close the funding and

viability gaps. Examples can be drawn from, and contrasted between, the EU and South American experiences.

6. Many of the Asian countries face challenges in allocating sufficient budget for national infrastructure let alone regional ones. The lack the fiscal space for regional projects will compel governments to seek workable financing models that may allow them to 'avoid the cost' of these public good projects. As mentioned earlier, a way is to tap the large pool of private capital. This has been done successfully in many countries through PPP programmes in tandem with the development of their domestic capital markets. PPP Units have to be established in these countries to focus their expertise in engaging the private sector to work in partnership with governments to develop and implement this regional interconnectivity infrastructure. There have even been proposals to set up a **Regional PPP Centre of Excellence** to facilitate sharing of knowledge and expertise amongst countries.

Cutting to the chase – developing the Enabling Environment

7. The Enabling Environment needed to facilitate the flow of private funds to finance these interconnectivity projects have to be developed. Generally, this is achieved through the creation of the 5 Enabling Frameworks, covering:
 - a) Policies
 - b) Legal and regulatory
 - c) Investment and long term master planning
 - d) Operational and institutional arrangements
 - e) Capital market

Most of these are covered in various parts of the mentioned publications. The important underlying driver in the Enabling Environment is the creation of greater certainty for private investors in these projects to safeguard their investments and returns.

Conclusion and Way Forward

8. It is generally recognised that Asian interconnectivity would produce large income gains for developing Asia (estimated at \$13 trillion during 2010-2020 and beyond). However, at country-level, these proposed projects have to compete with national projects for budget allocation. Countries have to be convinced of the significant economic returns for their investments into these projects, and to prioritise these projects. The role of supranational institutions like the ADB is important in supporting the development of these projects, and to perhaps provide viability gap funding. Increasingly, financing of these projects will come from the private sector.
9. Asia enjoys 'Twin Surpluses', in the large domestic savings and huge foreign exchange reserves. Mechanism must be developed to enable the flow of these funds to finance many of these projects. Countries have to develop Enabling Environment which can facilitate this. Creating the 5 frameworks in each of these countries is an urgent task if Asian connectivity is to be realised.

The establishment of a regional PPP Centre of Excellence to facilitate the exchange of knowledge and expertise is a firm step forward.

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Towards Seamless Connectivity

Cutting to the Chase

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Much research and scholarly work has been done

- Infrastructure for a Seamless Asia (2009) – ADB & ADBI
- Institutions for Asian Connectivity (2010) – BN Bhattacharyay
- Infrastructure for Asian Connectivity (2012) – BN Bhattacharyay, et al
- Financing ASEAN Connectivity (Nov 2014) – ERIA
- Etc.....



Some facts on infrastructure & funds available

1. Reducing supply chain barriers (through building infra) is **6x more impactful** on GDP Growth than reducing trade barrier
2. Shortage of infrastructure – Global (\$50 trillion over 20 years); Asia (**\$8 trillion** over 10 years, 2010-2020)
 - \$290b on specific regional infra in transport and energy that are in pipeline
 - 21 high priority projects in 2015 - \$15b
 - **\$750b pa over 11 years**
3. Governments do not have the financial resources to carry out all the infrastructure projects (10-20% or MORE of total funding requirements through some form of PPP, Public Private Partnerships)
4. There is a lot of liquidity in the private sector – pension funds, insurance funds, household savings, etc



There is ample liquidity in the market

1. **Pension** and insurance funds have estimated USD80 trillion for investment of which only **1% invested** in infrastructure (mainly in PFI projects in developed countries)
2. Asia has **high household saving rates** (up to 40%). Example, South Asia and SEA – annual infra need is \$385 billion; annual household savings is \$1.3 trillion..... **3 x of infra funding needs**
3. USD 95 billion of Infrastructure **sukuks** (Islamic bonds) issued in more than 10 countries
4. **ODA** in 2014 was **\$135billion** and Declining Trend (0.7% of GNI – only 5 out of 28 OECD-DAC countries met target in 2014)
5. **Global Remittances** in 2014 was \$583 billion (more than ODA and FDIs combined)
6. **CSR** (be more Development-focused rather than Business-focused) eg India's Companies Act 2013 (2% of net profits will result in est \$1.8 billion of funds)



Cutting to the Chase – Key Issues & 3 questions to answer

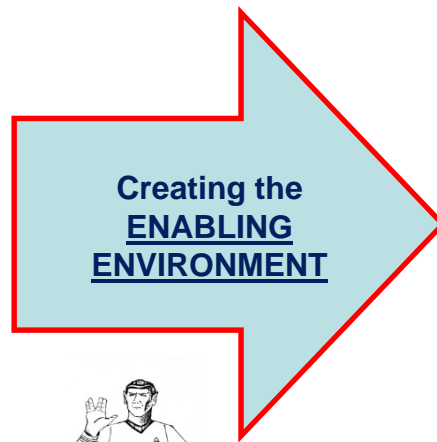
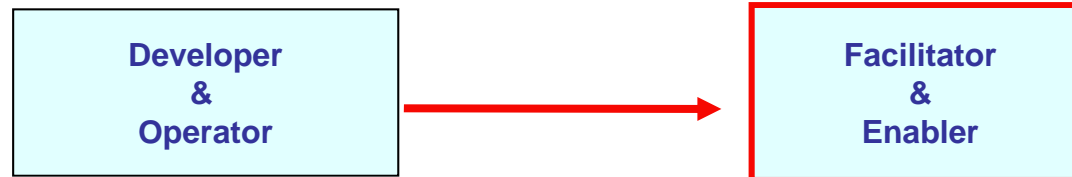
1. How to convince the countries that they need the interconnectivity for their economic growth and to **prioritise** the relevant projects in their development planning (regional versus national projects)?
2. How to **finance** these projects?
3. How to create the **Enabling Environment** to facilitate the flow of excess funds to these projects?



The Changing Role of the Public Sector

(leveraging private funds through PPP)

Government should move from the role of Developer & Operator of Public Infrastructure to the role of a Facilitator and Enabler (of fund flows)



1. Policy Framework
2. Legal and regulatory Framework
3. Investment & long-term masterplanning Framework
4. Operational & institutional Framework
5. Capital Market Framework

To Boldly Go...



Question?

Do we need a Regional PPP Centre of Excellence?

THANK YOU

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