COMMENT

Malaysia can vie for AIIB projects

GOOD LEVERAGING: Our expertise in public-private partnerships can be tapped to compete for infrastructure projects in the global market

H.K. YONG

THE proposed Asian Infrastructure Investment Bank (AIIB) by China offers some exciting opportunities for countries in Asia to bridge their infrastructure funding gaps, and also for Malaysian companies.

In 2011, the Organisation for Economic Cooperation and Development (OECD) estimated the global infrastructure over the next two decades to be around US$50 trillion (RM180.11 trillion) whilst the Asian Development Bank (ADB) estimated that developing Asian economies will need to invest US$8 trillion in infrastructure from 2010 to 2020.

An OECD study in 2013 said that reducing supply chain (infrastructure) barriers is six times more impactful on gross domestic product (GDP) growth than reducing trade barriers. For example, India is the second largest producer of fresh fruits and vegetables in the world, but 40 per cent of the vegetables rot due to lack of adequate transportation infrastructure.

In Indonesia, more than 35 per cent of the population still do not have access to regular electricity supplies, and until today, there is no east-west rail link running through Southeast Asia. Though growth rates in this region have been high by Western standards, growth would be much higher if infrastructure bottlenecks could be eliminated.

There are a number of reasons for these infrastructure gaps. But it is certainly not due to the lack of private sector liquidity. For example, the annual infrastructure funding need for South Asia and Southeast Asia over the next 10 years is about US$385 billion whilst the annual household savings in the region is about US$1.3 trillion, which is more than three times that of the annual infrastructure funding requirement.

However, most developing countries do not have the local capital market mechanism to facilitate the flow of these savings funds for infrastructure projects. A large proportion of the household savings have been channelled into real estate, stock markets and low-interest savings accounts. Many of these countries have looked to international and regional development banks for help but these institutions have their constraints, too.

The 2009 Zedillo Report on High-Level Commission on Modernisation of the World Bank Group Governance highlighted some of these constraints to the effectiveness of these institutions in supporting countries on their development goals. These include slowness in project selection and preparation, cumbersome bureaucracy and being too risk averse.

Many of the multilateral development banks are too focused on knowledge-sharing and concessional lending rather than on infrastructure development. There is certainly room for new financial institutions that can support infrastructure development. The proposed AIIB is a step in the right direction.

AIIB was proposed by China in 2013 and launched in Beijing in October 2014. Already 57 countries, including Malaysia, have agreed to become Founding Members; and more are waiting for approvals to participate. Twenty of these countries are from outside Asia and include the United Kingdom, Germany, France and Italy. Some of these countries already cited their reasons for joining as "business potential for their national companies".

AIIB is targeted to be operational by the end of this year. The proposed initial registered capital is US$100 billion but this is expected to be increased as the demand for infrastructure funding increases. AIIB is expected to leverage its capital by tapping the large pool of international private sector funds through the use of Public-Private Partnerships (PPP). This leveraging will create a huge fund for public infrastructure. It is this PPP leveraging that offers exciting opportunities for Malaysian companies.

Malaysia has one of the longest histories in the region for implementing PPP projects. The PPP programme started in 1983 with the Privatisation Masterplan. Since then, the country has successfully created the Enabling Environment (through the five frameworks: policy, legal, investment, operational and capital market) that enabled the mobilisation of private sector funds for public infrastructure.

Not many people realise that Malaysia has the largest PPP programme in the world through the Economic Transformation Programme where 92 per cent of the planned US$444 billion investments will be from the private sector.

Malaysia's PPP models are more suited for developing countries than the PPP models used in developed countries including UK, Australia and Singapore. PPP institutional memories and expertise in Malaysia are spread over a wide range of public and private organisations, including Unit Kerjasama Awam Swasta, ministries, Performance Management and Delivery Unit, government-linked investment companies and government-linked companies.

To capitalise on the opportunities offered by AIIB and the huge global infrastructure gaps, Malaysia has to develop a single organisation, a sort of International Centre of Excellence, to coordinate and channel all these PPP knowledge and expertise for the global market.

And go and make friends with AIIB now, don't wait till the end of the year.

The writer is a senior fellow at the Economics Department of the Institute of Strategic and International Studies, Malaysia