Malaysia Can Vie for AIIB Projects

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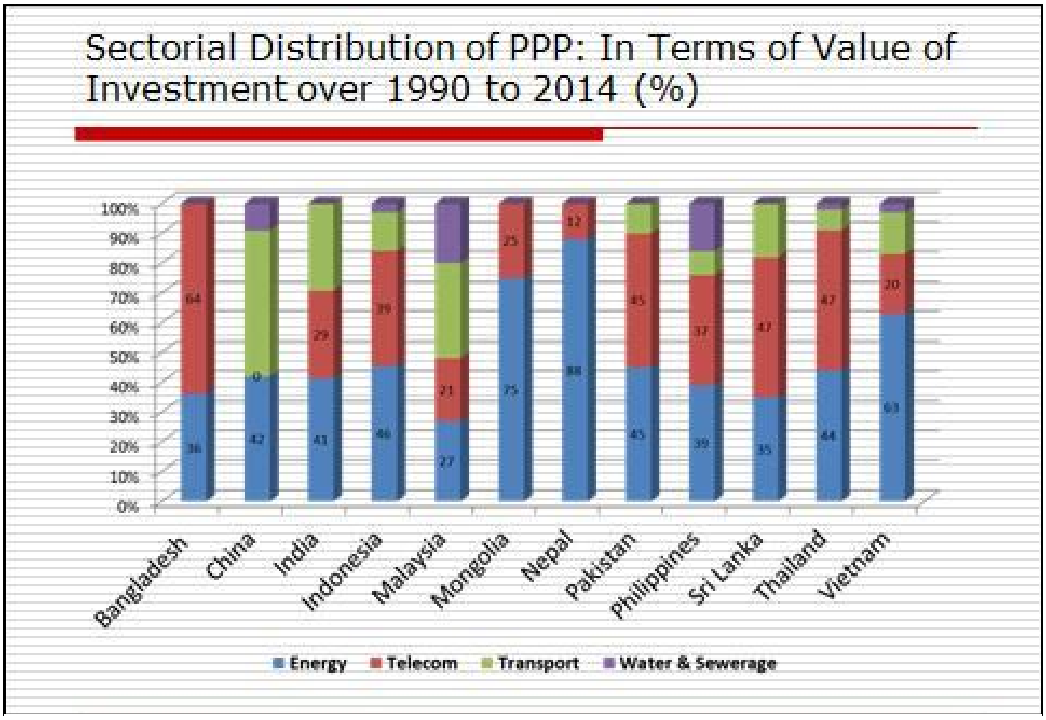
The Asian Infrastructure Investment Bank (AIIB) proposed by China offers some exciting opportunities for countries in Asia to bridge their infrastructure funding gaps, and also for Malaysian companies.

In 2011, the Organisation for Economic Co-operation and Development (OECD) estimated the global infrastructure over the next two decades to be around USD 50 trillion while the Asian Development Bank (ADB) estimated that developing Asian economies will need to invest USD 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.

Image 1 shows the sectorial breakdown of infrastructure projects in some Asian counties from 1990 to 2014. Energy projects remain the largest proportion of the projects in most of the countries, followed by telecom and transport and water.

Image 1: Sectorial Distribution of Public-**Private Partnerships (PPP)**



Source: Dr Simrit Kaur, June 2015

… most developing countries do not have the local capital market mechanism to facilitate the flow of these savings funds for infrastructure projects.

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 needed for South Asia and Southeast Asia over the next ten years is about USD 385 billion while the annual household savings in the region is about USD 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 this institution 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.

Asian Infrastructure Investment Bank

The 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. Australia announced in June that it will be joining the AIIB as a Founding Member with a capital contribution of AUD 930 million over five years, stating "the government expects the bank, through its support of Asian infrastructure projects, to help boost the nation's exports including minerals, agriculture and services to the region". 20 of the original 57 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". The AIIB is targeted to be operational by the end of this year. The proposed initial registered capital is USD 100 billion but this is expected to be increased as the demand for infrastructure funding increases. The bank 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.

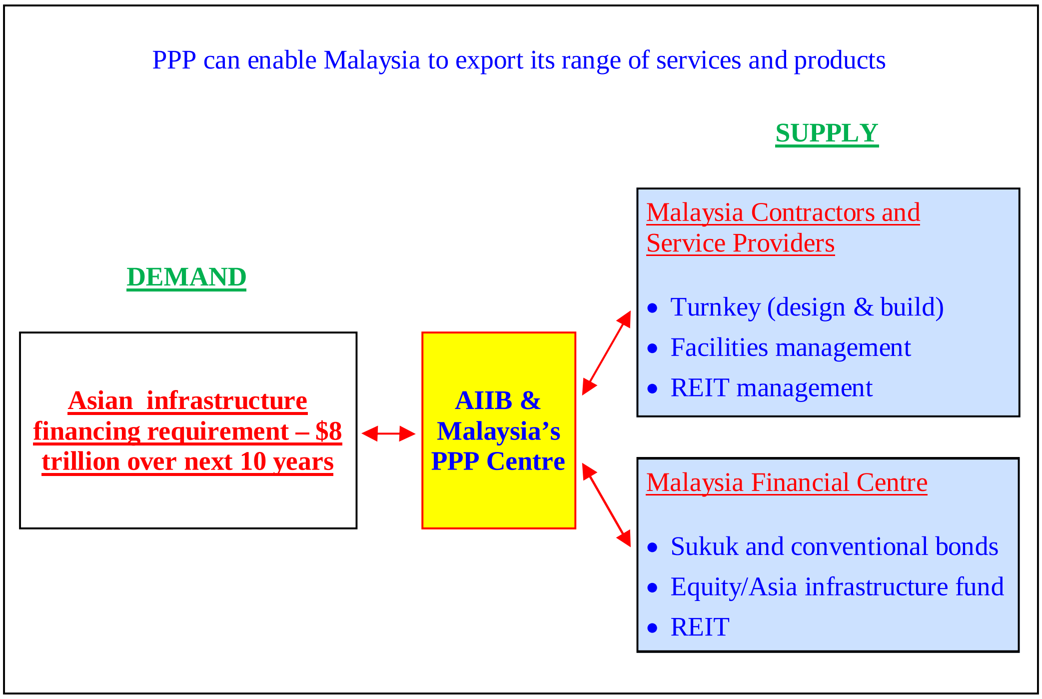
Malaysia's PPP expertise and opportunities

… [Malaysia] has successfully created the Enabling Environment … that enabled the mobilisation of private sector funds for public infrastructure.

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 of 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 (ETP), where 92 per cent of the planned USD 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 the United Kingdom, Australia and Singapore. PPP institutional memories and expertise in Malaysia are spread over a wide range of public and private organisations, including the Public Private Partnership Unit of the Prime Minister's Department (Unit Kerjasama Awam Swasta, UKAS), the Performance Management and Delivery Unit (PEMANDU), Government-Linked Investment Companies (GLICs) and Government-

Linked Companies (GLCs). To capitalise on the opportunities offered by the AIIB and huge global infrastructure gaps, Malaysia has to develop a single organization — a sort of PPP International Centre of Excellence (PPP ICoE) — to coordinate and channel all this PPP knowledge and expertise for the Asian infrastructure market (see Image 2).

Image 2: Coordinating Malaysia's PPP Expertise



Source: Author

Moving forward

With a demand of USD 8 trillion of funding for Asian infrastructure over the next 10 years, there are huge opportunities for Malaysian companies. However, Malaysia must act fast to position itself with the AIIB to gain first-mover advantage based on its experience and expertise in infrastructure development, PPP and financing. The Malaysian PPP experience, as compared to the experiences of developed countries, is more relevant to developing countries. It has also successfully developed an active project debt-financing market using both conventional and Islamic bonds. Besides construction opportunities, the AIIB projects can certainly offer Malaysia an opportunity to position the country as a platform for fund raising for Asian infrastructure projects through equity and debt financing as PPP projects tend to be large in their funding requirements.

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