Asian Financial Forum 2017

Concurrent Workshop: Infrastructure Financing in Asia: Prospects and Challenges

Synopsis

The Belt and Road Initiative has attracted more than 100 countries and organisations, as well as projects worth US$100 billion which are already underway. US$800 billion is expected to be spent on infrastructure in Belt and Road countries. So far, banks have been the main investors, but this cannot continue. The workshop participants discussed what was needed to attract investment. Among the many suggestions was the need for greater political support, long-term stability, the development of Asian bond markets and greater involvement by local investors, and transparent laws and project conditions to minimise risk for investors. Countries need to replicate success stories to make investors comfortable, including public-private partnerships, which have been very successful in China. There must be greater efforts to educate investors. Project builders must be sure the cost of the final product is affordable to the local population. Given the intense competition among Belt and Road countries, they have to be more proactive in providing a policy and regulatory framework to protect investors and minimise risk.

Panel Chair

- **Mr Norman T.L. Chan, GBS, JP**
  Chief Executive, Hong Kong Monetary Authority

Speakers

- **Dr Kairat Kelimbetov**
  Governor of Astana International Financial Centre, Kazakhstan
- **Ms Suyi Kim**
  Managing Director, Head of Asia-Pacific, Canada Pension Plan Investment Board
- **Mr Geert Peeters**
  Executive Director & Chief Financial Officer, CLP Holdings Limited
- **Mr Gordon French**
  Group General Manager and Head of Global Banking & Markets, Asia-Pacific, HSBC
- **Mr Ben Way**
  Chief Executive Officer, Macquarie Group Asia
- **Mr Liu Jian**
  Director General, Department of International Economic Relations, Ministry of Finance, The People's Republic of China

Norman Chan, Chief Executive, Hong Kong Monetary Authority, highlighted that the workshop was organised by the HKMA's Infrastructure Financing Facilitation Office (IFFO), which is a platform set up in July 2016 to bring together key stakeholders interested in infrastructure financing in Asia to get them to know each other and understand common concerns and opportunities related to the Belt and Road Initiative.

Liu Jian, Director General, Department of International Economic Relations, Ministry of Finance, The People's Republic of China, focussed his comments on the progress, challenges and prospects related to the Belt and Road Initiative. He said Asia continues to be the fastest-growing region globally. "Half of the trade is within the region and trade costs have fallen. Every country in the region has benefited from this economic development," he said. Regarding the Belt and Road, he added that "Our strategy should be complementary. We should share resources and results. Over 100 countries and organisations have expressed interest in the initiative, and agreements have been signed for port and rail projects worth US$100 billion."

Mr Liu continued, "We need a multi-tier financing platform and more cooperation. Infrastructure is the priority; some US$800 billion is expected to be spent on infrastructure projects. But there are many differences, many technical problems to overcome, and different laws and regulations among countries. Implementing the projects won't be easy. We must work together." He called for strong political support, principles for prioritisation, government support for financing, improved education and healthcare, and preferential lending to propel the initiative forward.

"Hong Kong has a significant role as a financial centre. IFFO is on the right track, playing a role as a bridge. We need more such action and support for infrastructure projects.
We need more long-term investors, such as pension and insurance funds. We can take reference from Europe regarding long-term investment," Mr Liu said.

Suyi Kim, Managing Director, Head of Asia-Pacific, Canada Pension Plan Investment Board, spoke about the strategy of the Canada Pension Plan (CPP), which has started to diversify by investing in developing countries as well as traditional developed markets. She said: "The CPP has invested US$22 billion in global infrastructure. The size of the infrastructure projects and duration of the investment create barriers to investment. Only 20 per cent of CPP's investments are in emerging markets, mainly in South America, but some are in India." She highlighted several barriers to emerging markets:

- There is no stable, sizable pipeline of projects in the US$200 million – US$500 million range in which large investors can invest. Stability is very important. For example, the CPP has invested in large Australian infrastructure projects because the government has very stable, transparent assets.
- There must be a framework to minimise risk factors. The Australian government makes concessions to minimise risk for investors,

providing a win-win situation for both the public and private sectors to benefit.
- Investors look for a stable and predictable financial environment. For example, the bidding process and concession termination conditions must be clear.

Ben Way, Chief Executive Officer, Macquarie Group Asia – which is one of the largest infrastructure investors in the world – said there are a number of critical factors to consider when investing: sovereign risk, regulatory risk (how well you are protected), interest rates, inflation, currency fluctuations and political stability. “Investors are more confident about risk versus return in developed markets. Capital is looking for quality yields, which they cannot get in liquid products. There is more capital looking for such investments than ever before. If there is a danger of rising interest rates, equity returns can be wiped out,” he said.

In the past three years, Macquarie’s investment in projects in developing Asian markets has risen from 35 to 70, according to Mr Way. “The projects are usually based on working relationships rather than tenders, and the return more than compensates for the risk. They are seeing a significant movement into infrastructure chasing high returns, but this opportunity is unlikely to last more than 10 years. There is capital demand for US$300 billion in Asia. There are a lot of opportunities, but the key is finding ways to make investors comfortable.”

He said governments need to examine success stories such as South Korea and replicate their formula for success. South Korea put in place public-private partnerships (PPP) with a clear framework: a minimum revenue guarantee programme, for example. Countries looking for investment must be more realistic, he explained. “Once they demonstrate success, others will follow. Investors need to be better educated about emerging markets. For example, regulatory concession agreements in China are the same as those in the UK, but most people believe China investments are higher risk.”

Mr Gordon French spoke about the opportunities and challenges in Belt and Road infrastructure projects. He said that, in the past decade, 60 per cent of assets for such projects have come from bank loans. Bond markets raised less than 10 per cent of capital needs. “This cannot continue with the new, larger numbers. Banks cannot continue to invest at this pace. We need local currency bond markets and risk solutions. We need different types of debt markets.” He said that equity investors can play a larger role, but they need a deeper risk appetite for emerging markets. “The Belt and Road Initiative offers phenomenal opportunities. There is increasing interest from private investors, such as pension funds and insurance companies – companies that need stable long-term investments. Banks have a large role in providing buying opportunities for private investors.”

Mr Geert Peeters, Executive Director & Chief Financial Officer, CLP Holdings Limited, described CLP as a seed investor, which has been building Belt and

Road-type projects for decades in China (Daya Bay) and India (New Delhi). CLP is the number one developer of renewable energy in India, he said. “Belt and Road is a collective challenge and responsibility. A lot of money is needed for power plants in Belt and Road countries. But it is critical to have the right plant in the right place at the right time. Countries need cheap power to develop, but if you build too big a plant, the power will be too expensive for consumers to afford.”

Mr Peeters explained that, before investing, CLP examines a number of factors:

- How to make the project bankable (technical aspects, demand, size and infrastructure);
- Whether it can be done with an appropriate cost, using proven Chinese power-generation capability for the lowest-cost solution;
- Whether there is a long-term sustainable power price; and
- How they can creatively reduce the cost of capital: e.g. commercial paper, green bonds and tapping into local savings, where the yield is in local currency.

Speaking about Kazakhstan’s view of the Belt and Road Initiative, Kairat Kelimbetov, Governor of Astana International Financial Centre, Kazakhstan, said the country started implementing road, rail and seaport projects well before the Belt and Road Initiative was announced in 2013. It has found PPP projects or projects financed by the Asian Infrastructure Bank or Asian Development Bank to be more commercially viable and to be delivered on time. Kazakhstan wants to provide a service role and to be a central hub. It is part of a common market with a population of 200 million.

Kazakhstan, Pakistan and Iran were chosen by the Chinese government as key partners. Kazakhstan wants to create a financial services hub, based on English common law with financial courts and arbitration to protect investors, he said: “We would also like to tap local savings to help finance infrastructure projects. Kazakhstan would like to work with Hong Kong to develop capital markets. It also wants to work with the China Development Bank, the Export-Import Bank of China, other Chinese financial bodies, oil companies, etc. to help finance the country’s infrastructure development.”

Norman Chan said Kazakhstan has been proactive in opening up and developing its position as a financial services hub. “Other countries must be proactive like this to distinguish themselves since there is so much competition for the available funds. The key takeaway is that projects must be offered on a risk-neutral basis. We need to take de-risking measures. Educating investors is key. Project owners must make the right investments for the time and place. Governments, both in China and in the receiving countries, must do more,” he said.

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