Emerging Asia: Prospects and Challenges with Focus on Infrastructure

Fauziah Zen

Global Development Trends and Challenges Emerging in Asia: Making the most of the OECD Development Centre
Ministry of Foreign Affairs, Japan and OECD Development Centre
Tokyo, 19 December 2017

Economic Research Institute for ASEAN and East Asia
General Overview

• Together with India and China, Indonesia’s economy is important to the region esp. South East Asia due to its size (40% of population and regional GDP).
• Bilateral sector cooperation may continue the role as pragmatic initiative of larger (sub)regional cooperation.
• Intra-Asia maritime connectivity has potential to be improved.
• Financing infrastructure remains major challenge, among others.
• Demand for urban facilities will increase significantly due to high rate of urbanisation.
Connectivity of main port of intra- and inter-ASEAN (with China, Hong Kong, USA) has increased significantly (VN) but many still have weak liner connection

2006

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**yellow box:** Intra-ASEAN liner index >0.5 (very good connectivity)

**Green box:** Inter-ASEAN liner index >0.5 (very good connectivity)

Data source: UNCTAD, 2016
Drivers

• High rate of urbanisation
• Adaptation of technological changes (IoT, Big Data, disruptive technology, etc.)
• Raising of middle income class
• Direction changes: Regionalisation/Globalisation vs. Deglobalisation
Drivers: Urbanisation

- **Urbanisation rate is high, could the cities accommodate it?** McKinsey estimates that by 2030, urban population will reach more than 550 million people or about 44% of total population in Asia Pacific, shaping 85% of GDP.

Raising of Consuming Class

Shares of Global Middle Class Consumption, 2000-2050

Source: Kharas (ODC WP, OECD, 2010)
Technological Changes: disruptive technology

Figure 5. Nine patterns of disruption

Harness network effects

Expand marketplace reach
Connecting fragmented buyers and sellers—whenever, wherever

Unlock adjacent assets
Cultivating opportunities on the edge

Turn products into platforms
Providing a foundation for others to build upon

Connect peers
Fostering direct, peer-to-peer connections

Distribute product development
Mobilizing many to create one

Transform value/price equation

Unbundle products and services
Giving you just what you want, nothing more

Shorten the value chain
Transforming fewer inputs into greater value outputs

Align price with use
Reducing upfront barriers to use

Converge products
Making 1 + 1 > 2

Graphic: Deloitte University Press | DUPress.com
Sectoral highlights

• Skill gaps shall be viewed as opportunity to facilitate labor exchange so as to achieve labor market efficiency and to spread knowledge.

• Infrastructure finance is strongly connected with capital market development and its linkages.

• Inclusiveness of SMEs towards regional network; tourism can be one of strong points.

• Energy supply is prerequisite for all sectors development.

• Social wellbeing is both means and goals of the development.
Resources mobilization and spending policy

• Resources Mobilisation:
  – Non-optimal tax efforts in some countries
  – Other resources: public savings, pension and insurance funds, bonds, private finance.
  – Lack of bankable projects → capacity building
• Quality infrastructure/quality spending
• Urban vis-à-vis rural development
• Domestic vis-à-vis cross-border connectivity
• Spending for aging population: social protection, productive and healthy old-age group, labor movement, tourism.
The need to increase tax ratio

Tax Revenue as percentage of GDP

Source: International Monetary Fund, World Economic Outlook Database, October 2016; IMF World Revenue Longitudinal Dataset
Private Participation in Infrastructure in East Asia and Pacific

https://ppi.worldbank.org/
Private Participation in Infrastructure in East Asia and Pacific: by Sector

https://ppi.worldbank.org/
Quality Infrastructure Dimensions

- Effective resources mobilization
- Life-cycle cost
- Opportunity cost
- Socio-economic costs

- Output
- Fulfilled demand
- Sustainability
- Safety & resilience
- Standard conformance
- Service excellence

Challenges
• Political intervention over economic rationale
• Persistence of traditional procurement paradigm & lack of competitive neutrality
• Public sector capacity
• Perception of costly environmental compliance
• Infra-market & related markets are overlooked
• Post-project evaluation: benefits and costs

Assessment (Potential Indicators)
• Innovative financing
• Standard conformance
• Innovation/technology adoption
• Inclusiveness: who are the beneficiaries, have the communities been consulted?
Infrastructure Industry

Intermediaries/Support System:

- Advisors (legal, project management, financial advisory, etc.)
- Channel (capital market, negotiator, banking system, etc.)

Source: Fauziah Zen (2016)
Some highlights

• China’s dominance in regional investment shall be balanced by other investors to avoid risks of dependency on single economy, and to promote efficient investment market.

• Quality Infrastructure can be used as a way, tools, and target for infrastructure development

• The role of public sector is central in infrastructure development, especially to lead the demand and process, as well as to provide appropriate support.

• Infrastructure Market needs to be nurtured to improve channeling and to achieve efficient transaction costs.
Way forward (Infrastructure)

• Strengthening public sector:
  – Quality Spending: Investment Priority, Mobilising resources, Anticipative plan
  – Capacity Improvement
  – Leading but not overcrowding private sector

• International/Development partners:
  – Capacity building
  – Technical assistance
  – Facilitating regional cooperation
Thank you

fauziah.zen@eria.org