

Emerging Asia: Prospects and Challenges with Focus on Infrastructure

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*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

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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

PARTNER ECONOMY	Brunei Dar	Cambodia	China	Hong Kong	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	United Stat	Viet Nam
Brunei Darussalam	—	0.162405	0.248238	0.249089	0.18871	0.259912	0.158969	0.180853	0.259847	0.186284	0.200442	0.182065
Cambodia	0.162405	—	0.201042	0.263112	0.190461	0.259622	0.157551	0.180839	0.263156	0.250956	0.204829	0.243701
China	0.248238	0.201042	—	0.776179	0.445759	0.648673	0.17763	0.369202	0.692243	0.495496	0.665461	0.384026
China, Hong Kong SAR	0.249089	0.263112	0.776179	—	0.448524	0.647691	0.178232	0.372924	0.69791	0.500142	0.660501	0.351614
Indonesia	0.18871	0.190461	0.445759	0.448524	—	0.475717	0.171521	0.339419	0.507071	0.378462	0.422951	0.326595
Malaysia	0.259912	0.259622	0.648673	0.647691	0.475717	—	0.238339	0.33781	0.710711	0.458663	0.551599	0.365299
Myanmar	0.158969	0.157551	0.17763	0.178232	0.171521	0.238339	—	0.165965	0.240778	0.169805	0.179817	0.166823
Philippines	0.180853	0.180839	0.369202	0.372924	0.339419	0.33781	0.165965	—	0.351443	0.343468	0.340033	0.308035
Singapore	0.259847	0.263156	0.692243	0.69791	0.507071	0.710711	0.240778	0.351443	—	0.507678	0.583312	0.386249
Thailand	0.186284	0.250956	0.495496	0.500142	0.378462	0.458663	0.169805	0.343468	0.507678	—	0.470293	0.367004
United States	0.200442	0.204829	0.665461	0.660501	0.422951	0.551599	0.179817	0.340033	0.583312	0.470293	—	0.35012
Viet Nam	0.182065	0.243701	0.384026	0.351614	0.326595	0.365299	0.166823	0.308035	0.386249	0.367004	0.35012	—

2015

PARTNER ECONOMY	Brunei Dar	Cambodia	China	Hong Kong	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	United Stat	Viet Nam
Brunei Darussalam	—	0.180101	0.270996	0.270996	0.19976	0.284466	0.176258	0.194465	0.27583	0.203946	0.223337	0.204642
Cambodia	0.180101	—	0.302661	0.3051	0.216415	0.301157	0.169146	0.275226	0.307241	0.29059	0.248958	0.289049
China	0.270996	0.302661	—	0.879639	0.451326	0.851142	0.229164	0.440261	0.832202	0.576986	0.763507	0.594248
China, Hong Kong SAR	0.270996	0.3051	0.879639	—	0.44157	0.821268	0.229164	0.422022	0.802831	0.560914	0.751312	0.594248
Indonesia	0.19976	0.216415	0.451326	0.44157	—	0.470536	0.211379	0.354772	0.486556	0.397204	0.375369	0.381979
Malaysia	0.284466	0.301157	0.851142	0.821268	0.470536	—	0.289668	0.377051	0.858991	0.538861	0.704654	0.544127
Myanmar	0.176258	0.169146	0.229164	0.229164	0.211379	0.289668	—	0.203721	0.297747	0.216902	0.232735	0.21747
Philippines	0.194465	0.275226	0.440261	0.422022	0.354772	0.377051	0.203721	—	0.415707	0.37628	0.35948	0.376346
Singapore	0.27583	0.307241	0.832202	0.802831	0.486556	0.858991	0.297747	0.415707	—	0.576057	0.69415	0.576231
Thailand	0.203946	0.29059	0.576986	0.560914	0.397204	0.538861	0.216902	0.37628	0.576057	—	0.524428	0.510311
United States	0.223337	0.248958	0.763507	0.751312	0.375369	0.704654	0.232735	0.35948	0.69415	0.524428	—	0.562251
Viet Nam	0.204642	0.289049	0.594248	0.594248	0.381979	0.544127	0.21747	0.376346	0.576231	0.510311	0.562251	—

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

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

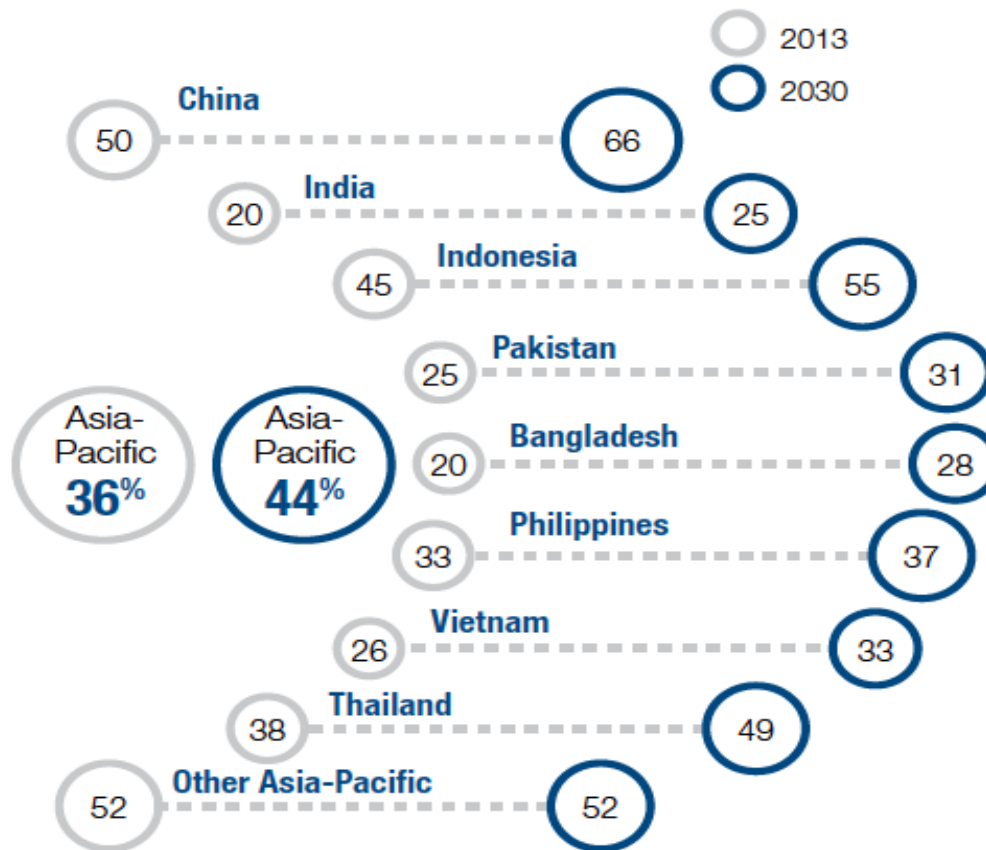
Data source: UNCTAD, 2016

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.

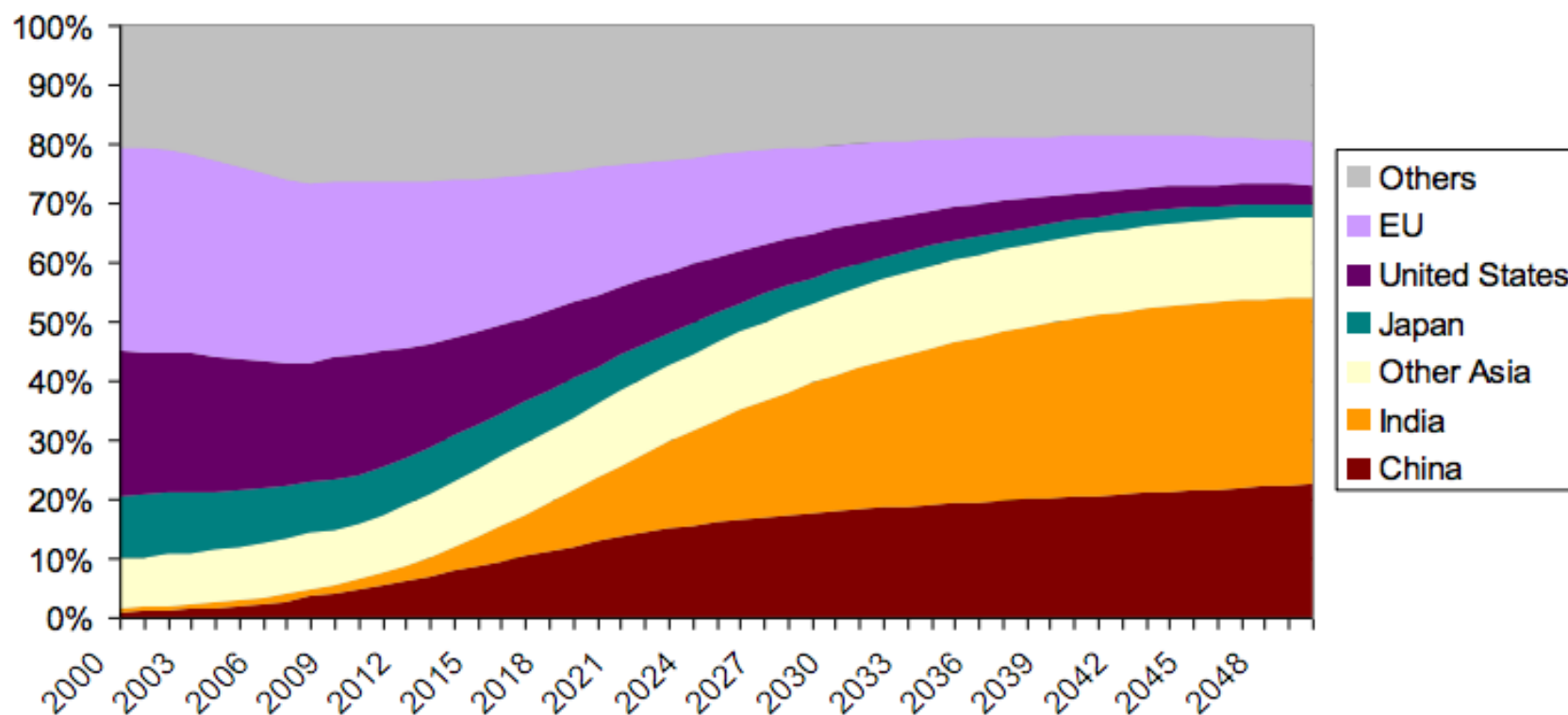


Share of country population living in cities of more than 150,000 inhabitants, 2013–30
%

Source: McKinsey Global Institute
(2015)

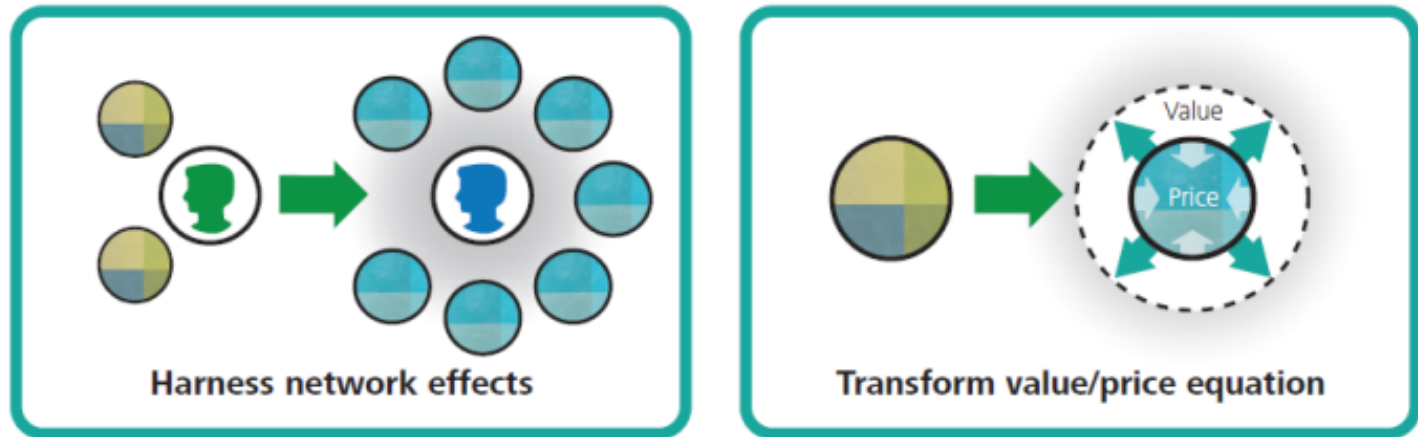
Raising of Consuming Class

Shares of Global Middle Class Consumption, 2000-2050



Technological Changes: disruptive technology

Figure 5. Nine patterns of disruption



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

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 $1 + 1 > 2$

Sectoral highlights

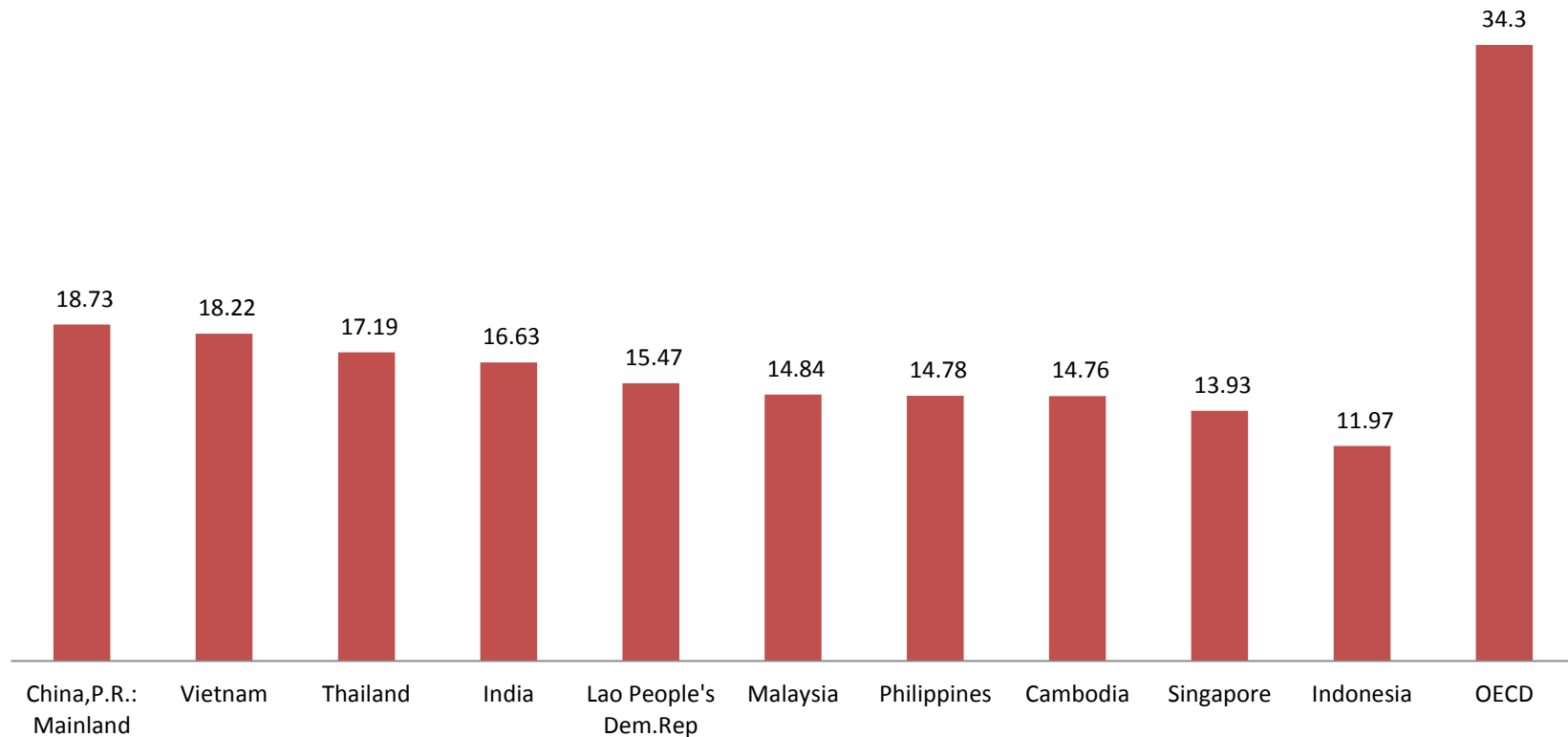
- Skill gaps shall be viewed as opportunity to facilitate labor exchange so as to achieve labor market efficiency and to spread knowledge.
- Infrastructure finance is strongly connected with capital market development and its linkages.
- Inclusiveness of SMEs towards regional network; tourism can be 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.

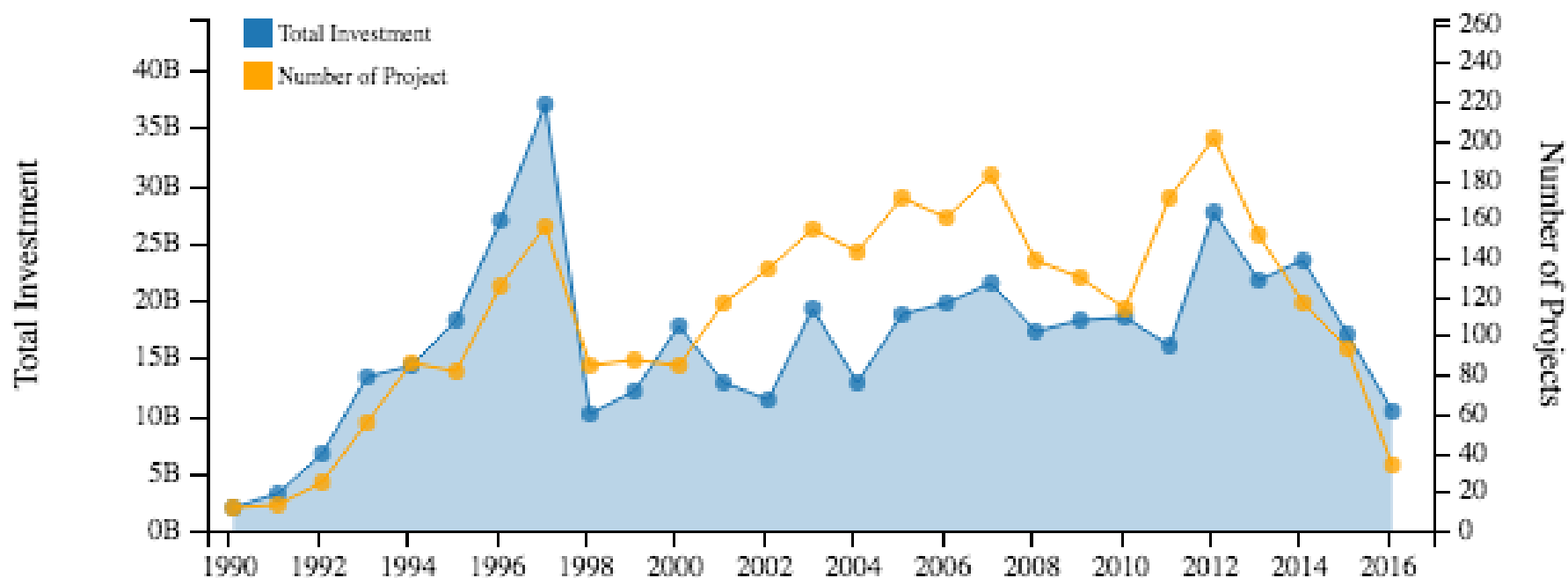
The need to increase tax ratio

Tax Revenue as percentage of GDP

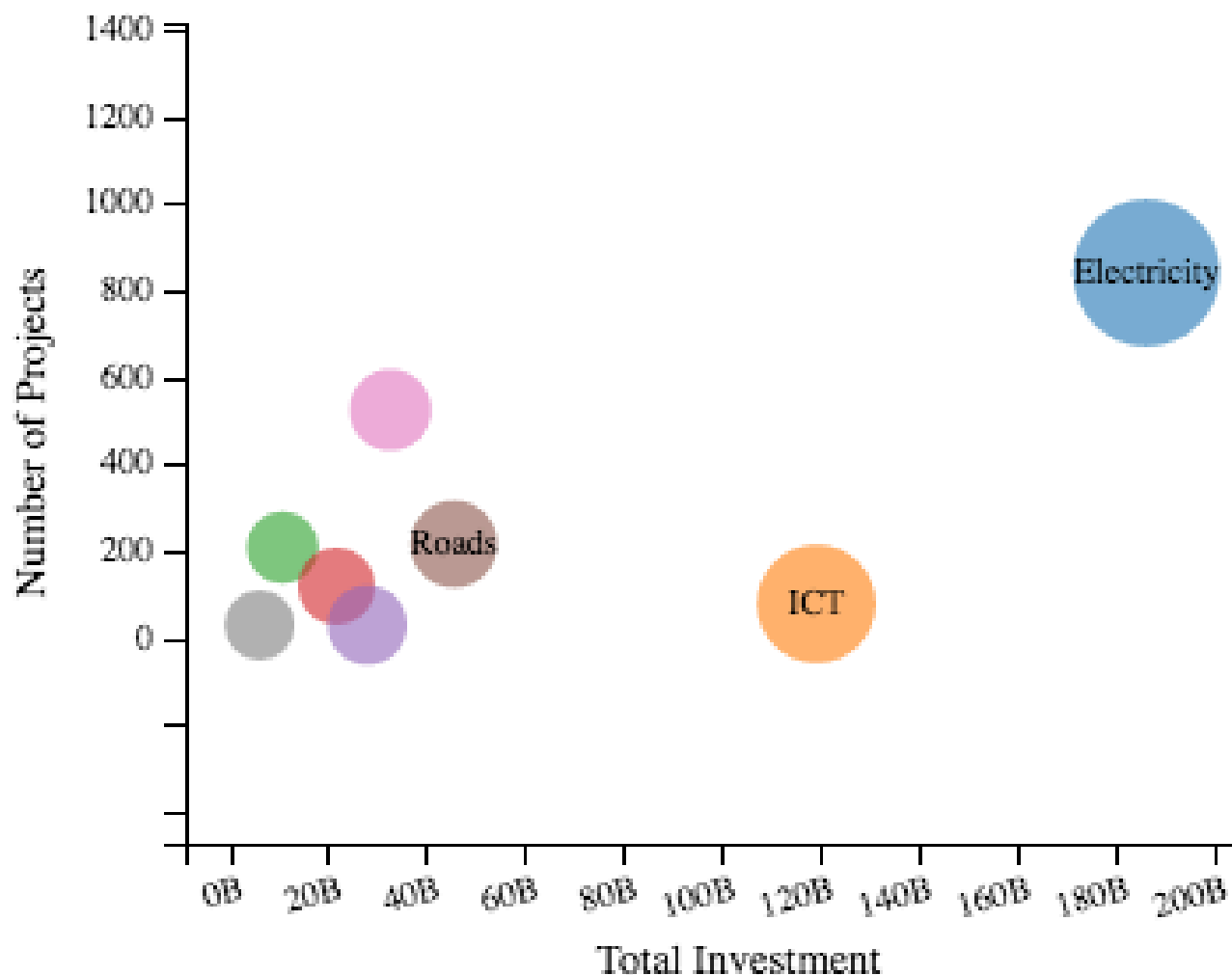


Source: International Monetary Fund, World Economic Outlook Database, October 2016; IMF World Revenue Longitudinal Dataset

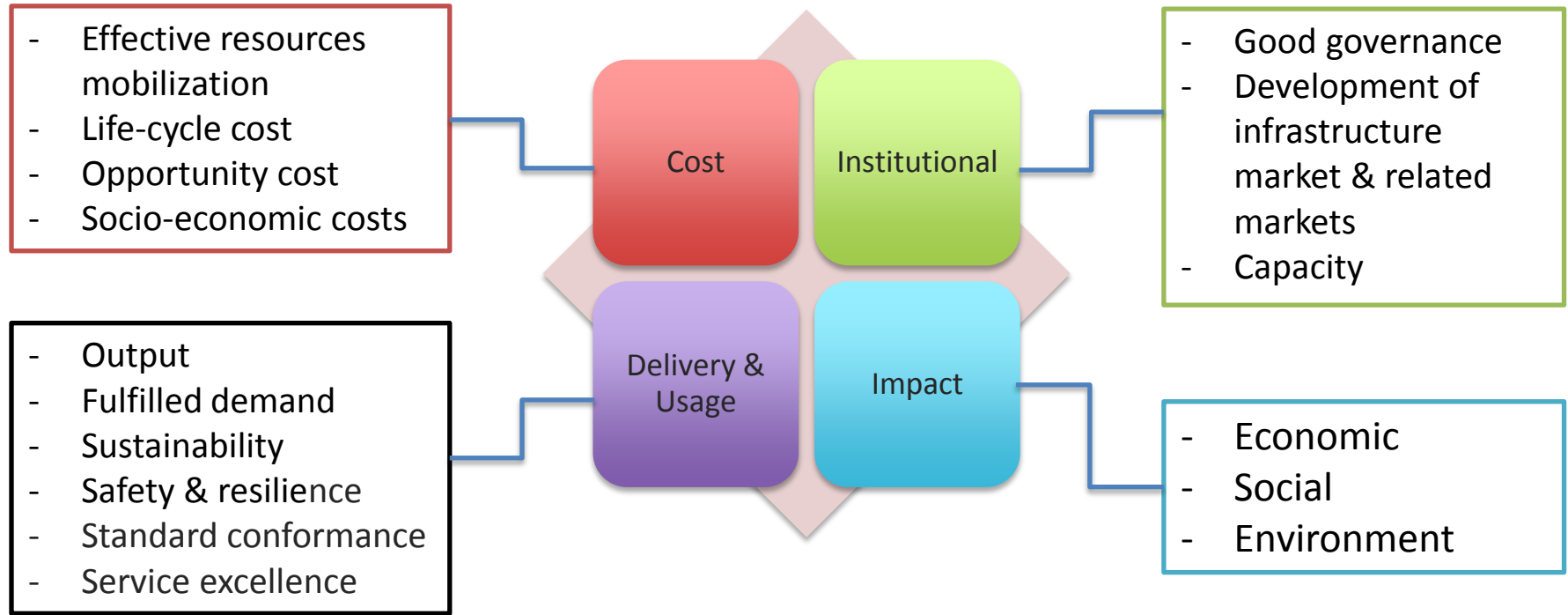
Private Participation in Infrastructure in East Asia and Pacific



Private Participation in Infrastructure in East Asia and Pacific: by Sector



Quality Infrastructure Dimensions



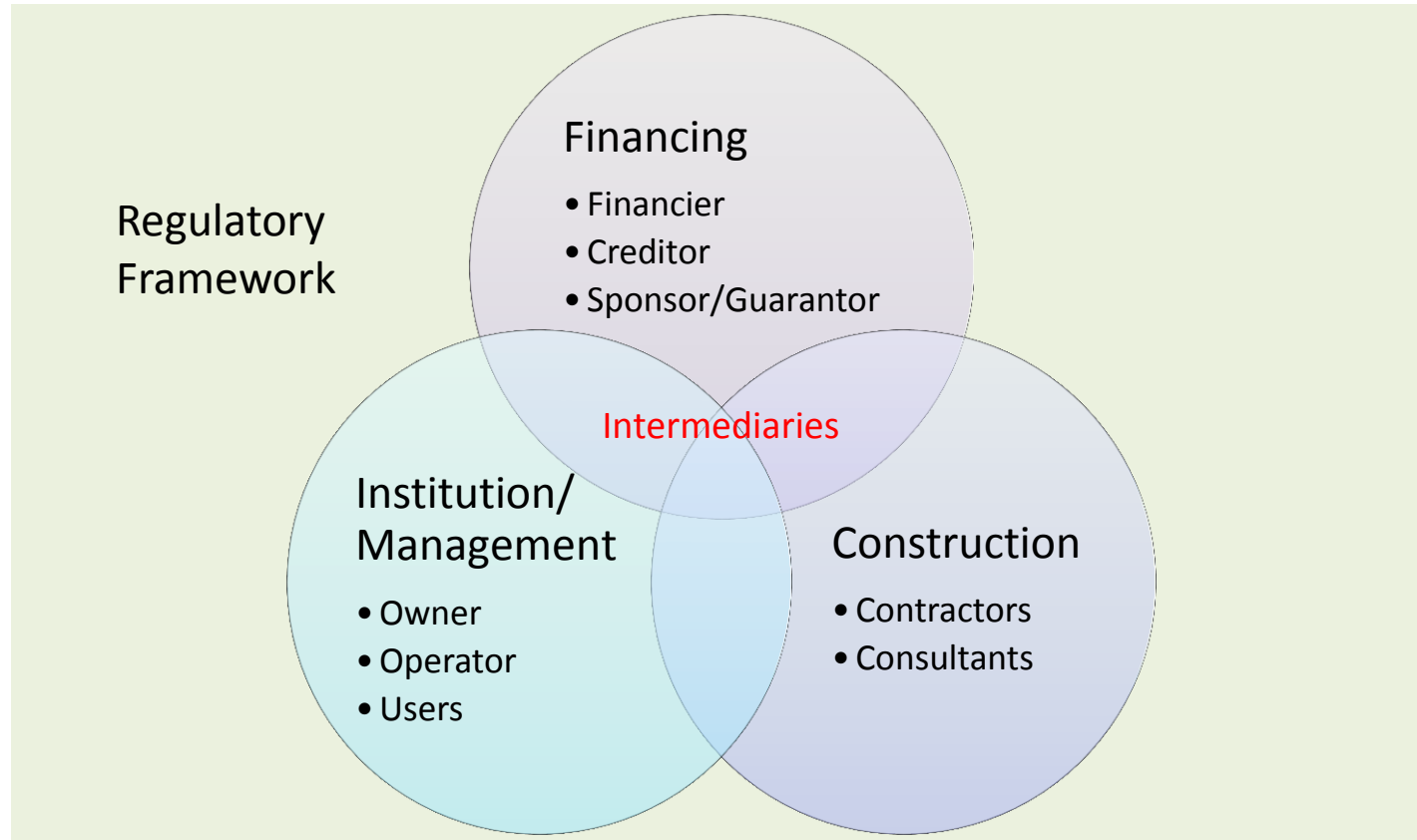
Challenges

- 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.)

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

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