

Eddie Yue: Investment in infrastructure is crucial to Asia's growth

Statement by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority and Head of the Delegation of Hong Kong, for the 46th Asian Development Bank Annual Meeting, Delhi, 4 May 2013.

* * *

I would like to thank the Government of India for hosting the 46th Annual Meeting of the Asian Development Bank (ADB). I wish to take this opportunity to pay tribute to Mr Haruhiko Kuroda for his excellent work in leading ADB for more than eight years. We welcome the appointment of Mr Takehiko Nakao as the new President of ADB, and look forward to continue working closely with the Bank under his leadership in furthering the development of the region.

Global economic sentiment has improved since the beginning of this year. The announcement of further accommodative monetary easing by major advanced economies has reduced tail risks and stabilised financial markets. But while the accommodative monetary policy will help authorities buy time to solve the problem, it is by no means a substitute for medium-term fiscal consolidation and structural reforms that are required for the economy to regain competitiveness and return to a sustainable path. Looking ahead, economic adjustments and deleveraging in both the public and private sectors are set to continue in the advanced economies, and regional economies will increasingly have to look to themselves for new sources of growth.

In this regard, a number of developing economies in the region will need to further invest and upgrade their infrastructure to fully realise their growth potential. Infrastructure development generates employment, improves access to basic services and economic opportunities, promotes trade and investment, reduces the cost of doing business and encourages private sector development. It raises income and helps reduce poverty by spreading the benefits of growth more widely. The rising standard of living will in turn generate domestic demand, providing a new source of growth even as global demand continues to slow.

ADB estimates that Asia needs as much as US\$8.3 trillion in overall infrastructure investment between 2010 and 2020, with an average of US\$750 billion in annual infrastructure spending. While the infrastructure needs are huge, Asia also has vast foreign reserves and private domestic savings. Traditionally, these savings have not been channelled to meet Asia's own financing needs directly. Most of the savings have been invested in advanced economies before they are recycled back into the region. However, the global financial crisis has changed the landscape. Investors are increasingly looking to diversify their portfolio to this part of the world in the light of the faster growth and stronger fundamentals of the region.

So there seems to be no lack of appetite to invest in Asia. The question is how to channel these funds to finance Asia's infrastructure investment needs. Creating an enabling environment to facilitate private sector investment in infrastructure projects is crucial and fundamental. Factors like certainty in government's sector development plan, clarity in public-private partnership (PPP) framework, conducive legal, regulatory and institutional environment, and capacity to develop and implement projects are key to attracting private sector investors. ADB has an important role to play in capacity building, and through its interventions, catalyse reforms and assist governments to develop an environment conducive for private sector investment.

Given the high degree of perceived risk of long-term infrastructure projects, public sector support is often needed to catalyse private sector investment. Provision of credit enhancements and guarantees as well as PPP are common modalities of public sector support, and more work should be done to find new and effective ways to catalyse private sector investments. We are glad to see ADB's expanded efforts in mobilising private sector

investment under Strategy 2020. With the support of ADB, the ASEAN Infrastructure Fund (AIF) established by ASEAN is expected to help mobilise private capital as well as the region's foreign exchange reserves for financing infrastructure projects in the ASEAN economies. While the AIF is newly set up and more time is needed to observe the effectiveness of this model, the AIF represents a meaningful attempt by regional governments to cooperate and find new ways to mobilise public and private savings of the region to finance Asia's own infrastructure needs. We encourage further efforts in this regard, and ADB, with its expertise and resources, is best placed to support such efforts.

Private sector infrastructure financing in the region has traditionally relied on international bank lending, particularly from European banks. With the European banks facing deleveraging pressure and retreating from the region, some Asian banks have stepped in and increased their market share. However, there are questions as to whether Asian banks can fully fill the gap. Recent regulatory changes may also reduce banks' appetite in long-term project financing. Given these circumstances, there are benefits to further develop the capital markets to complement bank financing and provide a channel to tap into other long-term institutional investors such as pension funds and insurers. Policymakers in the region have made steady efforts to develop the local currency bond markets. Along with the faster growth and improved fundamentals of the region, there has been a rapid growth of the regional bond markets in recent years. Notwithstanding this encouraging development, the capacity of the regional bond markets is still limited when compared with the huge financing needs of the region. Much work still needs to be done to develop a deep and liquid regional bond market, including but not limited to expanding the issuer and investor types, gradual liberalisation of barriers to entry of non-resident investors, promoting development of hedging tools, enhancing financial infrastructure linkages, improving corporate disclosure and transparency, and greater standardisation of legal and governance terms. Policymakers, as market regulator and market facilitator, should further their work on these fronts.

Adequate investment in infrastructure is crucial to promoting the further growth of the region, spreading the fruit of economic developments and raising the living standards of people in Asia. Given the region's huge infrastructure needs, mobilising private sector investments is important. Governments and ADB have a key role to play in promoting an enabling environment for private investment. Making this right will enable the region's vast savings to be efficiently channelled to fund its own investment needs, thus helping the region to realise its full growth potential.

Thank you.