CONNECTION SERIES: 2 OF 4

Asian Infrastructure Connectivity: Building for prosperity

Developing Asia will need to invest USD 2.4 trillion per year in infrastructure until 2030 to maintain its growth momentum[1]. Rising urbanisation, shifting demographics and increasing affluence are key trends that will continue to push infrastructure development in Asia. Although each country has different needs, a pan-Asian integrated infrastructure network can deliver rich benefits for the region.

Studies show that countries that have better infrastructure are also the ones that have higher economic growth, employment opportunities and living standards. Infrastructure gaps are a bottleneck for growth as it increases transport costs, reduces market access and hence lowers the trade volume.

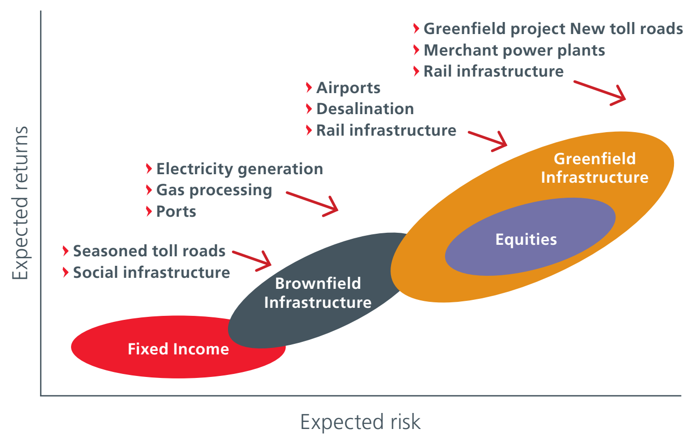
Post the 1997-98 Asian financial crisis, countries that had invested heavily in infrastructure recovered faster. In fact, Asia's trade competitiveness vis-à-vis the world depends on efficient and reliable infrastructure.

CURRENT STATE OF AFFAIRS

The quality of infrastructure varies significantly across Asia. The 2018 Global Competitiveness Report[2] clearly highlights this disparity with most of the region's infrastructure still below average except for a few that can boast world class standards.

Nonetheless there have been improvements over the past decade; emerging Asia has built more infrastructures across all sectors than other developing regions. For example, between 2001

Fig. 1: Risk-Return profiles of infrastructure investments in relation to traditional asset classes[3]



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The ASEAN Power Grid | **The Trans-ASEAN Gas Pipeline** | **The ASEAN Highway Network** | **The Singapore-Kunming Rail Link**

and 2010, emerging Asia's road network grew at a faster rate annually than OECD economies. Similarly, its electricity generation capacity per capita saw rapid growth during this time, albeit slightly below the average versus other developing economies[4].

There are also investments in high-tech infrastructure. According to Michelle Qi, CIO of Eastspring China, new Chinese infrastructure such as 5G, high-speed rail, urban rail transit, big data center, EV charging stations and artificial intelligence, is expected to deliver stronger growth and spill-over effects to other industries.

A major impediment to faster progress, however, has been finance. Government financing accounts for 90 per cent of infrastructure expenditure in Asia, compared to 70 per cent in emerging markets and 40 per cent worldwide. But given Asia's growing needs, this rate of government financing is unsustainable[5]; public-private partnerships need to be forged to jointly shoulder the financing requirements.

One way to involve the private sector is to adopt a regional integration approach whereby a number of neighbouring countries work together to achieve mutually benefitting goals. Regional integration has become a useful development strategy for many global and regional institutions. Nevertheless, financing regional infrastructure projects comes with risks and uncertainties which may put off many private players. Ultimately even those projects funded by public-private partnerships still require some form of government guarantee.

EXISTING REGIONAL INITIATIVES

With the help of multilateral agencies, Asia has pushed ahead with some sub regional infrastructure programmes. The Asian Land Transport Infrastructure Development established in 1992 is one key initiative which comprises three pillars: the Asian Highway, the Trans-Asian Railway, and the provision of dry and inland ports. An integrated physical connection is critical to support the complementarities in the supply chain production processes across the region.

There are many other regional initiatives that aim to create transnational economic corridors through physical infrastructure. Over in ASEAN, there are four flagship regional initiatives covering the ASEAN Power Grid, the Trans-ASEAN Gas Pipeline, the ASEAN Highway Network, and the Singapore-Kunming Rail Link. Kunming, China is being dubbed the central transportation and communications hub, as it constructs an advanced network to connect with Southeast Asia and South Asia.

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China's Belt and Road Initiative (BRI), launched in 2013, aims to boost land and maritime connectivity and intraregional trade by connecting over 65 countries, over 60 per cent of the world's population and accounting for 30 per cent of global GDP[6]. For now, one maritime and three overland transport corridors are in operation, with the rest under construction.

WHY IT MATTERS

Regional initiatives help make a positive impact. Upon completion, the BRI initiative could potentially reduce travel times along economic corridors by 12%, increase trade between 2.7% and 9.7%, increase income by up to 3.4% and lift 7.6 million people from extreme poverty[7].

Similarly, a pan-Asian renewable energy grid would see the power networks of Japan, South Korea, China and Russia link up via Mongolia to tap that country's vast solar and wind resources. By encouraging countries to link up their power grids, regions with untapped renewables capacity could attract much-needed investment, boost their own supplies and export their surplus. Such a move is also favourable to tackle climate change and help reduce Asia's dependence on fossil fuels.

Well-connected cross-border infrastructure will also drive tourism; the number of airports, number of air routes will all contribute positively and significantly. Research estimates show that a 10 per cent increase in the number of routes in either the country of departure or destination country will lead to an increase of international visitors by 7.4 percent[8].

A LONG WAY TO GO

Asia's infrastructure needs are significant, with over 400 million Asians currently living without electricity, 300 million without safe drinking water, and over 1.5 billion without basic sanitation[9]. Moreover, the region's huge potential remains untapped as many parts of Asia remain isolated economically and geographically.

Infrastructure will also play a critical role in facilitating the world's biggest free trade pact, the Regional Comprehensive Economic Partnership (RCEP) between ASEAN, along with China, Japan, South Korea, Australia, New Zealand and India, when it is signed in the near future. This trade pact not only links around half the world's population and a quarter of its exports[10], but also promotes investments and helps emerging Asia develop faster.

In the long run, the full benefits of Asia's size and diversity can only be harnessed by creating an Asian market where goods & services, information and people move freely. Building roads, railways, bridges, power stations, and pipelines across Asia should therefore be a priority for the region's policymakers.

Sources: [1]https://www.channelnewsasia.com/news/singapore/new-government-agency-launched-to-facilitate-regional-10855162. [2]World Economic Forum, 2018. [3]Russ and Foscari, 2010. [4]Asian Development Bank: Meeting Asia's Infrastructure Needs, 2017. [5]https://www.straitstimes.com/business/economy/public-private-partnership-needed-to-address-infrastructure-financing-challenges. [6]Reshaping the future world economy, HSBC 2017. [7]https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative. [8]Asian Infrastructure Investment Bank : Bridging Borders – Infrastructure to Connect Asia and Beyond, 2019. [9]https://www.adb.org/news/ppps-can-help-fill-asias-infrastructure-gap-report. [10]https://www.thestar.com.my/news/regional/2019/06/23/what-is-the-rcep-and-could-it-be-signed-this-year

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