PECC-SINCPEC-INCPEC Conference 2013 on "Asia-Pacific Economic Integration and Connectivity: Pathways for Resilient and Inclusive Growth"

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Thank you Dato Lim for your kind introduction. I would also like to thank PECC and our hosts, Singapore PECC, for their kind invitation to participate in this conference.

There is no doubt that PECC has been a major force in shaping Asia Pacific economic cooperation over the last three decades. During this time, PECC has worked with ABAC both on reviewing progress in APEC and on bringing new initiatives to the table. PECC has been a valuable and natural partner for ABAC.

Mr Chairman, as we contemplate our future in the APEC region, I think it is becoming clearer that we can no longer take a "business as usual" approach to our own economic development. The traditional engines of the global economy, while improving, have many chronic problems that put our growth at risk. These problems will be around for the foreseeable future. Even in the Asia Pacific, where the prospects are much more positive, we are seeing a slowdown in China's and India's growth.

But still the world is now looking at the Asia Pacific region with great expectations.

In this difficult environment many of us are doing surprisingly well. But if we are honest with ourselves, our capacity to maintain our resilience and develop as an engine of global growth has significant constraints and limitations. Yes, our trade is growing and intensifying and the opportunities for investment are expanding but our economic foundations and financial structures still remain fragile in many areas.

One of the most important spring boards to future growth and development but one of our weakest is infrastructure. Without major action to build our infrastructure across APEC we are leaving ourselves at risk.

This is of course an extremely challenging issue. At a regional and domestic level it requires deep cooperation and real engagement between government, business and international organizations.

Indonesia has raised infrastructure development along with investment and connectivity to the centre of the APEC and ABAC agenda in 2013. We know it is a long term issue and our goal is to give it impetus for the years ahead. We believe infrastructure development in particular holds the key to delivering the benefits and inclusive development across APEC that was envisaged by our Leaders in the Bogor Goals. And as the global economy struggles with major structural challenges, infrastructure development can help drive strong and stable growth in APEC and beyond.

The infrastructure and funding requirements are massive. The OECD has estimated that the infrastructure requirement across the globe to 2030, including for climate change mitigation, will be 50 trillion dollars. This cannot possibly be met by public financing alone. We must turn to private investment in infrastructure and be prepared to compete for this in APEC. Yet, private investment in most countries still only comprises 1.5% of all public infrastructure. There is a real challenge here.

Ladies and Gentlemen, today I would like to focus upon some of the key issues relating to infrastructure investment and particularly private sector investment. I would also like to share with you some of the initiatives that ABAC is working on. As such, I speak not as a technical expert but as a businessman, with an interest in developing the environment and structural reforms for much greater private sector participation.

As business people, we see infrastructure development from three perspectives:

- Regulatory reform
- Funding for Private Sector Investment and
- Project Readiness

Together, these issues must add up in clear business terms for the private sector to take a more significant role in infrastructure development. Most importantly, the first two in particular, must add up for the life of the project, which for infrastructure is likely to be decades.

Let me first turn to the regulatory environment and regulatory reform.

We are fortunate that the World Bank, the ADB, the OECD and many others have been giving strong support to quality of regulatory reform.

Some APEC economies like Australia are very advanced in providing a certain regulatory environment for private sector investment in infrastructure. But we know that did not happen overnight.

Developing economies like Indonesia are making significant advances with support from international agencies and from the experiences of others. But from a business perspective we want to see ongoing progress with a commitment to a clear trajectory for reform.

It is, after all, the developing economies of APEC who need massive infrastructure investment and whose public financing options are simply not large enough to meet these requirements.

The regulatory environment is the starting point for assessing the risk return equation for private sector investment in long term projects. Investors need significant certainty and clarity to be assured of a stable and viable stream of income over the long haul.

Having established the regulatory environment, the best option of course is to have independent regulators who are governed by a clear institutional mandate and process to minimize short term political interests. It is encouraging to see independent regulatory bodies in some sectors and we would like to see more institution building to increase this to other sectors. This will take time given the range of agencies and levels of government that are often involved in regulatory reform.

In short, regulatory reform is now on the map across APEC but we think that APEC, ABAC and member economies can add value to the reform momentum and we hope that this can be one of the outcomes this year.

Now to the issue of funding infrastructure investment.

Investment in infrastructure is of course unique in investment terms. Typically it yields a relatively low income stream over a long period of time. Public investment is geared to this but for private investment there are very few instruments for funding.

It is the Multilateral Development Banks and national development banks which are taking a leading role in infrastructure funding. Closer to home, the ASEAN Infrastructure Fund, managed by the Asian Development Bank, is a welcome development to supplement these funds.

The challenge for us in business is that these bodies are mainly focused on funding public sector infrastructure development.

Perhaps it is time to work on the development of more creative options for funding. For example, would it be possible to expand the role and place of the ASEAN Infrastructure Fund over time. Right now, the funds going into the AIF are from Governments and other official sources and the disbursements are largely directed to public sector infrastructure projects. But as the credit rating of the AIF is established the question might be: could the AIF be used as a vehicle to attract additional funding from commercial banks and, with that, could the AIF be a source of funding packages for both private and public infrastructure investment.

The mainstream banking sector could be a stronger source of funding but we see an unwillingness by traditional commercial banks to fund private infrastructure investment in a significant way. The commercial banks have lucrative shorter-term lending options in the business sector and bankers are more equipped to assess the risk of this form of lending.

The option that we should perhaps be focusing on more for funding private investment is the bond market. There is a lot of work still to do in our region to develop the bond market both in terms of instruments and tapping investors. In some economies, there are large funds from institutional investors and pension funds which have a strong interest in bonds. In other economies and across the region, we still need to develop more mature financial markets to tap the very significant savings of the Asia Pacific region as a source for boosting the bond market.

APEC Finance Ministers and ABAC have been working on these issues for some time now and I know that PECC has also made valuable contributions.

The bottom line is that we have to look at a range of options and maintain the momentum of maturing and developing our financial systems to meet the demands of infrastructure investment.

This is one of the reasons that ABAC proposed the idea of the Asia Pacific Finance Forum to APEC Leaders and Finance Ministers. The Forum would bring together the major players from around the region from government, business, the academic sector, the financial system and international organizations to discuss and map out some options for reform and development. Ti would also help us to link more effectively with other major processes like the G20. We are very pleased that the Australian Government has taken the initiative to hold a Symposium in Sydney in April to take a first look at how to develop the Asia Pacific Finance Forum and to put some concrete actions on the agenda.

Mr Chairman, this brings me to the third point on project readiness. Project readiness is about getting all the relevant stakeholders lined up so they can sign off on the infrastructure project and get on with implementation.

I have to say that in reality this is probably the most challenging and difficult part of the process. It can take a lot of coordination and a lot of time. It requires common understanding and expectations about the risks, returns and responsibilities by all parties. And it also requires a commitment to make and abide by decisions for the long term.

In a sense the ability to get a project ready to the point of implementation depends on the weakest link. As the bankers and investors, the project operators and service providers and the regulators and all arms of government sit down together to check off a very extensive list of requirements they must all be ready sign on the dotted line.

For example, if the financiers are not assured, if land acquisition is delayed, if environmental issues are not met, if the return on infrastructure services is not very clear or the real costs are not properly accounted for, all the boxes cannot be checked and implementation simply does not happen.

This is especially challenging in cases where parts of government are new to infrastructure development or even financiers are new to assessing risk in a particular economy.

ABAC has recognised the complexity of this process and the importance of focusing more on project readiness. Many of you would know that ABAC has nurtured the development of the Asia Pacific Infrastructure Partnership or APIP to support APEC economies in improving their capacity for project readiness.

APIP includes a core group of about 40 or more leading experts on various aspects of infrastructure development. They come from the financial sector, international agencies, project development and some are seasoned operators. At the invitation of interested governments, APIP brings this core group together in a closed door setting to discuss very frankly with different government agencies how to perform more effectively on infrastructure development and particularly project readiness.

The last APIP gathering was in Manila alongside our ABAC meeting and it was the second time APIP had been invited to meet with the government in the Philippines. Today, there is another APIP discussion underway in Bangkok. This is a very practical capacity building initiative by ABAC which is clearly in demand.

Among other things, ABAC is also working on a checklist for Infrastructure Preparedness which we hope can also contribute to the needs in APEC.

Mr Chairman, Ladies and Gentlemen,

Developing our capacity in APEC to draw upon private sector investment in infrastructure development is really a long haul process. But the scale of the infrastructure requirement, whether measured in

trillions of dollars of investment,

in opportunities for millions of more highly paid jobs for our people,

in greater inclusion for SMEs in regional economic integration or

more cost effective trade facilitation and communications

means that we must work hard in tapping all the potential we have for infrastructure development whether it is funded by public or private investment.

We in ABAC look forward to working with PECC this year and to your help in putting well thought out ideas on the table as you have done over many years.

Thank you.