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Session: 3

Future PPP in APEC Infrastructure Investment

Submitted by: China



**Promoting Infrastructure Investment
Through Public Private Partnership
Beijing, China
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FUTURE PPP in APEC INFRASTRUCTURE INVESTMENT

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An Innovative, ambitious blueprint of APEC perennial infrastructure connectivity (physical connectivity) is much anticipated at the upcoming APEC summit, Beijing, November 2014.

It is a master plan, to achieve a seamlessly and comprehensively connected and integrated Asia Pacific, covering Pacific Ring, Trans-Pacific, Pacific islands and continents,

**The success of this unprecedented initiative, depends on,
----a correct strategy
----inclusive approaches for different APEC economies
----an innovative APEC PPP**

1. A Correct Strategy

(1) **The first and foremost consideration** of a massive infrastructure investment over the next decade and more APEC wide and within APEC economies is,

----- not trade facilitation and productivity in supply chain,

----- **but the fundamental needs in economic growth and employment in each of the APEC economies,**

although the former is also a key factor.

World Economic Outlook July 24, 2014

(real GDP growth rate, %, revised from April estimates in brackets)

	2013	2014	2015
World	3.2	3.4 (-0.3)	4.0
advanced economies	1.3	1.8(-0.4)	2.4
US	1.9	1.7(-1.1)	3.0(-0.1)
Euro Zone	-0.4	1.1(0.0)	1.5(0.1)
Japan	1.5	1.6(0.3)	1.1(0.1)
NE/developing economies	4.7	4.6(-0.2)	3.2(-0.1)
China	7.7	7.4(-0.2)	7.1(-0.2)
Russia	1.3	0.2(-1.1)	1.0(-1.3)
ASEANS	5.2	4.6(0.4)	5.6(0.2)

Source: www.imf.org

The world is still faced with a fragile, vulnerable, uncertain economic recovery. Growth and employment is the top priority of the day on world leaders agenda.

The G20 finance ministers launched the goal last February of **adding 2 PCT to world economic growth within 5 years, creating additional \$ 2 trillion and 20 million jobs in G20**, which includes all the major APEC member economies.

However, this prospect looks rather bleak so far ,

as the current fiscal and monetary policies already in position or planned, could only add 1 pct GDP growth.

Without a massive scale infrastructure investment, the world economy cannot return to a robust, sustainable growth track.

The US economy will probably grow at 2-3% over the next 5 years,
due to the lack of massive infrastructure investment.

In comparison, massive investment in infrastructure was done after each of the previous 10 major recessions, thus putting the economy back on the robust growth track, according to Alan Greenspan, former FED chairman.

The Euro zone **is unlikely to have any strong growth** in the foreseeable future, as long as they follow the rigid "fiscal discipline", putting fiscal deficit no higher than 3% of GDP top priority, at the cost of growth and employment.

The poor performance in Euro zone will definitely drag down the growth potential of APEC member economies.

The Abeconomics could only have short-term impetus to the Japanese economy, as it **is based only on the unconventionally monetary policies, instead of any substantive infrastructure investment.**

Leading emerging economies and many developing economies are experiencing slowdown.

The FED tapering is only the external factor.

The most fundamental factor is inadequate investment in infrastructure, and the industry restructuring.

Massive investment in infrastructure has been the major powerhouse in each industrial revolution and economic boom, such as UK in late 1700's, Germany and America in late 1800's, and China in late 1900's and early 2000's.

APEC economies have extremely great potentials of growth, with investment boom in infrastructure.

A World Bank study has estimated that **an 10% annual growth in infrastructure investment will accelerate GDP growth by 1 percentage point.**

OECD has estimated that the world needs **US\$ 70 trillion** investment in infrastructure before 2030, or US\$ 4 trillion per year.

As APEC economies account for 56.8% of total world GDP, **an annual US\$ 2.3 trillion** infrastructure investment is deemed necessary.

(2) Infrastructure Investment for greater SC Productivity and trade facilitation will accelerate growth and job creation.

Massive infrastructure investment for the sake of a network of highways, railways, air ports and sea ports, as well as APEC wide modern telecom network, will bring revolutionary changes to intra and extra-APEC trade, and **in turn, serve as another major powerhouse of growth in member economies.**

The leaders statement at G20 Vladivostok Summit, 2013 envisages 10% improvement in supply-chain (SC) performance by 2015.

A WTO study estimates that,

----Every 1 percent cut in trade cost could result in US\$ 40 billion benefits;

----Total trade facilitation could bring additional US\$ 1 trillion potential benefits and create 20 million jobs.

**Potentially added GDP in selected APEC economies
through trade facilitation
(% on the basis of 2007 level)**

USA	3	China	10
Canada	5	Mexico	7
Japan	2	Russia	8
S Korea	6	Indonesia	8
Australia	3		

**source: joint report by OECD/WTO/WBG,
www.g20.org**

**Massive infrastructure investment ,
by physical connecting and facilitating different APEC
economies into a interconnected marketplace,
will definitely bring about higher SC efficiency and
trade facilitation,
thus propel the economic growth and job creation in
all the individual APEC member economies .**

2. Inclusive approaches to different APEC member economies

The overall APEC Infrastructure investment blueprint **should not be a simple, unified one applying to all APEC member economies alike**, as they differ tremendously in the size and development stage of economy. As a result, **each economy has its own priorities and urgencies in infrastructural investment areas.**

While we pay due attention to the shared interests and projects, such as Pan-Pacific, Trans-Pacific inter-connections in highways, high speed railways, airports, sea ports and wide band internet, **we should pay the same attention to each economies own urgent needs in growing its economy and creating jobs, and give them the same or even more support.**

China has discussed with ASEAN on 3 trunk high speed railways connecting Yunnan Province with Vietnam, Laos, Cambodia, Thailand , Malaysia, Singapore and Myanmar. When completed, the China-ASEAN high speed railway network will considerably facilitate the merchandise flows and reduce supply chain cost.

However, Thailand has recently decided on building of other two high speed railways linking the central and northern parts, as they need to develop the relatively backward areas of the economy.

Hence, the Thailand own choice, or the needs of the economy, prevails,

although they will constitute parts of the China-ASEAN high speed railway network ultimately.

China signed an agreement with Myanmar government 3 years ago on building the high speed railway linking Ruili, Yunan Province of China, and a port of Myanmar. It will serve as a major trunk route for merchandise flows from China to the Indian Ocean, thus tremendously improving the logistics productivity. **It is undoubtedly reasonable from the perspective of APEC economic integration and trade facilitation.**

However, the Myanmar government finally dropped the plan due to difficulties of the economy.

Hence, the Myanmar's own choice prevails.

A feasible master plan for the whole APEC infrastructure investment should include, among others:

---**APEC level** projects, beneficial for all relevant members;

---**Sub-regional** projects, beneficial for part of members, not at the cost of the other members;

---Projects **between two economies**, beneficial for both, with no harmful spill-over effects on other members;

---Projects **within an economy**, for own needs, which might or might not constitute a part of the whole APEC infrastructure network.

The ambitious APEC infrastructure blueprint, if we want successful, should **tolerate the differences and diversification.**

Only an inclusive approach

---taking full account of all individual member economy's special situation, and

---trying to co-ordinate the different projects, **synergizing all their benefits,**

Can lead us to a bright, fully interconnected and integrated APEC.

3. An Innovative APEC PPP

(1) The existing multilateral, regional, sub-regional development institutions and private capital resources combined **could already provide (potentially) US\$ 70 trillion for infrastructure investment.**

Still, the huge demand has not been met.

What else needed?

(2) An innovative APEC infrastructure platform is needed.

It should not overlap with the current multilateral, regional or sub-regional development arrangements, including the World Bank Group, Asia Development Bank, Inter-American Bank, and the BRICS Development Bank.

It should not try to replace the private sector.

Rather, the proposed APEC platform should stay above all those institutions and **coordinate all the best resources for specific APEC investment plans and projects,** thus complementing the former.

APEC has already a number of institutional arrangements supporting the infrastructure build-up and connectivity with the area.

- Investment Experts Group (IEG, since 1994)
- Investment Facilitation Action Plan
- Asia Regional Funds Proposal
- PPP Pilot Center in Indonesia
- APEC Expert Advisory Group
- Policy Support Unit

Known as “ **Infrastructure APEC**”

The focus of efforts should not be new set-ups to overlap the existing ones, or just to make a tiny difference.

It should be an **innovative synergy of all the arrangements and make the inexhaustible resources of the private capital play an essential role.**

Roles of Infrastructure APEC

---Pool of all the world infrastructure investment information, current and historic, on resources and demands;

---Advisory services to the individual APEC member governments on planning and capital sourcing;

---Organizing various match-making events for project owners and potential investors.

At the start, Infrastructure APEC does not have its own capital, or **no APEC development bank**. It will coordinate and help exchange information and capital finding.

With the initiatives progressing on, **a substantive APEC capital arrangement for infrastructure investment** might come afloat on APEC leaders' agenda.

Sub-regional arrangements, such as the proposed **Asia Infrastructure Development Bank**, are also complementary.

(3) Facilitating Private capital investment

- more PPP pilot projects, on the basis of the one in Indonesia;
- additional PPP pilot projects by projects, not by economy;
- ad hoc advisory groups for specific projects feasibility studies and recommendations on improving the investment returns, making them feasible for private capital investment.**

A new Trans-Siberia railway, is estimated to have an input/output ratio of 1:30. If completed by 2020, it could save trade cost by US\$ 300 billion, and transportation cost by US\$ 370 billion.

----Bonds issued by the host economy for a specific infrastructure investment project, could be endorsed by Infrastructure APEC, and assisted by another APEC economy (low interest loans, for instance). Then the bonds could go to the capital market.

---Private sector, due to the above environment, is encouraged to buy the bonds.

(4) Share-Holding in projects

Infrastructure investment projects could, on a selected basis, be open to private investment, to supplement the government financial inputs. Those projects could have mixed ownership, so as to share capital inputs and risks.

(5) Regulatory Cooperation for Investment Barriers Clearing

Pluro-lateral Infrastructure investment within APEC involves different governance in each of the related economies. Two challenges need to be addressed:

- Streamlining the regulations of various economy ;
- Extending standstill commitments to infrastructure investment.

When a cross-border project involves massive investment by a private company, regulatory cooperation will be essential.

A case-by-case approach is recommended.

For any significant investment projects, the relevant APEC institutions, the host member economies, and the intended private investors, should discuss and reach an overall governance for the specific project, including taxation, preferential interest rates, public goods supply, labor and the environment compliance.

**APEC leaders should give clear directives to their governments:
no protectionist measures .**

Win-Win-Win Is The Key.

The ambitious goal of an closely interlinked APEC infrastructure network could succeed only when all the APEC member economies involved get benefits.

It could succeed only when both the public and the private sector get benefits.

There have numerous examples in this line and are pretty sure for the bright tomorrow!

Thank you!

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PPPs' Past Informs the Future of PPPs in APEC

Submitted by: Keen Resources Asia Ltd



**Promoting Infrastructure Investment
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PPPs' Past Informs the Future of PPPs in APEC

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PPP definition: shared service delivery

- the private partner contributes
 - capital
 - and/or
 - capital services or
 - current services
- tax payers bear the cost of
 - part or all of the service, including any
 - asset-transfer capital cost
 - subsidy
 - tax-break, or
 - remittance-break
- users bear part or all the cost of the service

PPPs' Purpose

- harness private sector expertise and efficiency for better allocation of risk
- substitute for government borrowing while keeping government's service accountability to the public

Criticism of PPPs

- return to investors higher than government's cost of capital, while
- government bears risks that the investors control

Answer

- government's actual capital cost is higher than its nominal capital cost because government
 - does not amortize capital assets. PPPs can improve government finance by
 - amortizing rather than expensing a capital asset (no initial huge expense), and
 - staggered borrowing instead of up-front borrowing (no initial huge borrowing)
 - is at the borrowing limit that raises future borrowing cost, particularly for higher priority services, beginning with debt service
- "value for money"
 - private entities better manage their risks, provided
 - government applies "incentive ratemaking" that shares cost savings with the private entity

PPP Sectors

- Healthcare
 - in no economy is healthcare provided entirely by the government
 - OECD and BRIC healthcare opportunities bigger
 - in non-infrastructure spending which is 20 times infrastructure spending
 - outside the US where healthcare spending is more than half the countries' total
 - especially in China and India where 2010-20 health spending growth is expected to be 166% and 140% respectively.
 - hospitals: 15-30 year contracts
 - PDPs: (pharmaceutical) Product Development Partnerships
 - begun in 1990
 - for combatting disease in the developing world through development of pharmaceutical products otherwise not profitable for pharmaceutical companies

PPP Sectors (cont.d)

- 1990s water services privatization
 - mainly in developing economies, faced obstacles from higher prices due to free riding:
 - no metering and no
 - corresponding cash compensation to the poor not tied to their water consumption.
 - In 2009 City of Paris did not renew its contract with two of the French water corporations
- transportation
 - highways
 - ports
 - airports
- environment
- tourism
- social, e.g. prisons
- United Nations International Strategy for Disaster Reduction (UNISDR)
- improving teaching and learning in schools in Abu Dhabi

PPP History

- the stagflation economic dislocations of the 1970s and 80s
- government accounting which
 - expenses, not amortizes, capital investment, and
 - thereby makes private cost of capital less disadvantaged than government' s

PPP History (cont.d)

- UK 1992 John Major' s government' s Private Financing Initiative (PFI)
 - to reduce the public sector borrowing requirement, but expanded by Labor' s Tony Blair into
 - value for money, but
 - many projects ran over-budget and were
 - more costly to cancel than complete.
- Famous PFIs
 - London Underground PPP, since taken back under government control
 - Ministry of Defense building
 - Altcourse Prison. UK' s first 1st privately designed, constructed, managed and financed private prison
 - NATS PPP that transferred 51% of National Air Traffic (control) Services to the private sector

PPP History (cont.d)

- Australia emulated the UK' s PFI (e.g. Partnerships Victoria). Famous PFIs:
 - Sydney
 - Airport Link
 - Cross City Tunnel
 - Sydney Harbour Tunnel
 - Melbourne: Southern Cross Station redevelopment
 - Queensland: Robina Hospital

PPP History (cont.d)

- Canada
 - Participants
 - Government of Canada' s P3 Canada Inc. PPP fund, since 2009
 - provincial Canadian Council for Public Private partnerships, since 1993
 - BC provincial government' s Partnerships BC
 - Ontario has done more PPPs, including 40 hospitals, than any other government in Canada
 - 180 PPPs
 - some major transit systems
 - hospitals

PPP History (cont.d)

- Canada (cont.d)
 - Famous PPPs
 - British Columbia
 - Canada Line metro line in Vancouver
 - Abbotsford Hospital and Cancer Centre
 - Sea-to-Sky Highway project
 - Alberta: Edmonton' s ring road
 - Ontario
 - late 1990s Highway 407 toll highway across Toronto, world' s first wholly electronically operated toll highway
 - Viva Rapid Transit bus service in Northern Toronto
 - a GO Transit maintenance yard in Whitby, Ont.
 - Quebec
 - McGill University Health Center
 - University of Montreal' s Hospital Research Centre
 - Prince Edward Island: Confederation Bridge
 - Nunavut (Arctic): Iqaluit (Frobisher Bay, Baffin Island) airport

PPP History (cont.d)

- India. PPPs adopted by several state governments, with
 - half of the total investment into roads,
 - less than 1/4 in ports, and the rest in
 - power
 - irrigation
 - telecom
 - water supply and
 - airports.
- Japan. Since 1980,
 - joint central government-private sector corporations, like Electric Power Development Corp. (since privatized as J-Power)
 - joint prefectural/municipal government-private ownership of short-line railways
 - despite new concession law in 2011, no new PFIs

PPP History (cont.d)

- Republic of Korea
 - especially post Asia financial crisis, 100s of PPPs
 - arranged through
 - Private Investment Project Committee
 - Private Infrastructure Investment Management Center
- Philippine government's on-line list of PPP projects
- Russia first in 2006 in St. Petersburg. 300 PPPs by 2013.
- European Union
 - 1400 PPPs in 1990-2009, totaling €260 billion
 - number of PPP deals done has fallen more than 40% since 2008 financial crisis
 - significant role in public sector infrastructure
 - European PPP Expertise Centre (EPEC) established to support public sector capacity to do PPPs

PPP History (cont.d)

- US
 - "new public management" by city managers in the late 20th century and globalization pressure
 - by 2007
 - main reasons for PPPs
 - cost reduction and
 - fiscal pressure from tax and borrowing restrictions (no deficit financing)
 - shift to PPs
 - 1/4 of local governments have brought back in-house at least one service
 - post 2008 main reasons for shared service provision
 - better processes and outcomes
 - leveraging resources
 - relationship building

PPP History (cont.d)

- Mexico
 - National Infrastructure Fund is the vehicle
 - a Latin American leader in PPPs
 - in transportation, environment, water & tourism
- Chile
 - a Latin American leader in PPPs.
 - a high middle-income economy, with little state intervention in the economy
 - economic growth has dropped to 4% from above 5%
 - because of copper price decline due to slowing Chinese economy
 - compared to Latin American growth of 2%
 - 1st PPP law in 1991.
 - Over 60 PPPs in ports, airports and highways, with the most successful track record in Latin America.
 - Other PPPs in prisons and hospitals not successful
- Peru
 - a Latin American leader in PPPs.
 - high growth record in Latin America, 6.4% average from 2003-13
 - recent growth rate drop because of gold and copper price declines due to China's slowing economy
 - currently 24 projects planned, in tender, awarded or in operation in water, electric power generation, ports, & transportation.

New Models

- PPCP in developing economies like India where “C” stands for “community” where social welfare is a measured/rewarded objective
- GPPP where “G” stands for “global”
 - cooperation between an international intergovernmental organisation like the United Nations and private companies
 - an effort to move
 - away from hierarchical, vertical, inter-governmental institutions
 - toward horizontal arrangements
 - targeting developing economy sectors
 - access to essential drugs and hygiene
 - introducing digital opportunities
 - such as with the Gates and Rockefeller foundations

Outlook for some PPPs in APEC economies

- Russia needs capital to
 - refurbish its oil and gas industry, in particular to
 - build out its Siberian gas pipeline system to reach China and Japan.
- China
 - has been too much a construction economy, although it still
 - lacks a robust natural gas pipeline grid needed to fully develop its huge shale gas potential and reduce blackout risk on its electric power system. China
 - can export construction but
 - needs much more to boost consumption's share of the economy
 - needs to develop its service infrastructure, particularly healthcare, as it
 - transitions from a capacity/construction economy to a usage economy
 - has enormous privatization potential and that is a form of PPP. That becomes more attractive to the government as China becomes overleveraged and economic growth slows
 - Otherwise, Chinese export of construction or investment by SOEs may contribute not to PPPs but to PPs, or may contribute the public part of PPPs

Outlook for some PPPs in APEC economies (cont.)

- Japan
 - doesn't need more construction
 - the government is overleveraged; so, the Abe government is pushing for new PFIs.
 - in 2013 new joint government and bank Private Finance Initiative Promotion Corp. of Japan fund established
 - new legislation just enacted allowing private operation of government-owned airports. Sendai, Kansai and Osaka airports likely the first
 - energy industry should transition to more use of natural gas and can do so in cooperation with Russia
- Long overleveraged Canada's diversification of its energy export infrastructure is yet another opportunity for Canadian PPPs
- In the US, infrastructure refurbishment and replacement by overleveraged or underfunded governments presents opportunities for PPPs
- Mexico's opening of its energy sector to foreign investment is an opportunity for PPPs
- Invite India to join APEC

Threat to Southeast Asia's growth: infrastructure-shortage middle-income trap?

- Shortage of infrastructure investment (Asia Development Bank perspective):
- Private investment in the 10 ASEAN countries (600 million people) plunged after the 1997 Asian financial crisis & never recovered
- ASEAN's 5 biggest countries attracted private infrastructure funding of \$38 billion in 1997, but only \$25 billion in 2010
- ASEAN countries spend 4% of GDP on infrastructure, significantly below average annual spending of 6% during 1980-2009.
- 5% medium-term growth prospects are good, but ASEAN needs world-class roads, ports, energy, telecommunications and other forms of connectivity to make the most of the planned common market from 2015.
- ASEAN countries will need more than \$60 billion a year up to 2020 to address huge gaps in this infrastructure
- ASEAN has barely 10 kilometers of roads and 0.25 kilometers of rail per 1,000 people, vs more than 200 kilometers of roads and five kilometers of rail in OECD countries
- The electrification rate in ASEAN is 72%, compared to 99.8% in OECD countries
- Only 86% of ASEAN's population has access to clean water, compared to 99.6% in the case of the OECD's

**Threat to Southeast Asia's growth:
infrastructure-shortage middle-income trap? (cont.d)**

- ASEAN export-induced savings are invested in low risk US and European securities. 4 needed economic reforms to repatriate net foreign investment:
 - Capital-market development:
 - Asean Infrastructure Fund, supported by the Asian Development Bank
 - Long-term debt markets:
 - Asean+3 Bond Markets Initiative
 - Asian Bond Fund
 - Credit Guarantee and Investment Facility
 - Leveling the playing field and reducing the risk for private investors by:
 - addressing the policy, institutional and regulatory impediments to investment
 - fixing governance problems
 - setting up transparent procurement systems, and
 - establishing clearly designed viability funding gap mechanisms which enable public funding for investments that the private sector cannot undertake
 - example: the Philippines
 - working to liberalize the coastal shipping industry of the economy to lower costs, and
 - expanded the build-operate-transfer law into a Public-Private Partnership Act

**Threat to Southeast Asia's growth:
infrastructure-shortage middle-income trap? (cont.d)**

- ASEAN export-induced savings are invested in low risk US and European securities. 4 needed economic reforms to repatriate net foreign investment (cont.d):
 - develop a pipeline of bankable projects through PPPs, packaged appropriately by governments to entice private investors
 - improve tax collection and enforcement to increase revenues to boost government's own spending on infrastructure
 - to bear the pre-Asian Financial Crisis 60% share of infrastructure requirements of their economy
 - to integrate geographic markets
 - through projects that are harder to structure as bankable deals
 - » ASEAN's Master Plan for Connectivity
 - » Indonesia's flagship connectivity program and
 - » Greater Mekong Subregion projects.
 - by prioritizing scarce fiscal resources, while finding innovative ways of bringing in private partners
 - by transforming transport corridors into economic corridors to enhance ASEAN's role as a key link in regional production networks.

Some energy transportation project ideas

Northeast Asian Gas and Pipeline Forum

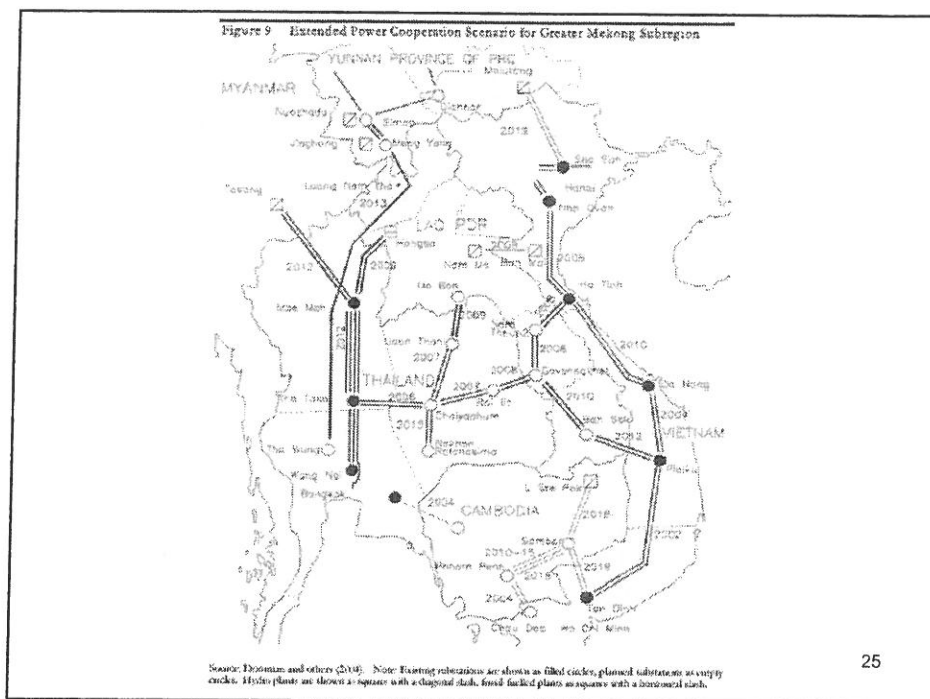
(China, Japan, Russia, RO Korea, & Mongolia)

Long-term vision of natural-gas infrastructure in Northeast Asia:

Some energy transportation project ideas (cont.d)

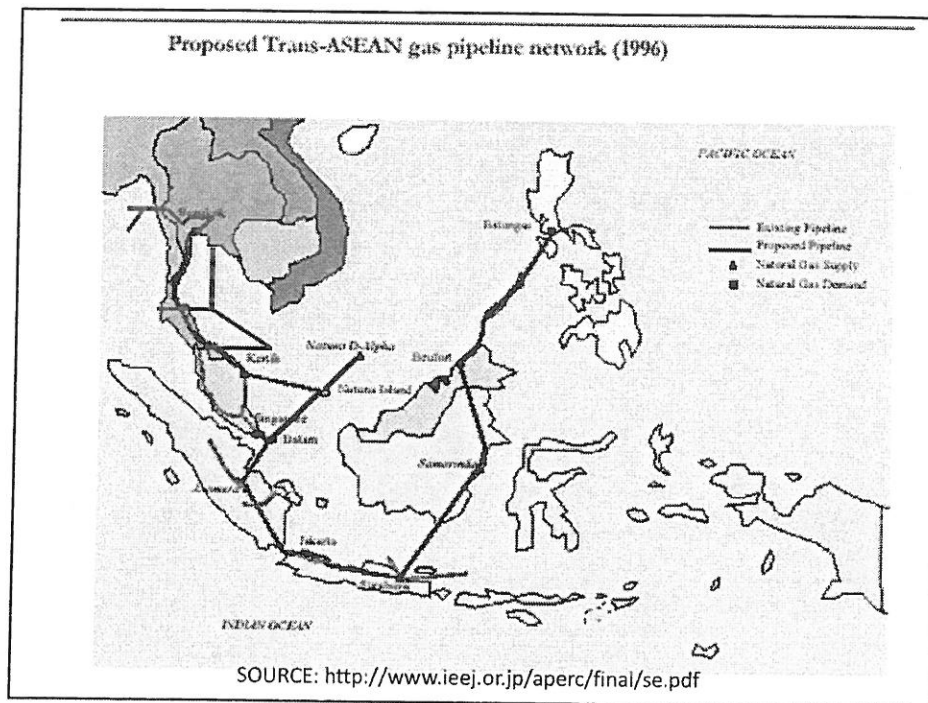
Interconnection of the South China Electric
Power Grid with Southeast Asia

Not just to feed China but ultimately to feed South East Asia:



Some energy transportation project ideas (cont.d)

Proposed Southeast Asia natural gas pipeline network:



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