



ACCC Newsletter

(A publication of the Asian Council on Contracting and Construction)

3rd Edition, July 2014

CHAIRMAN'S MESSAGE



The Asian Council on Contracting and Construction (ACCC) is pleased to issue the 3rd edition of the ACCC Newsletter.

This edition features articles which we hope will be useful and informative not only to members of the Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI), but also to industry players in other countries in Asia and from outside the region. It includes reports that provide an overview of the construction industry in selected Asian countries, on recent trends and developments in specific sectors of the industry, and expectations for growth in the construction industry from a global perspective. It also contains articles about the need for strengthening connectivity in the region through infrastructure development, and the importance of maximizing the value of finance in infrastructure.

I would also like to take this opportunity to invite not only ACCC members but all members of CACCI to join the breakout session on "Regional Integration and Connectivity: Promoting Cooperation in Infrastructure Development and Natural Resources Management," which I have been invited to co-chair during the 28th CACCI Conference on September 17-19, 2014 in Kuala Lumpur. It would be interesting for me to listen to your views on this important topic.

As you may know, there are numerous potential benefits of closer connectivity in the region. Connectivity leads to greater integration, resulting in expansion of the market for goods and services, thereby increasing the scope for economies of scale and greater competition. It also provides greater opportunities for expansion of production networks to countries with comparatively low wages but inadequate connectivity. A more integrated region could also attract more FDI with its attendant benefits of technology and knowledge transfer, and higher productivity.

I therefore look forward to seeing you in Kuala Lumpur, where we can share information, especially on business opportunities, and find ways of achieving greater collaboration in order to take advantage of the continuing expansion in regional and international markets.

Cihan Candemir
Chairman
CACCI Asian Council on
Contracting and Construction

ACCC Chairman to Co-Chair Breakout Session in KL Conference

Mr. Cihan Candemir, Chairman of the Asian Council on Contracting and Construction, has been invited to co-chair the Breakout Session on "**Regional Integration and Connectivity: Promoting Cooperation in Infrastructure Development and Natural Resources Management**" to be held in conjunction with the 28th CACCI Conference in Kuala Lumpur.

Co-hosted by the Malaysian International Chamber of Commerce and Industry (MICCI) and the National Chamber of Commerce and Industry of Malaysia (NCCIM), the two-hour Breakout Session is scheduled to take place from 2:30 PM to 4:30 PM on September 19, 2014 at the Kuala Lumpur Convention Centre.

Session to address major challenges in infrastructure development

CACCI recognizes that Asia's rapid economic growth in recent years has put severe pressure on existing infrastructure, particularly in transport and energy, as well as in communications. Inadequacies of infrastructure networks can serve as a bottleneck to growth and development.

As Asia plays an increasingly central role in the global economy, the region's trade competitiveness depends on efficient, fast, reliable and seamless infrastructure connections. Improving connectivity in the region would bring Asia large welfare gains through increased market access, reduced trade costs, more efficient energy production and use and therefore promote greater environmental sustainability; and ultimately help reduce poverty.

The breakout session that Mr. Candemir will chair will address the major challenges confronting infrastructure development and the effective management and maximum utilization of limited resources in Asia; what are the costs and benefits; what are the priority regional infrastructure projects for the region; what policy measures to undertake to encourage investments in research on and implementation of new energy technologies and energy efficiency measures, what institutions, policies and frameworks are needed to foster regional cooperation for developing cross-border regional infrastructure and creating an interconnected Asia?

Impressive line-up of invited speakers

A line-up of experts has been invited to share their perspectives on this important topic. These include: (a) Mr. Pierre Chartier, Economic Affairs Officer, Transport

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EXPECTATIONS FOR THE WORLD ECONOMY AND CONSTRUCTION INDUSTRY IN 2014-2015

Contributed by Mr. Cihan Candemir, Chairman of the CACCI Asian Council on Contracting and Construction and member of the Board, Yuksel Insaat A.S.

Developments in the construction sector always go parallel with economic developments on the world. Whenever economies of countries grow, the construction sector also grows. When economies shrink, the same happens in the construction sector. This parallel relation is more evident in the developing economy countries. Growth or shrinkage rates of the economies are greater than the growth or shrinkage of the economies. We can take a look at Turkish economic development after year 2000 as an example. After year 2000, due to the economic crisis in 2001, Turkish GDP shrunk by 5.7 percent, while the shrinkage in construction industry was 17.4 percent. In 2002, the economy recovered and GDP increased by 6.2 percent, while the growth in the construction sector was 13.9 percent. The following Figure 1 shows the development of the construction sector and GDP in Turkey.

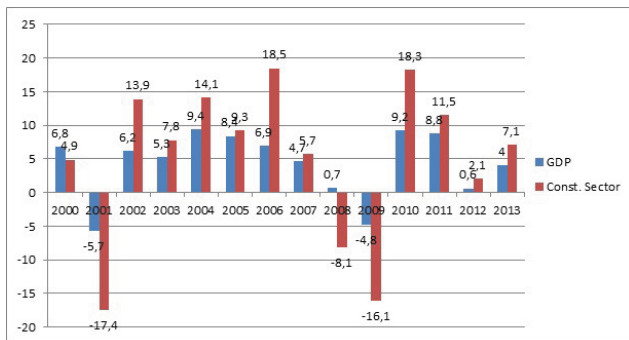


Figure 1. Yearly change of GDP and Construction Sector in Turkey

ACCC Chairman to Co-Chair

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Infrastructure Section, Transport Division, UN-ESCAP; (2) Y Bhg Tan Sri Dr. Ahmad Tajuddin Ali Chairman, Construction Industry Board Malaysia (CIBB); (c) Ms. Jane Christensen, Director, Best Practice Research and Integrated Marketing Solutions Groups, Asia Pacific, Frost & Sullivan; (d) Ir. Wong See Foong, President, Association of Consulting Engineers Malaysia; and (e) Mr. Henry Steingrass, Regional Director, South and Southeast Asia, US Trade and Development Agency.

CACCI members are encouraged to send their representatives in the contracting and construction sector and participate in the exchange of views and perspectives on the topic of "Regional Integration and Connectivity: Promoting Cooperation in Infrastructure Development and Natural Resources Management."

Registration procedure for and other relevant information on the Kuala Lumpur Conference may be viewed at www.cacci2014.micci.com



This relationship between economic growth and the construction sector is because the construction sector is the locomotive in economic development. During periods of growth or shrinkage of the economy, the construction sector is dragging together about 40 industrial production sectors, while also affecting the unemployment rates as a "sponge industry".

This example of Turkey is more or less similar to the economies of all other countries. In order to predict the future of the construction sector, we should look at the world's economies. In this regard, the IMF's "World Economic Outlook" April 2014 Edition provides important clues.

The report analyses the world economies under different classifications. Other than regional classifications, IMF's report classifies the world economies as; advanced economies (USA, Euro Area, Japan, UK, Canada and other advanced economies), emerging market economies (Brazil, Russia, India, China, ASEAN countries, Mexico, Turkey, etc.), and low-income developing countries.

According to the report the expectations in the advanced economies is as follows:

- *The global recovery is expected to strengthen, led by advanced economies. During the second half of 2013, growth in advanced economies rebounded by 1.3 percentage point and is expected to strengthen further in 2014-2015. Growth is supported by monetary policy, reduced fiscal drag (except in Japan), and eased crisis legacies amid improving financial conditions in effected economies. In the stressed euro area economies, growth is projected to remain weak and fragile as high debt and financial fragmentation hold back domestic demand. In Japan, fiscal consolidation in 2014-2015 is projected to result in some growth moderation. Still, large output gaps in the advanced economies highlight the continued fragilities in the recovery.*

The report explains the expectations for 2014-2015 in emerging market economies, mostly ASEAN countries, with the following sentences:

- *Growth picked up only modestly in emerging market and developing economies in the second half of 2013 - from 4.6 percent in the first half of 2013 to 5.2 percent in the second - although they contribute much of the global growth. However robust or increasing growth was limited*

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Expectations for the World

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to the Asia and sub-Saharan Africa regions, with most other regions experiencing moderating or modest real growth rates. This comes despite the broadly positive lift from exports due to currency depreciation and the firming recovery in advanced economies in many regions, along with robust consumption supporting domestic demand. A worrying development is the downgrade of growth rates in a few large emerging market economies (e.g., Brazil, Russia, South Africa, Turkey) owing to domestic policy weakness, tighter domestic and external financial conditions, or investment and supply constraints.

The expected modest pickup in emerging market and developing economies in the year 2014 is shown in Figure 2.1, panel 1. In the same figure the panel 2 shows the downside risks to global growth.

- Chief among them is the renewed increase in financial market volatility, especially in emerging market

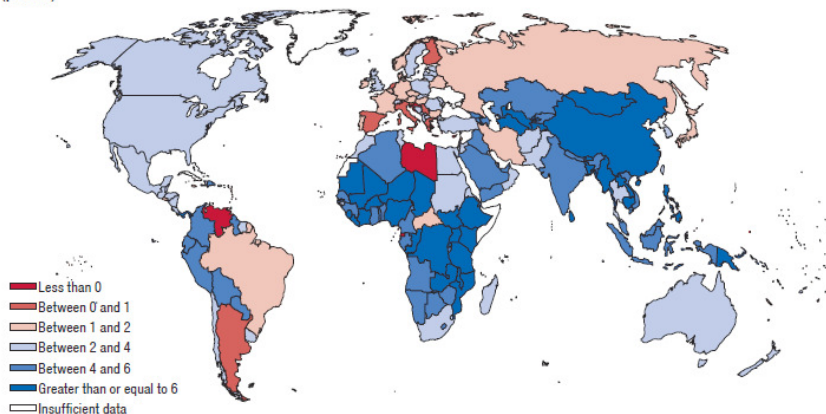
economies. If this risk materializes, capital inflows to emerging market and developing economies will likely decline, and growth in these economies will likely be lower compared with the baseline - with spillovers to advanced economies.

IMF says that “spillover feature” will have the impact of a more prolonged slowdown in major emerging market economies, because of lower investment. Figure 2.1 panel 2 reflects this downside risk. The IMF report adds:

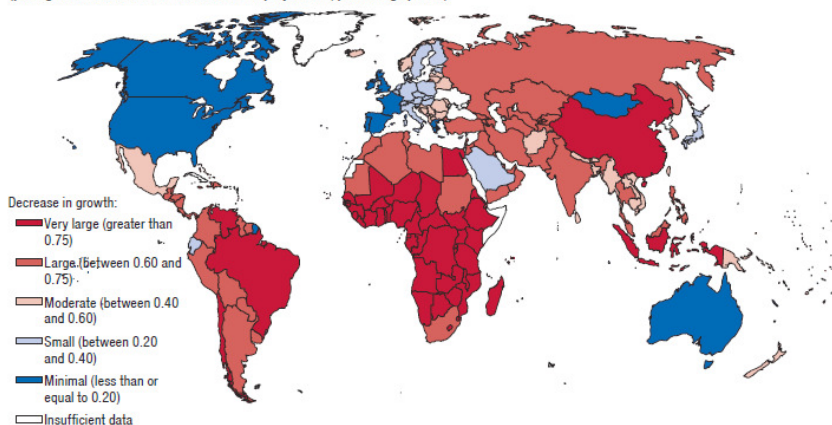
- In advanced economies, downside risks to activity stem mainly from prospects of low inflation and the possibility of protracted stagnation, especially in the Euro area and Japan. Other downside risk include adjustment fatigue and insufficient policy action in a still financially fragmented Euro area and risks related to the exit from unconventional monetary policy. On the upside, the stronger-than-expected growth momentum during the second half of 2013 could buoy confidence in Germany, the United Kingdom, and the United States.

Figure 2.1. 2014 GDP Growth Forecasts and the Effects of a Plausible Downside Scenario

1. 2014 GDP Growth Forecasts¹
(percent)



2. Effects of a Plausible Downside Scenario
(peak growth deviation from 2014 baseline projections; percentage points)



Source: IMF staff estimates.

Note: Simulations are conducted using the IMF's Flexible System of Global Models, with 29 individual countries and eight regions (other European Union, other advanced economies, emerging Asia, newly industrialized Asia, Latin America, Middle East and North Africa, sub-Saharan Africa, oil exporters group). Countries not included in the model are allocated to the regions based on the WEO classification of fuel exporters, followed by geographical regional classifications. Syria is excluded due to the uncertain political situation. Ukraine is excluded due to the ongoing crisis. The data for Argentina are officially reported data. The IMF has, however, issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official GDP data. Alternative data sources have shown significantly lower real growth than the official data since 2008. In this context, the Fund is also using alternative estimates of GDP growth for the surveillance of macroeconomic developments in Argentina. The Zimbabwe dollar ceased circulating in early 2009. Data are based on IMF staff estimates of price and exchange rate developments in U.S. dollars. IMF staff estimates of U.S. dollar values may differ from authorities' estimates. Real GDP is in constant 2009 prices.

Under the light of IMF's report, what can we expect in the global construction sector? As we had pointed out, the construction sector follows the same trends with economic growth.

The construction sector has not been able to get rid of the adverse effects of the economic crisis in 2008. However, the recovery continued in the years 2012 and 2013. It is estimated that a growth rate of construction sector will be 4.5% in 2013. The construction spending is expected to reach 7.85 trillion USD in the year 2013. This growth trend is also expected to continue in parallel with the economic growth in 2014. These construction expenditures cover all residential, non-residential buildings and infrastructure constructions as well. It should be noted that 75% of the World construction spending is performed by United States, the EU, China and India. Figure 3 shows the performance in construction sectors of these regions in the years 2012 and 2013. A similar trend of economic growths in the regions will be expected in the coming years.

According to the monetary developments, IMF's assessments on world economy are as noted above. We are able to predict the global development of the construction industry by looking at data provided by IMF. However, there are other risks that threaten the world's global economy which the IMF report does not cover.

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Expectations for the World

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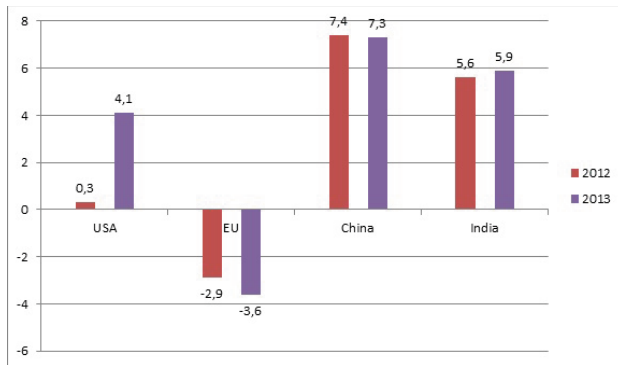


Figure 3- Yearly Growth of Construction Sector.

In recent years, world public opinion and many international organizations seriously worry about other sources of risks such as the growth of environmental crisis triggered by the climate change, and social unrest created by income disparities and increasing unemployment, and geopolitical misadventures.

During the first week of April, the United Nations issued a report by the Intergovernmental Panel on Climate Change, which is very important. A three-year study of nearly 2000 experts was published in this 2600-page report. The report reveals that effects of the global climate crisis are already being faced such as famine, flooding, forest fires, epidemic diseases and even wars.

The United Nations is pointing to a dark future that drought in this winter might occur in the Middle East region, and warning that this could create global crisis in food markets. United Nations calls for declaring “**drought state emergency**” within the region, as in every State of emergency situation.

An up-to-date research, partially sponsored by NASA, and performed by Human and Nature Dynamics Model (HANDY) revealed that, over the next ten years, global civilization is under the threat of collapse due to the unsustainable and unbalanced exploitations of natural resources and unequal prosperity-sharing. This study, by investigating the history of the rise and collapse dynamics of the other complex civilizations, claims that, by exceeding the ultimate ecological carrying capacity of resources, while intersecting with the fact of the society’s sharp division as “riches” and “poor’s”, played the central role in the collapse of the civilizations.

In the IMF’s April 2014 report, this unbalanced, unsustainable global wealth distribution can be read clearly. In the report, Appendix section, Table A, (Classification by the World Economic Outlook of the Groups and Their Shares of Aggregate GDP, Exports of Goods and Services, and Population, 2013), one can read that 36 “advanced economy countries” with population share of 14.7% only, account for 49.9% of world’s overall GDP and 61.1 % of goods and services exports, whereas, the rest of the world’s population, 85.3% of the world’s population, living in 153

different countries, have the share of 50.4% of world’s GDP and 38.9% of goods and services exports.

According to the scientists who wrote the report, to prevent the social collapse, world population growth should be balanced in a certain way, by reducing resource consumption per person, and distributing the resources in more equitable way (Dr. Nafeez Ahmed, the Guardian, March 14, 2014). On this subject, some other studies warn that, along with food crisis, water and energy crises may result with “a perfect storm” within next 15 years.

The other significant risk that could affect the world economy is the “geopolitical risks”. Under this heading, I would like to share the study performed by the US-based think-tank group Stratofor on the date 28th March. It says: “Geography today is not less important, as it was throughout the history always. Forget about the technology, communications and international law - none of these ever could delete one country’s geopolitical realities. We will be feeling the revenge of geography in the ongoing competition on the buffer State Ukraine, on North Africa and the Middle East Arab countries that experienced the Arab Spring and on the Asia-Pacific Region in the continuing sea area disputes. The latest developments in the regions coincide with Stratofor’s predictions and warn us about the adverse effects of geopolitical risks and developments on the world economy.

As a result, I would like to highlight that it is not realistic to explain or predict the world economy and the construction sector through financial data and statistics only. But the world is under the threat of climatic, socio-economic and geopolitical risks. In this regard, the lack of consensus among world leaders and reluctance for seeking solutions is really disappointing and discouraging. ■

About the Author:



Mr. Cihan CANDEMİR, a Civil Engineer by profession, has had a long and extensive experience in the construction industry after graduating from the Middle East Technical University (1970). He is currently a Member of the Board of Yüksel İnsaat A.Ş., which provides construction services for high-tech infrastructures in Turkey and internationally.

Yüksel İnsaat A.Ş. undertakes dams and HEPP’s, marine, industry, transportation, buildings and all kinds of infrastructure projects. The projects also include five star hotels, bank headquarters, shopping malls and business centres. The company offers its services in CIS countries, Gulf and Middle East Countries, North Africa and Afghanistan as well. Mr. Candemir serves as Co-Chairman of the Turkish-Afghanistan Business Council, Vice Chairman of the Turkish-Russian Business Council under the TOBB. He is also a member of Advisory Committee of Turkish Contractors Association.

Strengthening Connectivity for Enhanced Competitiveness in Southeast Asia



Presentation by ADB Vice-President for Operations 2 Stephen P. Groff at the OECD Southeast Asia Regional Forum: Fostering Regional Competitiveness and Sharing the Benefits of Sustained Growth on 26 March 2014 in Bali, Indonesia.

Good morning. I am very pleased and honored to join all of you today to discuss the importance of strengthening connectivity to enhance the competitiveness of Southeast Asia.

Let me begin with the premise that connectivity is a necessary precondition for increased competitiveness in the global economy. Strengthening connectivity, both within countries and between countries, has been the cornerstone of ADB's support for three subregional cooperation programs in Southeast Asia, namely:

- the Greater Mekong Subregion Economic Cooperation Program (GMS);
- the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT); and
- the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA).

Connectivity also underpins the realization of the ASEAN Economic Community in 2015, as emphasized in the ASEAN Master Plan on connectivity.

I. Physical connectivity

The word “connectivity” has many meanings, but in the context of competitiveness I will focus on two definitions: physical connectivity and “software” connectivity. By physical connectivity, I refer to the physical infrastructure that links countries and/or regions together. Road, rail, air and maritime transport are all sources of physical connectivity, as are telecommunications, power and other energy transmission/distribution networks.

While Southeast Asia is more physically connected than ever, large infrastructure deficits remain, both in terms of the quality and quantity of infrastructure. Most countries in the region invest less than 3%, and some as low as 1%, of GDP per year in public and private spending on infrastructure, far behind the 2% to 5% range prior to the Asian financial crisis of 1997/98. Estimates suggest that over the next decade, ASEAN nations will require approximately \$60 billion a year to fully address the region's infrastructure needs.

The competitiveness of Southeast Asia as a whole is only as strong as its weakest links, and it is critical to address the significant infrastructure disparities within the region. The World Economic Forum's recent Global Competitiveness Report ranks Singapore as 2nd in terms of infrastructure

coverage and quality, but the CMLV countries fall far behind - Cambodia ranking 101st, Myanmar 141st, Lao PDR 84th and Viet Nam at 82nd.

Responding to the vast need, under the GMS Program, ADB has mobilized more than \$20 billion for physical infrastructure projects, primarily in the transport and energy sectors. The majority of these projects have contributed to domestic and subregional connectivity. However, challenges remain significant, with cross-border projects being inherently more complex and risky than single country investments, resulting in a corresponding need to mitigate these risks and ensure the projects are bankable.

II. Software connectivity

While physical connectivity is a necessary condition for increased regional competitiveness, it is not alone sufficient. Physical infrastructure needs to be complemented with “software” aspects of connectivity, and by software I mean government policies, institutions, procedures, capacities and systems behind, and at, borders. Despite efforts by ADB and other development partners to support transport and trade facilitation in the GMS, there are still several subregional road corridors that do not have a single cross-border trans-shipment agreement signed, and some corridors that do have signed agreements do not effectively enforce them. More remains to be done on the “software” aspects of connectivity. For example, (i) boosting transport and trade facilitation measures and related capacity building; (ii) controlling the cross-border spread of communicable diseases; and (iii) increasing research and database development. Building institutions for closer cooperation and coordination in specialized areas, such as railways and power development, are equally vital. ADB's recent support to establish the Greater Mekong Railway Association and the GMS Regional Power Coordination Center are two examples of efforts to build institutional connectivity in the GMS.

Strengthening software connectivity is particularly critical for landlocked countries and subregions to maintain their competitiveness, and to promote intra-regional trade. Currently one-fourth of ASEAN's trade is conducted within the region. By comparison, intra-regional trade within the European Union is over 55%, and it is about 52% in the case of the North American Free Trade Agreement. Improvements to software connectivity are the key to unlocking ASEAN's full intra-regional trade potential. Evidence demonstrates that

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Strengthening Connectivity

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reducing supply chain barriers can have a larger effect than removing tariffs. At the global level, reducing supply chain barriers to trade could increase global GDP by nearly 5% and trade by 15%. In Southeast Asia, if countries raise their performance halfway to global best practice, GDP could be increased by 9.3%, exports could be increased by 12.1%, and imports by 18.4%.

III. Connecting with the private sector

In addition to being a potential source of financing for transport, energy and other connectivity infrastructure, private sector participation is essential for many “second generation” connectivity projects such as quality logistics centers, ports, industrial clusters and special economic zones. In order to promote public private partnerships (PPPs) for connectivity projects in Southeast Asia, ADB helped to establish the ASEAN Infrastructure Center of Excellence (AICOE), cofinanced by the Government of Singapore and Government of Canada. This facility helps prepare regional infrastructure projects with private sector participation, and provides transaction advisory support to the public sector in the areas of risk-sharing and viability gap financing. At the national level, ADB is also supporting project development facilities for PPPs in Indonesia, Philippines and Viet Nam.

IV. Connecting with sources of financing

As I have mentioned, the private sector is an important source of cooperation and finance but there are other sources as well. Within ASEAN, ADB worked with all ASEAN members to establish the ASEAN Infrastructure Fund (AIF). The AIF provides financing for key regional infrastructure projects to promote connectivity. The AIF commenced lending operations in December 2013 through a \$25 million loan to cofinance a \$224 million loan from ADB for the Java-Bali 500-Kilovolt Power Transmission Crossing Project. The commencement of lending by the AIF opens a new era in ASEAN-led investments, providing ASEAN nations the means to direct and leverage resources for their own development needs. In 2014, AIF is targeting on the order of \$300 million in project financing, and Myanmar is expected to become a full-fledged member of AIF.



V. Connecting subregions with ASEAN

ASEAN has a market of 600 million people, and the region is positioned as an important economic player. Each country and subregion in Southeast Asia holds certain comparative advantages - whether in raw materials, labor, shipping, manufacturing, agriculture, or as a financial hub. Pulling these comparative strengths together makes the region's whole far greater than the sum of its parts.

Connecting the subregions in Southeast Asia is also essential, and ADB will continue to support the integration of the GMS, IMT-GT and BIMP-EAGA into the greater ASEAN Economic Community. The opening up of Myanmar also provides ASEAN with a golden opportunity to connect South Asia with Southeast Asia. Strengthening regional connectivity is also a stepping stone for poorer countries to move up the value chain, boost their growth potential, and gradually converge as their economies become more integrated at the subregional, regional and global levels.

VI. Conclusion

On the positive side, Southeast Asia does show signs of progress, both in terms of its connectivity and its competitiveness. This trend is reflected in implementation of the ASEAN Economic Community (AEC) Blueprint. By the end of July 2013, nearly 80% of measures were implemented, with significant results across the four pillars of the AEC.

Distinguished guests, ladies and gentlemen, despite all its benefits, increased regional connectivity will also bring some formidable challenges to Southeast Asia. A key challenge will be to avoid replacing disparities between countries with internal disparities, such as rising domestic inequality. And this is where national authorities need to embrace more inclusive growth strategies. We also know that a side effect of economic integration is that the more integrated markets become, the more likely they will be affected by global or regional shocks. So, there is a need to build regional financial safety nets, as well as to design appropriate mitigation measures to contain the cross-border spread of diseases, the trafficking of goods and people, and addressing environmental impacts across borders.

In conclusion, OECD's Southeast Regional Programme is a most welcomed initiative - the Regional Programme will provide us with the knowledge, expertise and experience needed to help us respond to the many challenges and opportunities of greater regional connectivity. From the financing of physical infrastructure, to facilitating cross-border transport and trade, to structuring public-private partnerships, to mitigating the potential negative financial, social and environmental impacts of integration, we do need to learn from others. We welcome this Regional Forum and look forward to deepening our partnership with OECD to achieve our mutual goal of making Southeast Asia a more connected, integrated, competitive and prosperous region.

Thank you.

Source: Asian Development Bank, 26 March 2014

Paving the Way: Maximizing the Value of Private Finance in Infrastructure

By World Economic Forum

Executive Summary

In early 2009, the subject of infrastructure financing came to the fore as many countries announced infrastructure spending as part of fiscal stimulus programs. Yet, in many respects, the focus on stimulus spending distracted attention from the fact that countries need to develop sustainable, long-term models to fund the development, expansion, replacement, or renewal of their national and regional infrastructure.

Estimates of global infrastructure need range as high as US\$3 trillion per annum. Current spending on infrastructure is well below this threshold even when fiscal stimulus is considered. Unless governments radically shift their budget priorities or increase taxation a large financing gap will continue to exist. Against this backdrop the role of private financing is becoming increasingly critical to ensure that inadequate infrastructure does not become a bottleneck for economic growth and social progress.

Although private participation in the provision of infrastructure has grown in recent years, in many markets and sectors that growth has been relatively limited and could even reverse in the face of greater demand. This has occurred despite considerable attention being paid to the role of private financing in infrastructure over the last two decades. We believe this is because of another serious and persistent gap with respect to the funding of infrastructure: that of perception between the public and private sectors. A primary purpose of this report is to help close this “perception gap” by providing a common reference point as to what considerations are important to providers of private capital and how the public sector can develop its capacity to address them.

This Report aims to establish this common reference point in several ways. At its most basic, the Report

proposes a common definition of infrastructure (at the beginning of Part 1) that is relevant from a private financing perspective.

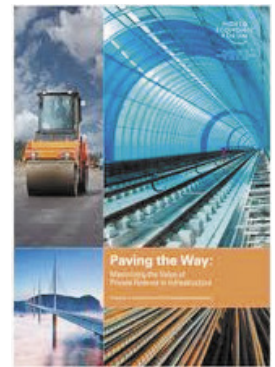
The Report also lays out a framework for how policymakers can more fully maximize the value of private finance in supporting infrastructure development (Parts 1, 2 and 3). This framework is presented as a progression from “foundational requirements” for involving private finance in infrastructure to a vision of how the large amounts of private capital needed can be mobilized in the future. This framework is a key organizing principle and takeaway of the Report and is summarized in the schematic at the end of this Executive Summary. Finally, the Report makes extensive use of case studies to illustrate and support this framework with experience from across a variety of regions and projects. These are referenced throughout the report and fully presented in Part 4 of the report. In addition, in Appendix A, the Report provides a primer on the infrastructure finance market. Key findings from the Report are summarized below.

Defining Infrastructure

It is important to define the term infrastructure since there are many different types, not all of which are appropriate for private funding. From a financing perspective, infrastructure opportunities are usually capital intensive, there is a tangible asset to operate and maintain, and the asset is expected to generate cash over the long term. Yet, there are other important distinctions from a financing perspective such as the type of project (i.e. social vs. economic infrastructure), contractual approach (e.g. partnership, concession, privatization etc.), phase of physical development (i.e. greenfield vs. brownfield), and stage of market development (e.g. new and innovative vs. new and tested). These characterizations more precisely address the chief concerns of private financiers as to whether they will achieve forecasted returns and the likelihood of loan repayment. A focus just on greenfield or brownfield designations or sector (e.g. energy vs. transportation) is too limited from a financing perspective.

Laying the Foundations: Requirements for Private Finance

Even when infrastructure is considered “too important to fail,” private finance can still be an option. For private finance to be an option one needs to evaluate the robustness and sustainability of the different financing options throughout the asset life. It is also necessary to consider what



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Paving the Way

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sort of failure might occur—whether it be a gradual erosion of service, the financial collapse of the private-sector party, or the sudden and complete shutdown of the asset—and how to mitigate the impact of such a failure. The tradeoff between the level of fees or charges for the infrastructure and the robustness of financing should be analyzed explicitly.

Given the long life of many infrastructure assets, parties must explicitly address all the tradeoffs within different commercial, contractual, and financing approaches. It is often very difficult for both the private and public parties to forecast costs and revenues over the long term, particularly when those costs and revenues depend on public usage. But the consequences of getting this wrong may be considerable. Governments risk incurring the public's wrath if the concessionaire makes too big a profit, while the concessionaire risks going bankrupt if it loses too much money.

Contract or concession length should be determined by consumer and investor considerations – not necessarily the life of the asset.

Three key factors should be considered when setting contract or concession policy. First, if the infrastructure is monopolistic, how should the protection of consumers be balanced with maintenance of any necessary capital investment? While a monopoly might lead to a shorter contract, the protection of consumers might lead to a longer one. Second, if debt is being raised to fund infrastructure development, over what period will it be repaid? Forcing repayment over a short period could result in higher, potentially unaffordable, fees or user charges. Third, how long will investors need to achieve an “acceptable” level of return—and what is “acceptable”?

Private financiers will not invest in infrastructure without institutional certainty.

Whether or not private financiers choose to invest is determined not just by the details of the specific transaction but also by the wider political, legal, and economic environment, including any uncertainties about how governments themselves may act at any stage. We believe this is as much an issue in developed economies as in emerging ones, and seeking private-sector participation is no substitute for developing the institutions that create an environment conducive to investment.

Understanding and managing public perception are integral to the success of any deal.

Both public and private parties may not always fully appreciate consumer sentiment. In fact, public sentiment can make or break a deal—and responses vary depending on the nature of the infrastructure. People are used to the idea of mobile phone networks being in private hands, for example. However, they often regard other forms of infrastructure,



especially social infrastructure, as the exclusive domain of governments. It is important to involve the public in every stage of the process, to articulate the options clearly, and to ensure that transparent methods for measuring and maintaining operational quality exist. Mechanisms such as profit sharing may mitigate concerns about excessive profits for the private party.

Building the Structure: Developing the Market for Private Finance

Investment by the public sector in a comprehensive program of prioritized opportunities can attract more private capital.

Those countries that have been most successful in attracting finance have established programs of prioritized investment opportunities with a number of features, including clear political support, a proper legal and regulatory structure, a procurement framework that can be understood by both procurers and bidders, and a credible project timetable. These country programs are more than just marketing - they eliminate key frictions such as long project lead times and unclear political risk which directly impact the viability of the business case for investment.

Building transactional capacity within government bodies underpins all successful procurement programs.

Even countries with years of experience in completing complex public-private deals may find it difficult to sustain the necessary commercial expertise and ensure that they get value for money. The recent economic turmoil has exacerbated the situation, highlighting the need to be able to react quickly to changes in the financial environment. To tackle this challenge it is important to maintain dedicated procurement teams that are well trained with career paths that will encourage them to stay. The development of national

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Paving the Way

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and regional networks of practitioners to share knowledge and experience can be important as well. Investing in these transactional capabilities can be as important as investing in the infrastructure assets themselves.

Multilateral banks continue to move beyond their role as direct funders of infrastructure to help build transactional capacity and provide risk mitigation.

Adequate finance is only one of the conditions that must be met for an infrastructure project to succeed. Essential skills and improved conditions in the country's market environment are also crucial, and multilateral banks are able to support transactions by providing political cover and resources, such as the joint initiative Multilateral Public-Private Partnership in Infrastructure Capacity Development (MP3IC) program, to assist in these areas. It is important for countries to become aware of and know how to utilize these resources most effectively.

Public and private parties will both benefit from collaboration in land procurement and valuation.

The procurement and valuation of land for new infrastructure is always a controversial subject. The issue is not so much who has the power to assemble land—this usually rests with public parties—but rather who pays for and receives the benefit of the change in land value resulting from the infrastructure development, how the change is calculated, and at what point in the transaction timetable it is calculated. Several instances exist in which land has been effectively monetized to pay for infrastructure. One such example is the supplement the Greater London Authority will levy to contribute to the funding of a new train link across Britain's capital.

Planning for the Future: The way forward for private finance

Private investors care more about whether an investment is based on established practices than if it is "greenfield". Many policymakers believe that private financiers are only really interested in investing in projects that already



generate an income and do not want to invest in building new infrastructure. This is an oversimplification. There is little about the design, construction, operation, or revenue structure of some new infrastructure that cannot be mitigated through contracts based on established practices. Securing private finance is a problem only when a project is very innovative or unusual, or involves new technology or markets, making its operational and financial performance difficult to predict. Explicitly recognizing and communicating these distinctions can attract private finance to new categories of infrastructure in the future.

Higher prices, shorter terms, and reduced capacity for large underwriting by banks may extend well beyond the current financial turmoil.

Overall commercial bank lending for infrastructure projects proved remarkably resilient in 2008 and 2009, despite the global economic crisis. But there was reduced lending in some sectors that rely on long-term lending, particularly concessions and public private partnerships. For all debt, there have been material changes to terms and cost. As a result, many transactions have proceeded with a "club" of banks collectively arranging the debt rather than using the traditional underwrite-and-syndicate process. Shortened terms may make bank lending more suitable for the construction phase of many projects.

Capital markets may help fill the long-term infrastructure finance gap – if several key obstacles can be overcome.

While there remains a market for well-structured transactions, overall demand for long-term infrastructure bonds has declined dramatically, despite the apparent attraction of such products for long-term investors, such as pension funds, that aim to match their assets with their liabilities. This decline is particularly noticeable in the bond market for public-private partnership and concession-type projects, largely because of the collapse of the monoline insurers. Apart from providing insurance against defaults and thus enhancing the credit rating of the underlying investments, the monolines supplied the transaction skills and due diligence that many capital markets investors were unable to supply for themselves. The challenge now is to reinvigorate the capital markets for infrastructure. This may include changing the risk profile to raise the underlying rating, encouraging the development of substitutes for the guaranteed bonds the monolines offered, or building transaction skills in the banks involved in infrastructure bond issuance.

Applying a regulated asset-based approach such as those often used by utilities may mobilize more private investment.

Regulated infrastructure utilities have been successful in continuing to issue bonds in the current economic climate. This raises the question whether the regulated price and asset-based approach that underpins the utilities' business model

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Paving the Way

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should be adapted for other types of infrastructure, such as those projects more typically employing a concession-based approach. A regulated approach reduces long-term risk transfer to the owner or operator in exchange for limiting the upside of investment return. This may be attractive to many investors though governments will have to consider the risks they themselves will then incur. The specifics of each project and the policy priorities of governments will determine whether this approach will be appropriate.

Specialization will be important to the development of infrastructure funds.

There is currently a prevalence of general and private equity-type funds that focus on a range of different sectors in developed markets. Many also do not differentiate between transaction approach such as concession contracts and privatizations. By contrast to the general nature of many funds, the economic crisis has highlighted the variation between infrastructure types as some subsectors have been largely immune to the economic turmoil while others (such as those that rely on user demand) have been more exposed. We believe these variations in the performance and specific characteristics of infrastructure types will lead to the development of more specialized funds that will help investors discriminate between different opportunities. This may be an important factor in channeling the massive amounts of uncommitted capital that has been raised in recent years into viable investment opportunities.

The uneven availability of offerings in different markets may accelerate fund activity and investment in emerging markets, particularly the BRIC countries.

As the full effects of budget deficits materialize, there may be fewer opportunities to invest in established markets. Conversely, there may be more opportunities to invest in emerging economies that have increasingly stable political, legal, and economic regimes. This push/pull effect may be dampened by the desire to offset budget deficits through asset sales that could maintain interest in established markets.

Retail participation in infrastructure projects is likely to grow.

Retail investors in infrastructure projects have experienced very mixed fortunes to date, and several serious obstacles must be overcome before involving them more widely. Nevertheless, there have been some successful examples of retail participation in the infrastructure markets. We think that retail participation will increase over the next few years, as understanding of the infrastructure offering improves. Pension funds may not invest as much as many believe until key obstacles are overcome. Many believe that the amount of money that pension funds invest in infrastructure will increase significantly in the short term. This may be true for some of the larger pension funds that

have an established position in the infrastructure market. However, many pension fund managers, often from smaller funds, still regard infrastructure as a specialist investment. Moreover, there is a geographic mismatch between the places in which most pension funds are held and the places in which there are infrastructure investment opportunities. The infrastructure community must therefore help to develop a better understanding of the asset class within the wider pension fund manager and trustee community to promote a broader mobilization of institutional capital in the future.

Governments may increasingly become financiers as well as procurers of infrastructure.

The role of governments as financiers grew in the recent financial crisis as the amount of long-term debt available was severely constrained. Different countries have taken different approaches, and the means they have adopted to stimulate private finance vary accordingly and range from capital contributions to co-lending and debt guarantees. However, one common issue is how and when government support will be withdrawn. A second is whether countries should set up state-owned infrastructure banks. Several such banks already exist, operating at both national and regional levels, and we anticipate that more will be established in the next few years.

Conclusion

The combination of pressing need for infrastructure investment as an economic and social priority and government budget pressure means that the private financing of infrastructure projects is more important than ever. With this urgency, it is imperative that the public and private sector work closely together to overcome any gaps in understanding and then implement this common vision to mobilize the massive amounts of private capital that are needed. Even as parties from the public and private sector address the exigencies of the current economic environment they must look ahead in defining sustainable long-term roles (for each of them) which maximize the value of private investment for all stakeholders in the decades to come. We believe that the framework and case studies presented in this Report are useful tools for promoting this process. ■



Construction Industry in Malaysia

The Construction Industry in General

The Malaysian construction industry is generally separated into two areas. One area is general construction, which comprises residential construction, non-residential construction and civil engineering construction. The second area is special trade works, which comprises activities of metal works, electrical works, plumbing, sewerage and sanitary works, refrigeration and air-conditioning works, painting works, carpentry, tiling and flooring works and glass works.

Although the construction industry contributed only around 3% to the Gross Domestic Product in the year 2010, it makes up an important part of the Malaysian economy due to the interaction with other industry branches such as the metals processing industry and the mechanical engineering or the tourism sector. Hence, the construction industry could be described as a substantial economic driver for Malaysia. In 2011, the construction-related cluster expanded by 14.7% (2010: 18.9%) and was a major contributor to the growth of the domestic-orientated industries.

In order to inject greater dynamism into the construction industry and enable it to be globally competitive, in 2007 the Construction Industry Development Board (CIDB) elaborated and submitted a strategic master plan. The CIDB represents a statutory board under the Ministry of Works. This board also prizes individuals or organizations with the prestigious Malaysian Construction Industry Award (MCIEA) to recognize their contribution, performance and achievements in the industry. Another purpose of the participation to vie for this award is to provide a platform of healthy competition amongst industry players in the quest for excellence by showcasing best practice in project implementation.

One of the profound changes to have taken place over the last two decades in the construction industry in Malaysia is the emergence of foreign site operatives as an indispensable component of the labour force. Labour segmentation has prevailed as a consequence of variability in country-specific

traits. Schisms between the foreign nationals and local workers and between the various foreign nationals operate to the employers' advantage in which greater control can be exerted. As there seems to be no sign of the dependence on foreign workers attenuating, future waves of migrant workers can be expected. Taking this into consideration, the government has to be aware of proper employer treatment and related issues such as discrimination and violation and take respective actions.

Value-added of the construction sector strengthened further by 6.3% during the first half of 2010 (January – June 2009: 2.9%). The expansion was largely led by increased civil engineering and non-residential activities following the speedy implementation of construction projects under the Ninth Malaysia Plan (9MP) and the stimulus packages. Driven by the residential and civil engineering sub-sectors, the construction sector expanded by 3.5% in 2011 (2010: 5.1%).

The Civil Engineering Activity

In the past years the civil engineering sub-sector registered an increase due to higher activity in the oil and gas sector as well as the implementation of some projects of the Ninth Malaysian Plan (9MP) and growth corridors development. The 9MP represents the second phase of the 10-year.

Third Outline Perspective Plan (OOP3) and determines whether the economic tools are strong enough to steer the country towards realizing the objectives of Vision 2020 with the aim to achieve the status of a self-sufficient industrialized nation by the year 2020. It identifies key economic sectors and focuses on stepping up productivity, sustainable growth and the creation of a united and just society.

The table below contrasts local and foreign contractors and compares the number of government projects with private projects respectively. Despite the financial turmoil,

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Table (1): Number and Value of Projects Awarded by Status of Contractors as of March 2011

Project Category	Total Number of Projects	Total Project Value (RM mil)	Local Contractors				Foreign Contractors			
			Government Projects		Private Projects		Government Projects		Private Projects	
			No.	Value (RM mil)	No.	Value (RM mil)	No.	Value (RM mil)	No.	Value (RM mil)
2007	7,386	94,416.83	2,954	44,859.22	4,338	43,631.38	4	3,475.32	90	2,450.92
2008	6,522	85,837.07	2,702	33,964.26	3,745	44,152.99	5	4,851.83	70	2,867.99
2009	6,898	74,057.91	2,991	32,344.93	3,856	38,532.45	1	1,131.99	50	1,866.54
2010	6,344	75,610.29	1,748	18,236	4,498	48,807.95	1	316.22	97	8,546.39
March 2011	589	6,531.94	149	1,650	431	4,551	0	0.00	9	330

Notes: Total may not necessarily add up due to rounding. Figures are subject to change due to late notification.

Source: CIDB, Construction Industry development Board Malaysia

Construction

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the number of overall projects in 2008 reached a reasonable level. A decline can be detected for the years of 2009 and 2010. It also reveals that the number of private projects generally exceeds the number of government projects, regardless the status of contractor. Especially for foreign contractors the private sector plays an eminent role, as most government projects are contracted out to local contractors.

In August 2008, the Government announced several provisions to allow variation in the contract value of government projects. This is to assist contractors to cope with escalating prices of construction materials. For the civil engineering works, the price variation is extended from 5 to 11 types of building materials. Contractors involved in design and build projects will be paid according to price variation of building materials.

In the following, a further look into the type, number and value of projects will be given. Facing the figures of the individual categories, one will detect, that projects related to infrastructure and non-residents are very high in number and value, followed by projects targeting residents and social amenities. Construction activity in the non-residential sub-sector is estimated to increase marginally, supported by ongoing construction of commercial properties, industrial units and hotels.

Growth in the residential segment improved amid higher construction activity, especially in the Klang Valley. Higher investment following the continued progress in the construction of major infrastructure projects such as the Seremban-Gemas electrified double-tracking project, the second Penang Bridge and the Sabah Oil and Gas Terminal boosted the civil engineering subsector. In addition, the performance of the sub-sector in the first half of 2010 was affected by the delay in launching new projects during the economic downturn in 2009 when developers were more cautious. However, following the economic recovery, coupled with attractive, financing packages and affordable interest rates, housing starts recorded an increase of 3.2% in the second quarter of 2010 compared with the preceding quarter. In addition, the take-up rate of newly launched residential units improved to 19.5% (January-June 2009: 12.3%). Despite slower housing construction activity, high-end landed properties located in preferred areas were well-received with 100% take-up rate during launches. The liberalization of the Foreign Investment Committee ruling on foreign purchases of properties and the promotion of Malaysia My Second Home (MM2H) also led to the expansion of the sub-sector.

To conclude, the measure to provide tax relief on interest paid for housing loans will provide some support to demand for houses.

However, due to the escalating prices of construction materials and increased inflationary pressures, developers were generally adopting a more cautious stance.

With the strong domestic economic performance coupled with the buoyant secondary housing market, potential house buyers, particularly in the Klang Valley, Penang and Selangor

Table (2): Number and Value of Projects Awarded by Category as of March 2011

Project Category	Total Number of Projects	Total Project Value (RM mil)
2007	7,358	93,294.20
Residential	1,853	16,878.46
Non Residential	2,291	26,422.62
Mix Development	10	97.1
Social Amenities	1,380	12,097.57
Infrastructure	1,787	37,611.14
Others	37	187.31
2008	6,522	85,837.07
Residential	1,486	16,933.87
Non Residential	2,143	23,737.75
Mix Development	16	919.22
Social Amenities	1,258	19,114.39
Infrastructure	1,579	24,858.70
Others	40	273.13
2009	6,718	74,057.87
Residential	1,657	14,138.24
Non Residential	2,045	22,543.22
Mix Development	0	0
Social Amenities	1,489	15,358.96
Infrastructure	1,707	22,017.45
Others	40	0
2010	6,344	75,610.27
Residential	1,784	20,699.97
Non Residential	213	24,434.11
Social Amenities	97	7,560.78
Infrastructure	1,593	22,915.41
2011	589	6,531.95
Residential	163	1,463.79
Non Residential	213	1,908.07
Social Amenities	97	890.64
Infrastructure	116	2,269.45

Notes: Total may not necessarily add up due to rounding. Figures are subject to change due to late notification.

Source: CIDB, Construction Industry Development Board Malaysia

are shifting from a wait-and see attitude in 2009 to ready-to-commit in the second-half of 2010. Therefore, on the supply side, the housing sector picked up strongly by 37.6% in the first half of 2011, with an increased number of housing projects. Houses priced above RM500,000 dominated construction activities and housing developers were inclined to build high-end properties, particularly in city areas due to rising land prices. In line with the Government's objective to provide affordable houses for the low-and-medium-income

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groups, a total of 2,733 units of Rumah Mesra Rakyat under the Home Ownership for the People (HOPE) project were completed as at the end-June 2010. In addition, as at the end-August 2010, 4,482 low-cost houses for the rural poor and hardcore poor were built, while another 12,144 units are under construction.

On the supply side, the number of new sales and advertising permits as well as approvals to build houses increased 16.1% and 32.2% (January-August 2010: 16%; 23.6% respectively, indicating developers were more bullish on the housing market. This was further supported by the findings of a survey undertaken by the Real Estate and Housing Developer's Association (REDHA) in July 2010, whereby developers are confident that property prices may increase up to 20% in the second half of 2010. Similarly, loans approved by the banking system for the construction sector rose 25.7% (January- July 2009: 53.6%), indicating the pick-up in construction activity during the second half of the year.

Growth in the non-residential sub-sector continued to be underpinned by the ongoing construction of commercial properties. In addition, private projects in the five growth corridors, including Johor Premium Outlet and Lido Boulevard in Iskandar Malaysia as well as Kota Kinabalu City Waterfront and South China Place in Sabah Development Corridor contributed to the subsector. Especially higher private sector activities in the oil and gas industry, such as the liquefied natural gas re-gasification terminal in Malacca and the development of the Sabah oil and gas terminal compensated the moderation in public civil engineering projects. The demand for office space especially in Kuala Lumpur, Penang, Selangor and Johor was buoyant and the national occupancy rate of office space remained high at 83.2%. After the completion of 20 new shopping complexes with an additional retail space of 249,817 square metres (sm) in 2010, the existing stock of retail space increased again from 10.37 million sm in 2010 to 10.78 million sm in 2011.

Demand for retail space in shopping complexes remained strong, with an average occupancy rate at 81% in 2011, reflecting retailer's confidence in consumer spending.

Construction of leisure properties improved further in line with the growth of the tourism sector. As at the end-June 2011, 103 hotels were under construction, offering 52,000 rooms (end-June 2010: 86 hotels; 21,884 rooms). Hotels in Kuala Lumpur City Centre are expecting to finish the year at an average occupancy rate of 68% (2011: 65%). Hotels expected to open this year include the 513-room Pullman Bangsar, the 364-room Best Western Premier Dua Sentral, the 500-room Ibis Styled Fraser Business Park Kuala Lumpur, the 412-room Grand Hyatt Kuala Lumpur and the 188-room extension of Impiana KLCC Hotel.

In addition, some domestic construction companies were also augmented by overseas projects, especially in the Middle East, India and Thailand. The projects include construction

Table (3): Number and Value of Projects Undertaken by Malaysian Contractors in Global Market by Year of Project Awarded

Country	2006		2007		2008		2009		2010		2011	
	No.	Value (RM m)	No.	Value (RM m)	No.	Value (RM m)	No.	Value (RM m)	No.	Value (RM m)	No.	Value (RM m)
ASEAN	13	2,179.74	20	2,582.92	7	1,473.94	2	887.44	5	1,030.31	1	58.50
Brunei	-	-	2	33.58	-	-	1	693.00	1	932.10	-	-
Indonesia	1	524.40	3	1,862.69	2	20.20	-	-	2	90.24	-	-
Philippines	2	522.06	-	-	-	-	-	-	-	-	-	-
Singapore	-	-	2	60.00	-	-	-	-	-	-	-	-
Thailand	10	1,133.28	12	547.84	3	139.52	-	-	2	7.97	1	58.50
Vietnam	-	-	1	78.81	2	1,314.22	1	194.44	-	-	-	-
India	10	1,149.92	7	4,653.00	1	899.50	2	383.65	4	404.00	0	0.00
Middle East	23	4,622.39	25	11,308.63	24	5,609.65	18	12,593.31	0	0	0	0.00
Iran	-	-	-	-	-	-	1	2,000.00	-	-	-	-
Jordan	1	450.00	-	-	-	-	-	-	-	-	-	-
Bahrain	6	1,368.33	1	233.88	2	268.42	-	-	-	-	-	-
Libya	2	63.13	2	5,130.62	1	84.00	-	-	-	-	-	-
Qatar	6	161.52	4	1,751.67	3	581.20	2	281.72	-	-	-	-
Saudi Arabia	-	90.00	2	314.82	2	1,822.24	3	9,407.84	-	-	-	-
Syria	-	-	2	482.84	-	-	-	-	-	-	-	-
United Arab Emirates/Dubai	7	2489.41	14	3,394.80	16	2,853.79	10	903.75	-	-	-	-
Africa	2	839.00	0	0.00	3	924.67	0	-	0	0.00	0	0.00
Sudan	1	39.00	-	-	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-	-	-	-	-	-
Algeria	-	-	-	-	1	854.00	-	-	-	-	-	-
Papua New Guinea	-	-	-	-	2	70.76	-	-	-	-	-	-
Morocco	1	800.00	-	-	-	-	-	-	-	-	-	-
Others	10	1,398.83	17	1,006.76	20	559.61	4	146.17	2	56.72	0	0.00
Bangladesh	1	1.45	-	-	2	52.22	-	-	2	56.72	-	-
Cambodia	3	-	-	-	3	36.74	-	-	-	-	-	-
China	3	623.92	5	382.93	9	308.27	2	84.01	-	-	-	-
Maldives	2	171.91	4	111.16	2	72.98	-	-	-	-	-	-
Mongolia	-	-	-	-	-	-	-	-	-	-	-	-
Pakistan	1	1.58	1	185.06	1	4.50	1	14.47	-	-	-	-
Sri Lanka	2	18.97	2	136.47	1	77.93	-	-	-	-	-	-
Trinidad-Tobago	-	-	-	-	-	-	-	-	-	-	-	-
Turkmenistan	-	-	1	51.95	-	-	-	-	-	-	-	-
Yemen	1	581.00	-	-	-	-	-	-	-	-	-	-
United Kingdom	-	-	1	2.05	-	-	-	-	-	-	-	-
Australia	-	-	2	16.74	1	1.30	-	-	-	-	-	-
Ireland	-	-	-	-	1	5.67	-	-	-	-	-	-
Hong Kong	-	-	-	-	-	-	1	47.69	-	-	-	-
Seychelles	-	-	1	120.40	-	-	-	-	-	-	-	-
Grand Total	558	10,189.88	69	19,551.31	55	9,467.37	26	3,666.77	11	1,491.03	1	58.50

Note: Total may not necessarily add up due to rounding. Figures are subject to change due to late notification.

Source: CIDB, Construction Industry Development Board Malaysia

of highways, airport terminals and hydropower plants. The turnaround in the construction sector and the increase of construction companies led to a re-rating of construction companies listed on the Bursa Malaysia.

Green Building

The Malaysian building construction market is very competitive with local companies taking the lead. However, with the recent onset of 'green technology' in Malaysia, more and more foreign participants are involved in the construction sector especially in the development of green buildings particularly in technologies relating to green building, prefabrication practice, smart building and energy efficient building. The launch of 'Green Building Index' has put Malaysia on the green roadmap and further development is expected to take place in the coming years.

Outlook

The construction sector was expected to expand by 3.4% at the end of 2011 (2010: 5.1%), due partly to support from the acceleration of projects under the 10th Malaysia Plan in the second half of the year. The success of the construction industry is increasingly predicated on technology driven investments in information technology (IT) and this is expected to be even more so in the future. Information Technology (IT) plays a vital role in the sustained growth of a business and is the sine qua non of all businesses today, including the construction industry. Hence, understanding its roles and functions in construction firms is a requisite in assessing their performance.

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Philippine Developers target 1M new homes by 2016

The Subdivision and Housing Developers Association (SHDA) in the Philippines is working to meet the first milestone of the housing industry roadmap, prioritizing the development of one million new homes by 2016. SHDA, the country's largest housing development association, said the past year had seen awareness rise on housing problems, especially in the face of national calamities.

SHDA is focused on the national housing backlog currently estimated at 3.9 million units. Without intervention, developers see the country overwhelmed with a 6.5 million housing backlog by 2030.

Newly inducted SHDA president Ricky Celis said the group remained committed to the thrusts of the housing industry roadmap, prioritizing production, policy framework, affordability, financing and the legislative agenda.

"Increased housing production with government support will see us moving closer to our goals. We're looking forward



to a year of increasing our multisectoral partnerships with other government offices, key shelter agencies, real estate groups and other corporate enterprises," he said.

Under its production priorities, SHDA aims to increase and sustain production capacity to 12-percent growth per year. This will mean moving to standardize costs of common items and supplier agreements. SHDA will also look into using new building technology and systems to reduce construction time and cost.

In terms of improving housing affordability, SHDA is working closely with government to gain comprehensive and targeted government housing subsidy. Its efforts include pushing for the accreditation of socialized low-rise buildings for informal settler families and supporting the inclusion of mass housing in this year's Investment Priorities Plan.

Celis said SHDA would also seek nationwide engagement of its 200-strong members and chapters and organize more chapters across the country.

He added: "There are housing developers everywhere who share our vision of every Filipino family living with dignity in their own home, regardless of their economic status. We provide the housing industry an opportunity to speak with one voice, to learn from each other and to work together towards that vision."

Another priority for the group has been the establishment of a databank of industry statistics and figures. Government agencies and local government units have traditionally been the only resource for reliable housing industry figures. SHDA aims to build an accurate and up-to-date databank from which housing developers can refer to in planning and developing areas.

Among its first reports to be released is on housing starts, or the estimated number of construction projects based on building permits. SHDA is set to release its 2013 report on housing starts in the second quarter of this year.

Source: *Philippine Daily Inquirer*, April 12, 2014



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The governments are now on the verge of implementing the 10th Malaysia Plan that will set the stage for a major national structural transformation, towards that of a High-Income Economy. The High-Income Economy will hinge on higher productivity and the engagement of the private sector participation, which will be the primary driver of growth and innovation. The Plan which covers the period from 2011 to 2015 will potentially have high impact on the Malaysian Construction Sector where it is expected the Construction Sector will grow at 3.7% per annum as compared to 6% per annum GDP growth for the country.

RM230 billion development allocations and RM20 billion facilitation funds have been allowed for under 10thMP. Both these allocations will create the impetus in driving demand for the Construction Sector as out of the RM230 billion for development expenditure, 60% or RM138 billion will be expended in physical development to be undertaken by the Construction Sector. The RM20 billion facilitation fund is expected to attract private sector investments worth at least RM200 billion of which a major portion would be investments involving the Construction Sector.

In promoting economic growth through Private Sector participation, 52 high-impact projects worth RM63 billion have been identified for implementation under the Public-Private Partnerships (PPP) initiatives. Among these projects are 7 Tolled Highways at an estimated value of RM19 billion, 2 Coal Electricity Generation Plants at RM7 billion, Malaysian Rubber Board's Land Development at RM10 billion, Petronas LNG Melaka Plant at RM3 billion and, 2 Aluminium Smelters in SCORE Sarawak at RM18 billion.

Source: www.Malaysia.ahk.de

ALI targets 1.8-M sqm leasing space

by James Loyola

Ayala Land Inc. a Philippine-based real estate company, is planning to develop a gross floor area of up to 3.6 million square meters over five years in its 74-hectare Arca South central business district, the site of the former Food Terminal Complex.

Ayala Land vice president and Strategic Landbank Management group head Meean Dy said half of the 3.6 million square meters will consist roughly of residential units while the remaining half will consist of leasing spaces including retail, office, hotels and a hospital.

Arca South will feature three distinct retail areas. It will have its own version of Bonifacio High Street, an open green space flanked by retail developments on both sides.

The lifestyle mall will feature upscale fashion stores, specialty retail and select dining establishments that are integrated by a lush landscaped park.

It will also have a transit-oriented mall that will be linked to the Southeast Intermodal Transport System. For a complete shopping experience, Arca South will likewise open a regional mall with 150,000 sqm of leasable space offering diverse shopping, dining and entertainment choices.

Upon completion, Arca South will comfortably accommodate as many as 60,000 residents and 400,000 office workers. Office and hotel spaces will be built on top of retail



AYALA LAND LAUNCHES P80-BILLION ARCA SOUTH DEVELOPMENT – Shown in photo are (from left): ALI President and CEO Bobby Dy, Ayala Corp. President and Chief Operating Officer Fernando Zobel de Ayala, Taguig City Mayor Lani Cayetano, Congressman Lino Cayetano, and ALI Vice President and Strategic Landbank Management Group Head Meean Dy. The 74- hectare Arca South project is envisioned to develop the former FTI complex into the country's next premier central business district (CBD). (Photo by Jacqueline Hernandez)

spaces for prime garden views.

Arca South's location and access also makes it ideal for BPO sites. Nine towers with 200,000 sqm of leasable space will be launched within the next five years, with two out of the nine towers expected to be operational by 2017.

Meanwhile, a 250-bed QualiMed hospital offering highly specialized medical treatment will also be built in Arca South. This facility will serve as the main treatment hub for the South of the city as well as surrounding provinces.

Source: Manila Bulletin, April 24, 2014

5 Critical Hot Spots in the Building Industry in Asia-Pacific in 2014

Reportlinker.com announces that a new market research report – *5 Critical Hot Spots in the Building industry in Asia-Pacific in 2014* – is available in its catalogue.

Sustainability Issues will Continue to Shed New Perspectives on Buildings

The market outlook focus on five important areas in the building industry that have the potential for business opportunities for market participants in the Asia-Pacific region. Driven by government initiatives, property developers are shifting their business focus on sustainable and resource efficient buildings. The building industry is challenged by rising resources costs such as energy, water, and raw materials for building construction. In addition, the changing global climate is expected to place safety of buildings at risk. This will likely entail immense business prospects in green buildings, smart buildings, disaster-shield buildings, solar-powered buildings, and resource conservation.

Executive Summary

In 2014, there are five main areas that market participants in Asia-Pacific's building industry may consider focusing on: Green Buildings, Disaster-shield Buildings, Smart Buildings,

Resource Conservation and Solar-powered Buildings.

Driven by government initiatives, property developers are shifting their business focus on sustainable and resource-efficient buildings. Green buildings are generally designed and built to reduce consumption and reliance on energy, water, and building construction materials.

In smart buildings, the performance of the building is enhanced, as all components are integrated to work together with the help of systems, technologies, and tools that will ultimately manage and minimize energy consumption.

Solar energy has been generating attention of late due to the depletion of non-renewable and polluting natural resources such as crude oil, natural gas, and coal. Solar energy is being explored as a renewable and energy-efficient technology that is widely used in green buildings.

The change in weather patterns and frequent natural disasters in Asia-Pacific will compel market participants to introduce disaster-shield building concepts.

Resource conservation, which entails the recycling and reuse of industrial materials and construction/demolition waste for the purpose of new construction, is gaining popularity. Besides minimizing waste that negatively impacts the environment, waste materials may be engineered to possess better properties than conventional building materials.

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CEO's Perspective

1. Government initiatives and public interest in green buildings will spur the green buildings market.
2. Deployment of an information and communications technology (ICT) platform in building automation infrastructure will intensify the development of smart buildings.
3. Disaster-shield buildings should be the focus area for mitigating the effects of climate change and natural disasters.
4. Resource conservation is identified as a key development to reduce the dependence on increasingly costly conventional raw materials.
5. Solar energy is expected to pioneer the renewable energy market in buildings due to its minimal negative impact to the environment.

Definitions

Building Industry

The building industry includes markets such as building construction, green buildings, and smart buildings. The markets may encompass equipment markets (for example, automation hardware and software, lighting, and air-conditioning), and/or services markets (design, construction, and operation). The industry excludes equipment and services related to site remediation, environmental assessment, and civil and structural engineering.

Asia-Pacific

Unless otherwise indicated in this study, Asia-Pacific refers to Australia, China, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Thailand, the Philippines, and Vietnam. Asia may refer to Asia-Pacific and other countries not defined above.

Importance of this Study

Working with the Authorities to Achieve Green Growth

- Private sector participation is needed in Government projects that promote green growth in various sectors, such as green buildings, and light emitting diode (LED) lighting.
- New business opportunities may stem from new regulations and policies.

Identifying New Trends in Technology and Innovation

- Building technologies are evolving continuously. The industry is focused on energy-efficient building components and products.
- Technology advancement changes the way buildings and properties are constructed and managed.

Staying Ahead in Competition

- Non-competitors in the past are expanding their business in the building technologies market (for example, the LED lighting market for buildings).
- Industry convergence is inevitable. Companies need to stay ahead in identifying business areas beyond their core competencies.

About CACCI and ACCC

The Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI) is a regional grouping of apex national chambers of commerce and industry, business associations and business enterprises in Asia and the Western Pacific. It is a non-governmental organization serving as a forum for promoting the vital role of businessmen in the region, increasing regional business interaction, and enhancing regional economic growth. Since its establishment in 1966, CACCI has grown into a network of national chambers of commerce with a total now of 28 Primary Members from 26 countries in the region. It cuts across national boundaries to link businessmen and promote economic growth throughout the Asia-Pacific region. CACCI is a non-governmental organization (NGO) granted consultative status, Roster category, under the United Nations. It is a member of the Conference on NGOs (CoNGO), an association of NGOs with UN consultative status.

Membership in CACCI provides businessmen the opportunity for networking with his counterparts in other countries in the region and globally, participation in CACCI annual conferences and training programs, interaction in Product and Service Councils (PSCs) on various industry and service sectors, access to CACCI publications, and participation in policy advocacy work to create a policy environment conducive to private sector growth.

The Asian Council for Contracting and Construction is one of the PSCs under the CACCI umbrella. The PSCs have been formed with the primary aim of promoting greater business interaction among CACCI members who are in the same product or service line. The PSCs meet at least once a year, usually in conjunction with the annual CACCI Conference held in various member countries around Asia Pacific. Occasionally, officers and key members of the PSCs conduct teleconferences to discuss their activities for the year.

For more information on CACCI and the PSCs, please visit the CACCI website at www.cacci.org.tw.

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