ACCC Newsletter

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

4th Edition, December 2014

CHAIRMAN'S MESSAGE

It is with great pleasure that we issue herewith the 4th edition of the ACCC Newsletter, a publication of the Asian Council on Contracting and Construction (ACCC) of CACCI. As Chairman of the ACCC, I hope that you will take time to go through the articles contained in this edition which I believe are useful and informative reference materials not only to CACCI members but to industry players around the region and globally as well.

As I underscored in earlier edition, developments in the construction sector always go parallel with a country's economic development. Whenever economies grow, the construction sector also grows. When economies shrink, the same happens in the construction section. This parallel relation is particularly evident in developing countries. Such relationship highlights the role of the construction sector as the locomotive of economic development. During periods of growth or shrinkage of the economy, the construction sector is said to drag about 40 industrial production sectors, while also affecting the overall employment rates.

I therefore believe that the ability of Asia to continue growing at current rates will depend largely on the performance of the construction sector in the coming years – in particular, on how much infrastructure can be delivered. Power generation capacity, clean water, effective utility networks and much-needed improvements in transportation networks are essential for ensuring Asia is able to fulfill its full potential.

I would like to take this opportunity to wish all our readers the best of the Holiday Season, and may the incoming 2015 be a bountiful year for all of us.

Cihan Candemir
Chairman
CACCI Asian Council on
Contracting and Construction

Inside this issue .....

KL Conference Calls for Regional Cooperation in Infrastructure Development

The 28th CACCI Conference held on September 17-19, 2014 in Kuala Lumpur featured a breakout session on "Regional Integration and Connectivity: Promoting Cooperation in Infrastructure Development and Natural Resources Management."

The session addressed 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?

The session panelists included: Mr. Pierre Chartier, Economic Affairs Officer, Transport Infrastructure Section, Transport Division, UN-ESCAP; Ms. Jane Christensen, Director, Best Practice Research and Integrated Marketing Solutions Groups, Asia Pacific, Frost & Sullivan; Dr. Naoyuki Yoshino, Dean, Asian Development Bank Institute (who participated through video clip); and Mr. Tariq Sayeed, Vice President of CACCI and former President of the Federation of Pakistan Chambers of Commerce and Industry.

Co-chairing the session were Mr. Cihan Candemir, Chairman, Asian Council on Contracting and Construction from Turkey, and Dato' Ghazali Dato' Yusoff, Executive Chairman, Nusantara Technologies, Sdn . Bhd., from Malaysia.

The speakers agreed that infrastructure is the backbone of regional connectivity. They also noted that global warming is a big barrier to infrastructure development, so there is an urgency to address this concern by going into green building that has significant positive impact on the environment.

They saw the need to address mobility requirements of the region's population in order to help bring those segment of the population at the bottom of the social strata into the mainstream of economic development. It was noted that while some countries in the region (e,g, those in Australasia and the ASEAN region) have good infrastructure, others (e.g. those in South Asia) are left behind due mainly to limited access to funds, poor road conditions and lack of commerce. They likewise underscored the importance of rolling out projects that have high-profile public acceptance, yield quick practical results, and move fast on implementation to avoid bureaucracy and red tape.

CACCI organized the breakout session in recognition of the fact 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.

Asia's $1 trillion infrastructure opportunity

Foreign investors are finding more open doors than in the past. But the way forward is far from clear.

by Naveen Tahilyani, Toshan Tamhane, and Jessica Tan

Despite bright economic prospects, most emerging Asian countries—China, India, and the Association of Southeast Asian Nations (ASEAN)—continue to suffer from underdeveloped infrastructure. In India, for example, electricity generation is 16 percent to 20 percent short of what is needed to meet peak demand, thanks to persistent underinvestment and poor maintenance. In Indonesia, infrastructure investments dropped from 5 percent to 6 percent of GDP in the early 1990s to 2 percent to 3 percent of GDP for much of the last ten years. We estimate that the consequent deterioration in energy, transport, housing, communications, and water facilities has restrained economic growth by 3 to 4 percentage points of GDP.

We believe that situation is about to change. Across the Asian region as a whole, we calculate that around $8 trillion will be committed to infrastructure projects over the next decade to remedy historical underinvestment and accommodate the explosion in demand.

Traditionally, most Asian infrastructure projects have been funded by governments or domestic banks. Foreign investors were mostly excluded. Those that were allowed to participate faced severe restrictions, including complex regulatory and legal regimes, uneven workforce quality, and occasional political interference.

In the wake of the financial crisis, however, we have started to see signs that global private capital is increasingly welcome. The combined effects of increased stimulus spending and reduced tax receipts have increased deficits, with the result that restrictions on foreign investment are easing and a growing number of projects are being carried out under public–private partnerships (PPP). We estimate that over the next ten years fully $1 trillion of the $8 trillion of projected infrastructure projects will be open to private investors under PPPs.

The questions for owners of global capital are how to identify the opportunities, how to mitigate the main risks, and how to develop appropriate entry strategies.

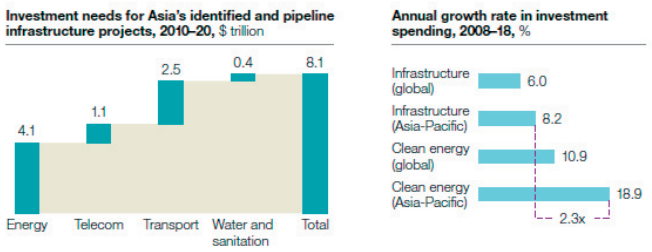
Growing demand for outside capital

More than 80 percent of the demand for infrastructure investment in emerging Asia over the next ten years will come from energy and transport, the sectors most critical to supporting heightened economic activity. Exhibit 1 shows the full breakdown.

Our analysis suggests that much of this new investment will be in advanced technologies. For example, Asia may leapfrog developed economies in its adoption of clean-energy technologies, thanks to falling costs and improving effectiveness.

Exhibit 1

Energy and transport sectors will provide much of the demand for infrastructure investment.

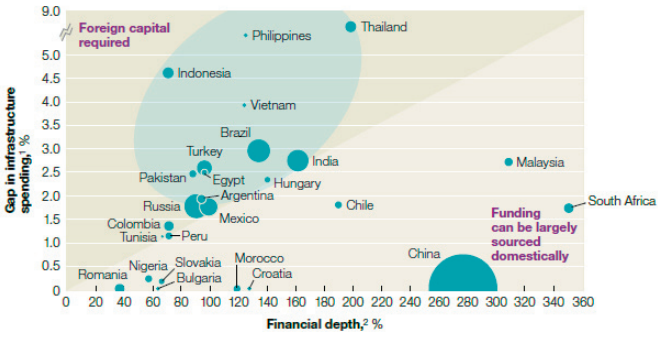


Source: Asian Development Bank; Clean Edge; World Bank Private Participation in Infrastructure (PPI) Database; McKinsey analysis

Several countries, such as China and Malaysia, have sufficient financial depth in their domestic private-capital markets to meet their infrastructure funding requirements (Exhibit 2). Foreign investors should therefore focus on countries such as India, Indonesia, Thailand, Vietnam, and the Philippines, where the financial markets have less capacity.

Exhibit 2

In much of Asia, demand outstrips financing.



[1]Gap in needed vs actual infrastructure spend as % of GDP, 2009.
[2]Value of bank deposits, bonds, and equity as % of GDP, 2009.
Source: McKinsey Global Institute

Although the environment is changing, even in these countries the bulk of infrastructure investments will likely remain effectively closed to private investment. The obstacles are varied. Many governments, for instance, have ill-defined PPP policies that, because of their vagueness, inhibit private participation, while capital controls frequently deter investors who worry that they may not be able to repatriate their cash flow. Weak regulatory or legal systems intensify the risk, and while shallow or illiquid capital markets make private investment necessary, they also complicate exit strategies. Exhibit 3 calculates the effect of restrictions on foreign direct investment in India, Indonesia, the Philippines, Thailand, and Vietnam.

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Asia's $1 trillion

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Exhibit 3

Restrictions vary on private-sector participation and foreign direct investment.

[1]No limitations. However, critical infrastructure projects are subject to congressional review.
[2]100% for building railway infrastructure; rail operations are run solely by government.
[3]49% applies to fixed-line infrastructure; limit for mobile infrastructure is 65%.
[4]100% for greenfield projects; 40% for brownfield projects.

Source: Ministries and government departments for investment planning and business development

Despite all this, Asia remains an exciting place for infrastructure investment over the next ten years. India alone is set to spend $500 billion on projects from 2007 to 2011, thereby raising its infrastructure investment from 4 percent to 8 percent of GDP per annum. Domestic capital markets will finance some but not all of this demand: as in other parts of the region, global investors will have an opportunity to fill the gap.

Key risks to be managed

Once they have decided to invest, foreign firms must overcome several risks. Thanks to political pressures, environmental considerations, and local issues, there are often long delays between planning and project approval; this can severely affect capital deployment and productivity. The Hangzhou Bay Bridge project in China, for example, was held up for 10 years, and the Bandra-Worli Sea Link in Mumbai, India, required more than 20 years before approval was finally given.

As in other parts of the world, infrastructure investors in Asia should have long investment horizons and should be prepared to have capital locked up for many years.

They need to be wary of—and ensure they make changes to—partnership agreements that are often poorly structured and drafted due to a lack of skills or experience in government departments.

They should plan for the possibility of continuing political, legal, and regulatory uncertainty with respect to foreign ownership restrictions, capital controls, and partnership terms. During the 1997 Asian financial crisis, for example, several countries suddenly imposed capital controls, which in some cases were only lifted many years later.

And global investors must find ways around capital markets that lack the full range of financial instruments for risk mitigation. For example, the foreign-exchange (FX) markets for some emerging Asian currencies might not be liquid enough to allow full hedging of a currency exposure, while local derivative instruments may be insufficient to offset particular risks.

Offshore products or structures domiciled in financial centers like Singapore and Hong Kong could be a solution when local currencies are illiquid. One example is the use of a Singaporean dollar fund (or fund of funds) that then invests in, say, Vietnamese infrastructure assets. The currency risk between Vietnamese đồng (VND) and the Singapore dollar (SGD) is mitigated by a simultaneous synthetic contract that is renewed annually. While this does not completely do away with the currency risks, it reduces the volatility significantly.

Another option is to set up a holding company in a tax-friendly jurisdiction rather than have the investment in the underlying infrastructure special-purpose vehicle (SPV), which is a domestic asset. The fund-raising entity enters into a contract outside the country, which at least partially helps to reduce the sovereign risk.

Third, partnerships between foreign players and a dominant local institution—SBI-Macquarie Fund in India and the CIMB-Principal fund in ASEAN are two examples—can help.

Selecting the right form of participation

In addition to mitigating the inherent risks, investors must choose the right participation model if they are to maximize. Exhibit 4 explains the choices, several of them suitable for use in a PPP.

Exhibit 4

There are eight infrastructure participation models.

		Description
Debt	1 Project lending	Participates in project finance purely as a lender, with access largely limited to interest income
	2 Balance-sheet-heavy lead arranger	2A Mandated lead arranger (MLA) provides primarily lending, syndication capabilities 2B MLA provides significant transaction banking cross-sell capabilities
	3 Balance-sheet-light lead arranger	3A Primarily offers debt capital markets, structuring, and advisory skills 3B Focuses on fee-based income from debt syndication, advisory, structuring and placement, and transaction banking
	4 Advisory	Primarily offers investment banking products, including debt and equity syndication
	5 Advisory with equity investment	Provides equity advisory, syndication, and strong placement capability and participates in project equity
Equity	6 Equity fund management	Manages own or third-party equity funds, with access to fund-management fee as well as performance fee
Integrated	7 Debt-led integrated model	Offers products across the project-finance value chain, leveraging strong balance-sheet and lending capabilities
	8 Equity-led integrated model	Offers products across the project-finance value chain, with emphasis on equity-investment and fund-management ability

Source: Interviews; bank and annual reports; McKinsey analysis

Foreign investors and institutions typically follow an equity-led entry strategy in the initial years, since their local balance sheets tend to be insufficiently capitalized to support debt-led models. Domestic and regional banks, by contrast, typically use their strong local balance sheets to engage in debt financing.

In recent years, savvy financial institutions with a well-rounded suite of financial services have begun adopting integrated models for infrastructure investment. For example, besides funding the construction of an airport, an integrated

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Asia's $1 trillion

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player might also offer transaction banking services and insurance to the airport operator. Such cross-selling can deliver significant value, as our research suggests an estimated 40 percent of potential revenues from infrastructure projects come from nonlending sources (Exhibit 5). Even better, this extra value opportunity comes with relatively little additional risk—after all, the operation of an airport, or indeed a power plant, once up and running, is relatively straightforward compared with getting it built in the first place.

It is critical, however, to note that infrastructure investment requires significant dedication of time, organizational resources, and management focus. The example of Macquarie Group provides a good illustration of how a global infrastructureinvestment business can be built. Macquarie first developed its expertise in infrastructure by capitalizing on the wave of Australian privatization of national infrastructure in the 1990s. Armed with the knowledge built up, Macquarie then launched its international expansion. Despite its expertise, however, it still took Macquarie more than six years for infrastructure to become a significant international platform. Along the way, it has developed sophisticated riskmanagement techniques to oversee activities in disparate markets.

Despite the challenges and risks, Asia's infrastructure growth over the next ten years is an attractive opportunity for global investors and financial institutions. There will be more than $1 trillion of infrastructure projects open to foreign investment, and further value can be captured by offering a full range of associated financial services besides lending. To tap into this growth, global capital players must select the appropriate participation model and dedicate sufficient resources to build up their expertise and familiarity with Asian infrastructure markets.

Exhibit 5

Approximately 40% of the potential revenues from infrastructure projects come from nonlending sources.

Revenue pools generated, 2010–14[1]

Product category	Revenue pools, $ million	As % of total pool	Comments
Advisory	48	1	• Preproject advisory and project appraisals are offered by most players at a low price to get a foothold into the deal
Lending	7,103	59	• Interest rates have been below prime, yielding net interest income of 200–250 basis points • Maturities are 12–15 years
Transaction banking	3,180	27	• Bank guarantees are used extensively during construction • Trust and retention accounts and collection services are used during regular operation
Debt fund-raising	190	2	• Syndication is the prominent (90%) debt-raising tool • A few big developers also carry out debt arranging by themselves
Equity fund-raising	94	1	• Penetration of public and private equity varies significantly across sectors, depending on promoter profiles and ticket sizes
Equity fund management	774	6	• Private-equity players will hold 10–30% of equity across sectors, and the majority of the equity will earn both management and performance fees
General insurance	536	4	• Infrastructure is a significant piece of the general insurance pie
Total	11,925		

[1]Includes power, ports, roads, railways, airports, storage, gas, and water sectors.

Source: Interviews; Planning Commission; McKinsey analysis

About the authors

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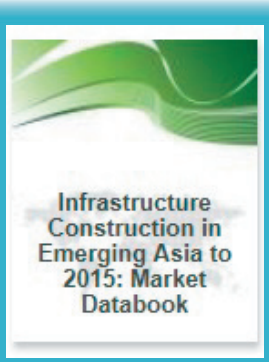
Source: McKinsey Quarterly, March 2011

Publications



Infrastructure Construction in Emerging Asia to 2015: Market Databook

Synopsis

WMI's, 'Infrastructure Construction in Emerging Asia to 2015: Market Databook' contains detailed historic and forecast market value data, segmented at a category level.

Note: For the purpose of this report, Emerging Asia covers China, India, Indonesia, Malaysia and Philippines.

Summary

This report is the result of WMI's extensive market research covering the infrastructure construction market in Emerging Asia. It provides detailed historic and forecast values, segmented at market level. 'Infrastructure Construction in Emerging Asia to 2015: Market Databook' provides a top-level overview and detailed category insight into the operating environment of the construction industry in Emerging Asia. It is an essential tool for companies active across the Emerging Asia construction value chain and for new players considering entering the market.

Scope

- Overview of the infrastructure construction market in Emerging Asia
- Overview of infrastructure construction market values for 2010
- Historic and forecast market value of the infrastructure construction market for the period 2006 through 2015
- Historic and forecast value of all the categories active across the infrastructure construction market for the period 2006 through 2015

Reasons To Buy

- This report provides you with important figures for the infrastructure construction market in Emerging Asia
- This report provides you with information on segmentation by category in the infrastructure construction market
- This report enhances your knowledge of the market with key figures on values and segmentation by category for the historic period
- This report allows you to plan future business decisions using forecast figures for the market along with category level segmentation

Source: reportlinker

During the past decade of Justice and Development Party's (AK Parti) rule, Turkey has achieved remarkable economic and social advances. The country's large-scale infrastructure projects, often dubbed "Mega Projects", are the most visible signs of how the country is leaping forward to fulfill its true potential.

As Turkey's first directly-elected President Recep Tayyip Erdogan is sworn in, his leadership role as prime minister during the country's enormous economic successes during the last ten years—more than tripling GDP to reach USD 820 billion as of the end of 2013, a GDP growth rate of 5.1 percent per year on average, and vast improvements in the business climate that has seen USD 135 billion in foreign investments—are being complemented by likewise enormous infrastructure projects designed to exhibit the country's progress toward the vision of 2023, the centenary of the Republic of Turkey. The vision projects Turkey as among the top ten economies in the world with GDP of USD 2 trillion, with USD 500 billion in annual exports and a per capita income of USD 25,000, among other goals.

The infrastructure improvements accompanying the country's rapid growth are being built in the Marmara Region, where most of Turkey's urban and industrial centers are located.

1. Canal Istanbul

An artificial sea-level waterway to run parallel to the Istanbul Strait—the Bosphorus—connecting the Black Sea to the Sea of Marmara. 47 kilometers in length and 150 meters wide, Canal Istanbul will provide relief to shipping traffic, particularly oil tanker traffic, passing through the Bosphorus. The canal will be able to handle 160 vessels a day and is expected to bring in USD 8 billion a year.

The estimated cost of the project, slated to be completed by the 2023 centennial of the foundation of the Republic of Turkey, is about USD 5.5 billion.

2. Third Airport in Istanbul

The third Istanbul airport, currently under construction in the northwestern section of Istanbul's European side, is set to be the largest in the world in terms of passenger capacity.

Once fully complete by 2018, the giant 150 million passenger capacity air terminal will underscore Istanbul's growing reputation as a global air travel hub. The airport will be connected to the third bridge over the Istanbul strait via the North Marmara Highway.

3. Yavuz Sultan Selim Bridge - North Marmara Highway

Named after Ottoman Sultan Selim I, the Yavuz Sultan Selim Bridge, often referred to as the third Bosphorus bridge, will link Istanbul's European and Asian sides and will bear the distinction of being the world's widest and longest combined road and rail bridge.

Under construction since May, the bridge is part of the North Marmara Highway project, stretching from Adapazari, Sakarya to Tekirdag. Once opened in 2015, the USD 4.5 billion project will ease the burden on the existing two bridges and will provide a transit passage for freight transportation by lifting the traffic load on the busy city center.

4. Marmaray

With its first phase of use since last October, the 60-meter deep rail tunnel linking the two sides of Istanbul has carried passengers and will soon convey freight between Europe and Asia.

The USD 8 billion project began as a dream of Ottoman Sultan Abdulmecit's some 160 years ago and forms a significant contribution to Istanbul's rail network with connections to the Istanbul Metro and Ankara-Istanbul high-speed rail line.

5. Eurasia Tunnel

A motorway crossing the Bosphorus via an undersea tunnel that will allow motorists to cut the travel distance from Kazlicesme on the European side to Goztepe on the Asian side of Istanbul to 15 minutes.

Slated to be completed by 2017, the two-deck tunnel will have a capacity of 120,000 vehicles per day.

6. Gebze-Orhangazi-Izmir Highway

The highway project shortening the overland travel distance between Istanbul and Turkey's third largest city, Izmir, will be built at an investment cost of USD 7.5 billion.

The 3 kilometer-long Izmit Bay Bridge, an integral part of the highway, will upon completion be the world's fourth longest suspension bridge.

Source: Invest in Turkey newsletter, September 2014 ■

FBCCI organizes interaction event on Quality Infrastructure

An interaction meeting on quality infrastructure was organized by FBCCI in cooperation of SAARC Trade Promotion Network (SAARC TPN) and GIZ, a German organization on August 18, 2014 at a city hotel.

Mr. Moinuddin Abdullah, Secretary of Ministry of Industries inaugurated the program as chief guest while FBCCI president Kazi Akram Uddin Ahmed was in the chair.

Activities of different quality infrastructure bodies of the country like Bangladesh Standards and Testing Institution (BSTI), Bangladesh Council of Scientific and Industrial Research (BCSIR) and Bangladesh Accreditation Board (BAB) were discussed in t he business sessions.

Chairing the meeting, FBCCI president Kazi Akram Uddin Ahmed said improvement of quality of the products and services is very much required to be competitive in the global market.

He said technical and legal expertise is necessary to develop and implement the integral components of quality infrastructure of the country, which is possible through an elaborate networking and experience sharing.

Mr. Moinuddin Abdullah, secretary of Ministry of Industries said people are now very conscious about standard and quality of the products. Mentioning the importance of the quality he said quality should be ensured for health as well as to sustain in the competitive market. He hoped the South Asian nations will work together for the sharing of resources to develop a regional quality infrastructure.

Wrapping up the discussions, Mr. Shaquat Haider, director of FBCCI said this form of interactions will be held on a regular basis in all the SAARC countries for creating awareness and implementation of quality infrastructure.

Source: FBCCI Business News

Mohammad Moinuddin Abdullah, Secretary, Ministry of Industries, Government of Bangladesh is seen speaking as chief guest at a "Interaction Event between Quality Infrastructure Bodies and Businesses" organised by FBCCI in partnership with Deutsche Gesellsehaft fur Internationale Zusammenarbeit (GIZ) at a hotel in Dhaka on Monday. (photo source: http://www.daily-sun.com)

Real Estate - Invest in Turkey

Turkey has undergone a profound economic transformation over the past decade and its economic fundamentals are quite solid. It is the 17th largest economy in the world and the 6th largest economy in Europe, with a GDP of approximately USD 820 billion in 2013.

The demand drivers of the Turkish real estate sector are advantageous geographical location, population growth and demographic advantage, increase in income per capita, extensive urban renewal and development, large capacity and power in the construction sector and ease of doing business. The real estate sector in Turkey represents 19.5 percent of total GDP, which brings great investment potential to the sector. The GDP share of the real estate sector increased by 2.3 percent in 2000 and 3.8 percent in 2012. The average share of construction, real estate, rental and business activities and new house sales in total GDP increased by 16.7 percent from 2000 to 2005. However, the sharpest increase, of 20.5 percent, was between 2006 and 2009.

On the investment side, FDI inflow rose to USD 12.5 billion, while real estate and construction garnered USD 1.6 billion of total FDI in 2012. Sales of real estate to foreigners began to increase following enactment of the reciprocity law and reached USD 2.64 billion in 2012. The Ministry of Environment and Urbanization announced that real estate sales to foreigners increased from 2 percent to 5-6 percent in the last ten months of 2013.

The current situation, along with strategic plans and future projects in the pipeline, bears huge potential for investors in Turkey's real estate sector:

- The number of real estate properties sold reached 290,000 in 2012.
- 299 shopping centers are operational in Turkey with a total gross leasable area of 8.2 million square meters.
- 91 shopping centers in Istanbul represent 46 percent of the total leasable shopping center area in Turkey.
- Office construction licenses obtained throughout Turkey have increased 27 percent, reaching 6.84 million square meters.
- According to the Turkish State Railways' (TCDD) investment program, USD 240,145 million will be spent on building logistics centers.
- As of 2012, there are a total of 2,870 licensed hotels with a total bed capacity of more than 700,000, although there is still a gap between supply and demand, particularly in Istanbul.

Furthermore development and the setting of new targets continue with urban renewal and mega projects, including Marmaray, Kanal Istanbul, the third Bosphorus bridge and

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third Istanbul airport. The Turkish government has decided to renew and retrofit buildings vulnerable to natural disaster, including 6.5 million residences, with a budget of USD 400 billion.

With its existing potential, mega projects and ambitious targets set for 2023, Turkey offers great opportunities for investors in the real estate sector.

Foreign realty investors flood into Turkey

Offering competitively priced properties in one of the most promising emerging markets, Turkey's real estate sector continues to attract increasing numbers of foreign property buyers. According to data by the Turkish Statistical Institute, property purchases by foreigners in the first 9 months of this year already exceeded the 2013 total -more than 13,600 houses were purchased by foreigners between January-September of this year compared to 12,200 in 2013-, while the property sales to foreigners in September increased by a whopping 81 percent year-on-year.

Foreigners bought USD 3.1 billion worth of real estate in Turkey between January and September of this year, a solid increase of 55 percent over USD 1.9 billion was observed in the same period of 2013. The real estate sales to foreigners also constitute one third of the foreign direct investments, USD 9.3 billion, that Turkey attracted in the given period.

The country's most visited tourism destination, Antalya is the most popular location preferred by foreign property buyers, with 4874 housing units sold to foreign nationals between January-September 2014. Istanbul, Turkey's largest metropolis and financial capital came second with 3900 houses purchased by foreigners in the first 9 months of 2014.

Real estate purchases by foreigners in Turkey reached an amount of USD 3 billion in 2013, rising by 15 percent over the previous year, after Turkish laws on property ownership by foreigners were eased in 2012. The country also grants residency permits to foreigners who acquire property.

Source: Invest in Turkey

Philippine Property sector seen to keep bullish momentum

by Bernie Magkilat

The Philippine real estate sector, the third biggest contributor to the economy, is expected to surge faster in the last quarter of 2014 and up to next year on sustained positive trends across all sectors, according to property management and consultancy firm CBRE.

As measured by gross value added, output growth for the real estate, renting and business activities industry grew by 8.9 percent in the third quarter, faster than the 5.3 percent GDP growth in the third quarter and 5.8 percent average GDP growth in the three quarters.

The real estate market is the third biggest contributor to GDP points after trade & repair of motor vehicles, motorcycles, personal and household goods and the manufacturing sector.

"This growth is fuelled and sustained by the positive trends across all sectors," said Rick Santos, President, CEO, and Chairman of CBRE Philippines.

Santos cited the government's aggressive efforts to improve public infrastructure, political stability, benign inflation which tempered to 4.4 percent and low interest rates continue to encourage investors to invest in Philippine real estate. The upcoming ASEAN integration is likewise expected to heighten investor interest as foreign companies expand their market reach.

"These factors all contribute to the further increase in real estate space demand across all sectors. This, in turn, urges developers to bulk up their assets. Similarly, the continuous transformation of cities into business landscapes will only strengthen the position of the country as an investment destination in the coming years," stated Santos.

The office sector also continued to heat up this quarter as commitments from offshoring and outsourcing (O&O) companies boost performance. Investors from this sector and of course, the business process outsourcing (BPO) industry, will continue to bank on the country's cost efficiency and skilled labor force.

Likewise, there is a proliferation of township developments. These projects can be seen across central business districts — Bayshore in Pasay; City Gate in Makati; Uptown Bonifacio, McKinley West and Arca South in Taguig; Woodside City and Capitol Commons in Pasig; and Vertis North in Quezon City. The diversity of these developments is giving investors a more convenient and creative way to maximize each area.

Vacancy rates among central business districts dropped, with the exception of Quezon City, which increased to 0.93% from the previous quarter's 0.07%. Prime office buildings in Makati are leased out, with overall vacancy dropping to 0.58% from 1.58% the previous quarter. In BGC, vacancy

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Philippine Property

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dropped to 3.50% from last quarter's 3.78%, while vacancy is now at 5.63% from 8.75% in Ortigas CBD. Alabang registered a drop of 0.90% from 4.37%. Meanwhile, Pasay City has a vacancy rate of 2.04%.

In the residential sector, the upbeat economy fares well for luxury, high-end, affordable, and mid-market condominiums. Demand for these developments overpowered fears of a property bubble in the sector. The increasing expatriate community in the country and families of Filipinos working abroad drives this demand. Forty percent of condominium sales activities cater to foreigners while 60% is to Filipinos.

The growth and expansion of the manufacturing and automotive industry drives optimistic take-up in the industrial sector. Investors from Germany, Japan, and Korea are currently making their mark in the country. The conducive business environment – the robust macroeconomic indicators, competitive labor resources, stabilizing political climate, and the different incentives laid by PEZA – encourages more locators to set shop in the Philippines.

(Photo from Wikimedia Commons)

To sustain this investment momentum, the government is upping the improvement of infrastructure with the help of private institutions. As more investors see the rosy side of the industrial sector, several developers such as Vista Land and Ayala Land are keen on putting up developments in areas outside Metro Manila.

Source: Manila Bulletin, December 3, 2014 ■

Philippine Infrastructure spending to top P2T in 2016

by Edu Lopez

The government would increase its public infrastructure spending to at least five percent of gross domestic product (GDP) in 2016 estimated at P2.06 trillion.

Socio-economic Planning Secretary Arsenio Balisacan said the priority programs for the infrastructure sector consist of 952 projects to be supplemented by private sector investments through public-private partnerships (PPPs).

Balisacan stressed that to optimize public-private partnerships and enhance the country's attractiveness to private sector investors, the government has reviewed, amended and approved policies and legal framework involving private sector participation such as the IRR of the BOT Law (RA 7718) and the joint venture guidelines.

Reforms in the energy sector have also increased private sector participation. In July 2012, the Energy Regulatory Commission (ERC) approved the feed-in-tariff (FiT) rates to encourage renewable energy developers to invest at the initial stage and hasten deployment.

To improve competitiveness and geographic connectivity, the pocket open skies policy was issued in 2011, allowing foreign carriers to operate unilateral and unlimited traffic rights to airports other than the Ninoy Aquino International Airport (NAIA), said Balisacan.

He noted that the Common Carriers Tax (CCT) aims to enhance the country's competitiveness in international travel by encouraging international air carriers to include the Philippines in their primary routes.

"On top of these policies, the government is pursuing the synchronization of planning, programming and budgeting to ensure that the programs and projects are aligned with the country's developmental goals and outcomes," said Balisacan.

"Sustaining the economy's high-growth trajectory requires continued investment in infrastructure to unleash the potentials of many areas throughout the country."

Balisacan said the government has encouraged to participate in the construction and implementation of various programs and projects that have been identified in a number of infrastructure-related roadmaps and master plans.

Some of the priority transport infrastructure programs include the Transport Infrastructure Development Roadmap for Metro Manila and its surrounding areas, the Logistics Infrastructure Roadmap for Mindanao, to improve logistics infrastructure for cost-effective linking of Mindanao's agriculture and fishery production centers the DPWH and Department of Tourism (DOT) Convergence Plan, to provide road access to designated priority tourism destinations under the National Tourism Development Plan (NTDP).

Other approved infrastructure master plans include the Flood Management Master Plan for Metro Manila and Surrounding Areas and the E-Government Master Plan (EGMP).

In the energy sector, the 2013-2017 Household

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Investment Opportunities in Transportation and Logistics in Turkey

Turkey, one of the most vibrant economies among emerging countries, has been a natural bridge between the East and the West, serving as a junction between the continents of Asia and Europe.

Turkey's strategic location provides access to multiple markets with 1.5 billion people, a combined GDP of USD 25 trillion and more than USD 8 trillion of foreign trade which corresponds to around half of the total global trade. Trade in Turkey has been rising significantly and the region has more of a presence in global trade. In 2012, 1.2 percent of the global trade volume was conducted by Turkey, and the country's share in global trade is expected to exceed 1.5 percent by 2025.

The Turkish economy, which has been growing at an average annual growth rate of 5 percent over the last decade, provides many opportunities for the logistics sector. In addition to its robust economic growth, Turkey has one of the largest and youngest labor pools in Europe with more than 65 percent of its population aged between 24 and 54. The strength of Turkey's labor force is reflected in the logistics industry. Investors can easily hire a talented workforce at a competitive cost to address the complex demands of the industry.

Both public and private infrastructure investments in the last ten years have significantly improved the logistics services provided in the country. Many new airports have been built, dual carriageways have spread across the country, the high-speed train network has started to reach major cities and the capacity of Turkish ports has been increased. The Turkish government has set challenging targets to be achieved by 2023 for improving the logistics infrastructure even more. These targets include, but are not limited to:

- Building an additional 15,000 km of dual carriageways and highways
- Increasing the shares of railway transportation to 10 percent and 15 percent in passenger and freight transportation respectively
- Building an additional 9,000 km of high-speed train lines
- Constructing new airports with a total annual capacity of 400 million passengers
- Increasing the share of sea freight transportation to 10 percent in total freight transportation and containerization by 15 percent
- Building three large ports in each seas surrounding Turkey

Turkey's advantageous geographical location, which provides easy access to Eastern Europe, Central Asia, the Middle East and North Africa, allows the country to function as a hub for over USD 2 trillion worth of freight carried in the region. Turkey's current logistics industry size is estimated to be USD 80-100 billion and is forecast to reach USD 108-140 billion by 2017.

Turkey is also building logistics centers/villages that will serve to lower the costs of transportation by offering various different modes of transportation within these centers/villages. It is estimated that, by 2023, the total freight carried in the centers/villages will reach a total of USD 500 billion.

Source: Invest in Turkey

Philippine Infrastructure

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Electrification Development Plan (HEDP) issued by the Department of Energy (DOE) sets the plans and strategies to attain 86.2-percent household electrification by 2016 and 90-percent by 2017, while the Philippine Energy Plan 2012-2030 targets 100-percent electrification of villages by 2015.

To promote energy conservation and energy efficient technologies, the Department of Energy (DOE) is implementing various activities under the National Energy Efficiency and Conservation Program (NEECP), while the National Renewable Energy Program (NREP) aims to develop specific technologies and help the country triple its renewable energy capacity by 2030. (EHL)

Source: Manila Bulletin, October 1, 2014

Republic of the Philippines
DEPARTMENT OF ENERGY
(Kagawaran ng Enerhiya)

Asia's infrastructure market close to $5.3 trillion by 2025

by Yang Yang and Hu Yuanyuan

Asia's infrastructure market is going to grow by 7 to 8 percent annually over the next decade, nearing $5.3 trillion by 2025, or 60 percent of the world's total, a report from PriceWaterhouseCoopers (PwC) showed on Wednesday.

Members named for Asia infrastructure bank

China, with an estimated market value of $2.65 trillion, offers the biggest opportunity for international capital, said Mark Rathbone, the Asia Pacific Capital Projects & Infrastructure Leader, PwC Singapore.

However, Rathbone said China's regulatory frameworks, business modes and ownership restriction in sectors like power and water, make it harder for international owners to enter China.

Another thing that hinders international capital from coming to China is language. Also, international players must think about how to compete with Chinese local construction companies.

"Even if a company is big enough in its own country, it will appear really small when it comes to China and competes with local companies," he said.

"So, yes, China remains a key focus for a lot of international players, but there are still many concerns," he concluded.

PwC also predicts that in terms of infrastructure spending, Asia's share is set to grow from 30 percent in 2012 to 40 percent in 2018, and 48 percent by 2025, largely driven by China.

In recent years, more Chinese construction companies have been competing in the international market, such as in Southeast Asia.

Compared with Japan and South Korea, which have been investing in Southeast Asia for a longer time and have more experience, China is starting from a less experienced base but is catching up very quickly, Rathbone said.

"And Chinese banks and financial institutions need to get behind those construction companies and help them to invest like their South Korean and Japanese counterparts have done," he said.

"For example, if a Chinese construction company is building a bridge or a road in Indonesia, they need to get commercial banks like ICBI and China Development Bank behind the project," he said.

Rathbone also pointed out that China should understand how to approach the international market.

"You cannot simply take Chinese solutions to Indonesia, Africa, or South America. You need to understand the local economy, local laws and local requirements. You should look at how to address local requirements in your own infrastructure business," he said.

"Chinese empathy for local governments is very important," he said.

Asian Infrastructure Investment Bank will guide capital

To invest in other countries like those in Southeast Asia, "it's not just about solution, financing, and construction; you have to make sure that you really hit the economic objectives of the local government," he said.

Source: chinadaily.com.cn, November 11, 2014

Chinese companies cater to Indonesia's need of infrastructure

by Alfred Romann and Cornelia zou

China's economic and trade relationship with Indonesia is increasingly large and complex.

Over the last decade, China systematically overtook Indonesia's other trade partners like the United States, Singapore and Japan. Non-oil transactions worth $50.9 billion in 2013 made China the country's single largest trade partner. In 2003, non-oil trade was just $5 billion.

Indonesia is also a prime destination for Chinese investment. The country has a huge need of infrastructure, and Chinese companies have made themselves a global name building just that. In May, for example, the China-ASEAN Investment Cooperation Fund, which has both private and government capital, invested an undisclosed amount in an Indonesian telecom tower operator.

"Infrastructure is so important to Asia," Li Yao, chief executive officer of the fund, said at a China Daily forum in Hong Kong on Sept 21.

For Indonesia, it is particularly important. In fact, improving the quality of the country's infrastructure is one of the key goals for the new government of President Joko Widodo, who will be inaugurated on Oct 20.

As far as the economy goes, the challenges for the new government will be to cut energy subsidies, reform the bureaucracy, boost tax revenues and improve infrastructure, said retired General Luhut Pandjaitan, an adviser to Widodo - who is better known as Jokowi across the country. Over the next five years, Indonesia will need $545 billion in investment to support the development of its infrastructure, according to the government's mid-term development plan to 2019.

Most of this capital is likely to come from public debt and tax revenues, but the plan calls for $35 billion to come from international financial institutions and $83 billion from the private sector.

More than 2,000 Chinese companies have invested in Indonesia in industries ranging from coal mining, finance, insurance, telecommunications, transportation and machinery manufacturing, to project contracting, agriculture, chemical engineering and trading, says Liu Haosheng, president of the China Chamber of Commerce in Indonesia.

Many leading State-owned or private enterprises, as well as most of China's Fortune 500 companies, are already in Indonesia.

The first bank that tourists see when they land at the international airport in Jakarta is the Industrial & Commercial Bank of China. CNOOC, China's largest offshore oil company, has invested more than $6 billion in Indonesia.

Power companies like China Huadian, Dongfang Electric and Sinohydro have built both coal and hydropower plants.

Fishing boats near the Suramadu Bridge, the longest of its kind in Indonesia. The bridge was built by a consortium including China Harbor Engineering, one of many constructed by Chinese companies in the country in recent years. [Provided to China Daily]

Telecoms infrastructure maker and operator Huawei manages much of Indonesia's telecommunications in partnership with local operator XL Axiata.

In 2012, white goods maker Haier acquired the household goods business in Indonesia of Japanese group Sanyo.

China Harbor Engineering was part of a consortium that built the country's longest bridge between the islands of Java and Madura. Chinese conglomerate Sinochem says it is the largest supplier of Indonesian rubber.

Source: China Daily, October 27, 2014

Outlook for Developing Infrastructure in Asia Pacific

The following article is an excerpt from the report by PriceWaterhouseCoopers entitled "Developing Infrastructure in Asia-Pacific: Outlook, Challenges and Solutions".

Foreword

The role of infrastructure is critical to improving connectivity and promoting sustainable growth among the Asia Pacific economies. While much progress has been made in infrastructure development over the past few decades, a lot more needs to be done to provide adequate facilities for the region's people and to support greater cross-border flows of trade and investments.

There lies immense opportunities in infrastructure development in Asia Pacific economies but governments continue to under-invest and face challenges in getting infrastructure projects to market and attracting much-needed funds to finance those projects.

The infrastructure deficit across the emerging growth markets in Asia is very substantial – it has been estimated that between 2010 and 2020, Asia will need to spend approximately US$8 trillion[1] in order to maintain current levels of economic growth. The majority of Asian countries require very substantial amounts of spending to be directed towards infrastructure that will allow for growth in their economies. Power is needed to spur growth in manufacturing, water is needed to sustain industry and people, and transportation networks are required to facilitate the movement of raw materials, manufactured goods and people. Without these key ingredients, economies stagnate. Without sustained, intelligent investment in needed infrastructure, it is unlikely that the region would achieve its full potential. Every US$1 invested on infrastructure development is expected to yield additional increases in GDP by US$ 0.05 - 0.25[2] which implies growth by 5% to 25%. Development of infrastructure is also crucial for enhancing the trade competitiveness of countries. Quality and adequate infrastructure will ensure that costs of trade are reduced.

Mature economies like USA, Australia, Japan and Singapore face different types of challenges. Firstly, population growth, demographics and the need to develop infrastructure programmes that allow for good education, healthcare and a focus on providing housing for all become significant issues. Emerging economies do have similar needs for housing, public healthcare and education investment but prioritise economic infrastructure. Secondly, ageing infrastructure requires either rebuilding or refurbishment as mature economies inherit old infrastructure that has not had sustained investment.

One common theme across both mature and emerging economies is budgetary constraint – very few countries can rely solely on the government to fund necessary infrastructure, whether economic (power, utilities, transport) or social (public education or hospital facilities). Therefore, there is a great need to mobilise private sector capital that can be invested into infrastructure.

In this paper, I seek to provide an assessment of the outlook for infrastructure development in the Asia Pacific region, discuss solutions to the challenges facing the sector and share opportunities of which investors are encouraged to take advantage.

Mark Rathbone
Asia Pacific Leader, Capital Projects and Infrastructure, PriceWaterhouseCoopers

Outlook

The Asia Pacific infrastructure market is expected to grow by 7% to 8% a year over the next decade approaching $5.36 trillion annually by 2025 and representing nearly 60% of the world total[3]. This also reflects growth in China's spending whose share of global infrastructure spending is expected to rise from 22% in 2012 to 37% in 2025. Following the global financial crisis in 2008 - 2009, the Asia

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Pacific region has seen significant increase in infrastructure investment; between 2009 and 2013, Asia Pacific region accounted for more than 50% of the global increase in capital spending.

There are a number of key drivers which will support the development of Asia Pacific's infrastructure programme over the coming decade or two.

Asia's economic prominence – Asia is now the world's key growth engine. China, India and Southeast Asia offer a very large consumer base and low-cost workforce, with high levels of natural resources. China is becoming increasingly dominant on the world stage, growing in excess of 7% (previous years in excess of 10%), as it develops a sustainable economy that is expanding its reach globally. In Southeast Asia, the ASEAN Block is due to be formed in 2015. This will not only form an important economic counter-balance to China but also allow for more effective trade between ASEAN countries, making them more competitive internationally.

Both China and the ASEAN Block require large amounts of infrastructure investment in order to deliver a growth dividend. Substantial incremental growth could be achieved if ASEAN markets were better connected with each other as well as with China – improved connectivity across infrastructure (transportation networks), better communication networks and more open trade regulations could allow for a growth premium.

Table: Annual GDP growth rate of selected countries in 2012

Country	Annual GDP growth rate
India	4.7%
Indonesia	6.2%
China	7.8%
Vietnam	5.2%
Philippines	6.8%
Thailand	6.5%
Cambodia	7.3%
Lao PDR	7.3%

Source: World Bank, 2014

Trade competitiveness – Asia Pacific economies play a significant role on the world economy. China holds the second largest share of 8.1% in the world's total export share. The share of India is 1.7% and the combined share of Indonesia, Malaysia, Philippines, Thailand and Vietnam is 4.7%[4].

These economies also have important trade links among each other. In 2012, intra-ASEAN trade amounts to 24.3% of their total trade volume[5]. In the same year, ASEAN's trade was 12.9% with China, 10.6% with Japan, 5.9% with the Republic of Korea and 2.9% with India[6].

Table: Share of world trade of selected countries in 2012

Country	Share of world trade
China	8.1%
India	1.7%
Indonesia, Malaysia, Thailand, Vietnam and Philippines	4.6%
Total	14.5%

Source: World Bank, 2014

As these countries become more engaged in the global production networks, the role of investing in upgrading infrastructure to facilitate trade becomes significant. The quality of infrastructure services plays a major part in the trade costs of countries engaging in trade which further plays a crucial role in determining the trade competitiveness of countries. The following table shows the accumulated reduction in trade costs resulting from infrastructure investment in the listed countries between the period of 2010 - 2020.

Table: Accumulated reduction in trade costs resulting from infrastructure investment, 2010 - 2020 (% of trade value)

Country	From Transport infrastructure	From Communication
China	14.0	0.7
Indonesia	25.3	6.6
Malaysia	11.4	1.7
Philippines	15.6	0.0
Thailand	12.1	5.9
Vietnam	13.2	3.1
India	21.6	11.2

Source: Asian Development Bank and Asian Development Bank Institute, 2009

The following table shows a positive linkage between reduction in cost of road transportation and economic performance of various countries.

Table: Aggregate impacts of reduced costs of road transport

Aggregate Impact	GDP (%)	Exports (%)
China	0.1	0.3
Thailand	1.1	2.8
Vietnam	3.6	3.7

Source: Asian Development Bank and Asian Development Bank Institute, 2009

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Infrastructure deficit – The infrastructure deficit across the Asia Pacific economies is substantial. The US$8 trillion quoted above was an estimate of the required spending between 2010 and 2020. Very little (comparatively) has been done in Asia during the period 2010 to 2013 if one excludes the enormous infrastructure programme of China. To sustain current growth levels, it will be necessary to inject between US$800 billion and US$1.3 trillion annually into infrastructure projects between now and 2020. This infrastructure deficit for Asia (excluding Australia, New Zealand and Pacific countries in North and South America) is most acute in governmental infrastructure, as follows:

Sector	US$ trillion
Telecommunications	1.1
Transportation - Roads	2.3
Transportation - Rail	0.05
Transportation - Other	0.1
Power	4.1
Water and Sanitation	0.4
Total	8.05

Source: Asian Development Bank and Asian Development Bank Institute, 2009

The above estimates exclude social infrastructure requirements, infrastructure spending in the Americas, Australia and New Zealand, and take no account of disaster recovery infrastructure spending which is becoming very material.

The Global Competitiveness Report 2013 - 14 rankings out of 148 countries in terms of infrastructure is as follows. The table indicates that for most of the countries in the region, there is need for significant improvement in infrastructure to be competitive at a global level.

Table: Infrastructure rank of countries

Country	Rank (out of 148)
Singapore	2
China	48
India	85
Indonesia	61
Malaysia	29
Philippines	96
Vietnam	82
Thailand	47

Source: Global Competitiveness Report, 2013 - 2014

As one can plainly see, the challenge is enormous.

Resource needs – The manufacturing countries around our region demand large quantities of natural resources. Furthermore, large infrastructure programmes across all sectors require steel, other metals, sand/concrete and machinery. Governments and corporate entities are becoming more and more focused on supply chain management – large corporations are looking to save substantial sums of money by improving the way they manage their logistics and making supply chains more effective. As infrastructure improves and connectivity becomes greater, increased efficiencies can be derived.

Capital – Capital has become far more mobile than it was in the past. What does that mean? At a basic level, I am able to invest my capital in projects and opportunities across most of the world through either stock exchanges or directly into projects, subject to territorial ownership restrictions. As an example, CitySpring in Singapore invested approximately US$1 billion in the BassLink electricity cable between Melbourne and Hobart, Tasmania. It is becoming increasingly easy for overseas capital to be deployed on local projects.

The competition that then arises between projects and countries in attracting the limited capital available into their market is a basic result of this mobile capital. This key point is often lost on governments, particularly in the emerging markets when considering infrastructure.

Availability of debt – The Global Financial Crisis (GFC) fundamentally changed the way infrastructure projects are financed. Immediately after the GFC, debt liquidity contracted to the extent that projects were put on hold or even cancelled. With the failure of the monoline insurers, the bond market faded (limited recovery in some markets now), eliminating a very large pool of capital from the infrastructure market, and governments sought to find alternative solutions to fund their infrastructure.

In the last three years or so, while there has been a return of debt liquidity to the infrastructure market, it is nowhere near the scale or on terms of pre-GFC days. Although liquidity has come back, the form of liquidity is different – tenors are shorter, margins are higher and covenants are more restrictive. The shorter tenors result in refinancing risk issues that the market has had to learn to address; the higher cost of financing makes many projects unviable, placing increased needs on the government to provide subsidy. And even as debt markets continue to gain confidence, with tenors increasing and margins dropping, it is unlikely they will return to pre-GFC levels in the near future. There has been a very limited re-emergence of the bond market. The collapse of the monoline insurance market requires projects to be structured to an investment grade level in order to attract bond financing. This has resulted in few projects that have closed with bond financing.

In order to attract debt capital to finance infrastructure in

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today's world, projects must be structured more effectively, limiting risks which make it easier for banks to lend to much needed infrastructure projects.

Banking regulation – Post GFC, regulators turned their attention to the balance sheets of banks. Because of new restrictions under Basel III around minimum capital requirements, banks will limit the amount of exposure they have to long-term debt (hence the shortened debt tenors). This places further pressure on infrastructure financing as banks look to limit long-term lending.

Urbanisation – There is a very high degree of urbanisation in Asia's emerging economies. Over the course of the last decade, we have seen huge growth in urban centres as people move from the countryside into cities to live and work. This trend is forecast of to continue, and in many cases accelerate.

Table: Urban population profile of selected countries in 2012

Country	Urban Population (%)	Urban Population Growth (%)
Indonesia	51.4	2.7
India	31.7	2.4
China	51.8	3
Malaysia	73.4	2.6
Vietnam	31.7	3.1
Thailand	34.5	1.5
Philippines	49.1	2.2

Source: World Bank, 2014

Currently, the level of urbanisation in the Philippines is 49% and the National Economic and Development Authority expects the rate to reach 65% by 2030. Likewise for China, in the last three decades, the urban population has risen by more than 500 million people. By 2030, China's cities are forecast to contain around a billion people[7]. In China and Indonesia, expectation is that 10 percentage points or more of the total population will shift from the countryside to the cities between now and 2025[8]. With urbanisation and increased population within city centres, and as congestion and pollution become problematic, the demand on utilities will increase substantially and the need for housing will grow. City planners, mayors and their teams need solutions to encourage effective urban planning that provides for the future. As cities grow, more investment needs to be made in transportation networks to reduce reliance on private vehicles; increased housing stock needs to be built to accommodate growing populations, and utilities and public services need investment to satisfy the growing number of urban residents.

Communication – Telecommunication capability is becoming increasingly important as businesses rely on their staff's ability to talk to colleagues, customers and suppliers both globally and in a timely manner. An increasing amount of communication is made through email, while businesses look to the internet as a valuable sales channel. Cities and countries that can implement fast and reliable wired and wireless communication networks can gain a competitive advantage over neighbouring countries. This has the dual benefit of increasing the productivity of workers in an economy and encouraging new companies to establish operations in a city or country. However, people's access to communication varies across countries in the region. While mobile cellular subscriptions per 100 people is more than 100 for most of the countries in the region, it is less than 100 for India and China10. For access to internet, the picture is more varied, as shown in the table below.

Table: Internet users per 100 people

Country	2011	2012
India	10	12
Indonesia	12	15
China	38	42
Malaysia	61	66
Vietnam	35	39
Thailand	24	27
Philippines	29	36

Source: World Bank, 2014

Corruption – Corruption remains a substantial burden to economies globally. Governments' efforts to eradicate corruption are becoming increasingly important as the cost of non-transparency becomes increasingly apparent. New regulations, like the Foreign Corrupt Practices Act and the Bribery Act, will affect the way large corporations approach the emerging markets and the risks they are willing to take to do business in these environments.

Environmental concerns – The impact of economic growth on the environment is driving policy change globally. As the need for investment in new technologies and renewable energy increases, the focus on the environmental impact of global warming is also renewed. And with natural disasters regularly occurring, there is a very substantial economic impact that requires enormous amounts of capital for rebuilding efforts.

Low cost economies are attracting big manufacturing companies which place demands on natural resources and require substantial amounts of power, water and other utilities. Often, this investment brings with it a focus on cheap power, for example, that which impacts on the environment – this is no different to the environmental impact the now mature global economies had during industrialisation!

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power, for example, that which impacts on the environment – this is no different to the environmental impact the now mature global economies had during industrialisation! However, population levels in Asia are far higher than during the European and North American industrialisation and so one might argue that this environmental impact will be far greater.

Opportunities

The opportunities across the Asia Pacific region are substantial when considering the need for infrastructure. Much needs to be done to grow the power and utility capabilities of emerging market economies, the transportation networks that connect economic activity within a country and those that allow for effective trade between nations.

The mature markets across Asia Pacific face a different set of challenges – how to replenish the ageing infrastructure that is eroding their competitiveness. The backlog of maintenance and asset regeneration is growing. Coupled with this, mature governments face budgetary constraints that demand the private sector's involvement in infrastructure investment.

The demand for companies in the Asia Pacific region to invest in infrastructure is very apparent. However, one must recognise that the opportunity for such investment lagging behind demand is due to the slow pace of change in improving the way infrastructure is procured in the emerging markets. Until governments recognise the need to address investor concerns, the infrastructure gap will continue to grow.

1 Asian Development Bank and Asian Development Bank Institute, 'Infrastructure for a Seamless Asia', 2009.
2 World Economic Forum and PwC, 'Strategic Infrastructure: Steps to prioritise and deliver infrastructure effectively and efficiently', 2012.
3 PwC, 'Capital Project and Infrastructure Spending: Outlook to 2025', 2014
4 World Bank, 'World Integrated Trade Solutions', 2014.
5 Association of Southeast Asian Nations, 'Intra- and extra-ASEAN trade 2012', 2013.
6 Association of Southeast Asian Nations, 'ASEAN trade by selected partner country/region 2012,' 2013.
7 The Economist, 'Where China's future will happen', 19 April 2014.
8 PwC, 'Capital Project and Infrastructure Spending: Outlook to 2025', 2014.

Source: PriceWaterhouseCoopers, May 2014

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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