

■ THE BOTTOM LINE

Singapore can play key role in AIIB

By Joseph Cherian

THIS week's formal launch of the Asian Infrastructure Investment Bank (AIIB), which is dominated by China, may have the appearance of "rivalling" the World Bank (dominated by the US) and the Asian Development Bank (dominated by Japan). But the truth is the demand for infrastructure financing in Asia far exceeds the supply of funds available from the traditional multilateral lenders.

The funds are needed to finance the building of highways, power plants, dams, ports and airports. Asian countries such as India, Indonesia, Myanmar and Vietnam are in dire need of infrastructure funding – hence the relevance and timeliness of the AIIB.

China undeniably has made some incredible strides on the infrastructure front, with state-of-the-art airports, cities, ports and high speed trains. In its quest to build new growth drivers for its economy, it would like to export some of those homegrown infrastructure technologies and expertise to the rest of Asia.

However, China's foray into overseas infrastructure projects in Asia and Africa have been accompanied by accusations of corruption, lack of transparency and questionable standards of

governance. That is not to say that current multilateral lenders from the West are paragons of virtue when it comes to infrastructure projects. They, too, have had their fair share of failures.

As a result, the AIIB should be welcomed rather than obstructed, as the US and Japanese governments have foolishly appeared to be doing since day one. Indeed, despite their efforts, 57 countries have already signed or are expected to sign the articles of association creating the AIIB's legal framework by the end of this year.

The hope and expectation is that China, as the largest shareholder in the AIIB, will behave in a statesman-like manner commensurate with its status as the world's second largest and most interesting economy. That would be a win-win situation for all involved in infrastructure projects and their funding; one which emphasises good governance, transparency, and above-board bidding schemes.

All the better if the AIIB can establish a better process for implementing much-needed infrastructure projects in an effective and efficient manner. That would not only benefit Asia, but also push other players to raise their game.

Singapore, in this respect, could also have grand ambitions. It has the potential to further

develop its infrastructure ecosystem to serve as a hub for innovative project development and finance in the South-east Asia and broader Asia region. Indeed, Singapore-based financial entities are already conducting some 70 per cent of infrastructure and finance projects in this region.

Learning from the development of other industry hubs, Singapore should capitalise on its reputation as a global centre of trade, talent and knowledge as well as its geographical proximity to China, India, and South-east Asia, which has a rapidly growing need for infrastructure.

In addition, Singapore enjoys strong engineering capabilities, financial hub status, and a good legal and regulatory system. It also has the ability to integrate all these elements for the benefit of infrastructure projects.

As a result, an initiative to develop an infrastructure eco-system in Singapore would be of high value-add to the industry, with the potential to employ new finance techniques that take advantage of extant tax treaties and structures to reduce the cost of capital.

That is probably why Singapore was given a high-profile role in the AIIB, with a key summit meeting co-chaired by China and Singapore to establish the AIIB's articles of association held

in Singapore in May this year.

Our universities can also play a role by developing a resource base and network that will nurture relationships between academia, private sector companies, the financial services industry and governments to implement projects in private infrastructure finance. They can equip the public and private sectors, as well as sponsor organisations, with the skills required to deal with the complexities of infrastructure finance.

Education and thought leadership are key components in facilitating the development and documentation of new infrastructure financing and structuring models that could reduce the cost of capital, as happened with the advent of Reits in real estate finance.

Last but not least, Singapore's experience and involvement in the AIIB and associated infrastructure projects can help mitigate corruption, promote good governance and ensure that high quality infrastructure standards are maintained.

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