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Amando Tetangco

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North Korea-US war would detonate Asia 'ecosystem'

By Anthony Rowley

The outbreak of a military conflict between the United States and North Korea would threaten the entire Asian "economic ecosystem", analysts have warned as the head of the Asian Development Bank urged the two sides to find a peaceful solution.

North Korea this week accused the US of pushing the Korean peninsula to the "brink of nuclear war" after a pair of bombers flew training drills with the South Korean and Japanese air forces in a show of strength.

Jesper Koll, a veteran Japan analyst and chief executive officer of investment company Wisdom Tree in Tokyo, said heightened country risk was a "clear negative for North Asia", with the Korea-Japan-China triangle at the centre of attention. "It is not just about one or two isolated markets, but the entire economic ecosystem is potentially threatened," Koll told *GlobalMarkets*.

While a conflagration is still seen as unlikely, even the war-like rumours threaten to damage Asia's image as an investment destination.

50 YEARS OF STABILITY

ADB president Takehiko Nakao told *GlobalMarkets* that the possibility of a confrontation over North Korea was a "very important issue both for the region and for the international community".

"I hope this issue can be resolved soon and in a peaceful manner," he said. "For 50 years, we have had geopolitical stability in Asia and if we cannot keep this stability we lose much. Leaders must make utmost efforts to ensure that we keep stability."

However Kim Eng Tan, senior director, sovereign ratings Asia Pacific, S&P Global Ratings in Singapore, said there was only "small probability" recent events could



Kim Jong-un: warning of nuclear war

have a "lasting impact" on investor perception about Northeast Asia generally.

"People are not seeing risk rising in a meaningful way," Tan told *GlobalMarkets*.
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Softer Trump talk fails to diffuse Asian trade conflict fears

By Elliot Wilson

A trade war with the United States would deliver a severe jolt to growth and employment across Southeast Asia, delegates at the Asian Development Bank annual meeting in Yokohama told *GlobalMarkets*.

Policymakers and corporate leaders across Asia remain fearful of the protectionist inclinations of Donald Trump despite signs the prickly and



Trump: targetting 'cheaters'

Trump's \$1tr infra plans no problem for Asia investment, says ADB's Nakao

Exclusive

By Anthony Rowley

The Asian Development Bank's president, Takehiko Nakao, has dismissed fears that rising interest rates in the United States along with US president Donald Trump's promised major infrastructure spending initiatives could draw global funds away from Asian projects.

In an exclusive interview with *GlobalMarkets*, Nakao also said that while foreign funds were needed to finance Asia's vast infrastructure spending requirement, investment from domestic corporate and other investors would become increasingly important in the future.

The ADB estimates in a new report that the Asia Pacific

Continued on page 3

[noun]

{factoring}

m. Econ.

Factoring is a financial transaction in which a credit institution collects funds to build a factory.

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Trump

Continued from page 1

impulsive US president had toned down his rhetoric in recent weeks.

Soon after coming to office, Trump slapped the label of trade “cheaters” on a host of nations that run large trade surpluses with America. He later signed an executive order designed, Trump said, to tackle “foreign importers that cheat”, and which could trigger new anti-dumping duties. Among the regional nations singled out were Malaysia, Indonesia, South Korea, China and Japan.

Paul Sheard, chief global economist at S&P Global Ratings, said Trump’s rhetoric suggested America was no longer willing to trade freely with nations that protected local industries. “The US is saying: ‘We don’t see our firms having the kind of access to your market that your firms have to ours. Those days are over. We want reciprocity.’ The danger is this could descend into retaliations and protectionist measures that would negatively impact Asia’s exporters.”

Trump has softened his speech in recent weeks. After meeting Xi Jinping, he hailed his “great chemistry” with the Chinese president and appears to have shelved plans to label China a currency manipulator.

But the region remains wary. Kim Eng Tan, senior Asia director of sovereign debt ratings at S&P, warned of the threat a trade war would have on the region. “We’ve only just seen some pick-up in momentum, and if the Trump administration comes up with measures that hit the region’s exports, the region will sink into another period of slow growth.”

WHEN BIG BOYS FIGHT

Tan warned even the threat of trade restrictions would be enough to jolt the region. “Sentiment cannot be underestimated. Just the threat of a trade war would cut investment, even before we see a fall in trade numbers. Consumer sentiment would be next. This would not be a small thing.”

Concern remains high across the region. Six times more Malaysians believe Trump’s anti-trade rhetoric will have a negative effect on their jobs than those who said it will have a positive one, according to the World Bank.

Concerns are also running high in Vietnam and Taiwan, economies that are highly dependent on exports to the US and China. Joseph Jao, president of Taishin Financial Holding, one of Taiwan’s largest financial conglomerates said: “It’s a genuine cause for concern. If there is a trade war, Taiwan will suffer. When the big boys are fighting with each other, the little boys get kicked.”

China’s embrace of green bonds clouded by regulation concerns

By Elliot Wilson

China is on track to become the world’s unalloyed leader in green finance, bankers and investors say — so long as Beijing and the world can agree what constitutes an eco-friendly use of investment capital.

According to Henry Shilling, a senior vice president at Moody’s Investors Service’s environmental and social governance group, China “has the potential and the platform to be a global leader” in green finance. China accounted for 42% of all global sales of green bonds in 2016, according to data from Dealogic — up from just 3.5% the previous year — completing 42 prints worth \$33bn.

Rahul Sheth, an executive director in Standard Chartered’s capital markets team in Singapore, pointed to two key factors that underpinned China’s rapid rise to global pre-eminence in the asset class. First was the “galvanizing impact of a regulatory-push factor”, with regulations drawn up in December 2015 by the People’s Bank of China having lit a rocket under issuance.

Second was China’s desire to “green the entire finance system, including insurance, loans, stocks,

bonds, and initial public offerings”, Sheth said. “This is a long-term, holistic process on China’s part. They are committed to this process.”

To that can be added two other motivating factors. China is keen to staunch a sharp rise in capital flight — or at least, to equalise flows — by convincing foreign investors to put cash to work in local green bonds.

CLIMATE CHANGE RISK

On top of that is the unavoidable fact that China, which is highly vulnerable to the effects of climate change, suffers some of the worst air, water and soil pollution. Gloria Lu, senior director, infrastructure ratings, at S&P Global Ratings, attributed the sharp spike in green-tinted debt sales in China to “the country’s heightened awareness of the risks a changing climate present to its economy, and a need to achieve cleaner and more sustainable growth”.

The challenges are huge — but so are the opportunities. Sheth said that China was sitting on a “huge



stockpile of assets that could easily be classified as green, most notably an extension of its urban rail network. As more green assets enter the system, you’ll see another huge surge in green bond prints.”

Counterbalancing this is a quiet but bitter wrangle over the definition of green financial instruments and related investments. China considers clean coal and hydropower to be prime examples of green energy, a view which conflicts sharply with that of almost every other global regulator.

That looser definition has helped propel China from laggard to leader in the asset class. But its central bank needs to work more closely with foreign regulators if it is to remain ahead of the pack. “China’s government wants to bring more capital into green finance and to broaden the investor base, and key to that will be harmonising global rules on green finance,” said S&P’s Lu.

Nakao

Continued from page 1

region needs annual spending of \$1.5tr between now and 2030 in order to maintain current growth and reduce poverty. This rises to \$1.7tr annually, or \$26tr in total, if projects are adapted for climate change.

Much of this is expected to take the form of public-private projects (PPP) but with Trump having promised infrastructure projects worth \$1tr in the US and Europe and Japan also embarking on spending, fears have grown that global investors could prefer these destinations to Asia.

Nakao discounted this idea however. “I don’t think PPP projects in Asia can be affected by the infrastructure spending of the US,” he told *GlobalMarkets*. “There is a huge amount of money in the world and leverage can be increased.

“So, if there is a safe and profitable PPP project in Asia I don’t think it would be so much affected. This



Nakao: ADB estimates \$26tr funding gap

move by the Trump administration [to champion infrastructure spending] will not change the landscape.”

NO RATE HIKE FEAR

Infrastructure spending prospects in Asia are also often linked to the issue of rising interest rates elsewhere, Nakao noted. “But my view is that with infrastructure investment or foreign direct investment [in general] a

change of interest rates by the Federal Reserve Board by 0.25% each time will not have much impact,” he said.

The ADB president acknowledged that the figures given in the bank’s latest infrastructure report — which are roughly double those estimated in an earlier ADB report (2009) — were “more estimates than targets”. But they give an order of magnitude on required spending, he said.

He also noted that while emphasis is put on the need for external financing for Asian infrastructure, domestic private firms are likely to be increasingly involved, citing infrastructure investments by San Miguel and the Ayala Group in the Philippines where the ADB is located.

“In many developed countries, railways, power, and communications have been provided mostly by private companies under concessions from the government. Most of the infrastructure in advanced nations was built by private companies, which means PPP because the government is always involved in granting concessions.”

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Asia crisis anniversary marked by fresh debt warning

By **Anthony Rowley**

The 1997 Asian financial crisis is now 20 years behind the region but with corporate debt rising to record levels and market volatility threatening, key policymakers yesterday (Thursday, May 4) called for increased “vigilance” and monitoring in order to avert further catastrophes.

Sri Mulyani Indrawati, Indonesia’s finance minister, said Asia had become “more resilient” to shocks but added: “We must be vigilant to the danger of [fresh] shock and volatility coming from inside and outside the region.”

She stressed the need for better monitoring of corporate debt within the region. Her warning came in the wake of concerns voiced by the IMF, the Institute of International Finance (IIF) and others over soaring debt levels globally.

Global debt has reached \$217tr, or a record 325% of world GDP, the IIF said recently, as a result of historically low interest rates, which have encouraged borrowing in expectation

that the global financial environment will remain benign.

Debt accelerated sharply last year and much of the debt is located among emerging non-financial corporations, the IIF said. Singapore, Hong Kong, Indonesia and Russia have “high levels of foreign exchange-denominated debt”.

David Rubenstein, co-chief executive officer of The Carlyle Group, the investment firm, also warned recently of a repeat of the 1990s crisis. He estimated there was \$4.5tr in emerging market corporate debt that was dollar-denominated.

NEED FOR VIGILANCE

Asian economies have opened up to external capital flows, which have aided regional growth but at the same time exposed them to new financial shocks, Mulyani said at an ADB seminar on Thursday. “Globalisation has brought benefits but it can also create a disaster.”

The need for increased “vigilance”



Indrawati: Asia ‘more resilient’

was also stressed by Junhong Chang, director of the ASEAN+3 Macroeconomic Research Office (AMRO), the regional surveillance arm of the Chiang Mai Initiative Multilateralisation (CMIM) launched in 2010 as a form of regional IMF for the Asia region.

Mainly at Japan’s insistence, the CMIM is prevented from disbursing more than 40% of its \$240bn funds without approval from the IMF. But some ASEAN nations are pushing for this level to be raised so the CMIM can mobilise more liquidity in the event of further problems in Asia.

Ms Chang said “policymakers should remain vigilant in the face of globalisation [and of] growing risks in financial markets.”

New public-private facility to get infra projects ‘shovel ready’

By **Anthony Rowley**

A new facility funded by both private and public sector bodies aimed at ensuring infrastructure projects can be pushed through from financing to the construction stage is to be launched as soon as this week, *GlobalMarkets* can reveal.

The Infrastructure Project Preparatory Facility (IPPF) is one of a series of initiatives to be unveiled at this week’s ADB annual meetings as the focus of policymakers and investors broadens from financing projects to getting them off the ground.

The IPPF is a semi-autonomous agency that will be part of a new public/private development bank known as Global Bank that will focus on infrastructure financing and other areas of development worldwide.

Global Bank is a California-based institution being set up and which, unlike other multilateral development institutions, is expected to include both governments and private investors among its shareholders, *GlobalMarkets* has learned.

It is also expected to tap the wealth of sovereign wealth funds and other sources of institutional money to fund a wide range of infrastructure and other projects in both advanced and

developing economies. In this sense, it will more closely resemble the European Investment Bank than other multilateral development banks.

In March, the ADB more than doubled its previous estimate of annual investment needed for infrastructure in the Asia Pacific region to \$1.5tr a year between now and 2030, or \$1.7tr a year (\$22.6tr in all), if projects are adapted to cope with climate change.

“Everyone recognises the fact that there is a huge global shortage of infrastructure but the problem is less one of finance but more one of there being few projects that are “shovel ready,” said William Thomson, who will become non-executive chairman of the IPPF.

PPP MONITOR

He said it typically took around three years to get infrastructure project feasibility studies done, and get projects ready to break ground..

Thomson, a former ADB vice president said: “That is what the IPPF would be designed to do — to finance the initial work to get the project up and ready for finance.”

According to Ron Nechamia, president of the Global Bank, the IPPF aims making infrastructure projects “bankable”. “Few projects that are



Thomson: IPPF to finance initial work

bankable will fail to attract finance.”

The IPPF aims to receive “mobilisation” funds at an inaugural board meeting later this month, followed by a public offering of securities to raise “operating funds” from private and public sector investors. Typically clients — a government or agency — using the IPPF’s services would do so on a fee-paying basis.

Ryuichi Kaga, head of the ADB’s Office of Public-Private Partnership, said there was an urgent need to improve the infrastructure project “implementation capacity” of many developing countries in Asia.

“In my experience, viable and bankable projects for PPP are somewhat limited but we are able to increase [the number] if implementation capacity is increased in governments,” he told *GlobalMarkets*. (See story *Global Bank*. Page 1)

Asia fears US retreat will leave trade world leaderless

By Elliot Wilson

America's retreat from its role as global leader on trade will leave the commercial world "drifting" unless China steps up to the plate, the Asia Pacific chief economist of Standard & Poor's has warned.

Americans voted in a president who delivered on a pledge to remove the US from the Trans-Pacific Partnership, the trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States (until January 23 this year) and Vietnam.

Donald Trump's rival in last year's election, Hillary Clinton, also promised to scrap plans to join the largest regional trade accord in history.

The permanent loss of the US as a global leader would have troubling consequences for Asia's many export-oriented economies. "One scenario — and a serious risk — is that we end up with leadership drift, with no one stepping in to replace America," said Paul Gruenwald, chief Asia Pacific economist at S&P. "The danger is that we move to a

more nationalistic system that retards global trade and widens inequality."

With Europe missing in action and India still in its developmental phase, the spotlight has fallen on China to become the new *de facto* champion of the forces of free trade and globalisation.

CHINA RAISES BARRIERS

Many fear that the country, although it has benefited more from globalisation than any sovereign state in history, is neither ready nor willing to take charge. "China doesn't want to lead," said Xiang Songzuo, chief economist at Agricultural Bank of China.

"It's not about being ready or not being ready. To be leader of the world, other countries have to want to follow you, and it isn't clear to me that many countries want to do that. And China still acts according to its own needs. It doesn't want to do things that are in other countries' best interests."

To some, China's willingness, in the wake of Trump's November election win, to promote itself as the chief global proponent of free trade, was



Gruenwald: fears 'nationalistic system'

also disingenuous. China protects a host of local industries, including steelmakers and banks, and imposes non-tariff barriers on products ranging from cooked food to car parts. Over the past year, it has tightened, not loosened, control over its capital account.

Chang Liu, chief China economist at London-based Capital Economics, said although China had been the "big beneficiary of free trade" over recent decades, it believed in free trade so long as it happens beyond its own borders. "But it's shown no willingness to lower any of the barriers it deems important to protecting local companies. So in terms of free trade, its attitude is mostly rhetoric."

Infrastructure IPO first step to rebuilding India

By Elliot Wilson

Bankers have hailed today's debut domestic listing by an Indian infrastructure investment fund as a key moment in the South Asian nation's quest to build a country fit the modern global economy.

IRB InvIT, owned by highway construction firm IRB Infrastructure Developers, kicked off its IPO on the Mumbai stock market on Wednesday, in which it aims to raise up to Rs46.5bn (\$725m) from a mixture of institutional and wealthy retail investors. Books on the initial stock offering will close today (Friday, May 5).

Investors and bankers said the IPO, underwritten by Credit Suisse, ICICI Securities, IDFC Bank and IIFL, was a defining moment in India's long and often frustrating attempts to drive capital into much needed infrastructure projects.

A number of major investors, including Singapore sovereign wealth fund GIC Private Limited, are keen to commit capital to the stock sale, bankers said. "Five years from now, people will look back and say this was a seminal

offering, because it allows developers to get on with the huge and pressing job of rebuilding India," said one banker involved in the deal.

For local investors, the offering is a novel one. IRB InvIT, which is registered with India's stock regulator Sebi as a trust, is comprised of six special purpose vehicles, each containing a single, operational toll road asset operating in five Indian states including Gujarat and Rajasthan. The hybrid financial product mirrors equity investments and generates debt-like fixed returns, and is commonplace in Southeast Asia, but has yet to be rolled out in Asia's third largest economy

YAWNING GAP

However, there are risks inherent in the product. Unit holders bear the usual risks associated with infrastructure projects: revenues from toll roads typically suffer when inflation spikes and traffic flow slumps. While inflation is under control, India regularly suffers from long periods of uncontrollably rising prices.



IRB rolls into the IPO market

If it is a hit, it is likely to presage a surge of interest, with other infrastructure investment funds set to tap the capital markets in the months ahead, led by GMR Group and Reliance Infrastructure. Finance minister Arun Jaitley said last year that India needed to generate more than \$1.5tr in fresh capital over the next 10 years to bridge its yawning infrastructure gap.

The IPO comes at a time when interest in India's capital markets is at a multi-year high. In recent weeks, the once-moribund market for Masala bonds — debt listed offshore that allow foreign institutions to buy rupee-denominated notes without needing to apply for licences or investment quotas — has enjoyed an unexpected and welcome revival. In late April, the National Highways Authority of India organised an eight-day roadshow that visited Singapore, Hong Kong, and London.

OBOR 2.0: China prepares for May summit with global ambitions

By Elliot Wilson

China's global ambitions will be a lot clearer a week from now. On May 14-15, Xi Jinping will host an army of political leaders in Beijing, where China's president is set to tout the commercial benefits of his flagship One Belt, One Road (OBOR) project.

What is said and done there could set the tone not just for China's relations with the world, but also for wider global trade relations in the 21st Century. OBOR started out as an \$8tr project to pump capital into infrastructure that will stitch together the great economies of Asia and Europe.

But those already vastly ambitious plans are being revisited. Observers say the Chinese government now sees OBOR as a manifestation of its international ambitions — and of its long-term hopes of redrawing global trade flows and rules in its own image.

SOFT POWER, HARD ASSETS

Jin Lique, president of the newly created Asian Infrastructure Investment Bank, a Chinese state-backed multi-lateral, said the government had "fine-tuned" OBOR, making it more international in scale and reach.

"There do not seem to be geographical limits to the OBOR initiative," he told *GlobalMarkets*. "This is not just an issue of connectivity in Eurasia; it covers the entire world." He added that the upcoming meeting in Beijing, officially titled the Belt and Road Forum for International Cooperation, "could be inspiring, with 28 leaders expressing their views in the conference, without a time limit on their interventions".

Others said the world had consistently misjudged the value China placed on OBOR — and its potential to redraw trade flows and rules in favour of Asia in general and China in particular. According to Paul Sheard, chief global economist at S&P Global Ratings, OBOR is all about China "wrapping soft power around hard assets".

"China's leaders play a long game," Sheard said. "In recent years, they've begun to define and implement a global strategy, commensurate with their re-emerging status as a 'great power'. OBOR speaks to China wanting to achieve multiple goals, from increasing its global reach and influence and shaping global rules-of-the-game, to boosting returns on external financial assets and honing a narrative about China's role that conveys the image of a benevolent hegemon."

Bearing the load: finding the \$23tr to fill Asia's infrastructure gap



The ADB has just doubled its estimate of the money needed for infrastructure investment from \$750m a year to \$1.5bn. But as ministers meet in Yokohama it is unclear where the cash will come from — and on what terms

By Anthony Rowley

Asia's urgent need for financial resources to meet its vast infrastructure demand has been a longstanding issue but a startling new report has revealed that the need is much bigger than had previously been imagined.

The Asian Development Bank has more than doubled its estimate of annual investment needed for infrastructure in the Asia Pacific region. In a March report, the ADB put the figure at \$1.5tr a year between now and 2030, or \$1.7tr — almost \$23tr in all — if projects are adapted to cope with climate change.

Many of these resources will need to come from the private sector but there is a fear that unless Asia makes its investment environment more attractive, private investment could flow instead to the US and Europe.

The developing Asia region that excludes advanced nations such as Japan will need huge spending on power, transport, communications and other projects if the world's faster growing economies are to maintain growth and reduce poverty, the ADB said.

The upper estimates are more than double the \$750bn annual spending the ADB estimated in 2009 would be needed between then and 2020. As the needs of more countries have been included (45 now against 32 in the earlier report) so

the infrastructure bill that Asia faces has soared.

Not only are the sums much bigger than previously thought but also they are nearly double the \$880bn that the 25 biggest Asia Pacific developing nations (home to 96% of the region's population) have actually been spending on infrastructure in recent years.

Where is the money going to come from? The public sector has been the major source of funding for infrastructure in the past and is currently funding some 92% of the region's infrastructure investment, Juzhong Zhuang, ADB deputy chief economist and deputy director general of the regional co-operation department at the ADB tells *GlobalMarkets*.

Governments will continue to be the big spenders but the private sector is going to have to step up to the plate in a much bigger way if infrastructure is to get built.

CREAKING SYSTEMS

This is where things become problematic: Asia is no longer the most attractive game in town when it comes to infrastructure investment.

The period after the Lehman Brothers bank crisis in 2008 was a "very lucky [time] for the Asian region because there were few investment opportunities in advanced economies, and interest

rates were very low," says Ryuchi Kaga, head of the ADB's Office of Public-Private Partnership. But, he tells *GlobalMarkets*: "The landscape will change [from here on]. Private sponsors [of infrastructure projects] will have more options."

US president Donald Trump pledged during his election campaign to spend at least \$1tr on renewing outdated public infrastructure in the US and building a nationwide network of high-speed rail projects. At the same time, Europe and Japan are also preparing to modernise or replace their often creaking infrastructure systems.

There is so much financial liquidity globally that there is probably enough money available, in theory, to fund all the infrastructure projects that the US, Europe and other advanced economies, plus Asia and other developing regions, can come up with. But the issue is not as simple in practice as in theory, according to the ADB's Kaga.

"Investment opportunities will increase in advanced countries and absolutely they will draw the attention of more private investors," he says. Revenues from advanced nation infrastructure projects may be smaller than those in emerging economies but they are perceived to be "easier and safer", with virtually no political or currency risk involved.

Lay of the land

Grappling with climate-adjusted investment needs

Estimated infrastructure investment needs by sector, 45 DMCs, 2016–2030 (\$bn in 2015 prices)

| Sector | Baseline estimates | | | Climate-adjusted estimates | | | Climate-related investments (annual) | |
|----------------------|--------------------|----------------|----------------|----------------------------|----------------|----------------|--------------------------------------|------------|
| | Investment needs | Annual average | Share of total | Investment needs | Annual average | Share of total | Adaptation | Mitigation |
| Power | 11,689 | 779 | 51.8 | 14,731 | 982 | 56.3 | 3 | 200 |
| Transport | 7,796 | 520 | 34.6 | 8,353 | 557 | 31.9 | 37 | –* |
| Telecommunications | 2,279 | 152 | 10.1 | 2,279 | 152 | 8.7 | –* | –* |
| Water and sanitation | 787 | 52 | 3.5 | 802 | 53 | 3.1 | 1 | –* |
| Total | 22,551 | 1,503 | 100.0 | 26,166 | 1,744 | 100.0 | 41 | 200 |

* = not applicable

Source: ADB estimates

This could impact the relative attractiveness of public-private partnership (PPP) projects in developing Asia and elsewhere compared to those in advanced economies. In turn, this means that Asian nations need to step up their game in terms of producing “bankable” projects and improving their implementation capacity for infrastructure projects.

While there has been “good progress” in introducing regulatory and institutional frameworks for PPP at the national level in Asia, not least in countries such as India and the Philippines, the implementation capacity of governments in terms of dealing with PPP laws and procedures is often lagging, says Kaga. One example is how to handle project bidding.

This is all the more so where local governments — in Indonesia, Vietnam and the Philippines, for instance — are becoming involved in PPP schemes.

At the same time, governments are being pressured from outside to provide high quality infrastructure. The ADB, along with governments such as Japan, are pushing this theme and the OECD said in a recent report on Asia that “what matters is not just the volume of infrastructure but also its quality”. Governments “need to address better the long-term social and environmental impacts of infrastructure investments,” the OECD said.

PPP VS ODA

The ADB and others are providing grants and technical assistance to governments to help them improve their implementation capacity for PPP schemes. But such schemes are time consuming and “complicated” experts say while transaction costs are also high.

This creates a temptation for host governments to spurn the PPP approach in favour of ODA (official development assistance) projects financed by countries such as China where, some say, quality is relatively low compared to PPP.

With PPP schemes, the private partner usually invests in and operates a project. In the case of an ODA project the host government takes on debt and

operates the project and a foreign company undertakes construction. Government debt then rises and efficient operation is not assured because governments lack project operating capacity. It often comes down to a balance between “easy and very quick or efficient and debt-free,” says Kaga.

Whatever the claimed shortcomings of state-funded provision, it has produced impressive results in terms of infrastructure coverage, the March ADB report makes clear.

The ADB’s Zhuang says China needs to be taken out of the picture because it is so big relative to other countries in the Asia Pacific region and also because it is “very atypical” so far as infrastructure is concerned.

The actual and projected infrastructure gap between what is being spent now and what needs to be spent is much smaller in China’s case (around 1.2% of GDP) than is the case elsewhere in the developing Asia Pacific region where it is nearer 5%, Zhuang says. This gap is particularly wide in South Asia and in some southeast Asian countries, and even more so in the case of the Pacific islands.

Frequently voiced criticisms of China-funded infrastructure projects do not apply to those undertaken by the China-led Asian Infrastructure Investment Bank (AIIB), despite initial fears that this might be so. “I think the AIIB’s is very much a global standard,” says one official. “I cannot find any specific differences between their policies from those of the ADB or World Bank.”

One of the reasons for China’s success in advancing infrastructure coverage at a rapid rate is that there are many domestic players such as state-owned enterprises and other lenders for PPP projects without relying on outside sources. “They can do everything within the country,” says Kaga.

PROJECT LIFE COST

Elsewhere, the problem is that many infrastructure projects are not regarded by investors as “viable and bankable”, he says. This means “there are only two ways to increase the supply of [project]

funding: to improve the borrowing capacity of developing countries or increase the number of viable and bankable projects. Probably you have to do both.”

Some experts say that “selling” the PPP concept is not easy because of the political and commercial risks that private investors need to take on operating a project in a developing country.

Some governments prefer the EPC (engineering, procurement and construction) approach whereby a contractor undertakes to provide plant engineering and construction, and procures equipment overseas. Project operation is not included.

The prime minister’s office in Japan is pushing the high quality infrastructure concept that will create high quality projects in terms of environmental and other standards. But Japanese equipment is expensive, experts note, and cheaper equipment is available elsewhere.

To overcome this, the ADB is promoting a “project life cost” approach, which takes account of the fact that good projects prove more economic over the longer term. Even so, the “quick and cheap” approach is still preferred by some countries.

Whatever approaches are taken to infrastructure provision — whether state-funded or privately financed — and whatever vehicles are used to ensure that vital services are provided, the financing gap will need to be filled by both public and private sectors, the ADB said in its report.

Multilateral development bank (MDB) operations as a whole in Asia currently finance only around 2.5% of infrastructure in the region — although many kinds of non-financial help are also provided.

This means that government funding of infrastructure has to be stepped up, with the aid of public finance reforms, while private sector investment will become increasingly important, especially in power generation and telecommunication projects.

The load on the MDBs as facilitators or middlemen in this process can only increase, officials say. **GM**



“Investment opportunities will increase in advanced countries and absolutely they will draw the attention of more private investors”

—Ryuchi Kaga,
Office of Public-Private
Partnership, ADB

Building on relationships: AIIB's mission to help solve global ills

Exclusive GM interview



The president and chairman of the Asian Infrastructure Investment Bank Jin Liqun tells *GlobalMarkets* he is eager to learn lessons from others as well as to pass on the lessons of China's own economic development

By Anthony Rowley

The Asian Infrastructure Investment Bank was seen initially by some as a brash newcomer intent on breaking into the world of development banking by throwing around the money of a nouveau-riche China on possibly sub-standard projects and securing multi-billion dollar contracts for Chinese firms.

It was feared that the AIIB would dole out money indiscriminately in order to secure infrastructure projects, more or less ignoring the strict environmental and other standards that the family of United Nations-founded multilateral development banks (MDBs) had developed over decades of experience.

But that was several years ago when the AIIB was still in the planning stage. Now, when talking about the way forward for the AIIB and other MDBs, its president and chairman Jin Liqun employs a quotation from Albert Einstein: "We cannot solve our problems with the same thinking we used when we created them."

These institutions must, says the former vice finance minister of China during an interview with *GlobalMarkets*, avoid "following the beaten track that leads to environmental degradation and global warming".

These are remarkable words coming from someone at the top of an institution which some saw initially as a potential wrecker of accepted economic development norms, as an environmental spoiler and an outcast among MDBs.

"We must leverage the collective experience of our member countries and draw upon that knowledge to support innovative infrastructure projects that are financially viable, environmentally friendly and beneficial to local communities," says Jin.

These words could easily have come from the leaders of the World Bank, the Asian Development Bank and other MDBs that initially closed ranks, issuing a warning that the entry of newcomers such as the AIIB and others could cause a lowering of development standards.

The fact that they come instead from the head of the AIIB underlines just how far the institution has gone out of its way since its formal launch in January 2016 to gain international acceptance and become a good team player.

"We have strong co-operation with other multilateral development banks," Jin notes. The AIIB, he says, will "use its relationships with other MDBs and private financiers to meet Asia's growing infrastructure demands".

Just how big these demands are likely

to be was illustrated in a report by the Asian Development Bank (ADB) that said that developing and emerging nations needed to spend \$1.5tr annually on infrastructure between now and 2030.

If infrastructure is to be adapted to meet the threat of climate change — which Jin acknowledges to be a very real one — then annual spending must rise to \$1.7tr, said the ADB, almost doubling its estimate some seven or eight years ago.

The bank has now attained the status of an established MDB itself with 70 countries from around the world in membership and more waiting to join.

Notable exceptions are the United States and Japan, with the US thought unlikely to be in a hurry to embrace new multilateral institutions under the Trump administration and Japan intent on promoting development through bilateral efforts and via the Asian Development Bank.

The AIIB is eager to learn lessons from others as well as to pass on the lessons of China's own economic development, says Jin. "We were delighted to partner with a number of MDBs on six out of nine projects in 2016.

"We have agreements in place to strengthen co-operation with the European Investment Bank, the World Bank,



"I am optimistic we will be able to generate sufficient demand for the instruments we plan to bring to market"

"All of our members, like China, have their own plans for infrastructure development and all are welcome to submit projects to AIIB for consideration and financing"

the Asian Development Bank and the EBRD. I have also presented to the board at the ADB to discuss ways for us to work together. There is very strong co-operation happening among the MDBs."

Co-operating with other development banks has allowed the Beijing-based AIIB to draw upon the expertise of the ADB and others and to get involved in a series of joint projects after little more than a year of operations and with a modest staff of only around 100 professionals so far.

FUNDING

There is more, however, to Jin's insistence on the need to be a good citizen of the development world. The AIIB needs to tap global debt markets to supplement its capital base. While China is rich it is not as flush with foreign currency reserves as it was when the AIIB was first mooted and some expected the AIIB to draw mainly on Chinese domestic funds.

Jin avoids comment on the issue of China's diminishing international reserves. He says only that "it would be inappropriate to comment on a member's internal policies". But he expresses confidence that the AIIB will be able to raise debt to supplement its \$100bn equity base.

"Financial markets favour high grade credits like the AIIB and other multilateral financial institutions," he says. "I am optimistic we will be able to generate sufficient demand for the instruments we plan to bring to market."

Some analysts say that rising interest rates in the US and widening differentials with Asian rates could cause funds to flee emerging market credits. They also argue that President Donald Trump's plan to spend \$1tr on US infrastructure could act as a magnet to draw funds away from Asia.

"It remains to be seen," says Jin, whether increased US rates and other factors will drive outflows from Asian

markets. But "at this stage, it does not seem so," he adds.

ONE BELT, ONE ROAD

How will the AIIB sell itself to portfolio investors interested in getting a piece of the Asian infrastructure action? Are they likely to want to know whether it will simply be a competitor to the ADB, or is it a part of Chinese president Xi Jinping's grand plan to "connect" the Eurasian continent?

Jin hedges somewhat on this. The AIIB will "support innovative infrastructure projects that are financially viable, environmentally friendly and beneficial to local communities. We are currently concentrating our efforts in energy, transport and sustainable cities."

Pressed to say more about the relationship between the AIIB and President Xi's One Belt, One Road (OBOR) scheme for linking East Asia with Europe via Central Asia, South Asia, the Middle East and beyond, Jin again resorts to rather hedged terms.

"OBOR has major strategic implications in terms of opening markets and creating growth opportunities, both for the 65 countries it touches and beyond," he says. "As there is a large overlap between the [AIIB] membership and countries participating in OBOR [we] will consider projects [in] OBOR."

But, he says "it is important to keep in mind that AIIB's mandate goes beyond OBOR. All of our members, like China, have their own plans for infrastructure development and all are welcome to submit projects to AIIB for consideration and financing."

The AIIB, Jin says, "can finance projects which meet our policies, criteria and guidelines. Those criteria are strict, he says, countering initial fears that the emergence of the AIIB and of the Brics Bank (or New Development Bank) could result in a lowering of standards.

Another area where the AIIB has

come into line with long established development banks is on the need for private capital to supplement the role of governments and MDBs in financing Asia's "infrastructure gap" on the gap between projected needs and current spending.

"What we need to do is to catalyse private capital," says Jin. "And we need to do so in partnership with governments if we are going to meet the infrastructure needs in the region."

There was speculation when President Xi first announced the planned formation of the AIIB in 2013 that China would use the bank to help launch the "internationalisation" of China's currency, the renminbi (RMB), and that it would make RMB-denominated loans in order to do that.

"In the early stages of the bank's existence, it is likely that our loans will be denominated mainly in US dollars," says Jin. "Over the course of the next two years, we will establish and increase our capacity to provide financing in other currencies, certainly including RMB."

The AIIB recently signed an agreement with the World Bank's International Finance Corporation on international swaps and derivatives. "This emphasises how AIIB will gradually build capacity to support its clients' requests for different currencies," says Jin.

Will the AIIB seek to raise funds in RMB or in dollars, and will it issue bonds denominated in other Asian and international currencies? "As a global player, the AIIB will generate and tap demand where it makes sense and where the bank can achieve the best possible terms to finance its mission," Jin says.

"Since the bank's functional currency is US dollars, it will come as no surprise that the bank also has the ambition, over time, to establish a curve of transparent pricing references in US dollars." **GM**

Diggers at the ready: Estimated infrastructure investment needs by region, 45 DMCs, 2016–2030 (\$ billion in 2015 prices)

| Region/subregion | Projected annual GDP growth | 2030 UN population projection (billion) | 2030 projected GDP per capita (2015 \$) | Baseline estimates | | | Climate-adjusted estimates** | | |
|----------------------|-----------------------------|---|---|--------------------|----------------|------------------------------|------------------------------|----------------|------------------------------|
| | | | | Investment needs | Annual average | Investment needs as % of GDP | Investment needs | Annual average | Investment needs as % of GDP |
| Central Asia | 3.1 | 0.096 | 6,202 | 492 | 33 | 6.8 | 565 | 38 | 7.8 |
| East Asia | 5.1 | 1.503 | 18,602 | 13,781 | 919 | 4.5 | 16,062 | 1,071 | 5.2 |
| South Asia* | 6.5 | 2.059 | 3,446 | 5,477 | 65 | 7.6 | 6,347 | 423 | 8.8 |
| Southeast Asia | 5.1 | 0.723 | 7,040 | 2,759 | 184 | 5.0 | 3,147 | 210 | 5.7 |
| The Pacific | 3.1 | 0.014 | 2,889 | 42 | 2.8 | 8.2 | 46 | 3.1 | 9.1 |
| Asia and the Pacific | 5.3 | 4.396 | 9,277 | 22,551 | 503 | 5.1 | 26,166 | 1,744 | 5.9 |

* Pakistan and Afghanistan are included in South Asia. ** Climate change adjusted figures include climate mitigation and climate proofing costs, but do not include other adaptation costs, especially those associated with sea level rise.



Trump's bellicosity fires up Latin America's love-in with China

Latin America's trade relations with China are utterly lop-sided, determined far more by what China needs than by what Latin America wants. However, as regional sovereigns cast nervous glances north at a bellicose and protectionist-minded Trump administration, clear sources of overlapping mutual need are beginning to emerge

By Elliot Wilson

For those who believe in symbolism, China's reaction to last year's US presidential election could not have been more auspicious. Within days of Donald Trump's surprise victory on November 8, Xi Jinping was on a flight to Latin America.

The Chinese president used his time wisely, dropping in on the Asia-Pacific Economic Cooperation (Apec) forum, an annual conclave of the economic leaders of 21 Pacific Rim economies. He visited three heads of state: Peruvian president Pedro Kuczynski, Chilean president Michelle Bachelet, and Ecuador's outgoing president Rafael Correa.

Each of those house calls was carefully and purposefully selected. Over the past decade, China has nurtured ties with a region that was, until recently, allied with Europe and North America. China has upended the status quo by using its commercial and development banks to lend huge sums to sovereigns and, increasingly, leading regional corporates.

Much of China's attention has focused on the region's poorest and most troubled states, notably Venezuela (which has secured \$65bn in funding from China, repaying its debts in the form of subsidised shipments of crude oil) and Ecuador, whose debts to China make up more than 15% of domestic economic output.

But China's leaders aren't stopping there. Grand plans to build a \$10bn rail project linking

Lima with the Brazilian port of Acu are aimed at slashing the cost of shipping grain and minerals to the People's Republic. Chinese companies are financing and building two nuclear power plants in Argentina worth up to \$15bn. And in March 2017, Nicaragua's Supreme Court gave the final go-ahead to the \$50bn Interoceanic Grand Canal, a 273km, China-controlled channel that will cleave the tiny Central American state in two and allow Chinese tankers to bypass the US-controlled Panama Canal.

LOW KEY GLOBALISATION

In truth, Xi's visit to Latin America was remarkably low key, at least by recent standards. He did not arrive bearing lavish gifts. No fresh loans were extended to struggling corporates or sovereigns. Nor were any new defence or infrastructure deals signed — though Xi did remind Apec members of China's 10 year plan to double bilateral regional trade.

And he worked his soundbites carefully. Fully aware that Trump was committed to withdrawing his support for the US-led Trans-Pacific Partnership, Xi spent much of his journey talking up the Free Trade Area of the Asia Pacific, which some have long seen as an ersatz rival to the TPP, and which has already garnered support from the Australian government.

Sovereign leaders across Latin America were left with the distinct impression that of the world's two genuine superpowers, one was truly committed to globalisation while the other was

content to devour its own tail, all the while grumbling about the inequities of free trade. And that, of course, is what Xi wanted all along: to portray China, not the United States, as the modern world's shining city on a hill.

Xi's visit also inadvertently reinforced a sad truism about the nature of trade relations between Latin America's sovereigns and the world's second largest economy. Over the past decade, the mainland economy has grown exponentially in both scale and ambition. China plans to build a permanent space station by 2020, and to send crewed expeditions to the Moon. Chinese cell-phones are snapped up by customers across the developed and developing world.

Latin America by contrast remains a region lacking innovation or direction. Its economies, big and small, largely lack growth and direction. Its leading corporates, with some notable exceptions, are typically simplistic affairs, exporting low-margin and unprocessed foodstuffs or minerals, much of which wind up either on mainland dinner plates or powering Chinese factories.

MASTER AND SERVANT

Little wonder Sam Aguirre, senior managing director and Brazil country head at Washington-based business advisory firm FTI Consulting, describes the relationship between the two sides as "wholly subservient. Latin America creates the basic product then ships it to China, which transforms it into high-value manufactured goods. It's a master-and-servant relationship."

It's a state of affairs that's only likely to persist, reckons Joaquin Cottani, chief Latin America economist at Standard & Poor's. "Latin America is only competitive when it comes to producing commodities," he says. "That is unlikely to change. These imbalances are likely to be with us for a long time."

And if anything, China's value to, and hold over, the region is growing. Take Brazil. Until a

Trade vulnerabilities: Colombia and Mexico most vulnerable to US trade shifts; Brazil, Chile, and Peru sensitive to Asia

| Vulnerable | Moderately vulnerable | Less vulnerable |
|-----------------------------|----------------------------------|-----------------------------|
| Export Concentration ≥ 30% | 30% > Export Concentration ≥ 15% | 15% > Export Concentration |
| China+Asia US Protectionism | China+Asia US Protectionism | China+Asia US Protectionism |
| Brazil, Chile, Peru | Colombia, Mexico | Argentina |
| | Peru | Mexico, Col |
| | | Brazil, Argentina, Chile |

little over two years ago, Latin America's largest economy had a simple relationship with China. It exported everything from ore to orange juice, and potash to pork, and imported low-grade homeware and industrial goods. But in 2015, the People's Republic pledged to invest up to \$50bn in the country's infrastructure. In early 2016, China Development Bank, a major policy lender, handed troubled energy giant Petrobras a \$10bn loan, repayable in either cash or oil.

There is a pattern at work here, experts say: China spots a country in distress, then gallops to the rescue, bearing much-needed capital that it extends to needy sovereigns or corporates at low rates of interest. (Petrobras's cash-for-oil loan facility echoes similar deals that China has struck with Venezuela, a country for which the word 'troubled' barely does justice). But typically the beneficiary doesn't care: it is just happy to have a new friend with deep pockets. And China gets what it wants: another accommodating sovereign that it can absorb into its ever-expanding supply chain.

China's latest push into Brazil coincides with the latter's decision to allow foreign corporates to finance and build major infrastructure projects. In April, two mainland transport groups, China Railway Engineering and China Communications Construction, said they planned to bid for two new and very different rail lines projected to cost a combined \$4.2bn.

The Fiol project in northeast Brazil will link settlements in northeast Brazil to the Port of Salvador in the eastern state of Bahia, while the Ferrogrão railway is scheduled to cut through and across the Amazon, linking the food producing region of Mato Grosso with seaports in the northern state of Pará.

China's interest in funding the projects comes at a time when domestic engineering and construction firms, many caught up in a nationwide investigation into corporate corruption, are struggling for traction and capital. "You're getting to the point now where, in terms of inward M&A deals into Brazil, basically the only money that's flowing in is Chinese," says FTI Consulting's Aguirre.

Nor is Brazil the only target of ambitious and capital-rich mainland corporates. Shandong Gold, a state-backed miner based in the eastern city of Jinan, recently agreed to pay \$960m for a 50% stake in Barrick Gold's Veladero miner in Argentina, which is tipped to produce 830,000 ounces of gold in 2017.

China-backed corporates are even making inroads into Mexico, a country heavily dependent on investment from US corporates. State-run Anhui Jianghuai Automobile recently said it is joining forces with Mexican tycoon Carlos Slim to invest \$2.2bn in a joint venture in the central state of Hidalgo, with the aim of manufacturing more than 250,000 cars a year for the Mexican and American markets.

THE ONLY GAME IN TOWN?

Does this offer undeniable proof that the economic bonds between Latin America and China are permanent and unbreakable? And has China really become the only game in town? Does Latin America's future lie with the world's second largest economy rather than with old friends in

Europe or the United States?

Well, yes and no. Mainland policy lenders are busy channelling more cash than ever into the hands of Latin American sovereigns and corporates. But it's worth remembering that this remains a complex region, with old and robust trade ties and alliances. Argentina's biggest trade partner, according to the Observatory of Economic Complexity (OEC), a data tool created by the MIT Media Lab in Massachusetts, is its neighbour Brazil.

Colombia and Ecuador, meanwhile, both send more finished goods to the United States than to anyone else. And fully three-quarters of Mexican-made goods — \$291bn out of a total of \$391bn — headed north over the Rio Grande in 2015, according to the OEC.

As Marie Diron associate managing director of Moody's Sovereign Rating Group, notes, Latin America's pivot to Asia "is still at a very early stage. While Asia's vast markets and rising incomes present vast opportunities for Latin American exporters, deepening trade relationships will likely take some time. Our baseline assumption doesn't assume significant changes in the nature of trade flows between the two regions."

There are of course no guarantees that the US will remain the most valued trading partner for any of Latin America's nation states. America has dominated the region for nearly two centuries, ever since the fifth president of a young United States, James Monroe, announced his intention of opposing European colonialism across the Americas.

US LOOKS ELSEWHERE, EVEN MICHIGAN

But successive presidents have focused their attentions elsewhere: Bill Clinton on Asia and Europe; George W. Bush on the Middle East and Africa. Under Trump's predecessor Barack Obama, notes Standard & Poor's Cottani, "there was very little effort to get involved in the region at all. So I can't believe that it can get any worse under President Trump."

That of course depends much on Trump's state of mind — and whether the changeable US president decides to follow through on some or all of his threats, which have at various times included plans to shred the tri-nation North American Free Trade Agreement, to cut funding to global development institutions and to return production and jobs to US soil. Often this is more than mere bluster. In April, the United States opted not to renew its contribution to a key Inter-American Development Bank fund that supports pilot development projects across the region. **GM**

"A land full of vitality and hope"

1. President Xi Jinping at the APEC Summit in Lima, Peru, November 2016 2. HKND Group chairman Wang Jing at the inauguration of works for the Interoceanic Grand Canal in Brito, Nicaragua 3. The compression layer in a stretch of track of the East-West integration (FIOL) project in Tanhaçu, Bahia Brazil 4. Veladero goldmine Argentina 5. "Grand Canal" celebrated by Nicaraguan school children 6. Ferrogrão railway between Mato Grosso and Pará



1.



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Indonesia's borrowers ready to reap rewards of deeper debt markets



As one of the fastest growing economies of all the G20 countries, Indonesia is on the up. Having taken some difficult decisions after coming to power in 2015, Joko Widodo's administration is reaping the rewards with growth accelerating, a budget deficit below 3%, and inflation tamed. The benign economic background has helped the Indonesian government become one of the most sophisticated sovereign borrowers in the international market. At *GlobalCapital's* roundtable in Jakarta in early April, hosted by Standard Chartered, leading bankers and issuers gathered together to look at the impact of reforms to state-owned enterprises, potential US interest rate rises, and changes to tax laws on the potential to make a deeper, more effective debt market.

GlobalMarkets: Let's begin by talking about Indonesia's growth and growth prospects.

Aldian Taloputra, Standard Chartered: From the market's perspective the country has one of the fastest rates of growth of all G20 countries. Only China and India have faster rates of growth.

Since 2015 and the arrival of the new administration, the government has been trying to re-vamp the investment climate to move from a commodity-based economy to a more value added industry one.

It has forced the country to take some short term, bitter pills such as the not very popular policy of cutting the fuel subsidy, which resulted in higher inflation and forced Bank Indonesia to increase interest rates.

After those difficult measures, the economy now appears to be in a good position, having stabilised. We saw momentum begin to build in 2016.

For this year we believe the prospects are better. Commodity prices have started to show some recovery and although we don't expect oil to be back to \$100 per barrel and revive strong investment in the mining sector, it at least provides re-

lief because the economy is still heavily reliant on the commodity sector.

However, we believe reforms like infrastructure and structural reform will be the backbone of growth in the medium to long term. So, while the government probably thinks growth can be better, compared to other countries in the region and elsewhere, it is not at all bad.

Aaron Gwak, Standard Chartered: The Indonesian Republic recently conducted a number of roadshows in the US, London, the Middle East and Asia.

The reactions from institutional investors, globally, were very positive, not only on the economy, but also on the bond issuance programmes that the Indonesian Republic has been maintaining. And if secondary asset prices are any guide in terms of their satisfaction, one of the most recent issuances by the Republic of Indonesia — the \$3bn dual tranche sukuk — is trading a good shade above par in today's market. Since the beginning of the year, from an asset price perspective, it is one of the best performing assets across the Asian curve.

Susiwijono Moegiarto, Indonesia Eximbank:

The government is confident in its strong growth levels and is supported by the fact that Indonesia has become one of the three countries among G20 members with the highest growth rate in recent years. It will be challenging to achieve the 6% growth rate in 2018, for it will need not only growth from the domestic economy, but also a conducive global macroeconomy.

GlobalMarkets: Robert, when you are on your roadshows, what kind of questions are you fielding about the country's economy?

Robert Pakpahan, Republic of Indonesia: Regarding the performance of our economy in the eyes of our investors on our roadshows, most of them appreciate and think we are quite far ahead compared to many other countries.

Some of them even think that we should be able to achieve higher economic growth if we are willing to increase our borrowing and relax our spending limits. However, other investors are appreciative of our efforts and think we are doing the right thing because economic growth above

5% is quite remarkable at the moment compared to many other countries.

Investors have appreciated our prudence and our consistency to maintain the deficit below 3%. Last year the deficit was 2.46%, and then this year, according to our State Budget, it is set to be 2.41%. Maintaining the deficit below 3% is something that really is a positive point for the government and helps gain investors' trust. The debt to GDP level of 28% is also something that, according to investors, is comforting to them.

Investors also see positive signs from the direction of fiscal policy. We have addressed the subsidy issue. We are now addressing revenues through tax reform, which is now a priority. In terms of the spending side investors are quite happy with the direction we're taking but now they really want us to look at our revenue side because our tax ratio is quite low.

GlobalMarkets: Do any other of our issuers agree or disagree with this prognosis?

Orias Petrus Moedak, Pelindo III: From the market's perspective it's correct, but from the real sector — I come from the ports business side — the challenge is not about growth itself but how the wealth generated from that growth is distributed among the remote areas of the country. We are in Surabaya and we have the small islands in the southeast of Indonesia that really need to see the impact of that growth. East Java has had good growth — higher than the overall country's growth I think — but the present challenge is the eradication of poverty.

Iman Rachman, Pelindo II: One indicator of the growth is export-import growth. It is beginning to pick up and we have seen this in the cargo volumes over the last year. Another contributing factor is the development of our ports. We have to complete the work on our Kalibaru and Kijing ports by 2019. By having some of the big ports completed we will be supporting the growth targets of Indonesia.

Taloputra, Standard Chartered: That also reflects the regional growth in the eastern part of the country — as Orias said, it's faster than the national level, for instance. For example, Sulawesi was growing by close to 7% year on year in Q4 2016.

GlobalMarkets: We have seen fantastic conditions in global capital markets over the last three months. However, the wider world has many challenges. A new US administration, elections in Europe, a slowing China, a tightening Fed, trade deals in decline, geopolitical tensions in North Asia. But what are the key external risks as far as Indonesia is concerned, Robert?

Pakpahan, Republic of Indonesia: The depth of the domestic financial sector in Indonesia is one issue because it is not as deep as we would like it, at least when held up against the size of our economy. The total assets in the banking sector — such as savings, assets under management for pension

funds, insurance etc — are not as high as in other countries. A result of this is that foreign ownership in the local currency equity and bond markets is high. This is a risk as it makes us vulnerable to money moving out of the country quickly when there is a big external event.

So all those risks you mentioned could be felt here in Indonesia through capital flight. This is why it is so important for us as a country to maintain very consistent and credible economic growth with the right direction of fiscal policy and also very stable monetary policy to make sure the effects of any external issue or shock are minimised.

So far we have shown that our fiscal policy is going in the right direction. We are addressing our spending. We are maintaining our deficit at a safe level while our monetary authority is maintaining stability. Inflation is now quite tame at a level of between 3% and 4%, the current account deficit also has been maintained at a level of below 2.5%.

GlobalMarkets: When you say the flows in and out are you referring to foreign ownership of government bonds or are you talking about all products across the financial sector?

Pakpahan, Republic of Indonesia: Both, and I'm really talking about hot money. We are not that concerned about foreign direct investment because that tends to stay in the country, but rather portfolio investment that tends to build up but then rush out when there is a problem.

Susiwijono Moegiarso, Indonesia Eximbank: The key external risks for Indonesia among others are: the global economy that has not fully recovered; the global financial market which is still highly influenced by uncertain policies of the US government; and China's rebalancing economics.

Silvano Rumantir, Mandiri Sekuritas: On the macro side a key external risk factor we see is China. China is the top three for both export destination as well as direct investment into Indonesia. Our sensitivity analysis shows that every 1% increase in China's economic growth has an impact of, or a contribution of 0.11% to Indonesia's economic growth. If you look at Japan and US for us it's only half of China's impact.

Taloputra, Standard Chartered: If I have to choose between the risks mentioned earlier, the rate hike poses the biggest risk for the country, mainly because it runs a current account deficit that makes it rely on external financing.



AARON GWAK
STANDARD CHARTERED



ALDIAN TALOPUTRA
STANDARD CHARTERED

We have seen the vulnerability of the country decline in the last few years, given the prudent fiscal policy that Robert mentioned, as well as the monetary policy, which is very prudent. Bank Indonesia has not hesitated in increasing the interest rate to stabilise inflation and has become more flexible in managing the exchange rate. A more flexible exchange rate provides a buffer to external shocks.

However, we are still running a current deficit of around 1.8% of GDP. While this is a very manageable level — the safe level is 3% — there is a risk-off event it could trigger an outflow which would result in pressure on the currency.

GlobalMarkets: You wouldn't notice though would you, the impact of a rate rise by the Fed on your bonds? You issued after the rate rise and you have cheaper debt than you would have done

Participants:

Robert Pakpahan, director general of budget financing and risk management, Ministry of Finance, Republic of Indonesia

Aaron Gwak, head of capital markets, Asean, Standard Chartered

Aldian Taloputra, senior economist, Indonesia, Standard Chartered

Iman Rachman, finance director, Pelindo II

Orias Petrus Moedak, chief executive, Pelindo III

Silvano Rumantir, president director, Mandiri Sekuritas

Susiwijono Moegiarso, acting executive director, Indonesia Eximbank

Toby Fildes, managing editor, *GlobalMarkets*, *GlobalCapital*

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the week before the rate rise, so explain that to me!

Pakpahan, Republic of Indonesia: The market had got a little ahead of itself and probably priced too much in ahead of the rate rise. After the FOMC announced the higher rate US Treasury yields declined. Sometimes this financial market confuses us all! But anyway, the government of Indonesia is happy. We launched the US dollar sukuk deal after the FOMC decision and we got a better deal than we would have done before the rate rise.

Sometimes it is difficult dealing with a Fed Fund hike, but in general we know the general direction of travel — the interest rate is going to increase. That's why one of the strategies of the government of Indonesia is to complete all of our international bond market activities in the first semester of 2017.

GlobalMarkets: Excellent timing nonetheless.

Gwak, Standard Chartered: Over my career I've wanted the issuer to have a little bit of luck in picking markets and windows. Sometimes there's obviously a general plan behind it, but sometimes it's just that particular day.

But what I've noticed through meeting with investors globally is that the fundamental appetite for Indonesia is very strong. So, yes, where the Treasuries trade on a particular day will influence the ultimate coupon and the price that Indonesia has to pay, but overall demand for Indonesia risk is robust.

Fundamentals I think do still play a big part and the fundamentals of Indonesia are currently in fashion.

GlobalMarkets: The Indonesian government has, of course, established itself as one of the most sophisticated sovereign borrowers in the international markets. How is this important for the development of debt capital markets in Indonesia?

Moegiarso, Indonesia Eximbank: It is very important as this reflects the credibility of the sovereign in the eyes of international investors. To develop our debt capital market, we still need influence from international investors' investment to attract domestic investors.

GlobalMarkets: What are the opportunities for other Indonesian borrowers to access the international markets?

Rachman, Pelindo II: We issued a global bond in 2015, a 10 and 30 year \$1.6bn deal. We have a natural hedge because some of our income is in US dollars so that is why we can issue in dollars rather than solely Indonesian rupiah bonds. Secondly, our port development projects require longer term debt, which is not always available in the local currency bond markets but can be found in international dollar markets. Additionally our ratings are very similar to the government of Indonesia so we can issue at very similar rates to the sovereign.

Moedak, Pelindo III: Yes, it is fortunate for Pelindo II that they have long term contracts with US dollar income. Right now, for us, we cannot use the US dollar market because the exchange rate versus the rupiah is not favourable and our funding needs are in rupiah. So if port companies want to issue dollar bonds I think the challenge will be the exchange rate.

GlobalMarkets: Because it will need an expensive derivative.

Gwak, Standard Chartered: Asset-liability and length-maturity matching are some of the reasons why a lot of issuers, pan-region, look to the international bond markets to issue. It's a market where 30 year liquidity is plentiful, and in fact 30 year liquidity is sometimes more plentiful than shorter term liquidity.

GlobalMarkets: What role has the sovereign played in setting a benchmark for non-sovereign borrowers?

Pakpahan, Republic of Indonesia: Certainly one of the roles the government plays is to provide a reference to potential corporate borrowers when we issue in the dollar market.

Gwak, Standard Chartered: For example, Indonesia Eximbank was the most recent issuer and when they came to market, they very successfully priced at a premium of about 25bp-35bp over the sovereign. But the fact that it is referenced is really thanks to Robert and his team's efforts to establish a yield curve that is not only out there, but also actively traded and therefore a very good reflection of the current risk premiums that you need to pay.

Rumantir, Mandiri Sekuritas: From our perspective at Mandiri, obviously we deal with a lot of local corporates as well as State-owned enterprises [SOEs]. As Aaron said, the more established the sovereign curve is then the more reference is available for non-sovereign issuers.

Typically, with very few exceptions, the non-sovereign can only access tenors less than what the sovereign can access. Even Eximbank issued a seven year as opposed to a 30 year — not because they cannot, but they want to match on the LM side of things. If you look at the private sector corporates, the sweet spot is even less — five, maybe seven years. So clearly there is a direct role that the government is playing by becoming a regular issuer of local bonds.

GlobalMarkets: Despite the local currency requirements, can we expect the non-sovereign issuer base to continue to grow over the next couple of years?

Gwak, Standard Chartered: One of the things that we did hear being asked, when going out to meet with investors and through our trading platform, was the participation of SOEs in terms of issuance because it's been quite a while since

the SOE sector has been prolific in issuance.

From an international investor perspective, now that we have a very liquid and well established yield curve for both conventional bonds as well as sukuk set by the Republic of Indonesia as well as the euro curve that it is building, why aren't more people taking advantage of it? We have a few that have very good liquid points in the market, but we just haven't seen more of it and investors are keen to see more of it.

Rumantir, Mandiri Sekuritas: The market has noticed that some of the previously regular non-sovereign SOE issuers have not been in the market for a few years — the Pertamina, the PLNs, for example. Although I'm sure they're looking at the market on a regular basis, they have not been active recently. But we probably should look at this in a positive light, because, one: maybe they don't need as much liquidity from the external offshore bond market, and two, they have alternative sources of funding.

GlobalMarkets: Are the much-vaunted reforms that are coming into the SOE sector, by which I mean the consolidation of various industries, making people pause to see what's going to happen?

Rumantir, Mandiri Sekuritas: It depends on the industry sector. In the case of Pertamina, for example, obviously there's a global commodity price that is affecting their capex. Whereas, for Perusahaan Listrik Negara (PLN) the reasons are very different. It's very domestic. It's very budget-driven. It's very affordability-driven as well. So it very much differs between one SOE and the other.

Gwak, Standard Chartered: Liability management activities should also be considered as part of this discussion. Standard Chartered and Mandiri Sekuritas jointly helped Pertamina do open market repurchases of some of their bonds that were a little undervalued. It wasn't a huge amount but it was substantial enough.

GlobalMarkets: Robert, why have the SOEs been so quiet over the last couple of years?

Pakpahan, Republic of Indonesia: For Pertamina they don't have liquidity issues. They have had enough money over the last two years, despite declining oil prices.

PLN does actually need financing because it has got assignments to build 35GW of power capacity, although they got a loan from a multilateral, which might partly explain why they have not come to market yet. But I think soon they will come to the market.

Pelindo has come in, Eximbank has come in and we will see more come in.

If you look at the infrastructure development in Indonesia, around 40% will be handled by our state budget but around 25% will be built and financed by the SOEs. The state can help them with capital injections but they will need to go out and raise capital as well.

There is a lot to do — a lot of assignments have

already been handed out and will be handed out that will need private financing, such as power, toll roads, ports, water, airports, rail links.

So certainly, the demand for financing will be there. If the revenues are in rupiah then they will probably have to issue in local currency. But if they have some revenues in US dollars, like Pelindo and Pertamina have, they can issue in US dollars. But whether it's in the domestic market or the global market, soon we will see more and more demand to issue bonds.

Gwak, Standard Chartered: I agree with Silvano's earlier point about looking at it from a positive perspective, and as Orias has mentioned as well, I think there are a lot of liquidity alternatives to a dollar bond. Gone are the days when a dollar bond was the only option for Indonesia. Now there's quite a prolific domestic rupiah bond market that a number of construction companies, for example, have accessed, or are in the process of accessing.

And although the tenor hasn't yet extended all the way to that of the international bond markets, at least there's certainly some scope for that. And we shouldn't forget the loans and bonds discussion. The ability for banks to lend in domestic currency, as well as foreign currency onshore, has increased greatly in recent times.

GlobalMarkets: That brings us on to the standards and requirements and the concept of ratings. Aaron, what are the extra requirements for issuers contemplating international markets?

Gwak, Standard Chartered: International investors are obviously chasing one thing — yield. So the higher the yield the better. Obviously, there is a fine balance between yield and credit appetite. But in general, because there's an underlying demand for Indonesia as a credit, that's been very helpful. So even across different maturities, in fact, investors are very willing to participate.

Now, one of the things we have really yet to see, from a structural perspective, is corporate hybrids, a type of deal that gives equity accounting credit for corporates that issue perpetual bonds. But most of the Indonesian companies and especially the SOEs have quite prudent leverage policies and so are not really in a position to have to contemplate such deals.

Investors are generally incredibly liquid and looking for opportunities to invest.

GlobalMarkets: Does that mean their standards might drop a little?

Gwak, Standard Chartered: No, it's not so much a question of standards. It doesn't mean investors are willing to see covenants start to fall away. It's less from a demand pool perspective but more from a supply perspective.

GlobalMarkets: But let's say if there was that supply, what are the requirements the international investor will be needing from issuers?

Rumantir, Mandiri

Sekuritas: It depends whether we're talking about first time issuers or repeat issuers. For debut issuance in the international markets by issuers that have access to domestic bond markets, it will still be an upgrade in terms of requirements, but it will not be as cumbersome as for a company that has never entered any bond market.

Rachman, Pelindo II: **ORIAS PETRUS MOEDAK PELINDO III**

I have a quite interesting experience regarding roadshows. We did a non-deal roadshow after we issued in May 2015. Then last October we did a non-deal roadshow for the investors. Before we did the latest roadshow our pricing was below par while on other issuers' bonds the pricing was above par. However, once we had completed our non-deal roadshow we noticed our pricing had moved into line with others. We concluded that investors value communication with the issuer, and they like it on a frequent basis.

Gwak, Standard Chartered: That's right. The Republic of Indonesia is certainly a beneficiary of consistent investor outreach; they have been going out to meet investors on a regular basis, and at the same time, investors feel that there's a clear channel of access to information when required. This has been the mantra that Robert's team has consistently built for many years, even through some of the more difficult times for the economy. A few years ago when the economy was going through current account issues, it didn't stop them from going out to engage with investors. People remember that and obviously give them credit for that. So I absolutely agree that a consistent outreach and the fact that people feel comfortable that they can always access the management and get information they need, is key.

Moedak, Pelindo III: All the SOEs that want to issue foreign bonds can fulfil the requirements of international institutional investors. But another issue is the approval process for offshore borrowing. In the past we needed six high level officials including the central bank governor and maybe that made many Indonesians a bit reluctant to go through that process. Now I hear the process only requires three senior officials but I think that's still a challenge. I suppose it means that if the company really needs the financing then the management will be prepared to go through that process.

GlobalMarkets: Given the amount of funding that's going to be required over the next couple of years is that a process that people are happy with? Three is better than six I suppose.



IMAN RACHMAN PELINDO II

Moedak, Pelindo III: If the company needs the funds then it will go through the process. It is a simple process, but it just needs time.

Pakpahan, Republic of Indonesia: The government is revising the regulations — they realise the need for the process to be simplified. But it is just trying to keep an eye on the amounts being borrowed — it is part of the risk management process.

GlobalMarkets: How do we go about making a deeper, more effective swap market?

Gwak, Standard Chartered: Unfortunately there is not a silver bullet solution — it will take time. But it is beginning to improve and it will certainly continue to improve going forward.

GlobalMarkets: Orias, you mentioned earlier that you would probably raise domestic currency bonds because your revenues are in rupiah. But if there was a deep and efficient swap market would you consider issuing in foreign currency?

Moedak, Pelindo III: When I was back at Pelindo II we discussed swaps and hedging. We agreed that if the total cost was close to the domestic market we would probably stick to the domestic market. Size is of course important though — if your requirement is over Rph10tr then you are better going overseas.

GlobalMarkets: We've mentioned ratings a fair amount so far, but is an international rating always necessary when contemplating international markets?

Gwak, Standard Chartered: In Asia more broadly, we have seen more unrated issuers come to market recently. Certainly, there have been a lot of Chinese names, the Lenovos of the world, for example, doing very big transactions in Reg S-only format on a non-rated basis.

For Indonesia, certainly from an SOE perspective, the rating has helped. Having said that, Standard Chartered was involved, in 2015, with

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ROBERT PAKPAHAN
REPUBLIC OF INDONESIA



SILVANO RUMANTIR
MANDIRI SEKURITAS

Garuda when it did a highly successful unrated \$500m sukuk.

So is a rating useful? Absolutely. But we are increasingly finding, especially for shorter tenor issuance, that liquidity is so deep and plentiful that those investors who require a rating are being outweighed by those who do not necessarily need a rating to invest, but are looking for more value.

GlobalMarkets: That presumably isn't necessarily a sustainable model, though. We've got very benign markets at the moment, but that can change very quickly.

Rumantir, Mandiri Sekuritas: As a general rule, the liquidity pool inherently shrinks when the issue is unrated. This is due to the simple fact that a large group of investors globally, and to some extent domestically, have an internal requirement for rated issuance. Having said that, there is also the private placement market or MTNs where liquidity is not as deep as the public market, but it may suit some unrated issuers.

Rachman, Pelindo II: One reason why we need a rating is that as an SOE we are sometimes audited by the state auditors. By having a rating for a global bond or local bonds it makes it easier for us to be compared with others and explain why our pricing is higher than the government's.

GlobalMarkets: Now, Standard & Poor's still has Indonesia at below investment grade. It doesn't sound like everybody's waiting for a full house of investment grade ratings to issue — demand is such that you could probably do deals whenever and wherever you wanted. But do you think it has had an impact?

Pakpahan, Republic of Indonesia: It may have had an impact — there are some funds that have internal rules that prevent them from buying us without an investment grade rating from S&P. But I must say that so far it feels like we have been treated as an investment grade issuer

by investors, if you look at the high demand for our bonds and the pricing we have been able to command in the market.

GlobalMarkets: Indeed, you were able to attract a huge over-subscription for your recent sukuk despite not having an IG rating from S&P.

Taloputra, Standard Chartered: Most of the bond indices that fund managers follow already put Indonesia

at an investment grade weighting. So, like the JP Morgan EMBI index, most conventional fund managers already treat Indonesia as investment grade. When S&P does upgrade the country we will probably see some additional inflow from non-conventional funds such as pension funds and insurance companies, especially from countries with low interest rates like Japan.

GlobalMarkets: What tax reforms could help the Indonesian bond market develop?

Pakpahan, Republic of Indonesia: The tax amnesty certainly should help because there has been more than Rph100tr of assets repatriated from outside Indonesia. I know most of these assets are still placed in the banking system. According to the law they have to stay invested in Indonesia for at least three years. Some of them are still in foreign currency. They're trying to find the instruments to channel out the asset. But slowly this money will be invested: some of it will go to bonds, either government bonds or corporate bonds. So there is potential there I think from the tax amnesty.

Other than that, there is also a simplification in the real estate investment trust sector, which in the past was subject to double taxation in Indonesia. Now the double taxation has been removed and it has reduced the tax burden significantly. That also may help capital markets, especially the liquidity in this type of instrument.

Moegiarso, Indonesia Eximbank: Perhaps some tax incentive mechanism can be considered for domestic investors, whereby the bigger amount of investment in the capital market, the bigger tax discount can be applied to the investment gain.

GlobalMarkets: Aaron, you mentioned hybrid bonds earlier. But what about high yield issuers? How responsive are international markets to high yield issuers from Indonesia?

Gwak, Standard Chartered: A case in point was Indika Energy's successful deal in early April, which was testament to the re-opening of the high yield market as a cost-effective source of funds for Indonesian corporates. Demand for Indonesia continues to be good and with the recovery of commodity prices in general, I think investors are becoming even more comfortable in putting money down.

GlobalMarkets: Do you expect to see a lot more over the next six months?

Rumantir, Mandiri Sekuritas: The honest answer is, we sure hope so: But the real answer is that corporates are reviewing their options very carefully. Some of the most sophisticated corporates are fully aware of what's happening in global markets. I think they are anticipating some asset reallocation, also in the equity side of the market — a flight to quality and more allocation to the US. We have seen a lot more high yield issuers from Indonesia in the last two or three months than we have in the last two years perhaps and all of them, I daresay, have met with very good responses.

You have companies who went through restructuring or who come from so-called depressed industries such as mining and they've been able to come to the bond market with flying colours. So, if that kind of market backdrop continues that is certainly going to motivate a lot of other corporates to either consider refinancing early or just take funding from the table before the market changes. This is especially true considering the dynamic on the Fed's policy stance, where the issue now is not only policy rate normalisation, but also the possibility of the Fed reducing its balance sheet.

GlobalMarkets: We've obviously had fantastic conditions the last two or three months and the realists in all of us do worry that markets can turn. Is there a sense that the markets will have to change sooner rather than later or can they carry on?

Gwak, Standard Chartered: In general it's difficult to say because, as you said, the realist in you will note that cyclicity is inevitable. It depends on just how long that cycle, or curve, can continue for. It doesn't seem to be a concern around liquidity per se, which would support the view that this will continue for quite a while. But if you take the view that sentiment unfortunately can move quickly, then that's what worrying more people.

GlobalMarkets: Is Indonesia more vulnerable to that quick shift in sentiment perhaps than other countries within its rating bracket?

Gwak, Standard Chartered: No, I don't think so.

Pakpahan, Republic of Indonesia: Looking at the general levels of appetite and activity, investors are quite consistent — they like our cred-

it. I remember the taper tantrum when there were outflows but things rebounded very quickly. Liquidity was always there and it was only a matter of months before things got back to where they were.

Rumantir, Mandiri Sekuritas: Market shocks will inevitably continue to be there. We can't be under any illusion that Indonesia will be totally isolated from market shocks. However, despite the 37% or 38% foreign ownership of government local currency bonds and roughly 50% of foreign funds in the IDX on the equity market, you have to look at the fundamentals.

This is evidenced by the support from the rating agencies — despite S&P's stance. Moody's and Fitch not long ago revised their outlooks on their already investment grade ratings to positive outlooks. This means that Indonesia's rating has the chance to be upgraded to BBB in the next six to 12 months.

GlobalMarkets: We've already mentioned sukuk and of course the sovereign recently did its blowout deal. But what can be done to further develop the market and broaden its appeal to both issuers and investors?

Rachman, Pelindo II: Yes, the issue with us, as I've mentioned earlier, is that our funding needs are around 13 to 15 years but the sukuk market's sweet spot is shorter than that, around seven years. Size is also an issue — I'm not sure the sukuk market could cater for large deals such as our \$1.6bn global deal of 2015.

Gwak, Standard Chartered: You diversify when you want to expand the different pockets of demand you have access to. Which is what the Republic is doing. It has access to the US dollar conventional market, it has developed the sukuk market, it has developed the euro market, and the yen market. So it now has a very diverse pool of pockets of investors that it can tap into.

One of the things that have changed in the sukuk market, most recently, is the inclusion of Islamic deals into a lot of the bond indices. Previously, sukuk issues were not included in the EMBI, for example, but now they are. Indonesia's recent sukuk was the first that was issued on a primary basis that acceded into the index. If you look at the five year tranches, the spreads of the conventional and sukuk are flat.

Pakpahan, Republic of Indonesia: From the supply side the government of Indonesia has shown a persistence in continuously supplying sukuk both in local currency and in dollars. Sukuk now make up 29% of our total issuance.

GlobalMarkets: Do you expect yields to carry on falling in Indonesia, Robert?

Pakpahan, Republic of Indonesia: I hope and I want them to fall because one of the assignments given to me by the minister of finance was to lower our cost of financing! If we look at the economic

fundamentals of Indonesia I think the yield should continue to come down for our issues, both for local currency and US dollars.

Economic growth is consistently stable and high, but the most important number is inflation which has declined dramatically since 2014. It is now slightly above 3%, which means now we have the right to ask for cheaper funding.

Gwak, Standard Chartered: Inflation and stability of the FX are contributing factors to a slow decline in yields. This begs the question of whether falling yields will put off some investors who are just chasing yield. But declining yields is a global trend so it's all relative.

GlobalMarkets: Is Indonesia in that sweet spot where the ratings are good but the yields perhaps slightly richer than similar credits?

Rumantir, Mandiri Sekuritas: At the end of the day, investors will calculate their risk-return analysis with other EMs. If we compare Indonesia with other EM local currency bonds, Indonesia's government bond yields have fallen on average 80bp year to date. The 10 year nominal yield and the real yield, by which we mean the nominal yield minus the inflation rate, for Indonesian government bonds are still very attractive, as Robert was mentioning. It ranks approximately number five — the same as last year compared to other EMs in both nominal and real terms. Moreover, the rupiah is currently one of the most stable EM currencies year to date. So there is merit for the government to ask for a bit more tightening or compression.

GlobalMarkets: But will much lower yields drive SOEs into the market? It's not so much a demand problem, more of a supply one — you don't necessarily need to borrow money at the moment.

Moedak, Pelindo III: Yes, it comes back to the needs and at present, despite excellent borrowing conditions, we have no real foreign currency borrowing need.

Gwak, Standard Chartered: One of the things we could see, for example, in the domestic bond markets is that as yields drop and people get more comfortable with the sovereign as a credit, then more foreign investors come into the local currency bond markets for corporates, including the SOEs. Basically going down the value chain, so to speak. It would be very positive if we, for example, saw more foreign investors coming into a Pelindo domestic currency deal. Those are some of the things that we have yet to see, but if that happens, it would be very encouraging and would be one of the results of a very sharp or constant depression of yields.



SUSIWIJONO MOEGIARSO
INDONESIA EXIMBANK

GlobalMarkets: Orias, as a domestic issuer of rupiah bonds would you like to see foreign investors in your domestic deals? Would you care?

Moedak, Pelindo III: I think we just care about the money... but foreign investors coming in would be a good thing — it could create price tension. We are issuing bonds actually this year, we are aiming for Rph5tr in the domestic market. So foreign investors are most welcome!

GlobalMarkets: Infrastructure finance is such a crucial issue for Indonesia, given the amount of investment required. How can we get the bond market involved?

Pakpahan, Republic of Indonesia: We will soon see an increasing number of SOEs and corporates issuing bonds because the infrastructure projects are now beginning to be started. In addition, we have the public-private partnership projects, which I also oversee. These are the non-budget infrastructure projects. Last year 16 PPP projects were signed. Six of them have already reached financial close. These include electricity, water, toll road and fibre optic PPPs. In the pipeline, there are 21 PPPs for this year. So the combination of the SOEs and corporates and the PPPs will create huge amounts of supply in the bond markets.

Gwak, Standard Chartered: The model of recycling of capital for infrastructure projects is something we hope to see more of going forward. Project bonds are certainly something that from an Asean Forum perspective is an important part of the agenda. We believe that investors looking for very long term investments would find it very attractive, especially because of the asset base that it has.

Rumantir, Mandiri Sekuritas: OJK [Indonesia's Financial Services Authority] last year introduced a rule to allow pension funds and insurance companies to invest in SOE corporate bonds to fulfill at maximum half of the 30% requirement for government bonds. So out of the 30% requirement 50% of that they can invest in SOE bonds. Now clearly this will help the SOE segment. Year to date, there is approximately Rph3.3tr of SOE infrastructure-related bond issuances and all of this has been oversubscribed and coupons have been relatively attractive. So I think the government is actively reviewing its policies to boost domestic participation in infrastructure and long dated instruments. **GM**



IRELAND AND BREXIT

Ireland's passport to success in a post Brexit world

ALTHOUGH IRELAND WILL NOT ESCAPE ENTIRELY THE DISRUPTION CAUSED BY BREXIT, THE POTENTIAL FOR THE COUNTRY TO BENEFIT IS SIGNIFICANT AS BANKS AND OTHER FINANCIAL SERVICES COMPANIES CONSIDER MOVING AWAY FROM LONDON.

“Given Ireland’s high level of exposure to the UK economy, we expect the overall effect [of Brexit] to be negative and material,” said Sharon Donnery, Deputy Governor of the Central Bank of Ireland in a speech in February.

With the UK accounting for about 15% of Ireland’s exports, it is easy to see why policymakers in Dublin are jittery about Brexit. But it is important to put Ireland’s exposure to the UK in perspective in several ways. First, following a highly successful diversification drive over the last 40 years, Ireland is much less dependent on the UK than it was in the 1970s, when more than 50% of its exports went to the UK. Today, the US is Ireland’s largest export market.

Second, although Brexit may have a negative impact on Ireland, it is not going to stop the Republic’s economy in its tracks. Ireland grew by 5.2% in 2016, making it Europe’s fastest growing economy for the third consecutive year. Record inflows of FDI last year, meanwhile, helped to underpin an extraordinarily robust labour market. According to Ireland’s inward investment promotion agency (IDA), total employment at IDA-supported overseas companies in Ireland now stands at a record 199,877 people, which is almost 10% of national employment.

Third, depending on the form Brexit takes, some sectors will inevitably be hit much harder than others. The probable impact on the financial services industry in Ireland has attracted more attention than most other sectors since the UK’s referendum on EU membership. This is unsurprising, given that financial services in Ireland accounted for about 5% of the total workforce in Q1 2016. Its gross value-added (GVA), meanwhile, accounted for 8% of GDP in 2014, according to a report published last year by the Department of Finance. This compares with just under 5% of GDP in the euro area.

RELOCATION LOCATION

The focus on Ireland’s financial sector is also unsurprising given the widespread belief that Brexit is likely to trigger a relocation among many banks and other financial services companies away from London. Conventional wisdom is that established EU financial centres

such as Dublin, Luxembourg and Frankfurt will be the chief beneficiaries of any migration out of the UK. This is principally a reflection of the loss of so-called “passporting” rights, allowing firms in one member country to market their products anywhere in the EU.

Some have argued that the loss of passporting may be compensated for by “equivalence”, whereby laws in non-EU countries can be recognised in the EU if they are judged to be sufficiently tough. But David Dalton, consulting partner and financial services industry leader at Deloitte in Dublin, doubts that London-based firms will be able to rely on equivalence post-Brexit. “Passporting is an important element in the UK’s role as a global financial hub and losing it will be significant,” he says. “Assuming it will be a hard Brexit, this means that many of the structures established in the UK and associated branches across the EU will cease to operate post-Brexit, potentially creating significant disruption to business and customers.”

“IN THE INVESTMENT MANAGEMENT SPACE WE SEE A NUMBER OF INCUMBENTS EXTENDING THE SCOPE AND SCALE OF WHAT THEY DO IN IRELAND. —DAVID DALTON, CONSULTING PARTNER AND FINANCIAL SERVICES INDUSTRY LEADER DELOITTE, DUBLIN



“The term ‘equivalence’ has been offered up as a potential solution, but this has a very strict meaning within EU law and doesn’t extend to the more vague mutual recognition interpretation that some commentators have adopted,” Dalton adds. “There is a possibility that such mutual recognition could be achieved via the negotiation process, but this is likely to face fierce political challenge.”

Misgivings about the future of passporting may be one reason why Dublin can be expected to attract a range of financial services companies, which Dalton says should extend beyond the investment management industry. “In the investment management space we see a number of incumbents extending the scope and scale of what they do in Ireland while there is also likely to be a small number of sig-

nificant entrants, specifically those with UK and US heritage,” he says. “There has been some activity in the payments and fintech sector and we expect that this will continue to gain momentum into next year as the realisation of Brexit takes hold.”

Dalton echoes a number of other observers, however, when he says that while the potential for Ireland is “significant”, he is cautious about predicting a bonanza for the country’s financial services industry, given that Brexit opens up relocation opportunities for all European businesses. “This could see firms, or certain lines of firms, leaving Ireland,” he says.

A WAITING GAME

Against this backdrop, it is unsurprising that the focus of Deloitte’s clients to date has been on evaluating the competitive credentials of jurisdictions across the EU. “Ireland has generally performed well in this analysis,” says Dalton. “While a number of authorisation submissions have been made to the Central Bank of Ireland, the majority of firms are playing a waiting game and balancing the need to progress their authorisation programme and learning more from the developing negotiation process. These firms have been performing ‘non-regret’ activities in the meantime, including preparing authorisation documentation.”

Again, it is important to put the impact of Brexit in perspective, because the Irish financial services industry had been growing at a very impressive clip long before the UK government announced its plans for a referendum on membership of the EU. According to the Irish Funds Association, more than 800 investment firms are active in Ireland, with €300bn now managed from the country.

For those considering relocating to Ireland, Dublin certainly has plenty to offer professionals. A survey published by Movinga in March on the best cities for professionals post-Brexit named Dublin as top of the rankings for bankers, with Amsterdam second and the established banking hubs of Frankfurt and Paris well behind in sixth and ninth. In the Mercer Quality of Life Survey for 2017, meanwhile, Dublin was ranked 34th out of 231 cities, above London, which was 40th. ■



Myanmar's macroeconomic outlook

Myanmar, which has a population of 51 million people, is located at the tri-junction of South Asia, South-East Asia and East Asia. It shares borders with the world's second

biggest economic power, China, and the fastest growing regional economies, India and Thailand. Myanmar's extensive coastline stretches 1,739 miles (2,800 km) and its access to the sea gives it the potential to become a vital trading hub between South Asia, East Asia and Southeast Asia.

Myanmar is in a smooth transition to a democratic nation. In shaping an investor-friendly business climate, the Myanmar Investment Law (MIL) was enacted in October 2016. Myanmar was the only country in ASEAN which had separate investment laws for foreign investors and Myanmar citizens. With the aim of creating a level playing field and complying with regional best practice, Myanmar incorporated, with the assistance of the International Finance Corporation (IFC), these two laws into one, single coherent law.

One of the key goals of the new MIL is to streamline and simplify procedures for foreign investors. In order to fully implement the MIL, the Union Government recently published the Myanmar Investment Rules that will support the MIL. The most significant aspects of the new MIL are the investor protection elements and grievance mechanism. In addition, investors will be granted different levels of exemption depending on the type of investment and location. It will also provide a streamlined, automatic approvals process for some projects, and aims to make the investment climate more friendly overall.

The current governing law of companies in Myanmar is the Myanmar Companies Act which was enacted in 1914. Some of the provisions are obviously outdated. Recognizing that the simplification of procedures and ease of doing business are extremely important in entering a market, Myanmar is making all-out efforts to amend the Myanmar Companies Act. With the assistance of the Asian Development Bank (ADB), Myanmar is modernizing the current situation, reducing procedures of registration and performing company registrations online. The redrafted Companies Law (MCL) has been submitted to the Parliamen-

tary Bill Committee and will be discussed in the upcoming session of the Hluttaw.

The new law provides the introduction of single-shareholder and single-director companies. In the new law, the Company Registrar has more administrative powers to enforce compliance with the law and ensure the accuracy of information submitted by companies. This new law will also help SMEs be the main beneficiaries of simpler company administration requirements which will lower compliance costs. If the MIL and the MCL come into effect, they will help streamline company procedures, lower compliance costs, facilitate investments in Myanmar and provide more protection for investors.

The more flexible capital structures and changes to share capital in the new regulatory environment will allow companies to raise or reduce capital with fewer procedural requirements. It will also help to develop the capital

“THE INVESTMENT LANDSCAPE IN MYANMAR, HAS SEEN A TOTAL OF 1,246 PROJECTS WITH THE TOTAL PLEDGE AMOUNT OF \$70,350.89M PERMITTED AS OF MARCH, 2017

—HE KYAW WIN, UNION MINISTER OF PLANNING AND FINANCE AND CHAIRMAN OF MYANMAR INVESTMENT COMMISSION, UNION OF MYANMAR

market in Myanmar. The Yangon Stock Exchange was established in 2016 and the development of capital markets in Myanmar will lead to significant demand for banking and securities, accounting and legal professionals. Myanmar's financial sector development and growth in the stock market are government priorities because the country's financial sector remains underdeveloped.

The investment landscape in Myanmar, has seen a total of 1,246 projects with the total pledge amount of \$70,350.89 m permitted as of March, 2017. China is the largest single investor followed by Singapore and Thailand. The oil and gas sector receives the lion-share of FDI.

Agriculture is the backbone of Myanmar's economy, with approximately 70% of its population engaged in the agricultural sector. Myanmar's abundant natural resources and diverse agro-ecological conditions provide a wealth of opportunities for foreign investment across the entire supply chain.

Myanmar has achieved very strong

progress in the information technology sector. The penetration growth of the mobile market has risen from 7% in 2013 to over 80% as of April, 2016, or 43 million subscribers. Mobile broadband has experienced very strong growth, driven by rapid growth in the mobile sector. Penetration has increased from 15% in 2014, to 26% in 2015 and 35% in 2016. Strong growth is predicted over the next five years, however at a slower rate.

Myanmar has one of the lowest electrification rates in Asia with only 30% of the population having access to electricity supplies.

With the economic transformation now underway, Myanmar's energy demand is growing and the Union Government has placed a great deal of emphasis on reforming the energy sector. Myanmar's National Electrification Plan aims to achieve 100% electrification by 2030 and will involve a total capacity of 24,000MW of electricity, requiring vast infrastructure investment in the power sector because the country is in dire need of increased electricity generation and distribution.

The Myanmar Investment Commission has recently announced that a number of areas of business activity will be 'promoted areas' with taxation benefits for investors. These sectors include agriculture, livestock, manufacturing, establishment of industrial zones and new urban areas; construction of roads, bridges and railway lines, seaports, river ports and dry ports, airports, power, telecommunications; education services, health services, information technology services, hotel and tourism and science research and development businesses.

A vast range of untapped investment opportunities exist in Myanmar's establishment of Special Economic Zones (SEZ) namely, Dawei SEZ, Thila SEZ and Kyaukphyu SEZ and industrial zones. There are four Asian Highways, ASEAN routes and Greater Mekong Subregion (GMS) Corridors passing through Myanmar. Therefore, Myanmar will play as a land bridge linking to ASEAN countries and South Asian and East Asian countries.

With the lifting of US sanctions last year and the granting of the Generalized System of Preference (GSP) by the US and EU — which will assist Myanmar's exports — the door to business opportunities is now wide open for investors in Myanmar.

As a member of the ASEAN and GMS as well, Myanmar will provide an immense opportunity for investors to reap the benefits of regional co-operation and economic growth in the years ahead. ■

What's happening Wednesday, May 10

For the most up-to-date schedule information, please download the MyEBRD app available from the Apple, Android and Blackberry store



9.00am - 10.00am

Board of Governors' Opening Session
Location: Zenon Kitiyevs A&B, Level 0, Filoxenia Conference Centre

10.15am - 11.15am

Jordan Investment Outlook Session:
Jordan: opportunities for public private partnerships for a greener economy

Moderator: **Heike Harmgart**, Head of Jordan, EBRD, Amman
Speakers: **Imad Fakhoury**, Minister of Planning and International Cooperation, EBRD Governor, Jordan; **Susan Goeransson**, Director, Head of MEI, EBRD; **Terje Osmundsen**, Senior Vice-President, Scatec Solar
Location: Jean Monnet Auditorium, Level 0, Filoxenia Press Centre

10.15am - 11.45am

Integrating Eastern Europe's regional gas markets

Speakers: **Petru Ion Vaduva**, CEO,

Transgaz SA; **Milosz Momot**, Senior Policy Coordinator, European Commission, DG NEAR; **Jayesh Parmar**, Partner, Baringa; **Erik Rakhou**, Senior Manager, Baringa; **John Roberts**, Senior Fellow, Atlantic Council
Location: Kerynia, Level -1, Filoxenia Conference Centre

11.00am - 12.00pm

Bosnia and Herzegovina Investment Outlook Session: **Improving the business climate and supporting private sector development**

Moderator: **Holger Muent**, Director, Regional Head of Western Balkans, EBRD
Speakers: **Ian Brown**, Associate Director, Head of Bosnia & Herzegovina, EBRD; **Gordan Milinic**, Director, FIPA; **Josip Polic**, Associate Banker, EBRD; **Mirko Sarovic**, Minister of Foreign Trade and Economics, EBRD Governor, Bosnia and Herzegovina;
Location: Yiasemi, Level 0, Filoxenia Press Centre

Don't Miss

10.00am - 11.00am

Civil Society: **Town hall with EBRD President Suma Chakrabarti**

Moderator: **Biljana Radonjic Ker-Lindsay**, Head of Civil Society Engagement, EBRD

Speakers: **Pierre Heilbronn**, Vice President, Policy and Partnerships, EBRD; **Alain Pilloux**, Vice President, Banking, EBRD; **Alan Rouso**, Managing Director, External Relations and Partnerships, EBRD; **Josué Tanaka**, Managing Director, Operational Strategy and Planning, Energy Efficiency and Climate Change, EBRD; **Alistair Clark**, Managing Director, Environment and Sustainability, EBRD

Location: Elia, Level 0, CSO Meeting Room 1, Filoxenia Conference Centre



11.00am - 1.00pm

The role of Civil Society in promoting transition resilience

Moderator: **Cristina Buzasu**, Acting Principal Manager, Civil Society Engagement, EBRD

Speakers: **Alan Rouso**, Managing Director, External Relations and

Partnerships, EBRD; **Joan Hoey**, Regional Director, Europe, The Economist Intelligence Unit (EIU); **School of Public Policy research team**, Central European University

Location: Elia, Level 0, CSO Meeting Room 1, Filoxenia Conference Centre

AccessBank

Your Accessible European Bank in Azerbaijan



2011
2012
2015
2016



2010
2011
2012
2013
2014
2016



2011
2013
2015





Sustainability, EBRD
Location: Elia, Level 0, CSO Meeting Room 2, Filoxenia Conference Centre

11.30am - 1.30pm

How important is trust for the functioning of institutions?

Moderator: **Milica Delevic**, Director, Governance & Political Affairs, EBRD
Speakers: **Francis Malige**, MD, Eastern Europe & Caucasus, EBRD, Kiev; **Marin Mrcela**, President of Group of States against Corruption/Groupe d'Etats contre la Corruption (GRECO); **Ivan Vejvoda**, Director Europe project, Institute for Human Sciences; **Tsogt Tsend**, Judge, Administrative Court of Appeals, Mongolia
Location: Halkos, Level -1, Filoxenia Conference Centre

12.00pm - 1.00pm

Kazakhstan Investment Outlook Session:
Modernisation of Kazakhstan – new investment in the region
Moderator: **Mattia Romani**, Managing Director, Economics, Policy & Governance, EBRD

Speakers: **Erbolat Dossaev**, CEO, JSC National Managing Holding 'Baiterek'; **Natasha Khanjenkova**, Managing Director, Central Asia and Russia, EBRD; **Nurlan Kussainov**, CEO Astana International Financial Centre Authority; **Anuar Omarkhojayev**, Deputy Chairman, JSC National Managing Holding "Baiterek"; **Bakhyt Sultanov**, Minister of Finance, EBRD Governor, Kazakhstan; **Bolat Zhamishev**, Chairman of the Board, Development Bank of Kazakhstan
Location: Jean Monnet Auditorium, Level 0, Filoxenia Press Centre

1.00pm - 2.00pm

Networking Lunch
Location: Networking Lunch Marquee

2.00pm - 3.00pm

Moldova Investment Outlook Session:
Investment opportunities of the Republic of Moldova

Seminar Pick

2.00pm - 3.00pm

Greece Investment Outlook Session: **Reinvigorating investment for sustainable growth**

Moderator: **Sabina Dziurman**, Regional Head of Greece & Cyprus, EBRD, Athens
Keynote: **Dimitri Papadimitriou**, Minister of Economy and Development, EBRD Governor, Greece
Speakers: **Ioannis Arapoglou**, Corporate Finance Director, Copelouzos; **Theodore Fessas**, Chairman, SEV; **George Handjinicolaou**, Board Chairman, Piraeus Bank SA; **Evangelos Mytilineos**, Chairman and CEO, Mytilineos Holdings SA; **Alain Pilloux**, Vice-President, Banking, EBRD; **Mathios Rigas**, Chairman and CEO, Energean Oil & Gas SA
Location: Kerynia, Level 1, Filoxenia Conference Centre



Moderator: **Dimitri Gvindadze**, Head of Moldova, EBRD
Speakers: **Octavian Calmic**, Ministry of Economy, EBRD Governor, Moldova; **Sergiu Cioclea**, Governor, National Bank of Moldova; **Thomas Moser**, President, Danube Logistics SRL
Location: Jean Monnet Auditorium, Level 0, Filoxenia Press Centre

2.00pm - 3.00pm

Forum Partner Session: **UniCredit 'Social infrastructure in emerging economies.**

The case for new financial instruments
Moderator: **Andrea Diamanti**, Head of Corporate Investment Banking, Central and Eastern Europe, UniCredit
Speakers: **Paolo Bozzolo**, Head of CEE Project & Commodity Finance, UniCredit; **Suzanne Gaboury**, Director Agribusiness, FMO; **Ekaterina Miroshnik**, Head of Infrastructure, Russia, Central Asia and Mongolia, EBRD, Moscow
Location: Yiasemi, Level 0, Filoxenia Press Centre

2.00pm - 4.00pm

Civil Society Working Level Session:
EBRD Projects in Natural Resources
Moderator: **Cristina Buzasu**, Acting Principal Manager, Civil Society Engagement, EBRD
Speakers: **Nandita Parshad**, Managing

Director, Energy and Natural Resources, EBRD; **Eric Rasmussen**, Director, Head of Natural Resources, EBRD; **Aida Sitdikova**, Head of Energy and Natural Resources in Russia, Caucasus and Central Asia, EBRD; **Alistair Clark**, Managing Director, Environment and Sustainability, EBRD; **Dariusz Prasek**, Director, Operations, Environment and Sustainability, EBRD; **Michaela Bergman**, Director, Chief Social Counsellor, Environment and Sustainability, EBRD
Location: Elia, Level 0, CSO Meeting Room 2, Filoxenia Conference Centre

2.30pm - 4.00pm

Civil Society and green cities
Moderator: **Marianna Wiedenbeck**, Associate Manager, Civil Society Engagement, EBRD
Speakers: **Mattia Romani**, Managing Director, Economics, Policy & Governance, EBRD; **Nigel Jollands**, Associate Director, Policy & Climate Finance, EBRD; **Anuela Ristani**, Chief of Staff, City of Tirana; **Dimitri Zengheli**, Co-Head Climate Policy, LSE; **Sorin Ionita**, Director, Expert Forum; **Nicholas Stancioff**, Co-founder, Latvian Baltic Energy Efficiency Fund
Location: Elia, Level 0, CSO Meeting Room 1, Filoxenia Conference Centre

11.00am - 4.00pm

Board of Governors' Plenary Session

Location: Zenon Kiteivs A&B, Level 0, Filoxenia Conference Centre

11.30am - 1.30pm

Civil Society Working Level Session:
EBRD Projects in Power & Energy Utilities

Moderator: **Marianna Wiedenbeck**, Associate Manager, Civil Society Engagement, EBRD
Speakers: **Harry Boyd-Carpenter**, Director, Head of Power and Energy Utilities, EBRD; **Aida Sitdikova**, Head of Energy and Natural Resources in Russia, Caucasus and Central Asia, EBRD; **Alistair Clark**, Managing Director, Environment and Sustainability, EBRD; **Dariusz Prasek**, Director, Operations, Environment and Sustainability, EBRD; **Michaela Bergman**, Director, Chief Social Counsellor, Environment and Sustainability, EBRD; **Mikko Venermo**, Associate Director, Lead Oversight Adviser, Environment and

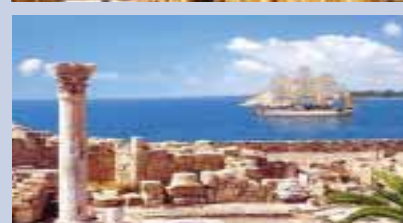
DownTime

6.00pm - 8.30pm

Reception

(all participants)

Location:
Archaeological Site of Kourion



North Korea

Continued from page 1

“Nobody wants a war — least of all North Korea,” he said, adding that the country “will not do anything that threatens its own existence”.

Koll added that “the real money is made by cooler heads who focus on the economic potential rather than the political noise — including the sabre rattling around North Korea.

“For global markets, [the threat of war] is counterbalanced by the enormous future potential of the region but this year, political uncertainty and unpredictability is tilting the balance to the negative.”

Tensions on the Korean peninsula have been high for weeks, driven by concerns that the reclusive state might conduct its sixth nuclear test in defiance of pressure from the United States and also from China following President Xi Jinping’s recent summit with Trump.

China’s embrace of green bonds clouded by regulation concerns

By Elliot Wilson

China is on track to become the world’s unalloyed leader in green finance, bankers and investors say — so long as Beijing and the world can agree what constitutes an eco-friendly use of investment capital.

According to Henry Shilling, a senior vice president at Moody’s environmental and social governance group, China “has the potential and the platform to be a global leader” in green finance. China accounted for 42% of all global sales of green bonds in 2016, according to data from Dealogic — up from just 3.5% the previous year — completing 42 prints worth \$33bn.

Rahul Sheth, an executive director in Standard Chartered’s capital markets team in Singapore, pointed to two key factors that underpinned China’s rapid rise to global pre-eminence in the asset class. First was the “galvanising impact of a regulatory-push factor”, with regulations drawn up in December 2015 by the People’s Bank of China having lit a rocket under issuance.

Second was China’s desire to “green the entire finance system, including insurance, loans, stocks, bonds, and initial public offerings”, Sheth said. “This is a long-term, holistic process on China’s part. They are committed to this process.”

To that can be added two other motivating factors. China is keen to staunch a sharp rise in capital flight — or at least, to equalise flows — by convincing foreign investors to put cash to work in local green bonds.

Counterbalancing this is a quiet but bitter wrangle over the definition of green financial instruments. Beijing considers clean coal and hydropower to be prime examples of green energy, a view which conflicts sharply with that of almost every other global regulator.

(See website for full story)

THE final word

Anchoring the Philippine economy amid rough seas

By Amando M. Tetangco, Jr.

In light of increased global connectivity and in the aftermath of the global financial crisis, the role of central banks in emerging economies has evolved and grown in importance. Connectivity has heightened the possibility of contagion to EMs from external headwinds — interest rate movements in advanced economies, geopolitical tensions, gyrations in oil prices and slowdown of major trading partners, among others.



PHILIPPINE SCENARIO

The Bangko Sentral ng Pilipinas (BSP) has been able to help keep the Philippine economy afloat amid these rough seas. This is evidenced by the Philippines’ sustained and robust economic growth, averaging 6.3% during 2010-2016, one of the fastest in the world, while keeping inflation low and stable.

The guiding principle the BSP observes is sound and pre-emptive monetary policy and bank supervision. Sound, meaningful actions are based on data from the ground. Pre-emptive, because it is forward-looking, scoping the risks ahead and implementing appropriate measures.

In the case of monetary policy, being sound and pre-emptive includes assessing available tools (e.g., key interest rates, reserve requirements, term-deposit rates, etc.) and deciding which ones are apt for guarding against off-target inflation.

In the case of bank supervision, it means implementing regulations (e.g., capitalisation requirements and risk management) that help supervised institutions, individually and industry-wide, stay robust even if identified or unexpected risks materialise.

Being sound and pre-emptive also means having a financial stability perspective to overlay monetary and banking supervision policies. As such, the BSP policy tool kit is now enhanced to include macroprudential measures, to control systemic risk.

All these require balance, because while moving pre-emptively, the BSP also needs to ensure that

its actions are carefully calibrated to avoid costly unintended consequences.

MILESTONES

In the area of monetary policy, we have enhanced our inflation-targeting framework. With sophisticated monitoring and forecasting tools, the BSP has better predicted price behaviour, leading to low and stable inflation that has benefitted consumers and investors.

In the area of bank supervision, a noteworthy achievement is industry growth on the back of prudent regulations. Calibrated implementation of Basel III principles and risk-based supervision has helped maintain stability of banks.

Now, the Philippine banking system is one of the most resilient in the world. It has reliably funded investment requirements of the economy, while keeping bad debts low and capitalisation levels sufficient.

In the areas of payments and settlements, as well as financial inclusion, milestones respectively include regula-

tions that encourage the use of e-money with proper safety nets, and those that promote financial services for micro clients.

“*The guiding principle the BSP observes is sound and pre-emptive monetary policy and bank supervision. Sound, meaningful actions are based on data from the ground*”

WHAT LIES AHEAD

The milestones reflect a strong BSP institution. And so, when I step down in July, after serving two terms as BSP governor, I am confident the BSP will continue to pursue its mandate of price and financial stability conducive to sustainable economic growth, even in the face of external headwinds and other risks whose potential impact authorities have yet to fully grasp. It cannot go wrong if it adheres to the principles of sound and pre-emptive policymaking.

While challenges await the next captain of the ship, it is safe to say that BSP will remain a pillar of strength of the Philippine economy, which is widely anticipated to remain one of the fastest growing in the region and the world. GM

Amando M. Tetangco, Jr. is Governor of Bangko Sentral ng Pilipinas (BSP)

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