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Infrastructure Index

A new direction:  
Asia-Pacific – is China's Belt and  
Road an investment bonanza?

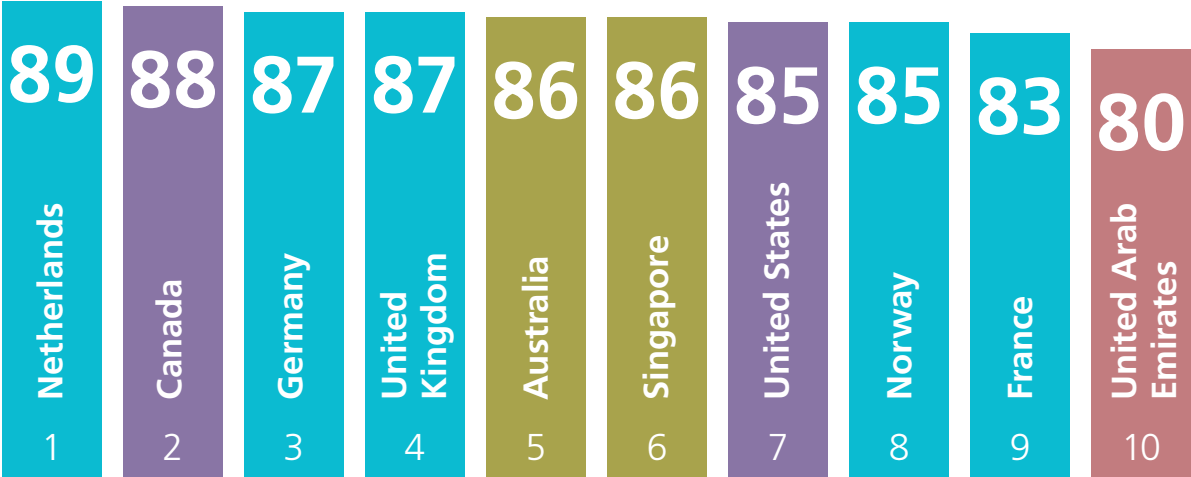


# The Infrastructure Index results

The CMS Infrastructure Index analyses data across 40 jurisdictions against six key criteria to create a guide to the most attractive destinations for infrastructure investment.



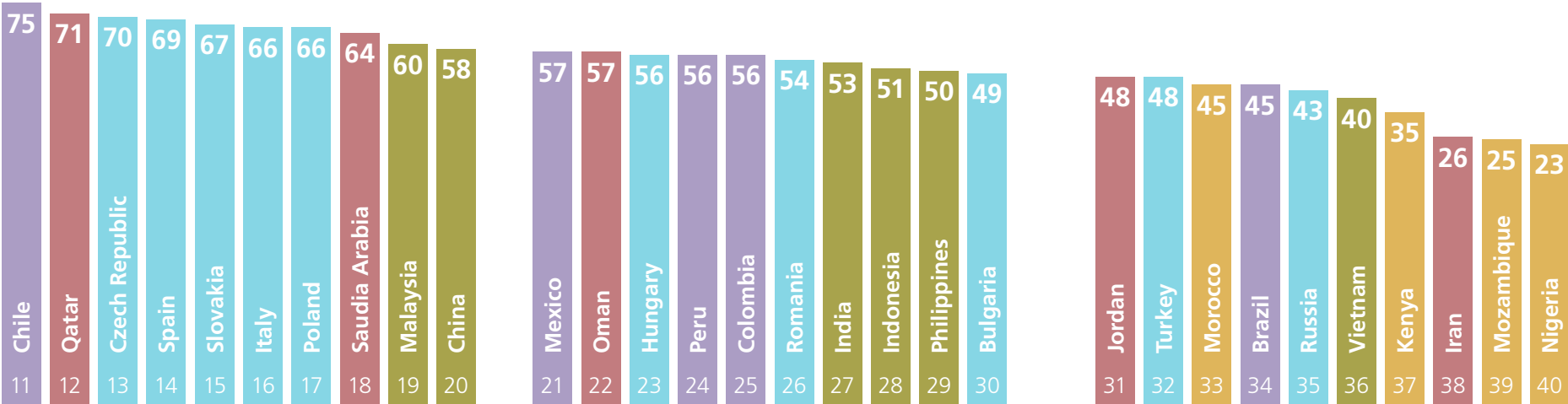
Top 10



The vast part of the Asian continent is set to benefit from China's Belt and Road Initiative, considered the world's largest infrastructure project since the Marshall Plan.



Countries ranked 11-40



Top regional influences

Two large **airport projects**, in **Singapore** and **India**, are building the region's capabilities as a global hub.



**Renewable energy**, especially **solar**, is a focus in **Australia**, **India** and **Malaysia**.



The **Asian Infrastructure Bank**, based in **Beijing**, is financing a **pipeline** across the whole Asia region.



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# A new direction

Creating an attractive environment for investors in infrastructure is no easy task. Politics and policy can make or break private participation and the flow of investment. Something that has never been clearer than in the CMS Infrastructure Index that ranks 40 jurisdictions in order of infrastructure investment attractiveness.

This supplement to the Infrastructure Index examines the opportunities in Asia-Pacific.

Asia-Pacific contains some of the fastest growing economies in the world, and each jurisdiction is focused on creating a pipeline of opportunities for the development of infrastructure in ports, roads, rail and energy.

Australia ranks highest in the region, positioned fifth. This is thanks to the sheer size of its robust economy, ambitious renewables generation plans and leading financial services firms that are able to provide large sums of private capital to fund the pipeline of infrastructure projects.

Singapore ranks sixth overall. It's favourable tax environment and political stability make it extremely attractive to investors. There is a pipeline of infrastructure projects underway including an airport (Changi Terminal 5), a shipping megaport (Tuas Mega Port), a high-speed rail (KL-Singapore HSR project) as well as the likes of 4G and fibre optic networks to create a country that is at the forefront of building smart cities.

Opportunities in the likes of India are plenty, subject to the government providing some certainty to the private sector capital that is waiting to invest.

The infrastructure gap in many of Asia-Pacific's developing nations is rapidly being filled by the promise of China's grand Belt and Road Initiative and deep pockets. Whilst China ranks 20th in the Index, it's Belt and Road Initiative expects to have close to a trillion dollars being invested worldwide. Aimed at stimulating economic growth across Asia and beyond, the Initiative will build infrastructure to connect countries across Asia and further afield. Notwithstanding this, the Index highlights the importance of government stability and political certainty to ensure the successful close of infrastructure projects. The fragile political environment of some of the countries involved in the Belt and Road Initiative may pose a risk to its success.



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# Asia-Pacific infrastructure opportunities

## India (Rank 27)



One project of great interest is the greenfield, Rs 16,000-crore (US\$2.4bn) Navi Mumbai International Airport, which saw GVK and Airports Authority of India selected as preferred bidder.

## China (Rank 20)



While China only ranks twentieth in the Index, the country is set to be the continent's engine of infrastructure investment for years to come.



The world's largest energy-from-waste plant is being built in Shenzhen.

## Vietnam (Rank 36)



Development of a new \$2.5bn deep water port in Hon Khoai was approved in 2015.

## Indonesia (Rank 28)



In May 2017, China Development Bank signed a US\$4.5bn loan for the construction of the 140km high-speed railway between the capital Jakarta and Bandung.

## Malaysia (Rank 19)



The largest ever solar generation auction was held in August 2017, in which BayWa r.e. emerged as one of the winners to develop a 5MW project in the country.

## Australia (Rank 5)



Australia has an ambitious renewables plan, with a federal target of at least 33,000GWh of Australia's electricity coming from renewable sources by 2020.

## Singapore (Rank 6)



An infrastructure project of great interest involves the development of Changi Airport's Terminal 5.



Looking at project financed deals in the country, the TuasOne waste-to-energy project that reached financial close in 2016 stands out.



# China’s Belt and Road – an investment bonanza?

Filling the infrastructure gap is a priority for Asia’s emerging economies, which are enjoying robust demographic and economic growth. Launched by Chinese president Xi Jinping in 2013, the new Silk Road is profoundly reshaping the continent’s landscape.

Rank	Country	2017 Score
5	Australia	86
6	Singapore	86
19	Malaysia	60
20	China	58
27	India	53
28	Indonesia	51
29	Philippines	50
36	Vietnam	40

In the infrastructure sector, several privately owned assets are in fact listed companies, such as Sydney airport and Transurban, which manages and operates toll-roads.

Australia has an ambitious renewables plan, with a federal target of at least 33,000GWh of Australia’s electricity coming from renewable sources by 2020. Given Australia’s high-levels of solar irradiation, this has led to a large number of solar farms being constructed, as well as some project financed onshore wind farms. Tesla’s boss Elon Musk is also in the process of building the world’s largest energy storage battery in South Australia.

The vast part of the Asian continent is set to benefit from China’s Belt and Road Initiative, considered the world’s largest infrastructure project since the Marshall Plan. China’s ambition is to create an interconnected Eurasian region through land and sea corridors, connected by highways, railways and ports.

## Australia – 5th

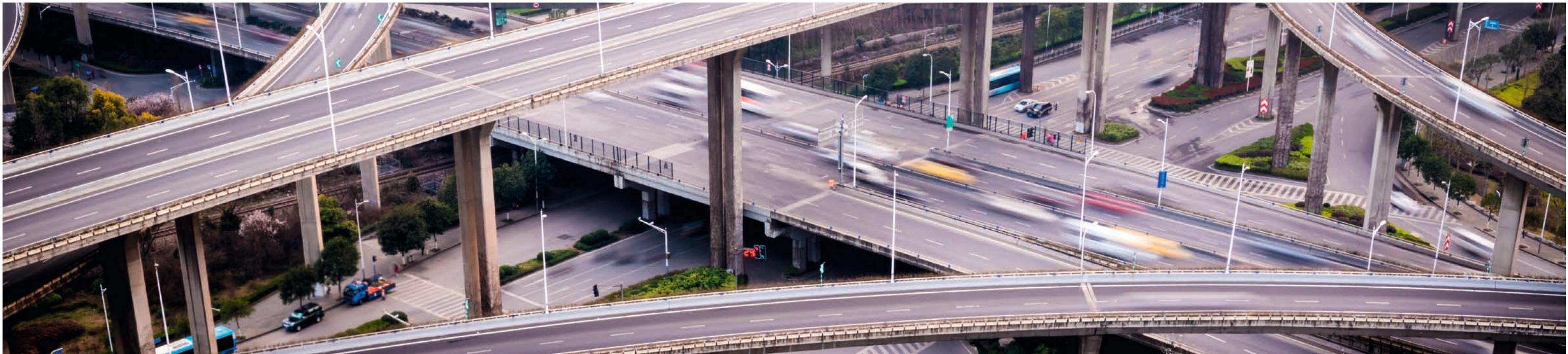
Australia ranks the highest out of all the Asia-Pacific markets. The country boasts a robust economy, which managed to escape recession after the 2008 global financial crisis. Australia has long possessed an economy linked to the country’s abundance of natural resources, but it also boasts numerous leading financial services firms. In the infrastructure sector, several privately owned assets are in fact listed companies, such as Sydney airport and Transurban, which manages and operates toll-roads. Infrastructure projects in Australia are procured by state administrations, but often proposed at federal level. The government has occasionally barred Chinese state-owned firms from acquiring strategically important assets in the country, mostly related to utilities.

## Singapore – 6th

Ranking sixth overall and second in the Asia-Pacific region, Singapore is one of the most attractive countries in the world to conduct business in. With an extremely favourable tax environment, political stability and a prosperous economy, many multinational and foreign firms choose Singapore as their headquarters for the APAC region. Although GDP growth in the country has been volatile over the past decade, it enjoyed modest growth of 2% in 2016.

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An infrastructure project of great interest involves the development of Changi Airport's Terminal 5. The multi-billion-dollar expansion will increase capacity to 135 million passengers annually, consolidating Changi Airport's position as a premier global air hub. It is currently not clear how the project will be financed; however, it is most likely to be on the public balance sheet. Three teams have been shortlisted for the design of the terminal, with the master architect consortium to be chosen by early 2018.

Looking at project-financed deals in the country, the TuasOne waste-to-energy project that reached financial close in 2016 stands out. Designed to process 3,600 tonnes of waste per day and generate 120MW of energy, the SGD750m (US\$547.5m) project will be developed by Hyflux and Mitsubishi Heavy Industries, with debt provided by DBS Bank, MUFG, Mizuho and Maybank.

## Malaysia – 19th

In Malaysia, Prime Minister Najib Razak places the generation of new domestic and foreign investment as one of the pillars of his economic policies. Malaysia's economic performance is largely driven by domestic demand, as inbound foreign investment began to decline following the Asian financial crises. Najib's Economic Transformation Program (ETP), introduced in 2009, includes policies and incentives for key economic areas to accelerate growth, including communications, infrastructure and oil, gas and energy.

Another initiative introduced was the Government Transformation Program (GTP), which aims to reduce corruption and crime and improve urban public transport and rural basic infrastructure. Through its seven Government-Linked Investment Corporations

The Economic Transformation Program (ETP), introduced in 2009, includes policies and incentives for key economic areas to accelerate growth, including communications, infrastructure and oil, gas and energy.

(GLICs), the Malaysian government owns approximately 36% of the value of firms listed on the Bursa Malaysia stock-exchange.

A major project currently in procurement is the aforementioned Kuala Lumpur-Singapore high speed railway. Additionally, as part of Malaysia's efforts to reach its 24% renewable energy generation target by 2050, the largest ever solar generation auction was held in August 2017, in which BayWa r.e. emerged as one of the winners to develop a 5MW project in the country. The plant will sell its output to Tenaga Nasional Berhad under a 21-year offtake agreement.

## China – 20th

While China only ranks twentieth in the Index, the country is set to be the continent's engine of infrastructure investment for years to come. In July 2017 China signed a US\$1.1bn deal with Sri Lanka for a 99-year lease of the port of Hambantota, while a port to be operated by China Overseas Port Holding Company is currently under construction in Gwadar, Pakistan. The creation of the Asian Infrastructure Investment Bank, the Beijing-headquartered multilateral financial institution

established in 2016, is already playing a crucial role in ramping up infrastructure investment with approved projects in countries as diverse as Azerbaijan, Bangladesh, Georgia, India, Indonesia, Myanmar, Oman, Pakistan and Tajikistan. In addition the world's largest energy-from-waste plant is being built in Shenzhen. The 267,000m<sup>2</sup> plant will be covered in 44,000m<sup>2</sup> of solar panels and is expected to be operational by 2019.

While China only ranks twentieth in the Index, the country is set to be the continent's engine of infrastructure investment for years to come.

The high political risk of several countries involved in the Belt and Road Initiative is a serious obstacle for project bankability. Opportunities for private capital are still limited, with several of the continent's largest economies still lacking a sizeable number of credible projects.

## India – 27th

India is the fastest growing G20 country and economic growth is projected to maintain its momentum. The Bhartiya Janata Party (BJP), led by Prime Minister Narendra Modi, actively seeks to promote investment into the country. However, the implementation of key economic reforms, contract enforcement and dealing with construction permits are often seen as significant deterrents to investors. Besides, the Indian market is still fragmented, with infrastructure and energy projects often procured at state level.

India is becoming a hotspot for the development of solar projects, with total solar power capacity having exceeded 15GW in June 2017 and a total project pipeline of over 12GW.

India is becoming a hotspot for the development of solar projects, with total solar power capacity having exceeded 15GW in June 2017 and a total project pipeline of over 12GW. Solar capacity additions in the first quarter of 2017 reached approximately 3GW. However, India's transition into renewables has not proved easy: several solar tenders are being scrapped across the country due to a tariff reduction of 40% in 2017, as states and other agencies are redesigning their procurement schemes.

One project of great interest is the greenfield, Rs 16,000-crore (US\$2.4bn) Navi Mumbai International Airport, which saw GVK and Airports Authority of India selected as preferred bidder. The PPP project entails the development of an international airport at Kopar-Panvel in Maharashtra, which will initially handle 10 million passengers and grow to a capacity of 60 million.



Indonesia – 28th

Under the presidency of Joko Widodo, Indonesia’s infrastructure spending has surged. The Indonesian market is dominated by state-owned enterprises enjoying favourable financing conditions and government guarantees. While an increased involvement of the private sector would be crucial to address the country’s severe infrastructure gap, for international companies it is challenging to compete with state-owned enterprises. Indonesia’s infrastructure market is also still marred by age-old issues, such as high levels of red tape, corruption and inefficiency of the private sector.

Under the presidency of Joko Widodo, Indonesia’s infrastructure spending has surged.

However, Indonesia enjoys a strategic location along the Belt and Road Initiative; in May 2017, China Development Bank signed a US\$4.5bn loan for the construction of the 140km high-speed railway between the capital Jakarta and Bandung.

Philippines – 29th

With an expected GDP growth of 6.8% in 2017, according to the World Bank, the Philippines is confirming its position as one of the most dynamic Asian economies. While a marked increase in infrastructure spending is one of the main drivers of the country’s growth, the Duterte government is moving away from the PPP model fostered by the previous administration of Benigno Aquino (2010-2016). In May

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2017, the country’s Department of Transportation terminated five PPP projects and decided to contemplate different procurement options. Projects are expected to be increasingly funded by the national budget and agreements have been signed to obtain loans from the Japan International Cooperation Agency (JICA). However, until now, the results of Duterte’s infrastructure plan have so far been below expectations.

Vietnam – 36th

Foreign direct investment (FDI) in Vietnam has been on the rise since 2011, reaching record levels of US\$15.8bn in 2016, while annual GDP growth is at 6.2%. Economic reforms, a young urbanized population, political stability and inexpensive labour are some of the key drivers for the higher FDI inflows. However, Vietnam is ramping up its infrastructure spending, as its public and private sector infrastructure investment averaged 5.7% of GDP in recent years. Development of a new US\$2.5bn deep water port in Hon Khoai was approved in 2015. The port is expected to become a major transshipment point for fuels destined for thermal power plants in the Mekong Delta.

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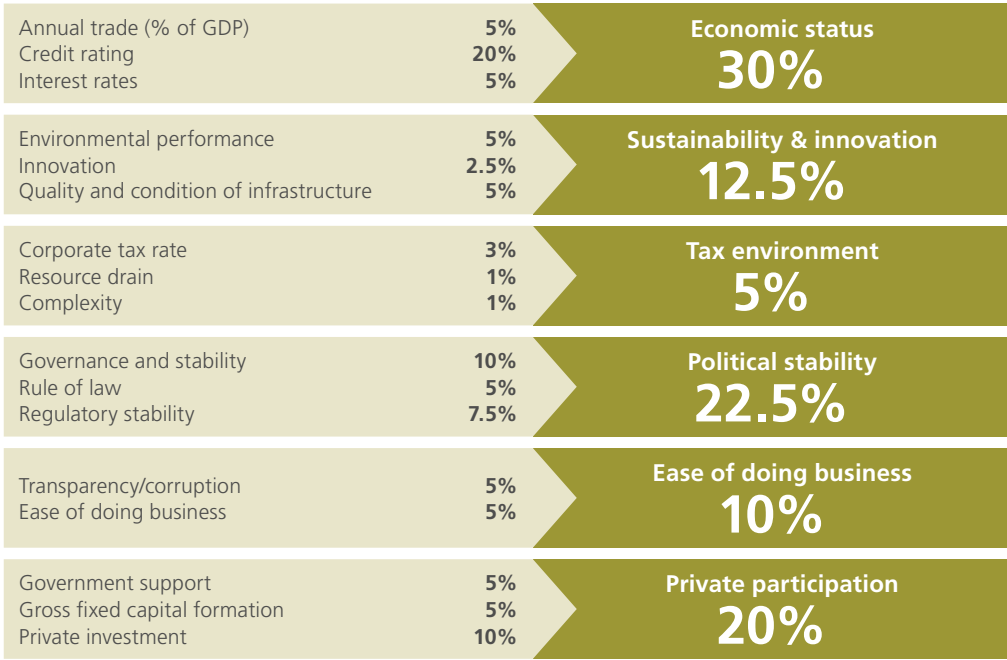


# Methodology

The Index indices are based on the following six main indicators and further sub-indicators, as shown below:

- Economic status
- Sustainability and innovation
- Tax environment
- Political stability
- Ease of doing business
- Private participation

All of these are weighted as shown in this graph:



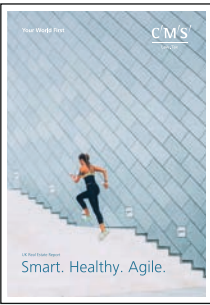
This Infrastructure Index provides an effective tool to measure the overall attractiveness of each country for infrastructure investment, also allowing a more sophisticated analysis based on the comparison of specific parameters, such as political stability and private investment in infrastructure, among different jurisdictions. The commentary provided in this report provides a regional context for our findings, also considering major themes in the industry, track-records and project pipelines.

The scores and subsequent rankings for Asia-Pacific are highlighted below.

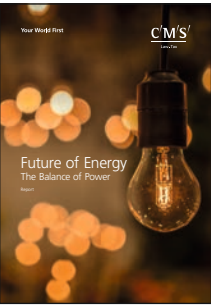
	Score	Private participation	Ease of doing business	Political stability	Tax environment	Sustainability and innovation	Economic status
Australia	86.33	17.75	7.96	20.82	3.85	9.45	26.50
Singapore	86.18	10.88	8.45	22.05	4.94	9.96	29.90
Malaysia	59.52	6.75	6.36	15.07	4.13	8.21	19.00
China	58.77	10.50	5.21	12.18	2.65	8.23	20.00
India	51.82	13.75	4.76	10.43	2.79	6.99	13.10
Indonesia	51.18	12.50	4.93	9.24	3.88	7.03	13.60
Philippines	50.35	11.75	4.77	8.83	3.65	7.35	14.00
Vietnam	40.67	7.75	4.84	9.71	3.21	6.86	8.30

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for Transport?

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inspiratia provides clients with the tools to anticipate and analyse market trends in a way that helps grow their pipeline of deals and assists with business development. Based in London and Washington DC, inspiratia has an international team of industry experts and analysts all with in-depth sector expertise and extensive professional networks. [www.inspiratia.com](http://www.inspiratia.com)





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