

Industry Agenda

Strategic Infrastructure and Emerging Industries: Asian Context

Bangkok, Thailand 30 May - 1 June

June 2012



© World Economic Forum

2012 - All rights reserved.

No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, or by any information storage and retrieval system.

The views expressed are those of certain participants in the discussion and do not necessarily reflect the views of all participants or of the World Economic Forum.

REF 180712

Contents

4	Executive Summary
8	Session Description
9	Acknowledgements
10	Contact Information

Executive Summary

Introduction

Emerging economies are forecasted to represent over 60% of global GDP by 2030. On the Asian continent this growth and development potential is driving strong demand for new infrastructure in the areas of energy, water, transportation, agriculture and the urban environment. In fact, this economic growth must be steered in a sustainable approach building on local capacity. Therefore, collaborative policies that enable a favourable business environment are required. Emerging industries from disruptive technologies offer infrastructure solutions that are sustainable and cost-competitive from a whole lifecycle analysis standpoint. The estimated market size of US\$ 8 trillion of infrastructure investments within the next decade offers significant growth opportunities for developing economies. In response to these opportunities and to the challenges of the region, Infrastructure & Urban Development Industries held a private session at the World Economic Forum on East Asia in Bangkok on 30 May 2012 to effectively address the critical aspects in infrastructure confronting Asia.

Key Points

- Asia faces a paradox: huge demand for infrastructure, no lack of financing and yet a limited pipeline of bankable projects
- Dedicated project acceleration funding facilities, incremental project structuring as well as political vision, leadership and commitment are crucial to create more bankable projects
- The Public-Private Partnership (PPP) model is a promising way to deliver infrastructure projects
- But PPPs are no “silver bullet”: they fail regularly due to a lack of project selection and preparation, and an insufficient enabling environment
- There is a significant need to improve communication of the PPP value proposition to communities and stakeholders
- PPP bid preparation costs for the private sector need to be reduced by contract standardization, enhanced feasibility studies, a staged bidding processes and a continuous deal flow



01: Participants of the Strategic Infrastructure and Emerging Industries: Asian Context session

- The use of international arbitration and conflict resolution mechanisms are highly recommended
- The right mix of hard and soft infrastructure development can contribute significantly to the positive evolution of local industries and communities
- Local content requirements (soft or hard) should not be overly strict, to avoid quality issues

Synopsis

Asia faces significant demand for infrastructure development owing to rapid urbanization and continuous economic growth. While there is no lack of capital – south-east Asian sovereign wealth funds, institutional investors and central banks command significant reserves – infrastructure investment is lagging behind needs. This paradox poses an increasingly severe barrier to economic prosperity and competitiveness in the region. Given the modest pipeline of bankable projects, the World Economic Forum on East Asia convened a private session dedicated to strategic infrastructure to explore new ways to unlock these funds for infrastructure development.

How to bring the two sides together was the focus of the discussion among executives from the private sector, multilateral development banks and non-profit organizations at this session. The opening remarks recalled that infrastructure development is a long-term pursuit and that it is necessary to look back at what has already been accomplished over the past 20 years as an encouragement to forge forward, e.g. the building for the Mekong Friendship Bridge. The context briefings also made it clear that there remain significant obstacles to Asian infrastructure investment, including poor project acceleration, a lack of innovative PPPs and of local industry development. The need to acknowledge the huge country diversity within the ASEAN context was also highlighted, as well as the need for tailored PPP programmes alongside adequate investment in advocacy and capacity building.

Discussions centred on three subjects:

1. Project acceleration process, resources and funding
2. Innovative public-private partnership models
3. Local emerging industry development criteria

Some of the main obstacles and solutions that emerged from these discussions:

Project Acceleration Process, Resources and Funding

Major challenges to accelerating the infrastructure project planning process and to securing a robust pipeline of bankable projects include:

- Lack of political leadership to get projects going because of domestic politics and political cycles of 4-5 years that do not match infrastructure construction and operation time frames
- Lack of political alignment on the international level and failure to get local community buy-in
- Lack of funds for project acceleration due to the uncertain outcome of feasibility studies (however, sufficient funds are available for construction)
- High number of sub-regulations and required approvals that slow down project implementation
- Insufficient focus on soft infrastructure: One participant remarked that “You can lay down the best road infrastructure across different countries but if it is not accompanied by serious efforts of trade and transport facilitation, goods simply won’t move at the speed all stakeholders expect.”

Proposed actions identified include:

- Developing a coherent and long-term vision and plan supported by political leadership as well as international coordination and alignment
- Dedicating project acceleration funding facilities to assure that high-quality and thorough feasibility studies are conducted
- Introducing an incremental approach to accelerate project implementation: restructuring large-scale projects into smaller parts
- Increasing pressure by regional groups - including the Asian Development Bank or the newly created Asean Infrastructure Fund - on governments for infrastructure development (top-down approach)
- Activating citizen lobbying of their governments for infrastructure, e.g. using social media (bottom-up approach)
- Complementing hard infrastructure with soft infrastructure (e.g. customs procedures) to enable user benefits



01: Hamish Tyrwhitt,
Chief Executive Officer,
Leighton Holdings,
Australia

Innovative Public Private Partnership Models

This discussion centred on the successful models for PPP frameworks and regulation in Asian countries and the expected roles and required capabilities from the public and private sectors.

Major challenges identified include:

- “We have infrastructure finance on one side and all the infrastructure demand on the other, and it seems like ships in the night and they’re not meeting.”
- PPP projects are on the rise, but many PPP projects have failed due to
 - project-cycle related problems, including lack of cost-benefit analysis, low quality demand forecasts, inappropriate risk sharing, lack of stakeholder alignment, uncompetitive bidding and a weak financial structure
 - enabling environment-related problems, including poor legal frameworks, a lack of institutional capacity and weak public sector institutions for monitoring, arbitration and evaluation

The proposed actions identified include:

- Going ahead with the PPP model: an important way forward if projects are prepared properly and the right enabling environment is in place – but it is no “silver bullet”



02: Rajat M. Nag,
Managing Director
General, Asian
Development Bank,
Manila

- Customizing PPP models according to the country context and specific demands – Asia-wide solutions will not be successful as Asia is not a monolithic block; diversity should be acknowledged
- Securing crucial political leadership and commitment – PPPs require “Patience, Perseverance and Persistence”
- Communicating the value and the successes of PPPs to communities and stakeholders, across political frontiers
- Reducing bid preparation costs of the private sector through contract standardization, enhanced feasibility studies, staged bidding processes and a continuous deal flow
- Structuring PPPs through a balanced risk-sharing agreement that also includes reality checks on the financial feasibility for investors
- Securing key financial intermediation – governments should promote the development of banks, stock and bond markets, as well as infrastructure and pension funds
- Ensuring continuous government involvement across the life cycle, i.e. governments should remain committed to making PPPs a success and assure predictability of regulation
- Introducing international arbitration and conflict resolution mechanisms



- Investing in governmental monitoring and evaluation skills to continuously gain knowledge from experience and foster credibility through project continuity

Local Industry Development

Discussion focused on the issues and proposed recommendation on how to assure a sustainable value add from infrastructure and its underlying emerging industries for the local community, such as skills transfer and development, job creation and SME development.

Major challenges identified include:

- Infrastructure development by international contractors is sometimes conducted with little local industry participation
- Soft issues around relocation and other social problems are often insufficiently addressed

- Rising labour costs in many Asian countries challenge competitiveness. Thus, productivity gains in manufacturing and transportation are key to maintain the competitive position of a country
- Lack of visionary leadership, discipline and political will to foster infrastructure development
- Without adequate policy assistance, local industries which are not at scale struggle to implement projects

Proposed actions identified include:

- Dividing projects into smaller contracts so that local companies can realistically bid for pieces
- Private sector firms should take a long-term perspective and build local capacity to create impact on local communities instead of heavily relying on an expat workforce
- The private and the public sectors should collaborate and invest in adequate training of local workforce

- Considering local content requirements in a meaningful way (either formulated as hard constraints or soft bid evaluation criteria) to assure local participation – however, they should not be overly strict, to avoid quality issues and to leverage innovative technology
- Despite the diversity in the region, ASEAN should enforce the power of intergovernmental connection to unify political will

In his closing remarks, Rajat M. Nag, Managing Director General, Asian Development Bank, invited the World Economic Forum to jointly re-convene in Manila with the Asian Development Bank, industry and civil society for a deep-dive, action-oriented discussion to accelerate a selection of priority infrastructure projects in the regional pipeline.



01: Paul Hugentobler, Member of the Executive Committee, Holcim, Switzerland and Alope Lohia, Group Chief Executive Officer, Indorama Ventures Public Company, Thailand

02: Aidan Lynam, Area Manager, Vietnam, Malaysia, Singapore, Bangladesh, Sri Lanka, Holcim, Switzerland

03: Ronald Denom, President, SNC-Lavalin International Inc., Canada

04: Kobkarn Wattanavrangkul, Chairperson, Toshiba Thailand, Thailand

05: Rajat M. Nag, Managing Director General, Asian Development Bank, Manila

06: Gary Schutz, General Director, Holcim (Vietnam), Vietnam



01



02

01: Kirk Coningham, Group Manager, Government and Industry Affairs, Leighton Holdings, Australia and Arjun Goswami, Director, Regional Cooperation and Operations Coordination, Southeast Asia Department, Asian Development Bank, Philippines

02: Patrick Brothers, Executive General Manager, Corporate Strategy, Leighton Holdings, Australia



03

03: Yoichiro Ushioda, Chairman of the Executive Board, JS Group Corporate and Alok Lohia, Group Chief Executive Officer, Indorama Ventures Public Company Limited, Thailand

04: Juan Manuel Miranda, Director General, South Asia Department, Asian Development Bank, Bangkok

05: Joachim Enenkel, Member of the Executive Board, Bilfinger Berger, Germany



04



05

Session Description

Infrastructure and the underlying emerging industries are key economic and social drivers of sustained growth and act as enablers for a country's competitiveness. However, infrastructure development itself will not drive economic growth unless it is fully aligned with the country's economic, social and environmental goals.

This roundtable will convene leaders from the private sector, government, civil society and the multilateral development banks to discuss the steps to preparing, procuring and delivering infrastructure projects effectively and efficiently. Discussions will build on the work of the 2011 Cannes G20 High Level Panel on Infrastructure and the programmes and priorities developed by the Asian Development Bank (ADB). A key challenge to date is the lack of effective project preparation facilities and a perceived lack of progress. A crucial next step is the engagement of private sector along the value chain to work in partnership with government and the multilateral development banks to convert this plan into action.

Welcoming Remarks:

Kevin Steinberg, Chief Operating Officer, World Economic Forum, USA

Rajat M. Nag¹, Managing Director General, Asian Development Bank, Philippines

Hamish Tyrwhitt, Chief Executive Officer, Leighton Holdings, Australia

Context briefing:

Pedro Rodrigues de Almeida, Associate Director, Head of Infrastructure & Urban Development Industries, World Economic Forum, Switzerland

Jeff Hill, Partner and Managing Director, The Boston Consulting Group, USA

Arjun Goswami, Director, Regional Cooperation and Operations Coordination, Southeast Asia Department, Asian Development Bank, Philippines

Breakout discussions

Challenges and Opportunities in Infrastructure in Asia

1. Project Acceleration Process, Resources and Funding

How can the project acceleration process be improved in order to secure a more robust pipeline of bankable projects at an early stage?

What are the actions needed, especially in the context of Asia?

Discussion Leader

Patrick Brothers, Executive General Manager - Corporate Strategy, Leighton Holdings, Australia

Rapporteur

Paul Hugentobler, Member of the Executive Committee, Holcim Ltd, Switzerland

2. Innovative Public-Private Partnership Models

Which countries in Asia have successful PPP models?

What are the new ideas in public-private partnership models, such as adoption of successful PPP frameworks and promotion of common language and regulation in Asian countries? What are the actions needed?

What are the expected roles and required capabilities from the government and private sector?

Discussion Leader

Jeff Hill, Partner and Managing Director, The Boston Consulting Group, USA

Rapporteur

Juan Miranda, Director General, South Asia Department, Asian Development Bank (ADB), Bangkok

3. Local Emerging Industry Development Criteria

How should infrastructure underlying emerging industries be set and adapted to assure value added for the local community, such as skills transfer and development, job creation, and SMME development, especially in context of Asia?

What are the best practices and the actions needed?

Discussion Leader

Aloke Lohia, Chief Executive Officer, Indorama Ventures, Thailand

Rapporteur

Ronald Denom, President, SNC-Lavalin International Inc., Canada

Closing Remarks and Next Steps

Rajat M. Nag, Managing Director General, Asian Development Bank, Philippines

Hamish Tyrwhitt, Chief Executive Officer, Leighton Holdings, Australia

¹ Moderator

Acknowledgements

We would like to extend our sincere thanks to all the participants in the meeting.

List of Participants

Industry Partners

Saori Dubourg, President, Asia-Pacific, BASF East Asia Regional Headquarters Ltd, Hong Kong SAR
Joachim Enenkel, Member of the Executive Board, Bilfinger Berger SE, Germany
Ho Hsing-Chan, Group Managing Director, ASEAN, DuPont Company (Singapore) Pte Ltd, Singapore
Gary Schutz, General Director, Holcim (Vietnam) Ltd, Vietnam
Paul Hugentobler, Member of the Executive Committee, Holcim Ltd, Switzerland
Aidan Lynam, Area Manager, Vietnam, Malaysia, Singapore, Bangladesh, Sri Lanka, Holcim, Switzerland
Aloke Lohia, Group Chief Executive Officer, Indorama Ventures Public Company Limited, Thailand
Christopher Fossick, Managing Director, Singapore and South-East Asia, Jones Lang LaSalle, Singapore
Suphin Mechuhep, Country Head, Jones Lang LaSalle (Thailand) Limited, Thailand
Yoichiro Ushioda, Chairman of the Executive Board, JS Group Corporation, Japan
Hamish Tyrwhitt, Chief Executive Officer, Leighton Holdings Ltd, Australia
Patrick Brothers, Executive General Manager, Corporate Strategy, Leighton Holdings Ltd, Australia
Kirk Coningham, Group Manager, Government and Industry Affairs, Leighton Holdings Ltd, Australia
Philippe Arto, Managing Director, Siam City Cement Public Co. Ltd, Thailand
Ronald Denom, President, SNC-Lavalin International Inc., Canada
Kobkarn Wattanavrangkul, Chairperson, Toshiba Thailand Co. Ltd, Thailand

Cross-Industry Partners and Regional Champions

Simon Henry, Chief Financial Officer, Royal Dutch Shell Plc, Netherlands

Guests

Uwe Raschke, Member of the Board of Management, Robert Bosch GmbH, Germany
Henry V.H. Lam, Chief Executive Officer, Vietnam Industrial Investment Ltd, Vietnam

Multilateral Development Banks and International Organizations

Rajat M. Nag, Managing Director General, Asian Development Bank, Manila
Juan Manuel Miranda, Director General, South Asia Department, Asian Development Bank, Bangkok
Arjun Goswami, Director, Regional Cooperation and Operations Coordination Division, Southeast Asia Department, Asian Development Bank, Manila
Pepukaye Bardouille, Global Product Specialist, Clean Energy and Climate Change, Sustainable Business Advisory, International Finance Corporation (IFC), Washington DC

Experts

George Ofori, Vice-Chairman of the Board, CoST, Ghana
Rick Hathaway, Vice-President, Asia Pacific, Habitat for Humanity, Thailand

Project Adviser

Jeff Hill, Partner and Managing Director, The Boston Consulting Group, USA

World Economic Forum

Kevin Steinberg, Chief Operating Officer, World Economic Forum, USA
Pedro Rodrigues de Almeida, Associate Director, Head, Infrastructure & Urban Development Industries, World Economic Forum, Switzerland
Marina Ruta, Community Manager, Chemicals Industry, World Economic Forum, Switzerland
Christoph Rothballer, Project Manager, Strategic Infrastructure Initiative, World Economic Forum, Switzerland

Contact Information

We are a forward-thinking, valuable and internationally recognized business ally for the infrastructure and urban development industries. For more information, please contact the Infrastructure & Urban Development Industries at infraurban@weforum.org.

Alex Wong

Senior Director
Head, Center for Business Engagement
World Economic Forum
Tel : +41 22 869 1460
Fax: +41 (0)22 786 2744
Email : alex.wong@weforum.org

Pedro Rodrigues de Almeida

Associate Director
Head, Infrastructure & Urban Development Industries
World Economic Forum
Tel.: +41 (0)22 869 3613
Fax: +41 (0)22 786 2744
E-mail: pedro.rodriguesdealmeida@weforum.org

Christoph Rothballer

Project Manager, Strategic Infrastructure Initiative
World Economic Forum
Tel.: +41 (0)22 869 1206
Fax: +41 (0)22 786 2744
E-mail: christoph.rothballer@weforum.org

Marina Ruta

Senior Community Manager, Chemicals Industry
Global Leadership Fellow
World Economic Forum
Tel.: +41 (0)22 869 3667
Fax: +41 (0)22 786 2744
E-mail: marina.ruta@weforum.org

Andrea Gerber

Team Coordinator
Infrastructure & Urban Development Industries
World Economic Forum
Tel.: +41 22 869 3550
Fax: +41 79 571 8253
Email: andrea.gerber@weforum.org



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas.

Incorporated as a not-for-profit foundation in 1971 and headquartered in Geneva, Switzerland, the Forum is tied to no political, partisan or national interests.

World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org