

Infrastructure Investment and Finance in Asia^{*1}

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Abstract

Finance for infrastructure investment in Asia¹ has shown unique characteristics from country to country, from period to period and from sector to sector. A major part of infrastructure investment is financed by public sector funds generally and in Asia as well. Availability of foreign funds impacts infrastructure investment in some cases but not necessarily in others. The role of Official Development Assistance (ODA) for infrastructure investment is significant in many developing countries. Meanwhile, Public-Private Partnerships (PPPs) have been introduced in recent years as an alternative to public sector infrastructure investment in the face of huge demand for infrastructure under public sector funding constraints. Successful PPPs, however, can be expected only in selected countries and sectors, so the PPPs' share in total infrastructure investment remains limited. Premature introduction of PPPs without a well-developed institutional framework and implementation capacity could end up with ex-post public sector support and remedial measures. In light of the nature of infrastructure investment, the complementary use of foreign funds to fill the deficiency of domestic savings is warranted and enhanced infrastructure investment requires well-developed capital markets to mobilize domestic savings into long-term investment. Finance for infrastructure investment and integration of regional financial markets should be pursued in this context and ideally be promoted by keeping pace with capital market development in individual countries.

Key words: Asia, Asian Bond Markets Initiative (ABMI), capital market, financial intermediation, financial market integration, infrastructure investment, Official Development Assistance (ODA), project finance, Public-Private Partnerships (PPPs)

JEL Classification: F21, F36, H54

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¹ This paper defines the scope of Asia as members of the Association of Southeast Asian Nations (ASEAN); China, Japan and the ROK ("ASEAN+3"); as well as countries in the South Asia region as covered by the World Bank unless otherwise defined explicitly, for example, due to data availability constraints.