

## Infrastructure Investment and Finance in Asia<sup>\*1</sup>

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### Abstract

Finance for infrastructure investment in Asia<sup>1</sup> 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

Acknowledgement: Nishizawa thanks the Japan Society for the Promotion of Science (JSPS) for financial support through JSPS KAKENHI Grant Number 16K03733.

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<sup>\*1</sup> I am grateful to the Policy Research Institute of Japan's Ministry of Finance (President Toshinori Doi) for giving me the opportunity to write this paper and also to Masahiro Kawai, Project Professor at the Graduate School of Public Policy, who served as the principal editor of this volume, for his advice and guidance from the planning stage. I owe much to a group of experts who participated in a discussion session on Financial Review papers on November 27, 2017, particularly to Satoshi Shimizu, Senior Economist of The Japan Research Institute and one of the most renowned experts in Asia's financial markets and finance for infrastructure investment, for his invaluable advice and encouragement.

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<sup>1</sup> 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.