

INFRASTRUCTURE FINANCE IN ASIA

Commentary

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TRANSCRIPT

Firstly, I would like to congratulate Barry on what was an excellent dissertation on the problems that we face in Asian infrastructure projects. I would also like to congratulate the organisers of this conference, particularly the timing of it, and having heard Barry's speech, that at least we have been able to close the Melbourne City Link project and a couple of weeks ago a major project in refurbishment of the power project in Collinsville before we had two hundred nervous lawyers out there that might have sent shudders through both projects. I would also like to congratulate the organisers for inviting the government's adviser on another large project in Sydney, and I hope he has been listening to some of the problems, so that as we go back to discuss the problems of electing a private sector funded stadium for the 2000 Olympics, he is also aware of some of the problems. So I think it is pretty well timed and I thank the organisers.

Sovereign risk is a major problem, I think, facing us in Asia. It is somewhat different here. I think we have all seen sovereign risk in this country, but I think it does loom somewhat larger in Asia. And I think that it comes about fairly simply because of the massive gap currently between expectations of users of capital and those that are providing capital. It comes about as we have had massive increases in demand and the expectations that are coming about for that have created a very large gap. I am sure, like the problems that we have heard about from Barry on the second stage expressway in Dabhol, we will have further problems. We are only in the early stages of operations in many private sector projects and I am sure just as night follows day that there will be problems with some in the operations phase.

What I thought I might do is just provide a few comments on perhaps some of the dynamics that are going on here and perhaps help us to understand why some of these sovereign risk issues are there, and I also put forward a view I think that some of the solutions that will come out of this as we go forward will come from people in this audience and people in this country. But I think that there is a substantial contribution, and I agree with Andrew's comments, a substantial contribution I think that can be made from people in this part of the world. I think, as has been said, we have been importing capital for many years and many have been through many large-scale project financings. This economy still is the third largest economy in the region and I think it therefore has a lot to contribute.

Again I think there is a general recognition going on, that competition rather than economies of scale is now seen as a more appropriate means of improving efficiencies in the development of infrastructure. I think in the past we have been very much focused on economies of scale and

therefore that led to natural monopoly situations and large scale enterprise. I think we see market forces heading towards competition and greater private sector involvement and I think this is fundamental if the private sector is to become substantially more involved. I think that touches on some of the points that Barry was making about it. It is all very well to just dump a project into an environment, but if it has not got the social and political forces around it to make it glue together, we will have more of the problems that Barry has talked about.

I also just venture to suggest that in the absence of commercial discipline the private sector is going to continue to require ongoing government support for projects. This poses the question: is this sustainable in the longer term? Can we and many of the Asian countries, a number of these in the power sector, have tariffs related to offshore exchange rates? Indonesia has got the whole privatised system at this stage based on that. You have a major disruption in the currency and you have therefore a major upsurge in tariffs. When you are borrowing on the public debt market those sorts of factors trickle through into the economy somewhat slower; these ones will not trickle through, they will be a landslide straight through within months.

Currency guarantees - can we keep on seeing those sustained at the level they are? Take or pay contracts, political risk guarantees? I think there will be increasing resistance, or there is increasing resistance, to this going on and the only alternative is increasing commercial discipline.

Expanding the role of the private sector will depend on factors other than the availability of capital. The thing we often hear is there are billions of dollars worth of projects throughout the region and the problem is there is no money. I do not think that is the root cause of the problems and I think Barry's paper again touches on many of those aspects. Without elaborating in detail on those, I think that regulatory reforms are crucial, macro economic stability issues will be fundamental to these long term projects, rational pricing and power structures, greater commercial discipline to see tariff structures that are commercially based and sustainable in the long term. I think a very important feature is the domestic capital markets, that there has been a large amount of foreign capital going in, but I think fostering the domestic capital markets in many of these countries is crucial and Barry's organisation and its sister organisation the RFC are facilitating that throughout the region and our own bank has gone into a joint venture with RFC recently on a venture along this line.

The legal risks, well far be it for me to talk on that. I think again that has been well covered. And one point I guess fits on the end; there is the improvement in the selection procedures. As Andrew said, much happens throughout Asia in the Asian way and I think that it would facilitate greater private sector involvement if those selection procedures and the transparency that comes through the competitive tendering process would I think be a substantial improvement for seeing greater private sector involvement. And as I said, I think one of the reasons we have this quite large problem of sovereign risk is there is a substantial gap between the government and the private sector's expectations in the areas I mentioned.

I think until some of these areas are addressed, the problems of sovereign risk and the flow of capital into these major projects, which are undoubtedly essential for economic growth, will be delayed.

So they would be my few brief comments and again congratulations Barry on an excellent paper.