ASIA HOUSE

Insights

Issue 3 | November 2019

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Foreword

Lord Stephen Green
Chairman, Asia House

Welcome to this edition of *Insights* – Asia House's thought-leadership publication which brings you views and analysis from those shaping trade, investment and policy in Asia.

With the US-China trade war continuing to create uncertainty, Japan and South Korea sharing deteriorating relations, and an array of security tensions simmering across Asia, it is a challenging environment for trade and investment. Add the disruption offered by the digital revolution to this picture, and the complexity of the task facing policymakers and decision-makers in the region is apparent. It is a timely moment, then, to share analysis which may help those working across business and policy in Asia to address the challenges.

We have brought together insights from a range of thought leaders on the key issues driving change in Asia. In the following pages, you will find pieces on WTO reform; the role Europe has to play in Asia; the state of Southeast Asia's digital economy; and the latest analysis on the Belt and Road Initiative, among other articles.

As always, I offer our thanks to those who have shared their thoughts with us.

“Asia should lead on WTO reform”

Yi Xiaozhun
Deputy Director-General,
World Trade Organization

Asia is rapidly moving to the centre of global trade. This seismic shift represents a challenge, but also an opportunity, for the world trading system. As the region now most dependent on open and secure global trade, Asia has clear interests — as well as a key role to play — in steering the system out of its present difficulties and in leading efforts to reform it.

It's often forgotten that the World Trade Organization (WTO)'s current problems stem largely from its past success. Created after the Second World War, the multilateral trading system was rooted in a core idea — that the answer to global peace lay in spreading global prosperity. The aim was to create an open, stable, and interdependent global economy that would allow all regions — not just the advanced West — to grow, develop, and prosper. Instead of a zero-sum world of great power conflict, they wanted to build a positive-sum world of global cooperation.

This system has succeeded far beyond expectations. The last 70 years have witnessed the greatest period of global growth and development in history – underpinned by an ever more open and integrated world trading system. While almost all regions have benefited from trade-led growth, Asia's rise has been the most striking. Asia's share of world trade has risen from 35 per cent to almost 45 per cent in less than two decades. Next year, Asian economies will become larger than the rest of the world's economies combined.

Trade tensions between the US and China are pushing the WTO to its limits. (Credit: Official White House photograph by Shealagh Craighead.)

But success has created new challenges. Leadership has become more complicated as new powers have risen. The US and the EU remain key players, but they are no longer dominant. Fast-emerging economies now play a role in the system that was unimaginable just 20 years ago — while even smaller countries want a greater say in a system in which they have a greater stake. Today's multipolar global economy is more “democratic” than the post-war one. But multipolar can be messier. And for those countries accustomed to calling the shots, it can also be unsettling.

> *“Disagreements involving a handful of members cannot be allowed to paralyse the system.”*

Cooperation has also become more complex — and friction has increased — as economies have become more intertwined. Subjects that were once domestic, like health standards or fish subsidies, now have global spill-overs. Issues that were never considered when the system was first created, like data privacy or climate change, have moved to the top of the agenda and demand solutions. The paradox is that the trading system has become more complicated to manage as it has become more important.

How to overcome these challenges? The first step is to recognise that they represent not just risks, but opportunities — to re-examine the status quo and to ask where the system can be improved. In some respects, the current trade conflict is the wrong answer to the right question: how to adapt a 20th century trading system to a 21st century global economy?

In today's digitalised world, economic change is measured in days and weeks, not the years or decades it took to negotiate trade agreements in the past. Much of the WTO rulebook dates back to the Uruguay Round — a quarter of a century ago — before the explosion of the internet, the spread of global value chains, or China's accession to the WTO. Updating the system's rules to keep up with the dynamic global economy it helped create would go some way towards easing the tensions surrounding trade.

The positive news is that WTO members are finding more flexible ways to advance. Where possible, they are working pragmatically

to harvest multilateral agreements, such as the 2013 accord on trade facilitation, and the ongoing talks on curbing fish subsidies. And since 2017, groups of like-minded members have come together to explore potential new rules on issues such as electronic commerce, investment facilitation, and making it easier for small businesses to trade. These 'joint initiatives' allow countries who want to move forward — and those who want to wait — to do so, without coercion or quid pro quos.

But only members can bridge the gap between new processes and new rules. Harnessing new forms of leadership will be necessary. Disagreements involving a handful of members cannot be allowed to paralyse the system. Members of all sizes will have to find new ways forward.

Asian countries, in particular, have a vital role to play. Asia increasingly finds itself at the epicentre of global trade, investment, and technology flows. Asia's trade with Europe, for example, has now reached a staggering US$1.7 trillion a year — half of all global trade — and double Europe-North America trade.

As the emerging key engine of global trade, benefitting enormously from an open and stable world economy, Asia has a clear interest in strengthening the WTO, the cornerstone of its trade relations. Indeed, the strongest argument for reforming the WTO is to imagine a world without it. The alternative to an open, cooperative, and rules-based global economic system is a more closed, divided, and power-based one: where trade relations are determined by threats and coercion; where regions turn inward; and where businesses face uncertainty and disorder.

Such a world would be marked by declining investment and growth, fewer jobs, less innovation, stalled development for many countries around the world. It would be more unstable, less secure, and less capable of responding to shared problems, like climate change, that demand collective action.

Asia's leadership in strengthening the global trading order — and avoiding its fragmentation — has never been more important.

The pressure on the WTO amid a changing global trade order is a theme regularly explored by Asia House. Dr Bob Koopman, Chief Economist, WTO, discussed the issue at Asia House's major conference in Singapore in 2018.

Greasing the wheels of trade finance

Arancha González

UN Under-Secretary General and Executive Director of the International Trade Centre

As they do each year, prime ministers and presidents gathered in New York in September for the start of the United Nations General Assembly. But this year, there was a renewed sense of urgency. Countries need to double-down on their efforts and renew the commitments to the Sustainable Development Goals (SDGs).

One piece of the SDG puzzle is supporting trade that can lead to more growth, jobs and prosperity in developing countries. At the heart of this are small and medium-sized enterprises (SMEs) that dominate the business ecosystem across the world and significantly contribute to improving livelihoods. To deliver the SDG promise, we must build the competitiveness of these SMEs and connect them to global markets. So why does this not happen? What stops SMEs from scaling up across regional markets like Asia?

The reasons are multiple and complex. But recent research by the Asian Development Bank (ADB) in collaboration with the International Trade Centre (ITC) and other multilateral institutions, suggests that there is a disconnect between the availability and need for trade finance for the smallest firms. Although up to 80 per cent of global trade is supported by some level of financing and credit insurance, there still exists a huge gap, with many smaller firms unable to access the right financing tools to facilitate their core business operations.

Trade financing, in the case of most developing countries, is essential to unleashing business potential and growth, yet the trade finance gap remains at some US$1.5 trillion annually. Against a backdrop of global trade tensions that continue to provide an unwelcome source of economic uncertainty, this needs to change.

The 2019 Trade Finance Gaps, Growth and Jobs Survey, published in September, revealed that a trade finance crunch continues to exist due to low levels of financial inclusion, high perception of risk and unbalanced regulations, to name a few. The survey, conducted among 336 firms from 68 countries, 112 banks from 47 countries, and 53 export agencies from 17 countries, describes the various barriers to trade finance. The results also found that lack of collateral and 'know your customer' issues were among the main reasons that banks rejected trade finance proposals.

Singapore, location of the 2019 Asia House Global Trade Dialogue, is consistently ranked among the top startup ecosystems in Asia

The report also highlighted that high country risk, represented by low credit ratings, was identified by 52 per cent of respondents as an impediment to providing more trade credit for transactions in developing countries. Africa alone had suffered a reduction of at least 12 per cent of the number of foreign banks ready to confirm letters of credit due to the heightened perception of anti-money laundering and know-your-customer regulatory risks. As it happens, most international and regional banks lack country limits to support trade in the majority of developing country members of the Asian Development Bank.

But the International Chamber of Commerce's Trade Finance Register, which the Asian Development Bank Trade Finance Program established in 2010 to generate default and loss statistics on trade finance (on a global industry basis), consistently shows very low default rates of between 0.03 per cent and 0.24 per cent. This suggests that, despite challenging operating environments and correspondingly weak country ratings in many developing countries, trade transactions actually represent a relatively low risk.

The ADB reports that its trade finance business, which since 2009 has done more than 21,000 transactions valued at US$36 billion (mostly in Bangladesh, Pakistan, Sri Lanka, and Vietnam), has never had a default or loss on any transaction. And yet, despite the low-risk nature of trade finance, substantial gaps persist.

"SMEs account for more than half of trade finance demands, yet the rejection rate is 45 per cent. To compare, the rejection rate for multinational corporations was just 17 per cent."

At ITC, we have long recognised that SMEs face barriers to securing trade finance that limit their ability to grow and contribute to economic and social advancement. SMEs account for more than half of trade finance demands, yet the rejection rate is 45 per cent. To compare, the rejection rate for multinational corporations was just 17 per cent.

A key point is that there is an increasing selectivity by banks in taking on new customers, particularly SMEs. Smaller businesses are known to be the most vulnerable segment in the face of increasing compliance requirements. They often lack additional collateral that, in most cases, prevents them from accessing such credit lines. In the Pacific, the report reveals, the difficulty of using real estate as collateral makes commercial banks reluctant to extend business credit, despite widespread secured transaction reforms in the last decade.

An additional barrier that we have identified is that women-owned businesses find it even more difficult to access finance. Among women-owned firms surveyed, the average rejection rate of their proposals was 44 per cent compared with 38 per cent for male-owned firms. And once rejected, women-owned firms were less likely to seek alternative finance sources. There is more that can be done to address this gender finance gap.

Four years ago, ITC launched the SheTrades Initiative, seeking to address structural barriers limiting the ability of women entrepreneurs to trade. We want to ensure laws, regulations and business practices are sensitive to the needs of women entrepreneurs. We also want to help connect three million women entrepreneurs to markets by 2021, through a combination of capacity building and business matchmaking.

Access to credit and capital has consistently been raised as a specific impediment for women entrepreneurs to trade and this is why we have recently started SheTrades Invest, to de-risk and better connect investors and women entrepreneurs. Better access to trade finance for women-owned firms and SMEs, particularly in developing Asia and elsewhere, will enable them to drive the new, inclusive economy that the Sustainable Development Goals demand.

The ITC's SheTrades initiative aims to address the access barriers facing women entrepreneurs

What else can be done to address the trade finance gap? Parallel advances in FinTech and digitisation will help grease the wheels of trade finance, particularly for SMEs. As much as 86 per cent of the surveyed banks say they are actively looking at new technologies such as Artificial Intelligence and blockchain to create more efficient, stable, and sustainable trade finance channels to spur global growth and development. This will also reduce the cost of processing trade finance transactions.

A majority of banks surveyed are gearing up to serve more SMEs through technology by more efficiently processing know-your-customer regulations, deepening their ability to data-map this market segment, developing new products, and possibly helping to reduce rejection rates.

This is good news, but there are challenges - including the cost of developing and implementing such technologies that are, as yet, untested. Technology will not close the trade finance gap unless governments adopt the legal and regulatory frameworks to support it. Standards and protocols are needed to drive interoperability between parts of the trade ecosystem, with the meta-data harvest reaped by such systems feeding back into decision-making.

> *"As much as 86 per cent of surveyed banks say they are actively looking at new technologies such as Artificial Intelligence and blockchain"*

There is also a need to reduce the trade finance knowledge gap in local banking sectors for handling trade finance instruments, improve monitoring of trade finance provisions, and to maintain an open dialogue with trade finance regulators. This will ensure that trade and development considerations are better integrated and that the lower risk profile of trade finance is adequately factored in.

At this time of heightened trade tensions and growing uncertainty, we would be wise to invest in resilience and risk mitigation. Greasing the wheels of trade finance can help us in ensuring trade continues to contribute to growth and jobs. It is our collective responsibility.

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FinTech disruption will usher in social reform

Geoffrey Prentice
Co-Founder, Oriente
and Skype

FinTech firms are fast establishing themselves as the benchmark in the provision of financial services. In fact, they have assumed significant stature in the industry already. The FinTech industry in ASEAN is among the fastest growing globally, and forecasts expect the market size to reach between US$70 billion and US$100 billion by 2020. Among the ASEAN countries, Singapore is the leader in this space, followed by Indonesia and Malaysia.

The factors contributing to this unprecedented growth in FinTech include increasing disposable incomes and greater digitisation. Higher disposable incomes have led to increased demand for higher value products and services (particularly financial instruments) among other services. In only a year from now, for example, consumer spending in the ASEAN region will account for a staggering US$2 trillion. A couple of other important factors are the ubiquity of the mobile phone and the paucity of banking services, particularly outside of the region's urban centers.

Attractive new propositions

New propositions by FinTechs are increasingly attractive to consumers who are underserved by existing financial services providers, and their use will only rise as FinTech awareness grows, consumer concerns fall, and technological advancements, such as open APIs, reduce switching costs. Smita Gupta, Finastra's Asia Pacific Head of Marketing and Strategy, recently said that "open banking and APIs will open up one of the world's oldest and most exclusive industries to intense competition and collaboration which aims to give consumers more options and better services."

McKinsey's 2018 Asia Personal Financial Services Survey shows that 30-50 per cent of those in emerging Asian economies who do not use digital banking currently are likely to embrace this technology. This implies that there will be rapid growth in digital banking penetration across the region.

The traditional banking giants typically perceived FinTech firms as competitors initially. However, this perception has been changing towards the acceptance of FinTechs as an indispensable component of banking. As a result, many incumbents are actively exploring their own FinTech initiatives, considering the fact that this route has proven its efficacy in enhancing financial inclusion. But FinTechs possess a few distinct advantages.

The greatest advantage that a FinTech firm has over a traditional bank is its ability to grow without expanding its physical footprint. In simple terms, an unbanked individual may not even need to physically visit a banking branch to open an account; it can be done so on a smartphone. One example of an incumbent that has extended a similar service is DBS, whose Digibank offering allows prospective customers to open a savings account on their mobile phones using biometric authorisation.

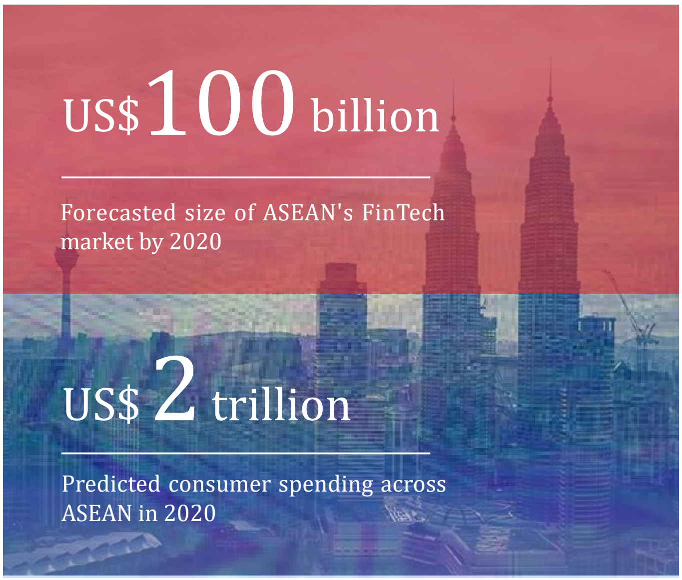
Disruption of traditional customer relationships

Established financial services firms face both "unbundling" and "re-bundling" of their propositions resulting in disruption of traditional customer relationships. The role of traditional customer service representatives is fast giving way to Artificial Intelligence (AI), and in this regard FinTechs hold a competitive advantage.

> *"Collaboration between startups and established firms is perhaps the ideal — and inevitable — outcome of disruption in financial services."*

The incumbents have been playing 'catch-up', although one highlight is Bangkok Bank, which has several AI startups working with it, including AntWorks, Pand.ai and Vymo. AntWorks offers data conversion services while Pand.ai basically listens in to human conversations to provide appropriate responses. Meanwhile, Vymo uses AI to better streamline the sales, marketing and after-sales support channels. Collaboration between startups and established firms is perhaps the ideal — and inevitable — outcome of disruption in financial services.

Investment and regulatory support will continue to play a role in stabilising the development of the FinTech industry, which will benefit consumers. Take, for example, Oriente. Our FinTech platforms Cashalo in the Philippines and Finmas in Indonesia cater to over three million customers and have helped nearly two million previously 'credit-invisible' people create financial identities and build a credit profile. These platforms have posted incredibly high double-digit growth every month since their



launch in mid-2018. Today, we're already building the fastest-growing O2O (offline-to-online) merchant-consumer network in Southeast Asia.

Financial inclusion and poverty eradication

FinTech firms have made swift inroads on account of the efficiencies they extend. Considering emerging Asia's vast unbanked population, organisations such as Oriente are committed to powering financial inclusion, affording the unbanked population a chance to establish a financial footprint and participate in an increasingly digital economy.

Greater financial — and digital — inclusion will result in lifting millions out of poverty, and enable them to contribute to regional economic growth.

> *" The greatest advantage that a FinTech firm has over a traditional bank is its ability to grow without expanding its physical footprint. "*

While incumbents have largely concentrated their efforts on serving the already-economically-forward and those settled in urban areas, FinTechs are not only disrupting the financial services sector but are also serving as key agents in bringing about social reform through innovative products like nano-financing and purpose-based digital-credit and lending solutions.

Ceyla Pazarbasioglu, Vice President, Equitable Growth, Finance and Institutions, World Bank Group, aptly echoed this sentiment recently when she said: "I really think we're not going to eradicate poverty unless we have financial inclusion."

Asia's emerging financial centres explored in new report

A new report by Asia House Advisory explores 10 emerging financial centres across Asia predicted to develop into significant finance hubs.

From 2009 to 2017, the Asian banking sector increased its held assets by 70 per cent. It accounted for 40 per cent of total global assets in 2017, compared to 27 per cent in 2009. High growth means opportunities to finance it, especially as new financial centres compete with more established players over ways to innovate, leverage growth and explore potential opportunities.

Asia House Advisory identified 10 regions with potential across three key themes - FinTech and alternative financing; rebranding; and government support. The report, published in November 2019, features explorations of financial centres including Bangkok, Melbourne, Istanbul and Busan (pictured).

"Work together to unlock Southeast Asia's digital potential"

Stephanie Davis
Managing Director of Sales and Operations in Southeast Asia, Google

A decade ago, only one in five Southeast Asians (about 120 million people) had access to the internet. Today, more than 360 million people are online — 100 million more than just four years ago. People are using technology to improve their lives, businesses are using the internet as a platform to grow, and industries like ride hailing and e-commerce are developing around a culture of innovation and entrepreneurialism.

The latest eConomy Southeast Asia report from Google, Temasek and Bain & Company confirms that the region's internet economy will reach US$100 billion in 2019; three times its size in 2015, and with no sign of slowing down any time soon.

By 2025, the report forecasts Southeast Asia's internet economy will have tripled again to reach US$300 billion—while its contribution to regional GDP will have more than doubled to hit 8.5 per cent. With non-metro areas catching up to big cities and a young, mobile-savvy population keeping the entire region at the forefront of digital trends, it's a time of unprecedented growth and opportunity.

> *"Today, more than 360 million people are online in Southeast Asia —100 million more than just four years ago"*

We should all celebrate this remarkable transformation. But just as importantly, we should focus on the things we need to do to make sure that everyone in Southeast Asia can benefit from the next wave of growth.

First, we need to expand access to the internet more widely and equitably across the region. The eConomy Southeast Asia report found that only half of the people online in the region are regularly using internet economy services like ride hailing or online media. And 200 million people still don't have access to the internet at all.

Second, we have to help people develop the skills they need for the changing economy. More than 40 per cent of small businesses in ASEAN say they don't have the necessary digital skills to grow, and the report identifies talent as the biggest single challenge for the regional internet economy as a whole.

Third, we have to develop policies and regulations that support business and jobs. The report singles out digital payments as an area where well-designed regulation could foster new financial services and a thriving industry, as it has in India.

At Google, we're proud to provide the universally available services that help Southeast Asians navigate and thrive on the internet, from search, email and maps to our advertising tools for businesses and the creative opportunities of YouTube.

At the same time, we recognise we have a broader role to play in making sure the benefits of the internet are shared widely with millions more people across the region - working in partnership with government, businesses and communities.

Meeting that responsibility is why we're working to expand internet access with Google Station, an initiative that provides fast, secure and free public WiFi in public spaces across the region.

It's why we've committed to teach three million Southeast Asians digital skills, with a particular focus on women, regional communities and schools. And it's why as well as supporting training programs like Gapura Digital in Indonesia and Digital 4.0 in Vietnam, we're working with governments to support start-ups, advance digital knowledge and literacy, and protect people's safety and privacy online.

It's a privilege to have the opportunity to help shape the future of technology in this diverse, dynamic and entrepreneurial region.
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> *"More than 40 per cent of small businesses in ASEAN say they don't have the necessary digital skills to grow"*

Over the past decade, we've seen how access to the internet in Southeast Asia can improve lives and empower business owners in ways that wouldn't have been possible in the past. Our challenge now is to make sure that all Southeast Asians have the digital skills, tools and platforms they need to shine in an online economy that continues to scale new heights.

Industries like ride hailing and e-commerce are developing around a culture of innovation in Southeast Asia.

Image credit: U.S. Embassy Phnom Penh

Great power competition affects Asia. Should, and could, Europe respond?

Dr. Norbert Röttgen
Chairman of the Foreign Affairs Committee, German Bundestag, and member of Asia House Advisory Board

In the last couple of years geopolitical competition between the major powers has been intensifying. While Russia became much more aggressive in Eastern Europe and the Middle East, China grew much more assertive in Asia and increasingly on a global scale. The United States (US), in contrast, have partially withdrawn from the international scene and refocused their remaining efforts almost exclusively on dealing with China.

The new situation we are now facing is prone to instability and conflict, as the opportunities for competition increase. This is particularly true for the Asia-Pacific – the prime theatre of US-China confrontation.

Itself affected by great power dynamics and preoccupied with internal conflicts, Europe has been slow to recognise the importance of Asia's rise and has struggled to make an impact as an actor in the region. In view of the alarming and unprecedented challenge the competition between the US and China depicts, it is high time for Europe to develop a comprehensive strategy towards the Asia-Pacific that goes beyond mere trade relations.

Over the last century, America's policy has been to prevent a regional hegemon in Asia and to install US primacy in military and economic affairs. With the rise of China, the Asia-Pacific is undergoing a transition that describes a movement from US dominance towards a new balance of power logic.

There is a diffusion of power away from the US to China and to a lesser extent to other states in the region such as Japan, India, South Korea and Australia. While the US still dominates Asia in terms of military capabilities, China has started to wield its economic might to reorder the region.

Every Asian state now trades more with China than with the United States – an imbalance that is only increasing as China's economic growth outpaces that of the United States. As a consequence, many Asian states are now caught between Beijing and Washington.

The Royal Navy's HMS Daring on exercise with regional navies in the South China Sea (credit: Ministry of Defence)

In view of the new geopolitical rivalry as well as the uncertainty brought about by President Trump's arrival in the White House, Europe's potential in Asia has grown – a reality it has yet to fully grasp, appreciate and ultimately embrace. Europe's stakes in the peace and security of Asia are high. Given the region's increasing political and economic importance, only few of the European policy goals in free trade, climate change and the perseverance of multilateralism can be achieved without the positive engagement of Asia.

A crucial part of a more sustainable European presence in Asia includes embedding its already existing trade relations into a more comprehensive and coherent policy approach that includes a global governance and security dimension. Doing so would reflect a crucial aspect of the EU's 2016 "global strategy" which emphasised a direct connection between European prosperity and Asian security.

The EU is not a Pacific power and most likely will never be one. But it is an economic powerhouse and market power. Amid concerns about rising protectionism and threats to the multilateral trading system, many states especially in the Asia-Pacific hope that the EU steps in as a third player in meeting the region's huge infrastructure and investment demands.

> *"To ease the mounting tensions the necessary and sensible step would be to upgrade the French and British national endeavours in the South China Sea into a permanent European presence."*

Not only should the EU invest in the region's connectivity, in view of Trump's exit from the Trans-Pacific Partnership, it should also continue its policy of bilateral free trade agreements to counter economic dependencies on China. To defend and strengthen international free trade as the dominant trading paradigm, European powers should in addition step up their cooperation with Asian partners in the multilateral fora.

As trade and security are always interlinked, being a market power inevitably needs to involve a security dimension. In Asia maritime disputes carry a special significance, as water is the organising element of the continent. Securing the right to patrol, to build bases and to regulate trade through these waterways

German Chancellor Angela Merkel and China's President Xi Jinping meet at a global summit. Europe and Asia share a complex relationship, walking a line between partnership and competition.

means access to resources critical to sustaining economic growth and political stability. Maintaining the freedom of the seas is thus central for Asia's growth and stability and therefore by default for Europe's own prosperity.

> *"Europe has been slow to recognise the importance of Asia's rise and has struggled to make an impact as an actor in the region."*

The vulnerability of Asia's waterways is nowhere more prevalent than in the South China Sea. While the United States insist on the right to navigate freely, for China securing control of these strategically important waters is key. The bordering Southeast Asian states in general welcome a firmer counterbalance to China's growing influence. But they also fear a great power confrontation in their backyard. Their concerns are not unfounded, in view of more regular US freedom of navigation operations and Chinese military countermeasures.

To ease the mounting tensions the necessary and sensible step would be to upgrade the French and British national endeavours in the South China Sea into a permanent European presence. Both countries already operate military vessels in the strategically important waterways.

Spearheaded by Britain and France, a joint initiative should understand itself as European and be recognisable to everyone as such.

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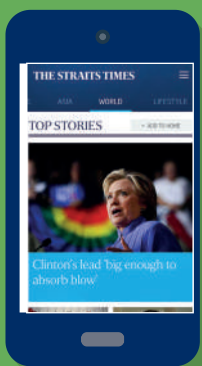

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"Trust in RCEP, but don't forget to tie up AEC"

Ravi Velloor
Associate Editor,
The Straits Times

It has fallen into something of a pattern that the community relations division of the ASEAN secretariat holds a forum every year ahead of ASEAN's mid-year summit that brings select journalists to interact with key officials from the region - typically from that year's host country. This July, editors who gathered in Thailand, host of the 2019 summits, gained significantly from the presence at the forum of ASEAN Secretary-General Lim Jock Hoi, who has been rather taciturn with media since he took charge at the ten-nation organisation early last year.

Given that it is an ill economic wind that blows these days - witness the US-China and Japan-South Korea trade spats that are bothering the region, to name just two - Asia, particularly Southeast Asia, will grasp at any straw thrown its way. For that reason, those who had the privilege of engaging Mr Lim came away cheered by his optimism that the ASEAN-driven RCEP - short for Regional Comprehensive Economic Partnership - could be sewn up, or perhaps, put more appropriately, wrestled to a conclusion by the time ASEAN leaders gather for their annual summit in November.

Ignited in part by the then planned Trans-Pacific Partnership (TPP), which excluded several giant Asian economies, the RCEP was pitched as having the potential to be the world's largest trade bloc, creating a market of about 3.6 billion people and a third of the world's gross domestic product.

The RCEP, negotiations for which were announced in late 2012, is a proposed trade agreement that would include the 10 ASEAN states with six dialogue partners - China, Japan, India, Australia, New Zealand and South Korea.

From that heady start though, progress has been fitful and slow. While a lot of it has to do with Indian fears of being swamped

by Chinese-manufactured goods without reciprocal access for its services exports, areas in which the South Asian giant is more competitive, several other countries, including Indonesia and China, have their own issues as well. Last November, RCEP ministers dropped their earlier pledge to reach a "substantial conclusion" by the end of last year and pushed the deadline back a year.

RCEP's prospects

Since then, some of the political compulsions within various countries to hold back on trade concessions have eased, with India, Indonesia, Thailand and Australia all holding elections and incumbents prevailing handsomely. This brightens the RCEP's prospects, and no doubt contributes to the Secretary-General's optimism. In recent months, RCEP negotiators have been meeting at a frenetic pace and have held close to 30 rounds of talks.

"The CPTPP took seven years to complete and we do not wish to go beyond that (timeframe)," said Mr Lim, referring to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership that Japan midwifed after the US abruptly withdrew from the earlier planned TPP on President Donald Trump's first day in office.

Besides exuding confidence of a substantial conclusion by the year end, Mr Lim made two other points. Possibly taking his cues from host nation Thailand, and next year's chair, Vietnam, he seemed to suggest that ASEAN wants to take all RCEP partners along, and is not comfortable with the idea of a minus-one approach.

This suggestion, apparently pushed by China, would have those not immediately ready to sign dropped from the list of initial RCEP signatories and considered for admission at a later date.

"We do not want to see anyone disadvantaged," said the Secretary-General. "We want everybody in, and that is why we are working towards a landing zone. Of course, we have to accommodate the difficulties of each member state."

Equally importantly, and in words that will no doubt hearten Indian officials, there are hints that ASEAN is more amenable to accommodating Indian demands for freer access to the services market for its professionals in exchange for that vast market being more open to goods from RCEP nations.

Vietnam's Deputy Prime Minister Pham Binh Minh at Asia House. Vietnam will chair ASEAN in 2020.

ASEAN Secretary-General Lim Jock Hoi

At age 67, and with his wide experience in foreign and trade issues, there is little reason to think that Mr Lim indulges in pipe dreams. So, you have to take his positive spin on the RCEP at face value. Nevertheless, there are many around the region who doubt whether the deal can be substantially worked out in November, given that so many balls are in play, both in terms of countries involved and the disparities in their development priorities.

India's fear of being swamped by cheap Chinese exports - the trade balance is overwhelmingly in China's favour - is the key reason why it has steadfastly declined to consider a free trade agreement with its neighbour and put sand in the wheels of the ongoing talks for a RCEP agreement.

Even as the annual ASEAN summit approaches, six of the 20 chapters of the RCEP deal remain to be concluded and recent talks in Bangkok on the subject were rough, with India reportedly demanding a safety valve to safeguard its interests against at least 50 per cent of Chinese imports under RCEP.

China cannot be faulted for its ability to manufacture cheaply. It is the sclerotic Indian system of archaic tax rules, labour laws and poor infrastructure that holds back Indian manufacturing, not a shortage of demand. Likewise, the fragmented pattern of its land holdings deny its farm sector the benefit of meaningful economies of scale, making it vulnerable to exports from Australia and New Zealand, also RCEP participants.

On the other hand, New Delhi is justified in pointing out that its services exports - where it has a measure of competitiveness - is not given adequate access to some RCEP economies, particularly China. A reputed Indian software services firm, for instance, was reportedly not allowed to bid for the upgrading of the Shanghai Stock Exchange.

The problem, of course, is that when so many pulls and pressures have to be accommodated, the end result is likely not going to be headline-grabbing. It may even induce sleep. A dilution of ambition is inevitable.

Raising ASEAN's game

This is why, even as it pushes for the RCEP, ASEAN should be aware that its main chance is really in a powerful ASEAN Economic Community (AEC) that can realise its vision of a single market and production base for the region.

Trade and investment flows to ASEAN, both from within and outside the region, are still in positive territory. Given the investments leaving China because of political risk, a stable ASEAN with friends in all directions could be a much bigger draw for foreign capital.

At the moment, according to research by Dr Suthad Setboonsarng, an economist currently on the board of the Thai central bank, aside from Vietnam, which has been enjoying a flood of Japanese and South Korean investments, there is little evidence that other ASEAN states have seized the opportunities that are opening up from the US-China chill.

Some washing-machine brands have moved production to Thailand, and a few makers of electrical products have moved to Malaysia. What is more, he says, gains, if any, could be temporary as a sliding yuan makes Chinese exports more competitive.

It is all the more important for ASEAN to pay special attention to raise its level of attractiveness, especially in removing the non-tariff measures (NTMs) and non-tariff barriers (NTBs) that governments sometimes erect to get around their commitments to open trade.

Indeed, experts say that NTBs within ASEAN, currently estimated at about 6,000, continue to grow. This highlights the flaw in the AEC's design, much of it because the 'ASEAN way' does not allow for more robust complaints over these barriers.

"The AEC has somewhat plateaued," Ms Sanchita Basu Das, a trade economist with the Asian Development Bank, told me in October. "There is no one doing the smart thinking as we saw in the 2002-2003 period. The low-hanging fruit has been plucked and it is time to tackle the politically sensitive areas. Even if the RCEP is realised, it will not be a high-quality trade agreement and will, at best, move things along incrementally. AEC is the real game."

While not in the same league as the European Union, a meaningful AEC could nevertheless be pretty robust in an Asian context. But it is not clear that all countries in the region see equal urgency in elevating it to that level. Besides, trade experts such as Ms Deborah Elms, Executive Director at the Asian Trade Centre in Singapore,

India's and China's concerns are thought to be one of the key factors delaying RCEP. Credit: Office of President of Russia worry that with trade negotiators so focused on RCEP, with a meeting taking place every three to four weeks, there is not enough bandwidth within trade ministries around the region to keep AEC discussions also moving swiftly along on a parallel track. That said, she adds, the RCEP has been "extremely helpful" to ASEAN because it is pushing the grouping to think hard about what it wants and does not want as a grouping.

"Every RCEP round typically starts with an ASEAN caucus and the ten then meet with their six other counterparts the next day," she says. "Unlike in ASEAN deliberations, where you can drag out a decision, you need to make firm decisions in RCEP negotiations. This means the ASEAN negotiators have to make a lot of decisions at the group's level which can then be swiftly picked up. In that sense, RCEP negotiations have been very complementary and helpful for the ASEAN project as well."

ASEAN single window

Secretary-General Lim suggests that not all the movement on the ground is catching the public eye. By the year end, he says, he expects to implement the ASEAN Single Window that would connect all ASEAN states and cut the time goods have to wait at borders from ten days to three. Separately, an agreement on digital trade is also on the cards as a deliverable for the year.

All these are positives for the AEC project, no doubt. While Europe's experience suggests that forcing the pace of integration can lead to bad consequences, there is no denying that in faster integration lies the secret to future prosperity.

The Bedouin taught their young to trust in God but to not forget to tie up their camels. Similarly, a maturing ASEAN is probably not wrong in putting so much trust in the RCEP. But the RCEP can only be the icing on the cake. The big meal can only come from a quality AEC, and that must be tied down.

RCEP in numbers

Open source: Wikimedia Commons

"The world's largest trade deal"

16 member countries

3.6 billion people

30 per cent of global GDP

Global challenges demand global responses

The challenges are complex, but the global mood is shifting to shape the critical collaboration required to find and fund solutions.

Peter Chamley

Chair, Arup Australasia

In an era of populist politics, climate change, demographic shifts, poverty and inequality, the one thing the world has an abundance of today is global challenges.

Whether it is the increased risk of extreme weather events, geopolitical tensions arising from the US-China trade war, or concerns over resource constraints from water to rare earths, the reality is that many of the most critical challenges we face as a global society demand global cooperation to find effective solutions.

The good news is that not only is there is a renewed sense of urgency on the need to take coordinated action across the globe, there is also a rapidly evolving number of tools and technologies available to make a real difference in tackling these challenges.

Take climate change. More and more countries and companies around the world are signing up to the challenge of delivering the UN's Sustainable Development Goals (SDGs), recognising the Equator Principles and committing to make a change in the wake of the Paris Agreement. We are far from securing a universal consensus about how to get there, but there's a growing movement making clear their intention to act and there are plenty of good examples of nations and firms that are setting an example and leading the way.

Perhaps most importantly, innovation and technology are providing cost-effective solutions to many of these global challenges as we see the spread of increasingly affordable developments in renewables, digital environments, AI and electric vehicles. Indeed, the declining cost-curve for renewables and storage is set to be one of the biggest contributors in a shift toward a better future.

However, the pace of change in achieving sustainable and resilient has to be ramped up considerably if we are to mitigate the challenges we face as a global society.

Follow the Money

That is why Arup is actively seeking out progressive partners and clients around the globe to drive faster progress in key areas.

For example, the firm is working with the C40 Cities Climate Leadership Group to help mayors and city authorities to understand where best to focus their scarce resources to tackle carbon emissions. The firm is working closely with the Rockefeller Foundation to help countries around the globe foster city resilience. And working with Lloyds Register Foundation, our Resilience Shift team is researching and disseminating best practice in the delivery of resilient integrated infrastructure.

> *"Financial institutions that back 'business as usual' investment reliant on old approaches to infrastructure will soon be left holding stranded assets and a host of reputational risks."*

As a result, we are driving change on a host of climate critical projects, whether it is solar PV and smart grids in South Africa or creating a 30-year resilience masterplans for cities in areas of water scarcity.

There is only so much one group can do on its own though. We need to build better networks and share best practice. We need more organisations to collaborate on a shared ambition to deliver

An increasing number of countries and businesses are signing up to the UN's Sustainable Development Goals.

Image credit: UN Ukraine

low-carbon, efficient and resilient infrastructure. And let's face it, we need the financiers on board as key players, especially as it will be in their interest.

Financial institutions that back 'business as usual' investment reliant on old approaches to infrastructure will soon be left holding stranded assets and a host of reputational risks. A fact that banks, insurance firms, pension funds and sovereigns are rapidly coming to realise.

So much so in fact, that the focus on new funding mechanisms for sustainable and resilient infrastructure is expanding at breakneck speed. In fact, this year, green bond issuance is easily on track to surpass US$200bn from zero just over a decade ago. Issuers are rushing to market with whole new ranges of infrastructure investment tools, from SDG and Social Impact Bonds, to decarbonisation funds and catastrophe bonds designed to help groups of nations build resilience.

The level of interest and the pace of activity is intensifying as awareness spreads among policymakers, businesses, city authorities and the financial community. The key challenge now is to translate this growing awareness into practical outcomes that work for nations in different geographies and at differing stages along the development path.

In reality, the case for well-designed, future-proofed, sustainable and resilient infrastructure shouldn't be a difficult argument to win. There are abundant examples that attest to the fact that poorly designed infrastructure is extravagantly expensive in terms of the legacy it leaves behind – technology that soon becomes obsolete, stranded assets, and the lost growth opportunities that result from creating polluted, congested environments.

It is up to all of us to build rapidly towards this shared ambition for a better society. The critical question now is how fast we can ensure that we act together to take on the global challenges that we all share.

Arup Group is working on water scarcity projects across the world, including in Iran. Credit: Arup - Future Water Challenges: UK-Iran Workshop Summary Report 2016

Chinese overseas infrastructure investment likely to slow amid growing risk awareness

Ada Li
Vice President - Senior Credit Officer, Moody's Investors Service

Moody's expects overseas investments by Chinese infrastructure companies to slow during the coming few years, following strong growth during the past decade. In Moody's view, overseas investments will remain at a solid level, but companies will take a more cautious approach to these investments, especially in emerging and frontier markets, and take additional steps to address the associated risks.

State-owned infrastructure companies will also turn their focus back to China (A1 stable) to support the government's GDP growth targets. Some companies that continue to make large debt-funded overseas infrastructure investments may find their credit quality affected.

Overseas investment growth to slow during next two to three years

China's overseas investment growth during the past decade was fueled by Chinese government strategies such as Going Out in 1999 and the Belt and Road Initiative launched in 2015. The Belt and Road Initiative drove the overseas direct investment surge in 2016, which was then pared back in 2017-18 following regulatory controls to stem large-scale capital outflows from China and tighter liquidity conditions for Chinese companies. The reduction also reflected a pullback by infrastructure companies as complications began to surface with investments they made in previous years, particularly in the emerging markets.

While overseas investments will remain solid by historical standards, Moody's expects Chinese infrastructure companies to be more selective in making overseas investments in the next two to three years because of their increased awareness of both the risks and the effect on their financials. Overseas investment growth will also slow because Chinese state-owned infrastructure companies will likely shift their focus back to China to support GDP growth target of 6 per cent - 6.5 per cent for the next two years. Potential resistance from investee countries may contribute to the slowdown too.

Overseas infrastructure investments will remain attractive

Despite the risks, these investments offer financial and strategic benefits for Chinese companies, which also benefit the Chinese government and economy. These benefits include raising China's international profile, expanding Chinese companies' access to industry knowledge and natural resources, and diversifying their geographic markets and revenue streams. Such operations also improve logistics of goods and passenger traffic through investments in ports, roads and railways.

These deals are often endorsed by senior government officials from China and the counterparty country, signaling the deals' strategic value to both countries. However, some Belt and Road investments have stoked criticism of China as local populations have become critical of perceived poor governance for these projects.

> *" China sees large overseas infrastructure investments as part of raising its global profile. "*

The Belt and Road Initiative is meant to help Chinese companies tap the high growth potential and natural resources in emerging markets, and reduce China's economic reliance on counterparties in developed markets. To encourage overseas investments, China provides economic incentives such as low-cost financing from policy banks, state-owned major commercial banks and sovereign investment funds.

Risk awareness is increasing

Overseas infrastructure investments are long-term and bring geopolitical, regulatory, financial and governance risks, especially in emerging markets. Companies are taking more steps to address these risks, such as increasing their return-on-investment requirements.

There are increasingly unpredictable changes in foreign governments' attitudes toward Chinese investors, especially when overseas elections bring leadership change. Changing attitudes can lead to the reassessment, delay and even termination of Chinese projects.

In addition, the legal frameworks in certain emerging markets are still developing and may not adequately protect investors. The weak investment returns also reflect high acquisition costs resulting from several factors: an underestimation of the risks; competition among Chinese companies when the overseas infrastructure acquisition market was active in 2015-16; and an overestimation of growth potential by companies accustomed to China's strong economic growth over the past two decades.

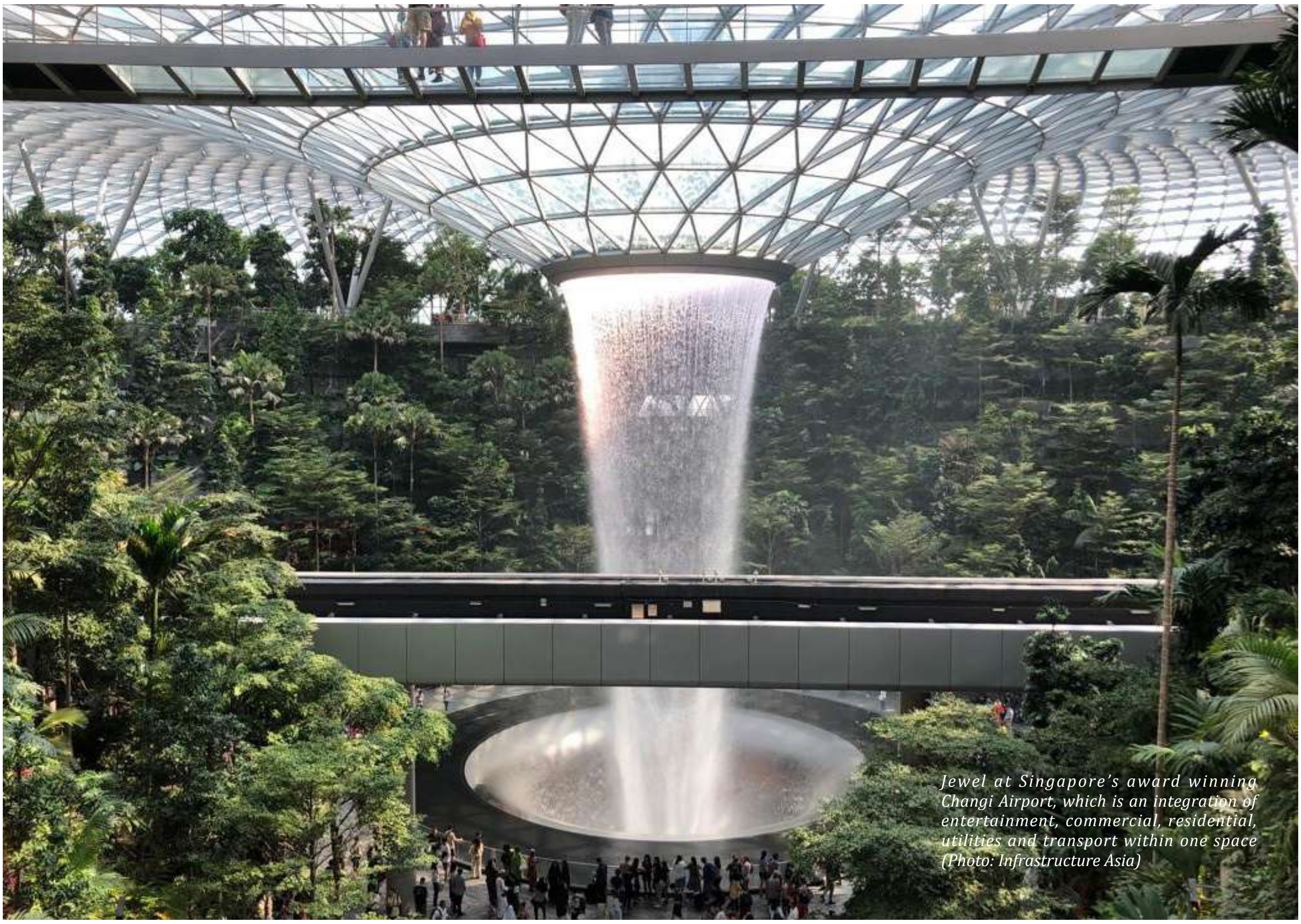
Many of the overseas infrastructure investments are in markets that are more volatile and vulnerable to external shocks than China. The financial returns on these investments are often inadequate to reflect these risks.

Effect on credit quality will increase if individual companies continue to make large debt-funded investments

Credit quality for most of the Moody's rated Chinese infrastructure companies has so far not been materially affected by their overseas investments because the number and size of the investments have been small relative to the scale of their balance sheets and domestic operations. But if some companies continue to make significant debt-funded investments overseas, especially large ones or in large greenfield projects, their credit quality may be pressured.

Moody's expects Chinese companies to take further steps to address these risks, for example, setting higher required return targets, refinancing project debt in local currency and financial hedging, political risk insurance. International arbitration centers can give investors confidence that legal disputes can be resolved.

To reduce social and governance risks, Moody's expects more local sensitivity and improvements in project transparency, with companies launching publicity campaigns targeting local communities to help to ease concerns.



Jewel at Singapore's award winning Changi Airport, which is an integration of entertainment, commercial, residential, utilities and transport within one space (Photo: Infrastructure Asia)

Transit Oriented Development:

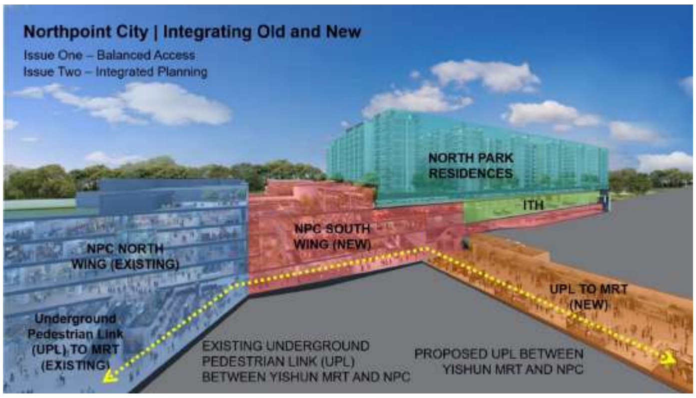
Catalysing financing for emerging Asia's urban transport projects

Analysis from Infrastructure Asia

According to the Asian Development Bank (ADB), 80 per cent of Asia's new economic growth will be generated through its urban economies, where most jobs are located. This sees 44 million people moving to Asia's cities every year. These growth trends place a huge strain on urban transport and mobility. Costs, in terms of time loss and transport costs alone, are estimated to be two per cent to five per cent of Asian economies' annual gross domestic product.

To provide for and modernise urban transport systems, Asian cities are heavily invested in the construction of roads and quality mass public transportation. But the pipeline remains large and government budgets alone are insufficient. Private capital is thus often presented as a supplementary and alternative source of funding. However, to mobilise private capital to deliver urban

Jurong East Mass Rapid Transit Station and Bus Interchange: Site-based TOD design for a new integrated tourism and business hub. (Rendering above provided by SAA Architects)



Complex TOD design applied for the expansion of a brownfield multimodal transport station at Yishun, to combine entertainment, residential and transport (Rendering above is provided by SAA Architects)

transport, there is a need for newer frameworks in government's planning, to better leverage land value capture while developing liveable transit-oriented cities.

Transit Oriented Development (TOD): Improving the business case of mass urban transport projects

As population growth is increasingly centred in Asia's cities, building around and on top of multimodal transport stations has become a popular way to cross-finance urban transportation and public amenities in well-connected locations. While it is well known that TOD improves the liveability of cities, its effect on the business case for mass transit projects is often neglected.

One of the key challenges that urban transport projects face is in encouraging higher ridership, when most cities' transportation is already decentralised among private vehicles and operators. TOD offers a strategic spatial planning tool to direct and regulate mobility in accordance with a city's development vision. It can help plan to reduce competing transport options and enable seamless last mile transport options to homes. With higher certainty of demand, TOD can foster greater viability for projects to involve international investors in the planning, design, implementation and operation of mass transport systems.

In the course of Infrastructure Asia's work, the industry provided feedback on how TOD and urban plans could help catalyse confidence in the business case for urban transport projects.

Firstly, integrated spatial and transport planning represents robust demand planning. A well-planned urban transit line has lower risk of future deviation from ridership and cashflow projections. To attract real estate developers, a key investment criteria, aside from size of the existing population, is the state of existing infrastructure and roads, and its integration with future transit plans to ensure good traffic flows.

Secondly, TOD also offers alternative revenue streams from non-farebox revenues with optimal growth in foot traffic, such as from advertising, taxation and revenue sharing with developers of residential and office spaces.

Thirdly, to ensure the bankability and investibility of projects, federal guarantees and financing are important considerations. But in return, the central state often demands higher prudence in planning, stronger public connectivity outcomes and the need for a sustainable vision for the city's transit systems. These are to reduce the amount of the viability gap funding needed in order to mitigate the risks to private sector partners. TOD helps enable some of the above conditions.

Harnessing Singapore-based capabilities to support transit-oriented cities in Asia

Singapore has much to offer to the region for TOD and public transport development, where design capabilities are integral. As a land scarce city-state, Singapore shares many challenges with other Asian cities. Singapore's TOD had primarily focused on urban renewal, through the expansion of the transit network. The result is a constellation of satellite towns that surround a central core, with rail networks that connect these towns to industrial parks and the city centre, where the bulk of jobs are.

These satellite towns are self-sustaining, with common public amenities within walking distance and a reduced need to venture out for common daily needs. Under the right conditions, TOD can also be used for discrete projects rather than the entire network. Furthermore, Singapore is also home to an international ecosystem of firms with design, engineering and architectural experts who were responsible for transport and spatial planning in top cities globally and in Asia.

The city-state also houses other key value chain players for transit oriented cities, such as real estate firms active in the region, financiers active in seeking opportunities, and legal and transaction advisors who can help design and manage tenders up to its financial close.

In conclusion, TOD and robust urban plans backing cities' mass transit projects could inject greater confidence for developers and investors to bring and scale their successes in Asia's emerging markets. TOD offers a key building block to pave the way for transport infrastructure in densely populated cities to access more private capital, railway developers, rolling stock, electronics players and operators to come in.

Infrastructure Asia is a regional infrastructure facilitation office under the Singapore government and serves to help pull together Singapore's development experience as well as the international industry's expertise to help prepare urban transit projects, share knowledge, and input on tender evaluation. This is so that projects can be better matched with investors and developers who find them addressable.

This article benefitted from the sharing of the following over the course of Infrastructure Asia's work: Allen & Gledhill, Arup, CapitaLand, DBS, Keppel Urban Solutions, KPMG, MSI Global, Partners Group, Perennial Real Estate, SAA Architects, SMRT, Surbana Jurong, and UOB; as well as non-private sector organisations like the Centre for Liveable Cities, Singapore Land Transport Authority, and the World Bank. The article is published on Infrastructure Asia's website, featuring additional quotes and insights from industry.

Asia House highlights 2019

Asia House Chairman Lord Green was in conversation with China's Ambassador to the UK, His Excellency Liu Xiaoming

Anu Madgavkar, Partner, McKinsey Global Institute, explored India's booming digital economy at the Digital India conference, held in partnership with McKinsey & Company

Heather Wheeler MP, UK Minister for Asia Pacific, briefed Corporate Members

Asia House welcomed Perry Warjiyo, Governor of Bank Indonesia (left) and then Indonesia's Minister for National Development Planning, Bambang Brodjonegoro (right) for a briefing with Corporate Members chaired by Asia House Chief Executive, Michael Lawrence (centre)

Sri Mulyani Indrawati, Minister of Finance, Indonesia, visited Asia House to brief Corporate Members

Robert Koopman, Chief Economist, WTO, shared his analysis on the world economy with Asia House

THE ASIA HOUSE **MIDDLE EAST PROGRAMME**

Asia House returned to Dubai for its major Middle East conference: The Future of Trade - The Middle East's Pivot to Asia, held with DMCC

The Asia House Middle East Programme drives engagement between the region and markets in Asia and Europe through major conferences, briefings and research activities

In one of his first engagements with the business community since taking post, HRH Prince Khalid bin Bandar bin Sultan bin Abdulaziz Al Saud, Ambassador of the Kingdom of Saudi Arabia to the UK, briefed Asia House

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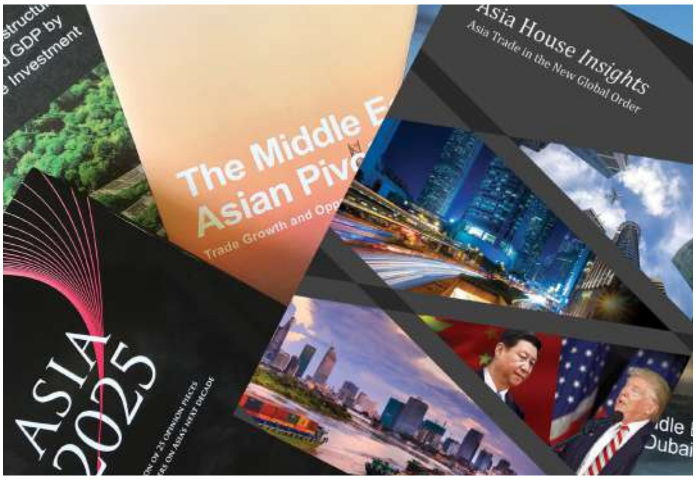

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The Asia House Advisory practice provides bespoke consultancy services to help organisations understand new operating environments and develop strategies to meet business-critical challenges. Our advisory services build on more than 20 years' experience advising corporates on political and market developments and stakeholder engagement.

Our strategic advisory offering includes:

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- Stakeholder engagement – stakeholder identification, engagement strategy and execution
- Strategic communications – research and content development, media engagement

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- Our knowledge – our team in London and our network of advisors across the region have experience operating in multiple markets and sectors
- Our expertise – receive impartial, accurate, and pragmatic advice on issues across policymaking, market opportunities, political risk, and stakeholder engagement
- Our independence – Asia House is not funded by any government and we pride ourselves on our neutrality, objectivity and discretion

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