

Asia's Developing Future



ASIAN DEVELOPMENT BANK INSTITUTE

How to thread the economic and political needle on Asian infrastructure growth

Asian Development Bank Institute Dean Naoyuki Yoshino and renowned political scientist Francis Fukuyama of Stanford University's Leadership Academy for Development recently sat down at ADBI in Tokyo to discuss strategies for meeting developing Asia's surging demand for infrastructure—from rail, roads, ports, and airports to water and sanitation systems to digital networks.

Dean Yoshino kicked off the exchange by explaining the importance of tackling public financing shortfalls and highlighted a proposal to utilize spillover tax revenues and return part of the increased spillover tax to infrastructure investors.

“There was an institutional investors, insurance companies forum, in Tokyo. It's a global forum. And there was a discussion why they cannot invest into infrastructure, because rate of returns are very low. And then risks are very high. And I asked them, if the rate of return goes up 40% would they be willing to invest into infrastructure? They said, definitely yes.”

“If the new infrastructure is constructed, then it [generates] incremental tax revenue. And it is shared between government and private sector. And the taxpayers are not losing their money. Because their business is expanded their sales expanded their income expanded. That's why they are paying higher, high amount of tax but the tax rate is the same.

Professor Fukuyama offered a political take on utilizing new tax revenues to kickstart private sector infrastructure investment.

“You’re really talking about externalities, that an infrastructure project generates all these externalities in terms of higher economic activity and economic growth, the government benefits from that, because it’s able to tax that extra growth. And you’re proposing that the government give back some of those tax revenues to the investors and private investors.

So the first thing that occurs to me is, in many countries, there is an intense distrust of private sector participants in public infrastructure. Many people believe that public infrastructure is a public responsibility. They think that private contractors are greedy, you know, businessmen that basically want to line their own pockets. And it seems to me that it’s actually quite a challenge to them, beyond letting them simply profit from the direct revenues from a project, also receive transfers, essentially, from taxpayers to increase their incentives.”

Noting the importance of balancing stakeholder interests to facilitate project buy-in, Dean Yoshino went on to ask Professor Fukuyama his recommendations for boosting infrastructure projects in Asia and the Pacific, the focus of a joint ADBI-Stanford University Leadership Academy for Development interactive course recently conducted at ADBI in Tokyo:

“Infrastructure, it is often conflicts between private interest and public government interest. As you mentioned, the government side, land ownership to the private is important. However, it should be well utilized as a public infrastructure. So that is another part of education for the people. And that is very important.”

“Well, in a certain sense, that's what we're trying to teach all week is, is really how do you confront these multiple problems of stakeholders who are being affected by a big complex infrastructure project? And how do you get them to cooperate and reduce the kinds of inevitable opposition? And I don't think there's any simple formula for doing this.

I think you have to get more voluntary buy in, and I don't think there's an easy way around it, I think it requires stakeholder consultation at every stage of the project. So it requires it when you're trying to develop the project initially, it requires it in the implementation stage. And then as I said, it requires this flexibility to be able to adapt to resistance, you know, because these projects will produce resistance and then having strategies for, you know, how do you how do you get people to see that things are good.

It really is more of a problem that requires certain kinds of political skills in order to bring people along, so that they see the benefits of the project. In the long run, they see their long-term interest rather than their short-term interest and so forth.”

Dean Yoshino described the challenge corruption poses to infrastructure development and ways to ease public concerns about malfeasance.

“Corruptions, and land transfers are going on. So how to make it clean, transparent is very important.

Our method is ADB or large bank will come into the joint project. So they provide 5% or 10%, small amount to share. And then they look at all the procedures, who have taking all of those constructions and so on. And hopefully, that could be transparent, and clean it up.”

“The starting point is obviously transparency, right? So if politicians are buying up land rights in advance of a project that they themselves are promoting, there needs to be some kind of public, you know, registry that records these transactions. Now, that becomes very difficult in the modern world, because the true beneficial owner of a particular piece of real estate, can be hidden through all sorts of cutouts, and shell companies, and, you know, so forth.

Professor Fukuyama concluded by describing the role that new technologies and international cooperation can play in confronting systemic barriers to infrastructure growth.

Now, there's this whole technology that's being developed in order to try to trace beneficial owners, so that they don't get away with this. A lot of these shell companies take advantage of weak jurisdictions and, you know, poor transparency in other parts of the world.

And unless you have enough cooperation among, you know, countries that really want to put a stop to this kind of corruption, it's, it's going to be very difficult to do. And I think that's really the current frontier of anti-corruption, is this level of international cooperation in terms of, you know, promoting transparency in this sector.”

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