

# Global Capital Supply and Sustainable Urbanization: Investment-led Development Financing

Professor Xiaoming Huang

Presentation at the ADB -Asian Think Tank Development Forum  
21-22 September, 2017, Colombo, Sri Lanka

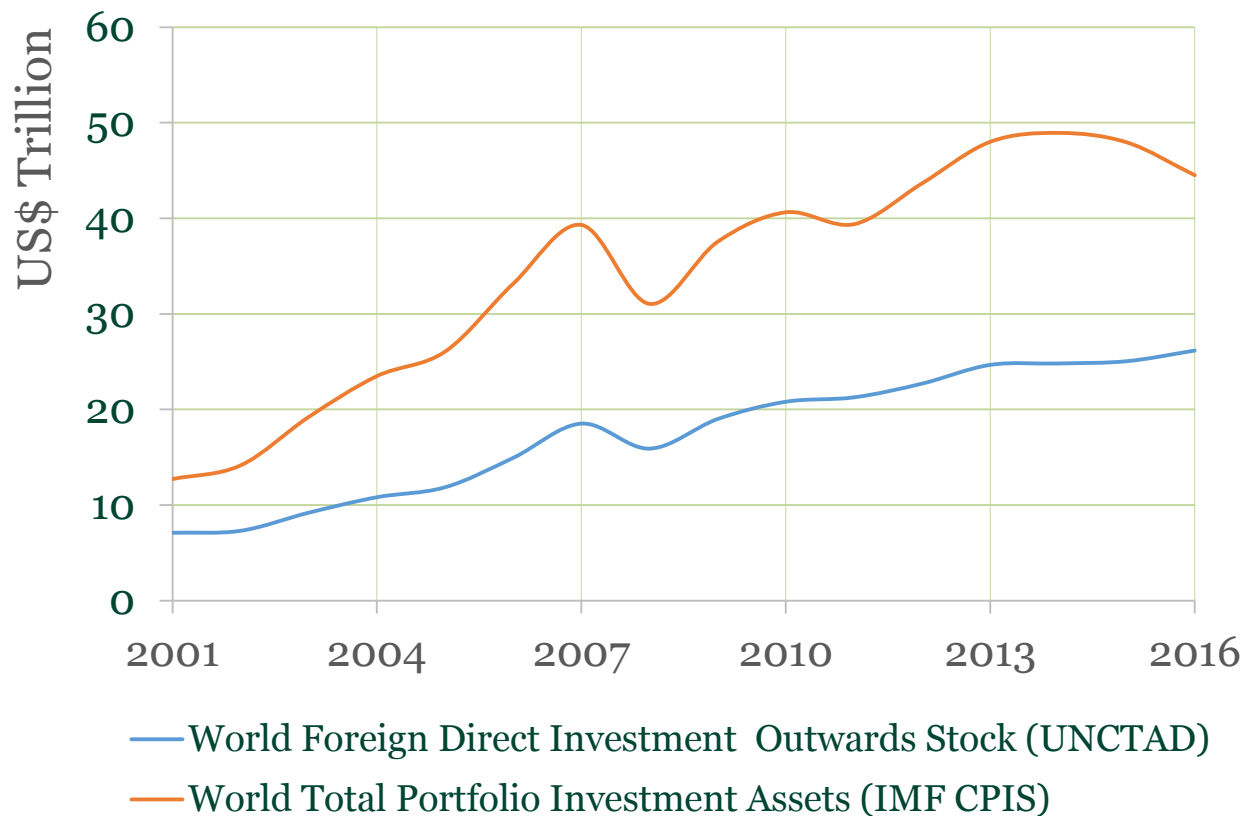
Capital thinking. Globally minded.



# 1. Financing Sustainable Urbanization

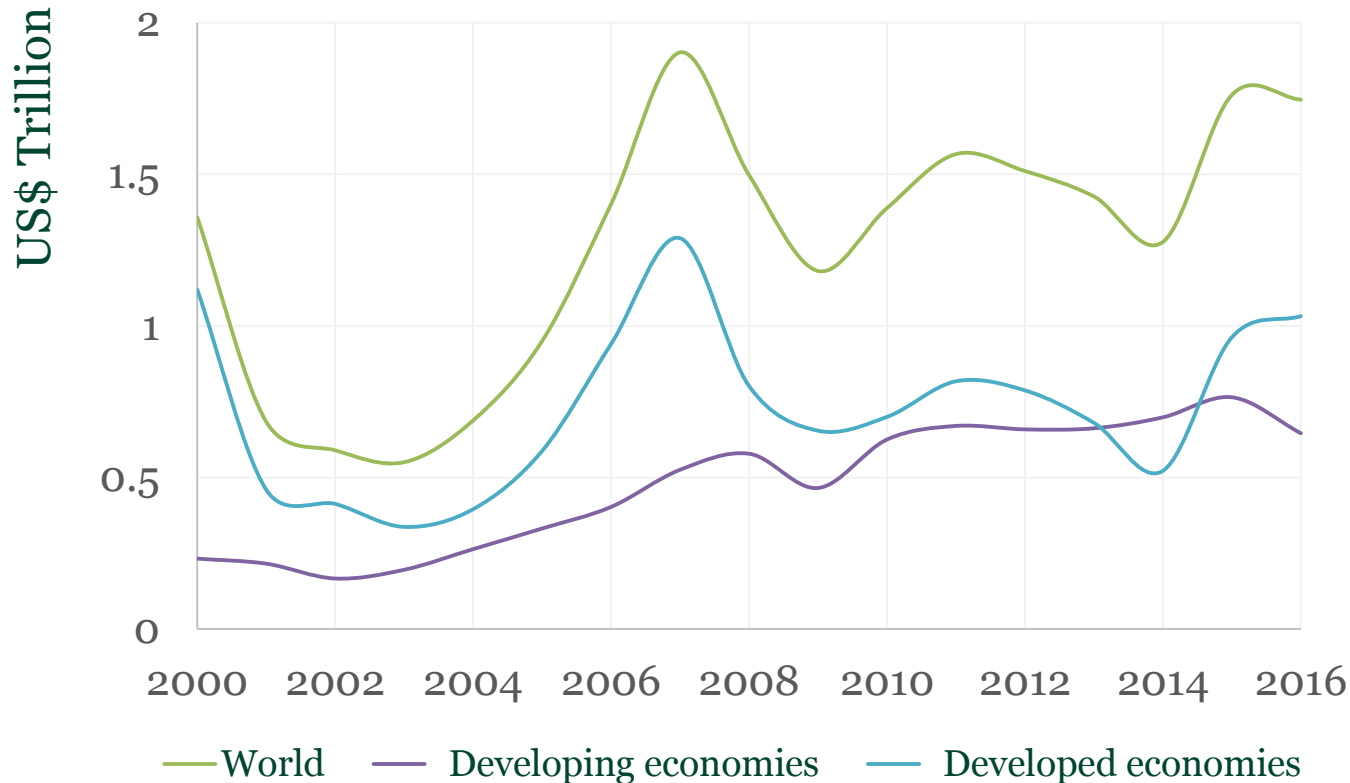
- More sources and effective forms of development financing
  - a. Is global capital supply sufficient?

# a. Global capital supply not sufficient for development financing



- Global Capital Investment 2001-2016

## a. Global capital supply not sufficient for development financing



- World Foreign Direct Investment Inwards Flows: Source: UNCTAD

a. Global capital supply not sufficient for development financing

- Investment gap
- foreign direct investment and development financing disconnected

# 1. Financing Sustainable Urbanization

- More sources and effective forms of development financing
  - a. Is global capital supply sufficient?
  - b. How much we need for investment on infrastructure/development projects

## b. Greater need for investment on infrastructure/development projects

- OECD 2006 report: between 2005 and 2030, global infrastructure need for investment will be between US\$53-71 trillion, about 2.5 trillion each year
- ADB 2017 report: capital investment in infrastructure in the 45 developing economies in Asia will need 26 trillion for the next 15 years, between 2015-2030, with 1.7 trillion each year

# 1. Financing Sustainable Urbanization

- More sources and effective forms of development financing
  - a. Is global capital supply sufficient?
  - b. How much we need for investment on infrastructure/development projects
  - c. Need new sources and more effective forms of financing for development/infrastructure projects

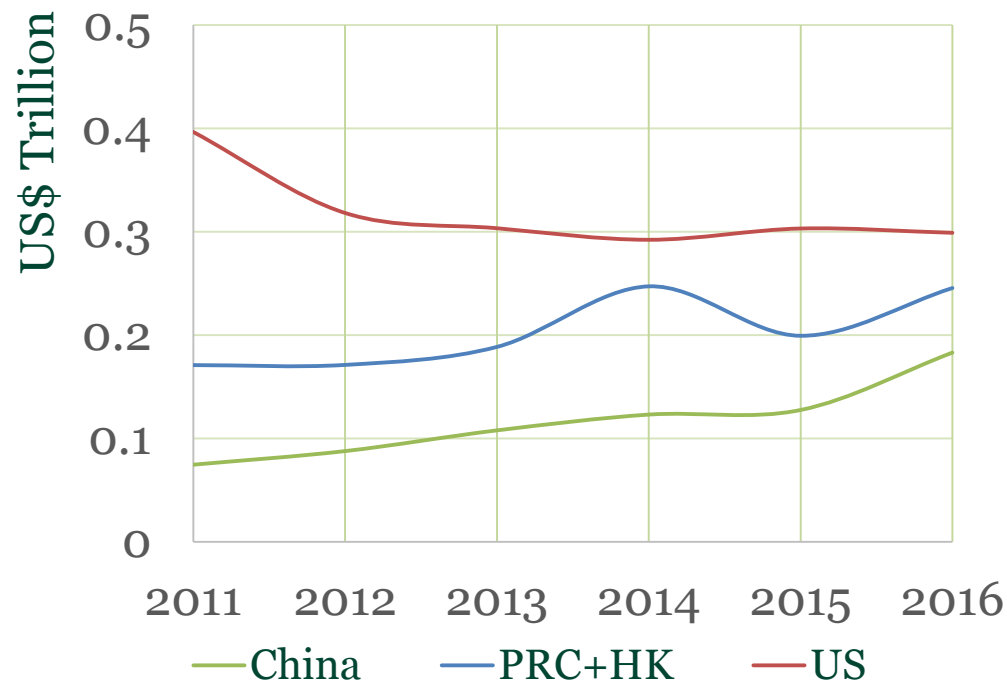


## c. Need new sources and more effective forms of financing for development projects

- Private sector: guide FDI to infrastructure projects
- Public sector: PPP to build the connection

## 2. Investment-led development financing

### a. China emerges as a major source of global capital supply



- China as the world's second largest provider of FDI since 2015, and this stands at US\$ 188 billion in 2016 (UNCTAD)
- China commits a total US\$114 billion to support B&R projects in May 2017

- China Foreign Direct Investment Outwards (Source: UNCTAD)

## 2. Investment-led development financing

- a. China emerges as one major source of global capital supply
- b. Much of this is in the form of Chinese enterprise' direct investment on development/infrastructure projects

## b. Structure of Chinese capital in global investment

- MOFCOM 2017 report: of the total Chinese FDI outwards flows
  - 83.3% is in non-financial sectors,
  - 70% goes to developing economies
  - Chinese enterprises overseas assets is US\$4.4 trillion at 2016
  - contracted infrastructure projects valued at US\$ 1.1 trillion

## 2. Investment-led development financing

- a. China emerges as one major source of global capital supply
- b. Much of this is in the form of Chinese enterprise' direct investment in development project
- c. How Chinese enterprises connect FDI to development/infrastructure projects

## c. Chinese enterprise overseas and Investment-led development financing

- Cases of Chinese enterprises foreign direct investment
  - The China-Pakistan Economic Corridor (CPEC)
  - China-Egypt Economic and Trade Cooperation on Egypt TEDA Special Economic Zone Development Company (SETC)
  - AVIC on AVIC Energy Cambodia
  - Haier on Fisher & Paykel, NZ
  - Alibaba on PayTM, India

## c. Chinese enterprise overseas and investment-led development financing

- Shift in the mode of operation of Chinese enterprises on development/infrastructure projects
  - From ODF-based development financing to investment led development financing
  - Chinese enterprises as contractor to the project under the conventional development financing model
  - Chinese enterprises as operator, manager, organizer, and stakeholder of the project under the investment-led development financing

## c. Chinese enterprise overseas and investment-led development financing

- Shift in the mode of operation of Chinese enterprises on development/infrastructure projects
  - There is a PPP model working on the Chinese side where private and public capital are organized to finance Chinese enterprise's international operations.
  - There is also an element of the conventional development financing model where intergovernmental partnership between China and project country provides a political and legal framework for Chinese enterprises to operate in the international institutional environment



### 3. A sustainable source and effective form of financing for sustainable urbanization?

- Chinese enterprises' foreign direct investment: broader “infrastructure” projects
- Chinese enterprises bring FDI and development financing together and facilitate sustainable flow of large scale investment in infrastructure/ development projects.
- Challenges in working with established international regimes of foreign direct investment and development financing, as well as with the national institutional framework and political economic interests of the project country