For most countries in Asia, building infrastructure has been one of the most important issues to maintain their economic growth. Infrastructure facilities such as power, transportation and telecommunications systems can increase economic efficiency and vitality as well as improving living standards. The needs for infrastructure in developing Asia are huge. According to the recent estimates by the Asian Development Bank (ADB), ADB’s 45 developing member countries will need to invest USD 26 trillion over the 15 years from 2016 to 2030 or USD 1.7 trillion per year. Compared to the 2009 estimates in which ADB projected USD 750 billion per year of infrastructure investment needs during 2010-2020, the annual amount roughly doubled. At the same time, as a result of the initiative led by China, the Asian Infrastructure Investment Bank (AIIB) was established in December 2015. How this new institution will cooperate with the ADB and the World Bank that have had a significant presence in providing infrastructure funds in the region is attracting a great deal of attention.

Many Asian nations set goals of building infrastructure in their national development strategies. Traditionally, fiscal expenditures are the main sources for funding infrastructure. However, each developing country tends to have budget constraints and an upper limit for public debt. For this reason the utilization of private funds has been suggested since around 1990. Furthermore, in order to attract more participation from the private sector, some countries try to establish policies and regulations to encourage public-private partnerships (PPPs) – a cooperative framework between public and private sectors sharing risks with regards to infrastructure projects. Despite such efforts, the growth of private infrastructure investments is not sufficient and there still is a lot of room for improvement.

Bank loans also play a big role in providing private funding for infrastructure projects. But as the financial regulations including capital requirements for large financial institutions are tightened globally, Asian countries might not be able to depend on loans in the future. Given these circumstances, the importance of capital markets is growing. Specifically, bond markets and listed infrastructure funds are gaining attention. Most developing countries in Asia, however, do not yet have well-developed capital markets and they need to commit to mid- or long-term efforts to promote capital markets and to broaden their investor base.

This issue of Nomura Journal of Asian Capital Markets features research articles on infrastructure finance, discussing the current situation, challenges, and future outlook in the region, especially policy issues regarding PPP and the utilization of capital markets.