Nurturing Infrastructure Investments in Emerging Markets and Africa:

NOTES FROM WASHINGTON, BEIJING AND RIYADH

Nicolas Firzli Reports

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The 2019 **G7 Pensions** Summit (Biarritz/Saint-Jean-de-Luz 26 August 2019) was co-chaired by the Rt. Hon. Nicholas Sherry, **Singapore Economic Forum**, Hubert Danso, **Africa Investor**, David Weeks, **UK National Association of Pension Trustees**, (AMNT) and me for the **World Pensions Council**. We then held a series of institutional asset owner meetings in Paris, London, Beijing and New York in the weeks leading up to the **United Nations** General Assembly (23 – 30 September 2019) and the **IMF/World Bank Group** Annual Meetings (17 – 20 October 2019), focusing on 'Trusteeship & Fiduciary Capitalism', 'The SDG-Driven Firm of the Future', 'Sustainable Cities', and 'Women's Economic Empowerment'.

I thus had the opportunity to share my personal views on these key issues in Washington DC earlier in the fall – talking to supranational and US policy makers and thought leaders from both sides of the aisle... On my way to the **Elliott School of International Affairs**, George Washington University, to join the **African Union** (AU) Strategic Dialogue on Advancing Infrastructure Finance (held 18 October 2019), I drove along Pennsylvania Avenue, past the **National Archives Building**, a masterpiece of French-Scottish neoclassical architecture: Robert Aitken's hieratic sculpture was still there, riveted to the white marble stairs, carrying the famously pithy words of wisdom dear to the hearts of geo-economists and military thinkers: *"What's past is prologue."*

Earlier in the week, I had heard the alarmist litanies of Dr. Kristalina Georgieva, an alumna of the **Karl Marx Institute of Economics** and recently enthroned **International Monetary Fund** (IMF) chief executive, who warned central bankers about the "excessive debt levels" in both developed and developing countries – speaking for an institution which had encouraged financial repression and monetary complacency in the form of quantitative easing (QE) the world over for more than a decade . . . I couldn't help wondering what Elizabethan playwrights would make of such a bizarrely 'dialectical' discourse!

The Elliott School roundtable, held on the sidelines of the 2019 IMF/World Bank meetings, led to fascinating exchanges with some of the best experts in the field, including Amine Idriss Adoum, Director of Program Delivery & Coordination, **African Union Development Agency** (AUDA-NEPAD), Hubert Danso, CEO, **Africa Investor**, Barbara Samuels, Executive Director, **Global Clearinghouse** for Development Finance, Nkem Onwuamaegbu, Head of Origination, Low Income Countries, **Multilateral Investment Guarantee Agency**, MIGA, **World Bank** Group, Solomon Asamoah, CEO, **Ghana Infrastructure Investment Fund** and Bessem Soua, Managing Director, Islamic Corporation for the Insurance of Investment & Export Credit, **Islamic Development Bank** Group.

When asked why I was optimistic about the rise of infrastructure investment across the emerging markets and developing economies (EMDEs) of the Eurasia Pacific area, Africa and Latin America, I chose to focus on two key realities that, in my opinion, would make the future very different from the rapidly vanishing 'past and present prologue' of 1945 – 2019, an era defined by the foolish fight pitting Marxist ideologues (Moscow) against neoliberal bureaucrats (Washington, Brussels).

HIGHLY BIASED INVESTMENT BENCHMARKS HURTING THE ECONOMIC INTERESTS OF THE GLOBAL SOUTH

The investment choices of large asset owners such as pension funds, sovereign wealth funds and endowments, are, to a large extent 'guided' and pre-determined by the systematic use of old-fashioned indices or benchmarks designed by a small set of Anglo-American 'index providers' – most notably **MSCI**, formerly known as **Morgan Stanley Capital International** (MSCI). These companies and the rather conformist investment consultants promoting their indexes tend to be unwittingly biased in favor of liquid assets in rich, developed countries e.g. the archetypal **MSCI All Country World Index** (ACWI) clearly encourages asset owners to allocate 55% percent (or more) of their overall (equity) assets to the United States and 8% to Japan – whereas these two ageing nations only represent 15% and 4% of the world economy respectively (in real terms i.e. based on purchasing-power-parity or PPP).

These unfair, deeply ingrained biases have de facto forced Northern Hemisphere asset owners to over-allocate capital to the US, UK, Japan etc., thus sucking-up much needed financial resources from the rest of the world and hurting the long-term economic interests of Asia, Africa and Latin America. As usual, Africa is the most discriminated against, with less than 1% allocated to the most rapidly growing continent, when, in reality, it represents more than 5% of the world economy (world GDP based on PPP).

THE SINO-AMERICAN AGE OF GEOECONOMICS MEANS MORE MONEY FOR THE 'PIVOT NATIONS' OF ASIA, LATAM AND AFRICA

But, in the past few quarters, sophisticated pension investors and SWFs in **London, Montreal, Toronto, San Francisco, Singapore, Zurich** and **Sidney**, have quietly started to move away from these terribly biased benchmarks: smart money managers have started to break the shackles of 'market cap-based indexing' by raising their long-term allocation to emerging markets and developing economies and, equally importantly, by investing more in 'illiquid' assets such as private equity, private debt and infrastructure: this dual-shift can only benefit the real economy in **Association of Southeast Asian Nations** (ASEAN), **African Union** (AU) and **Mercosur** nations.

L to R: M. Nicolas Firzli, World Pensions Council (WPC), Moctar Yedaly, African Union (AU)

L to R: Barbara Samuels, Executive Director, Global Clearinghouse for Development Finance (GCDF) and Amine Idriss Adoum, African Union Development Agency (AUDA-NEPAD)

Finally, from a geoeconomic perspective, the intensifying Sino-American rivalry could unlock more Western and Eastern development finance resources for nations in the Global South: countries in the Caribbean, Western Europe, MENA and Northeast Asia benefited materially from the US–Soviet rivalry throughout the Cold War – Communist Russia proving ultimately unable to garner enough assistance and influence efficiently on a combined military-cultural and financial plane.

Today, President Trump's **Indo-Pacific Vision** finally seems to be gaining some momentum as a 'bulwark' against the perceived dominance China's **New Silk Road** (known as 'BRI'), and **European Union** policy makers seem to realise at last that *"Africa's economic development is the only way to resolve the festering European Migrant Crisis"* (as argued first by the author of this article)… This new global competition will be fought not with ballistic missiles and nuclear warheads, but with institutional co-investment in real assets such as hospitals, suspension bridges and high-speed rails and socially informed, impact-orientated blended capital deployed across the Southern Hemisphere.

Pivot-nations like Kenya, Morocco, Senegal, Angola, Madagascar, Djibouti in Africa, and Estonia, Romania, Cyprus, Israel, Saudi Arabia, Vietnam, Cambodia, Malaysia in the Eurasia Pacific area, will be courted like never before by Washington, Brussels and Beijing – thus eventually adding massive public funding and risk insurance resources to the rising private capital flows coming from sophisticated asset owners based in Canada, Scandinavia, Holland, Australia and Singapore ("Pension Superpowers").

And influential G20 policy makers like Prime Minister Justin Trudeau of Canada and HRH Crown Prince Mohammad Bin Salman Al Saud, founder of the **Saudi Vision 2030 Infrastructure-Driven Development Framework**, will herald this message of hope in the months leading up to the **G20 Riyadh Summit** (21 – 22 November 2020). Ai

**The tentative findings and personal interpretations and conclusions expressed in the article are those of the author, and thus do not necessarily represent the views of the Singapore Economic Forum, the World Pensions Council or the Global Infrastructure Facility or any of their members.*