

NEAT WORKING GROUP

on

“East Asian Trade and Investment Facilitation and Connectivity”

Final Report

Beijing, China

1 July 2011

Introduction

NEAT Working Group Meeting on East Asian Trade and Investment Facilitation and Connectivity was held in Beijing, China on 1 July 2011. NEAT members and experts from 10 of the ASEAN Plus Three (APT) countries and the ASEAN Secretariat participated in this meeting (Brunei, Cambodia and Indonesia representatives were absent). The Meeting consisted of an opening session, three panel sessions and a wrap-up session.

Professor Qin Yaqing, Country Coordinator for NEAT China and Executive Vice President of China Foreign Affairs University, made opening remarks and Professor Ma Xiaohu, Vice President of Academy of Macroeconomic Research, National Development and Reform Commission, delivered a keynote speech on China's 12th five-year-plan at the Opening Session.

The three panel sessions were:

1. East Asian Trade and Investment Facilitation and Connectivity: Progress and Opportunities; 2. East Asian Trade and Investment Facilitation and Connectivity: Challenges and Obstacles; and 3. Policy Recommendations to Promote East Asian Trade and Investment Facilitation and Connectivity.

Professor Qin Yaqing wrapped up the meeting.

I. East Asian Trade and Investment Facilitation and Connectivity: Progress and Opportunities¹

In the aftermath of the global financial crisis, economic globalization and new international division of labor have brought East Asian countries unprecedentedly closer. Countries within the region have accelerated the pace of economic integration, leading to freer intra-regional movement of capital, personnel and goods, and the establishment of closely-connected regional production networks. Today, the economies of the region are more intertwined, interdependent and indispensable, working together to provide the sources for world economic growth.

¹ This year the report will focus much on Connectivity given that a comprehensive study on TIF last year is there.

1. Key elements of APT connectivity

The Master Plan on ASEAN Connectivity adopted at the 17th ASEAN Summit in October 2010 covers three dimensions of physical, institutional and people-to-people connectivity, which are equally applicable to APT countries.¹ Connectivity will facilitate APT's flow of goods, services, labor and capital in the short run, and improve APT's transport system and logistic network and enhance people-to-people contacts in the long run.

2. Progress of infrastructure connectivity among APT countries

2.1 Intra-ASEAN infrastructure connectivity

Significant progress has been made by the ASEAN members in infrastructure connectivity. The Iskandar Coastal Highway between Singapore and Malaysia is under construction. Upon its completion in Dec 2011, the highway would improve traffic flows between Singapore and Iskandar Malaysia, reducing travel time from 45 minutes to less than 10 minutes. To facilitate connectivity between Malaysia and Singapore, a 1.5km undersea tunnel connecting underground systems has been proposed and expected to be put into traffic in 2018.

2.2 Preliminary network of connectivity between ASEAN and China

A multi-modal transport system including air, land and water transport between China and ASEAN countries has taken an initial shape. (See Table 1 and Table 2)

Table1: Major International Highways Connecting China and Southeast Asia in 2010

Name of the international highways	Yunnan Section		Sections Outside China	
	Mileage	Classification	Mileage	Classification
Kunming-Hanoi-Haiphong	400	expressway	350	Class II and III
Kunming—Laos—Bangkok	688	expressway & Class II	1119	Class II and III
Kunming-Mandalay-Rangoon	732	expressway & Class II	1167	Class III

Source: Transportation Development Report 2010 of Yunnan China, p.56.

¹ ASEAN connectivity provides a new opportunity for APT trade and investment facilitation and integration in dual ways. On the one hand, the APT framework is conducive to mobilizing regional resources to support ASEAN connectivity; on the other hand, the implementation of *the Mast Plan on ASEAN Connectivity* promotes APT trade and investment facilitation and integration.

Table2: Major International Railways Connecting China and Southeast Asia

Name of International Railways	Total Mileage(km)	Newly constructed Railways (km)	Newly Constructed in Yunnan Section		Construction Start Date	Newly constructed Sections outside China (km)
			(km)	Investment (US dollars)		
Kunming-Hanoi-Haiphong	815	419	309	12	2005	396
Kunming—Laos—Bangkok	1920	470	340	13	2007	130
Kunming—Vientiane—Bangkok	1830	1110	600	23	2011	500

Source: Transportation Development Report 2007 of Yunnan China, p.58.

The first highway linking China and ASEAN has been in operation, connecting the primary roads to Hanoi. Kunming to Bangkok Highway. The Trans-Asian Railway Network will become another major logistics channel between China and ASEAN.

To assist the implementation of *the Master Plan on ASEAN Connectivity*, China set up a 15 billion USD credit facility, with a focus on highways, railways, waterways, energy pipelines, information and communications, power grids and other infrastructure projects. To date, 10.1 billion USD has been used. The two sides are working closely to implement the priority projects in *the Strategic Plan for China-ASEAN Transport Cooperation*, so as to achieve more facilitative land transport connectivity between China and ASEAN countries within 10 to 15 years. In addition, after six years of negotiations, ASEAN and China are working on an agreement to remove the barriers to intra-regional air service and to establish a more liberal air service region. The signing of the agreement will mark a big move towards “open skies” between China and ASEAN and further liberalization of regional aviation.

2.3 Japan and intra-regional infrastructure connectivity

The connection between Japan and the outside world largely relies on water transport. In terms of road, Tokyo is the starting point of AH1 of Asian Highway

Network. Japan has lent vigorous support to the development of East Asian infrastructure through provision of both funds and technical assistance. The investment of Japanese multinational corporations has stimulated the infrastructure construction in investment target countries. Also, Japan has provided direct or indirect technical support for infrastructure construction in the developing countries of the region through government's ODA or ADB.

2.4 South Korea and intra-regional infrastructure connectivity

South Korea is expected to become the starting points of two land traffic routes in the Asia. Highway Network: AH1 connecting Japan—Busan—Seoul—Pyongyang—Sinuiju—China—Vietnam—Thailand—India—Pakistan—Iran-Turkey and AH6 connecting Busan—Gangneung—Wonsan—Russia—China. The section of AH1 between Japan and South Korea uses ferries from Busan port to Fukuoka port. In the long run, Japan proposed to build the Korea-Japan Undersea Tunnel with a distance of approximately 128 kilometers connecting Karatsu and Busan, which is likely to provide a fixed crossing. As one of the largest construction projects in Asia, the proposal for its construction has been put on the agenda, its technical feasibility has been proved, and more concrete details are to be worked out.

2.5 Infrastructure connectivity in Asia

In 1992, Asian Land Transport Infrastructure Development (ALTID) project was first proposed by UN Economic and Social Commission for Asia and Pacific at its forty-eight session. The project has three main components: the Asian Highway Network, the Trans-Asian Railway Network, and the facilitation of land transport. The Asian Highway Network runs through 32 Asian countries with a total length of 141,000 kilometers. The Intergovernmental Agreement on the Asian Highway Network entered into force in July 2005. All contracting countries are bound to bring highway routes located within their territories into conformity with the classification and design standards described in the Agreement. Up till now, 28 countries are

signatories (among “10+3” member countries, only Singapore and Brunei have not entered the agreement; the Asian Highway Network has become an important channel for current road infrastructure cooperation of “10+3”).

3. Progress of institutional connectivity among APT countries

3.1 Great progress in ASEAN institutional connectivity

In recent years, ASEAN had made efforts to build a strong ASEAN community. In terms of trade facilitation, ASEAN endorsed a number of important agreements and documents, including *Master Plan on ASEAN Connectivity*, *ASEAN Strategic Transport Plan 2011-2015*, *ASEAN Information and Communications Technology Master plan (AIM) 2011-2015*, and *Protocol 7 Customs Transit System under ASEAN Framework Agreement on the Facilitation of Goods in Transit*, to expedite the implementation of customs-related measures of *ASEAN Economic Community Blueprint*, particularly those relating to customs clearance and customs facilitation. It also endorsed the updated *ASEAN Trade Facilitation Work Program*, recommending ASEAN members to conduct a survey on the status of trade facilitation, to improve free flows of ASEAN originating goods within the region.¹ In terms of the implementation of ASEAN Single Window, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand have activated their National Single Windows (NSW) and expand the operational scope of their NSWs in line with the timeline set in the Agreement; Cambodia, Laos, Myanmar and Vietnam are undertaking the preparatory work to implement the NSWs. In addition, ASEAN Economic Ministers signed the *Memorandum of Understanding of the ASW Project* and reiterated their commitment in activating the NSWs and ASEAN Single Window in line with the ASW Agreement.² In terms of investment facilitation, *ASEAN Comprehensive Investment Agreement 2010 (ACIA)* has come into force.³

¹ Joint Media Statement of the 4th ASEAN Economic Community (AEC) Council Meeting, Da Nang, Vietnam, 25 August 2010.

² Joint Media Statement of the 42nd ASEAN Economic Ministers' (AEM) Meeting (AFTA Council - Related Section), Da Nang, Viet Nam, 24-25 August 2010.

³ Joint Media Statement of the 42nd ASEAN Economic Ministers' (AEM) Meeting (AFTA Council - Related

3.2 Institutional connectivity between China and ASEAN

Since the establishment of the China-ASEAN Free Trade Area, trade and investment between China and ASEAN have been growing rapidly. China emerged as ASEAN's largest trading partner in 2010 and expected to increase bilateral trade to 500 billion USD by 2015. Under the framework of FTA, ASEAN-China economic relations and trade have experienced sustainable and rapid development.¹

Moreover, China and individual countries of ASEAN try to improve bilateral institutional connectivity. For example, China and Malaysia signed an agreement on mutual recognition of academic degrees, which involves not only institutional connectivity, but also people-to-people connectivity.

3.3 Institutional connectivity between Japan and ASEAN

In May 2011, at the annual meeting of ADB held in Hanoi, Japanese Finance Minister Yoshihiko Noda made a formal proposal to realize real-time connectivity of customs clearance procedures between Japan and ASEAN by 2020-- the concept of "Asian Cargo highway". In detail, Japan will support ASEAN countries to introduce Japanese management systems for customs clearance, import and export procedures and to simplify the import and export procedures for enterprises meeting standards, so as to facilitate trade and enhance Japanese enterprises' supply chain infrastructure in Asia. On this basis, Japan will realize the connectivity of customs clearance between ASEAN and Japan, and instant share and use of information on export licenses, certification of origin, in order to expedite customs clearance procedures. Japan hopes that through the realization of this concept, a seamless logistics network can be established between Japan and ASEAN.²

3.4 Institutional connectivity between China, Japan and South Korea

Section), Da Nang, Viet Nam, 24-25 August 2010.

¹ http://www.gov.cn/ldhd/2010-10/30/content_1733747.htm.

² <http://mnc.people.com.cn/GB/14559873.html>.

China-Japan-ROK economic integration, which is of crucial importance in East Asian, constitutes the key to regional economic development in East Asia. After seven years of talks, consensus on some key terms of China-Japan-ROK investment agreement has been reached. The feasibility study on China-Japan-ROK FTA has also made progress and negotiations on China-Japan-ROK FTA has been put in the agenda. In addition, in APT Finance Ministers' Meeting held in Hanoi Vietnam in May 2011, China, Japan and South Korea agreed to start a study on the possibility of using local currencies in trade settlement.

3.5 Institutional connectivity under the framework of APT

In terms of trade and investment facilitation, the APT Macroeconomic and Research Office (AMRO), as an important administrative institution of East Asia regional foreign exchange reserves, was officially established in May 2011 at APT Finance Ministers' Meeting held in Hanoi Vietnam. As an independent regional economic surveillance institution, AMRO will promote the quality of regional economic surveillance and analysis and facilitate the implementation of the CMIM.

4. Progress of people-to-people connectivity among APT countries

Tourism is the major industry promoting flow of people among countries. East Asian countries are endowed with beautiful natural landscapes and glorious cultures, which draws tourists from all across the world. ASEAN countries alone are currently receiving more than 65 million international travelers; among whom 60% are from APT countries. Currently, ASEAN and China are taking steps to meet the goal of 15 million mutual visits by 2015. The increased intra-regional visits help to build a "shared identity" in East Asia.

Besides, ASEAN and China formulated a program of Double 100,000 Goal of Students Mobility in 2020. Also, some APT countries participate in APEC Business Travel Card (ABTC) Scheme, an important proposal initiated by APEC Business Advisory Council to APEC Summit in 1996, aimed to assist the travels of business

people within the APEC participating economies. Holders of ABTC with valid passports and ABTC have the advantages of being eliminated the need of applying for entry visas over a three year period, smooth entry and exit flow in APEC participating economies and using Special APEC lanes in major international airports. Among APT countries, South Korea and Philippine, Malaysia, Brunei and Thailand, China and Indonesia became participating economies in the scheme in 1997, 1999, 2001 and 2002 respectively. Up till now, the APT countries except Laos, Myanmar and Cambodia have joined APEC Business Travel Card Scheme.

II. East Asian Trade and Investment Facilitation and Connectivity: Challenges and Obstacles

Trade and investment facilitation and connectivity are facing numerous difficulties and challenges, which indicates that there is a long way to go before realizing long-term goal of “great circulation, great mobilization, building an economically dynamic zone with seamless connection”.

1. Poor infrastructure conditions

East Asian countries have generally poor hardware and software conditions for trade and investment facilitation and connectivity.

1.1 Hardware: Most East Asian countries are developing countries. Incomplete road networks, missing railway links, inadequate maritime transportation capacity, poor aviation facilities, widening digital divide have made it hard to meet the demand of fast development of trade and investment facilitation and connectivity in the region.

1.2 Software: The implementation of large-scale infrastructure projects constitutes an essential component of trade and investment facilitation and connectivity. This requires that the governments of member countries have high administrative capability (including both managerial and executive skills) and human resources to establish more transparent, convenient and efficient transit

management system. Institutional connectivity in particular involves amendments to domestic laws and regulations, adjustment of economic systems and institutional cooperation and coordination among member countries in the region. All these have posed huge challenges to the developing countries of East Asia, whose levels of institutional and human resources development are relatively low. In addition, the customs of some countries in the region apply harsh requirements for customs clearance, lengthy cross-border procedures and even create unnecessary barriers, which impede free and efficient flows of goods in the region.

2. Huge development gap between member states

Big differences in economic development level and technical standards also constrain trade and investment facilitation and intra-regional connectivity. How a country understands or senses the urgency for trade and investment facilitation and connectivity is directly related to its economic development level. Also, some East Asian countries have adopted different technical standards in infrastructure construction, bringing about problems for smooth connection of infrastructures in the region. For example, the distinction between standard gauge railways and narrow gauge railways in the region has affected the efficiency of international railway and caused inconvenience for the management of cross-border transportation. The difference in power transmission and communication technical standards has also caused difficulty in its connectivity.

3. Limited financing support

Connectivity covers various aspects ranging from seamless connection, institutional integration and capacity building, to free flows of intra-regional movement of labor. Among them, the seamless connection of infrastructure largely depends on the implementation of large-scale transport and communications infrastructure projects. However, the construction of roads, railways, ports and airports pose great challenge to the developing countries on tight financial budgets in

East Asia. It is estimated that in the next ten years, the expenditure on the construction of power plants, hubs of transport, telecommunications facilities and water supply systems will exceed 8 trillion US dollars. Besides, to most developing countries in East Asia, especially those lagging behind countries, the costs of reforming modern customs clearance, establishing electronic data interchange system, software maintenance and upgrading, network connection between governments, customs, and enterprises are so high that governments alone can hardly bear the financial burden. The current East Asian financing for infrastructure connectivity mainly relies on the preferential loans and assistance funds from ADB, Japan and China. This limited financing channel and financing volume can no longer meet the need of the rapidly developing connectivity.

4. Insufficient institutionalization

To improve trade and investment facilitation and connectivity in East Asia considerable policy coordination and cooperation is required among the countries in the region. Therefore, an effective cooperation mechanism is needed to strengthen trade and investment facilitation and connectivity among APT countries. Up till now, An effective coordination mechanism is not in place. The complex political and economic interests, the territorial, ethnic and religious disputes and the political unrest of certain countries in the region undermine the confidence of some enterprises within and outside the region to participate in trade and investment facilitation and connectivity, negatively affecting the creation and improvement of intra-governmental institutional mechanism for connectivity in East Asia.

5. Slow progress in building economic integration mechanism

East Asian trade and investment facilitation and connectivity serve the purpose of realizing regional trade and investment integration. Regional economic integration arrangements, such as FTAs, are the driving force and institutional guarantee for East Asian trade and investment facilitation and connectivity. Due to the long absence of

an APT FTA, trade and investment facilitation and connectivity are mainly carried out through the implementation of intra-governmental cooperation proposals, sub-regional cooperation projects and bilateral FTAs. A large number of bilateral FTAs functioning together have created “noodle bowl” effects, making limited contributions to intra-regional trade and investment liberalization and facilitation.

III. Policy Recommendations to Promote East Asian Trade and Investment Facilitation and Connectivity Building

TIF cooperation and connectivity building in East Asia is an important undertaking to further consolidate regional collaboration, and develop new sources of regional economic growth; it is also the key area where future success of APT business cooperation is most likely to be achieved. Thus Member States should formulate a Master Plan on TIF Cooperation and Connectivity in East Asia, bearing in mind the diversity of the region, making progress in an incremental way, tackling easy issues first and then moving on to difficult ones, focusing on priorities, and advancing practical cooperation. Member States should strengthen coordination and consultation on various issues like identifying cooperation objectives, planning priority projects, expanding financing channels, and improving organizational and coordination mechanisms.

1. Identify the Core Objective

The core objective of TIF cooperation and connectivity building in East Asia should be clearly defined and articulated. To be specific, the core objective is to (i) achieve, through mutually beneficial cooperation, the seamlessly integrated movement and flow of goods, services and capital in East Asia, (ii) realize inclusive and sustainable growth, and (iii) bring common prosperity to people of East Asia.

The core objective has following dimensions:

Mutual benefit between Member States is what motivates and propels the process of TIF cooperation and connectivity building. To provide strong support for

the cooperation in this regard, all participants should be able to enjoy fair and reasonable shares of benefits from the process.

The basic goal of TIF cooperation and connectivity building in East Asia is to further improve the trade and investment environment, and realize the seamlessly integrated movement and flow of goods, services and capital in East Asia. To inject strong impetus into trade and investment in the region is the major goal of TIF cooperation and connectivity building, and it is also the driving force of the APT trade and investment liberalization. Hence it is necessary to construct safe, convenient and high-quality infrastructure, eliminate barriers in transportation, information, technology, and financial sectors, harmonize regulations and policies relating to trade and investment, and facilitate maximum cross-border movements of goods, services, information, capital, and personnel.

The ultimate goal of TIF cooperation and connectivity building in East Asia is to realize inclusive and sustainable growth, and bring common prosperity to people. Enhancing connectivity calls for large scale infrastructure construction which will increase Member States' fixed investments, boost consumption, develop new sources of economic growth in East Asia, and realize more balanced, inclusive and sustainable economic development. The increase of social welfare brought about by this process will benefit people from all walks of life in the region, and truly realize common prosperity.

2. Plan Priority Areas

2.1 Infrastructure

To improve infrastructure connectivity enjoys high priority at the current stage. It focuses on transport, information and telecommunication, and power grid, and aims at improving supply chains, and upgrading industrial division of labor in East Asia.

In terms of transportation, priority cooperation areas include:

- -Build or upgrade national roads (for example, East Asia Highway Network), so as to prepare for the connection and linking of East Asia intra-regional

- land transportation.
- -Build railways and upgrade transit transport routes, complete intra-regional rail link, for example, Singapore-Kunming Rail Link (SKRL) Project.
- -Establish an efficient and integrated inland waterways network; improve the roll-on/roll-off (RoRo) network and short-sea shipping.
- -Accomplish an efficient, integrated, and competitive maritime and air transport system.
- -Establish integrated and seamless multimodal transport systems to make East Asia the transport hub in the Asia-Pacific region.

In terms of information and telecommunication, priority cooperation areas include:

- -Accelerate the development of ICT infrastructure and services in Member States;
- -Prepare to build APT Broadband Community, which harnesses advantages of the ASEAN Broadband Corridor, and integrates the cyber communities of China, Japan, and the ROK.

In terms of power grid, priority cooperation areas include:

- -Formulate reliable and unified operation and security standards for power generation and transmission.
- -Adjust domestic taxation, tariff, and customs systems among the APT member states, so as to facilitate power trading between contracting Member States.

2.2 Enhancing Institutional Connectivity and Capacity Building

Enhancing institutional connectivity and capacity building is the key area where Member States can improve the “software” for TIF cooperation and connectivity building in East Asia. It mainly concentrates on formulating APT’s technical framework and standards system, promoting mutual recognition arrangements (MRAs), harmonizing rules of origins (ROOs), enhancing

transparency, and stepping up capacity building.

- -To formulate the APT technical framework and standards system, narrow the differences between Member States' laws, standards, and enforcement practices. Harmonization of Member States' standards should be guided by international best practices, and pursue incremental progress. At the initial stage, efforts can be made in industries with cooperation history like automobile, medical equipment, traditional medicines, and farm and sideline products, and then gradually establish a unified technical framework and standards system.
- -To harmonize the ROOs, discuss the possibilities on coordinating tariff schemes of Member States, and unifying and upgrading the ROOs of the three ASEAN+1 FTAs—that is, ASEAN's FTA's with China, Japan and Korea—so as to bring down transaction and administration costs, and avoid “noodlebowl effect” as much as possible.
- -To enhance transparency, promote the sharing and exchange of information on relevant laws and regulations between Member States—by setting up information sharing and consultation mechanisms—and boost the transparency on policies and policy-making procedures.
- -To step up capacity building, deliver technical assistance through various means such as holding seminars where developed members can share good practices with others, or providing training for administrative officials from developing members. Through these ways, developing members, especially the least developed members can choose and implement TIF cooperation and connectivity building measures that are in line with their national conditions.
- - Strengthen information services on trade opportunities, particularly for SMEs

2.3 Encourage Greater People Mobility

Encouraging mobility of business and professional personnel is another

important area in promoting East Asia TIF cooperation and connectivity building. It mainly focuses on relaxing the restrictions on the entry and exit of businessmen, implementing mutual recognition of qualifications, and promoting deeper social and cultural interactivity and understanding in East Asia.

- -To relax the restrictions on the entry and exit of businessmen, further strengthen facilitation cooperation on visa application procedure and standardization for cross-border movement of businessmen; simplify the formalities of travelling documents inspection and immigration legislature; draw experiences from APEC Business Travel Card Scheme and simplify cross-border personnel movement with business purposes; and make visa information and application documents available on the internet.
- -To implement mutual recognition of qualifications, expand the application of ASEAN agreements on the movement of skilled labor to the whole of East Asia, and conduct pilot programs in some fields to establish mutual recognition arrangements on skill certificates and qualification certificates.
- -To promote closer social and cultural interaction and deeper understanding in East Asia, further enhance youth exchanges between Member States, expand cooperation in education, science and other areas, deepen people-to-people exchanges, increase student exchanges and governments scholarships, and organize non-governmental exchanges in culture and art, so as to boost people-to-people connectivity in East Asia, and cultivate amity between peoples in the region.

2.4 Simplification of Customs Procedures

Improving cross-border transits is also important. Free movement of goods and personnel depends not only on the extensive connectivity of infrastructures, but also on the active cooperation between Member States on the simplification of customs and immigration procedures. Cooperation in this regard mainly focuses on following areas :

- -Introduce wider border-crossing points, single stop or window systems for customs inspection, transit traffic systems, and sanitary and phyto-sanitary systems (SPS); and better link such efforts to national strategies.
- -Scale up cooperation between the three ASEAN+1 FTAs on the simplification of customs procedures, boosting customs efficiency, and lowering logistics costs, so as to enhance transparency.
- -Optimize East Asia trade database by improving efficiency and quality of trade data collection; provide more accurate, compatible, convenient and timely information service for the decision-making of enterprises within the region.

2.5. Areas of Integration of Investment and Financial Systems

Future cooperation priorities should include the following areas:

- -To promote investment, gradually reduce and remove intra-regional investment restrictions and barriers, explore the feasibility of signing a Comprehensive Agreement on Investment Promotion and Protection in East Asia, accelerate the opening of East Asian markets to portfolio investment to build a single capital market in this region, and improve the transparency of members' investment rules by sharing their catalogues for investment guidance and lists of investment restrictions.
- -To improve macroeconomic policy coordination, strengthen the role of the APT Macroeconomic and Research Office (AMRO), which was established in Singapore, so as to ensure the effective implementation of the CMI and other regional financial agreements.
- -To liberalize financial services, coordinate the negotiations of financial services liberalization of the three ASEAN+1 FTAs, which will serve as the basis for future negotiations of financial services liberalization under the framework of APT.

2.6 Advance Economic Integration in East Asia

Disaster relief and post-disaster reconstruction in the wake of Japan's massive earthquake and tsunami should be taken as an opportunity to build mutual trust between countries in Northeast Asia and actively work for the early realization of APT FTA so as to enhance the internal drive and sustainability of the economic growth of East Asia. In so doing, Free Trade Agreements in East Asia will not only bring enormous economic benefits and opportunities to member states, but also improve their relations and raise the intra-regional security level as well as the standing and influence of East Asia in the world economy.

3. Expand Financing Channels

Given the fact that future connectivity building in East Asia includes mostly large-scale cross-border infrastructure projects, it is imperative for East Asian countries to provide adequate, stable and sustained financial support and make arrangements for and use of these funds more efficiently and rationally so that infrastructure development can be a driving force behind the sustainable economic growth of East Asia. Therefore, it is necessary to set up the "East Asia Cooperation Funds for Infrastructure and Connectivity" to expand financing channels and effectively promote East Asia's cooperation in this area.

The "East Asia Cooperation Funds for Infrastructure and Connectivity" should specify the total amount, each member's contribution, and the rules for fund investment. As most of the connectivity cooperation projects are located in the ASEAN region, the cooperation fund can be mainly managed by the ASEAN.

The "East Asia Cooperation Funds for Infrastructure and Connectivity" comes from the following sources:

- -Increase fund allocation from large sovereign wealth funds within this region in pursuit of new ways of using East Asia's massive foreign exchange reserves.
- -Expand and efficiently utilize various financing initiatives for infrastructure that have been established in this region.

- Open up financing channels within and beyond this region and enhance cooperation between multilateral financial institutions, including the Asian Development Bank and the World Bank Group, to actively seek their financial support.

4. Improve the Organizational and Coordination Mechanisms.

To better address the difficulties and challenges facing the TIF cooperation and connectivity building in East Asia and to improve the execution of international agreements on the part of the countries in this region, it is necessary to move away from past bottom-up approach towards market-oriented cooperation towards the top-down cooperation model with policy coordination between governments, sub-regions and industries so that the goal of TIF cooperation and connectivity building can be attained in a fast and sound manner. The transformation of cooperation model necessitates a corresponding coordination mechanism, namely a functional “task force for TIF cooperation and connectivity building” (hereinafter referred to as the APT task force), which is in charge of coordinating the strategic planning and actions of relevant bodies.

To be specific, the APT task force on TIF cooperation and connectivity building in East Asia is made up of the permanent representatives of China, Japan, the ROK to the ASEAN, and the special representatives appointed by ASEAN members. The central task of the task force is to, in light of the actual conditions of East Asia, coordinate the opinions of relevant bodies of ASEAN members and, on the basis of the already implemented Master Plan on ASEAN Connectivity, formulate a Master Plan on TIF Cooperation and Connectivity Building in East Asia, and monitor its implementation.

The main responsibilities of the APT task force include:

- -Strengthen communication and coordination between the governmental agencies of East Asian countries, present regular reports to the APT senior officials’ meetings, the APT ministerial meetings and the APT summits on

the implementation of the Master Plan on TIF Cooperation and Connectivity Building in East Asia and related problems, and actively offer advice and suggestions.

- -Establish mechanisms for contacts between members and industries, regularly consult with industrial associations and private businesses, enhance communication and coordination between governments and businesses in East Asia, and establish close cooperative relations between public and private sectors so that businesses from different countries in this region can have full understanding of the TIF cooperation and connectivity building in East Asia and make better use of information with greater awareness and enthusiasm.
- -Undertake information communication and resources sharing between working groups in different areas of the TIF cooperation and connectivity building in East Asia.
- -Put in place a mechanism to supervise and evaluate the cooperation progress, making regular assessments of the implementation of the Master Plan on TIF Cooperation and Connectivity Building in East Asia and the real results of connectivity so as to ensure that the priorities of the TIF cooperation and connectivity building in East Asia accord with the needs of the economic development strategies in this region.

Conclusion

East Asian countries, closely connected in terms of geopolitics, ecology, economy, and security environment, are at a period of transition in their economic development under new circumstances. How to shape the new role of East Asia in the world economy, how to further improve the international competitiveness of East Asia, and how to build inclusive development partnerships in East Asia will have a direct bearing on the future development of East Asia. As East Asian countries have strong economic complementarity, active cooperation on TIF and connectivity

building will undoubtedly provide new opportunities and new growth points for the development of economic cooperation and trade in East Asia. In spite of various difficulties and challenges, East Asian countries should work together for common development with the cooperation on TIF and the connectivity building as priorities and breakthroughs. While making bigger fresh contribution to regional peace, development and prosperity, they should make more efforts to take East Asian cooperation and the relations between countries in this region to a higher level.

ANNEX

**Delegates to the Working Group on
East Asian Trade and Investment Facilitation and Connectivity
(in alphabetical order by country)
July 1, 2011, Beijing, China**

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