

Network of East Asia Think-Tanks (NEAT) Working Group
on
**“Towards Seamless Connectivity: Transforming Multi-
modal Transport System into Economic Corridors”**

Final Report

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1. Introduction

In light of the ASEAN Charter, which became effective in 2008, ASEAN has invested immense effort into building three pillars of the ASEAN community: the ASEAN Political-Security Community (ASPC), the ASEAN Economic Community (AEC) and the ASEAN Socio-Cultural Community (ASCC). Regional connectivity has been identified as an important mechanism that lends support to the establishment of the three pillars, as it can strengthen intra-regional political integration, propel economic growth and increase interactions, and therefore understanding, among ASEAN citizens. To enhance regional connectivity, ASEAN is in the process of implementing the Master Plan on ASEAN Connectivity (MPAC), which aims to, *inter alia*, connect physical infrastructure, standardize border-crossing processes, and promote people-to-people connectivity within the region.

Since ASEAN countries, on the one hand, and China, Japan, and Republic of Korea, on the other, have enjoyed strong trade relations and deepened diplomatic ties, it is clear that benefits of ASEAN connectivity can be more fully realized by embracing China, Japan and Republic of Korea as equal partner countries. A broader and more synergized scope of cooperation on regional connectivity within ASEAN Plus Three has the potential not only to generate a greater volume of economic and non-economic activities but to also move member countries closer towards the long-term goal of achieving an East Asian Community (EAC). As such, the Statement on ASEAN Plus Three Partnership on Connectivity was adopted in the ASEAN Plus Three Summit in Phnom Penh in 2013. The Statement testifies to a commitment of ASEAN Plus Three to enhance connectivity within the region.

Given the importance and timeliness of open dialogues on regional connectivity, a NEAT working group meeting was held on August 20-21, 2015 in Bangkok, Thailand. The theme of the meeting was “Towards Seamless Connectivity: Transforming Multi-modal Transport System into Economic Corridors”. The objectives of the meeting were twofold: (1) to study and analyze existing mechanisms and work plans related to regional connectivity, especially rules and regulations which need to be improved to further facilitate flow of goods, services and people, and (2) to support developments of regional production and supply chains as well as special economic zones and connectivity networks for functional economic corridors. Meeting attendees included connectivity experts from 9 ASEAN Plus Three countries as well as government officials from the Ministry of Foreign Affairs, the Royal Thai Government. This report summarizes and synthesizes the discussions at the meeting.

2. Discussions on ‘Seamless’ Connectivity

Connectivity Initiatives

Several connectivity plans and initiatives were discussed at the meeting and they can be classified into three broad groups according to the country/organization from which the initiative originated.

At the ASEAN level, the main initiative is the Master Plan on ASEAN Connectivity (MPAC), which entails priority transportation infrastructure projects such as ASEAN highway networks and Singapore Kunming Rail Link (SKRL). ASEAN also has an expressed interest in elevating the idea of regional connectivity further; at the 18th ASEAN Summit in

Jakarta in 2011, a possibility of a “connectivity Master Plan Plus”, whereby other regions, particularly Northeast Asia and South Asia, would be integrated into the planning and implementation of MPAC, was well deliberated.

There exists a connectivity initiative from Japan, known as the “Partnership for Quality Infrastructure: Investment for Asia’s Future”. The initiative was introduced by Prime Minister Shinzo Abe in May 2015. Under the initiative, the Japanese government has committed itself within the next five years to a 25% increase in official development assistance and a 50% expansion of the Asian Development Bank’s lending portfolio, particularly to the private sector. An example of progress made under the initiative is the fact that Japan is offering loans to Thailand so that a railway linking Bangkok to its vicinities can be constructed. Another example is Japan’s vested interest in a High Speed Railway project connecting Kuala Lumpur and Singapore.

In addition to the above initiative, it is worth noting that involvement from Japan also comes in the form of investments from both the private and public sectors. The Japanese government has initiatives such as provision of assistance to the Thiwala¹ and Dawei Special Economic Zones in Myanmar. The private sector’s involvement is mainly through foreign direct investment (FDI), which situates ASEAN economies in an important position along the global value chain (GVC).

Finally, China has proposed two main initiatives to promote connectivity in the region: the Silk Road Economic Belt and the 21st Century Maritime Silk Road, collectively known as the Belt and Road initiative. The

¹ Investment in Thiwala from Japan also has involvement from the private sector in Japan.

initiative will connect Western China with Central Asia, Western Asia, the Middle East, and Europe. Linkage between China and the rest of the world through the South China Sea, the Indian Ocean, the South Pacific Ocean, the Red Sea, the Mediterranean, and East Africa is also envisioned. The Belt and Road initiative is to be financed by several institutions, notably China Development Bank, Asian Infrastructure Investment Bank (AIIB) as well as the Silk Road Fund.

Even prior to the Belt and Road initiative, China has been contributing to the enhancement of infrastructure connectivity in the region. In the Southern part of China, Yunnan serves as the main bridge between China's inner regions and South and Southeast Asia due to its location at the border of three ASEAN countries. In 2011, the Chinese government approved a large budget for infrastructure development to prepare Yunnan to serve as the gateway to South and Southeast Asia. Examples include land-rail routes to connect China to ASEAN, deep-water piers, oil and gas pipelines between China and Myanmar, and the construction of the Changsui International Airport, which opened in 2012.

Benefits of Enhanced Connectivity

At the meeting, the NEAT Working Group acknowledged in the importance and identified benefits of enhanced connectivity in the region. First, greater connectivity is expected to generate access to new markets, better accommodate foreign investment (inward and outward), pave the way for increased international trade, and facilitate the formation of new economic partnerships as well as strengthen existing ones, thereby boosting economic growth for all parties involved. Second, enhanced connectivity is expected to reduce transportation costs, which will be

beneficial to international trade and conducive to people-to-people linkages. Finally, connectivity initiatives proposed by ASEAN, Japan and China are expected to enrich the global production system, allowing investors in one country to benefit more fully from existing production-based comparative advantage in other countries.

In summary, enhanced connectivity involves the creation of infrastructure, rules and regulations that are “market-inducing”, opening up economic opportunities for consumers and producers alike.

Challenges of Enhanced Connectivity

At the meeting, the NEAT Working Group raised concerns over potential challenges of realizing enhanced regional connectivity within ASEAN Plus Three. They can be classified as within-country problems and cross-country or regional problems. It is worth noting that most of the initiatives are at an early stage and (therefore) some of the challenges discussed may be premature.

Within-country Problems: -

1. Many governments in the region have resource constraints and connectivity projects may be inconsistent with their national development plans. Even if budget is available, connectivity projects often have to compete with pressing national projects; it may not always be politically palatable for governments to prioritize connectivity projects over national projects.
2. There is often lack of planning and maintenance with regard to the development of infrastructure, owing in part to lack of resources.

This in turn leads to uneven development within and across countries in the region, posing hiccups to the ambition of achieving ‘seamless’ connectivity.

3. Countries need to restructure and strengthen institutions in order to promote connectivity. However, the progress depends on political will. If political impetus is behind the promotion of connectivity, projects can move forward quickly. Nonetheless, lack of political will and political instabilities within countries could impede progress on connectivity.

Cross-country/ Regional Problems: -

1. While ASEAN is understood to be an integral part of many of the initiatives discussed at the meeting, there is no guarantee that financial institutions that provide financial support for connectivity projects, such as the Asian Development Bank (ADB), AIIB or even the Silk Road Fund, will prioritize ASEAN over other regions.
2. Connectivity plans have geo-political implications and a potential to change the landscape of international relations. Cooperation from countries along the routes proposed in the initiatives of ASEAN Plus Three is obtainable only through mutual trust and understanding. It is important that ASEAN Plus Three not only strengthens diplomatic bonds with governments in other regions but also highlights possibilities of benefits that would accrue to all parties involved.

3. Policies and strategies of the Plus Three countries, and other non-ASEAN countries such as India and the United States have implications for ASEAN connectivity. Overlapping policies or initiatives which are not concerted could lead to competition.
4. Gaps in infrastructure quality, logistics performance and trade facilitation, and discrepancies in terms of standards, regulations, and institutions among countries can impede the potential benefits of an enhanced ASEAN Connectivity.

3. Suggestions

In light of the many challenges above, the NEAT Working Group has offered the following suggestions for enhancing connectivity within the ASEAN Plus Three region.

1. Governments need to be convinced that connectivity is critical to growth so that they can *re-prioritize connectivity projects, relative to other national projects*.
2. It is extremely important that supranational financial institutions such as the ADB and AIIB support the development of connectivity projects. *Co-financing possibilities between ADB and AIIB* should be explored, given the magnitude of the funds needed for infrastructure investment. This would help in filling the financial gaps that may exist in some of the countries involved. Efforts to strengthen and sustain regional sources of funds will be important in funding infrastructure development in the region.

3. Since ASEAN has established the ASEAN Connectivity Coordinating Committee (ACCC) under the MPAC and the Belt and Road initiative and Partnership for Quality Infrastructure initiative are so closely interconnected with the MPAC, a possibility of ***including Plus Three countries as active members, rather than observers, of the ACCC*** should be explored.
4. Asian countries are known to have large domestic savings and foreign exchange reserves. A mechanism should be devised such that these resources could be utilized to finance the development of infrastructure needed to enhance connectivity. Setting up such mechanism would entail ***creating an Enabling Environment to accommodate private investment***, in which cooperation agreements, legal and regulatory frameworks, investment planning, institutional arrangements and a functional domestic capital market need to be developed.
5. In light of the fact that the private sector has resources that can be tapped into for connectivity projects, which are often considered public goods, ***a stronger framework for Public Private Partnerships (PPPs), in addition to the existing PPP Infrastructure Advisory Facility, needs to be developed.*** One recommendation is to establish a formal regional platform to exchange PPP knowledge and experience, such as a knowledge-based Regional PPP Center of Excellence. Another suggestion is for countries with successful PPP experiences (including Japan) to share their expertise with other countries. Yet another suggestion is for all countries involved to establish national-level units that

would oversee PPP funding opportunities within the region and function in consultation with a Regional PPP Center of Excellence.

6. ***The private sector should be encouraged to take the lead in conducting connectivity-based feasibility studies and to submit a project proposal to the government***, regardless of whether such proposal is being solicited, so that, in realizing the benefits of connectivity projects, they have a stronger incentive to form a partnership with the government. The East Asia Business Council should be tasked with a greater role of promoting awareness of possibilities of developing ASEAN infrastructure among private investors. In addition, governments should ensure that private-sector involvement in connectivity projects serves not only business interests but also the purpose of economic development.
7. ***The evaluation of feasibility of infrastructure development projects needs to extend beyond mobilization of resources***. It should also address the political dynamics within each country involved, realizing the complexity of policy-making processes at the national and the international levels.
8. Given the potential impacts of the Belt and Road initiative, particularly the 21st Century Maritime Silk Road, ***ASEAN countries should embrace efforts to enhance maritime connection to improve the transport system overall***, saving costs and time and making regional connectivity truly ‘seamless’.
9. To further strengthen people-to-people linkages, ***governments should improve border service facilities in terms of their***

accessibility, availability of basic amenities as well as efficiency, the last of which is reflected in the length of waiting time at the border.

10. There should be *a more concerted effort in merging the Belt and Road Initiative and Partnership for Quality Infrastructure initiative together with existing connectivity plans in ASEAN,* particularly the MPAC. The implementation of the Maritime Silk Road initiative in particular should also be orchestrated at the ASEAN level so that connectivity benefits can be maximized.

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