Asean Connectivity: Advancing Economic Development and Community Building

*Panelists at the Fourth Plenary Session argued for greater connectivity in Asean to promote its economic growth and community-building efforts. Presentations were made by **Mr Pushpanathan Sundaram**, the Deputy Secretary General (Asean Economic Community) of Asean Secretariat; **Prof Dr Fukunari Kimura**, Chief Economist of Economic Research Institute for Asean and East Asia (ERIA); **Nguyen Hung Son**, Director of Center for Regional and Foreign Policy Studies, Diplomatic Academy of Vietnam; and **Dr Dionisius Narjoko**, Researcher at Economic Research Institute for Asean and East Asia (ERIA). The co-chairs for the session were **Dr Satu Limaye**, Director of East-West Centre, USA and **Amb K. Kesavapany**, Director of Instutite of Southeast Asian Studies (ISEAS) Singapore. **Nor Izzatina**, Researcher at ISIS reports.*

Participants of the Roundtable in rapt attention

The Asean leaders' concept of Asean Connectivity was introduced during the 15th Asean Summit in Cha-am, Hua Hin, Vietnam, in October 2009, as the way forward to intensify and strengthen Asean community-building efforts. Realising Asean's vibrancy as a region and its increasing importance in the world stage in terms of GDP contribution and world trade, it was believed that Asean Connectivity should be the next step in bringing about greater economic integration, and reducing development gaps within the region.

Mr Pushpanathan Sundaram defined the following types of connectivity needed by Asean in order to enhance its regional integration, and to reduce its development gap:

- Physical connectivity;
- Institutional connectivity; and
- People to people connectivity.

The physical connectivity refers to hard infrastructure like logistics-related and telecommunications infrastructure. At the same time, institutional connectivity focuses mainly on efforts and capacity-building, even through trade and investment in the region. Both physical and institutional connectivity are important to reduce trade costs and increase economic spill over. Most importantly, it can pave the way for a people-centric Asean, with activities like tourism, education and employment.

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Continuing on physical connectivity or hard infrastructure, Pushpanthan referred to the importance of intra and inter-Asean linkages. On land transportation, it is clear that the building of roads is not in tandem with the increase in demand in Asean (particularly in Thailand, Indonesia and Vietnam). There seems to be a lack of good roads, especially in the Mekong sub-region.

For example, the highways linking most of Asean, from Singapore to Myanmar, are of differing standards, ranging from good to bad. Apart from the Asean Highway network that passes through all Asean member states, a railroad from Singapore to Kunming in China will play a great role in connecting Asean.

Currently substantial investments have been made in sea and air transportation but efforts should be intensified to connect roads and railways so that connectivity can reach peak efficiency. Newer Asean members' capitals are well-connected through the air but the cities are still unable to provide auxiliary services like storage facilities and forwarding services.

There is also the need to better harmonise the open skies policy among Asean members due to the rapid expansion of low-cost carriers that are providing connectivity at lower prices. Apart from creating supplies for logistics connectivity, in the shape of new and better transport/logistic services, Asean has to streamline several of its agreements, such as the 2005 Multimodal Transport Agreement, and to liberalise its logistics ancillary services, which will fall under institutional connectivity.

The core challenges in efforts to connect Asean through hard infrastructure are in terms of:

- Implementation of existing agreements;
- Privatisation of infrastructure;
- Consolidation of Asean open skies agreements; and
- Mobilisation of resources needed on identified projects

On the resources needed, he quoted as an example that US$9 billion will cover funding for just 66 per cent of the Kunming rail services. While the challenges in obtaining resources to increase hard connectivity in Asean are huge, the benefits from it will be even greater, stressed Sundaram. The money spent on building infrastructure can act as a stimulus for recovery from the financial crisis and importantly, it will reduce the market distance in terms of logistics cost and time, particularly for the landlocked countries with huge populations that still live in rural areas. Opening up connectivity to this sub-region, will bring greater opportunities and services to Asean as a whole.

Sundaram concluded by reiterating that increasing connectivity in Asean will empower Asean and will help it reach its full potential. At the same time, there is a need to have credible initiatives for investments in infrastructure.

Mr Nguyen Hung Son pointed out the importance of institutional connectivity to fiscal connectivity not only to prevent logistics bottlenecks such as long waiting times at ports due to a lack of services, but also to increase efficiency in the region. He went on to elaborate on the types of connectivity needed in Asean.

The first type is physical connectivity. While more affluent Asean members appear to be better connected to other regions logistically, poorer Asean members are greatly polarised. Therefore, much of future physical infrastructure projects should focus on regions with the least connectivity, such as the Mekong sub-region, and the Brunei Darussalam-Indonesia-Malaysia-Philippines-East Asean Growth Area (BIMP-EAGA). For middle income Asean countries that have heavy regulations in their logistics sectors, Nguyen suggested that Asean should implement a multimodal transport connectivity plan or roadmap. Its planning can be carried out by logistics ministries under Asean.

The second type of connectivity is institutional connectivity. Current and future efforts under Asean or even the Asian Development Bank (ADB) must be handled concomitantly with physical connectivity.

The third type of connectivity is that between the people or citizens of Asean. This can be fostered through, for example, student-exchange programmes.

While benefits from Asean connectivity will be huge, especially for less-connected regions, there is a downside to it. Connectivity will induce even greater movement of people, with concomitant risks for bigger human trafficking incidents. In conclusion Nguyen said that the target year of 2015 is too early for the region to reach concrete connectivity, as not much consideration is being given now to aligning transportation and logistics programmes and master plans among Asean members.

Dr Fukunari Kimura's presentation was based mainly on the simulation of logistics enhancement in East Asia and the potential benefits from it. He pointed out that the fragmented production network models used by multinationals today are possible by dispersion and agglomeration effects that enable them to reduce trade costs. However multinationals' efforts to spread out their production networks were hinged on the connectivity of the region where the production is based.

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An earlier study by the Economic Research Institute for Asean and East Asia (ERIA) showed that countries that have a comparative advantage in the manufacturing sector are the ones that have higher nominal gross regional domestic production per capita. Therefore, increasing connectivity in Asean will address income level differences among Asean members, helping their industrialisation process.

The geographical simulation model employed by ERIA estimates that the economic benefits that come with the connectivity are from the improvements in land, sea and air transport connectivity. The economic effect from the logistics infrastructure is measured as the percentage ratio of cumulative gains in regional GDP over 10 years, subject to completion of the scenarios of infrastructure development and trade facilitation in 2010.

Three scenarios are taken into consideration in estimating economic effects on Asean after logistics improvements. The first is connectivity of the Indochina Peninsula, which will

benefit greatly the poorer Asean members like Myanmar, Cambodia and Lao PDR, while Asean as a region will have a positive effect of 6.24 per cent cumulative GDP gains.

The second scenario is that of the increasing connectivity in a country, particularly Indonesia, bringing about huge impacts on the region as a whole. By having better highways from Bandar Aceh to Jakarta, and roll-on/roll-off (RO-RO) vessels between Belawan and Penang Ports and between Dumai and Malacca Ports, the welfare of the region will be enhanced by 16.24 per cent of cumulative GDP gains**.**

The third scenario focuses on improvements in the Jakarta-Surabaya and Manila-Davao land routes and the Manila-Singapore-Jakarta sea-routes. With these, Asean as a region seeks to benefit by 30.52 per cent cumulative GDP gains. However the efforts to improve connectivity still need synchronisation of logistics arrangements in Asean.

Dr Dionisius Narjoko pointed out that the connectivity framework in Asean encompasses sectors and value-chains that facilitate movement of goods and services. Part of this connectivity is financial, in order to synchronise financial resources and utilise it for greater benefits.

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Narjoko then went on to examine the initiative by Asean to increase connectivity in the region, particularly institutional connectivity. While there are many initiatives to increase the free flow of goods and services, persistent problems especially in rules-of-origin (ROO) and non-tariff barriers (NTBs) remain unsolved. On the trade-in-services front, the Asean Framework Agreement on Services (AFAS) is deemed to be not progressive. Moreover, it is substantially varied across countries. On the issue of FDI in AFAS, deviation from most favoured nation status is a challenge itself. At the same time, the logistics core issues on cabotage* are yet to be resolved.

Despite these institutional setbacks, Narjoko said that there is plenty of room to develop as regards Asean connectivity, and the current initiatives have to be pushed harder. He proposed more intensive and extensive participation in institutional capacity to promote greater economic activities in Asean.

**Trade, shipping, or navigation that takes place in coastal waters within the boundaries of a single country*