

Building Asean connectivity



VISION: *Linking infrastructure and peoples is a work in progress*

LAST month, I was at an investment conference in Kuala Lumpur where speakers spoke enthusiastically on the China-led initiatives, OBOR (One Belt One Road) and AIIB (Asian Infrastructure Investment Bank). A speaker even said that OBOR and AIIB will add excitement to the local bourse. I don't see this happening soon. At least not until Asean and China can find common grounds on how China-led initiatives can support Asean's own vision of infrastructure connectivity. It is still work-in progress, at best.

The Asean Charter which became effective in 2008 gave impetus to accelerated efforts to building the Asean Community. Regional Connectivity has been identified as a quintessential mechanism for the establishment of the Community. The MPAC (Master Plan on Asean Connectivity) was developed and launched in October 2010. It lays out key measures to link physical infrastructure within and among Asean member states, to synergise Asean's institutions and to enhance people-to-people linkages.

However, five years after the MPAC was adopted, the full realisation of MPAC has been hampered by numerous issues including, the lack of sound and complete institutional set-ups at regional and national levels; lack of public and private funding due to absence of fiscal space and also insufficient well-prepared projects; and the uneven levels of development between the various member states. There is still a lot of work to be done.

In 2013, President Xi Jinping announced two proposals: the Silk Road Economic Corridor to link Europe and China through Central and Western Asia; and the 21st Century Maritime Silk Road which stretches from Southern China to South Asia and East Asia. Both of these constitute OBOR. These two proposals aimed to spur economic growth for all the countries involved. China has already said that the plans are not firm even as they pledge financial support for OBOR; and that OBOR will emphasise development that are more balanced and equal, a sort of "peaceful development" where all parties benefit as equal partners.

Prior to the proposed OBOR initiative, China has already been contributing to the enhancement of Asean Connectivity. China had identified Yunnan as a Gateway. In 2011, China approved a large budget to prepare Yunnan to serve as a Gateway to South and Southeast Asia. Examples are land-rail routes to connect China to Asean, deep piers, oil and gas pipelines between China and Myanmar.

China has also led the formation of AIIB with its 57 founding members and a share capital of US\$100 billion. China has proposed that AIIB will not be driven by concessionary loans to member countries, but will focus on leveraging its funds to attract private sector participation in many of the infrastructure projects. AIIB is dedicated to infrastructure construction and regional connectivity and will cooperate with existing MDBs (Multilateral Development Banks) on co-financing and parallel financing, knowledge sharing, personnel exchanges, and a wide range of complementary supporting activities. We can expect AIIB to be a catalyst to greater use of PPP (Public Private Partnership) to mobilise large pool of private fund for regional projects.

All these new initiatives bode well for Asean. The new banks and fund will be additional sources of finance for some of the MPAC projects. Nonetheless, Asean must ensure that MPAC retains its centrality in the connectivity projects in Asean that may come under OBOR.

There is a plethora of issues that need to be addressed for Asean Connectivity to pick up momentum. Member countries

have to be convinced to think beyond market-driven infrastructure to market-inducing infrastructure.

The role of supranational institutions like the AIIB is important, not least to play the role of "honest broker" in convincing the countries of the economic benefits of interconnectivity infrastructure projects, and also to help provide bridging financing to close the funding and viability gaps. There have even been proposals to set up a Regional PPP and Infrastructure Centre of Excellence (COE) to facilitate sharing of knowledge and expertise amongst countries on PPP. It is recognised that Asean Connectivity will produce large income gains for member states. However, at country-levels, these proposed projects have to compete with national projects for budget allocation. Countries have to be convinced of the significant economic returns for their investments into these projects, and to prioritise these projects. The China-led initiatives are timely for Asean. They are important in supporting the development of these infrastructure projects through bridging and viability gap financing. Nonetheless, Asean must ensure that MPAC retains its centrality in the connectivity projects that may come under OBOR. The establishment of a Regional PPP and Infrastructure COE to facilitate the exchange of knowledge and expertise can be a firm step forward.

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