

ASEAN Roundtable 2011
Enhancing ASEAN Connectivity

**What are the issues and problems for building greater connectivity across ASEAN?
What are the policy recommendations?**

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The new byword for ASEAN is 'connectivity'. In the current competitive environment, connectivity as a concept is of paramount importance to countries, and furthermore, to regions attempting to achieve collective economic success.

As has been stated before, connectivity among nations is *sine qua non* in the age of globalisation¹. For a region to succeed globally, connectivity and the resulting coherence in activity and goals within the nations, is what will increase the ability to compete. Connectivity is important on various levels. From physical to institutional to cultural and social, connectivity within a region in all these aspects is integral in order for a region to succeed. Even more so than individual countries, connectivity is of special importance to regional groupings because what will propel them to success is the ability to harmonise their views, goals, frameworks and institutions across the region.

ASEAN as a regional collective, has various goals. The most prominent and tangible of these is to achieve economic integration by 2015. In order to achieve this and

¹ A. B. Chakraborty, "Fostering Physical Connectivity in India's Look East Policy", Journal Of Infrastructure Development, (2009) 1:45

ensure future success for the region, various measures have to be taken. The Masterplan has done a brilliant job of mapping out the areas of concern and detailing the possible solutions to problems that will be encountered, and ensuring the harmonisation of frameworks and goals across the member countries. Of the various levels of connectivity outlined, physical connectivity forms the backbone, literally, upon which the other areas of connectivity can build upon. Physical connectivity is essentially soft and hard infrastructure. Hard infrastructure would include the actual physical structures that bolster social and economic activities, whilst soft infrastructure consists of the intangible aspects such as frameworks and institutional regulations that aid the functioning of the physical infrastructure. In the Masterplan, physical connectivity is composed of transport infrastructure (land, air and maritime), energy infrastructure and ICT infrastructure. When speaking of the challenges that face ASEAN and its physical infrastructure, it would be prudent to address all three arms and not just focus on one. Thus, we will look at transport, energy and ICT infrastructure in turn, highlighting the current, most pertinent problems, and offering possible policy recommendations.

Before we proceed though, it is important to briefly ponder upon why exactly is infrastructure development so important to the regions growth prospects and prosperity? There are a plethora of reasons to advance the cause of infrastructure development in this region. To begin with, improved infrastructure would, without doubt, increase the rate of competitiveness of this region amongst global competitors. Various studies and surveys have proven time and time again that a country's infrastructure has a direct effect on how competitive it is, and how

competitive it is perceived to be by the business world. In the Global Competitiveness Index, the 4 pillars of the basic requirements sub index group are Institutions, Infrastructure, Macroeconomic Environment and Health and Primary Education. Specifically, “extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy”². A solid, well developed infrastructure system reduces distances between regions, thereby reducing distances between national and international and regional markets, and a well developed telecommunications and transport infrastructure allows access to economic activities for less developed communities³.

To further illustrate the importance of infrastructure, one just has to assess the impact improved infrastructure has on economic growth and poverty. Improved physical infrastructure such as seamless transport networks lead to reduced poverty. Various studies have shown the positive impact infrastructure spending can have on poverty reduction and distribution of income. It has been documented that the quality of infrastructure and the quantity of infrastructure stocks have a proven reduction in income inequality and economic growth. If the Latin American countries were to mimic the East Asian median countries levels of infrastructure, they would

² The Global Competitiveness Report 2010-2011, The World Economic Forum

³ The Global Competitiveness Report 2010-2011, The World Economic Forum

lower their Gini Coefficients by 0.02 and 0.10 and increase their long term growth per capita by between 1.1 and 4.8%⁴.

In terms of the urban poor, it has been proven that increased spending on infrastructure reduces the level of urban poverty, and especially important is the fact that more than in absolute terms, what matters most is the real expenditure on infrastructure, the quantity built, such as kilometres of roads built. It is the real expenditure that shows a negative relationship between poverty and infrastructure⁵.

It is not merely spending on infrastructure which is important though, it is the efficiency with which we spend that also matters. The level of efficiency in infrastructure spending has been shown to be a key component in the development gap between high and low income countries by as much as 40%, as well as accounting for the growth differential between East Asia and Africa⁶.

This brings me to my next point, and I would be remiss were I not to point it out, that it is infrastructure development does not stand alone as merely an influx of funds. It is the management of these funds and the efficiency of project management that can determine success, and these come about due to institutional frameworks. If proper legal and regulatory institutional frameworks are not in place, the mismanagement of funds and the embezzlement of infrastructure aid is a possible reality, thus even with spending on infrastructure, we would not achieve the desired

⁴ Cesar Calderon and Luis Servén, “The Effects of Infrastructure Development on Growth and Income Distribution” World Bank Policy Research Working Paper No 3400

⁵ T.P Ogun, “Infrastructure and Poverty Reduction – Implications for Urban Development in Nigeria”, UNI WIDER Working Paper No 2010/43

⁶ Charles Hulten, “Infrastructure Capital and Economic Growth: How Well You Use It May Be More Important Than How Much You Have”, NBER Working Paper 5847

results. In Africa, research has shed light on the fact that just infrastructure financing by itself does not lead to poverty reduction. It must be bolstered with infrastructural reform, and the development of the appropriate markets and regulatory frameworks within which infrastructural spending could efficiently work⁷. And in terms of social infrastructure, in our case the “people to people” aspect of the Masterplan, studies have also stated that it is not merely physical infrastructure but social infrastructure investments which make a difference in poverty reduction. It is important that we look at infrastructure holistically and not just as a concept on its own.

Nonetheless, as this is a discussion on the physical infrastructure of ASEAN, I shall continue and focus now on the challenges facing ASEAN in this respect today. I will be briefly discussing the various concerns that exist before focusing on the ones that I consider to be the most pertinent.

While we have established that infrastructure development is important and crucial to our growth, if we take a look at ASEAN as a whole, we will see that there are areas of our infrastructure where we are woefully lacking. We are a region made up of very diverse countries, both economically and culturally. Economically, our member countries have economies of varying sizes, and different amounts of national income. While this diversity is good, it also hinders our dream of a seamless infrastructure framework. Different member countries are at various stages of development, and thus naturally, infrastructure frameworks in individual countries are in varying stages of progress. In a manner, our digital divide is echoed in our

⁷ Afeikhena Jerome and Ademola Ariyo, “Infrastructure Reform and Poverty Reduction in Africa”, African Development and Poverty Reduction: The Macro-Micro Linkage, Forum Paper 2004

developmental divide in terms of our architecture. This is one of the greatest challenges that face ASEAN today; which is how to ensure harmonious infrastructure development involving such diverse economies.

This also leads us to question the fact that infrastructure needs are not the same throughout the region. We cannot assume the needs for roads, electricity and ports are the same for every member country. In this regard, and along the lines of the issue discussed above, harmonious infrastructure development is crucial. As a region we need to investigate which are the areas that lag and for what reason, and then ensure to plug them in with the right plan. The Masterplan has detailed brilliantly the stretches of roads that need to ensure regional connectivity, but while looking at the big picture, it has missed the smaller details. What about rural connectivity? To realise our goal of a seamless ASEAN, it would be short sighted to just look at the major highways and roads need to move goods, we must also address the rural urban divide in terms of physical architecture. Not only will this allow the ASEAN economies access to more people, it will allow those very people to escape poverty due to increased architecture.

Along with that, and I have touched on this earlier, we must ensure good governance amongst our ASEAN members. We have to strengthen our regulatory frameworks to make sure that the capital that we garner for our infrastructure development is used for the right purposes and is used in a manner that addresses everyone's needs, not just the urban masses, but the rural as well.

Along with good governance, we must also as a region make it a priority to cooperate within ourselves. While we aim for economic integration by 2015, for the region as a whole, we still do have a tendency to view ourselves as individual countries. This is hindering us from experiencing the true benefits of regional cooperation. While respecting the spirit of non-interference, true economic growth and seamlessness will not come about until we view ourselves as a region first and foremost and make decisions that benefit the ASEAN as a whole as opposed to the countries individually. Much more needs to be done in terms of cross border initiatives, not only in cases of cross border infrastructure, but also when individual member countries have to address infrastructure concerns within their own boundaries. Admittedly, much has been accomplished already in terms of cross border projects, for instance the ASEAN Highway Network and the Singapore-Kunming Rail Link. Nonetheless, while this is a brilliant start, we have to ensure that we stay on this path of cooperation and expand it to include collaboration on local and national infrastructure projects as well. We should make it a priority that the member countries with the means and expertise and technology to assist the countries who don't have these resources, should do so, in the spirit of ASEAN cooperation.

Another issue we have to deal with, and this one is probably one of the most pressing concerns, is financing infrastructure initiatives in ASEAN. Infrastructure investment is multifaceted. It includes, as detailed in the Masterplan, energy infrastructure, for without energy, how would we power our countries? This is a crucial element to any infrastructure plans for ASEAN and must be addressed, as

energy security is of ever growing importance, especially in the current international climate, and energy infrastructure is intrinsic to our economic growth. The energy infrastructure plans within ASEAN are drafted in the form of a series of Plan of Actions. As stated in the Masterplan, the current Plan of Action (2010-2015), focuses on

“accelerating the implementation of action plans to further enhance energy security, accessibility and sustainability for the region with due consideration to health, safety and environment, especially in relations to APG, TAGP, clean coal technology and renewable energy amongst others”⁸

Whilst it is commendable that renewable energy security is mentioned in the goals, ASEAN as of yet does not have a concrete plan detailing how it is going to achieve these results. This paper is going to focus on two aspects of the energy infrastructure equation in ASEAN, namely the adoption of renewable energy practices and the possibility of reserve sharing schemes.

Although traditional sources of energy are what we primarily use to power our world, these resources are finite and will eventually be depleted. Yes, not in the immediate future, but that is no reason to simply ignore the dire climate change warnings that we are being forced to face. As ASEAN is a region made up of developing countries, economic growth is of paramount importance to us, so we can command respect at the global stage. We have focused a lot on the Trans Asian Gas Pipeline, which is a truly formidable and commendable achievement, but we as a

⁸ Masterplan on ASEAN Connectivity

region must also now push our countries towards tapping and adopting sustainable energy practices. Renewable energy plans are what are going to ensure that we have energy security as a region, and rely primarily on ourselves to supply our energy needs, no matter what the political and economical climate of the world may be. The current unrest in the Middle East has heightened the importance of energy security, thereby it is more important than ever that we address this issue.

As mentioned before, economic growth is what we as developing countries strive to achieve. Currently, a large portion of this region's population still has limited or non-existent access to their basic needs, including their basic energy needs such as electricity. Renewable energy is not merely a fanciful term that benefits only developed, established economies. It can do much to alleviate poverty in developing economies, and by adopting these technologies, developing countries make their commitment to combating climate change known and thus command more respect on the global stage. For instance, in India, Suzlon a wind turbine manufacturer, began with 25 employees in 1995, and now employs about 16,000 people globally and is the third largest world turbine manufacturer⁹ Adopting renewable energy projects creates a manufacturing and industry base in developing countries, allowing them to move beyond traditional manufacturing into more research intensive, high technology production markets.

It is an unfortunate reality that the immediate issues of affordability and ease of access and production usually eclipse the need for long term environmentally

⁹ Kevin Lustag, Davida Woods, Lutz Weischer, Q&A:Policies for Renewable Energy in Developing Countries, World Resources Institute.

sustainable practices, which might not be cost effective and viable in the immediate short term. While we have agreed upon the fact that we have a digital divide amongst ASEAN countries, it is time now to acknowledge the fact that we are also facing a situation we can tentatively call the energy gap, or the energy divide. While most urban households have access to energy services, there are several households in rural areas that aren't a part of the power grid and don't have access to these basic services. As ASEAN is an ASEAN for all, it should be a priority for us to alleviate these injustices, clean and sufficient energy should be available to all in the region, not only to a certain section of society living in a certain area. The current Plan of Action on Energy Cooperation 2010-2015 (APEAC) does include a Program Area for renewable energy (Program Area #5) but not much has been done in terms of a tangible difference in the uptake of renewable energy policies, especially at the grassroots level. The Power Grid makes a mention of renewable energy being part of the grid, but nothing has really been done to push this idea, and we also then sidestep the fact that the Grid doesn't cover a lot of the rural ASEAN population, and thus, how are they then supposed to benefit from renewable energy initiatives if the policy in place is not holistic and inclusive. As has been mentioned in previous research, most ASEAN nations are setting unreasonably low targets for renewable energy usage, and it is also harmful to the region that each nation sets their own arbitrary levels; this again, is not a cohesive effort.

Various strategies can be suggested to increase the adoption of renewable energy technology and policies. The bottom line that discourages countries from employing these methods is cost. In developing countries, the costs of implementing renewable

energy technology is much higher in comparison to traditional sources of energy, thus the countries see no need to invest in these options when the short term option is so much more cost friendly. ASEAN member countries thus need to make sure that the policy environment in their region is friendly to reducing these costs and encouraging people to adopt these technologies. We need to focus on overhauling policy as opposed to doing individual, piecemeal projects. If the policy environment was more favourable then more inward investing would occur and large scale projects in renewable energy would take place, thereby pushing renewable energy technologies to the same stage as traditional energy sources enjoy. To make businesses and banks want to invest in renewable energy and include in their portfolio, ASEAN has to make the market and environment friendlier, with actions such as subsidies and more feed in tariffs and greater tax benefits for business and banks involved in these projects. Related to this, is another suggestion, which is to individualize renewable energy technologies. What this would mean is that instead of including clean energy technologies within the larger APEAC, to give more emphasis to this area, ASEAN should consider making a plan for renewable energy that stands on its own. Instead of merely being a part of the overall energy agenda, renewable energy and clean energy technologies should be an issue that has its own platform from which to offer ideas and present solutions. In reference to the earlier point, unless we change the institutional framework and give teeth to the policies suggested by making them binding, efforts to promote renewable energy and reduce its costs will fail, since without institutional stimuli and aid, these options would simply be too expensive. One possible solution would be for ASEAN as a region to insist on industry specific guidelines and targets; different ceilings and goals for

sectors such as electricity, transport, energy, and manufacturing. Instead of a general, blanket goal, this might prove to be more effective since it would take into account the unique individual constraints for each sector.

On a smaller scale, it is highly important that ASEAN engage with more civil society participants. This would look at the energy problems on another level, which is the ground, grassroots level. To fully appreciate what the population, or the majority of the population needs, it is crucial to interact with NGO's and civil society groups, which can ensure that the right funds are being directed to the appropriate people, and that the right projects are being allocated to the more deserving and needy areas. This will allow us to look at energy coherently, and not just at the big picture.

The TAGP and the APG are all huge achievements in their own rights, and this is in no way belittling those achievements. But these recommendations above move us away from the grand big picture and allow us to focus on truly integrating ASEAN for all the people in it, even the rural residents, and also forces us to face the fact that no matter how many grand plans we have, as long as we focus only on fossil fuels, it is impossible to ensure energy security for ASEAN in the long run.

Moving on to the next challenge within the infrastructure framework, we have to address the issue of funding. ASEAN is a dynamic, fast growing region, and to finance the activities that allow us to grow, we have to seek massive amounts of funding.

Whilst we have in place the traditional methods of funding, one area needs to be highlighted. Public Private Partnerships (PPP) have a huge amount of potential, and it doesn't seem that this potential is being utilized fully at this point. PPP's bring

together the best of the knowledge and expertise of the private sector, and the funds and institutional reach of the public sector. As stated in the Masterplan,

A critical factor affecting the attraction of private sector finance for sub-regional projects is the lack of adequate project preparation which could deter public-private partnerships (PPPs). The lack of adequate and reliable technical and financial information on PPP projects can hamper the evaluation of risks, not only from the point of view of the private sector entity, but also from the point of view of the public sector¹⁰

It is commendable that the Masterplan acknowledges the challenges that face ASEAN in terms of PPP funding. While it has been acknowledged, much more needs to be done. Once again, we would advocate a more coherent region wide approach, as opposed to a piecemeal, country specific approach. There is an Infrastructure Fund Pool, and the existing Public-Private Infrastructure Advisory Facility, but this isn't solely dedicated to overseeing PPP funding opportunities within ASEAN. We should be aiming for a 'go to' body for private sector participants who are interested in collaborating with the government on infrastructure projects specifically within ASEAN. In this vein, it would also be beneficial if ASEAN involved more industrial heads and entrepreneurs during project and financial decision making processes as opposed to only involving the governments and government officials of the member countries. This would create a welcoming environment for private sector participants, locally and internationally. The Masterplan mentions that pre-feasibility studies are of paramount importance to PPP initiatives, and these are sometimes a hindrance to securing the funding needed. One solution would be to actually outsource the feasibility studies to private sector experts within the chosen industry.

¹⁰ Masterplan on ASEAN Connectivity

The feasibility study is usually the domain of the member governments, for it is up to them to identify possible projects and then test their feasibility in order to attract funding. If we were to allow the private sector to identify these opportunities themselves and incentivise the process, the feasibility studies would already be prepared by companies who are willing and able and eager to work on the projects that they themselves have proposed.

Finally I would like to propose that ASEAN establishes a regional coordinating body for PPP that could seek to harmonise regulations and best practices on PPP, which will help to promote and consolidate private sector participation. It is also important for ASEAN to establish a Regional Banking Network, that could facilitate mergers and acquisitions among banks in ASEAN countries so that there will be larger ASEAN banks operating in many of the ASEAN countries. Such ASEAN banks can have stronger balance sheets to finance large scale infrastructure projects. In terms of capital market development, an ASEAN stock exchange can be considered that can have ASEAN companies listed on it for fundraising purposes.

In the final analysis, it is people-to-people connectivity that will eventually create a greater sense of ASEAN consciousness to make ASEAN more relevant to the ordinary people of ASEAN, especially the younger generation. There are a lot more rooms for improvement to foster closer linkages among the people of ASEAN. Exchange programmes can be developed among education institutions within ASEAN. An ASEAN Youth Parliament can be set up and ASEAN studies should be introduced into the school curriculum. Once we have an ASEAN sense of belonging and an ASEAN

consciousness developed in the younger generation, the future of ASEAN will be more assured.