

## **Concept Paper of the NEAT Working Group on**

### **“Connectivity Cooperation in East Asia”**

Sponsored by NEAT China

#### **Theme**

Financing Infrastructure Connectivity in East Asia: Problems and Solutions

#### **Background**

Regional cooperation and integration has been one of the major driving forces which brought about an East Asia of unprecedented growth since the turn of the century. We're pleased to note that all the APT countries are well aware of the importance of further regional cooperation and integration, and that the key to this is to improve regional connectivity and physical connectivity comes first. We have realized that efficient physical connectivity can increase availability of goods and services, ideas, knowledge and capital in an efficient manner, and thus improve the competitiveness and productivity of this region.

Now in the wake of the recent financial crisis, the global economy is still undergoing restructuring with a host of troublesome legacies. Especially, the large fiscal imbalance in the US and Europe has led the governments to adopt stringent austerity programs. In view of the declining demand for East Asia's exports as a result of the ongoing troublesome global economy, we need to further enhance regional demand and intraregional trade. Developing infrastructure is evidently the best option because it directly increases demand and indirectly contributes to the region's inclusive growth and resilience against financial and economic shocks arising from outside.

Since the launch of the Master Plan on ASEAN Connectivity (MPAC) in October 2010, connectivity has been highlighted and taken as one of the priority cooperation areas in East Asia to deepen regional integration. Therefore, a lot of efforts have been made to address this need. The most outstanding and innovative work is the creation of the ASEAN Infrastructure Fund (AIF) in April 2012, aiming to support the infrastructure investments in ASEAN member countries and ultimately provide half a billion people living in ASEAN countries with better access to energy, clean water and sanitation, and improved transportation.

Although the primal objective of the MPAC is to enhance connectivity among ASEAN member countries, ASEAN's connectivity with the other three APT countries has also been highlighted. During the “10+3” Summit of 2011, Thailand initiated

“ASEAN+3 Partnership on Connectivity”, which calls for the expansion of ASEAN Connectivity to Northeast Asia. The Chinese Premier Wen echoed this initiative and proposed that the region increase input in East Asia connectivity. Responding to the Thailand leader’s initiative, China hosted an international conference on "ASEAN +3 Connectivity: Perspectives and Prospects" on September 29, 2012. Over 40 scholars and government officials from the APT countries participated in this event. One of the conclusions at this conference is that ASEAN+3 connectivity has become a catchphrase in many political talks in the region, and shortage of fund is the biggest challenge.

The costs of addressing infrastructure needs are huge. According to the research by Asian Development Bank Institute, Asia will need to invest approximately US\$8.22 trillion in overall national infrastructure for energy, transport, telecommunications, water, and sanitation from 2010 to 2020, and about US\$320 billion on more than 1,200 regional infrastructure projects in transport, energy, and telecommunications. East and Southeast Asia together accounts for more than 50% of the total required investment (that is US\$4.27 trillion), of which the electricity sector accounts for a lion’s share of 58.2% (Bhattacharyay 2010a). According to the ADB’s estimates, an annual investment of \$60 billion is required to meet ASEAN’s infrastructure financing needs during 2010-2020 (ADB, ADB Institute, 2009).

All the APT countries, especially ASEAN members have realized that the huge resources needed cannot be met on their own. Though a lot of efforts in financing infrastructure needs have been made, substantial gap still remains. For example, the total lending commitment of the above mentioned AIF is expected to reach about \$12 billion by 2020, China has financed US\$10 billion to set up “China-ASEAN Investment Cooperation Fund” and 3 billion RMB to set up “China-ASEAN Maritime Cooperation Fund”. Furthermore, multilateral institutions such as Asian Development Bank (ADB) or bilateral institutions such as the Japan International Cooperation Agency (JICA) may meet a part of the needs. The resource requirements still far exceed their lending capacity.

At the same time, East Asia is a region known for its high private savings (with savings rates as high as around 40%) and huge foreign exchange reserves of more than US\$ 5.6 trillion in total by the end of year 2012. This huge financial resource may provide an effective solution to the financial gap problem. Other sources like sovereign wealth funds, foreign direct investment (FDI), etc, should not be neglected either. The key question here is how we can address this paradox and channel the region’s resources into the region’s infrastructure investment.

### **Objective**

This Working Group aims to objectively assess the infrastructure financing gap in East Asia, identify the major impediments in bridging the gap, and finally find the

best solutions to addressing this issue. In short, we are intended to hammer out ideas for a feasible and efficient financing platform for connectivity and thus promote infrastructure investments for a seamless connected East Asia.

### **Role of participants**

The APT countries and the ASEAN Secretariat are each invited to nominate one expert to attend the Working Group. Each participant is expected to provide a write-up using the following topics as a guide:

1. Infrastructure investment needs and key facts on infrastructure finance in your country or the region as a whole
2. Priority areas in developing physical connectivity in your country and across the APT countries
3. The major impediments to infrastructure financing in your country and the region as well
4. Suggestions on innovatively mobilizing East Asia's huge financial and technical resources to meet its infrastructure investment needs: sources, instruments, mechanisms, policies and regulations, etc

The participants shall also discuss a draft of the WG report with relevant recommendations to be submitted to the NEAT Annual Conference.

### **Sponsor**

The Working Group is sponsored by NEAT China, led by Prof. QIN Yaqing, Country Coordinator for NEAT China and Executive Vice President of the China Foreign Affairs University.

### **Hospitality**

NEAT China will provide an economy class air-fare and accommodation (for two nights) for one participant each from the APT countries and the ASEAN Secretariat.

### **Schedule**

May 2013 nomination of WG members

June 2013 WG meeting (Paper is to be submitted two weeks before the meeting.)

July 2013 drafting and finalization of the WG report

August 2013 submission of the WG report to the NEAT Annual Conference