


Opinions

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Asian Connectivity and Infrastructure Investment



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The development of infrastructure is gaining increased attention as a means to support regional integration and cooperation in East Asia. The Association of Southeast Asian Nations (ASEAN), which has been leading efforts for economic integration in the region, unveiled the Master Plan on ASEAN Connectivity (MPAC) in October 2010 to enhance connectivity among ASEAN members. They also launched the ASEAN Infrastructure Fund (AIF) in April 2012, which draws upon the foreign reserves of member-states. In particular, the 21st ASEAN Summit, held in Cambodia in November 2012, produced a consensus on launching the ASEAN Economic Community (AEC) by 2015, with the APT countries seeking to join the Regional Comprehensive Economic Partnership (RECP) until the

completion of the AEC. It means that ASEAN will continue to strive to maintain its centrality and remain proactive by being the driving force in the evolving regional architecture.

Reflecting this trend, increasing amounts of investments and development aid are flowing into regional development projects, such as infrastructure projects and the Mekong Development Project, which are intended to help East Asian countries overcome their development gaps. In the meantime, the three Northeast Asian countries—China, Japan, and South Korea—are competing with one another over investment in, and influence on, the ASEAN member-states. However, the three countries lack a system of mutual cooperation and partnership that are necessary for regional integration and cooperation. The Chinese government, for example, has developed an assistance strategy to strengthen its ties to ASEAN now that the regional integration of East Asia is accelerating. China now provides massive amounts of assistance, envisioning ASEAN+1 and seeking to narrow the development gap among the involved countries. In particular, China has dramatically increased the amounts of assistance it provides for Southeast Asian countries, making massive investments and providing loans for the development of infrastructure in Southeast Asia linked to South China. China has already expended US\$10 billion to set up the “China-ASEAN Investment Cooperation Fund” and 3 billion RMB to set up the “China-ASEAN Maritime Cooperation Fund.” Seeking to counter-balance China’s increasing influence in the region, the Japanese government has also widened the range of official development assistance programs it provides, readying to host a summit with the CLMV in the Mekong region.

The prolongation of the financial crisis in Europe has led the G20 countries to pick long-term investments in infrastructure as a key factor for economic growth and job creation in 2013. The next G20 Summit, to be held in St. Petersburg in September, will occasion discussions on plans for development assistance, including a multi-year action plan. A G20 study group has been assembled to make the discussions more productive and fruitful. The group is co-chaired by representatives of Germany and Indonesia. Indonesia, in particular, is this year’s chair of the Asia Pacific Economic Cooperation (APEC) Conference, and will be seeking to incorporate infrastructure development and investment as an issue into all agendas for international organizations active in Asia, including the G20, the APEC, and ASEAN. Regional forums such as the APEC and the ASEAN+3 (APT), are also seeking to increase discussions on expanding the region’s potential for growth by increasing investment in infrastructure. As this year’s APEC chair country, Indonesia has suggested a multi-year project on in-

infrastructure development, and is actively promoting discussions on the policies and plans for infrastructure investment in the region.

The Korean government has made its share of efforts to fight poverty and reduce development gaps in Southeast Asia via diverse channels, including its New Asia Diplomacy Initiative, the Special Korean-ASEAN Summit, and the Korean and Mekong foreign ministers' meeting. In order for the Korean government to reinforce its strategic partnership to ASEAN, increase the region's potential for growth, and help the region achieve economic integration, the Korean government will need to consider developing an effective system for coordinating development assistance projects in East Asia. Letting the competition among China, South Korea, and Japan to continue unrestrained, without any efforts for coordination, may generate many difficulties later, especially in promoting massive public infrastructure and local development projects. In-depth discussions are thus needed for developing a regional cooperative system to help all countries in East Asia develop infrastructure with greater efficiency. According to the Asian Development Bank (ADB), total funds needed for East Asia's infrastructure investment are estimated at \$5.4 trillion (2010-20). To reduce the infrastructure financing gap in the region, an intergovernmental coordination system or a network of partnerships among East Asian countries will become necessary to raise and coordinate the resources required for infrastructure development in the region.

At the same time, more innovative and efficient development projects need to emerge, involving public-private partnerships (PPPs), in addition to more effective use of funds and expertise available in the private sector. Since adopting the act on private participation in infrastructure (PPI) in 1994, the Korean government has been steadily expanding the scope of PPPs to include not only the development of social overhead capital, but also the development of public infrastructure. Infrastructure development projects tend to require massive amounts of financial resources and present greater risks to investors due to the longer waiting periods involved before seeing returns. PPPs provide an effective way for spreading risks, while also introducing greater financial resources, technological capability, and management expertise from the private sector that are crucial for development. One can hardly over-emphasize the importance of private-sector participation in infrastructure development and investment in East Asia. The Korean government, therefore, ought to make more active efforts to foster PPPs, encourage Korean companies to export their techniques and expertise on not only development, but also on operation and maintenance of infrastructure.

In conclusion, infrastructure is at the core of regional connectivity and integration by boosting productivity and growth, and facilitating trade and investment. Traditional sources of financing through public budgets are already overstretched, which highlights the need for innovative, pragmatic infrastructure financing solutions. The key challenge is to ensure systematic channeling of private capital into bankable infrastructure projects on the basis of robust market-based policies and institutions. 