

Deepening economic integration

***PECC, ASEAN, APEC and the BNR initiative:
opportunities for synergy***

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Summary

- **PECC began to encourage closer, mutually beneficial, economic integration among Asia Pacific economies almost 40 years ago:**
 - PECC can contribute to, and help encourage synergy among inter-government cooperation including ASEAN, APEC and the new Belt and Road initiative.
- **ASEAN and APEC have strong networks to identify opportunities for policy coordination and cooperative arrangements to promote connectivity:**
 - both can learn from the Belt and Road initiative to strengthen links with development banks (including the AIIB, ADB and the World Bank).
- **The BNR process can use the examples set by PECC, ASEAN and APEC to build stronger foundations for policy coordination.**
- **All of the parallel efforts to improve connectivity need to look for sustainable ways to finance investments;**
 - consistent with shared leadership and mutual respect.
- **It will be essential to attract significant private sector investment in economic infrastructure.**

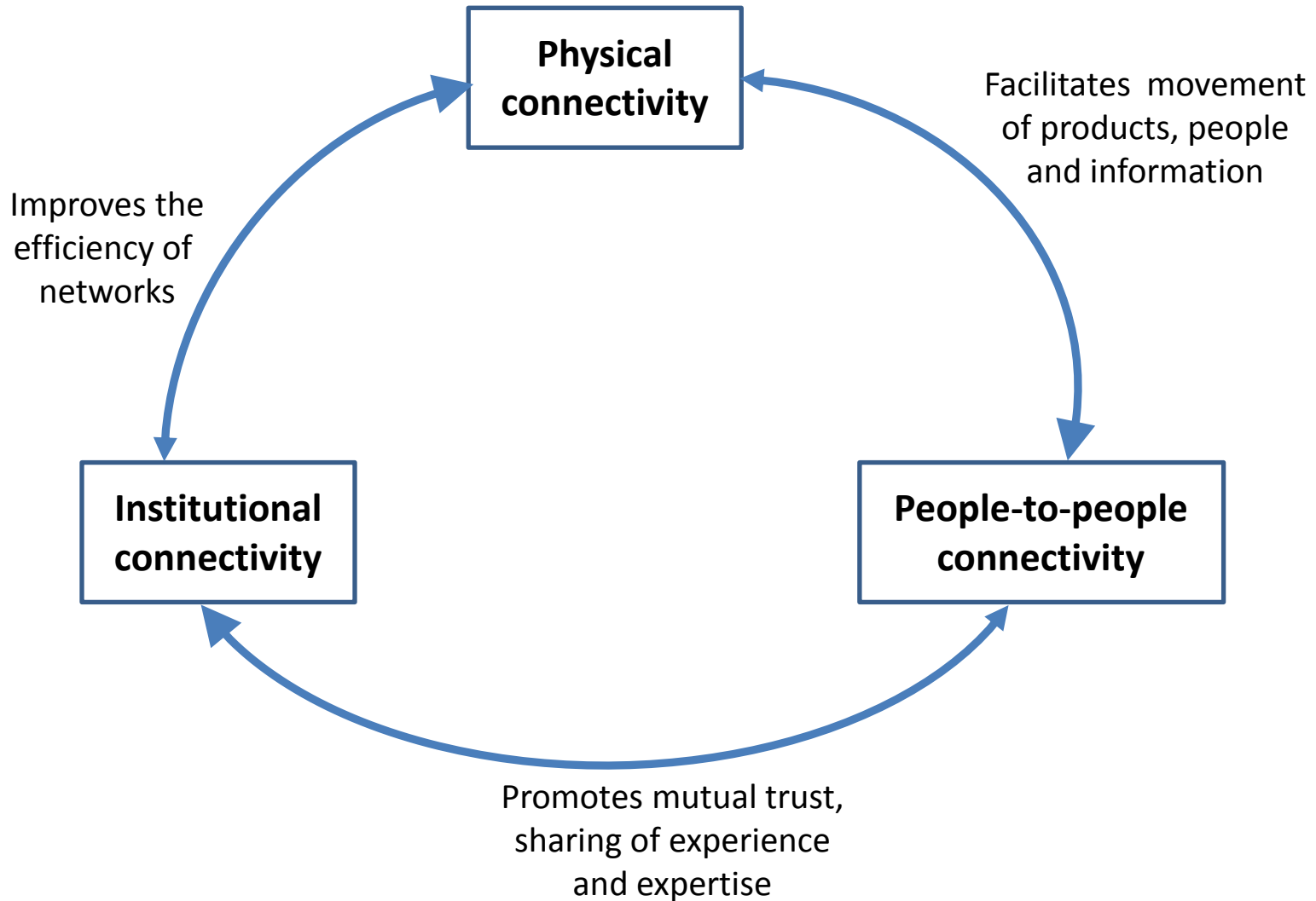
Economic integration

- **PECC, ASEAN, APEC and the BNR initiative are all voluntary processes of cooperation.**
- **Voluntary cooperation to integrate our economies should concentrate on:**
 - the most important obstacles to international commerce ; and
 - where voluntary cooperation can expect to achieve significant mutual benefits.

Efficient economic integration

- **The potential gains from better connectivity are now far greater, than from any further reductions in border barriers.**
 - **Asian Development Bank:**
 - reducing port clearance times by one day can potential to save up to 1 per cent of the value of traded products.
 - **World Economic Forum and the World Bank:**
 - *“supply chain barriers to international trade ... are far more significant impediments to trade than tariffs. In fact, reducing supply chain barriers could increase world GDP over six times more than removing all tariffs.”*
- **These huge gains can be achieved by voluntary cooperation to improve connectivity:**
 - **but we will need close policy coordination;**
 - **which relies on good institutional and people-to- people links.**

Mutually reinforcing dimensions of connectivity



Connecting economies

We know how to build roads, bridges, ports, power stations and pipelines;

- but it is hard to ensure they are maintained, then operated efficiently;

Investments in transport, communications and energy networks need to be backed by strengthening other forms of connectivity:

- we will need a lot of policy coordination;
 - that needs good communications and mutual trust among institutions of our economies.

Strengthening people to-people bonds is the best way to foster mutual trust and create mutual respect:

- **PECC 's networks can contribute to efforts to boost connectivity.**

Parallel efforts to connect economies

- **ASEAN, APEC and the Belt and Road initiative all have some strengths and weaknesses:**
 - they can all learn from each other;
 - PECC can help promote synergy among them.

The ASEAN Economic Community

- **Implementing the Master Plan on ASEAN Connectivity (MPAC) is the key to deepening economic integration within the evolving ASEAN Economic Community.**
- **Good progress has been made in investments in economic infrastructure and institutional connectivity:**
 - for example, towards an ASEAN single window for customs procedures.
- **But progress has been held up by:**
 - shortages of skills;
 - weaknesses in institutional capacity;
 - inadequate funding:
 - for strengthening skills and institutions as well as for economic infrastructure.
- **ASEAN has a strong foundation of policy networks and mutual trust, but has not been able to deal with these constraints.**

APEC

- **APEC's efforts to promote economic have concentrated on trade and investment liberalisation, rather than connectivity.**
- **Working groups cover the many issues of policy reforms and policy coordination that are needed for better connectivity:**
 - but the only significant actual program is the successful APEC Business Travel Card;
 - much more could be done with more resources devoted to promoting connectivity.
- **The APEC Connectivity Blueprint for 2015-2025 reflects understanding of policy and and what kind of investment will be needed.**
- **However, APEC leaders have not begun to think about mobilising the huge financial resources that will be needed:**
“to reach a seamlessly and comprehensively connected and integrated Asia-Pacific”.

The Belt and Road initiative

- **Although very new, the Belt and Road initiative is already making the most significant contribution to physical connectivity in Asia.**
- **Investments in BNR infrastructure are already taking place:**
 - building on existing transport and communications links.
- **China is providing almost of the finance:**
 - up to USD 1 trillion dollars are being invested through development banks and the Silk Road Fund.
- **China is also making most of the decisions:**
 - based on bilateral agreements with many other Belt and Road governments.

Challenges for the BNR

A strong start gives BNR participants the opportunity to think ahead about:

- principles of cooperation;
- sharing responsibility for:
 - decision-making,
 - financing, and
 - implementation.

- **The future of the BNR process depends on whether China is willing and able to share leadership;**
 - **and work with others to build the foundations for sustained policy coordination and financing.**

Financing Belt and Road investments

- **China has financed a very high share of the first trillion of investment:**
 - that is welcome, but should not be expected to continue.
- **Mutual respect needs shared responsibility:**
 - costs will need to be shared.
- **To deal with the high risks of Belt and Road investments,**
 - all governments must have a substantial financial stake in the success of projects located in their countries.
- **PECC can encourage BNR participants to move towards sustainable and shared financing.**

Foundations for policy coordination

- **Effective coordination of policy-making requires a foundation of mutual trust;**
 - and the ability to identify shared interests.
- **Building these foundations needs a framework for regular communications among officials, business leaders and researchers;**
 - ASEAN and APEC have built such foundations over several decades.
- **The Belt and Road process needs a similar foundation:**
 - the PECC network can help to meet this important long-term challenge.

Widening PECC's horizon

- **Decades of joint policy development by PECC has:**
 - led to the design and implementation of better policies and stronger institutions;
 - created confident channels of communications for APEC governments to learn from each other.
- **The time has come for PECC to widen its horizon:**
 - engage additional economies to share in the PECC experience;
 - start to bring together economies along some Belt and Road corridors for policy discussions on promoting all dimensions of connectivity.

Financing by development banks

- The AIIB is expected to finance some BNR investments;
 - If they are seen to be financially viable.
- ASEAN and APEC can learn from this example:
 - if governments identify investments in connectivity that are viable;
 - they can expect multilateral development banks, not just the AIIB, to consider financing them.
- Development banks have adequate resources to finance sound investments in institutional and human resource development;
 - but they are not big enough to finance the physical infrastructure that will be needed.
- **Significant improvements in connectivity will need significant private sector investment.**

Attracting private investment

- **Trillions of dollars will need to be invested during the next few decades:**
 - much of this financing requirement will need to be mobilized from the private sector.
- **Attracting private investment in economic infrastructure has proved very difficult:**
 - risks are seen to be too high in most economies;
 - infrastructure gaps continue to widen all around the world.
- **This problem must be solved:**
 - there is no general, or theoretical, solution
 - but we can build on an understanding of projects cycles and on successful examples.

Catalysing investment in infrastructure

- **A lot of attention is being given to project preparation;**
 - that is welcome – but not enough to attract much private investment;
 - **we cannot expect cost-effective private investment in economic infrastructure until projects are running efficiently,**
 - so that project risks are lowered.
- **Teams of highly qualified professionals (catalytic enterprises) can be set up to take good ideas right through the project development cycle:**
 - working with public authorities during the low-cost, but high risk, origination and structuring phase;
 - working with partners to finance and execute the construction phase;
 - exiting after projects are up and running;
 - re-financing projects with private capital, at an affordable cost, once risks have been reduced.

The Infraco precedent

- Such a project catalysis strategy has been implemented successfully by **Infraco (Asia) and Infraco (Africa)**:
 - independent private sector enterprises;
 - funded by the Private Infrastructure Development Group (PIDG)
 - a multi-donor organisation with members from seven countries and the World Bank Group.
- Infraco operations have leveraged \$1.2 billion of PIDG capital to attract \$21 billion of private and international financial institution capital into infrastructure projects.
- **This approach can be adapted and scaled up to help finance investment in infrastructure needed to connect Asia Pacific economies.**

Challenges for PECC

- **The time has come to widen PECC's horizon and reach out to more economies:**
 - encouraging others to participate in PECC's policy-oriented networks will help build the foundations of sustainable cooperation to improve connectivity among a progressively wider group of economies.
- **PECC can also help all economies to find ways to attract the private sector investment that will be needed for better connectivity:**
 - perhaps along the lines summarised in this presentation.