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Enhancing East Asian Connectivity: What Can ASEAN and Japan Do?

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THE ECONOMIC INTEGRATION process in East Asia, centering on ASEAN, is underway. The ASEAN member countries have progressively phased out tariff barriers to intra-ASEAN trade in goods, while working intensively to develop various packages of service liberalization. In December 1997, ASEAN also started developing a vision for the whole bloc for the year 2020, and the plan for achieving this vision became more concrete with the consensus among members to establish an ASEAN Community, resting on the three pillars: the political-security community, the economic community, and the socio-cultural community. In August 2006, ASEAN members agreed in principle to accelerate progress toward the creation of the ASEAN Economic Community (AEC) by 2015, and since then they have continued to make efforts along those lines. At the same time, ASEAN is assuming a central role in various regional forums, arrangements, and mechanisms, such as the East Asia Summit, the ASEAN Regional Forum, free trade agreements with ASEAN partner countries (ASEAN+ FTAs), and others.

ASEAN member states have long been engaged in deepening regional economic integration. This deepened economic integration process also saw ASEAN switching its focus from traditional issues such as trade and investment liberalization to nontraditional ones such as trade facilitation, competition, standards, and conformance. Among these new areas of focus is a commitment to enhanced connectivity, not only within ASEAN but also between the block and its key partners. Connectivity enhancement also constitutes an important topic of interest for ASEAN's major partners in Northeast Asia, including Japan.

The discussion of ASEAN connectivity fits well in the new context of trade liberalization and the various regional integration tracks that are being

pursued. Integration attempts within ASEAN are increasingly focused on facilitation of trade and investment activities, reduction of service-link costs,¹ and “behind-the-border” regulatory reforms. Asia Pacific integration has evolved more profoundly, with drastic improvements in the formation and management of production networks and efforts to negotiate and implement ASEAN+ FTAs, the Regional Comprehensive Economic Partnership (RCEP), and the Trans-Pacific Partnership (TPP). To add to these already dynamic and complicated movements, subregional cooperation has emerged rapidly, while the East Asian development paradigm is experiencing a gradual shift toward a more balanced growth process.

The need for improved connectivity is thus apparent, but it should not be restricted to ensuring smoother flows of goods, services, and people. Instead, connectivity also refers to more fundamental issues underlying cooperation efforts between countries in East Asia, where ASEAN plays an increasingly central role.

To date, the key official framework for enhancing connectivity involving ASEAN and Japan, alongside other partners, has been the Master Plan on ASEAN Connectivity (MPAC), which was adopted in 2010. Aimed at facilitating the creation of an ASEAN Community, MPAC serves to improve connectivity within ASEAN under three major pillars: (1) physical connectivity, (2) institutional connectivity, and (3) people-to-people connectivity. The implementation of MPAC, nonetheless, is no easy task. In fact, ASEAN encounters enormous difficulties related to the significant heterogeneity within and among member states, uneven efforts being applied to each of the three pillars, lack of resources and experience, and the complicated interactions that its members have with outside partners. Meanwhile, a broader framework for enhancing connectivity throughout East Asia—not to mention Asia Pacific—to facilitate development of regional production networks and to leverage the outcomes of regional trade and investment liberalization remains absent. There is thus room for cooperation between Japan—the driver of regional production networks—and the ASEAN member states on connectivity issues.

This chapter attempts to review the implementation of MPAC as the first cornerstone for East Asian connectivity, and examines possible avenues of cooperation between ASEAN and Japan to extend its scope and benefits. After elaborating on the concept of MPAC and its possible impact, and analyzing some of the major issues in implementing MPAC, recommendations will be offered on how ASEAN and Japan can jointly contribute to regional connectivity enhancement.

THE CONCEPT OF MPAC

As noted above, MPAC was approved in order to align the enhancement of regional connectivity with the vision for development that was set out for the region as a whole. Its three-pronged approach—focusing on institutional, physical, and people-to-people aspects of connectivity—addresses the factors that impede flows of goods, services, capital, and people in ASEAN. Conceptually, the framework is more comprehensive than the traditional way of thinking, which has tended to target physical infrastructure development. MPAC was developed on the basis of achievements and major impediments to connectivity that have been identified within and between ASEAN member countries. This has driven the formulation of key strategies and essential actions that comprise roadmaps and clear targets for addressing the impediments, further enhancing ASEAN connectivity, and helping to realize the ASEAN Community by 2015.

Table 1. Distribution of strategies and key actions of MPAC

	Physical connectivity	Institutional connectivity	People-to-people connectivity	Total
Key strategies	7	10	2	19
Key actions	32	32	20	84
Prioritized projects	6	5	4	15

Source: Compiled by authors based on ASEAN, *Master Plan on ASEAN Connectivity* (June 2011); and Sanchita Basu Das, Pham Thi Phuong Thao, and Catherine Rose James, “APEC and ASEAN Connectivity: Areas of Mutual Interest and Prospects of Cooperation,” *ISEAS Perspective*, no. 28 (May 8, 2013).

As for physical connectivity, the key challenges lie in the poor quality of roads and incomplete road networks; missing railway links; inadequate maritime and port infrastructure (including dry ports), inland waterways, and aviation facilities; a widening digital divide; and a growing demand for power. Many of these challenges have undermined various supply chains as well as cross-border trade among ASEAN countries.² Accordingly, MPAC has adopted seven strategies to establish integrated and seamless regional connectivity through a multimodal transport system, enhanced information and communications technology (ICT) infrastructure, and a regional energy security framework.

The following six major projects fall under physical connectivity: (1) completion of the missing links in the ASEAN Highway Network and an upgrade of the transit and transport routes, (2) completion of the missing links in the Singapore-Kunming Rail Link, (3) establishment of an ASEAN broadband corridor, (4) construction of the Melaka–Pekan Baru interconnection,

- (5) construction of the West Kalimantan–Sarawak Interconnection, and
- (6) a study of the roll-on/roll-off network and short-sea shipping.

MPAC has also identified the needs and directions for addressing the key institutional impediments to movements of vehicles, goods, services, and skilled labor across borders. Even for goods, the reduction or elimination of tariff barriers is by no means sufficient for trade expansion. Instead, ASEAN must further phase out nontariff barriers to facilitate intra-ASEAN trade and investment, harmonize standards and conformity assessment procedures, and enforce key transport facilitation agreements. Member countries need to fully implement national single windows (NSWs), which lay the foundation for a more robust ASEAN Single Window. In this respect, 10 strategies have been adopted to ease the flow of goods, services, and investment in the region.

The following five major projects fall under institutional connectivity: (1) developing and operationalizing mutual recognition arrangements (MRAs) for prioritized and selected industries, (2) establishing common rules for standards and conformity assessment procedures, (3) operationalizing all NSWs by 2012, (4) providing options for a framework or modality aimed at the phased reduction and elimination of scheduled investment restrictions and impediments, and (5) operationalizing ASEAN agreements on transport facilitation.

Under the theme of people-to-people connectivity, MPAC incorporates two strategies: to “promote deeper intra-ASEAN social and cultural understanding” through community-building efforts and to “encourage greater intra-ASEAN people mobility” through progressive relaxation of visa requirements and the development of MRAs. As noted in table 1, the strategies, key actions, and prioritized projects under this theme are all outnumbered by those aimed at enhancing physical and institutional connectivity. Still, they provide an important commitment to building a socially harmonious community in ASEAN.

The following four major projects fall under people-to-people connectivity: (1) easing visa requirements for ASEAN nationals, (2) developing ASEAN virtual learning resource centers, (3) developing ICT skills standards, and (4) pushing the ASEAN community-building program.

In summary, the concept of MPAC is both broad in scope and comprehensive, reflecting a fundamentally innovative shift from the traditional sole focus on improving physical linkages to enhancing connectivity more broadly defined. Still, physical connectivity projects seem to constitute most of the substance of the work, although the projects that fall under institutional connectivity and people-to-people connectivity also require significant efforts. While aiming to simultaneously overcome the

geographical fragmentation and heterogeneity in institutions and social backgrounds that may undermine the flows of goods, services, investment, and people within ASEAN, MPAC also incorporates efforts related to ASEAN's connectivity with non-ASEAN partners. At the same time, MPAC adopts a project-based approach, resting heavily on the implementation of various major projects under each pillar of connectivity. In this process, MPAC is open to the participation of relevant stakeholders, including East Asian partners.

IMPACTS OF MPAC

One can understandably expect the impacts of MPAC, upon full implementation, to be largely positive. Better connectivity can help facilitate flows of goods, services, and persons across the ASEAN subregions and states, which in turn drives up trade and production specialization on the basis of (both static and dynamic) comparative advantages that each enjoys. In this regard, improved connectivity deters a wide range of at-the-border or behind-the-border restrictive measures and factors, which will help achieve a favorable net impact on the ongoing process of regional trade liberalization in East Asia.

The above projection is based on an analysis of the net impact on subregions and states in ASEAN using the Economic Research Institute for ASEAN and East Asia (ERIA) Geographical Simulation Model. Table 2 shows the economic impact of the improved connectivity that is expected to be accrued through the development of the various economic corridors—the East-West Economic Corridor, North-South Economic Corridor, Mekong-India Economic Corridor, the IMT+ (a subregion that extends beyond the Indonesia-Malaysia-Thailand Growth Triangle), and the BIMP+ (a subregion that extends beyond the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area). Specifically, MPAC appears to help promote ASEAN economic growth and narrow the development gap. While the findings are restricted to economic impacts, they still incorporate important implications for enhancing the confidence of member states and stakeholders in MPAC implementation. A critical observation finds that most member economies of ASEAN will enjoy more additional benefits than will their external counterparts such as China, Hong Kong, and Bangladesh.

Table 2. Geographical simulation model: Projected economic impact of improved connectivity

Ranking by region			Ranking by country	
Region	Country	Economic effects	Country	Economic effects
Kota Lhokseumawe	Indonesia	533.7%	Myanmar	145.8%
Asahan	Indonesia	485.8%	Vietnam	114.6%
Mamuju Utara	Indonesia	480.8%	Laos	99.3%
Kota Pematang Siantar	Indonesia	463.4%	Thailand	98.6%
Rokanhilir	Indonesia	432.8%	Cambodia	97.9%
Indragiri Hilir	Indonesia	419.2%	Indonesia	85.0%
Kota Binjai	Indonesia	411.4%	Philippines	73.4%
Kota Kediri	Indonesia	410.3%	Malaysia	64.4%
Kota Tanjungbalai	Indonesia	408.1%	India	45.6%
Soc Trang	Vietnam	404.4%	Singapore	29.2%
Number of regions with	100% or more	254	China	25.4%
	50% to 100%	239	Bangladesh	23.0%
	0% to 50%	446	Hong Kong	8.2%

Source: ERIA, "Economic Assessment of the CADP: The Geographical Simulation Model," in *The Comprehensive Asia Development Plan*, ERIA Research Project Report no. 7-1 (2009), 103.

Nonetheless, improving connectivity within ASEAN does not always produce positive impacts. In fact, ASEAN member economies may suffer from some adverse impacts, the extent of which depends essentially upon the capacity and socioeconomic characteristics of such economies to enable or absorb the changes. First, some nontraditional security issues could become more serious in the absence of closer institutionalized collaboration between countries in the region. Examples of such issues may include, but are not limited to, drug trafficking, human trafficking, and smuggling. Second, improved connectivity may lead to inequalities, where some member economies and subnational regions reap smaller benefits than others. In particular, benefits can be small if all or part of the transport corridors differs from the economic corridors with positive externalities. The issue would be further magnified if an outsider were to step in and work with some ASEAN member states without coordinating their efforts with existing ones under MPAC. In the presence of more than one outsider, the sequence of their participation may matter if it is not properly coordinated by ASEAN. Third, despite the more balanced approach, the efforts under MPAC remain heavily weighted toward the physical connectivity, while those in the areas of institutional and people-to-people connectivity are uneven at best. Accordingly, the desired economic and community-building benefits from MPAC may not be realized in full. Finally, the issue of

sustainability (in terms of the environment and culture) has not received sufficiently serious attention.

MAJOR ISSUES AND CHALLENGES

As discussed above, MPAC constitutes the first official framework for the comprehensive enhancement of connectivity in East Asia. Notwithstanding its focus on ASEAN instead of the whole East Asian region, MPAC still has rather ambitious targets and attracts attention from all of the countries in the region. It is thus important to monitor the progress of MPAC so as to identify issues that arise during implementation and then to formulate appropriate adjustments or policy actions. However, this is not an easy task for several reasons, including (1) its wide scope and the complicated interactions among various pillars and key strategies and actions; and (2) the heterogeneity in the development levels and perspectives of participating economies, which may undermine information-sharing activities. Even the recently developed AEC Scorecard³ could only offer the initial groundwork for such monitoring purposes, but it still seems unable to capture the real progress of MPAC implementation. Besides, due to the complicated interactions between MPAC's key strategies and prioritized projects and other existing policy frameworks, separating out the socioeconomic impacts of MPAC appears to be a formidable challenge.

The ERIA Mid-term Review in 2012 was an attempt to document progress as well as challenges in implementing the ASEAN Economic Community Blueprint. To date, ASEAN has recorded substantial achievements in AEC measures. Key examples of such achievements included tariff reductions; the opening of NSWs in five member states and of advanced NSWs in two member states; the ASEAN Comprehensive Investment Agreement's minimum yardstick of 70 percent allowable foreign equity; ASEAN-X for integration of the air travel sector; the Chiang Mai Initiative; and a number of cooperative initiatives on agriculture, competition policy, and intellectual property rights.

Few of these areas where achievements have been made were identified as priorities in MPAC. Meanwhile, a big gap persists between what has been implemented and the targets set out at the beginning. For instance, material gaps remain in terms of trade facilitation, standards and conformance, services liberalization, MRAs on professional services and labor mobility, connectivity and transport facilitation, ICT, and energy. Regarding NSWs for trade facilitation, an ERIA survey at the end of 2012⁴ showed that Brunei and Vietnam remained in the advanced stage of development for

live implementation by 2015. Meanwhile, Cambodia, Laos, and Myanmar still need to make significant efforts to pilot implementation of their NSWs by 2015, which effectively means a delay in implementation of the ASEAN Single Window.⁵ In the same survey, inadequacies of laboratories and skilled personnel also emerge as critical constraints to effective implementation of standards and conformance agreements in some ASEAN member states. Even by 2013, ASEAN could only complete a small number of MRAs relative to the need for improving regional standards and conformance.⁶ In other words, little progress has been documented with respect to the MPAC areas and priorities.

It bears repeating that assessments of the impacts of MPAC are still not comprehensive enough. Even ERIA's Comprehensive Asia Development Plan⁷ only focused on the economic impact of some (but not all) corridors on the countries in the region. By 2013, more than 80 percent of the projects had reached at least the feasibility study stage. Still, we can expect a long wait before any actual material project-based progress in improving connectivity can be realized, unless ASEAN—perhaps with support from its partners—can properly expedite the implementation of those projects.

Again, the concept and implementation of MPAC seem to focus more on the development of infrastructure (i.e., physical connectivity). As noted in table 1, there are quite a few more elements under physical connectivity than under institutional connectivity and people-to-people connectivity in terms of strategies, key actions, and prioritized projects. Given the list of prioritized projects under physical connectivity, the demand for capital resources can be large and returns on such resources may not prove to be equally substantial. Meanwhile, modest resources can be used more efficiently—with the goal of promoting flows of goods, services, capital, and labor—under the themes of institutional and people-to-people connectivity. The challenge for ASEAN therefore is to coordinate the use of resources rather than to passively permit the concentration of such resources in the physical connectivity pillar, which at times is driven by outside partners.

Another challenge in implementing MPAC lies in the financing of infrastructure projects. Given the huge deficiencies in quality and quantity of infrastructure projects in Asia in general and in ASEAN in particular, the capital needs remain significant. The projected capital needed to finance Asia's infrastructure projects in 2010–2020 is US\$8.2 trillion, of which 68 percent is for new capacity investment and 32 percent is for maintenance and replacement. If one looks at it by sector, energy accounts for 49 percent, transport for 35 percent, ICT for 13 percent, and water and sanitation

for 3 percent. For ASEAN, the projected capital needed is US\$596 billion, of which 66 percent is for new capacity investment and 34 percent is for replacement and maintenance. The respective shares of energy, transport, ICT, and water and sanitation are 36 percent, 26 percent, 11 percent, and 27 percent.

MPAC projects may be financed by several sources, including government budgets, multilateral development banks, commercial banks, capital market initiatives,⁸ the ASEAN Infrastructure Fund (AIF), the new Asian Infrastructure Investment Bank, and sovereign wealth funds. As a major initiative, the AIF has a total initial equity contribution of US\$485 million, provided jointly by nine ASEAN members and the Asian Development Bank, with targeted debt issuance to leverage 1.5 times the equity, aiming to support projects in renewable energy, adaptation, and infrastructure, among others. Central banks and other institutions (including private institutions) are expected to purchase the debt after the AIF has developed a sufficient track record and lending volume.

Major partners of ASEAN, such as Japan, China, and Korea, may also extend further support to MPAC projects. In recent years, China and ASEAN deepened cooperation through the “One Axis, Two Wings” strategy, which covers the Nanning-Singapore Economic Corridor, the Greater Mekong Subregion (GMS), and the Pan-Beibu Gulf Economic Cooperation. In an announcement in December 2013, GMS countries agreed to pool US\$50 billion from various sources (including the private sector) for potential projects under the Regional Investment Framework by 2022.⁹ Korea has also formulated and enforced a new official development assistance (ODA) strategy, with increasing support for ASEAN to address connectivity-related issues. In addition, a number of funds are also available for technical assistance related to infrastructure development, such as the Japan-ASEAN Integration Fund, the ASEAN-China Cooperation Fund, and the ASEAN-ROK Special Cooperation Fund.

Nonetheless, the use of the above financial sources for infrastructure development may encounter several problems. First, government coordination may expose some inadequacies during the allocation and disbursement of funds, not to mention the modest capacity to absorb fund disbursements in certain economies. Second, project development and documentation may not be sufficiently aligned with the requirements of these financial sources. Third, there is also a concern about the capacity of the ASEAN Secretariat and the ASEAN Connectivity Coordinating Committee to approach and coordinate this wide range of financial sources. Fourth, the engagement of the private sector is ideal, but enforceable mechanisms for public-private partnership (PPP) and

for determining permissible levels of government exposure to future risks have not been institutionalized. Fifth, disbursement of such financial resources may follow the designated procedures and standards in a way that resembles differences in local governments' regulations, thereby increasing compliance costs for relevant stakeholders. Finally, working with dialogue partners and multilateral development banks presents another challenge, given the differences in motivation and bargaining power among the relevant parties.

WHAT CAN ASEAN AND JAPAN DO?

Japan is among the few East Asian countries that simultaneously hold membership in the Comprehensive Economic Partnership with ASEAN, the RCEP, and the Asia Pacific Economic Cooperation (APEC) forum. These arrangements all emphasize the need for improvements in connectivity, of which infrastructure development is a key priority. Japan has also been an important partner of ASEAN countries through its involvement in a complex web of economic interactions, regional cooperation, and stakeholder engagement with a number of funds, as well as ODA and other cooperation schemes. Given its vast experience, its active role as a development partner, and its coordinated participation in the above arrangements, Japan can and should play an important role in improving ASEAN connectivity.

A couple of important factors justify a larger role for Japan in the future improvement of ASEAN connectivity. On the one hand, Japan has huge savings and international reserves. It had nearly US\$1.1 trillion in domestic savings in 2013 and almost US\$1.3 trillion in international reserves in 2014. In this respect, Japan is only outperformed by China, for which the respective figures were US\$4.7 trillion and US\$3.9 trillion.¹⁰ Japan's substantial savings and international reserves may allow for increasing investment in regional connectivity improvement. In doing so, the benefits for Japan can be amplified—both directly from returns on projects specifically aimed at improving connectivity and indirectly from production and business activities of Japanese enterprises in the region. On the other hand, Japan remains committed to supporting ASEAN integration and connectivity. This commitment has been formalized in the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) via the provision for development cooperation, as well as in a number of regional and bilateral talks and declarations.

Table 3. Gross domestic savings and international reserves of Asian countries

	Gross domestic savings (US\$ billion, 2013)	Gross international reserves (US\$ billion, Dec. 2014)
China	4,732.7	3,900.0
India	592.3	325.1
Japan	1,070.4	1,260.7
Korea	450.1	362.8
ASEAN-10	809.3 ¹¹	778.7 ¹²

Source: World Bank data.

Still, there remain some problems even with the current engagement and support of Japan and other partners for ASEAN's connectivity improvement. First, despite consideration and elaboration, overlaps remain in cooperation programs and they have so far failed to make sufficient progress. As described above, the programs are too spatially and sectorally widespread, which may lead to the dispersion of efforts and resources. Even the participation of Japan so far has failed to alleviate the challenge, which in turn undermines the outcomes of cooperation. Second, not all proposals or programs for Japan-ASEAN cooperation have been incorporated into the framework of MPAC. One implication is that either some ideas or programs have not been aligned closely with the top priorities of ASEAN in improving connectivity or strategic confidence between Japan and ASEAN has been insufficient to make way for more fruitful dialogue related to ASEAN connectivity. Finally, coordination between Japan and other partners, including those in the region such as China and Korea, and among Japan, other stakeholders, and ASEAN remains weaker than expected, while lacking any effective mechanisms to ensure harmonization of their development efforts. Coordination by ASEAN with improved centrality in the region thus becomes unavoidable, yet such coordination requires affirmed support from partners, including Japan.

Aiming to further enhance regional connectivity, ASEAN and Japan should consider the following recommendations.

First, Japan should work together with other East Asian partners such as China and Korea, preferably under ASEAN's coordination, to ensure that there is a broader and more consistent framework for enhancing East Asian integration. This framework should also take into account the various features and the demanding standards contained in the TPP agreement, to which some ASEAN member countries and Japan have agreed. That is, ASEAN and Japan should dedicate their efforts to ensuring that the TPP and the RCEP are complementary, with deeper economic integration in Asia Pacific, rather than competing with each other. While relying on the

strengthened centrality of ASEAN, the framework is important to reduce the costs and uncertainty that come from unharmonized integration tracks. ASEAN-Japan dialogue should take place frequently at both the bilateral and East Asian regional levels—even on the margins of RCEP negotiations—to improve mutual confidence and promote gradual harmonization of regional integration.

Second, ASEAN and Japan should establish a special joint working group to identify priorities, advance resolution mechanisms, and mobilize resources to develop regional connectivity, especially those supporting the improvement and operations of various supply chains that can produce mutual benefits. On the one hand, the group can help harmonize implementation of MPAC and issues related to ASEAN connectivity with efforts and projects to enhance connectivity in East Asia and, more broadly, in Asia Pacific. This approach will help prevent duplication of efforts by relevant ASEAN member countries and Japan under both MPAC and the APEC Framework on Connectivity.¹³ Mechanisms to expedite the MPAC projects should be developed and enforced in a timely manner. On the other hand, the group can help balance efforts across the three main pillars of connectivity—physical connectivity, institutional connectivity, and people-to-people connectivity—as well as progress across ASEAN members.

Third, in coordination with ASEAN, Japan should deepen its support for the process of building the AEC and implementing ASEAN connectivity efforts, especially by developing capacity-building programs for Cambodia, Laos, Myanmar, and Vietnam so that they catch up with the more advanced ASEAN members. Japan could extend technical assistance for simplifying cross-border procedures related to the movement of goods and people, especially via the ASEAN Single Window and NSWs, as a foundation for magnifying the benefits to be had from enhancing physical connectivity. These efforts will also help leverage the benefits for Japan and those ASEAN member countries that are also currently parties to the TPP. To facilitate regional community building, Japan should explicitly express its support for strengthening the centrality of ASEAN in regional processes.

Fourth, ASEAN and Japan should also promote further progress toward liberalization in the areas of services and investment, while facilitating freer flows of trade in goods with improved utilization of preferential tariff treatment under the AJCEP. This promotion should be guided by the outcomes of the TPP agreement as well as the ongoing progress in the RCEP negotiations to ensure minimized adjustment costs for stakeholders. Bilateral negotiations are also essential to make way for connectivity-enhancing mutual recognition of standards and regulations.

Fifth, ASEAN should acknowledge the importance of its own strides toward the creation of the AEC and improved ASEAN centrality in the region, reflected in wide-ranging measures and material progress in facilitating flows of goods, investment, and people; in maintaining a stable, competitive, and harmonious region; and in coordinating the resolution of various issues related to regional development. This should enhance the image and reliability of ASEAN as a major regional partner.

Sixth, Japan could join in and lead the process of improving the regional master plan on connectivity. This process should take into full account the connection between ASEAN and Japan, national strategies for developing infrastructure, and the APEC Framework on Connectivity. Given its capacity, Japan may contribute to the development of national primary transportation networks and related facilities, including the East-West corridors, ICT, energy, and sea and airlines transport. In this respect, Japan should engage in dialogue with other partners, especially China and Korea, to ensure coordination of related transportation network and corridor development. Again, this coordination may require involvement in the form of diplomatic and intellectual efforts from ASEAN.

Seventh, depending on interest and capacity, Japan could extend support or assistance to the preparation of feasibility studies for relevant projects under MPAC or the APEC Multi-Year Plan on Infrastructure Development and Investment, which must incorporate comprehensive assessments of the socioeconomic and environmental impacts. For monitoring purposes, Japan could support ASEAN in improving (sectoral) statistics and databases and in strengthening information-sharing mechanisms related to the progress of regional integration and connectivity and the reduction of intra-ASEAN development gaps.

Eighth, Japan needs to dedicate further efforts with ASEAN to mobilizing resources and formulating and enforcing institutions for implementation. Such efforts should start with existing schemes such as the Asian Bond Markets Initiative, the Asian Bond Fund, ASEAN stock market links, the AIF, and other relevant arrangements. Another line of efforts is to strengthen private sector engagement (in particular from ASEAN and Japan) in ASEAN connectivity, using PPP mechanisms based on a combination of different sources of financing and internationally acceptable standards. Deepened technical assistance from Japan to the ASEAN Connectivity Coordinating Committee for implementing MPAC and the broader regional master plan of connectivity is also essential.

Ninth, ASEAN needs to assume a more active and effective role in coordinating efforts by various partners, including Japan, for physical infrastructure development. This role also requires ASEAN members

to consult and work together, taking a regional perspective, with bold common decisions to select or disapprove certain projects. No new projects should be approved so as to avoid further dispersion of resources. ASEAN should also be prepared to facilitate dialogue among development partners, such as between Japan, China, and Korea on physical connectivity issues and projects.

Finally, Japan and ASEAN should promote further frank dialogue to address behind-the-border barriers to movements of people, with a particular focus on the recognition of educational qualifications, simplification of visa conditions and procedures, and overseas recruitment of low-skilled labor. In this regard, Japan's openness in attitude as an advanced country should play a pivotal role.



Connectivity enhancement, formalized under MPAC, is emerging as an integral part of ASEAN integration and the process of building the AEC, and it can bring substantial benefits to all member countries. The overarching objective of MPAC is well elaborated, with support and feasibility embodied in a number of strategies and key action plans. Still, MPAC implementation may be subject to several challenges, an imbalance in its focus, lack of coordination among projects, and limited sources of finance and monitoring mechanisms. Despite these challenges, ASEAN can successfully implement MPAC in cooperation with Japan, which has tremendous potential and financial resources and stronger motivation to achieve connectivity than would be the case with mere partners. The key in this process, however, is "strategic trust" between countries in East Asia. As such, the framework is not restricted to ASEAN and Japan but instead incorporates an openness to support by other partners, including China and Korea. MPAC is thus more than a goal; instead, the implementation of MPAC may also provide a good opportunity for key players to make their best simultaneous efforts at enhancing regional connectivity and providing a favorable foundation for regional community-building processes. From Japan's perspective, enhancing ASEAN connectivity will undoubtedly be beneficial given the range of its trade and investment linkages in the region.

NOTES

1. According to Sven Arndt and Henryk Kierzkowski's edited work, *Fragmentation: New Production Patterns in the World Economy* (Oxford, UK: Oxford University Press, 2001), a "service link" is defined as "a composite of activities such as transportation, insurance, telecommunications, quality control, and management coordination to ensure that the production blocks interact in the proper manner."
2. For instance, see ERIA, *Mid-Term Review of the Implementation of AEC Blueprint: Executive Summary* (Jakarta: ERIA, 2012); and the World Bank database on Doing Business, <http://www.doingbusiness.org/data>.
3. See the ERIA project, "Towards Informed Regulatory Conversations and Improved Regulatory Regime: Logistics Sector and Trade Facilitation," AEC Scorecard Phase 3 Project, <http://www.eria.org/research/aseaneconomiccommunity/eria-study-to-further-improve-the-aec-scorecard--phase-2.html>.
4. ERIA, *Seize the Moment: Executive Summary of the Mid-term Review of the Implementation of AEC Blueprint* (Jakarta: ERIA, 2012).
5. As of September 2015, five ASEAN member states had joined the ASEAN Single Window System, including Singapore, Malaysia, Indonesia, Thailand, and Vietnam.
6. Examples include engineering services, nursing services, surveying qualifications, architectural services, medical practitioners, accountancy services, and dental practitioners.
7. ERIA, *Comprehensive Asia Development Plan*, ERIA Research Project Report 2009-7-1 (Jakarta: ERIA, 2010).
8. These include the Chiang Mai Initiative, Asian Bond Market Initiative, and the Asian Bond Fund.
9. Vietnam Plus, "GMS Members Approve 50 Billion USD Investment Framework," December 12, 2013, <http://en.vietnamplus.vn/Home/GMS-members-approve-50-billion-USD-investment-framework/201312/43367.vnplus>.
10. See World Bank data on Gross savings (current us\$), <http://data.worldbank.org/indicator/NY.GNS.ICTR.CD>; and Total reserves (includes gold, current us\$), <http://data.worldbank.org/indicator/FI.RES.TOTL.CD>.
11. Brunei data is from 2012; no data is available for Myanmar.
12. Myanmar data is from 2012.
13. This framework was adopted by APEC Leaders in 2013.