

REGIONAL CONNECTIVITY FOR SHARED PROSPERITY

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PRELUDE

Connectivity is a cornerstone of regional economic cooperation and integration – and has become a major priority for the countries of Asia and the Pacific, especially in the context of efforts to find new drivers of regional economic growth, and to create additional domestic and aggregate regional demand.

To best unlock the potential of ever-more closely interlinked production networks and value chains, a broader perspective on connectivity will be key. This kind of connectivity should not be considered sector by sector, but rather as part of an integrated whole, encompassing the development of corridors of prosperity through networks of trade, transport, ICT, energy, people, and technology.

This 2014 ESCAP's annual *Theme Study: Regional Connectivity for Shared Prosperity* explores strategies for strengthening regional connectivity.

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ABBREVIATIONS

ACSS	ASEAN Community Statistical System
ADB	Asian Development Bank
ADB I	Asian Development Bank Institute
AEC	ASEAN Economic Community
AEH	Asian energy highway
AHSOM	ASEAN Heads of Statistical Offices Meeting
AIF	ASEAN Infrastructure Fund
AIIB	Asian Infrastructure Investment Bank
APAIE	Asia-Pacific Association for International Education
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus China, Japan and the Republic of Korea
ASW	ASEAN Single Window Initiative
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BRICS	Brazil, Russian Federation, India, China and South Africa
CAREC	Central Asia Regional Economic Cooperation
CLMV	Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam
CO ₂	carbon dioxide
ECO	Economic Cooperation Organisation
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
EURASEC	Eurasian Economic Community
FATS	Framework for Action on Transport Services
FDI	foreign direct investment
G20	Group of Twenty
GDP	gross domestic product
GMS	Greater Mekong Subregion
GPS	Global Positioning System
GW	gigawatt
HVDC	high-voltage direct current
ICD	inland container depot
ICP	integrated check posts
ICT	information and communications technology
IEA	International Energy Agency
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IP	Internet protocol
IRU	International Road Transport Union
IT	information technology
ITU	International Telecommunication Union
LDCs	least developed countries
LLDCs	landlocked developing countries
LNG	liquefied natural gas
MDGs	Millennium Development Goals

ABBREVIATIONS *(continued)*

OECD	Organisation for Economic Co-operation and Development
PAA	Pan Asian E-commerce Alliance
PIF	Pacific Islands Forum
PPP	purchasing power parity
PPPs	public-private partnerships
RCEP	Regional Comprehensive Economic Partnership
Rio+20	United Nations Conference on Sustainable Development
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SASEC	South Asia Subregional Economic Cooperation
SCO	Shanghai Cooperation Organisation
SIDS	small island developing States
SPC	Secretariat of the Pacific Community
TAR	Trans-Asian Railway
TASIM	Trans-Eurasian Information Superhighway
TPP	Trans-Pacific Partnership Agreement
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNNExT	United Nations Network of Experts
UNWTO	United Nations World Tourism Organization
US\$	United States dollar
WCF	World Chamber Federation
WHO	World Health Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

The role of regional connectivity in supporting economic growth and development

Over the past 50 years, the Asia-Pacific region has experienced unprecedented economic growth. That growth, along with better standards of education and health, has contributed to dramatic falls in poverty. However, the region's growing prosperity has not been shared equally, and there are clear signs of rising income inequality, both within and between countries. Inequality is also becoming more pronounced in other ways, in terms of access to transport, information and communications technology (ICT) and energy resources, for example.

The region's recent economic growth has been driven largely by international trade, foreign direct investment and the emergence of global and regional production networks, as well as global value chains. These drivers, in turn, were facilitated by the progressive liberalization of trade, expansion of the maritime transport sector and diffusion of information and communications technologies and the Internet. These processes enabled multinational companies and smaller producers to connect with each other and develop new types of production and distribution networks. Meanwhile, Governments have supported these processes by investing in infrastructure and human capital development.

Enhanced connectivity has therefore played an influential role in shaping regional integration in Asia and the Pacific. Clearly, the contribution of "hard", or physical, infrastructure networks to economic and social development has depended on "soft" infrastructure, including the policy, legal, regulatory and institutional frameworks in which they are located. In the current study, regional connectivity is regarded as the level and effectiveness of regional networks to facilitate flows of goods, services, people and knowledge. This extends the traditional focus of public policies beyond either physical or non-physical parameters to encompass both dimensions.

Into the future, trade and transport connectivity within the region will continue to be important, particularly as countries look towards regional markets to counterbalance the slowdown in the global economy. At the same time, new drivers of growth are expected to shape future patterns of economic and social development in the region, and with them, other types of regional networks will become increasingly important. Given that the effectiveness of each network is increasingly dependent on the connectivity of other networks, it is clear that any analysis of regional connectivity can no longer be confined to one or other type of network.

Key drivers shaping the future of regional connectivity

Trade and transport connectivity remains a priority: The recent economic slowdown has exposed the region's vulnerability to fluctuations in the global economy and has shifted attention to domestic and regional markets as a means of stimulating growth and raising living standards. Despite significant investment in transport infrastructure at the national level, however, cross-border and regional land transport infrastructure networks remain underutilized for international trade. In addition to increasing investment in "hard" infrastructure, countries in the region can improve the "soft" infrastructure underpinning trade and transport, as well as implement other means of reducing logistics costs. In particular, countries can capitalize on various technological advances – which requires trade and transport connectivity to be pursued in conjunction with other forms of connectivity, such as information and communications technology (ICT).

ICT as an enabler and driver of growth: The Internet and mobile communications connectivity will continue to radically transform ways in which businesses operate and people interact, as they drive productivity and efficiency improvements in almost every sector of the economy. Increased ICT connectivity is also opening doors on knowledge generation and sharing, particularly for people living in remote or rural areas. Instant communications will be increasingly important in determining the efficiency of trade, including financial services, information and data management services and transport and logistics services.

Growth in trade in services: The Asian and Pacific region has become an important player in commercial services exports, broadly categorized as transportation, travel and other commercial services, as reflected in its growing share of world exports of commercial services. Tourism in particular has been expanding rapidly, with the region capturing nearly one quarter of total global tourist arrivals in 2013. As these service sectors will rely more and more on access to fast and reliable Internet and telecommunications systems into the future, they offer alternative sources of growth for countries which are physically located away from regional production and consumption centres.

Energy connectivity and security: The region's recent economic growth and rising affluence has resulted in a growing demand for energy resources and with that expanding demand, higher levels of greenhouse gas emissions. The region accounted for more than half the global total of such emissions in 2010. The Asia-Pacific region as a whole is well endowed with energy resources, but they are distributed unevenly. Access to clean energy also varies widely from country to country and even within countries. Against the backdrop of rising fuel prices, countries need to consider new forms of energy cooperation which will help balance the gaps in supply and demand across countries.

Responding to population dynamics: The Asia-Pacific region is undergoing population change of a magnitude and pace never before witnessed in human history. Although the size of its population has almost tripled in 60 years, nearly all countries in the region are now experiencing population ageing, albeit at different paces. As such, the region has countries with both ageing and shrinking populations, as well as countries with large populations of young people. Meanwhile, improved access to transport and information has led to greater cross-border mobility; the region is now host to 59 million international migrants, or one quarter of the world's total stock of migrants. The implications of these trends are significant for the future social and economic development of the region, and point to the urgent need for effective policy responses.

Transitioning to knowledge-based economies: In order to diversify their economies and move up value chains, countries need people who have the skills and knowledge, as well as the innovative spirit, to develop both new products and processes. Strengthening knowledge networks for tertiary education, knowledge generation and knowledge sharing can help build the region's knowledge and skills base. Sharing of knowledge and research between universities, researchers and industry also contributes to the development of "high-tech" clusters in some industries, such as those developing computer software. Recent economic history shows that "knowledge clusters" initially emerged in lower-cost countries with good availability of skilled labour that responded quickly to the global demand for standardized, less firm-specific knowledge services. By strengthening regional knowledge-sharing networks, more countries could participate in different types of clusters.

Regional strategies for enhancing regional connectivity

The issue for the Asia and Pacific region is not so much whether connectivity will increase across countries, but what forms those connections will take. While countries in the region have made significant progress in improving their domestic connectivity, the future of regional connectivity depends on how closely they can work together to strengthen networks in four critical areas: trade and transport connectivity; ICT connectivity; energy connectivity and people-to-people connectivity.

Regional connectivity is multifaceted, with the connectivity of one sector influenced by the connectivity of others. This gives rise to new challenges in terms of the need for greater coordination, not only across

borders but also across sectors involving all stakeholders, including business and trade associations, social networks and civil society organizations. At the same time, it creates new opportunities for different elements to be combined in ways which will enhance the quality of these networks.

As they are still in the development stage, countries in the Asian and Pacific region have the chance to develop regional networks in an integrated and coordinated manner, which can reduce the costs and spread the benefits to a wider group of countries. Regional approaches can help countries look beyond their national boundaries and consider the “public goods” aspects of networks, while at the same time, help to identify and harness synergies across sectors. In this context, countries in the region need to put into place regional strategies for developing critical regional networks.

Trade and transport connectivity: While there are wide variations across countries in the quality of infrastructure, the region is already relatively well connected in terms of its transport infrastructure networks. However, its transport networks are not fully operationalized or integrated, leading to underutilization of networks, especially railways. Non-physical barriers at borders also persist, increasing trade and transport costs and delaying the movement of goods and people. By investing in intermodal facilities, such as dry ports, as well as in better physical linkages between different modes, Governments could increase transport options for shippers and traders. Regional intermodal transport networks will play a particularly important role in trade from landlocked developing countries and small island developing States, supporting these countries in participating more actively in international and regional trade. Greater use of ICT applications for trade and transport facilitation, both behind and at borders, would also improve the efficiency of freight movements and pave the way for the development of paperless trade and e-logistics.

ICT connectivity: While ICT connectivity is rapidly improving in the region, there is still a large “digital divide” both within and between countries. This is partly due to the region’s reliance on submarine cables and lack of sufficient terrestrial fibre-optic cables. A cohesive “meshed” regional network, combining terrestrial with submarine optical fibre, would provide cost-effective broadband access on both an intraregional and intercontinental basis as it would link Asia to Europe. Such an “Asia-Pacific information superhighway” should be based on a set of common principles; its development would require the active involvement of private sector partners and international organizations. There are also significant opportunities for the “co-habitation” of ICT and transport infrastructure networks. Already, fibre-optic cables are being laid along some national highway and railway systems. Such synergistic approaches can reduce the cost of developing a regional ICT network and facilitate maintenance of the network.

Energy connectivity: With recent advances in high-voltage transmission technology, it is now possible to envisage a regional energy network, which could reduce the gap in supply and demand by transferring power from energy-rich or lower-cost power countries to energy-poor or high-cost power countries. An “Asian energy highway” network could combine different types of energy transmission networks, including pipelines and cross-border power grids. The most efficient may be the development of a regional electricity power grid, connected to a regional electricity market. A regional grid could also link renewable energy sources to a large enough market to justify investments, thereby enhancing the viability of such projects.

People-to-people connectivity: Increased mobility across borders, as well as greater ICT connectivity, would open up vast new opportunities for international labour migration but also raise new challenges. Migrant origin and destination countries need to work together to take advantage of such labour flows and mitigate the risks which may accompany greater labour mobility. Meanwhile, improvements in ICT connectivity and transport links are making it easier for people to study abroad or enroll in distance learning programmes, as well as contribute to the growth of business and civil society networks. By promoting people-to-people connectivity, Governments could help their people access the region’s vast knowledge resources, as well as foster better understanding about the region’s diverse cultures and value systems.

Strengthening institutional coordination and regional cooperation

The private sector has been leading the economic integration of the region, as the individuals, institutions and companies compete to boost productivity, relocate production activities to take advantage of cost differentials between countries, and try to gain access to major markets in the region. Ultimately, however, the main driving force behind regional connectivity is the political will of national Governments. To support the further integration of the region, therefore, Governments must take the lead in establishing robust institutional frameworks to plan and implement the regional connectivity agenda.

Strengthening institutional responses to regional connectivity

The increasingly complex nature of regional networks requires Governments to reach across sectoral boundaries to develop cross-sectoral policies, both at the national and regional levels. To achieve this, they will need to strengthen institutional mechanisms and make better use of existing forums, such as those provided by intergovernmental organizations. The Asian and Pacific region is home to a wide variety of intergovernmental organizations, many of which are already implementing various initiatives relating to regional connectivity. With the emergence of so many subregional initiatives, policy coordination among these organizations has become an urgent challenge. In this regard, regional institutions such as ESCAP have an important role to play in supporting and coordinating subregional integration efforts, as well as in serving as a vital link between subregional and global initiatives.

The experience of ESCAP shows that there are a variety of mechanisms, ranging from formal intergovernmental agreements and international conventions, to voluntary commitments by Governments which can be used to move the region's connectivity agenda at the regional level. Given the significant role played by the private sector and civil society in shaping the region's economic and social development, Governments also need to explore ways to reach out and involve other stakeholders in the development and implementation of such mechanisms.

Statistical standards for strengthened accountability and better policymaking

Official statistics help Governments to track progress and ensure that their decisions are based on evidence. They also enable Governments to develop a shared understanding of trends, issues and bottlenecks, which is fundamental for building consensus on cross-border issues, such as trade, labour mobility, immigration, educational qualifications, transport and tourism. However, in order to be comparable across countries, over time and across different data sources, statistics must adhere to internationally agreed standards.

To move forward the regional connectivity agenda, national Governments are strongly encouraged to adopt global statistical standards and build their capacities for collecting and disseminating their official statistics. They should also work more closely together through established forums, such as the United Nations Statistical Commission and the ESCAP Committee on Statistics, to define the type of statistics needed by policymakers, as well as identify new and innovative sources for these data.

Regional solutions for financing regional infrastructure networks

Infrastructure development invariably involves high capital costs, with benefits accruing over the longer run. The pace of infrastructure development is therefore progressing unevenly across the region and tends to be directed towards satisfying domestic needs. Yet the benefits of regional infrastructure networks extend over and beyond national borders, pointing to the need to reconsider the networks as a type of "regional public good". Such approaches can target the "weakest links" of these networks which affect the efficiency and coherence of the whole network, while at the same time enhancing the connectivity of the disadvantaged countries.

Countries should therefore explore regional mechanisms to pool the region's financial resources, such as a regional infrastructure fund, a regional project preparatory facility, or an "Asian multi-donor platform". There is also scope for greater private involvement in financing infrastructure projects, but most countries still lack the appropriate policy frameworks to develop and manage public-private partnership projects effectively. In this regard, Governments can learn from each other's experiences in such partnerships, as well as how to manage and maintain their infrastructure networks more effectively.

Next steps in strengthening regional connectivity

This report looks at the ways in which better regional connectivity can contribute to the sustainable and inclusive development of the Asian and Pacific region. It finds that regional connectivity is inherently multifaceted, and that the benefits of this connectivity may be enhanced by combining different elements. Moreover, it suggests that networks are likely to become more integrated and interdependent as they evolve. Governments therefore have to develop cross-sectoral policies on connectivity, at national, subregional and regional levels.

Into the future, connectivity will certainly increase across countries. But what forms will those connections take and who will they benefit? The aim should be to ensure that they open new opportunities for all, especially for the region's disadvantaged countries – the least developed countries, the landlocked developing countries, and the small island developing States.

These countries may wish to consider how to use their current endowments to build up their capacities in those industries which have the potential to grow. By taking advantage of new technologies, disadvantaged countries can become more integrated into the global economy. In particular, they should make greater use of communications technology, and particularly the Internet, to develop commercial services, such as transport, telecommunications, and financing, as these sectors in turn can support trade and manufacturing. Meanwhile, all countries in the region can support the disadvantaged countries by enhancing people-to-people connectivity – for example, by encouraging more interactions between students and workers.

As globalization continues, the region's future will depend on how countries work together. Developing and managing regional networks therefore requires cross-country consensus. Governments need to further study and refine the strategies outlined in this study, and agree on the most appropriate sequencing of actions. And to better respond to the rapid evolution of these networks, national Governments and international organizations alike will have to strengthen institutional coordination. This should extend to people-to-people networks involving academia, the private sector and civil society – which can influence the direction and effectiveness of intergovernmental cooperation.

Ultimately, national Governments must take the lead in forging regional connectivity, both by making the necessary changes in their national policies, as well as by actively participating in regional initiatives on connectivity. ESCAP can support their efforts by providing a neutral platform for frank and informed discussions among relevant stakeholders. In this regard, the multi-sectoral Expert Working Groups being established in accordance with the 2013 Ministerial Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific can help Governments to identify the best approaches for implementing these regional strategies.