

**Welcoming Remarks
By
Lim Hong Hin
Deputy Secretary-General of ASEAN for ASEAN Economic Community**

**ASEAN Europe Economic Dialogue
Connectivity within ASEAN and between ASEAN and Europe
11 December 2013, Jakarta, Indonesia**

Your Excellencies

Dr. Georg Witschel, Ambassador of the Federal Republic of Germany to Indonesia, Timor Leste and ASEAN

Ms. Corinne Breuze, Ambassador of the French Republic to Indonesia, Timor Leste and ASEAN

Mr. Andreas Rottger, First Secretary, EU Delegation to Brunei Darussalam, Indonesia and ASEAN

Distinguished Guests

Ladies and Gentlemen

Good morning.

It is my pleasure to welcome you to the ASEAN Secretariat, and to this session of the ASEAN-Europe Economic Dialogue on “Connectivity within ASEAN and between ASEAN and Europe.”

Yesterday afternoon, we discussed the importance of regional integration and trade in addressing global economic challenges from both ASEAN and EU perspectives. In particular, regional integration can help sustain growth in a weak and uncertain external environment. In the case of ASEAN, the relative

resilience of economies in the region has been partly attributed to greater intraregional trade and investment which helped to mitigate the impact of soft export demand and lower FDI inflows from advanced economies during the recent global crisis. Thus, a key challenge is to further enhance regional integration, maximise its benefits to ASEAN economies, and ultimately sustain economic growth and development in ASEAN.

We already know that a critical component in promoting regional integration is regional connectivity, which facilitates trade and FDI. As in other components of regional economic integration, ASEAN's approach to connectivity will expectedly be compared to, even benchmarked against that of the EU. Definitely, ASEAN can and has been drawing important lessons from the EU experience, given that ASEAN's regional economic integration agenda is fairly recent when compared to the EU. Also, the EU has been very supportive of ASEAN's connectivity agenda. But differences in our respective backgrounds, histories, endowments, socio-political structures and economic structures necessarily called for an ASEAN approach towards regional connectivity and integration that is uniquely our own. And as H.E. Olof Skoog noted in his opening remarks yesterday afternoon, "A single market is a process, not a milestone," which is true both for EU and ASEAN.

I. EU and ASEAN's Approaches to Connectivity¹

The EU of course represents the most advanced model of regional integration, particularly in terms of institutionalisation and institutional structure. EU's

¹ The discussion of EU's approach to regional connectivity draws on van der Geest and Nunez-Ferrer (2012). "Managing regional infrastructure: European Union institutional structures and best practices," Chapter 9 in Bhattacharyay, Kawai and Nag (editors), *Infrastructure for Asian Connectivity*, Asian Development Bank and Asian Development Bank Institute.

agenda with respect to regional infrastructure was a fairly recent addition² and a direct response to the needs of the single and integrated European market. That is, EU's regional infrastructure development formed part of the EU's overall efforts to improve the single market and support deep market integration. Deep market integration also facilitated regional infrastructure development by ensuring that the "soft" infrastructure necessary to make the "hard" infrastructure work properly was already in place. Finally, EU's legal framework enabled it to create specific regional institutional structures for infrastructure development. In particular, the 1992 Treaty of Maastricht, the European Commission and the European Investment Bank all enabled the EU to foster the development of transnational infrastructure through the development of Trans-European Networks and the necessary regional agencies.

In contrast to EU's top-down and highly institutionalised approach, ASEAN has undertaken a horizontal approach to regional integration and regional connectivity. That is, our decisions have largely been consensus-based, and our general approach is to adopt voluntary initiatives by sector without creating an over-arching legal framework of institutions and rules. Neither have we created independent regional institutional structures to implement our integration initiatives. Regional coordination and management functions are typically undertaken through advisory councils or committees with limited delegation of authority.

Without aspiring to follow the EU's regional grand design in shaping ASEAN's institutional structure to support regional integration and connectivity, there

² The European Regional Development Fund was established in 1975 with the aim of investing in infrastructure. But it was only during the time of Jacques Delors as President of the European Commission that a fully-fledged regional policy towards infrastructure development emerged in the late 1980s.

are still important lessons that we can learn from EU's development and management of transnational infrastructures. After all, EU also faced the key challenges that ASEAN is currently facing as it implements its regional connectivity agenda. In particular, EU also had to deal with the issues of large costs and building support from national governments. And the need for financial support for transnational infrastructure development grew significantly as EU admitted new member states with lower per capita incomes and less developed infrastructure. To us, the EU experience demonstrated the importance of garnering the political support of the affected countries, having in place a supportive institutional mechanism, as well as addressing the financial aspect in innovative ways.

II. ASEAN's Regional Connectivity Agenda

The Master Plan on ASEAN Connectivity was only adopted in 2010, which consolidates ASEAN initiatives related to connectivity in three dimensions: (i) physical connectivity, encompassing hard infrastructure in transport, ICT and energy; (ii) institutional connectivity, which refers to linking various international or regional agreements and protocols to facilitate international transactions of goods and services as well as the movement of natural persons across borders; and (iii) people-to-people connectivity. Thus, the Master Plan requires putting in place the "hard" or physical infrastructure such as transport (roads, rail lines, airports, and seaports), while also still putting in place the "soft" or facilitating infrastructure such as transport and trade facilitation policies. To implement the Master Plan, relevant ASEAN sectoral bodies coordinate the implementation of the strategies and actions under their respective purviews while the National Coordinators and the relevant

government agencies are responsible for overseeing the implementation of specific plans or projects at the national level. The ASEAN Connectivity Coordinating Committee provides overall coordination and oversight of ASEAN's regional connectivity agenda.

Simply put, the needs and challenges of ASEAN's connectivity agenda are great. But regional connectivity is not only an ASEAN agenda. Parallel efforts under various sub-regional cooperation programmes, which address physical, institutional and people-to-people connectivity in varying degrees, are also being pursued individually and collectively by ASEAN Member States. These sub-regional initiatives³, which were established ahead of the AEC in the early 1990s, are primarily supported by the Asian Development Bank both in terms of funding and coordination. ASEAN Dialogue Partners such as Australia, China, the European Union, Japan, the Republic of Korea and the United States have also made significant contributions.

The challenge is how to maximise the synergies among ASEAN and the subregional programmes, particularly in the context of the AEC which provides a regional framework for connectivity. In fact, the launch of the AEC in 2007 has led to some alignment of the strategies of the subregional programmes with the ASEAN agenda. In particular, there is a need to strengthen the institutional linkages in order to enhance management and coordination of regional and subregional initiatives, which the MPAC also recognises.

This is especially true in the area of financing of regional infrastructure projects. We note that even in EU, it was not possible to finance transnational infrastructure projects solely from national budgets. While the European

³ Notably the Greater Mekong Subregion (GMS), Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and Indonesia-Malaysia, Thailand Growth Triangle (IMT-GT).

Investment Bank has played an important role in developing and financing high quality projects, the development of Trans-European Networks has also relied on public- private partnerships (PPPs) and other new funding schemes. This is one example of specific process and project innovations undertaken by EU to develop regional infrastructure, which we can learn from and adopted even without EU's "deep integration" approach. We also recognise that domestic infrastructure investment requirements are still significant in many ASEAN Member States, which national governments alone cannot meet. Thus, there is a wide financing gap for the private sector to fill in ASEAN. Involving the private sector through PPPs will require an enabling environment to be established, including common legal and governance frameworks which are still missing particularly in the newer member states. In fact, it has been pointed out that "there is no real shortage of capital to finance development of ASEAN's multiple infrastructure sectors." More generally, the challenge is in "implementing strong legal and regulatory frameworks that are in harmony across member states" that will be "conducive to the development of supranational infrastructure"⁴.

While we depend primarily on the collective effort of ASEAN member states to implement cross-border infrastructure, we also recognise our need for the support of our dialogue partners and multilateral agencies. In particular, the role of the ADB in terms of providing the necessary institutional mechanism to facilitate PPPs and other new funding schemes will be critical in the absence of a regional institutional framework similar to what the EU has. In addition to its support of subregional initiatives, ADB also plays an important role in operationalising the ASEAN Infrastructure Fund, which currently amounts to

⁴ In page 32 of Infrastructure Investor: ASEAN Intelligence Report, April 2013.

USD 647.2 million. There is also the China-ASEAN Investment Cooperation Fund, which is a private equity fund initiated by the Chinese government in 2009 and focused on infrastructure, energy and natural resources in ASEAN and China.

The EU has also been very supportive of ASEAN's connectivity agenda. In particular, current ASEAN-EU cooperation programmes are focused on supporting the implementation of several strategies under two dimensions of connectivity, namely, institutional and people-to-people connectivity. For instance, the ASEAN Regional Integration Support from the EU (ARISE), which is the largest programme amounting to 15 million euros, is helping ASEAN to fully operationalise its three framework agreements on transport facilitation, improve customs procedures and facilitate trade. The ASEAN Connectivity Coordinating Committee (ACCC) is also exploring collaboration with the EU on the physical connectivity dimension through cooperation with the European Investment Bank and support from the EU Development Cooperation Instrument and Partnership Instruments. And we look forward to the proposed visit of the ASEAN Coordinating Council on Connectivity to EU in February 2014 to discuss and exchange lessons with their EU counterparts.

ASEAN will continue to engage Dialogue Partners and other external partners to enhance cooperation on regional connectivity. We will especially rely on EU's continued and deepening support – we believe EU's own experience in achieving regional integration and regional connectivity makes it an invaluable partner in ASEAN's own integration efforts. And a more integrated and connected ASEAN will make it a stronger partner for EU in addressing common global challenges that may arise in the future.

Thank you.