

# Conceptualising Asia–Europe Connectivity

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## IMPERATIVES, CURRENT STATUS, AND POTENTIAL FOR ASEM

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‘Connectivity’ has always existed. People have communicated and interacted across boundaries, for business, government purposes, and social activities from time immemorial. But the conceptualisation of ‘connectivity’ is recent. The English word can be found in the 19th century, but outside specialist fields, such as topology, its contemporary use derives from modern information and communication technologies (ICTs), especially the Internet. Its use in economic diplomacy is metaphorical but intuitive—the ‘state of being connected’ applied to agreements or understandings among economies.

Popularisation of the term ‘connectivity’ was especially linked to the Association of Southeast Asian Nations (ASEAN), leading to its Master Plan on ASEAN Connectivity adopted in Ha Noi in 2011. Significantly, it has the subtitle ‘One Vision, One Identity, One Community’. The link to community is not common in standard North Atlantic thinking. ‘Connectivity’, like ‘open regionalism’, ‘comprehensive and co-operative security’ and even ‘Asia Pacific’, has become a concept with a substantial Asian origin (Hawke, 2007).

The ASEAN approach to connectivity uses a context of community building and specifically the objective of ‘a well-connected ASEAN that will contribute towards a more competitive and resilient ASEAN, as it will bring peoples, goods, services and capital closer together’ (ASEAN, 2011). The Masterplan contemplates physical, institutional, and people-to-people components. The notions of connectedness and community building can be subdivided in various ways, but the core ideas have all been absorbed in thinking about economic integration in East Asia, which is prevalent among a larger geographical and human base than just ASEAN. Despite some differences in emphasis, they are also compatible with European thinking and, therefore, can be effectively utilised by the Asia–Europe Meeting (ASEM).

## Physical Connectivity and Infrastructure

There is no shortage of infrastructure need.

The World Economic Forum estimates that meeting global infrastructure needs will require investment of \$3.7 trillion annually, but the impact of this gap is best framed in human terms. There are more than 1.3 billion people worldwide who lack access to electricity due to underdeveloped electrical grids and a lack of generation capacity. One billion people live more than two kilometers from an all-weather road, making it difficult or impossible for many to reach a doctor, school, or market. Some 4.2 billion people do not have regular access to the internet, leaving more than half of the world's population without use of a powerful tool that not only enables education but also facilitates economic activity and keeping government officials in check. (Runde, Conor, and Rice, 2016).

A good deal of attention has been paid to the activities of the multilateral banks and the official development assistance programmes of individual and groups of governments. However, most enquiries produce similar conclusions such as 'Although there is a gap in financing, the key constraint is not lack of funding but rather a shortage of projects that have been planned and prepared to the point where they are ready for investment.' (Runde, Conor, and Rice, 2016).

Even in the context of ASEAN, when 'where money is not enough' is understood, the focus is likely to be on enforcement mechanisms rather than on the complexity and difficulty of finalising a project plan (Pitakdumrongkit, 2016). Infrastructure projects are inherently difficult as they seek enforcement mechanisms to compel compliance. All infrastructure projects are challenging as they require collective decision-making and an alignment of costs and benefits. When an infrastructure scheme crosses national boundaries, the problems are multiplied. Indeed, the challenge of managing an infrastructure project with international dimensions is above all reconciling the interests of those who benefit and those who bear the costs.

The economics literature tend to refer less to infrastructure and more to social overhead capital which has the advantage of highlighting the collective issues but also has the disadvantage of suggesting that the concept is inherently public sector. Conceptualising infrastructure within connectivity permits the core issue to be recaptured. The Master Plan on ASEAN Connectivity is one such example where infrastructure corridors imply that the proportion of project costs likely to be incurred in one country would be greater than the share of the benefits that accrue to it. There is a real opportunity for ASEM to stimulate studies of what processes and mechanisms offer most towards reconciliation of alignments of costs and benefits.

Current political economy debates seek a ‘new growth model’ by rejecting ‘export-led growth’ in favour of ‘consumption-led growth’. The valuable element in this is that consumption in China and other emerging economies in Asia will be a larger element of world consumption, and consumption in the United States and Europe will be a small component of world consumption than was the case in past decades. But it would be misleading to think that only consumption should be valued. Adam Smith was right that ‘Consumption is the sole end and purpose of all production’ (Smith, 1779) but that is a long-term proposition. Investment, including infrastructure investment, is a mechanism for shifting consumption from the present to the future. Determining the optimal ratio of investment to consumption, however, requires another collective decision. Choosing the right infrastructure projects depends above all on accurate identification of beneficiaries and cost bearers.

## Institutional Connectivity

At a practical level, all connectivity plans and projects, including infrastructure projects, will require ASEM to consider putting in place strategies, agreements, and institutional mechanisms to effectively realise ASEM connectivity, including those which facilitate economic and people-to-people connectivity.

Infrastructural or physical connectivity leads immediately into considering how connecting infrastructure could be used. Customs and immigration controls, and trade facilitation at the border are issues that come into focus. Requirements imposed on equipment, and transshipment and international operations lead to a demand for a more or less autonomous set of international regulations. Modern ICT adds to pressures for predictable and common requirements, as well as adding additional and preferably seamless cross-border activities. Monitoring additional characteristics of cross-border flows of goods and services, including the requirements to demonstrate the origins and transformations of all components of cross-border flows have widened the concept of logistics tremendously. Intercontinental movement of goods or services get weaker when served through national regulations. Interdependence of economies is best fostered under a common notion of institutional connectivity. Institutional connectivity is concerned with regulatory management, regulatory coherence, and regulatory coordination or cooperation.

However, the elements of institutional connectivity are fields of national regulation. Regulatory management is about keeping the stock of regulations up to date, ensuring that each regulation requires only what is sensible to be required, especially as and when technology changes, and doing so while imposing as little cost on the community as possible. Regulatory coherence is about ensuring that different regulations, with different purposes, do not interact to produce unnecessary frustration and cost. Regulatory coordination or cooperation is about securing the smooth operation of rules imposed by different regulatory authorities as goods or services cross national boundaries.

There will be various aspects to regulatory coordination and cooperation. They vary from simple provision of information, through informal and formal exchange of information, collaborative enquiry and enforcement, and mutual recognition of various forms of joint decision-making and enforcement. But always at the core is reconciliation of different objectives. Institutional connectivity presupposes risk management as boundaries between national regulations and international agreements remain highly contentious. As the international economy presses more firmly on national economies, led especially by modern ICT, the interaction of national regulatory systems and international agreements becomes more intense. Institutions such as ASEM could maximise the compatibility of competing objectives, without generating a lot of rhetoric about sovereignty and favouring corporations at the expense of citizens.

There are no easy answers across the whole range of institutional connectivity. But we can also be sure that interactions among ASEM economies provide opportunities for learning how specific issues of institutional connectivity can contribute to reconciling pressures emanating from international economic interdependence on national economic management. Starting from existing ASEM activities, such as its dialogue on education, offers great potential.

## People-to-People Connectivity

There is a great deal of concern in ASEAN about public knowledge on the ASEAN Community, just as there is concern in Europe over the extent to which the European Union is widely understood. Even on a smaller scale, understanding in Australia or New Zealand of the Closer Economic Relations Agreement that binds them is limited, and certainly much less than the score in the latest sporting contest. Public understanding enhances the durability of any policy institution, but most people engage only when their personal interests are at stake.

Nevertheless, the gains from economic interdependence are more secure when they are widely understood. Understanding is facilitated by knowledge, and that in turn is facilitated by exchanges among the people of participating countries. More prosaically, we might observe that person-to-person connectivity is intended to spread understanding of a common interest in regional issues and to promote willingness to take a regional perspective on the allocation of costs and benefits from regional cooperation projects.

Tourism and education are the major mechanisms of person-to-person connectivity. But there is also the whole field of ‘soft power’, drawing on common interests and shared understanding drawn from history, including the element of myth. This is very familiar to students of Europe from where the idea of the ‘European House’ was freely drawn as the European Economic Community, which was widened and transformed into the European Union. It is also familiar to students of ASEAN.

China's 'One Belt, One Road' project ensures that it will be a significant part of any ASEM pursuit of connectivity.

The now conventional idea of soft power focuses on how states and countries secure influence through the export of their own social and cultural goods. But this idea only partially captures what is at stake in One Belt, One Road. Reviving the idea of the silk roads, on both land and sea, gives vitality to histories of transnational, even transcontinental, trade and people–people encounters as a shared heritage (Winter, 2016).

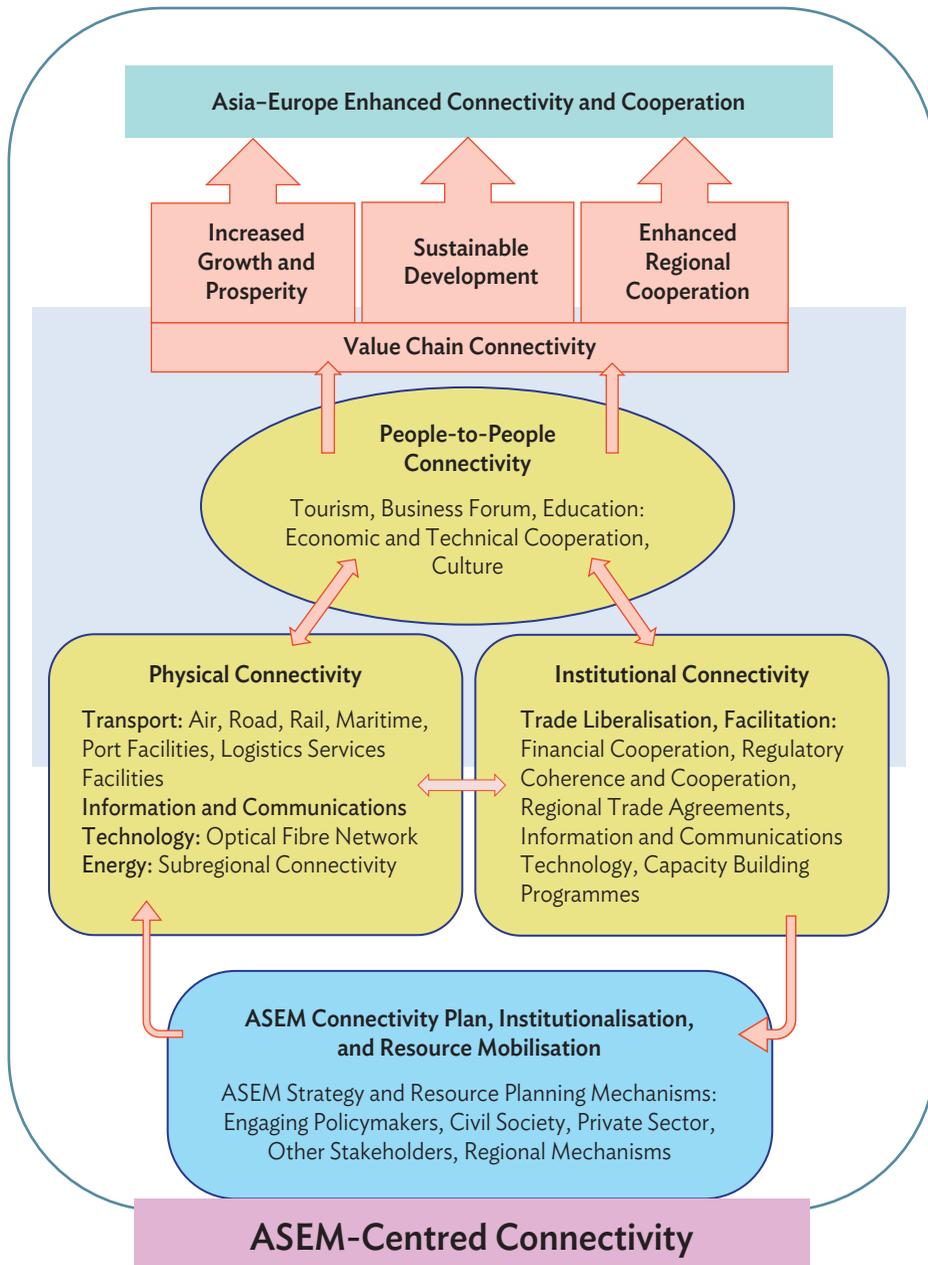
The history of conflicts may not disappear soon, but there is a common story of collaboration to be recovered. It already exists in the museums of Southeast Asia and it is being built in Central Asia through the recognition of the United Nations Educational, Scientific and Cultural Organization (UNESCO) of sites of Outstanding Universal Value and inclusion in its prestigious World Heritage List.

## Domestic Policy

Governments, whether members of ASEM or not, will not elevate connectivity above domestic policy objectives. They will, however, be responsive to synergies between domestic and regional agendas. China's 'One Belt, One Road' project exemplifies this. Other governments also may compromise to promote regional or international goals but they seldom give those goals top priority. The General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization (WTO) recorded and solidified unilateral decisions on tariff reduction rather than independently reduced tariffs. The same features continued as the integration agenda widened to subsidies, government procurement and investment, and eventually to the current concentration on behind-the-border issues. This is especially noteworthy as policymakers try to keep up with a world where ICT has promoted a new round of industrial fragmentation and production from components created in separate economies. All this happens even as new challenges lie ahead for policymakers to consider appropriate regulations and standards for a global e-market of goods and services. A policy focus on connectivity will be more fruitful if it is built out of existing domestic policy interests than if attempts are made to build it ab initio. ASEM would be wise to scrutinise its existing activities and deduce where there is most potential for extending the focus on connectivity rather than trying to start afresh.

ASEM will be celebrating 20 years of its existence in Ulaanbaatar in July 2016. After two decades, ASEM is at a junction when leaders will evaluate the results of this institution and set forth a vision plan that is responsive to the changing regional and global needs. Any ASEM effort for connectivity should be ambitious. The world of economic interdependence is changing quickly. A realistic plan for structural change will also entail management of change. There are many more advocates for change to be imposed on somebody else than there are volunteers to experience change. And connectivity requires change through collective thinking and action.

### An Indicative Interaction between ASEM Connectivity Pillars and Outcomes



Source: Adopted and modified from ERIA, 'A Conceptual Framework of ASEAN Connectivity: An ERIA Perspective', March 2010, Jakarta.

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