



# Asia–Europe Connectivity Vision 2025 Challenges and Opportunities

An ERIA–Government of Mongolia Document

Edited: Anita Prakash



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# Message

It gives me great pleasure to address the readers of the Study Report on Asia–Europe Connectivity. As a Mongolian, I am truly pleased that the ASEM (Asia–Europe Meeting) Summit will take place in Mongolia for the first time, a nation that geographically and historically has been a bridge between the two oldest continents—Asia and Europe. Mongolia joined ASEM and decided to host the next Summit in Ulaanbaatar as our nation’s modest contribution in strengthening connectivity between the two regions.



In recent years, connectivity has been a buzzword in the ASEM community and the international arena, and discussions over this concept have been evolving. Mongolia approaches this concept in its broadest interpretation. Connectivity in the ASEM framework encompasses not only tangible or physical infrastructure links between the two continents which include rail, highway, air, and maritime routes but also much wider non-tangible intertwining and links ranging from cultural, educational, spiritual, and even philosophical interaction between Asia and Europe. Our country seeks to further develop and expand Mongolia’s existing infrastructure links between the two continents and concrete projects are being implemented in this field.

The achievements in Asia–Europe connectivity should not be undervalued and belittled. Compared to 20 years ago, Asia and Europe enjoy a much greater degree of connectivity, thanks to conscious and intentional efforts made by ASEM partners.

I believe that ASEM should be a platform of dialogue not only between governments but also between business communities, civil society, academia, youth, and other stakeholders from Asia and Europe. We are truly pleased to see the continuation of ASEM-related meetings and activities involving various groups from both continents. Mongolia also supports ASEM’s principle of consensus and inclusiveness, and believes that these principles must be safeguarded and continued.

This July, ASEM will celebrate its 20th anniversary. It is a perfect time to reflect on the achievements and lessons from the past two decades and seek to project the future of Asia–Europe cooperation. I believe that fruitful discussions and effective decisions made by this Summit will greatly contribute to enhancing connectivity between the two continents.

A handwritten signature in black ink, appearing to read 'U. P. Lundeg'.

**Purevsuren Lundeg**

Minister for Foreign Affairs of Mongolia

# Foreword

**T**he Economic Research Institute for ASEAN and East Asia (ERIA) is very pleased to bring *Asia–Europe Connectivity Vision 2025: Challenges and Opportunities* to the Leaders of the Asia–Europe Meeting (ASEM), who are assembled in Ulaanbaatar for the 11th ASEM Summit 2016.



ERIA is a forerunner of connectivity-related studies in the ASEAN region. It has worked very closely with ASEAN and the East Asia Summit to develop the concept of holistic connectivity, which takes into account the physical, institutional, and people's aspect of connectivity in a community or region. Our insights into connectivity issues also derive from our continuous public engagements with varied stakeholders, and in many formats. Research and policy design, along with public dissemination of connectivity issues, are ERIA's forte. It gives me great pleasure to share this expertise, through this vision document, with the wider ASEM community.

Mongolia's relations with ERIA are deep and friendly, and the ASEM Connectivity Vision 2025 is a fortuitous outcome of this relationship. ERIA is deeply honoured to be requested by the Government of Mongolia to prepare this important document for the 11th ASEM Summit in Ulaanbaatar. We hope that this book will help the ASEM Leaders prepare the road map for ASEM Connectivity beyond 2016.

As the ASEM enters into its third decade, there is every reason to strengthen this group's efforts in bringing the people of Asia and Europe closer, and to integrate the two regions as deeply as possible. Towards this, ERIA will remain committed in providing all possible support and expertise that may be required to make the ASEM a responsive and creative platform for connectivity between Asia and Europe.

I believe that this book will contribute to the success of the 11th ASEM Summit in Ulaanbaatar.

A handwritten signature in black ink, reading "H. Nishimura". The signature is stylized and cursive.

**Hidetoshi Nishimura**

President

Economic Research Institute for ASEAN and East Asia

# Preface

**A**sia–Europe Connectivity Vision 2025: Challenges and Opportunities is an outcome of various fortuitous connections that all took place around the same time. Participating in the conference ‘ASEM at 20: The challenge of connectivity’ held in Brussels on 9 September 2015, on the sidelines of the ASEM Senior Officials Meeting (SOM), I came across the ideas and concerns of ASEM on the issue of connectivity between Asia and Europe, and the role that ASEM could play in fostering this connectivity. Placed within global developments of social and economic importance, a consensus outcome was to give ASEM a more responsive and significant agenda in bringing Asia and Europe closer through people, institutions, and even physical infrastructure.

The Government of Mongolia and ERIA, who share deep and friendly relations, came together for developing deliverables for the 11th ASEM Summit 2016 in Ulaanbaatar, and ERIA was requested to produce connectivity-related works for Mongolia’s chairmanship of ASEM. Recalling the outcomes of the conference in Brussels and measuring in ERIA’s expertise on connectivity-related work in the ASEAN and East Asia region, the two parties agreed to prepare a connectivity vision document which ASEM could use to develop its work plan and agenda for connectivity in the coming decade.

With the help of our wide research network and internal expertise, ERIA was able to finish this book in a short period, in time to address the 11th ASEM Summit in Ulaanbaatar. I am extremely grateful to all the academics and practitioners who contributed their ideas and research results for this book in a very short time. All the authors in this book are experts in their respective fields, and it is expected that ASEM will take due note of their recommendations towards connectivity and cooperation between Asia and Europe under ASEM.

As new challenges in the connectivity agenda continue to emerge, the ASEM Connectivity Vision emphasises the need for creating more opportunities for the people of Asia and Europe.

On behalf of ERIA, I would like to thank the Government of Mongolia for their generous financial support for preparing this book. The generous guidance of the Ministry of Foreign Affairs of Mongolia in developing this book is also appreciated.

I would like to acknowledge the contribution of David Taylor, New Zealand’s Ambassador to the European Union, and former Ambassador to Indonesia and ASEAN, who supported the concept of this book. I also want to thank Peter Kell, ASEM Senior Official for New Zealand and Deputy Head of Mission in New Zealand Embassy in Tokyo for providing valuable comments and insights into ASEM’s position, and outlook on connectivity.

This book would not have been brought out in time for the summit without the tireless contribution of Maria Priscila del Rosario, ERIA Chief Editor and Publication Director.

I expect that Asia–Europe Connectivity Vision 2025 will be embedded into the ASEM Connectivity plans in 2016 and beyond.

**Anita Prakash**

Director General, Policy Department  
Economic Research Institute for ASEAN and East Asia

Jakarta  
July 2016

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# Section One

## ASIA–EUROPE COOPERATION AND CONNECTIVITY: SETTING THE VISION TOWARDS 2025

### **Conceptualising Asia–Europe Connectivity: Imperatives, Current Status, and Potential for ASEM**

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### **The Global Scenario: Setting the Agenda for Greater Asia–Europe Cooperation and Connectivity**

WALTER KEMP, INDIRA  
ABELDINOVA, AND  
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# Conceptualising Asia–Europe Connectivity

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## IMPERATIVES, CURRENT STATUS, AND POTENTIAL FOR ASEM

**GARY HAWKE**, VICTORIA UNIVERSITY OF WELLINGTON AND  
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**ANITA PRAKASH**, ECONOMIC RESEARCH INSTITUTE  
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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).

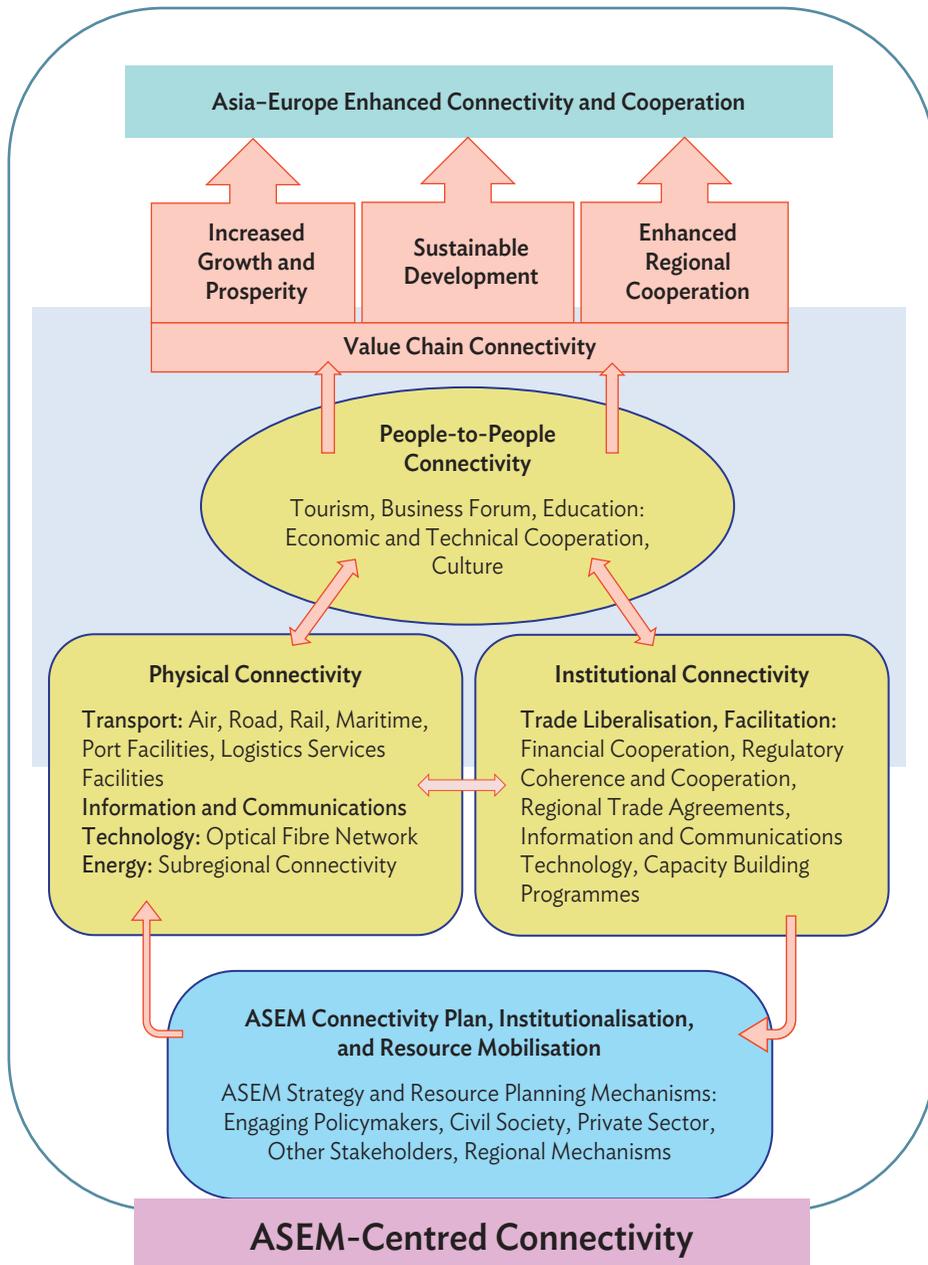
The history of conflicts may not disappear soon, but there is a common story of collaboration to be recovered. It already exists in the museums of Southeast Asia and it is being built in Central Asia through the recognition of the United Nations Educational, Scientific and Cultural Organization (UNESCO) 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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# The Global Scenario

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## SETTING THE AGENDA FOR GREATER ASIA–EUROPE COOPERATION AND CONNECTIVITY

WALTER KEMP, INDIRA ABELDINOVA, AND ARIUN ENKHTSAIKHAN,  
INTERNATIONAL PEACE INSTITUTE

### Threats and Challenges in an Interconnected World

The world is facing a complex and interconnected array of threats and challenges. Some are the result of interstate rivalries and geopolitical tensions. But most stem from non-state or transnational actors such as terrorist or criminal groups. Other threats and challenges like climate change, pandemics, violent extremism, cybercrime, and desperate migration transcend borders. States and multilateral institutions, which are used to operating in an interstate system, are being forced to adapt to rapid change.

No single country can cope with these challenges alone. Regional cooperation is essential. Yet most of the flows of money, people, ideas, and goods that shape international peace, development, and security go beyond single regions or continents. Therefore, since connectivity has become the norm for better (in terms of travel, communications, and financial markets) or for worse (through extremism, terrorism, and organised crime) states need to work together. When they do not, cooperation, trade, and stability are threatened to the detriment of all.

This chapter outlines contemporary threats and challenges, most of which are common to both Europe and Asia, with suggestions to promote connectivity between the two in order to deal with these threats and challenges more effectively together, and to unlock new opportunities.

### **Geopolitical Competition**

World order is under threat of a breakdown. The rule of law and the laws of war have become blurred due to unilateral actions by states, hybrid warfare, as well as the actions of non-state actors.

The Middle East is a battleground of geopolitical competition: among factions within states, between religious groups, between neighbouring states, and involving Great Powers. Syria, Libya, and Yemen as well as debates around the Iran nuclear deal demonstrate shifting political alliances, violent sectarianism, and the danger of extremism. Instability in the Middle East has implications well beyond the region: as a source of desperate refugees, as a magnet for young people joining the ‘Islamic State’, and as a theatre of conflict between outside powers.

That said, if enough powerful states realise a self-interest in reducing tensions, collective attempts to resolve some of the crises in the Middle East could promote cooperation among the Great Powers as well as regional rivals.

Rivalry between Russia and the West has reawakened memories of the Cold War. On the one hand, the crisis is more acute than in the past since the confrontation is unstructured, and there is a rattling of nukes, not just sabres. Military spending is on the rise. On the other hand, Russia and the West are more interconnected than before, particularly through energy markets.

In addition to political rivalry, there is a growing economic competition between the Western and Eastern halves of Europe. The enlargement of the European Union and the rise of the Eurasian Economic Union have created new dynamics among East European countries. The challenge is to ensure that these countries become a bridge between the Euro-Atlantic and Eurasian halves of the region covered by the Organization for Security and Cooperation in Europe (OSCE).

Geopolitical competition is also evident in Asia. The ongoing threat of nuclear proliferation in North Korea as well as tensions in the South China Sea creates a serious threat to stability in the region. But again, efforts to resolve some of these tensions—like in the Korean peninsula—are an opportunity to foster greater cooperation among the Great Powers. And as the world pivots to Asia, all countries—particularly those in the region—have both a self- and a collective interest to ensure stability and cooperation in order to promote further economic development.

## **Economic Connectivity**

Shifts in the geopolitical map have a major impact on economic development, and vice versa. The balance of economic forces has moved towards India and the Asian Tiger economies in terms of trade patterns, liquidity of assets, technological progress, infrastructure investment, private consumption, accumulation of labour and capital. While Europe continues to struggle with the legacy of the financial crisis and pressure on the euro, emerging economies in East Asia are expected to increase their GDP by 6.9 percent in 2018 (OECD, 2014), which could potentially create the fourth largest regional economy by 2050 (Groff, 2014).

However, China's recent economic difficulties show that it is not immune from the pressure of market economics and globalisation. In turn, the knock-on effect of China's economic downturn on other countries and commodity markets shows how interconnected economies have become.

Indeed, ASEM (Asia–Europe Meeting) member states represent more than 60 percent of international trade, half of the world's GDP, and more than 60 percent of the world population. The trend towards greater economic connectivity between Europe and Asia is expected to increase. For example, since the first signed Deep Integration Free Trade Agreement (FTAs) with South Korea (2011) and Singapore (2012), the European Union continues negotiating stronger economic integration with Japan, Malaysia, India, Viet Nam, and Thailand on such areas of cooperation as trade, services, investment, intellectual property protection, competition policy, and promotion of 'green growth' (EEAS, 2012).

## Food–Water–Energy Nexus

Connectivity relates to issues as well. Take the relationship between water, energy, and food. Due to increased pressures caused by population growth, urbanisation, consumerism, climate change, and growing demand for these finite resources, too many people on our planet lack sufficient access to water, energy, and food. It is estimated that 1.1 billion people live without access to drinking water (WHO/UNICEF, 2005), 1.2 billion live without electricity (IEA, 2015), and 1 in 9 people on earth is hungry. The trend is expected to get worse: it is projected that by 2030, the world will need 30 percent more water, 40 percent more energy, and 50 percent more food. Shortages of these vital commodities could cause social and political instability, conflict, and environmental damage at an unprecedented scale.

The relationship between water, energy, and food security needs to be looked at as a nexus rather than as individual, disconnected parts since one has a serious impact on the other. For example, overuse of water for energy can lead to shortages of water needed for agriculture, or the production of biofuels can cause shortages of food. Furthermore, the water, energy, and food nexus is not only a development issue; it underpins national and international agenda for cooperation, with an urgent need for global attention to this issue.

## Demographic Pressure

The world population is growing at a steady pace, and the trend is expected to continue, particularly in sub-Saharan Africa and South Asia. This growth needs to be managed in a sustainable way because without adequate socio-economic policies, population growth can lead to competition for resources, jobs, and living space as well as instability.

While Europe’s population is ageing and declining, the population of Asia (and Africa) is growing. Therefore, at different times, some countries will have to deal with the challenges of a large youth population, while others will have to cope with issues pertaining to an ageing population, viz. employment, healthcare delivery, public finances, and pensions.

This is important in order to sustain the achieved level of welfare and not to lose the effectiveness of existing social security systems. The issue is closely related to issues of urbanisation as well.

## **Maritime and Border Security**

Connectivity facilitates the movement of goods and people. However, increased trade also enables the growth of illicit activity and increases opportunities for piracy, while increased movement of peoples causes greater challenges for border management. ASEM states therefore face a common challenge to ensure that the benefits of connectivity are not threatened by those who disrespect borders or laws—whether on land, sea, or in cyberspace. This includes the need for greater cooperation against the trafficking of people, weapons, drugs, antiquities, and natural resources as well as the illegal movement of nuclear, chemical, biological, and other hazardous materials. Greater cooperation is also essential to counteract terrorist financing, money laundering, as well as to implement the UN Convention against Corruption.

Trade and good-neighbourly relations would also be facilitated by greater cooperation on issues related to maritime boundaries. Disputes in the South China Sea, the Caspian and the Arctic Seas demonstrate that ASEM countries need to contribute more towards resolving disputes related to issues of jurisdiction, ownership of coastal waters, and/or access to marine resources.

## **Health**

The recent outbreak of Ebola shows the ever-present danger of pandemics. The most vulnerable communities are usually most at risk. And yet—as witnessed by recent pandemics like SARS (Severe Acute Respiratory Syndrome), swine flu, avian influenza (since 2003), and Ebola—once a disease spreads, all countries can be affected.

The absence of political will or sufficient resources to invest in long-term structural reform of public health affects the well-being of the populations concerned—particularly the most vulnerable—and also reduces a country’s ability to respond quickly and effectively to a health emergency. This opens up a humanitarian gap that is usually filled by external assistance. While such assistance can help alleviate the short-term crisis, it does not address the deeper structural problems. Health should therefore be regarded as an investment rather than a cost—and it should be considered as a prerequisite for stability and development.

## Rapid Urbanisation

The world is becoming more urban. Within the past few years, it has crossed a threshold where now more than half of the world's population (3.5 billion) lives in cities. Indeed, roughly 200,000 rural migrants move to cities everyday (UN, 2009). This trend is projected to increase in the coming decades, particularly in Asia and Africa. By 2050, the urban population in Asia is expected to increase from 40 percent to 56 percent, while the urban population of Africa is expected to rise from 48 percent to 64 percent.

The number of megacities—which have 10 million or more inhabitants—is also rising. It is estimated that there will be more than 40 such megacities by 2030. Many megacities, such as greater Tokyo, New York, or Shanghai, have bigger economies than most of the countries of the Organisation for Economic Co-operation and Development (OECD).

Cities can be places of opportunity. When paired with facilitating infrastructure (UN, 2014), urban environments can improve living conditions, per capita income, health, and education. However, when mismanaged, urbanisation can result in inequality, the marginalisation of the poor, crime, pollution, and the proliferation of slums (UNFPA, 2016). The challenge—particularly in Asia—will be to make the most of urban advantages rather than risking the spread of failing neighbourhoods.

Furthermore, with more than half of the world's population living in cities, urban centres will be the main focus for implementing the Sustainable Development Goals. Habitat III in Quito in 2016 will be an opportunity to set a new urban agenda.

## Desperate Migration

One of the biggest contemporary challenges is the number of people who are on the move around the world either as refugees or migrants. It is estimated that there are currently 65 million displaced people in the world, the highest number since the Second World War (IPI, 2016).

The number of forcibly displaced increased fourfold in four years (UNHCR, 2015) with developing countries hosting 86 percent of the world's refugees. The disproportionate load being borne by developing countries, particularly those neighbouring Syria, is presenting major challenges to their societies.

At the same time, the large number of refugees and migrants trying to enter the European Union is creating major challenges in terms of border management, eroding solidarity and inclusion. Asia is also grappling with the challenge of harbouring 3.5 million refugees, 1.9 million internally displaced people, and around 1.4 million stateless persons (UNHCR, 2015). In particular, the plight of the Rohingyas has caught the world's attention.

With a growing world population, increasing inequality, climate change, urbanisation, and protracted conflicts in a number of fragile countries, the phenomenon of desperate migration and displacement is destined to get worse if it is not holistically addressed.

Labour forces are becoming more mobile. Indeed, migration is the norm, and people often travel—particularly within their region—to seek better opportunities. For example, around 43 percent of Asian migrants dislocate within the same geographic zone (IOM, 2012). However, the rights of migrant workers and their families are often insufficiently protected. This is a growing challenge as an increasing number of people are on the move. Movement of people remains fundamental to any Asia–Europe cooperation plan.

## Youth and Women

In Africa, 60 percent of the population is 24 years or under; similarly, in the Middle East, young people under the age of 24 account for 49 percent of the population. Yet despite this ‘youth bulge’, the composition of decision-making bodies fail to reflect the population, which creates barriers in bringing policies to the table that address the specific needs of the underrepresented groups.

The existing barriers to effective participation of youth and women disenfranchise a major proportion of society and undermine development. States are losing a significant portion of their labour force, which drives unemployment and sinks women and youth either to lower social positions (Beleva, 1997) or to a state of dependency or marginalisation. This can lead to a reduced sense of self-worth and, in extreme cases, to radicalisation.

The full potential of women can only be realised by addressing their fundamental needs—ensuring freedom from security threats and linking the women, peace, and security agenda to their social and economic advancement. Similarly, young people need to be empowered, educated, and employed to be able to realise their potential. ASEM can provide a platform for greater connectivity between youth in Asia and Europe.

## Rise of Violent Extremism

While violence and conflict over the past half-century are on a downward trend, there is an unprecedented spike in terrorist attacks. Fragile and failed states serve as breeding grounds for violent extremism as the marginalised populations are targeted for recruitment, either through force or by offering incentives and economic opportunities to which their access has been limited through exclusionary governance systems, frustration, or lack of opportunities.

Recent terrorist attacks in Afghanistan, France, Belgium, Indonesia, Tunisia, Turkey, and Pakistan show that no country or city is immune from the threat of terrorism. The rise of the ‘Islamic State’ in particular poses a serious threat to security. It has grown quickly beyond its base around Iraq and Syria, has proven resilient, and is a magnet attracting many young people from around the world to its cause.

With the use of social media and other digital platforms as a recruitment and communications tool between the headquarters of extremist groups and group members, physical proximity between leaders and followers is rendered irrelevant.

The reaction to terrorist attacks and fear of ‘otherness’—for example, caused by refugees and migrants—is causing a rise in homegrown extremism and growing support for xenophobic parties and movements. This is further opening the cultural divide that harbours the ‘ethnic-religious identity politics’ (ICM, 2015) that gives rise to extremism.

## Humanitarian Crises

The current funding structure for humanitarian assistance, all too often in competition with development funding, is struggling to adapt to the changing nature of armed conflict, both in terms of intensity and duration. In 2016, the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) estimated that 125.3 million people will be in need of humanitarian aid, of whom, with the required \$20.1 billion in funding, 87.6 million will receive assistance (UN OCHA, 2016). Despite the record-high funding for humanitarian assistance, barriers set by politicisation, poor compliance, and lack of accessibility to conflict zones continue to perpetuate the funding gap.

Under international humanitarian law, intergovernmental aid agencies are mandated to protect non-combatants during armed conflict, a task that can range from monitoring the means and methods of warfare to the treatment of refugees and internally displaced persons and the prevention of sexual violence by armed groups. Just as quickly as the funding gap expands, so rapidly does the gap grow between the capacity of humanitarian assistance and the demand for it, as a result of which funding for preventative action—although less costly and more effective—drops further down on the list of state priorities. There seems to be an increased danger of a ‘falling back’ on short-term humanitarian response in addressing the fallout of armed conflict as a substitute for political solutions (ICM, 2016). As a result, the emphasis of humanitarian assistance, and the peace and security agenda in general, should shift to prevention and how to promote sustainable peace following the old adage that an ounce of prevention is worth a pound of cure.

## Rewards of Asia–Europe Connectivity

Many of the threats mentioned above are common to Europe and Asia. Furthermore, as long recognised by ASEM, European and Asian countries have a common interest in working in partnership to maintain peace and security and to create an enabling environment for prosperity. To that end, the current world situation affords, as well as necessitates, enhancing connectivity in a number of areas.

### Infrastructure Development

Asia is in the midst of a period of major economic growth. This growth has been enabled by globalisation, technological innovation, and national planning. In turn, it has increased incentives for greater connectivity, including between Europe and Asia.

Most cargoes between China and Europe move by sea, rather than through the old Silk Roads. This has required major investments in port facilities and new fleets for handling more containers as well as liquefied natural gas—and further investments are needed.

A corresponding investment needs to be made in opening up land routes, particularly for landlocked countries. This is both a question of infrastructure development (road and rail links as well as energy connectivity) and lowering the barriers to trade.

This will open up transit corridors from East to West, North to South linking Europe and Asia—with benefits for all countries in-between. ASEM can be a catalyst in this process which is already being driven by major state investors (like China), regional organisations and initiatives (like the Silk Road Economic Belt and the Maritime Silk Road), the Asian Highway Project of the Asian Development Bank (ADB), as well as the Asia Infrastructure Investment Bank (AIIB) and other financial institutions. These main arteries will feed into, and be fed by, other capillaries such as the China–Pakistan Economic Corridor as well as energy pipelines like the Turkmenistan–Afghanistan–Pakistan–India pipeline or the Trans-Adriatic and Trans-Anatolian pipelines.

### State–Society Relations

In recent years, there has been a trend in many parts of the world towards strains between the peoples and their leaders. This, of course, is a centuries-old challenge of how to find a balance between the interests of the state and its citizens, between order and freedom, between government and society. The complexity of governance has been increased by the spread of information through increased use of the Internet and social media, and the threat of terrorism (and reactions to it).

The challenge is therefore how to promote healthy state–society relations. Today, most countries recognise the priority of international human rights law, including equality and non-discrimination, adequate housing, social security and education, personal integrity, freedom of expression. This is not only the law; it is a key to social harmony.

Countries in Europe and Asia have a joint interest in ensuring openness, but in preventing openness from jeopardising security. Cooperation is therefore essential in fighting crime, the use of information, cyberthreats, preventing violent extremism, fighting corruption, and promoting frameworks for participative governance, and the empowerment of women and youth.

## Technology Innovation

Technological innovation is growing at an exponential rate, proving to be an invaluable resource for connectivity and a catalyst for development. For example, over the past half century, computer processing power has doubled every two years. The number of mobile phone subscriptions has jumped from 2.2 billion in 2005 to almost 7 billion today.

Used with the right intentions, technology can prevent conflict and promote peace through surveillance, big data collection, and analysis. And it can create even more opportunities for innovation. With almost half of the population having access to the Internet, there is potential for timely reporting, both of long-standing issues as well as real-time human rights and humanitarian violations. Technological innovation fosters synergies that offer increased opportunity for capacity building across regions and the easier transfer of knowledge, which diminishes the need for on-site assistance—an often-denied necessity during armed conflict. Ease of access to unfettered information also allows for an increased participatory role for citizens, as the use of social media becomes a primary tool to mobilise public opinion (IPI, 2016).

At the same time, technological innovation is taking us into a brave new world of robots, automated weapons systems, cyberthreats, and artificial intelligence. We are only beginning to understand the implications of this trend.

## Disaster Risk Reduction

Climate change and global warming are twin threats to the planet. Furthermore, natural disasters are becoming more frequent and more severe, and there is the constant danger of man-made disasters. Climate change is even causing displacement.

Therefore, it is essential for states to work together to prevent climate change. Furthermore, states should work together to implement the Sendai Framework for Disaster Risk Reduction,

both in terms of strengthening national resilience and in sharing technical expertise. States should also do more to pool military and civil defence assets and train personnel for emergency response.

## Meeting Sustainable Development Goals

The adoption of the 2030 Agenda for Sustainable Development Goals reveals the interconnected nature of 21st century challenges and the need for a joint response in achieving the goals set forth in the agenda. The 169 targets under the 17 goals create a web of interconnectivity that allows for the simultaneous development of economies and societies and eradication of inequalities and crises.

The agreements on the agenda and on slowing down climate change at the Climate Change Conference (COP 21) in Paris in December 2015 show that collective action can work. The challenge now is implementation. This can be enhanced by interregional cooperation, both for peer pressure and exchange of good practices.

Achieving these goals will require significant financial resources. This will require mobilisation of capital not only from governments but also from development banks and the private sector—all of which share an interest in investing in a sustainable future.

Energy plays a key role in development, which is why it has been added to the Sustainable Development Goals. Expo2017 in Astana, on the theme ‘Future Energy’, will be a good opportunity to showcase good practices, green technologies, and to enhance sustainable energy connectivity between Europe and Asia.

## Connection through Cooperation

### Strengthen the Links between Europe and Asia

To summarise, in the same way that global threats and challenges are interconnected, there needs to be a connectivity of responses.

Building connectivity by creating new economic opportunities should cement countries’ interests into a common future. Greater cooperation between East and West will build peace and prosperity, connect states and cities, and strengthen economic growth.

The challenge, in particular, is to unlock the potential of the countries and regions that link Europe and Asia: like the Caucasus and Central Asia. Cooperation around the Black Sea and the Caspian Sea as well as in the context of the Istanbul Process can reduce trade barriers,

improve communications, create a friendlier investment climate, foster trade, improve infrastructure, increase energy security, attract tourism, and build confidence among the parties. Promoting stability and development in these regions will improve their livelihoods, and unclog the arteries between Europe and Asia to create even greater creativity.

ASEM has shown for the past 20 years that it can be a catalyst for connectivity. Enhancing Europe–Asia partnership will become increasingly relevant to deal with threats and challenges as well as to take advantage of opportunities in an increasingly interconnected world.

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# Section Two

## PHYSICAL CONNECTIVITY

### **Why Do Asia and Europe Need More Connectivity? Some Ideas from the European and ASEAN Experience**

ALICIA GARCIA HERRERO AND JIANWEI XU  
BRUEGEL

### **Physical Connectivity between Asia and Europe: A Mongolian Perspective**

TUMURPUREV DULAMBAZAR  
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NATIONAL SECURITY COUNCIL  
OF MONGOLIA

### **Asia-Europe Connectivity: Current Status, Constraints, and Way Forward**

RAM UPENDRA DAS  
RESEARCH AND INFORMATION SYSTEM  
FOR DEVELOPING COUNTRIES

### **Developing Sustainable Connectivity in Energy: Lessons from Trade of Electricity in ASEAN**

YANFEI LI  
ECONOMIC RESEARCH INSTITUTE  
FOR ASEAN AND EAST ASIA

# Why Do Asia and Europe Need More Connectivity?

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## SOME IDEAS FROM THE EUROPEAN AND ASEAN EXPERIENCE

ALICIA GARCIA HERRERO AND JIANWEI XU, BRUEGEL

**A**sia and Europe require greater physical connectivity and the models for such connectivity are embedded in both Europe and Asia. The Association of Southeast Asian Nations (ASEAN) and the European Union bring regional experience to the issue of creating a framework for connectivity between Asia and Europe. ASEAN has championed a model plan for connectivity. There is a growing need for greater convergence in connectivity within Asia, particularly in ASEAN. Other regional connectivity platforms are emerging, bringing the focus on converging various connectivity channels between Asia and Europe.

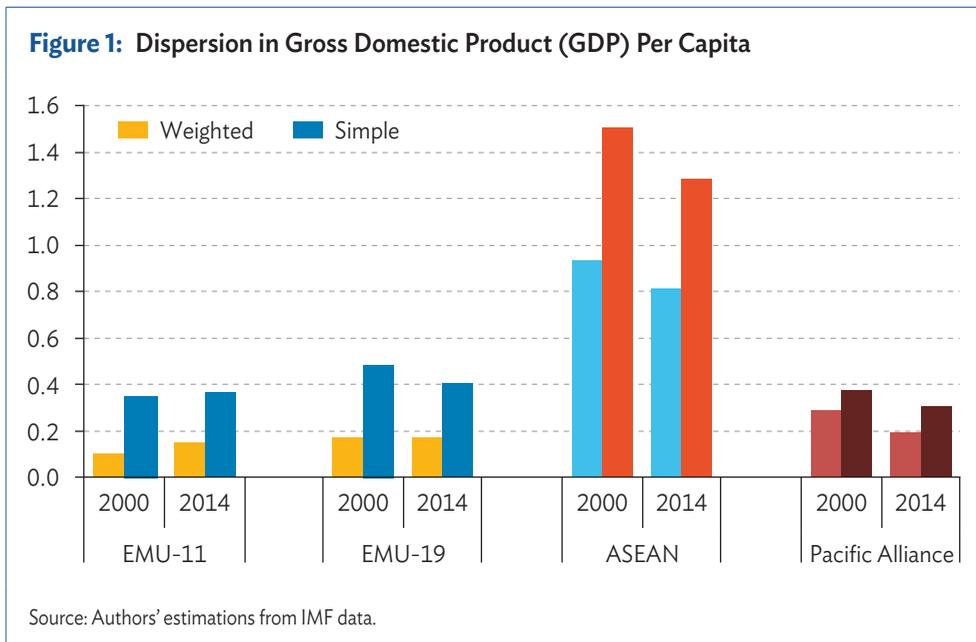
### The ASEAN experience in connectivity

One could easily draw similarities between ASEAN (Association of Southeast Asian Nations) and the European Union in terms of economic integration. Despite a significant difference, which is the single currency, the four pillars of the ASEAN economic bloc—creating a single market and production base, maintaining competitiveness, creating equitable economic development, and integrating into the global economy—are also the goals the European Union wants to achieve.

ASEAN is strategically located at the Strait of Malacca, a key shipping lane in the world, and has evolved as one of the fastest-growing consumer markets and manufacturing hubs, serving as tailwind of economic development. However, things may not all come together so easily and ASEAN faces headwind internally from income divergence due to poor infrastructure quality, and externally from the competition caused by development of other trade routes, such as the Eurasia links and Gwadar port in Pakistan, which could bypass the ASEAN landscape. Therefore, it is important for ASEAN to unlock its growth potential by improving connectivity to keep itself in the global value chain.

## Integration needs real convergence, but reality remains very far

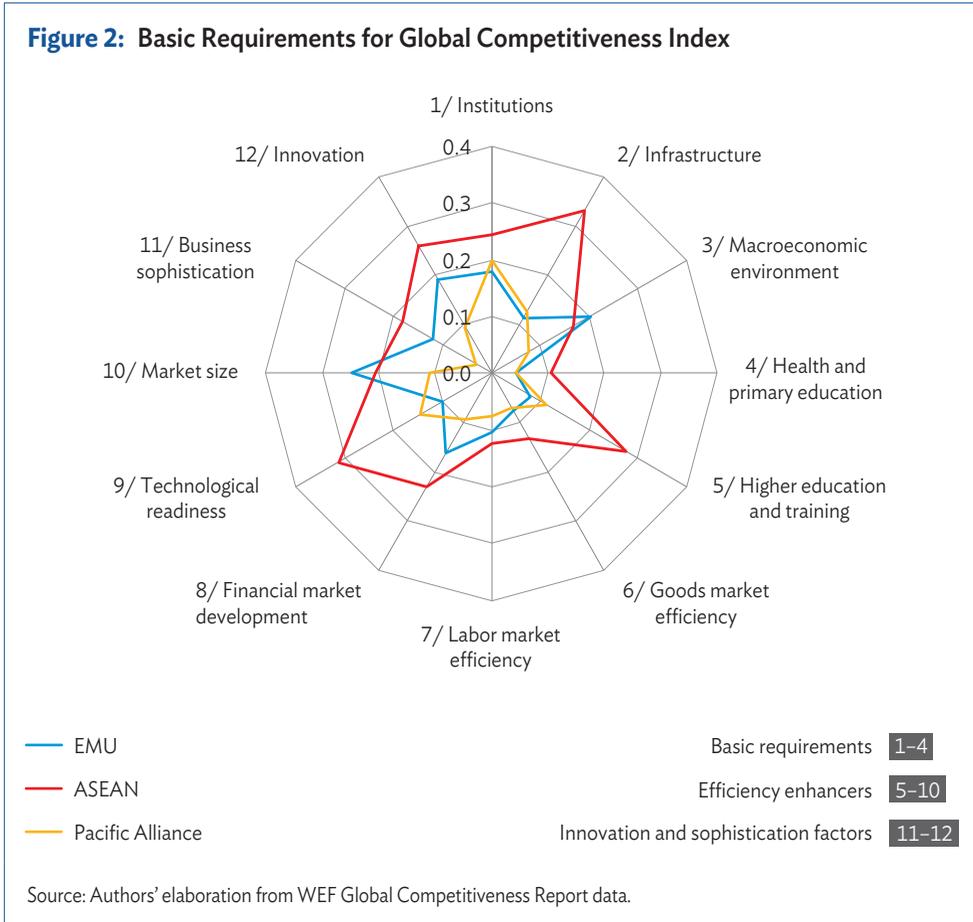
Convergence is about raising income and productivity. Despite sharing the same promising growth potential, ASEAN countries are at different stages of development, which also results in divergence in income. We measure in real terms the dispersion of gross domestic product (GDP) per capita adjusted by its mean—i.e. the coefficient of variation. Although there are positive developments in terms of real convergence, dispersion in GDP per capita in ASEAN remains very high and levels are significantly above EMU-11<sup>1</sup> (Figure 1). The stage of development of some of its members is on the antipodes: Singapore and Brunei Darussalam average more than 70,000 PPP (purchasing power parity)-adjusted US dollar per capita, whereas Cambodia, Lao PDR, Myanmar, and Viet Nam do not even reach US\$6,000.



## Infrastructure is the key behind high divergence

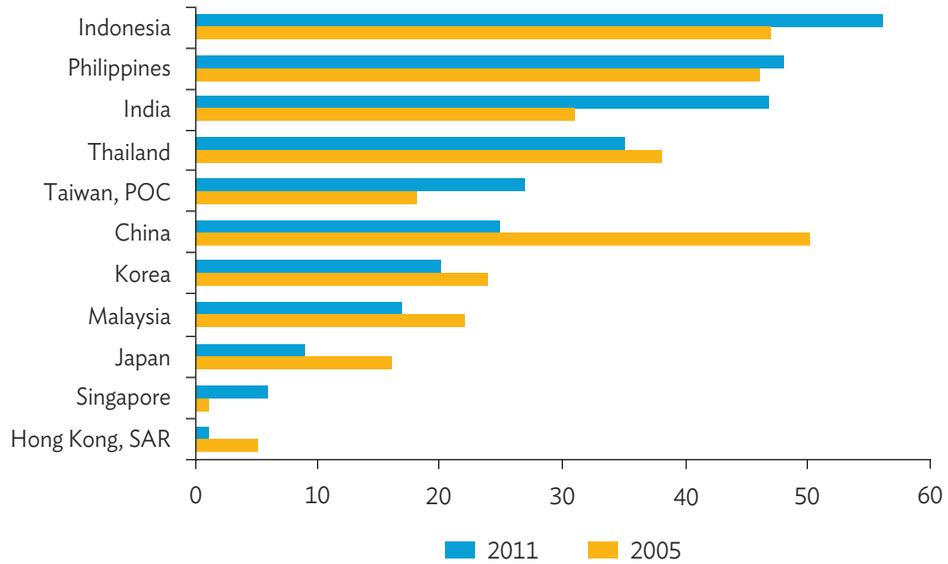
ASEAN has enjoyed sound economic growth in the last decade; yet, why is the divergence higher than the EMU? Among all factors, infrastructure is the key reason. The World Economic Forum releases every year the Global Competitiveness Index composed of basic requirements, efficiency enhancers, and innovation and sophistication factors.

<sup>1</sup> To enhance economic integration, eleven European countries formed the Economic and Monetary Union (EMU) and adopted euro as the single currency in 1999.



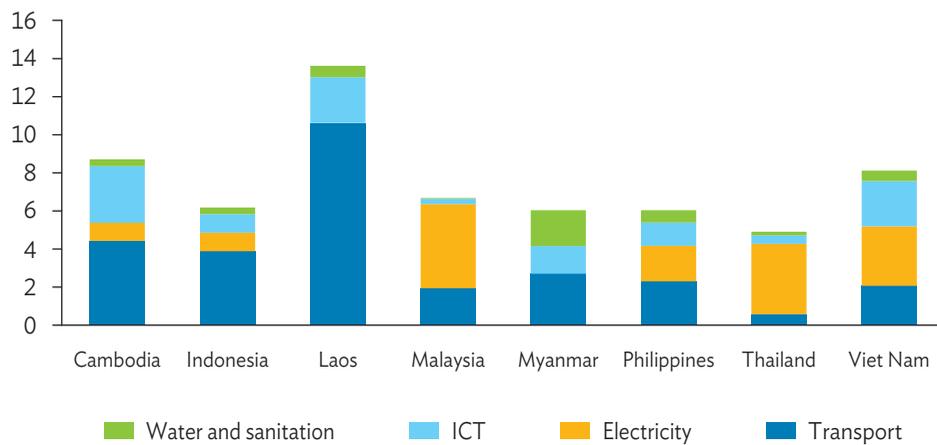
According to the assessment, ASEAN shows a large degree of dispersion, significantly above readings for the EMU. This diagnostic is particularly true for infrastructure (Figure 2).

The quality of infrastructure is generally low in ASEAN, except Singapore, and has fallen relative to global peers, especially when comparing to the huge improvement in China (Figure 3). The need for infrastructure investment of ASEAN countries range from 5 percent to 13 percent of their GDP, and transportation is the sector that most needs such investment. Lao PDR, a landlocked country, needs 11 percent of its GDP for transport investment, whereas Indonesia needs 4 percent of GDP and is likely to be the largest spender due to its economic size (Figure 4). The latest estimate by the United Nations Conference on Trade and Development (UNCTAD) has confirmed the needs of investment in transport infrastructure in ASEAN. An annual investment of US\$110 billion is needed in ASEAN in 2015–2025, and half of the amount is dedicated to transportation (Figure 5).

**Figure 3: Basic Infrastructure Ranking**

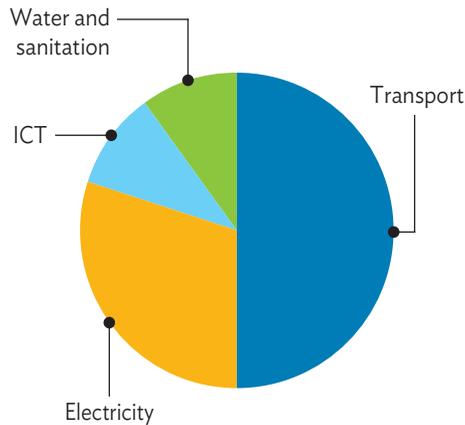
Note: A lower ranking indicates a better score out of 51 countries in 2005 and 59 countries in 2011.

Source: IMD, *World Competitiveness Online*.

**Figure 4: Projected Infrastructure Investment in ASEAN (2010–2020, % GDP)**

Sources: ADB, Natixis.

**Figure 5: Projected Infrastructure Investment in ASEAN (2015–2025, US\$ billion)**



Sources: UNCTAD, Natixis.

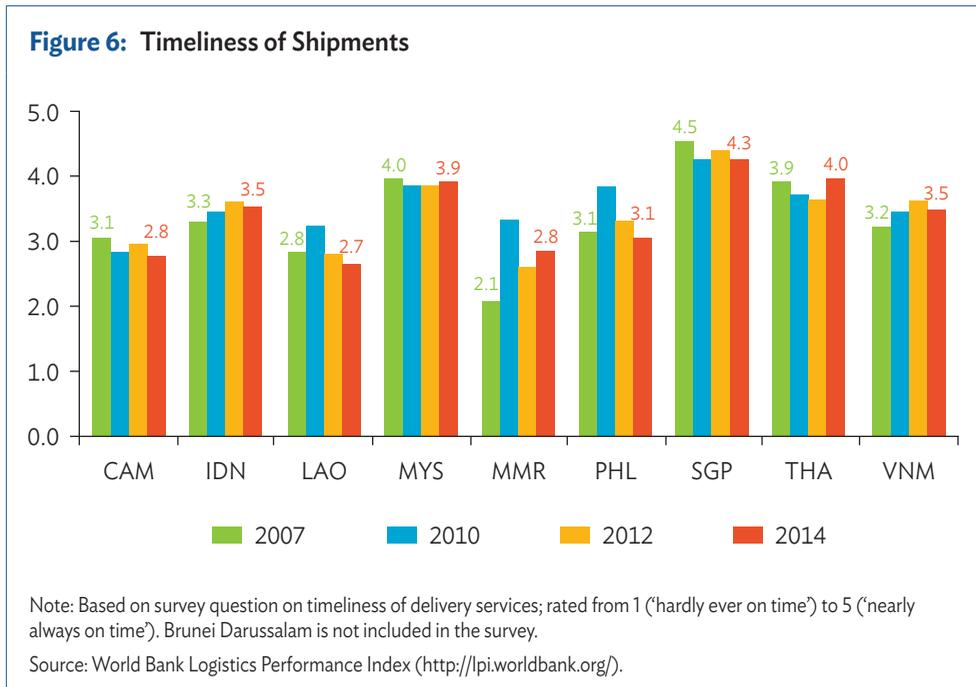
## What has been done for connectivity? Europe and Emerging Asia

In 2014, the European Commission launched its ‘investment plan for Europe’, the Juncker Plan, announcing the mobilisation of an additional €315 billion in public and private investments over three years (2015–2017). The key of the Juncker Plan is that the newly created fund—namely, the European Fund for Strategic Investments—will provide credit protection and mobilise capital for additional risk financing; in other words, fostering private investment.

Europe has been proactive in developing infrastructure and improving connectivity. The Juncker Plan has attracted China’s interest and the European Bank for Reconstruction and Development (EBRD) has approved China’s membership. Although we do not have all official statistics reporting the railway time from China to Europe, *China Daily* has reported that it takes 16 days to transport from Chongqing, the inland China city, to Duisburg in Germany whereas 36 days are needed for the sea route from Shanghai through ASEAN and Middle East. The Eurasia Railway under the Belt and Road Initiative will likely shorten the time cost between Europe and Asia.

ASEAN has also launched its Master Plan on Connectivity. Internally, after the progress in eliminating tariffs within ASEAN, intra-ASEAN trade and foreign direct investment have increased at a faster pace. The quality of infrastructure has now become the key to lower trade costs for economic integration and trade facilitation. Projects on railway have speeded up in Indonesia, Lao PDR, and Thailand.

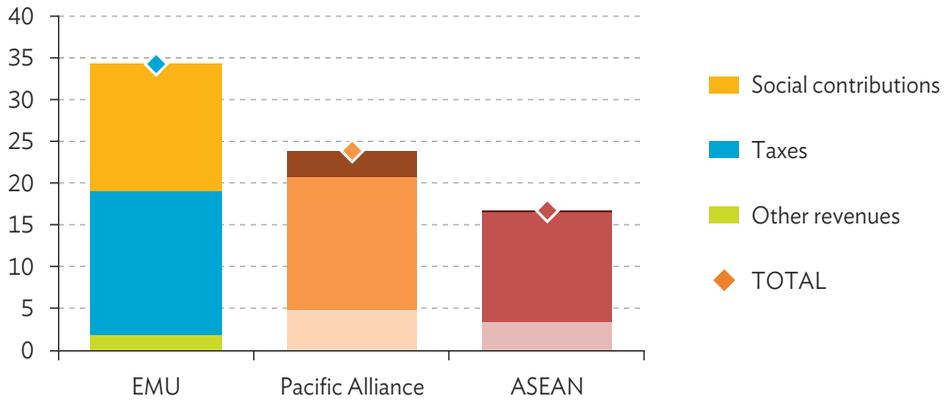
Timeliness of shipments (Figure 6) is a good proxy to measure the progress of ASEAN connectivity; an improvement in average delivery timeliness between 2007 and 2014 is observed in Indonesia, Myanmar, Thailand, and Viet Nam, but the level is still far from more developed logistics hub such as Singapore.



## How to do it?

If further investment on infrastructure is essential, how does ASEAN fund the needs? We argue that the fiscal room of ASEAN countries is rather limited and therefore public-private partnership is essential to its success (Figure 7). Private participation has generally increased in more developed countries but the ratio remains low in less developed ones (Table 1). Asia clearly needs to expand the participation of private investors in its infrastructure projects. Multilateral organisations can help but they will not be able to fill the gap.

**Figure 7: Comparison of Fiscal Revenues**



Source: Authors' elaboration from BIS and World Bank data.

**Table 1: Gross Fixed Capital Formation**

	2000–2004		2005–2009		2010–2014	
	Value	Private (%)	Value	Private (%)	Value	Private (%)
Indonesia	131,560	87	180,598	89	251,255	91
Singapore	15,866	76	44,193	84	72,452	82
Malaysia	28,757	44	38,475	54	61,610	59
Viet Nam	20,220	71	32,108	71	33,519	67
Thailand	29,936	69	25,825	74	33,366	78
Philippines	3,892	87	19,795	87	30,492	86
Myanmar	3,892	57	5,480	57	10,014	55
Cambodia	758	64	1,217	67	1,820	56

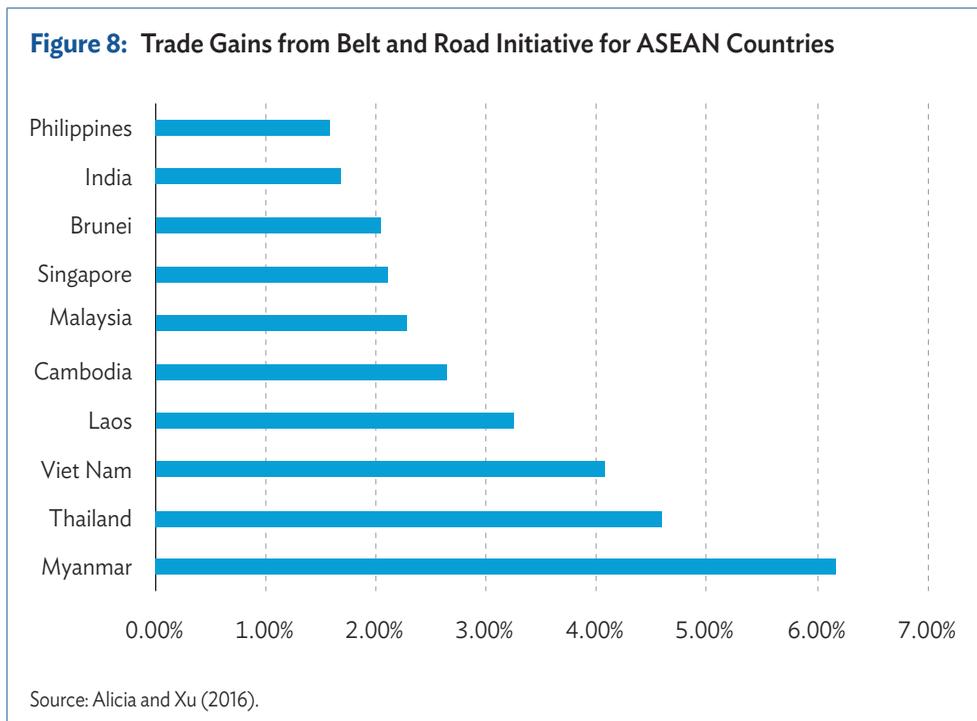
Source: Asian Investment Report, Natixis.

## The specific case of the Belt and Road Initiative and how it may affect Emerging Asia

Since 2013 China has embarked on the Belt and Road Initiative to boost connectivity with 64 countries by building infrastructure and facilitating trade. Most initiatives are immature compared with the ASEAN Master Plan, but China's switching its diplomatic focus to neighbouring economies is a positive sign.

Given the high cost involved in connectivity associated infrastructure investment, China's participation will introduce a potential source of funding for infrastructure investment in the ASEAN region. Additionally, China has accumulated rich experience in investing in railway, road, and natural gas establishment that she could share with ASEAN economies. The convergence of the Belt and Road Initiative and the Master Plan on Connectivity would, therefore, inevitably attract more Chinese firms to invest in the area and accelerate the implementation of enhancing connectivity for ASEAN.

Moreover, the Belt and Road Initiative also provides new opportunity for ASEAN to extend its connectivity towards other regions, i.e. Europe. The final objective of China's ambitious initiative is to build a seamless trade network extending from Asia to Europe. If completed, the trade cost prohibiting exports from ASEAN manufacturers to Europe would be sizeably eliminated. Conservative estimates stemming from an empirical exercise conducted by Garcia-Herrero and Xu (2016) indicate that reduced transportation costs from the Belt and Road Initiative can increase trade for ASEAN countries by at least 2–6 percent (Figure 8). The real benefit from the initiative could be even higher if we were to take into account its interaction with the Master Plan and the associated financial assistance.



## General blueprint: Asia–Europe Connectivity

Enhancing physical connectivity of ASEAN countries is part of the expansion of transportation infrastructure in Asia. The United Nations initiated the Asian Highway Network in 1959 and finally reached an endorsement of the Asian Land Transport Infrastructure Development project in 1992. Stepping into the 21st century, ASEAN, China, India, and West Asian countries have successively launched their own connectivity plan to promote trade in the region.

In 2015, China, Russia, and Mongolia agreed in principle to build a ‘Steppe Road’ in Mongolia to revive a premodern transport network that facilitates trade between China and Russia, a sign that the future of the current Asian connectivity will be finally extended to Europe. Along with Europe’s Juncker Plan, the prospect of seamless Asia–Europe connectivity is already on the way.

Against this backdrop, the infrastructure investment of ASEAN is not only advantageous to foster trade and investment within the region but also creates opportunities for ASEAN to take part in external competitions in other Asian regions and the European markets.

## Outlook

Internally, better connectivity could lower trade cost and facilitate investment.

Externally, physical connectivity from Asia to Europe will bring new opportunities and external competition to both regions. New infrastructure plans such as the Belt and Road Initiative and institutional structures such as the Asian Infrastructure Investment Bank (AIIB), aimed at improving regional and international connectivity through infrastructure upgrade, will likely bring benefits. All in all, improvement in physical connectivity will inevitably reshape trade and investment patterns between Asian and European economies. Physical connectivity will also bring people across the continents closer. Thus, it is crucial that the Asia–Europe Meeting not only enhances but also facilitates greater physical connectivity through multilateral connectivity plans to explore new opportunities.

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# Physical Connectivity between Asia and Europe

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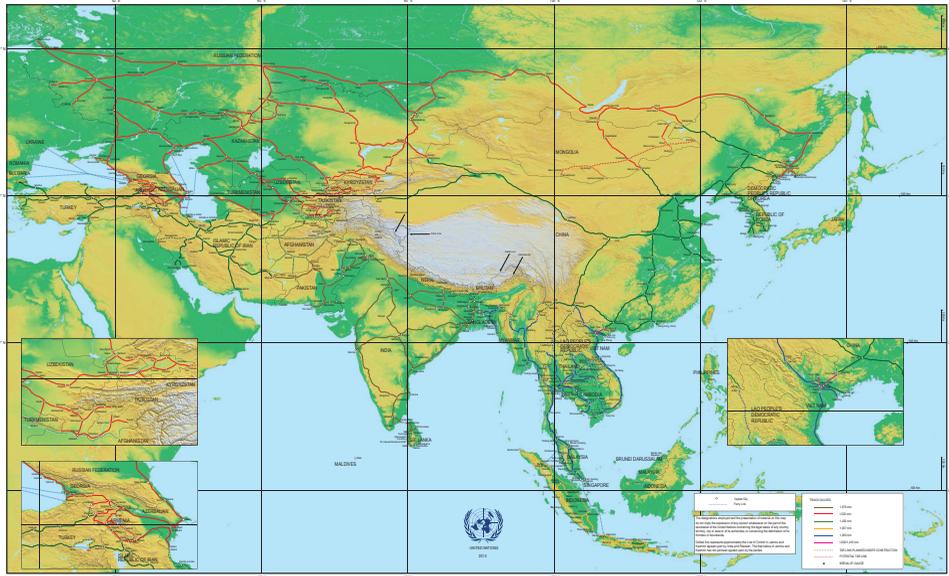
## A MONGOLIAN PERSPECTIVE

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Mongolia is a landlocked and mineral-rich country, sandwiched between two major countries: Russia and China. Currently, Mongolia's foreign trade is mainly carried with the two neighbours and is highly vulnerable to the volatility of mineral prices. It is recognised that development of key infrastructure, such as rail and roads, will contribute to Mongolia's global integration, diversification of its economy, and sustainable development. Since Mongolia's key sector is mining, transportation issues hugely influence economic efficiency. According to statistics, transportation costs alone account for 18 percent of export expenses and 11 percent of its imports. Transportation challenge hugely impacts our economy and reduces its competitiveness in the world market.

The majority of Mongolian imports and exports are carried by railway, both within the country and in neighbouring countries. The main railway section of the Mongolian Railway is a trunk line between Sukhbaatar on the Russian border, through Ulaanbaatar to Zamyn Uud on the Chinese border, and has a distance of about 1,400 kilometres (km). The Mongolian Railway company carries almost 80 percent of all freight and 30 percent of all passenger transport within Mongolia. Mongolia's railway faces difficulties in both investment and lack of competitiveness. The Mongolian–Russian Joint Venture Company 'Ulaanbaatar Railway', of which both sides equally own a 50 percent share, has devised a reform plan. The Government Implementing Agency Railway Authority is also trying to reform the 'Ulaanbaatar Railway' to fully utilise the Trans-Asian Railway network (Figure 1).

Mongolia's roadway network totals approximately 49,250 kilometres, connecting 21 major cities and towns and 160 *soums, baugs* (small administrative units in Mongolia). Roads are classified into state roads, which are intended to connect capital Ulaanbaatar with provinces and major cities and with important border crossings, and local roads, which are intended to connect provinces to other provinces and other small distances (Figure 2). About 13,877 km of roads are classified as state roads.

**Figure 1: Trans-Asian Railway Network**

Source: UNESCAP (2014a).

**Table 1: Mongolia's Road Network Extent 2000–2014**

Road Type	2000	2006	2009	2014
State	11,060	11,210	11,210	13,877
Paved	1,310	1,880	2,180	5,811
Gravel	1,370	1,480	1,550	1,132
Improved earth	1,360	1,360	1,230	694
Dirt track	7,010	6,480	6,240	6,240
Local	38,180	38,030	38,030	38,150
Paved	390	390	500	650
Gravel	490	490	550	550
Improved earth	510	490	490	490
Dirt Track	36,780	36,630	36,460	36,460
Total	49,250	49,250	49,250	49,250
Paved	1,710	2,270	2,680	6,461
Gravel	1,860	1,980	2,100	1,782
Improved earth	1,870	1,860	1,730	1,184
Dirt Track	43,790	43,120	42,710	39,823

Source: ADB (2011).

**Figure 2: Mongolia's Road Network**

Source: ADB (2011).

According to the Asian Development Bank, the road sector of Mongolia will be expected to implement massive highway investments in a short time and then to consistently maintain the new highways at a high standard. However, Mongolia's current small-scale road sector will unlikely have the capacity to scale up and deliver upon such expectations without extensively modernising its financing mechanisms, business processes, organisation, and education systems. Mongolia's government needs to implement a comprehensive capacity development programme for the road sector for about 5 years.

## Mongolia–China–Russia Economic Corridor: Infrastructure Cooperation and Regional Economic Development

The 'Millennium Development Goals–Based Comprehensive National Development Strategy of Mongolia' (Government of Mongolia, 2007) stipulated that energy exports and regional transportation services shall be developed at an entirely new level, which will connect the two neighbouring countries, and become a transportation 'bridge' between Asia and Europe. In addition, it underlined support for private sector participation in the infrastructure sector. The purpose of the policy for developing the rail transportation system pursued by the Mongolian government is intended to become independent of a single market for exporting mining products. Thus, work is under way to build a new rail route to Russia and China.

In the project ‘The Silk Road Economic Belt and 21st Century Maritime Silk Road’—developed in March 2015 by the National Development and Reform Commission of China, the Ministry of Foreign Affairs, and the Ministry of Commerce of China—from the Chinese side are roads and railroads to the north of Beijing, Tianjin, Hebei Province, the Inner Mongolia Autonomous Region, and the three Northeast provinces; the border-crossing points with Mongolia and Russia are included in the economic corridor of the three countries. It requires conducting technological cooperation with Russia in accordance with the projects named ‘Northeast Revitalization Plan’ and ‘The Development of Western China’. Also the ‘Program of Cooperation between the Far Eastern and Eastern Siberian Regions of the Russian Federation and the Northeastern Region of the People’s Republic of China (2009–2018)’ was released in 2009. This programme reflects China–Russia cooperation on infrastructure, transportation, the capacities of border checkpoints, investment, labour, technological parks, and the tourism sector, with some projects having coordination among the regions.

The ‘Eurasian Economic Zones’ forum encourages foreign investors to invest into the regions of Russia’s Far East and Siberia from where the minerals, natural gas, and coal are exported to China and Northeast China. The Far East and Siberia are a huge market for Chinese investment, technology, and labour. The ‘Federal Target Program on Economic and Social Development of the Far East and Zabaykalye up to 2013’ and the ‘Strategy for the Socio-Economic Development of the Far East, the Republic of Buryatia, Zabaykalsk Krai and Irkutsk Oblast for the Period up to 2025’ were adopted in 2007 and 2009, respectively. The Development Fund for Far East and Baikal Region and the Ministry for the Development of the Russian Far East were also established. Russian Railways has developed the ‘Strategy for Developing Rail Transport in the Russian Federation up to 2030’, which aims at using the natural resources of the Far East and Zabaykalye regions to increase the volume of domestic transportation important for socio-economic development, in order to increase transport to Mongolia, China, the Democratic People’s Republic of Korea (DPRK), and Japan. Work is ongoing on technological renovation of the Siberian and Baikal–Amur railway routes.

## Mongolia’s Transport Sector Activities in the Greater Tumen Initiative

The Greater Tumen Initiative (GTI) is a regional cooperation mechanism between People’s Republic of China, Republic of Korea, Mongolia, and Russian Federation, supported by the United Nations Development Programme (UNDP) (Dulambazar, 2015). The member governments of GTI highly prioritises development options for economic cooperation in the Greater Tumen Region, aimed at developing proper transport infrastructure and a logistical network to support economic cooperation among GTI countries.

The 'One Belt, One Road' strategy initiated by China, 'Eurasia Initiative' proposed by Russia, and the 'Grassland Road' by Mongolia will be linked more closely and will effectively promote the building of the China–Russia–Mongolia transport corridor and boost the regional economic cooperation in the Greater Tumen Region.

To promote cooperation in the transport sector, the GTI Transport Board was established in 2009; it meets annually. Transport sector development efforts related to transport corridors in Northeast Asia are important for the countries of the GTI and North East Asia (NEA).

## Northeast Asia Transportation Corridors

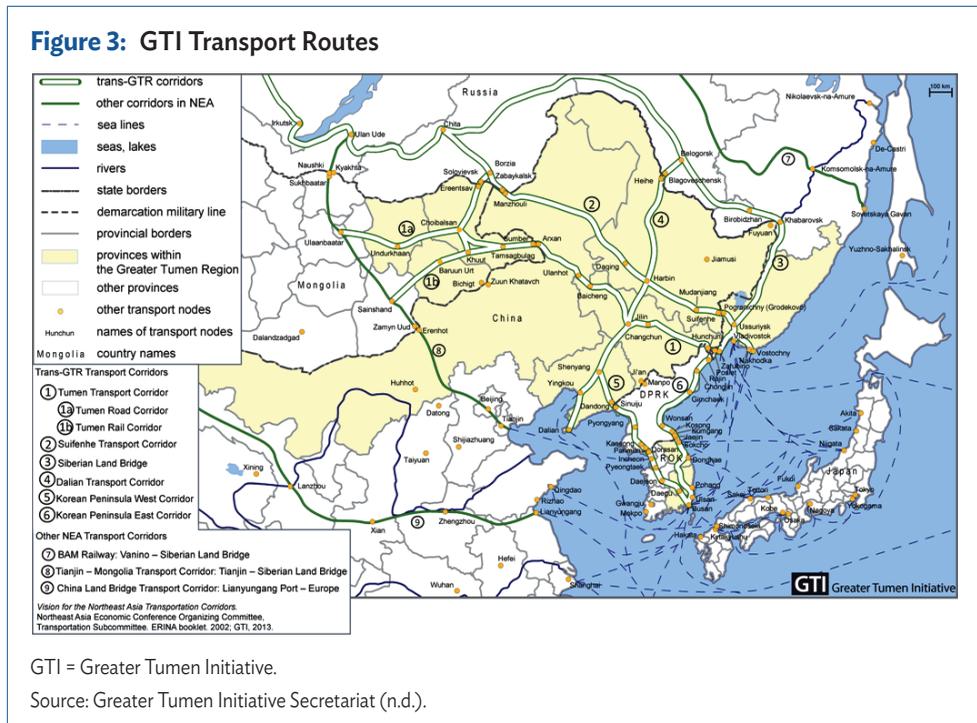
In 2001, the Transportation Subcommittee of the Northeast Asia Economic Conference Organizing Committee identified nine Northeast Asia transport corridors that all countries of the region can use as major international corridors. Six of these nine corridors have been identified in the GTI Transport Corridor Study as trans-GTR Transport Corridors:

1. Tumen Transport Corridor (TTC): Ports in Tumen River Delta–Changchun–East Mongolia–Siberian Land Bridge (SLB)
  - a. Tumen Road Corridor
  - b. Tumen Rail Corridor
2. Suifenhe Transport Corridor (STC): Ports in Primorsky Territory in Russia–Suifenhe–Harbin–Manzhouli–Zabaykalsk–SLB
3. Siberian Land Bridge (SLB): Ports in Primorsky Territory in Russia–Europe
4. Dalian Transport Corridor (DTC): Dalian–Harbin–Heihe–Blagoveshchensk–SLB
5. Korean Peninsula West Corridor (KWC): Busan–Seoul–Pyongyang–Sinuiju–Shenyang–Harbin–SLB
6. Korean Peninsula East Corridor (KEC): Busan–Ra-Son–Khasan–Ussuriysk–SLB

The other NEA transport corridors are:

1. BAM Railway: Vanino–Taishet–SLB
2. Tianjin–Mongolia Transport Corridor: Tianjin–Beijing–Ulaanbaatar–SLB
3. China Land Bridge (CLB) Transport Corridor: Lianyungang Port–Kazakhstan–Europe

In August 2013, at the Third Meeting of the Transport Board of GTI in Vladivostok, Russia, Mongolia proposed two additional transport channels in the Tumen transport corridor, to which the Board agreed to add in the Tumen transport area. These are the (1) Ulaanbaatar–Undurkhaan–Baruun–Urt–Bichigt railway, and (2) Sainshand–Baruun–Urt–Khuut–Bichigt road.



GTI researchers pointed out that these corridors are strategically important for the development of NEA. Through these channels Mongolia will gain possibility to reach Jinzhou port and the other East Asian sea ports to transport coal and other minerals.

Emphasising the importance of transit development, Mongolia organised the Transit Commission Meeting in 2015. The main constraints and problems limiting the use of the transport corridors were identified, and these included inadequate development of the infrastructure, especially missing rail and paved road sections along the corridors.

Mongolia supports the initiative of transport corridor development in the GTR, including in eastern Mongolia as this is crucial for the development of GTR and Mongolia.

China, Russia, and Mongolia have striven to strengthen cooperation with long-term strategic plans. Focusing on real development needs, the three countries look to economic cooperation for preferred and essential fields of strengthening tripartite cooperation.

The three have approved the Mid-term Roadmap for Development Trilateral Cooperation between China, Russia, and Mongolia.

Construction of the Chinese Silk Road Economic Belt Strategy (part of the One Belt, One Road Initiative), the Trans-Eurasian Belt Development proposed by Russia, and the Prairie Road by Mongolia will be linked more closely. This will effectively promote the building of the China–Russia–Mongolia economic corridor and boost the regional economic cooperation and development of the entire Eurasian continent.

## Central Asian Regional Economic Cooperation's Corridors via Mongolia

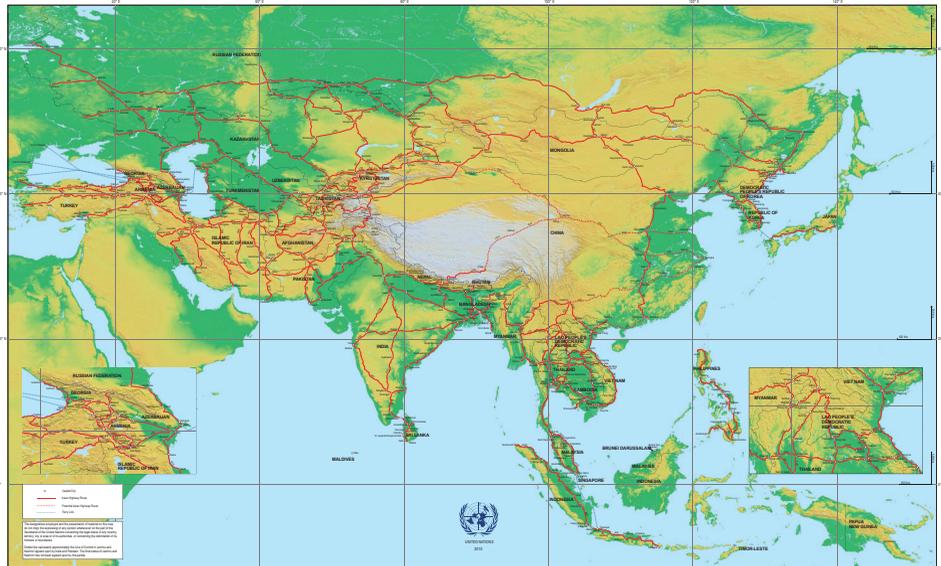
As of 2015, the 166 projects of the Central Asian Regional Economic Cooperation (CAREC), worth around US\$27.7 billion, have been implemented in the four core areas of cooperation—transport, trade facilitation, trade policy, and energy. Through CAREC, US\$560 million has been invested in Mongolia. The programme is improving Mongolia's transport and trade infrastructure and policies, and is helping make the country's economic growth more sustainable.

Mongolia connects with Central Asian counties via two main corridors as road, road/railway by following routes that overlap with Asian Highway 4 and Asian Highway 3.

1. CAREC (4a): Yarant–Khovd–Olgy–Tsagaannuur in the western region
2. CAREC (4b): Altanbulag–Darkhan–Ulaanbaatar–Nalaikh–Choir–Sainshand–Zamiin Uud in the central region

The Mongolian Asian Highway links include the following three main corridors:

1. AH-3 that links regional markets of Siberia with the hinterland markets and the international eastern seaboard ports of China via main vertical road, Altanbulag–Darkhan–Ulaanbaatar–Nalaikh–Choir–Sainshand–Zamiin Uud
2. AH-4 that links the regional markets of the Siberian region with Xinjiang Autonomous Region in China to the border with Pakistan via the western vertical main road, Tsagaannuur–Olgy–Khovd–Yarant
3. AH-32 that forms the country's principal east–west horizontal arterial corridor, Khovd–Uliastai–Ulaanbaatar–Choibalsan–Sumner–Nomrog has its eastern junction with AH31 that provides access to the Korean Peninsula and its western junction with AH-4 in the western region of Mongolia (Figure 4).

**Figure 4: Asian Highway Routes**

Source: UNESCAP (2014b).

The Asian Highway is a network of 141,000 km of standardised roadways criss-crossing 32 Asian countries with linkages to Europe. The Asian Highway project was initiated in 1959 to promote the development of international road transport in the region. The Intergovernmental Agreement on the Asian Highway Network was adopted on 18 November 2003 by an intergovernmental meeting held in Bangkok, was signed in April 2004 in Shanghai, and entered into force on 4 July 2005.

## **Mongolia Shows the Way for Asia–Europe Connectivity**

Development of key transport infrastructure, such as railways and roadways, will contribute to Mongolia’s global, as well as Asia–Europe, integration, diversification of economy, and sustainable development. As Mongolia’s key sector of economic development is mining, transportation development will have a large influence on economic efficiency. Mongolia is planning to enhance cooperation in the ASEM region in multiple ways, including NEA, greater Tumen Region, as well as CAREC region. The ‘Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia’ stipulated that energy exports and regional transportation services shall be developed at an entirely new level, which

will connect the two neighbouring countries, and become a transportation 'bridge' between Asia and Europe. Mongolia fully supports the initiative of transport corridor development in the GTR including three eastern provinces of Mongolia. Especially, connecting eastern Mongolia to East Asia via railway is crucial for the development of Mongolia as well as NEA.

China's Silk Road Economic Belt Strategy (part of One Belt, One Road Initiative), the Trans-Eurasian Belt Development proposed by Russia, and the Prairie Road by Mongolia will be linked more closely. This will effectively promote the building of the China–Russia–Mongolia economic corridor and boost the regional economic cooperation and development of the entire Eurasian continent. Mongolia's efforts, aided by its neighbours China and Russia, are an example of fostering physical connectivity between Asia and Europe, via Northeast Asia. Leading by example, the Mongolian chairmanship of ASEM will be a golden opportunity to bring ASEM towards a consensus on establishing formal mechanisms to foster physical connectivity under the aegis of ASEM.

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# Asia-Europe Connectivity

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## CURRENT STATUS, CONSTRAINTS, AND WAY FORWARD

RAM UPENDRA DAS, RESEARCH AND INFORMATION SYSTEM  
FOR DEVELOPING COUNTRIES

### Background

Connectivity, as the world sees it today, is not merely about roads, bridges, or other transport routes; it has a larger canvas that includes infrastructure, institutions, and people-to-people contact. It is a multidimensional concept that has important implications for trade, investment, and movement of people.

The European Union established a free single market by providing a regulatory framework that seeks to guarantee the free movement of goods, capital, services, and people among its member states. To support strategic investments of European significance in infrastructure including broadband and energy networks as well as transport infrastructure, the European Union launched the European Commission's Investment Plan in 2014 (Asselborn, 2016). On the other hand, the ASEAN members launched their 'The Master Plan on ASEAN Connectivity' in 2010 to enhance the region's physical infrastructure, institutions, and people-to-people relations.

The importance of trans-regional connectivity was realised when the Eurasian continent became one of the pioneers of such a connectivity. It was emphasised that the two neighbouring continents of Asia and Europe have high economic complementarities but also face tremendous challenges.

Recently, China has taken a step ahead in this direction through 'One Belt, One Road' (also known as Belt and Road Initiative). This initiative is backed by the US\$40 billion Silk Road Fund and the US\$100 billion Asian Infrastructure Investment Bank (AIIB). It aims to link China and Europe through Central and Western Asia. It will also connect China with South and Southeast Asian countries. This mega project includes many small projects of infrastructural connectivity between Asia and Europe. The China-Europe freight trains are such examples. Similar other projects include the International North-South Transport Corridor (INSTC) which was initiated by Russia, India, and Iran. It is expected to bring great opportunities for the members especially as it opens transport links for India and South Asia to the landlocked region of Central Asia, further connecting it to the Europe.

What follows from the above is that the connectivity between Asia and Europe is being given the highest importance by the economies in the two regions. The significance of Asia–Europe connectivity was stressed by the ASEM (Asia–Europe Meeting) Summit in Milan in October 2014. The Leaders noted the contribution that increased ties could make to economic prosperity and sustainable development and to promoting free movement of people, trade, investment, energy, information, knowledge, and ideas and greater institutional linkages.

The ASEM members further aim to intensify these discussions as infrastructural connectivity between Asia and Europe has become all the more important in the past few years. Many projects discussed in the next section were initiated by the two regions to cover the connectivity gap. However, these confront enormous challenges which need to be addressed such as those relating to ‘financing infrastructure’. Against this backdrop, the next sections (i) give a snapshot of some of the existing and planned connectivity projects in the region, (ii) discuss existing financing mechanisms, (iii) enlist challenges, and (iv) present broad policy recommendations.

## Select Projects Aimed at Strengthening Asia–Europe Connectivity

### **Belt and Road Initiative**

The Belt and Road Initiative, proposed by China, aims to promote the connectivity of Asian, European, and African continents and their adjacent seas. It also aims to establish and strengthen partnerships among the countries along the ‘Belt and Road’; set up all-dimensional, multi-tiered connectivity networks; and realise diversified, independent, balanced, and sustainable development in these countries (NDRC et al., 2015). According to the framework it covers the area of the ancient Silk Road but it is open to all countries.

The initiative has two components: (i) the land-based ‘Silk Road Economic Belt’ and (ii) the Maritime Silk Road. Per reports, the initiative will focus on jointly building a new Eurasian land bridge and developing China–Mongolia–Russia, China–Central Asia–West Asia, and China–Indochina Peninsula economic corridors. For this, advantage will be taken of international transport routes, relying on core cities along the Belt and Road, and using key economic industrial parks as cooperation platforms.

The Belt and Road Initiative is backed by strong financial resources commitments from China. China launched a US\$40 billion Silk Road Fund, which will directly support the initiative. Additionally, the Asian Infrastructure Investment Bank (AIIB) will provide the financial resources for the initiative. The AIIB has been primarily set up to address infrastructure funding gap in Asia, which the Asian Development Bank (ADB) has pegged at US\$8 trillion between 2010 and 2020.

## Eurasia Tunnel Project

The Eurasian Tunnel built underneath the sea in Istanbul is the highway tunnel project joining Asia and Europe. The Eurasian Tunnel is on the Kazlıçeşme-Göztepe route and is 14.6 km long. It will connect the Asian and European lands through a highway tunnel going under the seabed of Istanbul Bosphorus Strait by 2016 (*Daily Sabah Istanbul*, 2015). It is expected to considerably reduce travel time between the Asian and the European sides, from 100 minutes to 15 minutes. The project, also known as the Istanbul Strait, once built will reduce the congestion and relieve traffic density on the huge suspension bridges which cross the Bosphorus Strait. The passage fare will be \$4 for each vehicle, and cars will take 15 minutes to pass through the tunnel. The tunnel will feature both a highway for cars and a railway. One highway lane will be at the top of the tunnel, the middle layer will be occupied by the railway line, and the other lane of the highway will be at the bottom. The project was contracted in 2009 through a Turkish-Korean joint venture. It was named Eurasian Tunnel Operation Construction and Investment-ATAS in 2011. According to the project, ATAS will be responsible for construction, operation, and maintenance for 25 years.

## International North-South Transport Corridor (INSTC)

The INSTC was initiated by Russia, India, and Iran in September 2000 to establish transportation networks among the member states and to enhance connectivity with the landlocked region of Central Asia. The North-South Transport Corridor is an ancient route that connected South Asia with North Europe for centuries. This route was used by the European, Indian, Russian, and many foreign traders.

The INSTC is a multimodal transportation route connecting the Indian Ocean and Persian Gulf to the Caspian Sea via Iran, and onward to northern Europe via St. Petersburg in Russia. The INSTC envisages movement of goods from Mumbai (India) to Bandar Abbas (Iran) by sea, from Bandar Abbas to Bandar-e-Anzali (an Iranian port on the Caspian Sea) by road, from Bandar-e-Anzali to Astrakhan (a Caspian port in the Russian Federation) by ship across the Caspian Sea, and thereafter from Astrakhan to other regions of the Russian Federation and further into Europe by Russian railways (Roy, 2015).

The INSTC route will open a lot of opportunities for India as it will enhance India's trade and investment linkages with Central Asia. Due to the facilitating role of this corridor in strengthening India's ties with Eurasia and Central Asia, the Foreign Trade Policy of India 2015-2020 has also highlighted the importance of the INSTC. This transportation route has immense economic and strategic relevance for India, but also because it will bring the following benefits to India (Chatterjee and Singh, 2015):

1. It will reduce the cost of transportation of goods and transit time from India to Eurasia and surrounding regions. To be more specific, the corridor would be 30 percent cheaper and 40 percent shorter than the current route via St. Petersburg to Moscow.

2. India is expected to negotiate the comprehensive economic partnership agreement with the Eurasian Economic Union which includes Armenia, Belarus, Kazakhstan, Kyrgyz Republic, and Russia. Therefore, this corridor would make it easier to access the markets and would boost the competitiveness of India's trade.
3. Given the increasing demand for energy by India and the abundance of natural resources, including petroleum, natural gas, and uranium in Central Asia, this transport route will open many opportunities for both regions. Further, as these sectors are increasingly becoming service oriented, they could benefit from India's expertise in information technology (IT) and IT-enabled services.
4. It will also help participate in China's One Belt, One Road Initiative in a collaborative and cooperative framework.

## Trans-Caspian Rail Corridor

The Trans-Caspian International Transport Route is a 4,766 km-long multimodal route connecting China, Kazakhstan, Azerbaijan, Georgia, and Turkey, and finally reaching Europe. This is a multimodal transport corridor that comprises 4,256 km by rail and 508 km by sea.

Once this route is connected with the Baku–Tbilisi–Kars railway, a cargo train launched from China will be able to reach Europe. This project connects Azerbaijan, Georgia, and Turkey directly via rail links.

But the route is characterised by certain disadvantages that need to be addressed before this route becomes fully functional. There are different customs regulations and railway tariffs across countries in the route, which require cooperation to establish single tariffs and harmonised customs procedures. Also the missing links have to be fixed first. This concerns the Baku–Tbilisi–Kars railway connection. Rail line from Baku to Turkey–Georgia border is already completed and modernised. A 4 km long tunnel that connects Georgia and Turkey has been constructed. The only part left to be completed to achieve fully functioning railway connectivity between Turkey and the Caspian region is the construction of a rail line in the Turkish part from the Turkey–Georgia border to Kars. Once this section is completed, the transport route from China to Europe will be uninterrupted.

## China–Europe Train Services

China has launched freight train service between Germany, Spain, and France, which will open new trade routes to Europe. This cargo line passes through Kazakhstan, Russia, Belarus, Poland, Germany, France, and finally Spain. The train route holds great importance to China as it is a part of its strategy of developing the new Silk Road (Hutchinson, 2015). However, the problem related to this route is the incompatibility of rail gauges in different countries; for instance, the train which will arrive in Madrid will have to transfer to different wagons at

three points during the trip. This train route has great implications for trade and is expected to bring economic prosperity to both regions.

Limited connectivity in any region is due to lack of collective planning and financing—an aspect often not adequately highlighted in the existing literature—due to which connectivity issues have remained almost a non-starter in several regional fora. Enormous infrastructural deficits still have to be bridged in the Asia–Europe context, including the Eurasian region. One of the most promising developments in this regard is the creation of the AIIB, described here briefly.

## Financial Structure

### Asian Infrastructure Investment Bank

The AIIB is a multilateral development bank. Its founding members are developing its core philosophy, principles, policies, and operating platform. This is through a participatory process. The AIIB is a modern knowledge-based institution that will focus on the development of infrastructure and other productive sectors in Asia. These sectors include energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics, etc. Several developed countries such as Britain, Australia, France, Germany, and Italy joined the AIIB, and many developing countries from all over the world have done the same, especially ASEM members like India, Malaysia, Philippines, Thailand, Viet Nam, and many others. BRICS members—China, India, and Russia—are the three largest shareholders, taking a 30.34 percent, 8.52 percent, 6.66 percent stake, respectively. Their voting shares are calculated at 26.06 percent, 7.50 percent, and 5.92 percent (*The Brics Post*, 2016). Since infrastructure in some of these developing economies is greatly needed, the new financial institution is an opportunity that must be capitalised. If long-term financing of major infrastructure projects takes off, raising economic activities including in the Eurasian region might be scaled up.

### New Development Bank

The objective of the New Development Bank which was formerly known as BRICS Development Bank is to fund infrastructure projects in developing countries. The New Development Bank of the Brazil, Russia, India, China, and South Africa started in July 2015 with an initial authorised capital of \$100 billion. The basic aim of the bank is to fund infrastructure projects in emerging economies for sustainable development. Last month, the BRICS bank approved its first package of loans. The US\$811 million investment will be directed at renewable energy projects in Brazil, China, South Africa, and India. It is to be seen if this becomes a way to finance the infrastructure projects connecting Europe and Asia. Recent reports do suggest cooperation and possible initiatives in that direction.

The European Investment Bank (EIB) has shown its intent to sign a cooperation agreement with the BRICS' New Development Bank. Further, the EIB and the AIIB agreed to broaden cooperation to support investment in 'strategically important projects'. These are expected to be primarily in infrastructure projects (RT, 2016).

## Challenges in Asia–Europe Connectivity

1. **ASEM needs a common focus:** Asia is not one market; it is not one economy like the European Union. The complexity and the diversity of Asia have to be recognised first. China is different from India. ASEAN is different from South Asian countries. It is important to understand what key issues are relevant to the whole group of Asian economies, and where cooperation is required on subregions or even on bilateral relations (Friends of Europe, 2014). Connectivity provides a window of opportunity to prioritise and consolidate all-round cooperation so as to fulfil the true potential of ASEM (Peiyan, 2016). Thus, the trans-continental heterogeneity needs to be addressed.
2. **Missing links:** The China–Europe freight train, since its launch in 2015, has made more than 1,000 shifts. However, the cost in terms of time and resources remains high (19 days) due to the frequent switch of trains and rails on account of missing links. If trains did not have to change railway gauge en route from China to Europe, the 19-day journey could probably be shortened to only 14.
3. **Border crossings and customs procedures:** Pilot projects have measured the border stopping times for container block trains coming from Asia and going through to Eastern Europe. They varied from 45 minutes to 6, 8, or even 12 hours (Friends of Europe, 2015). At the Mongolian border, a train can sometimes be allowed to pass through smoothly; but on another day, it may be stopped for 48 hours without any explanation. Unnecessary delays have to be addressed to boost the efficiency of border crossings.
4. **Lack of harmonised regulatory framework:** Obvious problems arise when there are asymmetric regulations instead of coherent regulations between different countries and regions. Governments have to facilitate connectivity, and it is for this that regulations should be in place (Friends of Europe, 2015).
5. **Financing:** As per the Asian Development Bank (ADB) report (2012), China, India, and Indonesia represent the top three countries in terms of infrastructure investment needed during the 2010–2020 period. The total amount of infrastructure investment needed in Asia was estimated to be more than \$8 trillion. Meeting the huge financing needs of almost \$800 billion per year during this period is one of the largest challenges facing many developing countries in Asia, as per the report. The Silk Road Fund, AIIB, and the BRICS Bank are necessary in addressing the infrastructure deficits of Asia but are possibly not sufficient, given the quantum of funds required to address this deficit. Thus, more institutional mechanisms for infrastructural financing is needed.

## Policy Suggestions

The list of challenges by no means is exhaustive. Enormous challenges remain on account of security considerations in the region. To address the above-mentioned and other challenges, two specific policy recommendations for strengthening Asia–Europe connectivity could include:

1. **Inter-secretariat cooperation:** Regional organisations are working in areas concerned with their regions only often in isolation, with very limited knowledge of the events taking place in the other parts of the world. In such a scenario, any initiative at strengthening connectivity among two regions first requires that coordination across regional organisations and their respective secretariats such as the European Commission, Eurasian Economic Community (EEC), South Asian Association for Regional Cooperation (SAARC) Secretariat, and the Association of Southeast Asian Nations (ASEAN) Secretariat.
2. **Inter-institutional collaboration:** The issues need to be studied further, especially to demonstrate the potential. Institutional-level cooperation among Asian and European institutes will help better identify, understand, and address the common challenges that the two regions face. Thus, it is recommended that institutions—such as BRUEGEL, Brussels; Caspian Strategy Institute (HASEN), Istanbul; Research and Information System for Developing countries (RIS), New Delhi; and Economic Research Institute for ASEAN and East Asia (ERIA), Jakarta—collaborate and work for the better connectivity of the two regions under the aegis of ASEM. We may also find other think tanks from other countries such as China, Central Asia, Russia, and others to join. A group of experts from such think tanks could be constituted to deliberate on the nature, scope, and modalities of inter-institutional cooperation that could directly feed into the economic cooperation policymaking process of the ASEM.

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# Developing Sustainable Connectivity in Energy

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## LESSONS FROM TRADE OF ELECTRICITY IN ASEAN

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**E**nergy connectivity is a platform which is being explored at subregional levels in different parts of the world. Both Asia and Europe have successful models of energy connectivity and energy market integration. Cooperation in energy connectivity for sharing good practices among member countries can be fruitfully explored under the Asia–Europe Meeting (ASEM).

This paper examines what are the potential benefits from increased energy market integration in the Association of Southeast Asian Nations (ASEAN) region, why progress has been slow so far, and how the obstacles to greater regional energy and electricity integration in the Asia-Pacific can be overcome.

A fully functioning regional grid bears many benefits to countries involved. The interconnected grids can take the advantage of the varying timing of peak and non-peak hours in different countries and thus save a large portion of the investment in expensive peak power generation capacities.

Fundamental to the goal of a totally integrated power system in the ASEAN region is the development of physical infrastructure and the harmonisation of technical standards, operational procedures, and regulatory frameworks. An appropriate business model to ensure adequate economic benefit for each country involved in the multilateral electricity trading is also a key challenge for the future multilateral trade of electricity.

A comparative understanding of the Nordic experience in energy connectivity shows the way forward to explore the energy cooperation programme under ASEM.

### Introduction

Driven by economic and industrial development, population growth, and higher living standards, electricity demand in the Asia-Pacific is projected to more than double between 2010 and 2035 (ADB, 2013), a growth rate that is higher than that of any other region in the world. A critical component of the region's economic development lies in its capacity to secure reliable, affordable, and sustainable energy supplies.

The Asian Development Bank (ADB) estimates that to supply projected demand for electricity, the 10 countries of ASEAN, together with China and India, will need a cumulative investment of about \$11.7 trillion in the energy sector between now and 2035 (ADB, 2013). Where that money will come from and how it will be invested remains to be seen, but it will need to include infrastructure for upstream energy extraction and production, midstream energy transformation, and transportation to downstream energy distribution.

ASEAN, China and India, the International Energy Agency (IEA), and the World Bank have all stressed the importance of integrated electricity markets and transmission networks to support the region's development. Similarly, efforts to enable the integration of natural gas markets within the region have hastened in recent years, particularly since the Fukushima nuclear disaster in Japan.

In the first instance, plans to secure energy supplies in the region require evaluation of the geographic scope of integration that is desirable and feasible within the three Asia-Pacific regional blocs: Northeast Asia, Southeast Asia, and Oceania – with both modest and ambitious integration plans proposed. For example, the ASEAN Plan of Action for Energy Cooperation 2010–2015 has a number of objectives which include the establishment of an ASEAN Power Grid (APG), increased penetration of renewable energy, and the further development of an ASEAN gas network. The APG is a flagship programme consisting of 16 interconnection projects; it is expected to expand from a bilateral to a subregional basis, and ultimately aims to achieve a totally integrated system. Smaller regional integration potential exists between the yet-to-be-developed CLMV (Cambodia–Lao PDR–Myanmar–Viet Nam) countries and the BIMP (Brunei Darussalam, Indonesia, Malaysia, and Philippines) countries.

Despite the promising objectives of the ASEAN APG plan, and the potential of the CLMV and BIMP grids, implementation to date has been problematic largely owing to concerns about the political and economic stability of the region; associated concerns around sovereign risk; and the absence of a transparent, coordinated legal and institutional structure that can be agreed to by all countries. Indeed, fundamental to the goal of a totally integrated system in the ASEAN region is the development of physical infrastructure and the harmonisation of technical standards, operational procedures, and regulatory frameworks. However, the nature of the overarching institutions and the existing intra-regional energy dynamics make electricity market integration significantly more complex for the Asia-Pacific region than was the case in Europe or North America.

Much excellent research has been done on the economic and technical viability of electricity integration in ASEAN (Chang and Li, 2013; Chang and Li, 2015; Kutani, 2013), as well as on the financial viability of power infrastructure investment (see Li and Chang, 2015).

For example, Li and Chang (2015) point to three main barriers to grid interconnection in the ASEAN+2 (China and India) region:

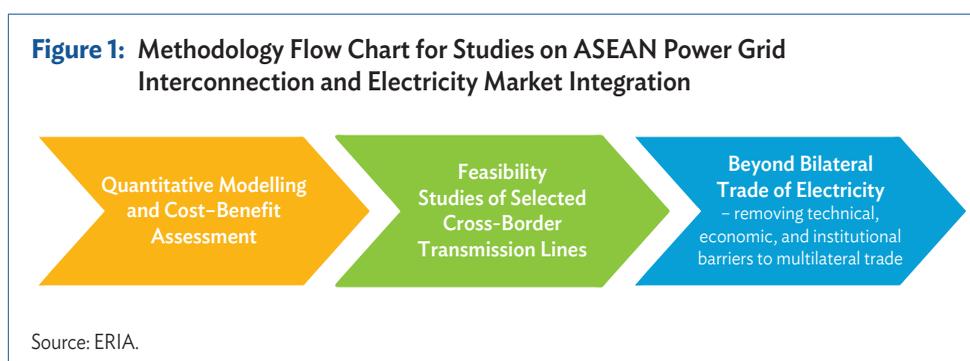
1. Investment in transmission lines is very capital intensive, usually costing from millions to billions of (US) dollars, thus, necessitating both public and private sector investments.
2. Cross-border electricity trade is complicated by political, social, and environmental considerations; therefore, such projects are considered high risk.
3. The profitability of each transmission line is dependent on the evolution of the pattern of cross-border electricity trade in the region, which in turn is dynamic and difficult to predict.

In many respects, the first challenge (cost) can be overcome if greater understanding and certainty is achieved in relation to the second (non-economic factors) and third (regional trade patterns) challenges. The emphasis of this project is therefore on understanding the non-economic factors and the regional trade patterns within the region.

To that end, and building on the work that has already been done in relation to integrated electricity systems in ASEAN, this article examines **what** the potential benefits from increased energy market integration are in the ASEAN region, **why** progress has been slow so far, and **how** the obstacles to greater regional energy and electricity integration in the Asia-Pacific can be overcome. Based on the lessons learnt, a sustainable energy connectivity between Asia and Europe can be explored under the aegis of the Asia–Europe Meeting (ASEM).

## Results from Current Energy Connectivity Studies

Intensive research on power grid interconnection and electricity market integration in ASEAN has been done. The literature generally has taken a three-step approach in research in this regard, as the following figure indicates.



For example, the ‘Study on Effective Investment of Power Infrastructure in East Asia through Power Grid Interconnection’ (Kutani, 2013) reported the results of the quantitative assessment of the costs and benefits of selected cross-border power grid interconnection projects in ASEAN countries (Table 1). Accordingly, cases B, E, and G are identified as economically feasible and should thus be prioritised.

**Table 1: Possible Interconnection Lines and their Priority**

Line	Possible cumulative net cost–benefit range (Million USD)	Estimated cost of transmission line (Million USD)	
A: THA–KHM	4,560–5,470	162–1,009	second priority
B: THA–LAO	19,282–20,604	728–1,957	first priority
C: THA–MYA	(4,607)–(2,766)	2,244–3,956	need careful assessment
D: MYA–THA–MYS–SGP	(1,118)–3,064	2,384–6,272	need careful assessment
E: VNM–LAO–THA	21,604–23,715	922–2,885	first priority
F: MYS–IDN	3,968–4,087	1,790–1,901	second priority
G: LAO–THA–MYS–SGP	23,217–26,557	868–4,273	first priority

IDN = Indonesia, KHM = Cambodia, LAO = Lao People’s Democratic Republic, MYA = Myanmar, MYS = Malaysia, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Numbers in brackets are negative.

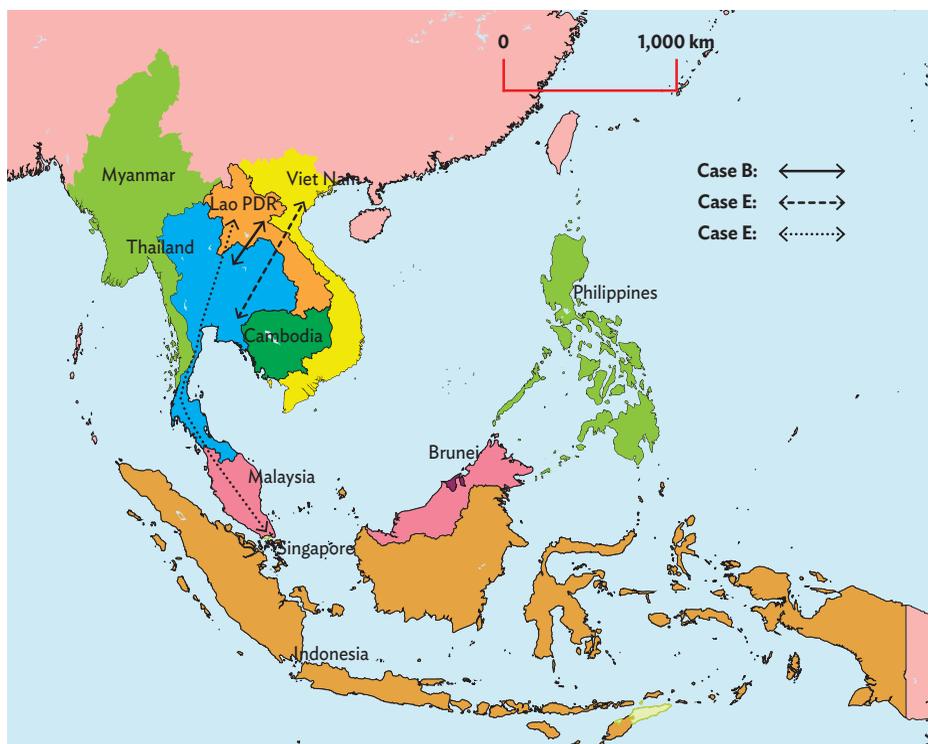
Source: ERIA.

Another study (Kutani and Li, 2014) was continued to focus on the prioritised cases (Figure 2): the interconnection between Thailand and Lao PDR; between Viet Nam, Lao PDR, and Thailand; and between Lao PDR, Thailand, Malaysia, and Singapore.

This study went into close-to-real-project cost estimation based on realistic project design and route planning, rather than the general cost estimation for constructing and operating cross-border transmission lines applied in the earlier study. It covers as much engineering and economic details as possible to reflect the accurate costs of constructing and operating cross-border transmission lines. Figure 3 illustrates the methodology through a flow chart.

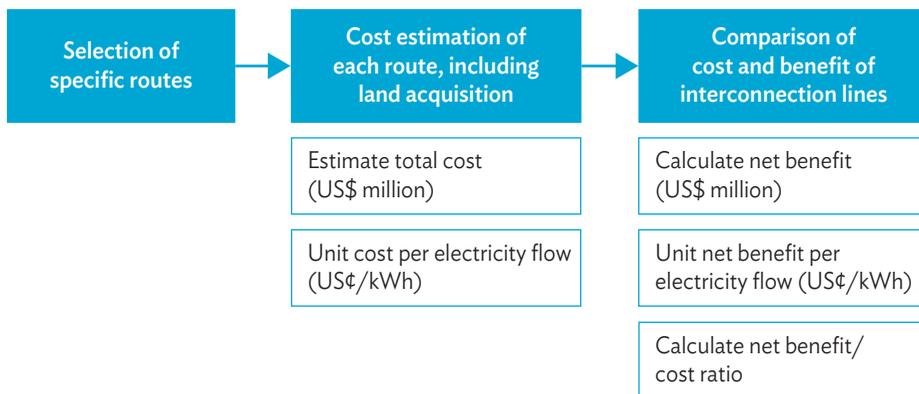
At the same time, this study applies a regional model for electricity trading among the countries connected by the cross-border transmission lines, based on a merit-based dispatching algorithm to minimise the cost of electricity for all countries. The model thus simulates potential trading for the period 2025–2035, as the three selected routes of new interconnections are assumed to be completed by 2025.

**Figure 2: The Three Prioritised Routes of Power Grid Interconnection**



Source: ERIA.

**Figure 3: Methodology for Cost Estimation**



Source: ERIA.

The net benefits, resulting from avoided peak generation capacities and saved expensive fossil fuels for peak power generation, are summarised in Table 2 and compared to the costs of investing and operating interconnection projects.

**Table 2: Return on Investment, 2025–2035**

Case	Net Benefit (US\$, million)	Construction Cost (US\$, million)	Benefit/Cost (-)
B THA–LAO	19,881	1,506	13.2
E VNM–LAO–THA	22,610	2,097	10.8
G LAO–THA–MYS–SGP	25,490	2,000	12.7

Source: ERIA.

The following trade flows are projected in 2025–2035 with the newly established interconnections (Table 3).

**Table 3: Trade Flow from 2025 to 2035, by Route (unit: TWh)**

Route	Trade Flow, 2025–2035
VNM–LAO	105
LAO–THA	567
THA–MYS	52
MYS–SGP	91

Source: ERIA.

The following observations are made based on these quantitative simulation results on the economic feasibility of these interconnection projects:

1. In terms of size of the net benefit, Case G provides the largest net benefit.
2. In terms of return on investment, Case B is the most beneficial.

These results thus indicate that although the three interconnection projects are capital intensive, the attainable benefits seem to be large enough to justify the investment well. These projects thus firmly stand as feasible and should be prioritised for implementation as early as possible.

## Key Findings

A fully functioning regional grid bears many benefits to countries involved. Through such interconnection, the development of the cheaper renewable energy resource which exists with abundance in the region could be further developed, especially hydropower in the Greater Mekong Subregion. In addition, the interconnected grids can take advantage of the varying timing of peak and non-peak hours in different countries and thus save a large portion of the investment in expensive peak power generation capacities. The Economic Research Institute for ASEAN and East Asia (Kutani, 2013) estimated some US\$11 billion net savings in the cost of electricity generation for all ASEAN countries plus two Southwest China provinces and Northeast India in 20 years, despite the high initial costs of investment in interconnecting transmission lines. The other independent estimation by Chang and Li (2013) presents a net savings of US\$20.9 billion for ASEAN alone in 20 years.

Furthermore, the interconnection of grids in the region enhances the overall capacity of countries to adopt renewable sources of power generation, such as solar photovoltaic and wind turbines. Chang and Li (2015) show that, with power grid interconnection among ASEAN countries, by implementing feed-in-tariff (FiT) policy for renewable energy, renewable energy adoption could be increased by some 70 percent compared to the baseline scenario with no interconnection and no FiT, while the total cost of electricity generation increases by only 8 percent. With less aggressive FiT policy, an increase in the total cost by 1 percent can increase the renewable energy adoption by some 30 percent.

However, the high upfront cost of new transmission lines for cross-border interconnection and the uncertainty of future demand for imports and exports of electricity through these transmission lines complicate the financial decisions to invest. The financial feasibility of each proposed cross-border transmission lines needs to be carefully studied. The study by Economic Research Institute for ASEAN and East Asia (Kutani and Li, 2014) identified that the power grid interconnection among Lao PDR, Malaysia, Singapore, Thailand, and Viet Nam are financially feasible and should be prioritised. This finding coincides with the initiative by the governments of Lao PDR, Thailand, Malaysia, and Singapore to develop interconnection and demonstrate a multilateral framework for cross-border trade of power.

However, further institutional issues are still standing as barriers to the realisation of fully interconnected power grid in the region. According to Li (2015), these mainly concern (i) regional coordination of infrastructure development plans and rules for data and information communication, (ii) wheeling charge (transmission tariff) for multilateral cross-border power trade with proper unbundling and coordinated review criteria in each participating country, and (iii) harmonisation of technical standards, including operation and connection standards.

## Implications for a Road Map of Energy Connectivity between Asia and Europe

To move to the next stage of trading, namely, grid-to-grid multilateral electricity trading between Asia and Europe, the foremost requirement is contiguous land area because electricity trade can be done over land. The second major issue is harmonisation of technical standards and regulations in the countries involved. ASEM may well explore the feasibility of this trading among countries with a keen focus on the need for harmonisation of standards in this regard.

Among them, institutional barriers are the key issues, as they usually concern the domestic electricity market structure of member countries, vested interests of industry groups as well as consumer groups, and domestic legislative procedures and politics.

In addition, the search for an appropriate business model to ensure adequate economic benefit for each country involved in the multilateral electricity trading is also a key challenge.

Further study on ASEM power grid interconnection should focus on the economic feasibility of identified project(s). It will also include the key barriers and challenges to multilateral interconnection, mainly covering the following issues:

- Regional coordination of infrastructure development plans and rules for data and information communication
- Wheeling charge (transmission tariff) for multilateral cross-border power trade with proper unbundling and coordinated review criteria in each participating country
- Harmonisation of technical standards including operation and connection standards.

Moreover, following existing regional electricity trading models such as those in Europe (the Nordic system and the continental regional systems) should be further studied as references in addressing the key issues in market design and business model development, such as the (i) harmonisation of transmission capacity estimation; (ii) proper division between market coupling and market splitting; (iii) allocation of cross-border transmission capacity and revenue from congestion charge; and (iv) coordination of infrastructure investment, especially the transmission capacity, through integrated power development plan of participating countries. All these are key elements of a well-functioning multilateral electricity trading market, as evident in documentation on the interconnected and integrated European electricity markets.

Before arriving here at a competitive Europe-wide electricity market, as in the Nordic countries' case, the development of a regional cross-border electricity market took a long way—more than half a century—to evolve from bilateral power exchange agreement,

to bilateral trade of electricity, and to regional multilateral trade of electricity. Eventually, it evolved into a Europe-wide competitive electricity market such as in the last two decades, driven by very strong political will in the European Union so that the European Commission imposed the integration of the energy market among all member countries. In other parts of the world, where most likely only voluntary procedure for power grid interconnection and electricity market integration could be adopted, progress may naturally be slower. Nevertheless, the measurable significant benefits of interconnection and integration in the European case show the necessity of pursuing these targets in other regions, especially in Asia, as much and as fast as possible. Besides all other technical, economic, and institutional challenges of ‘energy security’, a higher level of trust among Asian countries may turn out to be the key to determine ‘how much’ and ‘how fast’ they can go.

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# Section Three

## INSTITUTIONAL CONNECTIVITY

### **Asia–Europe Connectivity: The Role of Trade in Enhancing Connectivity through Trade Liberalisation, Investments, and Services**

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### **Asia and Europe Regulatory Connectivity and Coherence**

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### **Trade Facilitation: Making Trade More Efficient**

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### **Deepening Asia–Europe Connectivity through ICT**

EMMANUEL C. LALLANA  
IDEACORP

### **Deepening and Expanding Global Value Chain Participation across Asia and Europe**

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### **Using SMEs for Improving Asia–Europe Connectivity**

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# Asia–Europe Connectivity

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## THE ROLE OF TRADE IN ENHANCING CONNECTIVITY THROUGH TRADE LIBERALISATION, INVESTMENTS, AND SERVICES

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**T**rade in goods and services and foreign investment play a decisive role in strengthening economic connectivity between different regions in the world, which in turn leads to prosperity and sustainable development. Various studies have shown that enhanced interregional trade and investment flows lead to sustainable growth and job creation. This was also reiterated by the leaders during the 10th Asia–Europe Meeting (ASEM) in Milan in 2014.

In recent years, ASEM members have achieved significant progress on ambitious development plans such as the European Union (EU) Infrastructure Investment Plan, the Master Plan on ASEAN Connectivity, the Belt and Road Initiative and the Asian Infrastructure Investment Bank. These have led to enhanced infrastructure connectivity between the two regions particularly in the areas of transportation, telecommunications (ICT), and energy resulting in significant short-term and long-term gains.

However, the potential for Asia–Europe connectivity goes beyond just transport and infrastructure and should also include stronger linkages between institutions to facilitate trade and investment through initiatives such as streamlining of regulatory regimes and procedures and sharing of knowledge and ideas. The synergies between ‘soft’ and ‘hard’ connectivity initiatives need to be further expanded for which the ASEM platform is strategically placed.

Additionally, it is evident that larger subregional groups within Asia and Europe (for example, Eastern Europe, Southeast Asia, China, etc.) are pursuing connectivity initiatives on their own or with other countries in the regions which can potentially be integrated into common connectivity initiatives of ASEM to benefit both regions as a whole.

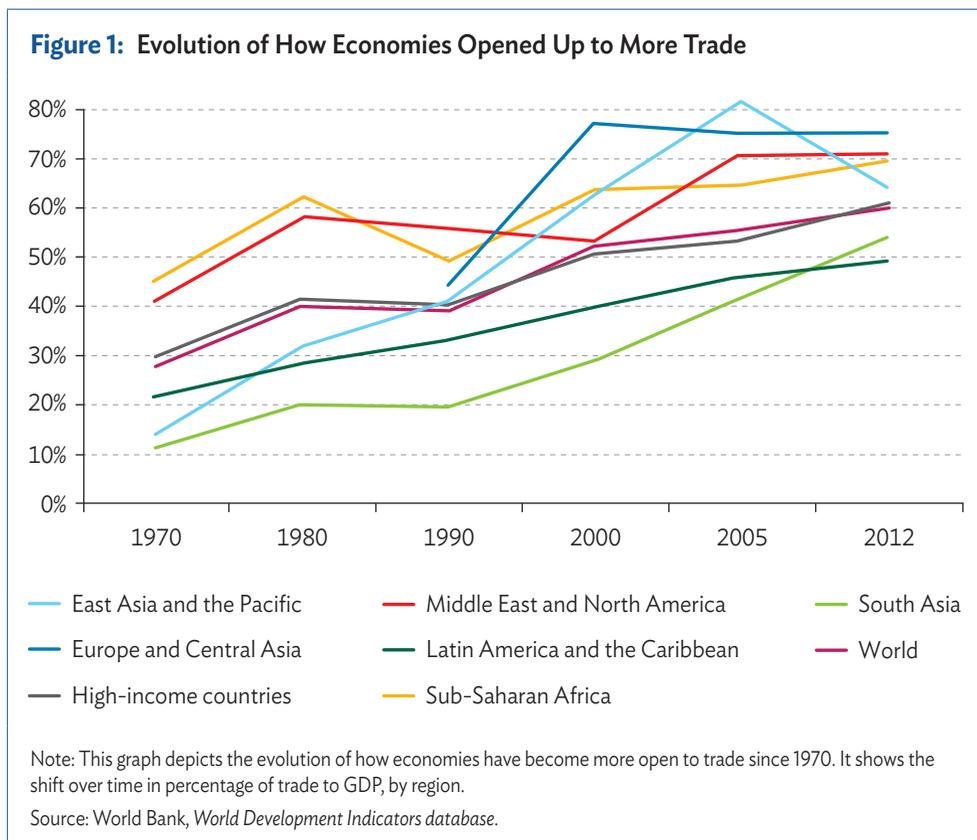
### **Changing Landscape of International Trade**

The world has witnessed dramatic growth in international trade in the past few decades. The value of world merchandise exports rose from \$2.03 trillion in 1980 to \$18.26 trillion in 2011 (WTO, 2013).

## Trade liberalisation has resulted in more open economies

Enhanced international trade can be attributed to a number of factors. Firstly, all regions in the world have become more open to trade resulting in growth in global trade to GDP ratio from 25 percent in the 1960s to 60 percent in 2012 (Figure 1). During this period, the average tariff levels have decreased significantly and continue to do so as a result of increased connectivity through trade agreements.

However, openness to trade (and investment) alone cannot ensure successful economic integration into the global economy. Equally important is the conduciveness of the business environment which depends on factors such as quality of hard and soft infrastructure, trade-friendly policies, reduction in transport, cross-border and communications costs as well as in trade barriers, among others. These will be discussed in more detail in the subsequent sections of this chapter.

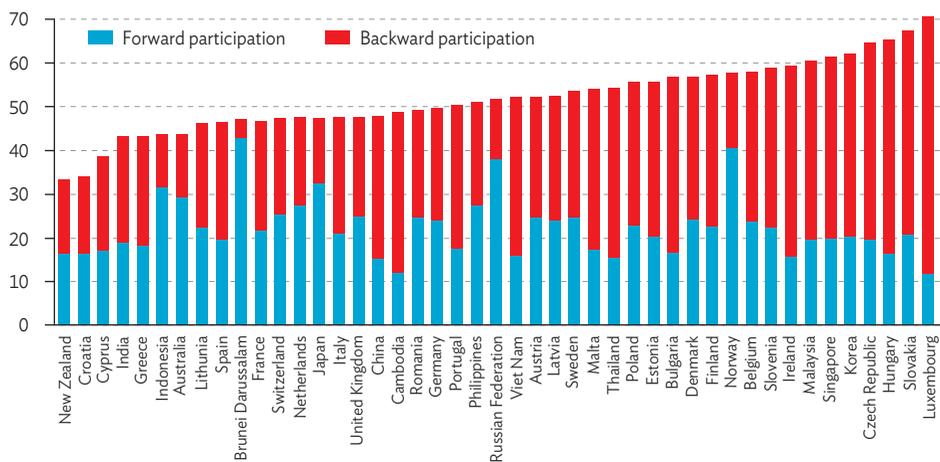


## Global value chains (GVCs) as a driver of changing international trade landscape

Technological revolution in the means of communication and containerisation, aided by the concomitant liberalisation of trade and investment, has brought about a paradigm shift in the production patterns of manufactured goods in the past few decades. The process of producing goods from raw materials to finished products is increasingly fragmented and carried out wherever the necessary skills and materials are available at competitive cost and quality. Falling transport and communications costs permit larger multinational firms to splinter their ‘production lines’ geographically (Baldwin, Graduate Institute Geneva, 2014) and design supply chains that allocate different parts of the production process to firms in different countries. Materials and components are processed or services are rendered—hence value is being added—in multiple countries that are part of the supply chain. By locating (sourcing) activities and tasks in different countries as a function of their comparative advantages, the total production costs are reduced.

As a result, GVCs have become a dominant feature of world trade and investment. The shift in the production patterns has provided development options to developing countries as they can now join existing supply chains rather than having to invest decades in building their own. Even firms in low-income countries now have the opportunity to render specific manufacturing or service to a leading firm in another country. Figure 2 depicts the magnitude of GVC participation in the export segments of different economies in ASEM including the share of backward (imported inputs used to produce exports) and forward linkages (exports of intermediaries that are processed in the importing country and then exported to a third country).

**Figure 2: Selected ASEM Members – Total GVC Participation in 2011**  
(% share in total gross exports)

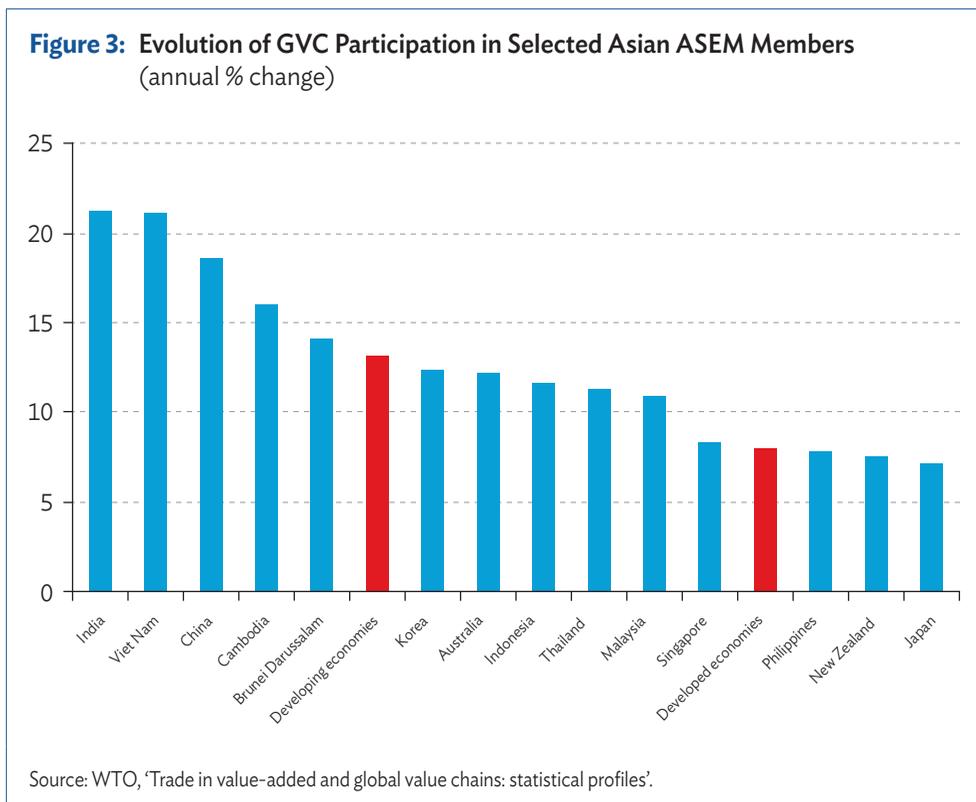


Source: WTO, ‘Trade in value-added and global value chains: statistical profiles’.

The statistics, however, vary across countries in the regions and in part, the differences reflect the economic size, level of development, geographical location, and the policies prevalent in the countries. For example, if a country imposes high tariffs or other trade barriers that make it difficult and more costly to import parts or components, it will lag behind in GVC participation as firms will not be willing to invest there.

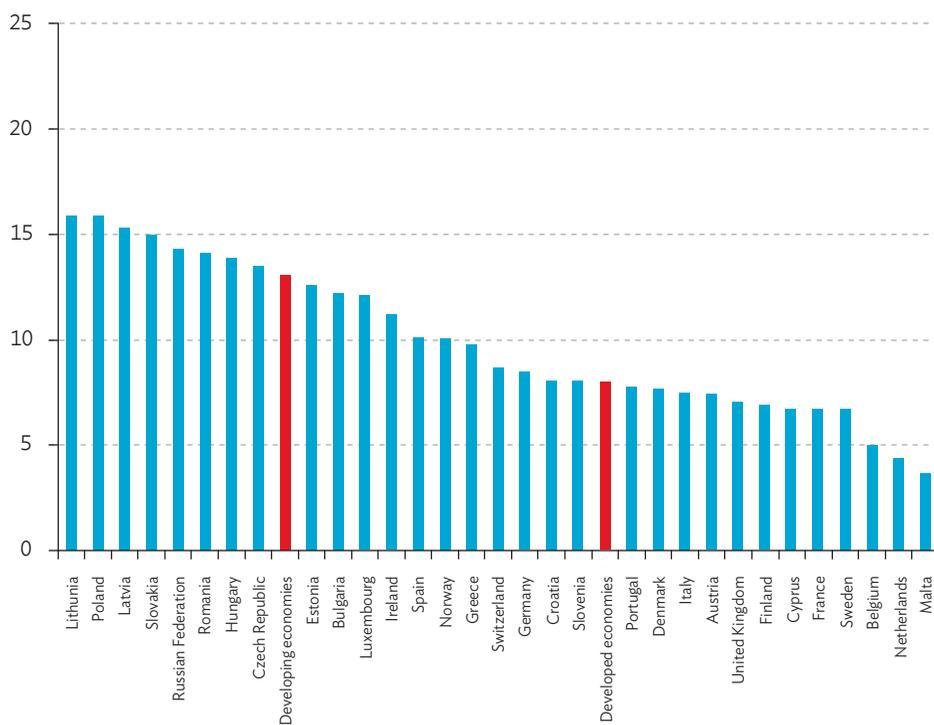
## Participation in GVCs is significantly more in Asia than in Europe

GVC participation has grown more in Asian ASEM members than in European members from 1995 (just before ASEM was formed) to 2011 as can be seen from Figures 3 and 4. So why has Asia outperformed Europe?



Most of the growth in world trade due to participation in GVCs is attributed to intraregional trade and not between different regions and Asia (specifically East Asia and South Asia) has seen the highest growth rate per capita among all regions in the world in the last 20 years. Similarly in Europe, Eastern Europe has grown more in the same period and this is also reflected in their growth in GVC participation (Figure 4).

**Figure 4: Evolution of GVC Participation in Selected European ASEM Members**  
(annual % change)



Source: WTO 'Trade in value-added and global value chains: statistical profiles'.

The enhanced participation of countries in GVCs implies that their firms can specialise in specific tasks in the value chains instead of the whole products or industries, which in turn could potentially improve their competitiveness in global markets. While the literature on GVC is in flux and evolving, increasing evidence suggests that GVC participation may at least be associated with higher growth.

Furthermore, interregional trade through GVCs involving Asia and Europe can potentially offer further benefits in today's fast-changing world where innovation is at the frontier and an important channel of growth. These benefits provide countries to reap dynamic gains from trade through foreign investments in both directions and technology and knowledge transfer related to production and logistics methods, which has shown to be higher across countries linked through GVCs (Piermartini and Rubinova, 2014).

## **SMEs have become a major player in international trade and their importance continues to grow**

The changing landscape of international trade has coincided with the rise in the relative importance of small and medium enterprises (SMEs) and the role they play in the economic development of countries of all development levels. More and more SMEs continue to tap into GVCs and are now able to access export markets. SMEs participate in GVCs both by exporting intermediate goods to buyers in a different country, and/or by supplying intermediate goods to multinational corporations (MNCs) located domestically. In either case, the contribution of SMEs is eventually incorporated into a finished product and sold in regional and global markets.

This is a positive development for SME competitiveness because companies (SMEs or otherwise) that export, or compete with exports, are generally more efficient and obtain higher levels of productivity than those that do not. As SMEs become integrated into larger international business models, they learn (international) best practices merely by association. Moreover, attracting and maintaining internationally oriented SMEs bring greater benefits to host countries, specifically in the form of employment. Collectively, SMEs are already the main source of jobs in most economies, but there is an extra employment boost associated with internationalised SMEs. Needless to say they have also greatly benefitted from the declining trade costs and strengthening transportation and telecommunication networks and technologies.

Globally SMEs make up over 95 percent of all firms, account for approximately 50 percent of value added and 60–70 percent of total employment, when both formal and informal SMEs are taken into account. In the EU, SMEs constitute 99.8 percent of all businesses, 66.9 percent of employment and 58.1 percent of value added. This translates into 88.8 million jobs and over €3.6 trillion in value added, with SME exporters contributing 34 percent of total EU exports, or €1.54 trillion. Evidence for 10 Southeast Asian countries shows that, on average, SMEs account for 98 percent of all enterprises and employ 66 percent of the labour force. These SMEs contribute approximately 38 percent of GDP and about 30 percent of total export value. In China, the world's biggest exporter, SMEs represent 41.5 percent of total exports by value, clearly underlining their importance to the Chinese economy (ADB, 2013).

Therefore, SMEs have played a vital role in the growth of global trade through trade of intermediary goods especially in Asia (representing more than 30 percent of the region's exports) and Eastern Europe. It is no surprise that they are central to the policy agenda of many countries as well as global initiatives such as the United Nations Global Goals and B20/G20 and should also be at the forefront of any future ASEM initiatives.

## Recent Trends

### **Asia and Europe have become major players and partners in the international trade landscape and this has been fuelled by the rise of Asia**

During the past few decades, Asia and Europe have emerged as powerhouses in international trade and generated a significant share of the global economic activity. The trade between Asia and Europe is immensely important and has been consistently growing. At €1371 billion at the end of 2013–2014, trade among ASEM members accounted for over 60 percent of the total global trade. In 2012, they accounted for 57.2 percent of the world GDP, 24.5 percent of which was contributed by European ASEM partners and 32.7 percent by Asian ASEM partners (Eurostat website). Efforts are under way to increase trade flows between the two regions and further integrate into each other's economies.

The rise of Asia in the last few decades has provided an opportunity to all other regions to undertake connectivity initiatives and enter into mutually beneficial agreements. Trade in Asia has grown more rapidly than any other region and has coincided with economies in Asia undergoing a transformation to adopt outward-looking development strategies and market-oriented policy reforms to embrace openness in trade policy and foreign direct investment (FDI). East Asian economies were the first to realise the benefits of these policy reforms which explains why economies of the Association of the Southeast Asian Nations (ASEAN) have outperformed their continental counterparts.

### **Intra-regional trade in both Asia and Europe has been growing significantly and at a faster rate than trade with any other region**

There has been a significant rise in intraregional and intra-industry trade in Asia (and to some extent in Eastern Europe) which is due to the geographical dispersion of production to lower-wage economies by the relatively more developed among developing economies such as China that focused on the production of high value-added components and capital goods. The creation of these dynamic regional supply chains was backed up by extensive trade liberalisation efforts which saw a dramatic increase in the free trade agreements (FTAs) in Asia (from around 50 in 2000 to over 250 in various stages of development), most of which are purely intraregional. The trend has continued as countries are increasingly addressing country-specific problems and opportunities through conclusion of free trade agreements and other types of bilateral or plurilateral economic partnerships.

Intraregional trade in the EU also continues to grow (albeit not as dramatically as emerging Asia) and is continuing to recover from the dip in 2008. Statistics suggest that trade within the region has accounted for more than 70 percent of the region's total merchandise exports on average over the last 20 years (WTO, 2015).

However, it is pertinent to mention here that Europe remains an important destination for the final goods exported from Asia even if this share (of total exports of final goods from Asia) has decreased relatively as a result of the financial crisis.

## **Development divide still exists in both regions and needs to be accounted for**

It is important to note that significant variations in trade data exist in Asia–Europe trade pattern for different countries within the blocs. This is due to vast differences in development and economic levels of countries within each region. For instance, ASEAN countries perform much better in trade with Europe than Central Asian ones, which is evident by the fact that the total trade between the EU and ASEAN is €180 billion whereas total trade between the EU and Central Asia is €35 billion (Eurostat website).

Similarly, there is a gap between different countries in Europe also when it comes to trade with Asia. More advanced economies in the EU account for majority of the exports from Asia to Europe compared to the less advanced ones (for example, Germany is the main destination in Europe for exports from Asia while most of Portugal's trade is intraregional).

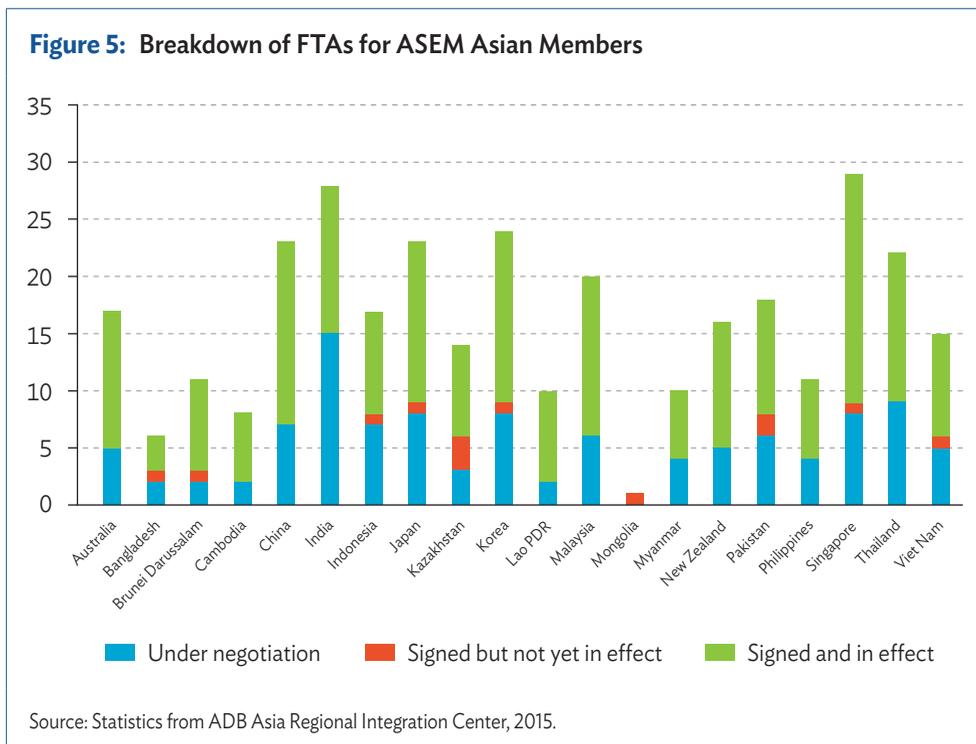
## **Enhanced GVC Participation: Key Trade Policy Determinants**

The advent and increased proliferation of GVCs in an ever more globalised and interconnected world has forced policymakers to face the reality of the changing landscape in international trade and address trade policies accordingly to ensure that their countries remain competitive in global markets. More and more, businesses require access to foreign markets as much as they require access to imports that are used as inputs to keep production costs at a minimum. In this aspect, potential trade barriers including, inter alia, barriers to trade in services and cross-border costs of trade in goods can hamper competitiveness of products. Therefore, trade policy needs to be shaped in such a way that it addresses and facilitates the key determinants of successful participation and integration into GVCs. The key determinants in this respect include addressing non-tariff measures (NTMs) in goods trade, liberalising trade in services, investment policies, and undertaking trade facilitation reforms.

Next we look into the existing initiatives in Asia and Europe and the corresponding challenges in each area of trade policy which, individually and collectively, play a vital role in connectivity on regional and global levels and warrant attention from ASEM Leaders, national policymakers and business associations.

## Trade liberalisation

As discussed in earlier sections, the last two decades have seen massive proliferation of FTAs in Asia which has contributed to the intraregional trade growth through GVC participation. Figure 5 shows the large number of FTAs in effect or being negotiated by ASEM Asian members which have increased exponentially in the last 15 years. ASEAN has been at the forefront and has signed FTAs with all important regional markets such as China, India, Japan, Australia, and South Korea. Recent FTAs have gone deeper to include regulations on services and investments, intellectual property protection, and competition policy. However, it is pertinent to note that given the development divide in Asia, some countries have lagged behind in connecting to the regional and global markets as they continue to use tariffs to protect their domestic industries and have not fully integrated into GVCs which magnify the costs of protectionist measures.



Conversely, European economies have not been able to take full advantage of a rising Asia as they do not have the same autonomy in negotiating FTAs which is handled by the EU. This gives rise to different agendas among member states which could possibly explain why the EU has been slow to attain much progress on FTAs with Asia (especially when compared to other global economies such as the United States, China, etc.). The EU and Asia seem to

have abandoned the regional approach after the failed negotiation of EU–ASEAN trade deal in 2007. Instead, the EU is currently negotiating bilateral trade agreements with a number of Asian countries such as Japan, China, India, and Singapore. The outcomes of these negotiations could provide the parties with significant trade and investment opportunities, just as EU’s first FTA with an Asian country, South Korea, was considered to be a major achievement in liberalising trade to an extent never done before, in terms of lifting both tariff and non-tariff trade barriers.

Empirical evidence confirms that Europe has been slow to latch onto the global shift from multilateral trade agreements to bilateral FTAs. However, current free trade initiatives with Asia reflect their new trade strategies to increase effectiveness and transparency of trade and investment policy and to strengthen their presence in Asia and the Pacific. The European Commission asserts that these on-going deals, when completed, would increase EU GDP by 2.2 percent (€275 billion). Put in another way, this has the effect of admitting a country as big as Austria or Denmark into the EU economy. Furthermore, 2.2 million new jobs would be generated. Similar positive effects could be expected for its partners in Asia. Asia and Europe are also parties to multiple landmark deals such as the Trans-Pacific Partnership and EU–Canada Comprehensive Economic and Trade Agreement which aim to deliver new economic opportunities and eliminate bottlenecks.

A critical aspect of the trade deals between the two continents is strengthening the growth of SMEs. About 600,000 SMEs account for over 80 percent of the total number of EU goods exporting firms and for one-third of total EU exports. Hence, the European Commission recognises SMEs as an integral part of EU policy objective. In particular, increasing facilitation of SMEs globalisation is identified as important in multiple European Commission Communications over the last few years.

At the same time, challenges remain that are a threat to Asia–Europe connectivity and includes the aforementioned growth of intraregional trade in the respective regions. In addition, a new landscape of plurilateral trade agreements in Asia to which Europe is not a party. Asian countries are looking to combine FTAs and are negotiating parties of the ASEAN Economic Community, the Regional Comprehensive Economic Partnership (RCEP), and the trilateral trade pack among China, Japan, and South Korea, which can potentially transform Asia into one of the world’s largest markets. Similarly, Europe is actively pursuing deals of its own, among which are Transatlantic Trade and Investment Partnership and Trade in Services Agreement, and integration of FTAs with Asia seems to be low on the agenda.

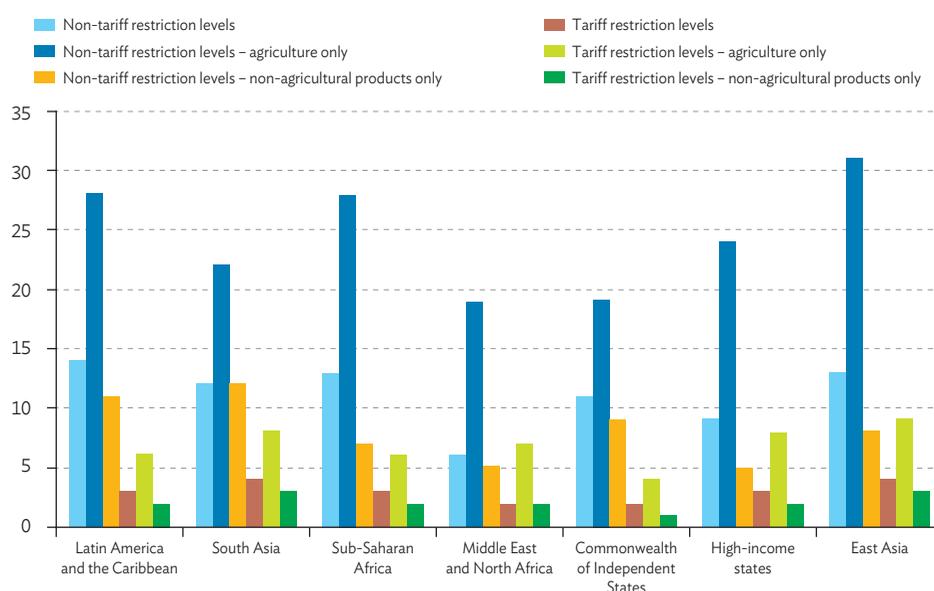
The rise of NTMs in recent decades is another challenge that continues to hamper inter-regional trade. Global trade liberalisation efforts have ensured that tariffs, quotas, and related quantitative restrictions are decreasing. However, this has given rise to NTMs as economies are now using these types of trade barriers to achieve legitimate public policy objectives

such as to protect their local industries and consumers (e.g. sanitary and phytosanitary [SPS] and technical barriers to trade [TBT] measures). These increase the compliance costs for traders and become especially burdensome in the trade of intermediate goods when they have to cross multiple borders in the production life cycle. In practice, a variety of SPS procedural obstacles to trade appear to persist. Countries should make effort to address these obstacles to enable trade to flow more smoothly and quickly.

A UNESCAP (2014) study has estimated that less than 10 percent trade costs are related to tariffs, and between 10 to 30 percent are related to natural costs, the remaining 60 to 80 percent are related to non-tariff policy measures. Statistics (Figure 6) show that protection levels and affected products vary widely across regions and generally, agriculture products face much higher trade barriers due to consumer health and safety concerns (both tariff and non-tariff). For example, NTMs are applied by EU on agriculture products for health and safety reasons and by Japan on the automobile industry for protectionist reasons.

The non-tariff trade barriers also include procedural obstacles to trade and are more prevalent in Asia than in the EU. These include inefficiencies in procedures and in cross-border trade that result in added costs for the traders. Most of these are linked to trade facilitation and will be covered in the next section.

**Figure 6: Trade Barriers, by Region and Product**



Source: World Bank, Overall trade restrictiveness indices and import demand elasticities. <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,content/MDK:22574446~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>

Finally, the trade liberalisation efforts between the EU and Asia should seek to address concerns related to tariff and non-tariff measures. There is a need to develop policies that enhance GVC participation, address countries' legitimate objectives and at the same time are not restrictive for traders, especially SMEs for whom high cost of compliance falls disproportionately and mostly leads to lost business opportunities.

## Trade in Services

The increasing dominance of GVCs has been accompanied by an evolving landscape for trade in services too, which further confirms the importance of identifying synergies between goods, services, and investments in designing trade policies. Broadly speaking, trade in services in GVCs comes into play in two ways—services are directly traded across borders or services form part of goods and are traded indirectly (for example, engineering or financial services that may be part of the production of industrial machinery).

Trade in services has become a major priority for developed and developing countries alike for achieving development goals through international trade, with a few key sectors figuring in more prominently than others as complementary to manufactured exports and industry. These include sectors such as information and communications technology, supply chain management, logistics services and others that are essential enablers for effective GVC participation (especially when geographically dispersed) and contribute to economic growth by improving performance of complementary industries, competitiveness of businesses, and employment.

Trade in services should also be noted for its relative resilience through the latest economic crises, demonstrated by lower volatility, lower magnitude of decline, and faster recovery. Services trade recorded negative annual growth in 2009 for the first time in two decades, but soon resumed to pre-crisis level in 2010. Such resilience encouraged many countries to enhance trade in services as a part of their post-crisis strategies.

New trade statistics reveal that domestic value added from services exports is larger than that of manufactured exports. During the last few decades, services have been rising rapidly in importance as inputs in manufactured exports; these now account for approximately one-fifth of total trade.

Europe and Asia are no exception to this global phenomenon. Extra-EU trade ranked first in both exports and imports of commercial services in 2014, accounting for 985 out of US\$3,760 billion in total world services trade (WTO International Trade Statistics, 2015). East Asia maintained the largest portion of trade in services (as well as in goods) among developing countries, at an estimate of US\$800 billion in 2013 (WTO International Trade Statistics, 2014). Despite the overall expansion, performance of each service sector depends on various economic indicators in each country in each region.

A comparison of the OECD Service Trade Restrictiveness Index (STRI) reveals that Europe is more open than Asia overall, but differences still exist among countries in each region. For instance, the Netherlands scored well below the average in all sectors to the extent that it recorded the minimum in eight sectors, while Austria scored above average in 11 of 17 sectors, after exclusion of maritime transport services for landlocked countries

The extent to which services play a role in an economy also varies across subregions. For instance, most Southeast Asian countries have been lagging in services while the share of services in GDP in some ASEAN countries has remained the same or, in some cases, declined. Moreover, the level of trade liberalisation in services compared to that of goods is lower in Southeast Asia and East Asia than other regions.

However, it is important to note that services trade may still play an important part in an economy even if it accounts for a small portion of the GDP or gross exports. A more relevant indicator to measure the impact would be the value addition of services in the export of goods. Korea is one such case, where services account for approximately 17 percent of the gross exports which in turn accounts for 43 percent of its value added exports of goods . This indicates that Korea's export of goods relies heavily on services inputs. Similarly, over 50 percent of Dutch value added exports come from services although they only account for 16–17 percent of gross exports and imports.

Services trade and the role of services in general also play a key role in boosting the economy as a whole: for example, more than 60 percent of the current stock of global FDI is in services. Mode 3 of services trade deals with delivery through foreign affiliates, which entails FDI. This can prove to be a great source of national growth and development.

Since services themselves do not physically cross borders, services trade is not affected by tariffs but rather by domestic regulations that influence the supply of services. These may result in barriers to trade and can be in the form of horizontal regulations that affect multiple or all services sectors or sector-specific regulations.

Going forward in the context of ASEM Vision 2025, there is a need to look into various countries of the two regions individually to scope the current state of play related to market access conditions, value added by services in exports of goods and domestic regulations to determine what areas to focus on. Once this is done, synergies between different countries and services sectors can be drawn to determine initiatives that can be taken on the regional level by a platform such as ASEM. Examples of such regional initiatives include harmonisation of domestic regulations between members for high value services sectors, mutual recognition agreements, easing of trade restrictive domestic regulations that impact the essential enabling sectors of GVC participation, and others.

## Investments

Past and existing efforts in the above-mentioned areas such as trade liberalisation, trade in services, and removal of trade barriers have created conditions for enhanced investments which have facilitated cross-border movement of capital and know-how to increase global trade. The global value of FDI has risen more than sixfold between 1990 and 2012, to reach US\$22.8 trillion. The rate of FDI growth has been substantially higher than the growth in trade, which increased 3.5 times over the same period. This growth has been facilitated by some 3,000 bilateral investment agreements.

FDI plays a key role in the initial integration of countries in GVCs by facilitating knowledge (including technology) transfer as well as in the subsequent phase of moving up within the value chains to higher value products and thereby improving the quality of exports. These investments are mostly driven by large MNCs and international private sector that are always looking to invest additional resources to maximise incentives from the countries' comparative advantages. According to UNCTAD, an estimated 80 percent of global trade now occurs within international production networks of MNCs that are responsible for more than US\$1 trillion of global FDI flows annually. Given their importance to the economic development of participating countries in GVCs, MNCs have even resorted to direct negotiations with governments in the past on efficient customs processing before making decisions on FDI.

As expected, the global landscape of FDI flows has also been evolving in the same pattern as trade flows. Before 2000, developed OECD countries topped the FDI flows which have changed in the last 15 years when developing economies, primarily in Asia, started receiving the lion's share.

As European MNCs remain the main destination for Asian exports, they are also responsible for FDI inflows in Asia. As with other trade policy areas, some subregions in Asia and Europe respectively performed better than the others. FDI into ASEAN countries has risen for the third consecutive year from \$117.7 billion in 2013 to \$136.2 billion in 2014. Despite a 16 percent decline of global FDI flows in 2014, ASEAN member states have collectively received the largest FDI among developing countries. Due to robust regional economic fundamentals, cost advantages, regional integration, and on-going efforts to improve the investment environment in ASEAN, the region is now seen as a prime investment destination, attracting investments and influencing corporate strategies in the region. Investments from ASEAN member states also continue to rise, reaching \$24.4 billion in 2014 from \$19.4 billion of the previous year. With intra-ASEAN investment accounting for 18 percent of the total FDI into the region, ASEAN is now the second largest investor in its own region, manifesting greater interest from the business community to have a stronger regional presence in light of the establishment of the ASEAN Economic Community by the end of 2015 (UNCTAD and ASEAN, 2015).

A platform such as ASEM can play a key role in bringing together Trade Support Institutions and Trade and Investment Support Institutions from all member countries to develop strategies to promote and attract investments. The same platform can also be used to encourage advocacy to develop backward linkages to promote inclusiveness of all stakeholders including SMEs and to bring reforms in areas such as business environment and trade liberalisation by setting up institutional collaborations.

Moreover, investments are also needed to be channelled to introduce trade facilitation reforms. The faster, more efficient, and predictable exporting will also allow businesses to climb up the value chain into higher-margin products and ignite a positive feedback engine of growth in developing countries: as increased FDI comes into the country, local private enterprises will also invest in improving the business and trade infrastructure, and as the business and trade infrastructure improve, more FDI will follow (OECD, 2014).

## Recommendations

Connectivity through GVCs will continue to be an essential feature of trade and linkage between Asia and Europe. In this aspect, trade policy has a crucial role to play in strengthening this relationship. Notably, rules-based, predictable, and liberal trade environment coupled with ease and transparency in trade in services in the overall backdrop of investment friendly and conducive policies can lead to knowledge and expertise transfer, enhanced flows of FDI, and fostered participation of SMEs in GVCs.

Based on the analysis of connectivity in the different areas of international trade and the current global and regional landscapes, the following recommendations (in addition to the ones at the end of each section above) should feed into the ASEM Vision 2025 agenda.

### **Enhance the mandate of ASEM to transform it into a more effective institution**

ASEM is recognised as a forum for dialogue and coordination and not an institution that can dictate binding obligations. However, for it to be effective, a mechanism needs to be developed which can institutionalise the forum (possibly through linkages with and between economic unions such as the EU and ASEAN Economic Community) and enhance cooperation to strengthen connectivity and constantly review it for continuous improvement.

ASEM should develop an inclusive and sustainable approach to address infrastructure, institutional and logistics issues to augment regional connectivity and development. This can be done by developing synergies between different pillars of connectivity (physical, institutional, and people-to-people) and by ensuring that they are pursued in a collective way.

## **Consolidate trade liberalisation efforts and redesign FTAs to address all areas of trade policy**

The large proliferation of FTAs in Europe and Asia has a ‘noodle bowl’ effect which is challenging to manage and consolidate. Combining FTAs (within Asia and Europe as well as interregional) is a difficult and complex task because of the different levels of development of ASEM members in each region. For example, the EU cannot combine FTAs with Asian members to the most advanced FTA in the region (Singapore) as it would not work for less developed nations. Therefore, a more regional approach is required.

When designing and negotiating FTAs, a more coherent and comprehensive approach is required to make them more holistic and address all trade-related issues such as trade in goods (tariffs, regulations, procedures, etc.); trade in services (market access, domestic regulations, etc.); and investments. A combined trade and investment policy will have more impact on connectivity between the two regions.

Additionally, harmonisation of services regulations, standards, and procedures across the regions will play a vital role in reducing trade barriers including non-tariff and market access barriers.

## **Ensure inclusion of all stakeholder groups to engage in public–private dialogue**

The forum of ASEM should move beyond leaders and strive to bring all stakeholders (such as private sector representatives, relevant government officials, members of Trade Support Institutions and Trade and Investment Support Institutions, etc.) from different countries together to identify common issues, design solutions, and share knowledge and ideas. The role of the private sector and businesses, especially SMEs, must be acknowledged in trade policy formulation and must be included at all levels in ASEM. A business council, housed under ASEM, may be set up to bring together businesses from both regions to form common positions and engage with leaders in public–private dialogue.

Coordination among government agencies at the national, regional, and ASEM levels must be improved to set and achieve common objectives and goals in consultation with the private sector.

## **Develop innovative initiatives to further enhance connectivity between the two regions**

- Regulatory connectivity is a key to better links between Europe and Asia. It has to be in the form of an agreed framework to facilitate and enhance regulatory cooperation. This would also enhance the regulatory capacity of developing countries in ASEM.

- In the absence of any multilateral or large regional agreements on investments, ASEM should work to carve out one which would cover the existing flows of investments from Europe to Asia and provide for reverse flow as well.
- Establish cross-continental value chains in services to address and strengthen all segments of economic activity and involve less developed countries to provide developing countries with opportunities to move up the value chains.

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# Asia and Europe Regulatory Connectivity and Coherence

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**T**his paper addresses the state of regulatory connectivity between Europe and Asia (Asia–Europe Meeting [ASEM] countries). It explores the wide range of possible approaches to international regulatory cooperation and finds that implementation is often hard and there are no simple ‘silver bullet’ solutions. The best approach will depend on the goals, the contexts in the respective countries, and the balance of risks with each approach. The key policy implication is that countries should consider the full range of regulatory cooperation approaches, and use the least demanding form of international regulatory cooperation (IRC) required to achieve their objectives. Unilateral action to achieve regulatory convergence is an important tool for countries to consider first.

The paper highlights how practice, driven forward by initiatives such as the Trans-Pacific Partnership, is leading theory. Theory is lagging as suitable frameworks are still being developed to adequately characterise the dimensions of IRC and the possible approaches. As cooperation is a long game, ASEM provides an important opportunity to identify the first initial steps that need to be taken.

## Introduction

The reduction of tariffs in successive international trade negotiations and, more importantly, the significant reduction in the cost of transport due to containerisation have increased international trade significantly. However, non-tariff barriers such as technical barriers to trade (technical regulations, mandatory standards, related conformity assessment procedures, etc.) and divergence in regulatory policies and practices continue to provide obstacles to trade. The lack of regulatory coherence arising from the interaction of regulations within and between countries can combine to produce unintended and unnecessary barriers to trade. ‘While some non-tariff measures are “born” as intentional restrictive and protectionist non-tariff barriers, most are not’ (Marshall School of Business, 2008, p. i).

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Note: I am grateful for the reviewer’s comments on an earlier draft. The opinions expressed in this paper are the sole responsibility of the author.

The aim of international regulatory cooperation (IRC) is to improve regulatory coherence and connectivity by improving the design and execution of the operation of regulations on goods or services as they cross national boundaries. IRC has become very topical in recent years with the Trans-Pacific Partnership (TPP),<sup>1</sup> the Transatlantic Trade and Investment Partnership, and various European Union (EU) regional initiatives with accession and neighbouring countries. IRC is also being driven by concerns about non-tariff barriers (NTBs) generally as well as the inclusion of TBT provisions, bilateral free trade agreements (FTAs), and regional FTAs.

This paper examines the state of regulatory connectivity between Europe and Asia (ASEM countries) by exploring what the opportunities and barriers are. To do this, we set the scene briefly on why regulatory connectivity matters before exploring in subsequent sections the achievements and opportunities facing ASEM countries.

Regulatory connectivity and coherence can play an important role in physical, institutional, and people connectivity. Regulatory coherence has a number of dimensions: (i) coherence between different domestic laws, (ii) coherence between different domestic regulatory practices, and (iii) coherence between the law and practices of different economies. The third element, coherence between different countries, is addressed through greater international regulatory cooperation.

IRC can be seen as a continuum with full autonomy at one end through informal cooperation through formal cooperation (such as mutual recognition) to full harmonisation and integration at the other.

IRC can occur at a number of levels—policies, the practices of regulatory agencies (apart from enforcement), judicial and quasi-judicial enforcement, and adjudication (Ladley and Gill, 2008). At each level is a continuum in the range of levels of intensity of integration. Moreover, there is an independent decision on the degree of integration at each level of policy integration, regulatory practices, enforcement, and adjudication. As a result, there is a wide range of possible approaches, and no simple ‘silver bullet’ solutions.

## The Objectives of and Gains from International Regulatory Cooperation

Greater regulatory connectivity and coherence offer economic gains from reduced NTBs and improved regulatory quality, and yields other benefits such as geopolitical gains.

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<sup>1</sup> For an analysis of the regulatory coherence provisions in Chapter 23 of the TPP, see Ciuriak and Ciuriak (2016).

## Economic Growth

The first objective is the promotion of economic growth through improved transparency and reduced non-tariff barriers to trade, arising from reduced compliance costs, increased competition, reduced prices, more rapid diffusion of innovation, and improved ability for small and medium enterprises to participate in trade. While the potential gains are clear, the extent of these gains, however, are more contested. In the case of mutual recognition agreements (MRAs), the Organisation for Co-operation and Development (OECD) observes 'the impact of MRAs on trade by lowering cost is found to be positive in the empirical literature. Nonetheless, the empirical evidence is not very powerful. In fact, little is known about cost differential of conformity assessment with and without a MRA' (Correia de Brito et al., 2016, p. 11).

## Improved Regulatory Quality

A second potential gain comes from strengthening the capability of states to deliver effective regulation to citizens and businesses. These gains arise from the cost effective development and implementation of rules and improved regulatory capacity and capability. The latter is particularly important for smaller or less developed states with weaker regulatory capability. New Zealand pursued the goal of a joint therapeutic regulator with Australia (unsuccessfully ultimately) in part because of concerns that New Zealand lacked the ability to sustain a credible domestic regulatory capability in such a highly technical and specialised field. (See Ladley and Gill for a discussion of the less developed states in the Pacific.)

Gains also arise from increasing the effectiveness of regulation across borders. This is an important factor given the growth in global supply chains. These chains limit the ability of individual states to regulate their citizens and businesses because the reach of powers of the regulators often do not extend beyond one country's borders. This makes it difficult to monitor and enforce compliance with a regime in another country with the domestic powers that regulators have. Moreover, with global chains there is increased potential for regulatory failures to spread across national boundaries.

IRC is criticised for the loss of autonomy in the exercise of regulatory sovereignty. This is a potentially valid concern particularly as the degree of cooperation becomes more intensive. But sovereignty without capability is a hollow exercise of form over substance. The critical question is, does the proposed initiative adversely impact on the effective exercise of sovereignty? IRC offers the scope for more effective exercise of national regulatory sovereignty through the adoption of international standards and norms backed by support from regulators in other jurisdictions. In some cases, this support could include technical assistance from overseas counterparts.

## Other Potential Benefits

IRC can also offer other benefits. One of the potential gains from IRC are geo-political. One of the multiple drivers for Closer Economic Relations (CER) between Australia and New Zealand came from Australian concerns about the geo-political implications of continued poor economic performance by New Zealand (Nixon and Yeabsley, 2002, p. 139). (See Box 1 for a discussion of CER). Other potential benefits for some forms of IRC include getting a seat at the table to influence international standard setting, and allowing scope for regulatory competition (under some forms of mutual recognition) (Mumford, 2012).

The previous section discussed how there is a wide range of possible approaches to IRC. Being clear about the objectives sought, the potential gains from IRC, and being realistic about the capability to implement are important to get alignment between the approach adopted and the intended objectives. The next section turns to a discussion of the opportunities and achievements facing regulation in ASEM countries.

## Achievements and Opportunities

IRC offers opportunities because there is a wide range of alternative approaches—a key challenge is to choose the right approach to achieve the desired objective that is capable of being delivered. While there is general agreement that there is a spectrum from autonomous regulation at one end to full regulatory integration at the other, there is no agreed taxonomy in the literature for the intermediate points in between.<sup>2</sup> This is because there are a number of variables and, hence, a range of permutations and combinations. The key dimensions for IRC include:

- The objectives sought – reducing particular NTBs, improving regulatory quality, augmenting regulatory capability, or managing international spillovers
- The numbers of players involved – bilateral, plurilateral, or multilateral
- The parties involved – while IRC is focused on government actors, private accreditation is increasingly being substituted for MRAs and growing private ‘regulation’ is increasingly being adopted by governments
- The focus – policy, enforcement, other regulatory practices, adjudication
- The locus – comprehensive sectoral coverage, inclusive with a negative list of sector or product exclusions, limited to a positive list of inclusions, sector specific
- The legal architecture – international organisations, international agreements, regional agreements, bilateral agreements.

<sup>2</sup> See Bull et al. (2015, p. 15) for a longer discussion of this vexed issue.

**Box 1: Australia and New Zealand – Closer Economic Relations to a Single Market**

Australia and New Zealand have a shared history, language and values, a similar culture, political, legal and economic institutions, and a high political commitment to greater integration. This has provided a solid platform of mutual understanding and trust on which to build the closer economic relationship. The free trade area established by the Closer Economic Relations Trade Agreement in 1983 led over time to further integration under a goal of the Single Economic Market. In some areas integration has well advanced—the Intergovernmental arrangement relating to Trans-Tasman Mutual Recognition (TTRMA) includes recognition of respective regulatory regimes as well as conformity assessment procedures. The EU is the only other jurisdiction with mutual recognition of regulatory regimes.

However, progress in other areas has been slower. In a joint study by the Australian Productivity Commission and the New Zealand Productivity Commission, it was observed (2012, p. 6):

Implementing agreements to reduce behind the border barriers—typically regulatory in nature is more complicated than reducing tariffs. Work programs strengthening trans-Tasman economic relations have taken many years in some cases. For example, the first consultation paper on establishing a joint therapeutic products agency was released in 2000, yet the new agency is not due to be operational until 2016. In other areas—such as a mooted merger of stock exchanges and the integration of banking supervision and competition policy regimes—deeper integration has not been achieved.

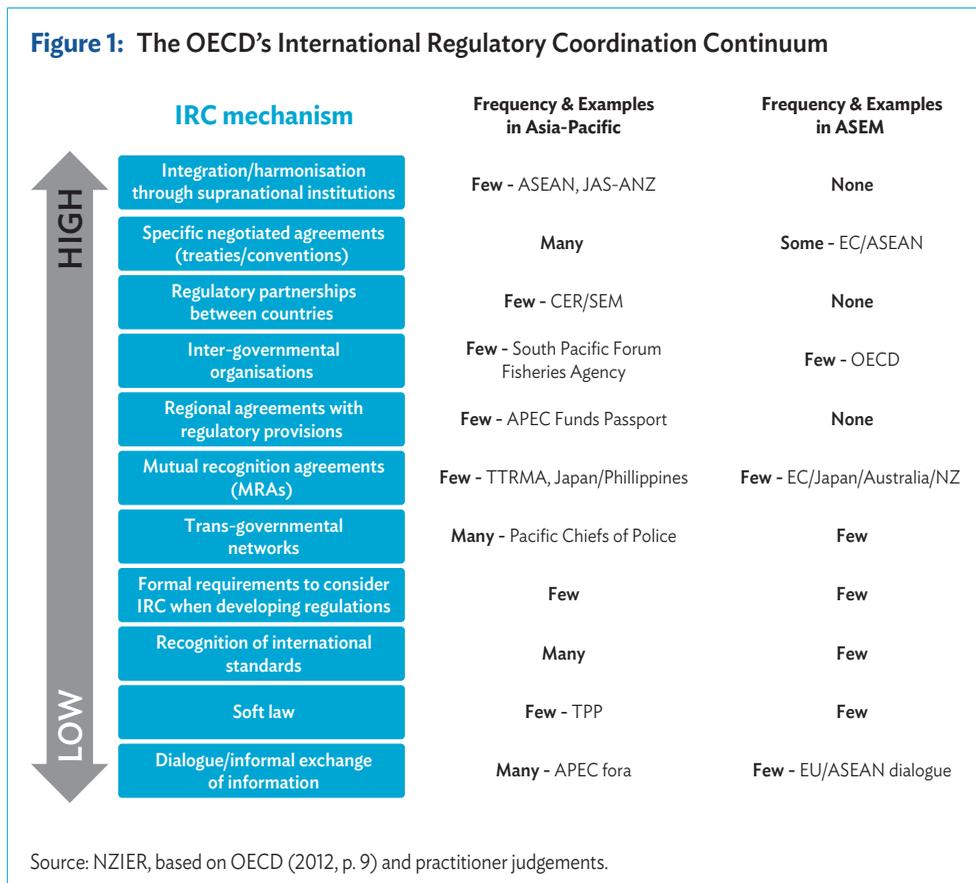
In relation to competition policy and consumer protection regimes, the decision not to integrate more deeply reflected the results of an analysis that the costs of doing so would outweigh the benefits (APC, 2004). Establishment of a full service joint regulator for therapeutic products proved a bridge too far. Since the joint study was published, the design work was completed but the proposal for a joint regulator was essentially abandoned in 2015.

As a result, no joint regulators cover the full spectrum of policies, practices, and enforcement. In food safety standards, New Zealand has essentially joined the Australian body with minor modifications to the governance arrangements. In the case of JAS-ANZ, a separate (international) body was created to provide for a joint accreditation system for conformity assessment bodies. However, administration and enforcement of any joint standards remain with the respective domestic agencies.

New Zealand and Australia show what can be achieved through a combination of political commitment and sustained bureaucratic effort when they are built on a foundation of trust. 'It should be acknowledged that it will be exceedingly difficult for other countries to imitate this model of mutual recognition due to the context as well as its ambition' (Correia de Brito et al., 2016, p. 68).

For example, the OECD has identified 11 different types of IRC mechanisms which are a mixture of legal structures, types, and numbers of players arranged on a continuum from low to high levels of regulatory integration. These mechanisms are shown in the first column of Figure 1. The second column reviews the relative frequency of the use of different government IRC mechanisms within ASEM countries in the Asia-Pacific region on a simple scale (none, few, many) and includes some illustrative examples. The third column looks at the relative use of various plurilateral IRC mechanisms between ASEM countries in Asia and Europe (but excluding multilateral IRC arrangements through the World Trade Organization and the UN systems).

It is important to note that systematic data on the number of arrangements is generally lacking apart from a few exceptions, such as the mapping of MRAs undertaken by the OECD (Correia de Brito et al., 2016). As a result, the assessments in Figure 1 of the relative frequency of the use of IRC are generally based on qualitative practitioner judgements rather than firm quantitative information.



## IRC Achievements

Within ASEM countries in the Asia-Pacific region is a range of arrangements across the IRC continuum, shown in the second column of Figure 1. The arrangements are concentrated at the low integration end of the spectrum. These low integration arrangements involve soft law 'best endeavour' undertakings or agency-to-agency trans-government networks rather than formal intergovernmental organisations and agreements.

At the low integration end, there are more numerous examples in the Asia-Pacific region. A number of ASEM countries are also members of the Asia-Pacific Economic Cooperation (APEC) which provides for dialogue and exchange of information across a wide range of economic issues. This dialogue provides the basis for specific programmes such as the Asia Regional Funds Passport Initiative (Godwin and Ramsay, 2015). Similarly, APEC has an initiative to rationalise and simplify technical barriers to trade provisions across bilateral and regional trade agreements.

A number of countries have become signatories to the TPP and when it comes into force they will be bound by the regulatory coherence chapter. This requires domestic regulation making to include greater transparency and allow interested parties from other countries to comment on regulatory proposals and have their views taken into account and to participate in rule making.

At the high integration end of the continuum are two examples. ASEAN has an ambitious agenda to achieve greater economic integration through the ASEAN Economic Community (AEC) established in 2015. The common goal of Australia and New Zealand of moving to a single economic market is discussed in Box 1. New Zealand and Australia have mutual recognition of regulatory regimes (the only region outside the EU to this degree of integration) and a joint standards setter, but no full joint regulators.

The third column of Figure 1 looks at the relative frequency of plurilateral arrangements between ASEM countries in Asia and Europe and suggests there are a few high IRC integration arrangements and those that exist are concentrated at the low integration end of the spectrum. The EU and ASEAN have a Dialogue on Connectivity that covers security, economic/trade, and sociocultural cooperation. Apart from this example, the author has not been able to identify other examples of high integration arrangements such as regulatory partnerships between EU countries and a significant number of ASEM countries. There are, however, a range of bilateral agreements that have regulatory provisions between the EU and ASEAN and between the EU and the developed ASEM countries in the Asia-Pacific region such as Australia, Korea, Japan, New Zealand, and Singapore.

One area where comparative data is available is for MRAs. With a few notable exceptions, these are limited to mutual assessment of conformity assessment results. Moreover, the European Commission’s MRAs are mainly limited to countries of similar capabilities that ‘trust each other’s regulatory procedures, institutions and infrastructure’ (Lesser, 2007, p. 7). Similarly MRAs within the Asia-Pacific region are almost solely between the developed countries. The author has identified two significant regional initiatives: within APEC economies, an MRA on telecommunications equipment and within ASEAN countries, a framework for the mutual recognition of professional services (architectural, surveying, medical, dental, engineering, nursing, accounting, and tourism).

While to date there has been limited progress at the regional level in Asia-Pacific (apart from the limited targeted initiatives discussed above), ASEAN has an ambitious agenda of achieving greater economic integration through the AEC. For example, the Economic Blueprint, one of the three blueprints adopted for the ASEAN Community, aims to achieve the free flow of skilled labour within ASEAN by 2025. Box 2 discusses the regulatory components of the AEC in more detail.

The AEC Blueprint provides a useful foundation on which ASEM can build.

### **Box 2: AEC and Good Regulatory Practices**

The AEC Blueprint 2025 lists the following strategic measures for implementing and institutionalising Good Regulatory Practices (GRP) in ASEAN:

- Ensure that regulations are pro-competitive, commensurate with objectives, and non-discriminatory.
- Undertake regular concerted regional programmes of review of existing regulatory implementation processes and procedures for further streamlining and, where necessary, recommendations for amendments and other appropriate measures which may include termination.
- Institutionalise GRP consultations and informed regulatory conversations with various stakeholders in order to identify problems, come up with technical solutions, and help build consensus for reform.
- The regulatory agenda may include the setting of both targets and milestones in order to facilitate a regular assessment of the regulatory landscape, and periodic review of progress and impacts in the region.
- Undertake targeted capacity building programmes with knowledge partners such as OECD and ERIA to assist ASEAN Member States in the regulatory reform initiatives which take into account the different development levels, development needs, and regulatory policy space of each ASEAN Member State.

## Challenges and Risks

This section discusses the key obstacles, risks, and issues that need to be managed to achieve greater regulatory connectivity.

The first issue is the expectations gap. The OECD's mixed experience with MRAs is instructive. 'MRAs were probably overrated in terms of benefits, without fully realising the costs and challenges' (Correia de Brito et al., 2016, p. 11). In part MRAs have provided limited benefits because private accreditation systems have been able to provide the requisite coordination more effectively. This experience suggests shooting low for the least demanding form of IRC required to achieve the objectives rather 'than shooting for the moon'.

The second issue is the implementation gap. There is often a marked gap between the rhetorical goals and actual achievements on IRC (Jetschke, 2009). The OECD reports that in the US/EU MRA after a number of years of being signed, only two of the six sectoral agreements were operational with around 20 percent of the goods intended actually covered (Correia de Brito et al., 2016, p. 11).

The third issue is the importance of a platform of trust and adequate levels of capability to support deeper levels of integration. The experience from New Zealand and Australia suggests that, while much is possible, the degree of integration that can be achieved has limits, even when there is a shared history, similar culture and institutions, and high political commitment. The economic theory of clubs posits that the optimal club size is one where the additional economies of scope and scale are equal to the extra costs of collective action (Mueller, 1989, pp. 150–153). As the extent of integration in Figure 1 increases, the costs increase too, while the additional benefits at the margin are limited. Similarly the more diverse the countries seeking to cooperate and the more disparate the level of capability, the higher the cost of collective action and shallower the optimal level of integration within the club will be.

The fourth issue is the risk of international divergence in regimes. Divergence can arise when parties are called to harmonise on regional regulatory regimes which are not aligned with international or super-regional settings.

The fifth issue is the related risk of diversion. Regulatory diversion can arise when scarce resources are devoted to regional convergence and are diverted from supra-regional or multilateral convergence. For example, regional rules of origin requirements can mean other countries are disadvantaged if they must continue to fulfil separate requirements.

These issues are particularly important for smaller and less developed countries where capability constraints mean that these countries can have difficulties completing and implementing the bilateral or regional provisions they have already agreed to. As a result, the degree of regulatory cooperation that was planned is not achieved.

## Policy Implications

Greater regulatory connectivity can be used to achieve a range of goals including reduced technical barriers to trade, improved regulatory quality, or wider geopolitical integration. There is a wide range of possible approaches, implementation is often hard, and there are no simple ‘silver bullet’ solutions. The best approach will depend on the goals, the contexts in the respective countries, and the balance of risks with each approach. That said some tentative policy conclusions can be drawn.

One key challenge is to manage down the expectations gap. Based on a review of Mutual Recognition Agreements, the European Commission observed ‘Traditional MRAs ... have proven difficult to negotiate and even more difficult to implement. It is not worth pursuing new negotiations of this type of MRA’. Instead they advocate pursuing enhanced MRAs based on common or equivalent standards mainly focused on accession countries. With respect to ASEAN countries, the paper envisaged a technical dialogue with a view in the longer term ‘for Enhanced MRAs in selected sectors where equivalent standards exist’ (European Commission, 2004, p. 10).

The key dimensions of IRC—approach, focus, locus, parties, players, and architecture (discussed above)—provide a useful framework for the directions for reform:

- On approach – be clear about what the objectives are – reducing particular NTBs, improving regulatory quality, augmenting regulatory capability or managing international spillovers
- On focus – work on coordination of new policies rather than existing provisions, the practices of regulators, or enforcement
- On numbers – harmonise to international, not bilateral, rules and standards, working with international standard-setting bodies where necessary
- The locus – focus on sectors where the gains are highest (such as international value chains) and avoid long-standing trade irritants
- On the parties involved – start with private codes such as coordinated standards developed by private standards organisations which in some cases can then be incorporated into law by reference
- On legal architecture – use the least demanding form of IRC required to achieve the objectives rather ‘than shooting for the moon’, for example, by encouraging the adoption of key model provisions and internationalise successful regional initiatives in specific sectors (Lesser, 2007, p. 9).

The key implication for policy from the list above is that countries should consider the full range of regulatory cooperation options, and consistent with Occam's razor, use the least demanding form of IRC required to achieve the objectives. Deeper integration is hard to achieve and sustain. Broadening IRC through softer, more informal cooperation between countries is easier to achieve and support, particularly when countries are not similar. Improving IRC takes time as it is a long game that involves taking a series of small steps along the road. So taking the initial steps is important for laying the foundations for what is to follow.

New Zealand and Australia's experience with CER suggests the potential for countries to move over time beyond FTAs to more intensive specific regulatory cooperation arrangements. FTAs often create informal regulatory cooperation bodies which can lead to deeper relationships and promote understanding and trust. As a result, starting with more informal cooperation provides the foundation that can be a stepping stone to deeper cooperation arrangements over time. As cooperation is a long game, ASEM provides an important opportunity to identify the first initial steps that need to be taken.

In addition, the option of unilateral action to achieve regulatory convergence is an important informal tool for countries to consider as a first option. IRC is only a part of the suite of approaches to achieving regulatory coherence. Strengthening domestic regulatory management systems by commitment to greater transparency and GRP will also contribute to greater regulatory connectivity.<sup>3</sup>

A key theme of this paper is how practice is leading theory. IRC is being driven forward by initiatives such as the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership, EU regional initiatives with accession and neighbouring countries and the increased focus on NTBs due to the divergence in regulatory regimes.

Theory is lagging behind practice. Firstly, suitable frameworks are still being developed to adequately characterise the dimensions of IRC and the possible approaches. These frameworks are an important foundation for organising the evidence about what works and the balance of risks with each approach. As Correia de Brito et al. (2016, p. 13) observed 'the choice among various cooperation approaches is not informed by a clear understanding of benefits, cost and success factors of diverse IRC options'. Secondly the tools are still lacking to adequately assess the distortions caused by NTBs and the potential gains from removing them (Dee and Ferrantino, 2005). Hopefully the recommendations from this paper can go a small way to bridging the gap between theory and practice, especially under the ASEM process.

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<sup>3</sup> See Intal and Gill (2016 forthcoming) for a discussion of regulatory management and good regulatory practices in the Asia-Pacific region.

## Implications for ASEM

So in the 21st year of ASEM, what are implications for regulatory policies and institutions of the trends in regulatory coherence in Asia and Europe? Attention should focus on strengthening national regulatory policy frameworks through adoption of GRPs, advancing international regulatory cooperation through regional initiatives, and addressing the risk of trade diversion and regulatory exclusion.

Focusing on regulatory institutions, research led by ERIA and NZIER (2016, forthcoming) highlighted the key role of two institutional preconditions: political commitment to GRP backed by a body with the capability to drive the implementation of GRP into the practices of policy developers and regulators. ASEM leaders could reaffirm their commitment to the adoption and implementation of the principles of GRP. They could also commission a feasibility study for some work on capability building for institutions tasked with improving the regulatory management system and champion International Regulatory Competition.

At the level of individual nations' regulatory policies, unilateral action to achieve regulatory convergence is an important tool for countries to consider first. ASEM leaders could reaffirm their commitment to the adoption and implementation of principles of GRP domestically.

On regional regulatory policies, this paper argued for the use of the least demanding form of IRC required to achieve the objectives. Deeper integration is hard to achieve and sustain. Softer, more informal cooperation between countries is easier to achieve and support.

The Economic Research Institute for ASEAN and East Asia (ERIA) is currently scoping out an IRC study for 2017 to complement work already under way in other fora such as APEC and the OECD. It is particularly important that the IRC tools are tailored for smaller and less developed countries that face significant capability constraints.

ASEM leaders could reinforce their commitment to work continuing on developing practical toolkits and frameworks for IRC through international fora. The risk of trade diversion and regulatory exclusion needs to be addressed. Leaders could also commit to a scoping study on the capability requirements for IRC for smaller and less developed countries and the role for technical assistance in addressing these constraints.

In summary, ASEM can play an important role by strengthening national regulatory policy frameworks, advancing IRC through selected initiatives, and addressing the risk of trade diversion and regulatory exclusion.

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# Trade Facilitation

## MAKING TRADE MORE EFFICIENT

BEN CZAPNIK AND MOHAMMAD SAEED, INTERNATIONAL TRADE CENTRE

**M**any factors affect the competitiveness of firms in international markets. These factors include production costs related to machinery, inputs, labour, and finance. They also include trade and transport costs such as tariffs, freight, and fees for logistics service providers.

Trade facilitation is commonly understood as the transparency and efficiency of international trade procedures to reduce the time and cost of international trade transactions. It is a broad concept that can apply to the ‘whole of the supply chain’. After all, logistics efficiency can be just as significant for a firm’s competitiveness as its productive efficiency.

However, trade logistics can only be as efficient as its ‘weakest link’. It only takes one inefficient logistics service provider or border regulatory agency to slow down the delivery or release of a consignment. Trade facilitation must be viewed comprehensively from the producer’s premises to the retailer’s shelf.

In recent years, trade and transport costs have become an increasingly high profile topic in trade policy circles. Whereas it was once considered a highly technical area best left to customs specialists at the border, trade facilitation is now regarded as a core element in trade and development strategies.

The main reason for this change in perception is the realisation that the costs associated with trading goods—border procedures, documentary requirements, delays, and logistics costs—have a significant effect on trade. As the costs associated with other types of trade policy—especially tariffs—continue to decline, the hidden costs associated with trade now create the biggest burden for traders.

As the Director-General of the World Trade Organization (WTO), Roberto Azevedo, recently noted (*Wall Street Journal*, 2015):

Trade costs in developing countries are, on average, the equivalent of a 219% import tariff. For each dollar it costs to make a product, it costs a further \$2.19 to bring it to developing-country consumers. For high-income countries, this cost is closer to \$1.34—still a substantial surcharge. Cutting trade costs would therefore have a dramatic effect around the world: A reduction of 1% would support a 3% to 4% increase in trade growth.

Entering into international agreements or national strategies to reduce trade costs can sometimes appear less relevant than agreements to remove tariffs. Whereas tariffs are set by parliaments and are therefore ripe for political debate in capitals, trade costs appear to be a function of how laws are administered by border agencies or even by the performance of logistics service providers (operating as private companies or state-owned enterprises). Historically, this has been viewed as an issue for customs and border agency officials rather than for trade policymakers and negotiators.

However, trade costs are an important matter which directly impacts on the ability of countries to use trade as an engine of growth and development, especially through integration into regional and global value chains. According to the WTO's World Trade Report, full implementation of the WTO's Trade Facilitation Agreement (TFA) would reduce trade costs by an average of 14.3 percent worldwide and by up to 23.1 percent in some countries. This would make a significant contribution to growth of world exports and gross domestic product (GDP).

In many respects, the European Union (EU) and Asia stand out as models of how to facilitate trade. The EU is the world's leading trade bloc with respect to eliminating barriers to trade within its common market. Asia has shown that reducing trade costs can lead directly to integration into value chains which ultimately produce a significant development dividend.

Several Asian countries have used this approach to trade their way from low- to high-income economy status. For example, Korea increased its per capita GDP from \$100 in 1963 to around \$23,000 in 2014 by integrating into regional and global markets. Other Asian countries are following in their footsteps and looking to trade their way out of poverty. It is no surprise that Asia is often pointed to as a shining example of how regional value chains can and should operate. Apple, an iconic brand known for its widespread value chains, sources inputs from over 300 production facilities in China and dozens of facilities from many other countries in Southeast Asia.

The conceptual debate—that trade costs matter and deserve political attention—seems to have been won. The World Customs Organization has recognised the importance of making borders more efficient, at least since the Kyoto Convention entered into force in 1974. The Revised Kyoto Convention, which entered into force in 2006, sought to build on this progress by finding ways to further improve border clearance procedures, especially with respect to transparency, simplification, and standardisation.

The negotiation of the TFA has provided a further shot in the arm for stakeholders looking to reduce trade costs. The TFA reinforces many key concepts already established under the Revised Kyoto Convention. However, the TFA builds on this by creating a legally enforceable binding agreement which extends obligations to all border agencies (not just customs)

and creates a critical role for the private sector. Considering the WTO's near-universal membership, this will also extend good border management practices to dozens of new countries.

The WTO also creates an important framework for the provision of technical assistance to developing countries to implement the TFA. The TFA is unlike other WTO agreements in terms of its architecture and approach to technical assistance. This reflects the fact that the biggest obstacles to trade facilitation reform are often a lack of resources rather than a lack of political will. Further, the implementation of trade facilitation reforms in a given country creates positive externalities for that country, but it also provides benefits to all of its trading partners. In this sense, an economic argument can be made for sharing the costs of TFA reform rather than leaving it to implementing countries to fully self-fund their reforms.

While there may now be a political consensus on the importance of reducing trade costs, implementation will not necessarily be easy. Unlike tariffs, trade costs cannot simply be identified and eliminated. Some costs are necessary and unavoidable, and traders will always face certain costs associated with transporting their goods and managing border procedures.

Any discussion around trade costs must therefore focus on identifying those trade costs which are inefficient and seeking to eliminate those costs, for example, by minimising the costs of logistics or the time goods spend at borders. This is a movable feast. What is today considered best practice—such as the electronic submission of documents in advance by traders—may have seemed impossible two decades ago. Decades from now, depending on how border management evolves, today's best practice may be considered redundant and inefficient.

While identifying inefficient trade costs will always be context and country specific, the TFA provides helpful guidance in three important ways. First, it contains specific provisions on what governments should do to increase efficiency. For example, the agreement requires government to issue advance rulings and create schemes to facilitate border clearance for authorised operators. In certain instances, it identifies best practice, such as Internet publication for laws, and encourages governments to comply. These measures build on the General Agreement on Tariffs and Trade to reflect our current understanding of how customs should operate.

Second, in recognition of the fact that best practice may evolve over time, the TFA requires its members to continuously review their border management techniques to identify ways to create efficiencies. The TFA does not create rules on how many documents a trader should have to fill in, but it does require governments to constantly review their documentation requirements with a view to making them less burdensome. The same principle applies to formalities and procedures. The TFA further encourages governments to comply with international standards (which are constantly evolving) in order to improve efficiency.

The third way in which the TFA seeks to eliminate inefficient trade costs is by requiring governments to engage with the private sector with respect to the regulatory and administrative regime for border clearance. Border agencies should regularly consult with traders and governments and establish an inclusive committee to address trade facilitation matters. Governments should give the private sector a chance to comment on proposed reforms and provide advance notice of regulatory or administrative changes. This does not mean that governments must accept all private sector proposals—and there may be legitimate policy reasons behind certain trade costs—but no one is better placed to identify and signal trade inefficiencies than those actors who are moving goods across borders day in, day out. Considering their views can only help the policymaking process.

The TFA is a legally binding agreement; however, its provisions leave much discretion with governments to decide how to implement each measure. Certain provisions of the TFA have been diluted by linking these with the availability of resources or by making these ‘best efforts’ obligations. In the context of ASEM (Asia–Europe Meeting) connectivity, an ambitious starting point would be to agree that all TFA measures should be implemented, regardless of any qualifying language in the TFA which softens the legal commitment. ASEM could even seek to agree on minimum standards which go beyond the TFA, for example, by requiring that all ASEM countries use an integrated electronic platform as the basis for their single window.

While the TFA provides a useful framework for undertaking reform of border clearance, in many cases, it provides the bare minimum standard. In this sense, policymakers in Europe and Asia should consider ways in which their approach to trade facilitation can go further than the multilateral agreement. This chapter will explore three additional themes as a basis for deeper integration on trade facilitation in the European and Asian context—regional integration, the cost and quality of services logistics, and the treatment of agricultural goods (especially perishable goods).

## Regional Integration

Regional integration plays an important role in supporting trade facilitation. There are two key areas where regional integration can support a TFA-plus agenda and enhance the benefits which flow from trade facilitation reform. First, regional integration projects can reduce border procedures and inefficiencies affecting trade in goods in a way which goes much further than mere implementation of the TFA. The most extreme example is the case of fully integrated customs unions (like the EU) where all internal borders related to the movement of goods are essentially dismantled.

This brings significant benefits to producers who are trading within the customs union as they no longer have to deal with procedures, documents, or delays at the border. It also brings benefits to exporters from outside the region because, as soon as they deal with all border requirements to bring their goods into the customs union, their goods may circulate freely between different partner states. In this trading environment, it is no surprise that Europe has enjoyed high levels of intra-regional trade in recent decades (up to 70 percent according to the WTO).

Asia also has a strong record on regional integration, especially for the trade in intermediate parts, and its intra-regional trade stands at 50 percent. However, Asian integration has taken the somewhat less ambitious approach of using free trade agreements rather than fully integrated customs unions. Unlike the EU which has removed internal borders, free trade agreements rely on liberalisation but goods are still controlled at the border. Therefore, Asia's success story with respect to regional integration has focused on finding ways to make those border procedures and other business costs as efficient as possible. It is no surprise that 18 of the top 20 countries for Doing Business (according to the World Bank) are ASEM countries.

Second, unlike the TFA which deals exclusively with trade in goods, regional integration can focus on other regulatory issues which can potentially hamper intra-regional trade, including with respect to people, transport, and infrastructure. Let's imagine a sealed container travelling by truck from a landlocked country (in Europe, Asia, or Africa) to a port in a neighbouring country. Even if the release and clearance of the goods are handled quickly (in accordance with best practices under the Revised Kyoto Convention and TFA), a range of other regulatory barriers could potentially slow down the movement of those goods.

In particular, there may be problems with the truck. Does it comply with the standards in both countries (regarding axle-load limits, emissions standards, etc.)? Is the vehicle insured in both countries for any accidents? Or does it require separate insurance policies in each country? Is there a road-user charge which has to be paid? Are there cabotage rules which will result in the truck returning empty to the landlocked country (which essentially doubles the transport cost for the exporter)? In addition to the actual obligation to comply with standards and take out insurance, there may also be procedural inefficiencies in terms of providing documentary proof to relevant authorities for all of these issues.

Further, the free movement of people is critical. When the truck driver arrives at the border, will he be allowed to enter the neighbouring country and, if so, under what conditions? Will a visa or work permit be required? Will the neighbouring country recognise his driver's licence and his qualification to drive a truck? What documents will he be required to produce and to which agencies?

In theory, you may have a container of goods which is ready to go and which is being held up by delays related to the vehicle or driver. The TFA has little to say about regulation of these matters, but they are the types of issues which need to be dealt with in any ‘deep integration’ project. The EU has complemented its approach to the free circulation of goods with measures to support the circulation of people and to harmonise the regulation of transport. Asia has also made progress under its free trade approach, but there is room for further cooperation with respect to those regulations that go beyond goods.

While the TFA is a multilateral agreement which cannot go as far as a ‘deep integration’ initiative, it does explicitly address the role of regional integration in at least two important respects. First, it recognises the role of countries working together to implement particular measures at a regional level. For example, Article 1.3.2 of the TFA specifically recognises the potential role of ‘common enquiry points at the regional level’. Article 24 sets out, more broadly, that members ‘may adopt regional approaches to assist in the implementation of their obligations’.

Second, the TFA recognises the importance of regional efforts in the context of technical assistance and capacity building. For example, Article 21 dealing with the provision of technical assistance states that ‘Members shall endeavour to include activities to address regional and sub-regional challenges and promote regional and sub-regional integration’. There is certainly scope for some Asian developing countries, including landlocked least-developed countries, to take a regional approach to their requests for technical assistance.

## Logistics Services

As far as the WTO is concerned, the TFA is a multilateral agreement dealing with goods trade. The agreement builds on certain provisions of the General Agreement on Tariffs and Trade (Articles V, VIII, and X) and seeks to improve efficiencies with respect to trade in goods. The TFA does not apply to trade in services. For example, laws and regulations affecting trade in services are not covered by the TFA’s transparency provisions (though they may be covered by the less ambitious transparency provisions of other WTO agreements).

However, trade facilitation is invariably interlinked with services insofar as goods cannot move across borders without access to efficient logistics services providers. These logistics include international and domestic transport, warehousing, storage, freight forwarding, and financial services.

Logistics services are a \$4-trillion-a-year industry and account for 10 percent of GDP worldwide. In addition to being a key sector in its own right, logistics play a key role as an enabler of other sectors and activities. Logistics services are particularly important for global value chains as any inefficiencies in the way inputs and finished goods cross borders

are magnified when production is carried out in multiple countries. The speed and cost of logistics services are also highly important for industries relying on 'just-in-time' delivery and for trade in perishable goods.

The TFA does not address logistics services. This is not surprising as the TFA is a trade in goods agreement and, in any case, many countries consider logistics services to be a private sector activity. However, from the point of view of business, additional costs or delays linked to the inefficient provision of logistics services can be just as significant as those linked to areas where government is more directly involved, such as border procedures or infrastructure.

In any case, logistics services are not purely governed by the efficiency of private sector firms. Governments play a critical role in regulating the conditions of competition in logistics services sectors and liberalising, where appropriate, to allow the most efficient operators access to their markets. This is certainly an area where the ASEM could identify areas of cooperation which go beyond the scope of the TFA.

From a trade negotiations perspective, logistics fall primarily under the 'services' banner. Logistics services are tradable and countries with efficient firms have an interest in seeking market access elsewhere so their firms can increase their global market share. For certain types of logistics services, less efficient countries also have an interest in allowing efficient foreign firms to operate in their territory. Although they may face resistance from their own logistics service providers, efforts to protect inefficient incumbents would ultimately act as a tax on all industries which rely on trade. This would adversely affect the competitiveness of the country in international markets.

Historically, policymakers have not viewed logistics services as a unified and coherent sector. Under the WTO's W/120 classification system, most freight logistics services would be considered transport services. However, many core and non-core logistics services are randomly spread out in other sectors. Supply chain consulting has been scheduled by some countries under management consulting services. Similarly, inventory management, order processing, and testing and inspection have been scheduled as 'other business services'. Some commentators envisage negotiations which address supply chain-wide barriers or even the negotiation of an International Supply Chain Agreement which goes further than the TFA.

This is not just an issue affecting the negotiation of services commitments. This ad hoc approach to logistics services in FTA negotiations reflects the fact that governments have tended to regulate these services separately. Rather than looking at supply chains in a coherent manner (with a single government agency responsible for ensuring efficient regulation of supply chain services), each of the services which impact on trade costs has been regulated as its own domain.

Most discussions around logistics tend to focus on the movement of goods and this is where most of the logistics services value are captured. However, the scope is much broader and, in order to achieve efficient logistics, movement of goods is not the sole aim. It is also important for people, information, and payments to be able to move quickly and predictably. For example, the slow and unpredictable processing of payments can seriously impact the operation of firms, especially small and medium enterprises, by reducing their cash flow and undermining their ability to invest in further revenue-generating activities. All these services must be taken into account by governments if they want their industries to be able to trade as efficiently as possible.

It is no surprise that shipping hubs in Asia, such as Singapore and Hong Kong, also tend to be hubs for finance, law, consulting, air transport, and other logistics services. It is not possible to be a trans-shipment hub purely on the basis of transport infrastructure and efficient border procedures. There must be an enabling environment where all logistics services which contribute to trade facilitation can be obtained.

Policymakers are starting to recognise the importance of treating logistics services as a ‘cluster’ and this is being reflected in international trade negotiations such as the Trade in Services Agreement, the Doha Round, and the Trans-Pacific Partnership. For example, these negotiations have created a checklist of services that collectively form the logistics sector with a view to liberalising them under a ‘cluster’ approach.

While negotiations continue to follow traditional approaches to classification (such as the W/120 classification and CPC codes), parties are seeking dedicated negotiating sessions on logistics services with all relevant regulatory agencies and experts in the room. The true value of liberalisation for logistics services is achieved when all relevant sectors are dealt with as a cluster, rather than having certain sub-sectors liberalised on an ad hoc basis. When this happens, logistics services can be liberalised in an ambitious and coherent manner leading to real-world trade efficiencies.

## Perishable Goods

Agriculture is a key trade sector for both Europe and Asia. For example, agriculture represents around 25 percent of GDP and 60 percent of employment in Asia-Pacific’s developing countries. Even in the EU where agriculture represents a much smaller percentage of GDP, Asia is a key market and takes in 37.4 percent of Europe’s agri-food exports. It is also a sector that stands to gain considerably from trade facilitation reform. It is estimated that each day of delay reduces the value of traded goods by 1 percent. In the case of perishable goods, this is estimated at a staggering 6 percent of value. This is not too surprising as perishable goods inherently continue to lose value the longer it takes for these to reach the final consumer.

While many trade facilitation reforms focus on customs as the lead agency, trade in agriculture highlights the importance of including other key stakeholders, such as sanitary and phytosanitary (SPS) authorities. When governments establish their national trade facilitation committee or engage in border agency consultations, they should ensure that SPS authorities have a prominent role.

This is not just about extending a hand to other agencies to ensure that they are included; but it is about making sure that all agencies can coordinate closely, streamline processes, and still achieve their policy mandates. For example, when developing a single administrative document, SPS authorities may need to access information which other agencies would consider irrelevant, such as which area or region an agricultural product came from (not only the country of origin). These agencies should not just be tacked on in a modular fashion; they should be treated as an integral part of the reform process.

The SPS Agreement establishes some key principles to ensure that agricultural products are treated in a trade-facilitating way by border officials. For example, authorities should avoid undue delays in their SPS inspections. The SPS Agreement also contains other elements aimed at ensuring that imported agricultural products are not discriminated against (relative to imports) and that SPS assessments are science based.

In many developing countries, SPS regulations are often synonymous with helping exporters comply with the SPS requirements in target markets or with the application of measures for reasons of public health protection. An area which tends to drop off the radar is the importance of ensuring that the transaction costs associated with SPS requirements are minimised or, in other words, that trade facilitation principles are applied to SPS.

It is worth noting that the trade costs associated with SPS compliance do not only affect importers of agricultural products but may also act as a serious obstacle preventing exporters from reaching their target markets. In many developing countries, agriculture may be a priority or strategic sector and SPS obstacles affecting exporters would undermine national trade and development strategies.

For example, government agencies in some countries of export may insist on health certificates, radiation-free certificates, or other similar documents even where these are not required by the importing country. Considering that many governments invest heavily in gaining agricultural market access to foreign markets, it is unfortunate that they inadvertently undermine their agriculture exports through easily avoided bureaucracy.

This is an area where effective trade facilitation can make a major contribution. Several Asian countries have taken the lead globally in undertaking business process analysis studies of their import and export procedures for agricultural products in order to identify and

eliminate unnecessary bottlenecks or improve inefficient procedures. This is a rigorous way of addressing the TFA obligation to review border formalities and documentary requirements.

Governments are also looking for ways to ensure that perishable goods are released as expeditiously as possible. In the case of revenue collection, customs may separate release from clearance subject to certain conditions (such as guarantees). This option is not necessarily available for SPS controls where goods cannot be released unless officials are satisfied that the goods do not pose a health risk. However, other mechanisms can be adopted, such as after-hours inspection and release and the provision of refrigeration facilities. Further, governments can take steps to clearly communicate changes in market access conditions—whether this is to have enhanced controls or inspections or to remove such measures—to ensure that traders can make commercial decisions which are appropriate for the regulatory environment.

The TFA has introduced a new paradigm for involving the private sector in domestic policy formulation, including through national trade facilitation committees. These consultation mechanisms should include traders, logistics service providers, and other stakeholders related to international trade. The private sector should be represented by a diversity of sectors and by different types of business, from small and medium enterprises to multinational firms. ASEM could complement the TFA approach to consultation by encouraging national trade facilitation committees to feed into private sector consultation mechanisms at the regional and ASEM levels.

## Conclusion

In addition to making major contributions to the WTO's multilateral TFA, Asia and Europe provide examples of what best practice trade facilitation reforms can look like in a regional or national setting. In order to improve connectivity within and between these regions, ASEM could support a number of deep integration initiatives in the area of trade facilitation. Certain topics which should be at the top of the ASEM agenda include regional integration, logistics services, and agricultural trade in perishable goods. ASEM has the opportunity to use the TFA as a stepping stone to pursue a more ambitious agenda of connectivity. ASEM countries benefit from a vibrant and active private sector which contributes to the design and effective implementation of reform.

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# Deepening Asia–Europe Connectivity through ICT

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Every day we are witness to how information and communication technology (ICT) is transforming our lives and our world. ICT increases productivity, innovation, efficiency, sociability, and strengthens relationships. Mobile phones and social media enable people to ‘virtually’ reunite with families and friends. ICT also facilitates the formation of communities that span nations and are based on shared interests.

In business, a recent study of businesses around the world reveal that ‘firm growth and productivity are substantially higher when Internet access is greater and when firms use the Internet more intensively’ (Clarke et al., 2015).<sup>1</sup> Furthermore, the Internet ‘benefits firms of both high- and low-tech industries, firms of all sizes, and firms with and without exporting’. Even more attractive is that ‘Small firms benefit more from Internet than large firms do’.

In governance, ICT has augmented information flows among citizens and stakeholders, increased transparency, opened new ways to deliver public service, and enabled greater citizen participation. Already, all United Nations member countries (in all income levels) are delivering e-services to their citizens (United Nations, 2014).

In the 10th Asia–Europe Meeting in Milan, the Leaders of the Asia–Europe Meeting (ASEM) underscored that ICT is a key element of modern society’s infrastructure. They also ‘expressed interest to examine ways of enhancing digital connectivity between Europe and Asia’.

This paper attempts to define the role of ICT in Asia–Europe connectivity. It will argue that in order to maximise its potential to deepen interregional connectivity, ICT should be seen not only as part of the ‘physical’ infrastructure but also as one that contributes significantly to ‘institutional’ and ‘people-to-people’ connectivity.

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<sup>1</sup> All subsequent quotes are from Clarke et al.

## ICT Connectivity

For some time now, national broadband initiatives are under way throughout Asia and Europe. As a result, ‘Asia has the largest total number of broadband-connected homes, with nearly as many in total as Europe and the Americas combined’ (Broadband Commission, 2015). Furthermore, the rapid expansion of Asia-Pacific is squeezing other world regions in terms of their mobile broadband market share—Europe and the Americas saw declining proportional shares of mobile broadband subscriptions from the end of 2014 to the end of 2015 despite absolute increases in subscription numbers (Broadband Commission, 2015).

ASEM countries are also part of regional ICT strategies aimed at enhancing intra-regional connectivity.

The first ASEAN ICT Masterplan (AIM 2015) had six strategic thrusts: economic transformation, people empowerment and engagement, innovation, infrastructure development, human capital development, and bridging the digital divide (ASEAN, 2010). The current (second) ICT ASEAN Masterplan (AIM 2020) seeks to achieve (1) an accessible, inclusive, and affordable digital economy; (2) deployment of next-generation ICT as enablers of growth; (3) sustainable development through Smart City technologies; (4) multiple ICT opportunities across a single regional market; and (5) secure digital marketplaces, safe online communities (ASEAN, 2015).

The UN Economic and Social Commission for Asia Pacific (UNESCAP) is promoting an Asia-Pacific Information Superhighway initiative. This aims to provide seamless physical connectivity between land- and sea-based ICT infrastructure in order to increase available, reliable, and affordable broadband Internet (ESCAP Secretariat, 2015).

Europe 2020 is a strategy for smart, sustainable, and inclusive growth (European Commission, 2010a). One of its seven flagship initiatives (Digital Agenda for Europe) aims to hasten the roll-out of high-speed Internet and reap the benefits of a digital single market for households and firms. The goal ‘is to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra-fast Internet and interoperable applications’. The specific targets are (i) broadband access for all by 2013, (ii) access for all to Internet speeds of 30 Mbps or above by 2020, and (iii) at least 50 percent of European households with Internet connections above 100 Mbps by 2020.

## State of Play

Europe’s 68.3 terabits per second (Tbps) of used international bandwidth is the biggest in the world (Lindeman, 2013). Asia has only 13.3 Tbps. Seen from another perspective, Europe’s 144,315 bits of international bandwidth per Internet user is more than six times that of Asia

and the Pacific (at 22,612 bits). It is also more than 20 times that of the user from least developed Asia-Pacific countries (at 4,113 bits) (ESCAP website).

However, the great majority of Europe’s used international bandwidth is used to route Internet, data and voice traffic within the continent. In Asia, 38 percent of used international bandwidth goes to the US/North America, 14 percent to Europe, and 48 percent is intra-regional (Ko, 2014).

Internet traffic between Asia and Europe is growing (Mauldin, 2015). In 2004, inter-regional bandwidth between the two continents was less than 0.1 Tbps. A decade later, Asia–Europe bandwidth was at 8 Tbps. This is not too far behind the 2014 Europe–North America bandwidth of about 11 Tbps and Asia–North America bandwidth of approximately 10 Tbps.

Internet use will continue to expand in both continents. Between 2014 and 2021, the Used International Bandwidth for Asia is expected to grow by 40 percent CAGR. The growth rate for the same period for Europe is 36 percent CAGR (Williams, 2015). Despite the faster predicted growth rate for Asia, Europe will still have almost three times the bandwidth of Asia in 2021.

It is likely that the projected demand will be met. In 2014, the used capacity of Asia–Europe via the Middle East route is only about 10 percent of the potential capacity. Furthermore, there will be additional capacity to be supplied by next generation networks like the Bay of Bengal Gateway (BBG), SeaMeWe-5 (SMW-5), and Asia Africa Europe-1 (or AAE-1).

While the demand for bandwidth may be met, the problem may be with disruptions that could negatively affect Internet traffic between the two regions.

Much of Asia–Europe traffic passes through submarine cables that transit the Suez Canal (Ruddy, n.d.). These cables are vulnerable to damage caused by shipping (anchor dropping) and fishing (trawling) as well as mudslides and typhoons. It is noteworthy that ‘up to 90% of international capacity purchased on submarine cables in Asia is unprotected’ (Ruddy, n.d.). Furthermore, there are three undersea choke points in this route: Luzon Strait (250 km); Strait of Malacca (3 km); Egypt, the Red Sea and Bab-el-Mandeb (30 km); Strait of Sicily (145 km), and the Mediterranean. Combined with a lack of redundancy, Internet service between Asia and Europe could slow down or even be completely disrupted for weeks if there are cuts to these cables (Coffey, 2014).

The need for alternative routes that would bypass the choke points and add critical redundancy to outgoing and incoming network traffic is being addressed.

While only 10 percent of Asia–Europe traffic is currently routed terrestrially, new terrestrial options have cropped up. In addition to the current Asia–Europe terrestrial cables (i.e. Europe–Russia–Mongolia–China or ERM, Europe–Russia–Asia or ERA, Trans–Europe Asia or TEA, and Europe–Kazakhstan–Asia or EKA) are other planned initiatives like the Trans Eurasian Information Superhighway (TASIM) and the Diverse Route for European and Asian Markets (DREAM) (Rolland, 2015).

Even railroad development efforts are contributing to the development of terrestrial networks. Since fibre can be laid along rail lines, the planned high-speed railway that would connect China and Europe could also create a new Eurasian fibre optic backbone (Rolland, 2015). Already, China’s government is actively encouraging Chinese Internet-based businesses and media to actively participate in building a ‘digital Silk Road’.

In the non-commercial sector is Trans-Eurasia Information Network (TEIN4), the large-scale research and education data-communications network that connects Asian and European researchers via direct links to Europe’s GÉANT network (TEIN website).

To be sure, terrestrial networks will not replace submarine cable networks. High construction costs make it difficult for these to compete with submarine cables. Terrestrial networks ‘complement’—and not ‘compete’ with—undersea networks.

Satellites will also play a back-up role to the subsea and terrestrial networks linking Asia and Europe.

## ASEM’s Role in ICT Connectivity

The role of ASEM governments in expanding digital connectivity between Asia and Europe is circumscribed. The decision to light up dark fibre or to lay down new submarine cables or even use terrestrial instead of submarine cables is purely commercial (ISOC and TPRC, 2015). Governments cannot directly influence these decisions. Furthermore, Asia–Europe partners have very limited influence over the middle part of the submarine cables that link them.

**However, ASEM partners should intensify their initiatives that create greater demand for international bandwidth.** Most of these initiatives fall under the following categories: (1) legal and regulatory policies and reform, (2) universal access policies, (3) support for private sector broadband network build-out, and (iv) policies to stimulate demand and spur adoption (World Bank Group, ‘Broadband Strategies Tool Kit’).

One of these demand-side initiatives is growing the digital economy.

## Growing the Digital Economy

A digital economy is one where ‘the use of the Internet and IP-enabled networks is pervasive across *all* (economic sectors), irrespective of what they produce sell or trade’ (World Bank Group, ‘Broadband Strategies Tool Kit’.<sup>2</sup> In this definition, an Internet economy—comprised of businesses based on the Internet and the World Wide Web—is just the first stage of the digital economy.

ASEM members have their respective national level strategies and have achieved varying levels of success in creating their digital economies. A 2015 study by the Fletcher School at Tufts University measured the readiness of 50 countries for the digital economy (Chakravorti et al., 2015). These countries were then distributed into four digital economy trajectory zones. The trajectory zones and some ASEM partners who are in each zone are given below:

- *Stand Out* (countries with high levels of digital development and continue to remain on an upward trajectory): Korea, Ireland, Singapore, and Switzerland.
- *Stall Out* (countries that have achieved a high level of evolution in the past but are losing momentum and risk falling behind): Australia, Denmark, Finland, Japan, and Netherlands.
- *Break Out* (countries moving upward and are poised to become Stand Out countries in the future): China, India, Malaysia, Thailand, the Philippines, and Viet Nam.
- *Watch Out* (countries that face significant opportunities as well as challenges): Indonesia, Portugal, Russia, and Slovenia.

Aside from national efforts, ASEM partners also participate in regional digital economy initiatives.

‘An Accessible, Inclusive and Affordable Digital Economy’ is a key outcome of the ASEAN ICT Masterplan (AIM) 2020 (ASEAN, 2015, p. 12). Four out of AIM 2020’s eight strategic directions directly address the digital economy (ASEAN, 2015, pp. 15–16). These are (1) economic development and transformation, (2) innovation, (3) human capital development, and (4) ICT in the ASEAN Single Market.

Europe’s Digital Single Market strategy ‘aims to open up digital opportunities for people and business and enhance its position as a world leader in the digital economy’ (European Commission, ‘Digital Single Market’). In 2015, the EC announced specific initiatives in each of the main areas on which the Digital Single Market strategy will focus: (1) better access for

<sup>2</sup> Underscoring in the original.

consumers and businesses to digital goods and services, (2) shaping the environment for digital networks and services to flourish, (3) creating a European Digital Economy and Society with long-term growth potential (Fullbright, 2015).

At the interregional level, these national and regional digital economy initiatives could be complemented by a focused ASEM initiative on cross-border e-commerce.

## E-Commerce

Globally, e-commerce transactions reached \$1,938 billion in 2014 (E-commerce Foundation, 2015). Asia-Pacific's share was \$770 billion while Europe's was \$562 billion. In the same year, 8 ASEM countries (China, United Kingdom, Japan, Germany, France, Russia, Spain, and Australia) occupy the top 10 countries in e-commerce turnovers.

The growing importance of e-commerce to economic growth can be seen through its share in the gross domestic product (or eGDP). Globally, e-commerce share of GDP increased from 2% in 2011 to 2.64% in 2014 (E-commerce Foundation, 2015, pp. 13–14). Asia-Pacific's eGDP of 3.3 percent is above the global average of 2.6 percent, while Europe's eGDP of 2.5 percent is slightly below it. Among countries, the United Kingdom and China are the leaders with an eGDP of 5.7 percent and 5.2 percent, respectively.

An important development in e-commerce is the rise of Mobile Commerce (m-commerce or the use of digital mobile devices in buying and selling goods and services). M-commerce already accounts for 34 percent of all e-commerce transactions globally.

Global mobile retail revenues is expected to grow from \$133 billion in 2013 to \$516 billion in 2017 (Statistica, 'Global mobile retail commerce revenue from 2012 to 2018'). An industry study reports that between 2013 and 2016 'the multi-country average compound annual growth rate for mobile commerce is projected to be 42 percent, toppling e-commerce's same growth rate at 13 percent' (PYMNYT, 2015).

The growth in m-commerce is driven by smartphones (Criteo, 2015).<sup>3</sup> In the developing world, smartphones are the primary way to access the Internet. In Asia, close to 50 percent of e-commerce transactions are over smartphones. In terms of countries, Japan, South Korea, and the United Kingdom are the most advanced markets for mobile shopping. Mobile share of e-commerce is now over 50 percent in Japan and South Korea, and more than 40 percent in the United Kingdom.

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<sup>3</sup> Data used in this paragraph is from this report.

Cross-border e-commerce is also on the rise. According to a 2016 Nielsen study, 57 percent of online respondents who made an online purchase in the second half of 2015 bought from an overseas retailer (Nielsen Global Connected Commerce, 2016). The same study revealed that close to two-thirds of respondents in Western Europe say they purchased from an overseas retailer, including 79 percent in Italy—the highest percentage in the online study—and 73 percent in Germany.

Annual global cross-border e-commerce revenues could swell to between \$250 billion and \$350 billion by 2025 (van Heel et al., 2014). Asia will account for some 40 percent of those cross-border revenues while Europe will account for about 25 percent of revenues.

Given its increasing importance, **ASEM partners could adopt measures to promote cross-border e-commerce**. Specifically, they could adopt the following UNCTAD (2015) recommendations:

1. Align e-transaction laws.
2. Streamline/harmonise consumer protection policies.
3. Streamline/harmonise data protection and cybercrime policies.
4. Strengthen the capacity of lawmakers and judiciary in cyberlaws.
5. Enhance awareness of consumers and companies.

## Driving Institutional Connectivity

ICT can be a valuable tool to deepen Asia–Europe institutional connectivity—strategies, agreements, as well as legal and institutional mechanisms to facilitate international transactions of goods and services, investment policies, and the movement of people across borders (ASEAN Institutional Connectivity).

## Trade Facilitation and Regulatory Connectivity

The role of ICT in improving trade and in enhancing trade and trade facilitation is well recognised.

Studies show that ICT enhances trade because (i) it reduces the fixed entry cost into a market; (ii) it reduces delays in acquiring and transmitting relevant information needed for international transactions; and (iii) it facilitates international trade in services, particularly information-intensive services. Research also specifically confirms that policies that facilitate and encourage adoption and use of ICT will help boost trade in developing countries (Liu and Nath, 2012).

ICT is also transforming international trade. In the past, international trade was carried mostly at the product level. Today, international trade is also at the product component level because ICT has enabled granular specialisation in the production process (Basco and Mestieri, 2013).

ICT is arguably indispensable in trade facilitation. According to an ESCAP (n.d.) paper: ‘Automated business processes, digitalization of procedures, simpler interaction and transmission of data, and faster decision-making abilities deliver advantages in many trade and transport facilitation areas’.

In customs, ICT is recognised as ‘a critical strategic measure ... to manage the complexities implicit in today’s global trading environment’ (Gareth n.d.). Using ICT also has the advantage of improving customs governance and minimising corruption (by reducing direct interaction between customs officers and traders in customs clearance).

Europe has an electronic customs project that aims to replace paper-based customs procedure with European Union-wide electronic ones (Taxation and Customs Union website). While in Asia, the ASEAN Single Window initiative connects and integrates national Single Windows that aim to expedite cargo clearance within the context of increased economic integration in ASEAN (ASEAN Single Window website).

ICT can also enhance regulatory connectivity and coherence and transparency through digitising and sharing information; connecting agencies, citizens, and enterprises; deploying social media; and transforming business processes. Specifically, eCollaboration systems support a wide range of inter-personal interactions, such as communication via a range of different media, the coordination of joint activities (e.g. tasks and processes), as well as the collaboration on joint objects (e.g. documents) (Riemer et al., 2009). ASEM could consider using eCollaboration tools to coordinate and align the various connectivity initiatives (Benchmarking Partners, 2000).

Aside from using common tools, it is also important for ASEM to have a common interoperability framework.

Interoperability ensures that different ICT systems and devices of partner countries can exchange data and interpret the shared data. An interoperability framework includes the technical specifications that will allow different national agencies to electronically work together.

A number of ASEM partners have adopted their respective interoperability frameworks to enable various national government agencies using disparate ICT systems and standards to share data and information. At the regional level, the European Interoperability Framework was adopted

- to promote and support the delivery of European public services by fostering cross-border and cross-sectoral interoperability;
- to guide public administrations in their work to provide European public services to businesses and citizens;
- to complement and tie together the various National Interoperability Frameworks (NIFs) at European level (European Commission, 2010b).

An ASEM Interoperability Framework would enhance electronic data exchange and information sharing among different national agencies. This would not only boost trade facilitation but also deepen regulatory connectivity, coherence, and transparency.

## Deepening Institutional Connectivity

It would be too slow and expensive to try to achieve institutional connectivity through face-to-face meetings. ASEM could consider the following initiatives to hasten and deepen Asia–Europe institutional connectivity:

1. use eCollaboration tools to facilitate, coordinate, and align institutional connectivity initiatives; and
2. adopt an ASEM Interoperability Framework.

## Facilitating People-to-People Connectivity

ICT can be the technology that will allow those living in ASEM countries to imagine an ASEM community.

Already, ICT is seen as helping preserve cultural heritage and promoting a regional identity. The Digital Single Market initiative includes digitising Europe’s cultural heritage to make it accessible online, preserving it for future generations. AIM 2020 recognises that ASEAN citizens can form meaningful connections, work together to bridge digital divides, and build a common ASEAN identity using ICT.

Given the wide area where ICT can help facilitate people-to-people connectivity, we will limit our discussion on how ICT can help improve connectivity through tourism, museums, education, and health.

## Tourism and Museums

Tourism—the traditional means of people-to-people contact—is on the rise. International tourist arrivals reached a total of 1,184 million in 2015 (UNWTO, 2016). Europe and the Asia-Pacific recorded 5 percent growth in international tourist arrivals. Europe is not only the most visited region in the world but was also the fastest-growing (in absolute terms) tourism region. Asia and the Pacific received 278 million international tourists, an increase of 13 million from the previous year.

The important role of ICT in tourism is already recognised; ‘Increasingly ICTs will provide the ‘info-structure’ for the entire industry and will overtake all mechanistic aspects of tourism transactions’ (Buhalis and Law, 2008). Beyond this, ICT can also allow those without means to travel to become ‘virtual tourists’.

A good example of virtual tourism site is Google’s World’s Wonders Project. Through this site ‘virtual tourists’ can ‘visit’ world heritage sites like the archaeological areas of Pompeii and the Hiroshima Memorial Dome (Google Arts and Culture website). The site also enables virtual tourists to read about the heritage sites, watch videos on YouTube, browse the photo gallery, or explore 3D-models. Seeing its value in education, Google has made available guides and lesson plans for free to teachers who want to use the World’s Wonder Project in their classes.

Virtual tourists could also visit various online museums at the price of an Internet connection. Admittedly, a virtual museum tour is not similar to the experience of going to a ‘bricks and mortar’ museum. But with virtual museum visits, more citizens from least developed countries can learn from museums in developed countries.

The digitisation of museum collections has also opened new ways for how museum collections are understood, collated, aggregated, and ultimately curated. The high cost of lending artefacts has made curation using material from different museums prohibitive. ICT has opened a wider space for collaboration and participation among museum professionals. It is now possible to curate exhibits using digital artefacts from various museum collections. It is also possible for Asian and European curators to co-curate exhibits using materials from their respective collections without being in the same place.

ASEM could hasten this new development by **supporting collaborative museum curation projects** through the Asia–Europe Museum Network.

## Education and Health

ICT and Education and Health Care are areas where ASEM could also work collaboratively.

ICT in Education is attractive to developing countries for its ability to address the following: (1) the shortage of teachers, especially science and other specialty teachers; (2) the shortage of learning material such as textbooks for students; (3) providing improved informational content and learning approaches; and (4) developing students' ICT skills (Olson et al., 2011).

A 2013 study of eight ASEAN members show 'variances in the priority areas and development levels of ICT in Education among the countries... mainly due to their unique national contexts' (UNESCO Bangkok, ICT in Education website). ASEAN ICT in Education initiatives range from well-established models on ICT integration in teaching and learning to entry-level endeavours that provide access to education via ICT. The study also acknowledged the wide differences of ICT-related human capacity building, school programmes, and support across the region.

In Europe, ICT use in school is improving but several obstacles remain (EU Digital Single market website). Among these are lack of ICT equipment in schools in some countries; infrequent use of ICT for learning; teacher training is not compulsory (some teachers learn on their own time); lack of school policies on integrating ICT in teaching and learning. The same study noted that European 'teachers generally believe that there is a need for radical change to take place for ICT to be fully exploited in teaching and learning' (EU Digital Single market website).

These national initiatives are complemented at the Asia–Europe level.

The Asia–Europe Classroom Network (AEC-NET) is a platform for collaborative learning and intercultural exchanges among high school students in Asia and Europe (ASEF Asia–Europe Classroom Network website). It is a 'cyber-classroom shared by students and teachers to build stronger bi-regional networks and partnerships in the course of implementing common online projects' (ASEF Asia–Europe Classroom Network website). It started in 1998 as a programme under the Asia–Europe Foundation (ASEF).

There is also the Asia–Europe e-Learning Network which conducts collaborative research projects and practical activities among the ASEM partners (Asia–Europe e-Learning website). Its research area is ICT skills, e-learning, and the culture of e-learning in lifelong learning. The network is used for sharing recent research outputs and trends in ICT skills and e-learning. It is also an online community for sharing information, knowledge, and human resource development

### **ASEM could consider supporting the development of more Asia–Europe e-Learning networks.**

Another area for people-to-people connectivity is eHealth, 'a way of thinking, an attitude, and a commitment for networked, global thinking, to improve health care locally, regionally, and worldwide by using information and communication technology' (Eysenbach, 2001).

According to the World Health Organization (WHO), ‘every day, eHealth is saving the lives of women, their babies and infants in some of the most vulnerable populations around the world, in a wide variety of innovative ways’ (WHO and ITU, 2014).

A 2012 study of national eHealth initiatives in Europe documented ‘a shift from a constricting ICT-orientation to development of the entire health system where eHealth strategies, organizational change, and appropriate technological infrastructure are singled out as important aspects’ (Moen et al., 2013). A more recent EC-commissioned report observed that ‘integrating ICT in health in practice has proven challenging, for a variety of reasons, which include the financial and organizational structure for healthcare providers... and a lack of governance and leadership in the implementation of ICT (for health initiatives)’ (van Welsum et al., 2013).

In Asia, the main eHealth challenges are (1) lack of eHealth policy, strategy and legal framework to support the national health system; (2) uncoordinated investment in ICT in health due to absence of an overarching plan for eHealth; (3) a low degree of cooperation, collaboration, and sharing across sectors; (4) limited capacity within the public sector to implement eHealth programmes; (5) widely differing levels of eHealth maturity across and within countries; (6) poor quality and disparities in data because health information systems exist in silos, segmented by disease specific control, health programmes, or donor-driven initiatives with little interoperability and communication; and (7) poor communication infrastructure—lack of broadband connectivity and Internet access prevents use of ICT in health (Chikersal, 2013).

At the regional level, both Europe and Asia have established eHealth networks for information exchange and collaboration. Europe’s eHealth Network supports and facilitates ‘cooperation and the exchange of information among EU Member States working within a voluntary network connecting national authorities responsible for eHealth’ (European Commission, 2011). The Asian eHealth Information Network (AeHIN) ‘promotes better use of information communication technology (ICT) to achieve better health through peer-to-peer assistance and knowledge sharing and learning through a regional approach for greater country-level impacts across South and Southeast Asia’ (Asia eHealth Information Network).

ASEM initiatives on eHealth could be at two levels—at the national and interregional levels.

At the national level, **ASEM partners could intensify eHealth activities by designing national eHealth programmes that would overcome the following barriers:**

- lack of suitably qualified or experienced professionals to develop and implement eHealth projects;
- inadequate infrastructure to support programmes;

- lack of adequate business models to support broad and sustainable eHealth delivery; and
- lack of political commitment (WHO and ITU, 2014).

At the interregional level, **ASEM could support the development of a network of Asian and European eHealth networks.** This inter-network of AeHIN and E-Health Network could initially focus on sharing experiences, lessons learnt, and best practices.

## Summary of Recommendations

A key argument of this paper is that ICT is a key enabler for regional connectivity. ICT is not just a part of physical infrastructure but also makes possible institutional and people-to-people connectivity. The following recommendations were proposed to maximise the role of ICT in deepening regional connectivity:

### Infrastructure Connectivity

- Create the conditions that produce the demand for more international bandwidth.

### Digital Economy

- Adopt measures to promote cross-border e-commerce.

### Institutional Connectivity

- Use eCollaboration tools to facilitate, coordinate, and align the various institutional connectivity efforts.
- Adopt an ASEM Interoperability Framework.

### People-to-People Connectivity

- Support collaborative museum curation projects.
- Support the creation of more Asia–Europe eLearning Networks.
- Intensify eHealth initiatives by
  - designing national eHealth programmes that would overcome existing barriers, and
  - supporting the development of a network of Asian and European eHealth networks.

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# Deepening and Expanding Global Value Chain Participation across Asia and Europe

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This new era of globalisation, driven by the emergence of global value chains (GVCs), has resulted in a redistribution of global economic activity with Asian countries emerging as key players. Europe too has a rich network of production and has a large trade with Asia. This paper aims to provide the Asia–Europe Meeting with the facts and figures that are necessary to carry out an informed discussion on the possibility of deepening and expanding GVC participation across Asia and Europe in the coming years. It illustrates how the Indo-Pacific region fares in global GVC production statistics and the most apt means of joining and upgrading within GVCs. The paper sums up the policy recommendations that support an accrued connectivity across Asia and Europe, and globally.

## Introduction

In today's world, final products no longer originate from one distinct production facility that engages in concept development, raw material sourcing, assembly, marketing, etc. (so-called global value chains or GVCs). These stages currently and predominantly take place in diverse locations either within or without the geographic proximity of the originator firm. The rationale behind such decisions is simple: 'economic efficiency and competitive advantage [considerations that are paired with the] transaction cost minimizing behaviour of firms' (Elms and Low, 2013, p. 314). The unbundling, fragmentation, or disaggregation of production has gained considerable traction in the past decades, with the advent of facilitated or instant communication, and the steadily increasing transportability of all things man-made across various logistic paths—air, land, and sea.

This novel *modus operandi* allows countries that would not have otherwise been able to develop, fund, supply, and control an independent and vertical chain of production to participate in the creation and distribution of wealth at those particular levels of production where their outputs are comparatively more advantageous than others'. Small developing countries have the opportunity to generate employment and capital, and join GVCs at those stages that best suit them, with the hope that given necessary policy changes and favourable capital and skill developments, they will eventually be able to expand the number of tasks

and functions they perform, and climb up the GVC ladder to higher value-added echelons. The adage goes that once the low-hanging fruits of labour-intensive low-returns functions are picked, and the pull towards the upper-tiers of GVCs results in accrued competitiveness, streamlined productivity, and innovative sparks, then diversification is within reach and all participants to GVCs should be able to reap substantive benefits. That may be correct in theory, and in certain instances has even been demonstrated in practice, but only given a most perfect storm of conditions.

A combination of business acumen, access to finance, unimpeded trade and investment flows, and perhaps incipient efforts at coordinating or harmonising national regulatory spheres is indispensable to those producers and nations wanting to pen a masterful GVC success story. Such elements rarely occur naturally or concomitantly in the world of international trade. It is for this reason that successful integration in regional and global GVCs remains a pipeline dream for most modest participants to trade. Policymakers in such aspiring economies must therefore try their hardest to give their micro, small, and medium enterprises and multinational enterprises (MNEs) a fighting chance, and the most advisable action they can undertake is to observe, replicate, and not least innovate. This is to caution against unrealistic expectations that any and all countries may find their GVC ‘calling’ and trump micro- and macro-economic realities that have to date stood in the way of development and full participation to world trade. GVC participation does open the door towards development, but it is not panacea for difficult policy choices.

Most scholars describe GVC product development with the help of a convex bell curve or, in lay terms, a ‘smiley face diagram’ (World Economic Forum, 2012, p. 21). That is to say that on the left end of the bell curve, one finds the upper-tier activities such as standardisation, innovation, research and development, and design that bring in high-value added returns. On the lower and middle end of the curve, one finds labour-intensive activities such as manufacture and assembly that are associated with fewer returns. Finally, on the right end of the bell curve, logistics, marketing, and other brand activities occur that also bring in high returns. The challenge that most countries face is to reach either side of the bell curve and elevate themselves from the manufacturing and assembly positions in the diagram.

The Indo-Pacific region accounts for a notable share of GVC-issued products: 43 percent of intermediate goods (exports) and 38 percent (imports) that were traded internationally in 2013 came from this region. Yet, these products originated from only a handful of countries such as Singapore, Australia, Indonesia, Malaysia, South Korea, Japan, China, India, and Thailand. Ninety percent of registered trade flows can be accredited to these countries, whereas smaller participants such as Bangladesh and Cambodia account for the remaining and relatively high share of apparel exports and footwear (labour-intensive, low-return products). Generally, GVC participating countries are located all across the spectrum of development. However, in the Indo-Pacific region’s case, one can notice that it is primarily

the countries that are either highly developed or middle-income generating that are currently involved in GVC trade. This region principally exports electronics, automotive parts, agriculture products (primary and processed), apparel, and footwear.

With this in mind, one can affirm that the region is carving a place for itself in the world of GVC trade, but much as exports originating from the region penetrate global markets, final demand still arises from developed nations outside Asia. One event that contributed to a slight shift in demand from the global market to markets within Asia, however, is the 2008 Financial Crisis that saw Europe and America cowering under macroeconomic pressure. The crisis shifted ever so slightly demand for final products from developed countries outside Asia to the region itself to a tune of 7 percentage points (from 19 percent to 26 percent within 6 years, 2007 to 2013).

According to the United Nations Economic and Social Council for Asia and the Pacific (UNESCAP), the benefits that may arise out of GVC participation are ‘multi-layered, ranging from the company level where GVCs can bolster productivity of participating enterprises and provide opportunities for the creation of higher skilled and better paid jobs, to the macro level with enhanced economic growth and higher per capita income’ (UNESCAP, 2015, p. 103). It therefore appears highly desirable to engage in such fragmented trade, yet as was previously mentioned, a combination of factors must be present in order for firms to be able to successfully integrate these disaggregated ways of producing goods and services. An overwhelming amount of facilitating factors, however, lie strictly beyond the said firms’ control and within the direct purview of governments and policymakers.

In spite of an almost unequivocal acknowledgement that engaging in GVC production is beneficial for economic growth, governments in particular maintain a certain degree of reluctance towards such participation inasmuch as recent history has shown that the more interconnected the global economy is, the faster do shocks spread across countries and regions. In other words, ‘the systemic risk arising from exogenous shocks’ (Elms and Low, 2013, p. 314) is carefully taken into account when governments devise their policies aimed at facilitating extra-regional GVC engagement. The bottom line, however, is that policymakers pursue development—not by any and all means but in a cogent, sustainable fashion. And GVC engagement done right can indeed bear fruits that extend beyond the originating firm and its affiliates and diffuse towards the society at large, in a way that furthers development. Yet, gains must be distributed evenly ‘between countries, within countries, and among participating firms’ (Elms and Low, 2013, p. 316).

Most economists and international trade scholars would agree that small and medium enterprises (SMEs) are ‘the backbone’ of national economies in the Indo-Pacific region. Beyond those, MNEs are evidently responsible for a grand part of national revenue and circulating capital. Both such entities are involved in GVC trade and they both face similar

regulatory obstacles. However, the latter weigh heavier on the back of SMEs due to their very nature, size, and the magnitude of trade they undertake. It is for this reason that while GVC-enabling policy recommendations are meant to make trading easier for any economic actor that wishes to become involved in regional or extra-regional commerce, they specifically target those issues that are predominantly and disproportionately faced by SMEs.

When it comes to GVC participation, firms have three goals in mind: entrance, expansion, and upgrading. That is to say, they desire to gain access to GVCs, secure their presence and deepen it, and finally upgrade to higher value-added positions within the production chain. For these goals to be met, governments must be able to guarantee that the following prerequisites are fulfilled: (i) adequate hard infrastructure is present; (ii) physical and institutional connectivity is ensured; (iii) domestic regulatory conditions are favourable; and (iv) trade liberalisation and facilitation are pursued in an uncompromising manner. Additionally, a competitive business environment must be safeguarded, trade in services must be promoted, ICT development must be encouraged, innovation must be facilitated, intellectual property protection must be afforded adequate protection, foreign direct investment must be allowed in freely, and standards must be coordinated.

All of these items fall within the purview of governments: both domestic and of those countries that wish to see an increase in their partners' GVC participation—case in point: Asian countries and the European Union (EU).

The major takeaways for the Asia–Europe Meeting (ASEM) group of policymakers from the list presented above are that trade liberalisation, trade facilitation, and access to finance are key to a fruitful GVC participation. And these will be addressed in further detail.

**Trade liberalisation** is of paramount importance in facilitating access to GVCs inasmuch as intermediate products travel across borders numerous times, and each time they are subjected to tariffs that only act as barriers to their originator company's business. According to the Organisation for Economic Co-operation and Development (OECD), high tariffs continue to obfuscate trade in GVCs—particularly in developing countries, inasmuch as the water between declared and applied tariff is usually high. Additionally, each part, each intermediate product, and the final product itself fall within distinct and overlapping tariff categories, which means that, at the end of the day, the influence of tariffs is grossly magnified. Reducing and eliminating barriers to trade—whether they are tariffs, non-tariff measures, direct or indirect, and applied to goods, services or investment—must be made a priority.

Additionally, low-income countries are expected to reap benefits from **preferential agreements** which result in increased export volumes to their high-income trade partners. At a regional level, free trade agreements (FTAs) usually allow lower-middle income countries to significantly augment their export levels to intra-regional destinations. Particularly with

regard to Indo-Pacific countries, it appears that signing an FTA with higher-income partners can guarantee access to extended markets both for intermediate and final products. Ultimately, 'the reduction of trade barriers from the perspectives of both exporters and importers are associated with an increase in global value chain-related exports from Asia-Pacific' (UNESCAP Secretariat Report, 2015, p. 15). And, according to UNESCAP, 'discounting other factors, global value chain export opportunities are much higher if countries have a regional trade agreement with each other' (UNESCAP Secretariat Report, 2015, p. 14).

An ASEAN-EU trade agreement is on the table, and the EU has completed two agreements in the region, with Singapore (2014) and Viet Nam (2015), that are awaiting ratification. In addition to this, the EU is also currently finalising talks with Malaysia, the Philippines, and Japan. Despite having launched discussions with both Thailand and Myanmar, however, the EU has suspended its efforts indefinitely.

Engaging in **trade facilitation**, that is, reducing trade costs can contribute to a streamlined access to GVCs. According to UNESCAP, regionally, East Asian countries enjoy the lowest trade costs, whereas, in spite of great improvement with respect to the figures collected in the mid-1990s, North and Central Asian states' trade costs are still, on average, three times higher; finally, the Pacific Islands states witness the highest obstacles to the free flow of trade. Data further shows that trade facilitation efforts result in great reduction to trade costs; quantitatively, a 1 percent augmentation in trade facilitation efforts may result in as much as a 2.3 percent decrease in trade costs. The most important indicator of a seamless trade is a reduced 'time to market' (UNESCAP, 2015a, pp. 53–55). Customs and their functioning are critical in ensuring that goods are transported across borders in a most time-efficient manner. Simplification, standardisation, and coordination are key goals in the effort to facilitate cross-border trade, and ensure access to GVCs. Realising these goals would have outstanding effects on SMEs in particular, as regardless of the size of a business the obstacles are of the same magnitude, and in practice and relatively speaking result in higher regulatory burdens on SMEs than on MNEs. This is confirmed by the OECD, according to which, we exist in 'a world where just-in-time delivery is the new norm, and in which transit is rapid and storage is expensive—[this is] a world where time is quite literally money' (OECD and World Bank Group, 2015, p. 60). Any efforts to reduce dwell time at the border, that is, any effort to facilitate merchandise passage through customs is beneficial to GVC trade.

In ASEAN, in particular, efforts have been made to 'reduce or eliminate border and behind-the-border regulatory barriers that impede trade, so as to achieve competitive, efficient and seamless movements of goods within the region' (EU-ASEAN Business Council, 2016, p. 3) within the context of ASEAN Economic Community implementation. The latter is set to facilitate the creation of a cohesive production base, pooling together the diverse types of comparative advantages that ASEAN member states possess and resulting in increased levels of competitiveness to meet the growing business opportunities originating outside the region.

**Access to finance** is crucial for SMEs that wish to join GVCs. Very often, these businesses face severe difficulties in their attempts to secure viable credit. SMEs are particularly exposed to such crippling constraints inasmuch as, in order to obtain formal bank loans, they must provide solid information about balance sheets and collateral—and the latter are hard to come by. Alternatively, SMEs resort to informal credit sources that are substantially more costly and less reliable than capital market borrowing. This is to say that for SMEs, there is no lesser evil: formal borrowing exposes them to requirements that are less favourable than those that apply to large companies, such as superior interest rates and shorter maturities, while informal lending is too risky. This issue is pervasive across Indo–Pacific economies and results in sluggish economies where job creation and social welfare are affected by a chronic lack of funds and overdraft facilities for the most dynamic of economic actors—SMEs.

Finally, and in an overarching manner, intra-regional and cross-regional **connectivity** must be facilitated. According to the EU–ASEAN Business Council, ‘connectivity [...] refers to the physical, institutional and people-to-people linkages; [...] [w]hile physical connectivity refers to infrastructure, institutional connectivity is more multi-faceted—[i]t comprises among other things trade liberalization and facilitation, investment liberalization and facilitation, regional transport agreements and cross-border procedures.’

This is an issue that has been brought to the fore in the 2014 ASEM Chair Statement, where it was made clear that European and Indo–Pacific leaders understand ‘the significance of connectivity between the two regions to economic prosperity and sustainable development and to promoting free and seamless movement of people, trade, investment, energy, information, knowledge and ideas, and greater institutional linkages. [Additionally, they] [...] called for the establishment of an integrated, sustainable, secure, efficient and convenient air, maritime and land transportation system, including intermodal solutions in and between Asia and Europe’.

In order for GVC participation to deepen and expand across Europe and Asia, governments, regional groupings, and supranational organisations must work in a manner that ensures that trade costs are low; that regulatory reforms favour cross-sector liberalisation; that financial cooperation results in easier access to credit for SMEs; that trade in services is not overlooked; that traffic-supporting infrastructure, both hard and soft, is in place; that human capital is nurtured and that intellectual property is protected and rewarded; and that development is pursued at any and all costs.

Beyond its prime geographical location, the Indo–Pacific region boasts growing economies, favourable demographic conditions, rising education levels, abundant human capital, relatively low production costs, and overall politically stable governing. For all of these reasons and more, European nations should work together with their Asian partners in a way that facilitates the latter’s access to and growth within GVCs. Private enterprise is known

to flourish if the right conditions are in place—so there is no need for governments to hold businesses by their hands. What they must do, however, is to ensure that the regulatory climate is indeed favourable to trade. Besides that, cost efficiency and comparative advantage will dictate the extent to which firms actually integrate GVCs.

### **Box: GVC for Landlocked Developing Countries**

There are 10 landlocked developing countries (LLDCs) in Asia: Afghanistan, Bhutan, Kazakhstan, Kyrgyzstan, Lao PDR, Mongolia, Nepal, Tajikistan, Turkmenistan, and Uzbekistan. These countries face the same challenges as other developing nations and more, primarily due to their lack of access to maritime transportation routes.

Generally speaking, LLDCs are highly dependent on commodity exports; they face substantial trade costs due to poor infrastructure networks coupled with complex border procedures, and they lack adequate productive capacities and sufficient technological capabilities.

For LLDCs, the only route to development is through economic diversification and integration into regional and global value chains (GVCs). And for this to happen, local governments in concert with international agencies and private investors must work to implement trade facilitation programmes that would allow local producers to develop and make the best of their competitive advantages that are currently, where applicable, entirely obliterated by high trade costs.

A special outlook is needed under ASEM to bring the LLDCs into the GVC. The future of ASEM connectivity relies as much on fostering GVCs as in making the GVCs inclusive. The new international division of labour calls for a novel and coordinated approach in soft and hard infrastructure development to overcome participation constraints and to integrate the ASEM countries in the cross-regional GVCs.

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# Using SMEs for Improving Asia–Europe Connectivity

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**T**he economies of Asia and Europe have become increasingly integrated. This process of economic integration has been driven by the mutually reinforcing market forces and production networks. The extent to which small and medium-sized enterprises (SMEs) are participating and benefiting from economic integration will determine the integration of Asia and Europe in an inclusive manner. SMEs are more likely to be resource constrained (compared to large firms) to take advantage of the benefits from trade and investment liberalisation. The Asia–Europe Meeting (ASEM) can work as a model platform for promoting the role of SMEs in Asia–Europe connectivity in the next decade. This paper maps out the participation of SMEs in Asia–Europe trade, production networks, and investment with a view towards facilitation provided by ASEM in the coming years.

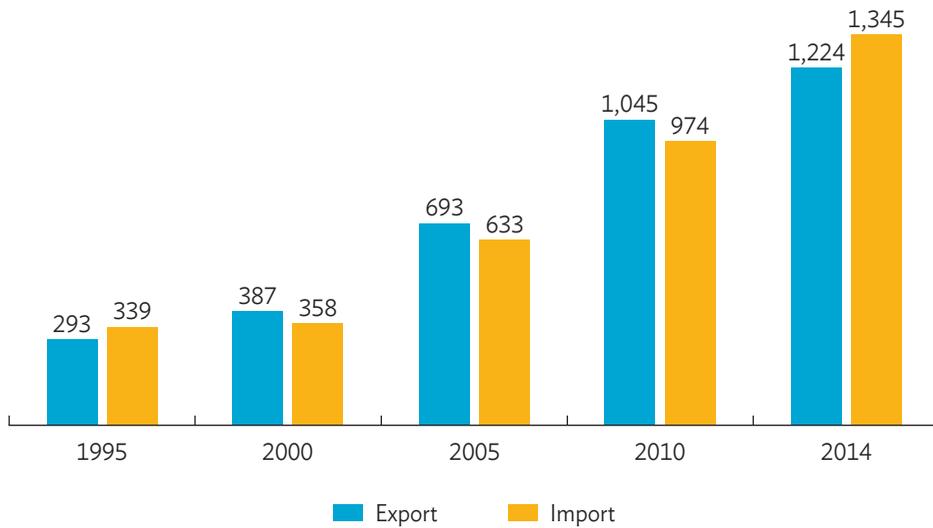
## Asia–Europe Trade and Investment Linkages

Europe is one of the most important trading partners for Asian countries (including Australia and New Zealand), with an annual average growth rate of trade of 10 percent from 2000 to 2014. In 2014, Asian partners accounted for 20 percent of Europe’s exports and 18 percent of imports. In 2014, five Asian countries were among Europe’s top 10 trading partners. China shared 11 percent of total European trade, taking the top spot, followed by Japan (3.7 percent), Hong Kong (3.5 percent), South Korea (3.2 percent), and Singapore (2.56 percent).

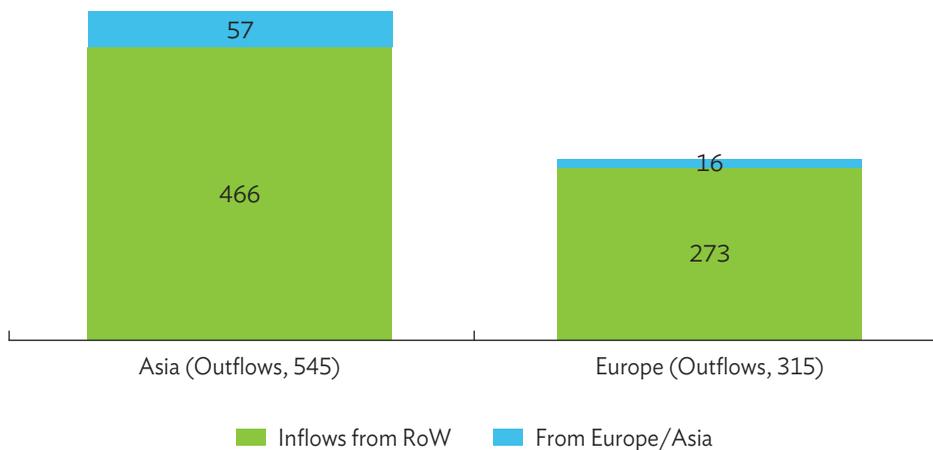
The European Union (EU) is also a major investor in Asia. In 2014, 18 percent of Europe’s outward investment went to Asia, whereas 8 percent of Europe’s inward investment originated from Asia.

## Using SMEs to Improve Asia–Europe Connectivity

Generally, small and medium-sized enterprises (SMEs) face special problems relating to their size; in the context of rapid trade liberalisation, they need to develop capacities to take advantage of opportunities arising from a more open regional trading system and production network developments.

**Figure 1: Asia's Trade with Europe (US\$ billion)**

Source: Calculated from UNCTAD (2016).

**Figure 2: FDI Inflows to Asia and Europe in 2014 (US\$ billion)**

RoW = Rest of the World.

Source: Calculated from UNCTAD (2016).

Despite cuts in average tariffs, small businesses still have difficulties in fully exploiting opportunities arising from globalisation and regional trading agreements. SMEs' contribution to direct exports has remained static or has even declined. Reductions in tariffs have not benefited SMEs; more emphasis by regional governments needs to be put on tackling non-tariff barriers (customs procedures, mobility of business people, standards of labelling requirements, access to finance, recognition of professional qualifications, consumer protection particularly regarding online transactions, and intellectual property rights) if SMEs are to benefit from trade expansion and enhance their exporting capacity.

SMEs also lack skills in dealing with customers in both domestic and overseas markets. They have limited knowledge about language and culture as well as the legal and bureaucratic issues involved in participating in export markets and production networks (Table). They may experience a lack of business infrastructure support and in some countries may be discriminated against relative to large firms.

**Table: Common Challenges for SMEs' Development and Internalisation**

Challenges	Capabilities and Limitations
<b>Competition</b>	<ul style="list-style-type: none"> <li>• Small size resulting in a relatively high cost of production</li> <li>• Lack of market intelligence (e.g. business opportunities, prospective customers, competition status, channels and distribution, local regulations and practices, and taxation)</li> <li>• Weak network</li> <li>• Difficult to meet large demands</li> <li>• Uncompetitive quality and/or delivery</li> <li>• Inadequate institutional support and assistance</li> <li>• Lack of necessary manpower and financial resources</li> </ul>
<b>Internationalisation</b>	<ul style="list-style-type: none"> <li>• Limited abilities to internationalise operations due to limited capacity to analyse, penetrate, and segment foreign markets</li> <li>• Technical limitations to act as suppliers to foreign buyers/investors</li> </ul>
<b>Trade liberalisation</b>	<ul style="list-style-type: none"> <li>• Lack of knowledge and skills to react to free trade agreements</li> <li>• Less awareness of opportunities and challenges derived from various trade agreements</li> </ul>
<b>Managerial skills</b>	<ul style="list-style-type: none"> <li>• Lack of knowledge about new strategies and techniques; inability to orient new design and production</li> <li>• Inability to allow staff to acquire new skills</li> <li>• Lack of knowledge to use e-commerce</li> <li>• Inability to hire appropriately qualified and talented labour</li> </ul>

Source: Abe (2015).

There is a wide range of ‘best policy practices’ to support firms overcome barriers in connecting SMEs in Europe and Asia, and vice versa, that can guide the region’s decision-makers. The following may be considered for regional cooperation to support SME internationalisation.

- *Expand cross-border SME financing mechanisms:* as financing, particularly trade and supply chain finance, is a key constraint to SME internationalisation. Therefore, facilitating the cross-border flows of financing and financial instruments—e.g. credit, credit guarantees, and particularly trade and supply chain finance—is especially important to expand SME internationalisation. This could include a focus on regional cooperation related to trade and supply chain finance and cooperation. An important potential regional initiative is an agency/mechanism for providing SME credit information to reduce credit risks and lower the barriers for SME access to financing, given the information gap between lenders and SMEs.
- *Establish comprehensive Asia–Europe SME user-friendly online information portal:* To respond to the information barrier and allow greater sharing of market and business-related information, a region-wide online SME-oriented portal could play an important role. It could include information on market and industry trends and key issues; business opportunities and related leads; business matching on a region-wide basis; comprehensive listing of the region’s enterprises in key value chains to facilitate identification of potential partners/suppliers/buyers; comprehensive information on rules, regulations, and procedures in the region’s markets; and list of internationalisation-related advisory services and associated organisations and individuals in the region. The EU’s SME Internationalisation Portal provides a useful example. It is a database that lists (semi) public providers of specialised services (e.g. local chambers of commerce) for companies planning to enter international markets, and links to other EU-backed sources of support and advice, such as the European Commission’s Market Access Database that provides market access information for individual non-EU growth markets.
- *Establish Asia–Europe SME business centres to support SMEs exporting (directly and indirectly) and investing in the region:* These centres, established in selected locations in Asia and Europe, would provide support and assistance to SMEs for doing business in Asia–Europe markets. This can include business development services (e.g. focused market information, business and marketing advice, matchmaking support, physical facilities such as desk/secretarial support and meeting rooms); legal services support (e.g. access to practical legal information, referral to service providers such as lawyers and tax advisors); standards and technical issues (e.g. information on required certification, quality, and labelling); and human resources-related support (e.g. access to specialised skills including languages, and referral to training sessions and expertise). The EU business centres, particularly the EU SME Centre in China, could provide useful experience and guidance.

- *Establish ‘Asia–Europe SME Internationalisation Best Practices Centre’*: There have been many SME internationalisation best practices studies, and even more on general SME best practices. An Asia–Europe best practices centre with easy access and use by firms could serve an important role in supporting SME internationalisation. It could provide extensive and practical information to the region’s SMEs on best (and worst) practices, including case studies focusing on specific firms, in particular, value chains and markets; a practical and supported framework for self-assessment of existing operations; and strategies for firms on adapting and implementing best practices. Ideally, or over time, this could be linked to regional advisory services, such as the suggested Asia–Europe SME Business Centre.
- *Expand regional workshops and training*: Internationalisation workshops, particularly targeted at particular value chains of regional importance, and market immersion programmes, could play an important role in providing practical information and knowledge to regional SMEs, given multi-country participation. For example, this could focus on delivering accredited management and technological training leading to regional certification. This can also help support the building of cross-border alliances and partnerships among the participants.

Showcasing and implementing SME policy best practices will send a strong policy signal and commitment of the two regions towards further successes of trade and investment cooperation. Successfully linking SMEs in Asia and Europe would also ensure an inclusive and sustainable agenda, as SMEs are the majority business stakeholders in both regions.

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## Section Four

# PEOPLE-TO-PEOPLE CONNECTIVITY

**Peoples-to-Peoples Connectivity  
in the Asia–Europe Meeting:  
‘By the People’ Instead  
‘For the People’**

JÜRGEN RÜLAND  
UNIVERSITY OF FREIBURG

**Europe–Asia Connectivity:  
A Case for Labour Mobility**

FLAVIA JURJE AND SANDRA LAVENEX  
UNIVERSITY OF GENEVA

**Europe–Asia Cooperation:  
Capacity Building  
Programmes and Human  
Resources Development  
in the Years Ahead**

EVI FITRIANI  
UNIVERSITY OF INDONESIA

# Peoples-to-Peoples Connectivity in the Asia–Europe Meeting

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## ‘BY THE PEOPLE’ INSTEAD ‘FOR THE PEOPLE’

JÜRGEN RÜLAND, UNIVERSITY OF FREIBURG

**G**lobal governance is becoming increasingly complex and propelling international institutions toward creative and cooperative terms of business. An interdependent world would ideally promote freer and seamless connectivity among people and ideas. Transregional fora such as the Asia–Europe Meeting (ASEM) are expected to become more people oriented and foster such connectivity. Despite many non-state actors’ activities under ASEM’s Social, Cultural, and Educational Pillar, a more inclusive ASEM is still a distant, though overdue, vision. ASEM must take a holistic plan, which is embedded in wider institutional reforms, to connect people between Asia and Europe.

## Why Peoples-to-Peoples Connectivity Is Relevant

Most international fora struggle with an image of state-centrism and elitism. In the public perception, they are often regarded as arcane circles of government officials, bureaucrats, and chief business executives advancing global political and economic agendas with detrimental consequences for the livelihood of the majority of the population. Globalisation critics associate with international institutions lack of transparency and weak accountability structures, resulting in economic growth that is neither equitable nor sustainable. Such fears driven by the increasing complexity of global governance propel the emergence of populist countermovements which fundamentally challenge the legitimacy of international institutions and seriously jeopardise the cooperative management of an increasingly interdependent world. Transregional fora such as the Asia–Europe Meeting (ASEM) are no exception to this dilemma. It is thus essential that ASEM joins other international institutions which in the past two decades have made credible steps to become more people-oriented. However, despite a flurry of non-state actors’ activities under ASEM’s Social, Cultural, and Educational Pillar, little tangible progress has been made towards a more inclusive ASEM. It is thus overdue that after 20 years of existence, ASEM gets serious in overcoming its asymmetrical institutional structure that has relegated non-state stakeholders to marginal roles. While peoples-to-peoples (P2P) connectivity has frequently been named as a panacea to overcome ASEM’s legitimacy problems, people’s interactions per se are not sufficient

to achieve this objective. Only P2P connectivity comprehended as a **holistic concept** and embedded in wider institutional reforms may strengthen ASEM as a multilateral utility in the following ways:

- Intensified P2P interaction might deepen the interdependence between Europe and Asia and thereby enhance opportunities for invigorating public and private cooperation with tangible and self-sustaining material and immaterial benefits for the societies of member countries.
- Closer P2P relations might substantially improve public knowledge and awareness about the regional ‘Other’ and thereby broadly socialise the rationale for intensified cooperation between Asia and Europe. They might increase mutual appreciation; foster tolerance and better understanding of different historical trajectories and cultures; overcome indifference, prejudices, and stereotypes; and develop societal ownership of ASEM.
- P2P connectivity might facilitate the emergence of transregional track-two and track-three dialogues. Intensified and focused cooperation of epistemic communities lowers the legitimacy deficit of ASEM as it directly engages societal stakeholders in the development of solutions for cross-regional and global problems.
- P2P connectivity might additionally bolster the legitimacy of ASEM, if it does not remain a parallel structure to government interactions. The prospects for the successful implementation of ASEM projects will markedly increase through a combination of ‘input legitimacy’ and ‘output legitimacy’. Input legitimacy entails greater inclusiveness of decision-making through the consultation of non-state actors and greater accountability. Greater input legitimacy reduces resistance to the implementation of policies and thus enhances output legitimacy.

## Peoples-to-Peoples Connectivity among ASEM Members

P2P connectivity can be of a cross-regional and an intra-regional nature. Facilitating intra-regional cooperation is a welcome side effect of inter- and transregional dialogue fora such as ASEM, but cannot be further elaborated here. This paper thus exclusively concentrates on cross-regional P2P interactions.

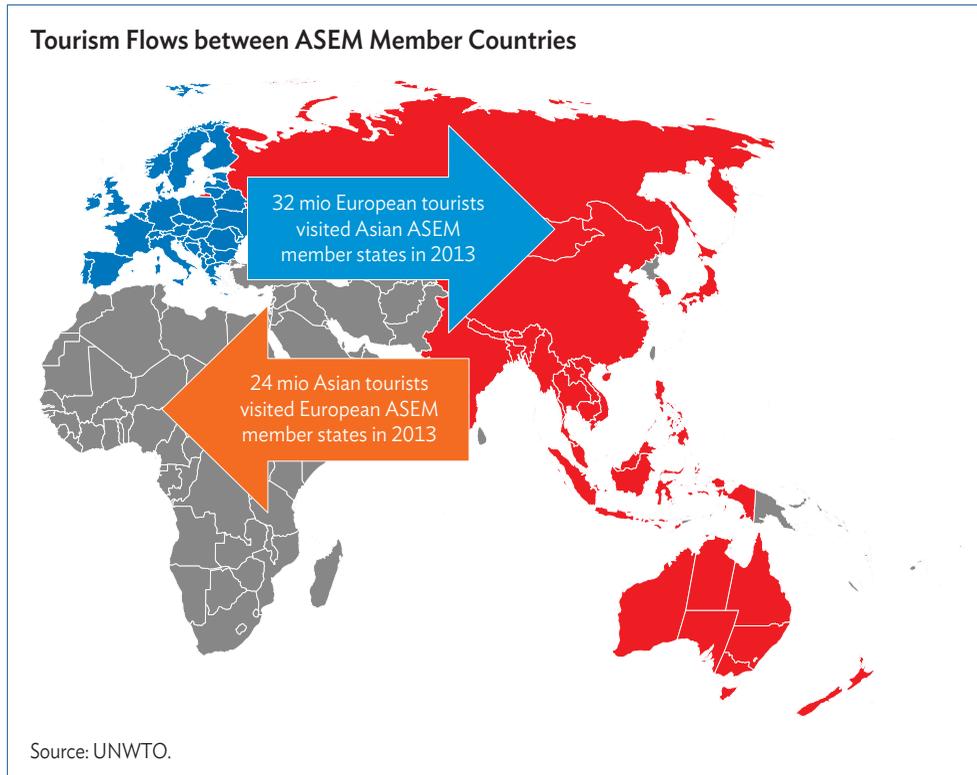
P2P connectivity is not an entirely new agenda in ASEM. Governments have repeatedly recognised the need to involve the people in order to create awareness about ASEM, to squelch suspicions about the forum’s objectives, and to advocate the opportunities it entails for non-governmental stakeholders to cooperate across regions. Three types of P2P connectivity can be distinguished which differ by function, scope, intensity, and stakeholder group: mass-based, track 2, and track 3 connectivity.

**Mass-Based Connectivity.** The first type of activity bringing the population of ASEM member countries closer to each other is **mass based**. Increased travel and tourism development involves the interaction of large numbers of people and connects well with ASEM's economic agenda. It may stimulate economic growth in the sending and the receiving countries. The hotel industry, gastronomy, transportation, services, and retail trade are the sectors benefiting directly from ASEM tourism. Economic growth effects may be spread broadly, including small and medium enterprises, and contributing to substantial job creation.

However, so far tourism promotion under the auspices of ASEM has had limited effects for the legitimacy of the institution and public awareness for Asia–Europe cooperation has remained diffused. As their trips are not explicitly branded as ASEM-related activity, most travellers hardly realise that their tours are the outcome of intensified transregional cooperation. Besides, travel and tourism do not automatically facilitate better mutual understanding. Their sociocultural effects largely depend on the organisation and duration of the trips, the motivation of the tourists, their level of education including intercultural competences, the intensity and frequency of contacts with the local population and the sensitivity of the population in the destination countries for a culturally different clientele of visitors. In other words, travel and tourism, while on first sight a positive contribution to P2P interaction, may also have unintended negative effects if not managed carefully.

Statistics from the UN World Tourism Organization (UNWTO) show a marked increase of cross-regional travels between Asia and Europe in the 2010–2014 period. While tourists from Asian ASEM member countries to European member countries surged from 16.1 million (2010) to 23.8 million (2013), tourists from European member countries to Asian member countries increased in the same period from 26.2 million to 32.1 million. In 2013 most-favoured tourist destinations of Asians in Europe were France, United Kingdom, Germany, Italy, Switzerland, Austria, and the Netherlands, while most popular destinations for Europeans in Asia were Kazakhstan, China, Thailand, India, Singapore, Australia, Indonesia, Malaysia, and Viet Nam. Russia—a European as well as an Asian country—is the destination of 2.1 million Asian tourists and 28.9 million European tourists.

In the past, tourism was also impeded by visa regulations. Although countries such as China and India demand visas from tourists of almost all ASEM partners, preliminary evidence suggests that visa-free entry is asymmetric. In general, Asian countries seem to grant tourists visa-free entry to a greater array of countries than Europe. Available information suggests that in Europe, visa-free entry discriminates against developing countries, favouring the economically advanced Asian ASEM member countries. Sometimes, visa procedures are quite cumbersome, as Asian travellers have to appear in person in the consulates of European countries for interviewing before they can get a visa.



Air traffic and flight connections concentrate on hubs in both regions. Direct flights and inexpensive air fares exist in abundance, but the frequency and number of destinations vary considerably across both regions. Direct flights from Asia to Europe primarily target destinations in Western Europe (United Kingdom, Germany, France, Netherlands, Belgium, Italy), and from Europe to Asia mainly East Asia (China, Hong Kong, and Japan) and to a somewhat lesser extent, Southeast Asia, with Singapore, Thailand, and Indonesia as frequent destinations. Flights to other ASEM destinations are much less frequent and usually require transfers and considerably longer travel times.

Another P2P interaction potentially involving large numbers of people and connecting well with tourism is city twinning. However, available data show that European city partnerships with Asian ASEM countries do not exceed 10 percent of all European city twinning agreements. The overwhelming majority of European city partnerships concentrated on Russia (38.12 percent), China (28.03 percent), and Japan (18.50 percent). ASEAN countries, Australia and New Zealand, and South Asia hovered at around 5 percent. One key problem these figures mirror is that in the perception of European decision-makers, Asia is largely confined to China and the remainder of East Asia. South Asia, Central Asia, and the ASEAN region do not play a role in their world views.

To what extent city twinning promotes better cross-regional and intercultural understanding is difficult to assess and needs more specific studies. It certainly has potentials, but to what extent they are exhausted much depends on the programmatic substance, intensity, and frequency of the exchanges. Scattered evidence suggests that European–ASEAN city partnerships are less intensive than intra-European partnerships or city partnerships with North America.

**Track Two Connectivity.** A second type of P2P interaction focuses on **track two epistemic cooperation** and mainly involves the academia, intellectuals, artists, journalists, parliamentarians, and issue-based specialists. Unlike tourism and city twinning, these activities are more elitist, more intermittent, and usually involve only a limited number of people. However, many of these conferences, seminars, workshops, and lecture-type events are problem- or issue-oriented and thus may enhance societal awareness for ASEM's 'multilateral utility'. The backdrop, however, is that the results and insights generated by these activities find little access to the governmental track one process. ASEM thus shares the deficiency of many other international institutions which are 'pillarised'—usually including a governmental, business, and civil society pillar—with the pillars only weakly interconnected and synergies remaining limited. It is somewhat disillusioning that this problem has not been more actively tackled by ASEM in its second decade, although it has already been highlighted by the University of Helsinki's comprehensive 10-year anniversary study in 2006 taking stock of the forum's efficacy.

Facilitation of the civil society-related cultural and intellectual exchange between Asia and Europe has been entrusted to the Asia–Europe Foundation (ASEF). Established in 1997, ASEF received contributions from member countries amounting to 6.1 million Singapore dollars (S\$) in 2014. It finances its activities from an operating fund (S\$72.8 million) and a project fund (S\$32.6 million). Since its formation ASEF has implemented over 650 projects, bringing together more than 17,000 direct participants. ASEF is involved in a broad range of themes, including media, environmental issues, education and university cooperation, and many other activities. While these events help to galvanise Asian–European cooperation of epistemic communities and inculcate the idea and relevance of Asia–Europe multilateral cooperation in many of the participants, there are also voices questioning the efficacy and sustainability of ASEF activities. Although commending ASEF for its comprehensive social and cultural exchange programme, critics bemoan that the organisation's programmes are too diverse and unfocused. The sustainability of the programmes is limited given the fact that ASEF is a relatively small organisation with a staff of 46 (2014) and—in view of the size of its task—finite and unstable financial resources. As ASEF's chief executives are career bureaucrats, it has also been criticised that governments act as gatekeepers of civil society participation and P2P interactions are far from autonomous. As a response to that critique, ASEF organised four 'Connecting Civil Societies of Asia and Europe Conferences' between 2004 and 2010.

With the Council for Asia–Europe Cooperation (CAEC), a forum of think tanks primarily discussing geopolitical and security issues met regularly in ASEM's first decade. Independent of ASEM, CAEC was a parallel forum to the Council for Security Cooperation in the Asia-Pacific, set up under the aegis of the Asia-Pacific Economic Cooperation (APEC). However, despite an impressive output of studies, CAEC had no direct interaction with ASEM governments and ceased its operation after ASEM-5 in 2004.

Contacts also exist between parliamentarians of both regions. The Asia–Europe Parliamentary Partnership (ASEP), established in 1996, serves as the parliamentary arm of ASEM. ASEP convened for the first time in 1996 in Strasbourg, but had to be revived after it failed to convene in 1998 and 2000. Since the 2002 meeting in Manila, it has convened regularly every two years, with the eighth and most recent meeting held in Rome (2014). ASEP pursues the objectives of helping to advance ASEM, monitoring the progress achieved within ASEM, strengthening dialogue and mutual understanding among parliamentarians, and drawing to the attention of ASEM leaders a number of issues that legislators consider to be priorities as laid down in resolutions and the final declarations of ASEP meetings. The Rules of Procedure adopted in ASEP-4 in Helsinki (2006) have fostered a modest institutionalisation of the forum.

Meetings cover a broad array of topics on a non-binding basis, including themes such as international security, international law, fairer global trade, cultural identity, interfaith dialogue, climate change, energy security, education and mobility, and the role of parliamentarians in Asia–Europe relations. ASEP delegates also share information and best practices related to making laws in areas such as economic and institutional reform, economic integration, poverty reduction, and environmental protection. Critics, however, deplore the body's lack of effectiveness, its largely ceremonial character with limited time for debate and missing links to civil society, and the official track one. As a result, on the European side, only the European Parliament is a persistent participant, while many national parliamentary delegations failed to join the meeting. An Asia–Europe Young Parliamentarians Meeting convening under the auspices of ASEM met six times, but was discontinued after 2007.

Businesspeople meet in the Asia–Europe Business Forum, which convened 14 times since 1996, initially on an annual basis and since 2004 on a biennial basis. As by the mid-2000s doubts about the efficacy of the forum began to mount, in 2006 the forum was transformed into an advisory council, similar to the bodies set up by Asia-Pacific Economic Cooperation (APEC) and the ASEAN. While in the past the forum—usually attended by 200–300 business representatives—was prolific in drafting recommendations for the track one summits, assessments of the extent to which they became ASEM policies varied. Yet, compared to most of ASEM's other track two fora, business leaders seemed to have by far the best access to the political leadership, benefiting from the fact that at least in its first decade ASEM's agenda concentrated on economic cooperation.

**Track Three Connectivity.** A third category of P2P connectivity, which to some extent overlaps with track two activities, is the more grassroots-oriented **track three fora**, involving a broad spectrum of non-governmental organisations, social movements, solidarity networks, labour unions, and critical parliamentarians. Track three fora crystallise in the Asia–Europe People’s Forum (AEPF) and the Asia–Europe Trade Union Forum. Both fora act autonomously, without government intervention or support by ASEM although individual, mostly European, ASEM member governments provide financial support for AEPF’s alternative summits.

The AEPF was formed in 1996 and has since convened 10 times. Its operations are guided by a charter enacted in December 2005. An international organising committee coordinates the activities of the forum, supported by coordinating organisations in each region—in Asia, the Institute for Popular Democracy (Philippines) and Monitoring Sustainability of Globalisation (Malaysia); in Europe, the Transnational Institute (Netherlands). The AEPF holds its biennial meetings as alternative summits parallel to ASEM Summits. The last AEPF convened in Milano, Italy, and brought together more than 400 activists. The topics discussed and networking concentrated on international trade, neo-liberal globalisation, poverty alleviation, social justice and social protection, environmental sustainability, food sovereignty, participatory democracy, human rights, peace and security. At the end of an alternative summit, AEPF summarises the most important conclusions and submits them to the leaders for consideration. In between summits, national organising committees, working groups, and advocacy circles on specific themes organise campaigns and keep up the momentum of the forum.

However, representation of the forum’s members is unequal. On the European side, many participants come from Western Europe, Germany, and Scandinavia; on the Asian side, from the Philippines, Indonesia, and increasingly South Asia. Other subregions such as Northeast and Central Asia, Eastern Europe, or countries such as Viet Nam, Lao PDR, or Myanmar are only weakly represented. There appear to be not much direct contacts between the AEPF and track one meetings. While in the past ASEM government relations with the AEPF were strained, chairman’s statements of more recent summits at least indicated that leaders have taken note of the demands of civil society organisations, thus ushering in a more relaxed relationship. A watershed in this respect was the ASEM-6 in Helsinki, when for the first time representatives of the host governments addressed AEPF’s alternative summit. The ASEM-7, ASEM-8, and ASEM-10 summits in Beijing, Brussels, and Milano continued this practice. Trade unions split from the AEPF in 1998 and since then convened independently. Yet, none of their demands found expression in chairman’s statements, suggesting that government largely ignored them.

## Recommendations for Invigorating Peoples-to-Peoples Connectivity among ASEM Members: Same, Same, But More and Better

Recommendations to strengthen ASEM P2P connectivity must take into account that many formats and events facilitating peoples and stakeholder interactions are already in place. Subsequent proposals thus avoid reinventing the wheel. Improvements of P2P connectivity should concentrate on improving its efficacy, replicability, and sustainability. The following premises guide this agenda:

- P2P connectivity must change from a top-down agenda which governments paternalistically organise ‘for the people’ to a bottom-up agenda which is borne ‘by the people’, that is, an agenda which is stakeholder driven, entailing greater popular autonomy and popular ownership, albeit without excluding government participation.
- P2P connectivity should become a process more than merely an event-driven activity, thereby invigorating the sustainability of non-state interactions.
- P2P connectivity should encourage increased participation of ASEM’s new member countries.
- Without reducing the rich agenda of epistemic communities’ interaction facilitated by ASEF, track two and track three interactions should become more focused; that is, concentrating on the most-pressing cross-regional issues.
- P2P connectivity should deepen, that is, penetrating societies of member countries to a greater extent than hitherto by not only focusing on capital-based and national actors but also by including more local audiences and target groups.
- P2P connectivity should entail a sound mix of high-profile, highly visible, large-scale events and a rich, though focused and sustainable, programme of issue- and stakeholder-driven P2P interactions.
- P2P connectivity is underfinanced. A more viable interaction of non-state actors urgently needs a broader foundation of financial resources and must involve more private sector funding;
- The significance of P2P connectivity becomes more visible if ASEM takes strides towards a gradual institutionalisation of its activities, thereby mutating towards an international forum which replaces contingent policy making by more binding, transparent, and focused decision-making. The more ASEM develops in this direction, the more it heightens the incentives for societal stakeholder participation.

**High-Profile, Highly Visible, Large-Scale Events with Mass Impact.** If connectivity is to become a policy priority in ASEM’s third decade, it must include P2P interaction that is highly visible and helps branding ASEM among a broad audience in the forum’s member

countries. Such a strategy can be derived from perception surveys suggesting that the population is more aware of ASEM in countries where summits or other high-profile meetings have taken place. Flagship events could be trade fairs, tourism fairs, visit Asia or visit Europe years, sports events, cultural year with an annually changing topic, featuring a European country in Asia and an Asian country in Europe, film or other cultural festivals; in short, all types of events that have a high visibility and prestige, which can be branded as activities related to the ASEM process and which would involve a great number of participants from ASEM member countries. An increased mutual presence of cultural institutions would support these activities. Also the promotion of tourism and aviation belongs to this category of activities: creating attractive and affordable tour packages; joint tourism product development; facilitation of tourist safety and security; fostering socially, culturally, and environmentally sustainable tourism; the easing of visa regulations for tourists where these are still a deterrent for travelers; aviation dialogue; and eventually the conclusion of aviation agreements. However, proposals for easier and more uniform visa procedures across the entire spectrum of ASEM member countries must be seen in the light of the current refugee wave from the Middle East to Europe, which may reduce the willingness of European governments to simplify visa regulations for tourists, especially those of developing countries.

City twinning should be stepped up markedly, considering that only a minor percentage of city partnerships focus on the respective other region. It should concentrate especially on those regions that—like Southeast Asia, South Asia, Central Asia, and Oceania—have been largely neglected so far. Issue-oriented city twinning has the potential of markedly increasing awareness and legitimacy of transregional cooperation beyond the capitals. Many pathologies of globalisation crystallise in cities: environmental issues, socioeconomic disparities, pandemics, irregular migration, organised crime, or terrorism are only the most salient of them. City partnerships could tackle these problems; joint expert working groups, exchange of citizens, experts, and officials could facilitate the identification of best practices and foster mutual learning. City partnerships as well as partnerships of other types of local governments, provinces, or even transborder regions such as the Euro regions and the growth triangles and quadrangles in East Asia would have similar effects and would deepen awareness for Asia–Europe relations beyond the capitals. Such local government partnerships could also include intensified cooperation for sustainable development with ASEM partner countries, complementing existing schemes such as, for instance, European Union support for the Lower Mekong Region. To make such activities sustainable, virtual databases with 'best practices' or documentation of pertinent projects (or project literature) could support such activities. ASEM internship programmes could familiarise especially young people with the 'other' region and also programmes of E-connectivity—ASEM chat rooms, blogs, and the extended use of social media—could be activities which, while not being flagship programmes, may nevertheless have mass appeal, lead to an upsurge of cross-regional communication, and therefore increase transregional awareness.

**Track Two Epistemic Group Events.** As stated above, ASEF has developed a broad range of epistemic community interactions in many issue areas. ASEF's creativity in terms of themes for expert conferences, workshops, round tables, and seminars should by all means be maintained. But pending a thorough evaluation of ASEF activities, a number of recommendations can potentially optimise the impact and sustainability of ASEF.

Although ASEF has already focused on the media as important multipliers for ASEM activities, more needs to be done in this respect. Reports on ASEM in print and electronic media so far concentrate on the biennial summit meetings. Themes of a cross-regional Asia–Europe dimension must get priority attention. This entails nurturing a core group of specialised journalists who develop the expertise and motivation to persuade chief editors that the notorious Euro- and Asia-centrism of the media in both regions, respectively, needs to be overcome. Exposure tours in both directions must be organised more frequently and must also include journalists working for regional or local-range media. However, given its limited budget and far-stretched portfolio of activities, ASEF would be overburdened to shoulder this task alone. Therefore, civil society foundations, media and business associations, the European Union, and governments should contribute to the development of media that inform the public regularly and competently about issues of Asia–Europe relations.

ASEF and other epistemic circles should become more focused. Instead of hyperactivism, organising expert meetings in an indiscriminate way around a plethora of issues, meetings of epistemic communities should concentrate on topics that cause the greatest public concern; for instance, issues of managing financial crises, irregular migration and refugee movements, environmental degradation and climate change (REDD+), energy, disaster management, widening socioeconomic disparities, and interfaith dialogue. Also think tank interaction should be revived and interaction with track one facilitated.

ASEF should nurture epistemic communities which are less contingent in their composition and in which not only European Asia specialists should meet with Asian experts on Europe. As observed, experts of the 'other' region have only limited influence in the context of the public's Euro- or Asia-centrism, the bureaucracy, and among political decision-makers. Therefore, mainstream experts who so far did not have a transregional horizon should be invited to meetings of area-focused epistemic communities, including cultural and educational cooperation. Results should be more effectively disseminated to the public as well as the official track one, another significant reason for stepping up Asia–Europe media cooperation.

Governments should relax their control of ASEF and reduce their gatekeeping role of epistemic processes. The ASEF leadership should no longer remain in the hands of career diplomats, who are beholden to their governments. Instead, it should be opened to

recruitment taking into account specific professional expertise needed for ASEF activities. Civil society and epistemic community interaction should be largely autonomous from government interference; a *conditio sine qua non* for a self-sustaining growth of epistemic and civil society connectivity.

Also cooperation of parliamentarians under the aegis of ASEP should be fostered. This necessitates meetings which transcend the so-far largely ceremonial nature of ASEP interactions. Space for frank discussions must be widened, which calls for a reduction of plenary meetings with their prefabricated speeches. Parliamentary interaction must also entail an accountability dimension, meaning, that a parliamentary delegation meets ASEM leaders during summits and that parliamentary bodies might be allowed to summon representatives of the executives for briefing and interpellation. Themes related to ASEM and public parliamentary diplomacy should also play a greater role in the bilateral relationships European and Asian parliaments cultivate.

**Track Three Connectivity.** Acceptance of track three interaction by ASEM governments has increased during recent years. This is a positive development. This process should be nurtured further. Results of alternative summits should not only be rhetorically welcomed by governments but also be seriously taken into account. ASEM's legitimacy would also gain if direct and regular interfaces with civil society could be established, similar to the government-business dialogue relations during summits. A first step in this direction was made at ASEM-10 in Milano, where for the first time an interface between leaders and non-state stakeholders including ASEP, AEF, and AEBF took place. Yet the meeting with three significant stakeholder groups was scheduled for only 15 minutes and thus hardly more than participatory symbolism. ASEM's accountability would increase if in such meetings government leaders and senior officials would have to explain their policies and decisions to civil society and other non-state stakeholders. Civil society itself must seek to become more representative of the region. Often the legitimacy of the groups convening at alternative summits is questioned, mainly due to the fact that their composition is arbitrary, with some regions and some issue areas being overrepresented, while other important member countries and issue areas are hardly represented.

**Funding.** So far P2P connectivity projects are grossly underfunded to have a lasting impact in terms of awareness and learning about the 'other' region. It is thus imperative that, here too, spreading thin finite resources must be avoided and programme activities concentrate on major cross-regional issues. P2P interaction must emancipate itself from the dependency on government funding, which means that to a much greater extent than hitherto, private organisations including those mentioned in the previous section must be persuaded to participate in the funding of ASEM events and activities. Without achieving a critical mass of focused and sustainable activities in all three types of P2P interactions, most pillar three activities will remain symbolic exercises.

## Looking Ahead into 2025: What ASEM Must Do for Peoples-to-Peoples Connectivity

The growing significance of peoples-to-peoples connectivity can not be overstated. Enhanced interaction of peoples deepens cross-regional interdependencies and heightens public knowledge and awareness of the regional ‘other’. It fosters intercultural understanding and tolerance and nurtures popular ownership of ASEM. As ASEM moves into its third decade, it has every reason to look behind with satisfaction the progress made in bringing the peoples of Asia and Europe closer to each other. Looking ahead into the next years, it is evident that potentials of peoples-to-peoples connectivity are by no means exhausted. Many of the current activities are event driven instead of process oriented. A reinvigorated strategy for promoting peoples-to-peoples connectivity must be comprehensive and sustainable. It must complement schemes facilitating the interaction of large numbers of people with focused issue- and people-oriented track two and track three activities.

A road map for upgrading peoples-to-peoples connectivity should include recurrent flagship events with high visibility and great publicity for ASEM. Annual trade fairs, tourism fairs, visit Asia or visit Europe years, cultural years, sports events, film or other cultural festivals are examples. An increased mutual presence of cultural institutions would support these activities. Other measures include the intensified promotion of socially, culturally, and environmentally sustainable tourism, aviation cooperation, and the easing of visa regulations. City twinning, cooperation between provinces and transborder regions, and increased communication by modern social media create opportunities to spread ASEM-inspired activities to the local level in member countries.

ASEF has been a catalyst for civil society–related, cultural, artistic, and intellectual exchanges. Yet ASEF requires to define priority programmes focusing on mass media and urgent cross-regional problems such as the management of economic crises, climate change, migration, energy security, and international terrorism, to name a few. To this end, new funding sources must be generated, including funding from private donors. ASEF programmes and epistemic community interaction must be extended to the new ASEM members. A balance of career diplomats with professionals at ASEF will strengthen the organisation’s autonomy and increase its attractiveness for non-state actors.

The growing interest of civil society in ASEM is here to stay. The relevance of the recommendations submitted to the summits by the AEPF are more important than ever. Leaders should agree to strengthen the parliamentary dimension of ASEM, encouraging parliamentarians to reform the format of the Asia–Europe Parliamentary Partnership (ASEP) with the objective of increasing the forum’s efficacy.

Increased peoples-to-peoples connectivity enhances the inclusiveness of ASEM and reduces the forum's institutional asymmetry. There is a need to create channels for connecting ASEM's Socio-cultural Pillar with the forum's other two pillars. Regular interfaces between representatives of the three pillars are crucial to improve ASEM's transparency, to facilitate the flow of information from government to society, give stakeholders a greater voice, and thereby increase ASEM's accountability and legitimacy.

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# Europe–Asia Connectivity

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## A CASE FOR LABOUR MOBILITY

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This paper will focus on the people-to-people aspect of connectivity, looking at the policies on the movement of people developed across the European Union (EU) and the Association of the Southeast Asian Nations (ASEAN). These are the main regional integration frameworks from the two continents part of the Asia–Europe Meeting (ASEM) that have introduced different models of internal labour mobility and have as well initiated among themselves diverse cooperation programmes linked to mobility of people. Building on the policy practices within the EU and the ASEAN, the paper will discuss how these experiences could be extrapolated to the ASEM context, addressing both opportunities and challenges raised by the mobility of people. The study will first present the current EU free movement regime. Secondly, it reviews the ongoing ASEAN reforms on labour mobility, rights of migrants, and border control, especially as foreseen for the 2015 ASEAN Economic Community (AEC) and the 2025 ASEAN Vision. Finally, it will discuss existing cooperation instruments between the two subregions that address mobility of people. It is expected that policy experiences within the EU and ASEAN regarding human mobility will provide a basis to enhance policy collaboration on people-to-people connectivity within a broader Asia–Europe framework. The paper draws on primary data gathered through expert interviews across the EU and ASEAN, along with document analysis of trade treaties and other official records from the two regions.

## Introduction

In many parts of the world, regional cooperation on cross-border movement of people has intensified since the 1990s. While the European Union (EU) integration project has included the mobility of workers from the onset as one fundamental principle of the single market, other regional integration frameworks, including the Association of Southeast Asian Nations (ASEAN), have started more recently to address the (partial) liberalisation of internal mobility flows as part of their broader economic integration efforts.

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Note: This paper draws on earlier research developed by the authors within a project on the diffusion of migration and mobility norms in regional integration frameworks, part of the National Centre for Competence in Research (NCCR) Trade Regulation: <http://www.nccr-trade.org/phase-3/wp4-1/412-1/>. Funding for this project by the Swiss National Science Foundation is gratefully acknowledged.

While mobility of labour was not a part of the original Declaration (1967) establishing the ASEAN, with the proposal to build the alleged ASEAN Economic Community (AEC), officially launched at the end of 2015, ASEAN has sought to achieve an integrated region where goods, services, investment, and skilled labour move freely, and the flow of capital is substantially improved (ASEAN Secretariat, 2008, 2009). The AEC Blueprint underlines the need for ‘the movement of business persons, skilled labour, and talents’ as a key element for achieving greater economic integration in the region. The objective of facilitating the movement of skilled labour and talent has been also reiterated in the current ASEAN Vision 2025 and AEC Blueprint 2025 (ASEAN Secretariat, 2015a, 2015b). The mobility of skilled labour within ASEAN has mainly followed the agenda on services trade mobility, institutionalised at the multilateral level by the 1995 World Trade Organization General Agreement on Trade in Services (GATS) under the so-called ‘mode 4’ temporary movement of specific categories of skilled persons. Services-related mobility has been also complemented by the so-called Mutual Recognition Arrangements (MRAs) that would allow specific professionals to practise in other member countries. The EU has adopted a much wider mobility regime, which nowadays covers basically the free movement of all EU citizens, which together with capital, goods, and services constitute the four fundamental freedoms of the European single market act (Art. 18 EC).

This paper looks at the policy models on the movement of people developed by the EU and ASEAN, together with the existing cooperation mechanisms between the two regional settings, and discusses prospects for wider policy cooperation within the Asia–Europe Meeting (ASEM) framework. The EU has established collaboration ties with the ASEAN states already from 1977 and today it also encompasses aspects related to migration management, exchanges on migrants’ rights (part of the 2012 ASEAN–EU Plan of Action) or educational programmes that cover student mobility and the development of regional qualification frameworks (within the so-called READI [Regional EU–ASEAN Dialogue Instrument] regional dialogue). Within the particular framework of ASEM dialogues, exchanges on international migration between the participating states were initiated in 2003 under the alleged ASEM Conference of the Directors–General of Immigration and Management of Migratory Flows with the scope of strengthening links between members’ immigration authorities and to permit exchanges of information and of good practices in the field of international migrations. While collaboration on border management and security aspects linked to migration is only one dimension of migration governance, other policy instruments could be devised within the ASEM to enhance cooperation on people-to-people connectivity. Based on the subregional mobility policies developed by the EU and ASEAN and their collaboration programmes, the paper will discuss prospects for further policy cooperation in the ASEM context.

A review of existing labour mobility models within the EU and ASEAN is presented below, while also assessing the cooperation instruments established between the two subregions and more broadly, as part of the ASEM, with policy recommendations based on the labour mobility regimes in place in ASEAN and the EU that could be extended to the ASEM level.

## EU Free Movement of People

The full free movement of EU workers was introduced in 1968 with Regulation 1612/68. Following the decision in the 1987 Single European Act to fully realise the single market by 1992, the free movement norm was extended from the group of workers to the economically inactive and today covers all EU citizens as well as their foreign relatives. Special provisions apply to the service sector for persons who maintain their employment contract with an employer in their home country and stay enrolled with their home country social security systems but move to another EU country to work for a period of up to two years. These ‘posted workers’ are excluded from the need of a work permit and do not need to go through a recognition of their professional qualifications (Directive 96/71/EC).

EU migrant workers and their family have the right to the same taxation and shall enjoy the same social advantages as compared to their fellows in the host state (e.g. child raising allowances, right to education for children, etc.). EU member states have coordinated social security systems and established a framework that mutually recognises qualifications (Deacon et al., 2011). Social rights for third country nationals have been addressed in the EU Long-Term Residents Directive (2003/109/EC) and the EU Family Reunification Directive (2003/86/CE).

A strong symbol of the free movement regime finally is the abolition of controls at the internal borders of the EU, which was decided in the 1985 Schengen Agreement and realised in 1996. This abolition of internal border controls was taken as impetus for cooperating on external migration to the EU. The conditions for crossing the EU external border, visas for stays shorter than three months, and wide sections of asylum policy are regulated by EU rules. Although the EU lacks a full-fledged competence on economic immigration from third countries, directives have been adopted concerning specific groups such as the highly skilled (for example, the recently adopted directive for intra-corporate transferees, 2014/66/EU), students, researchers, or seasonal workers.

The mobility regime has been extended to a few non-EU member states having special association status with the EU. Full freedom of movement has been introduced through the Treaty on the European Economic Area of 1992 with the remaining members of the European Free Trade Association and Switzerland by bilateral treaty of 1999. Trade-related agreements with chapters on services concluded by the EU with third countries have also

incorporated specific labour mobility provisions. Most of these cover the category of intra-corporate transferees, but there are also exceptions that give rights to service suppliers de-linked from commercial presence, as is the case of the agreement signed with the Cariforum countries. The free trade agreements (FTAs) with South Korea (in force from 2010), Columbia and Peru (concluded in 2011) are also cases where broader GATS mode 4-type of provisions have been granted, in particular with regard to the duration of stay and the categories of people entitled to move.

In institutional terms, the EU's supranational bodies and, in particular, the Commission and the European Court of Justice assure the monitoring and enforcement of EU law. Through the preliminary rulings procedure, the court has also played an important role in the full realisation of the internal mobility regime.

To summarise, the EU's free movement regime is the most comprehensive model covering mobility for all citizens and guaranteeing equal social rights. Cooperation on external migration policies has also evolved considerably over time. The EU disposes of a common visa policy; a harmonised system of external border controls; common standards for dealing with asylum claims; and directives on legal migration including the rights of long-term resident third country nationals in the EU, family reunification, and common rules on the admission of highly skilled workers, researchers, students, and intra-corporate transferees.

## Movement of People within ASEAN

Mobility of labour has become an important topic for ASEAN with the 1995 Framework Agreement on Services (AFAS), adopted in the same period as the services trade liberalisation agenda at the World Trade Organization level, namely, the GATS. Member state's leaders agreed to transform ASEAN into a region with 'free movement of goods, services, investment, skilled labour, and freer flow of capital' (ASEAN Secretariat, 2008). In particular, this covers the temporary cross-border of skilled labour linked to establishment, in the form of intra-corporate transferees and business visitors. Cambodia and Viet Nam allow mobility of contractual service suppliers, service providers delinked from commercial presence, however subject to domestic regulations. In 2012 members signed the Agreement on Movement of Natural Persons (MNP) that basically incorporates all mobility commitments initially included in the AFAS. Nevertheless, the MNP is not yet in force. Labour mobility linked to trade have been pursued also in extra-regional agreements, or bilaterally, through FTAs signed by various ASEAN members. These agreements are sometimes broader in scope compared to the level of mode 4 liberalisation achieved within the region. For example, the ASEAN–Australia–New Zealand FTA (signed in 2009) covers more categories of service suppliers and social rights for migrants and their families. Australia grants full working rights to family members for those service suppliers staying in its territory for more than 12 months.

Intra-regional mobility is also promoted via the MRAs for professional services, covering so far eight professions: engineering, accountancy, architecture, surveying, nursing, dental and medical practitioners, and tourism. Nevertheless, an MRA does not automatically grant ‘free movement’ as domestic immigration procedures or language barriers can seriously restrict the mobility of professionals (Ravenhill, 2008). Travelling within the region for up to one month is visa-free for ASEAN nationals, but work visas remain subject to domestic regulations. Low or unskilled labour mobility is not part of the regional cooperation agenda.

With the official launched of the AEC, ASEAN leaders have further developed a road map for regional integration covering the upcoming 10 years, objectives stated in the Kuala Lumpur Declaration adopted end of November 2015, entitled ‘ASEAN 2025 – Forging Ahead Together’. The mobility of skilled labour is one dimension of the ASEAN 2025 document, which should be realised with the enforcement of the MNP Agreement and the further development of the MRAs, within what the ASEAN states term a ‘people-oriented and people-centred community’ (ASEAN Secretariat, 2015a).

Mobility of people trigger also questions about the rights of migrants. These aspects have been covered in the regional Declaration on ‘Protection and Promotion of the Rights of Migrant Workers’ (Cebu Declaration) signed in 2007 by the ASEAN Leaders. The declaration aims to safeguard the rights of migrants and their families in accordance with national laws and regulations and calls for appropriate employment protection, wages, and living conditions, as well as for coordination on anti-trafficking policies. While the declaration has not yet been ratified domestically, there are some intra-ASEAN bilateral memoranda of understanding, specifying conditions for domestic migrant workers related to duration of stay, language requirements, or immigration procedures that further address migrants’ rights. As in the case of skilled mobility, reforms are envisaged that would secure the rights of migrants.

Finally, aspects concerning external border control have been discussed mainly outside ASEAN, within the so-called Regional Consultative Process, the Bali Process. Co-chaired by Australia and Indonesia, the Bali Process has a limited focus on security related to people smuggling and trafficking and the fight against irregular migration among its members (Harns, 2013, 62). More recently, the management of external border control has further gained importance on the political-security agenda of the ASEAN Community. The evolving policy debate within this pillar has been revolving around measures that would allow coordinated border patrols, possibly a travel card for business persons within ASEAN and a common visa policy for non-ASEAN nationals.

It should also be noted that in terms of legalisation and enforcement of the above-discussed policies and norms, commitments on mobility inscribed in AFAS are binding rules. However, ASEAN is an intergovernmental organisation without an independent body responsible for monitoring implementation and enforcement (Nikomborirak and Jitdumrong, 2013).

Table 1 summarises the main goals to address regional migration across the three pillars of the ASEAN Community.

**Table 1: Migration and Labour Mobility Cooperation in ASEAN**

ASEAN Community	Migration and Mobility Cooperation
<b>Political-security</b>	<ul style="list-style-type: none"> <li>• Strengthen criminal justice responses to trafficking in persons</li> <li>• Protect victims of trafficking</li> <li>• Explore an ASEAN business travel card to facilitate the movement of business people among ASEAN member states</li> <li>• Explore the feasibility of an ASEAN common visa for non-ASEAN nationals</li> <li>• Strengthen cooperation on border management</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>• Facilitate movement through issuance of visas and employment passes for business and skilled labour</li> <li>• Recognise professional qualifications</li> <li>• Implement and develop new MRAs</li> <li>• Human resource development in the area of services</li> <li>• Core competencies and qualifications in priority services</li> <li>• Strengthen labour market programme capacities</li> <li>• Expand and deepen commitments under the ASEAN Agreement on MNP where appropriate</li> </ul>
<b>Sociocultural</b>	<ul style="list-style-type: none"> <li>• Human resource development</li> <li>• Promote decent work</li> <li>• Protect and promote rights of migrant workers</li> <li>• Support the implementation of the Cebu Declaration</li> </ul>

Source: Authors' compilation based on AEC Blueprints and other official documents.

In sum, intra-ASEAN movement of natural persons has sought to deepen regional economic integration and a series of reforms have been initiated to achieving this goal, notably the developments occurring within AFAS/MNP and the establishment of various MRAs. The commitments undertaken by ASEAN members so far have been confined to skilled labour mobility related to investment and commercial presence. The flow of lower-skilled workers is not covered in the AEC. Various ASEAN-third country agreements and bilateral FTAs signed by individual member states have broader commitments on mobility of natural people, covering mobility at different skill levels and sometimes extending rights to the families of the main applicants. Rights of migrants from ASEAN are mainly dealt with bilaterally, complemented by dialogues and exchanges of best practices at the regional level. Cooperation on security aspects has taken place in a separate venue, the Bali Process. However, aspects on external border management and mobility of people have been also incorporated in the political-security pillar of the ASEAN Community.

The intergovernmental structure of ASEAN and the consultative nature of the Bali Process do not entail any supranational law enforcement or monitoring bodies, except for the mobility-related commitments undertaken in trade agreements, which are binding obligations for the signatory parties.

## EU–ASEAN Cooperation on Mobility of People

The EU (European Economic Community at that time) established contacts with ASEAN back in 1972, and had formally launched the ASEAN–EU Dialogue instrument in 1977. The dialogue relations were institutionalised with the signing of the ASEAN–EEC Cooperation Agreement in 1980 and have since rapidly grown and expanded into dialogues and programmes covering a wide range of areas including political and security, economic and trade, social and cultural, as well as developmental cooperation. Aspects related to migration, part of broader economic, political, security, and sociocultural cooperation, are found in the current ASEAN–EU Plan of Action 2013–2017. For instance, through the support for the ASEAN Political–Security Community, the Union initiated the EU–ASEAN Migration and Border Management Programme I and II, with the aim to improve border management. With financial and technical support from INTERPOL, the EU has been supporting the development of an Integrated Border Management System in the region in order to facilitate the legal movements of goods and persons, and better combat transnational crime, irregular migration, and human trafficking across ASEAN (EU Delegation Jakarta, 2013). To this end, the EU stated its support for the implementation of the 2011 ASEAN Leaders’ Joint Statement in Enhancing Cooperation against Trafficking in Persons in Southeast Asia through measures such as information sharing and the use of technologies relevant to border management and document security. As initial outcomes, the EU programme has helped ASEAN states improve the cooperation among their border management bodies and has enhanced cooperation on information exchanges between INTERPOL local offices and INTERPOL General Secretariat (EU Delegation Jakarta, 2013). The current assistance in the area of migration and border management is a programme of €3.4 million designed to address the agenda on people-to-people connectivity in ASEAN, by strengthening law enforcement and cooperation at main regional transit hubs. A study on easing visa requirements for ASEAN and third country nationals entering the region is also part of this cooperation.

Aspects related to rights of migrants are to be found under cooperation on broader human rights initiatives, with the EU giving full support to the ASEAN Commission on the Promotion and Protection of the Rights of Women and Children. Matters related to human rights are also reiterated under sociocultural cooperation, with the EU engaging in policy dialogues and financing programmes in the region that promote human rights, including the well-being of migrant workers (EU Delegation Jakarta, 2013). Policy changes on human rights,

and indirectly the rights of migrants, could also be addressed through trade agreements. The EU has been negotiating several bilateral treaties with some ASEAN members using the sustainable development chapters of these agreements to include human rights considerations, in line with the relevant United Nations and International Labour Organization (ILO) conventions.

As part of the support for the sociocultural community, the EU has also been endorsing greater student mobility in the region and has initiated programmes that will contribute to the harmonisation of the recognition systems between higher education institutions in ASEAN. It contributes to improving the comparability of university qualifications and the ease of transferring credits through the development of Qualification Framework and Assurance systems. Several aspects related to education and student connectivity as well as human rights were as well tackled through the regional EU–ASEAN Dialogue Instrument, READI, which received €4 million funding throughout 2011–2014 and is expected to be topped up by €3.3 million to further support the ASEAN’s Human Rights System (EU Delegation Jakarta, 2013).

## ASEM Dialogue on Migration

ASEM, founded in 1996, represents an important process of dialogue and cooperation between European and Asian countries that brings together 53 partners, including the EU, its member states, the ASEAN and its Secretariat, together with other states from the two continents. Part of the political pillar, exchanges on international migration were initiated in 2003 under the ASEM Conference of the Directors–General of Immigration and Management of Migratory Flows with the scope of strengthening links between members’ immigration authorities and to permit exchanges of information and of good practices in the field of international migration. So far 13 conferences were organised, with discussions covering mostly aspects related to migration control and management of migration flows. While cooperation on border management and anti-irregular migration action is also part of the various EU–ASEAN subregional programmes, EU/ASEAN leaders have further developed other instruments within their regions and among themselves to address human mobility, policy experiences that could serve to broaden the ASEM agenda on cross-border flow of people. In the next section, the paper will explore such possible cooperation opportunities and how these could be linked up with existing cooperation processes and initiatives developed within the social–cultural–educational and economic pillars of the ASEM.

## Conclusions and Policy Recommendations

The EU has in some respects pioneered the development of regional migration policies, with its free movement regime, and has gradually expanded its migration policies into its external relations with third countries through trade relations as well as other instruments. ASEAN has opted for a more selective intra-regional labour mobility model, following mainly the World Trade Organization/GATS agenda on temporary mobility of skilled labour. Multiple EU–ASEAN cooperation instruments have been developed covering technical support and financial assistance for the ASEAN governments to address labour mobility, rights of migrants, and border management policies. While labour mobility in ASEAN is an ongoing reform process, the political commitment to enhance mobility of people at the regional level is part of the current 2025 ASEAN Vision. Building upon the policy experiences of these two subregions, along with the existing cooperation programmes between the EU and ASEAN, ASEM could offer a platform for further cooperation on mobility of people between wider Asia and Europe, while also providing an impetus for ASEAN states to advance their regional labour mobility policies. Cooperation on labour mobility within ASEM could be enhanced through already-existing working institutions to which concrete operating instruments could be devised. In particular, developing collaboration programmes on the movement of people could start with the following:

**Labour mobility.** Since 2006, ASEM has initiated the alleged ‘Labour and Employment Ministers’ Conference’ that tangentially also covers aspects related to labour mobility, mainly on aspects concerning skills recognition to facilitate job mobility and employability of young people. This existing cooperation venue could be further strengthened and used to develop schemes that enable labour mobility between participating states. Mobility rules included in the service chapters of trade agreements signed between the EU and ASEM countries, as well as pertinent provisions under the GATS, could be a first area to look at. Discussions could focus on barriers to mobility encountered in states’ practices, such as visa issuing procedures, labour market tests, numerical quotas, or national language requirements that may impede service trade-related labour mobility in practice. Along with discussions on skills recognition, education qualifications could also be addressed within this setting. Encouraging horizontal discussions among relevant public and private stakeholders, dialogues could engage actors such as ministries of education, vocational training institutions, and private companies facilitated, for instance, through the Asia–Europe Business Forum. An outcome could lead to initiating a feasibility study to identify the professions for which MRAs could be concluded, models already in place among several states of the Asia-Pacific Economic Cooperation (APEC) and within ASEAN, as portrayed above. With input from the above-mentioned stakeholders, the study could first identify sectors of the economies across the two continents and among the states where labour mobility would be deemed feasible. This would be complemented by defining the technical criteria needed in the process of education and skills recognition. To this end, the policy experiences of the partners already

engaged in such skills and/or education recognition processes would play an important role in creating a common understanding of such practices and helping build consensus on solutions and their practical implementation.

**The Asia–Europe Foundation (ASEF)** is an institution of the ASEM, with the capacity to initiate and carry out programmes on *labour mobility* cooperation. ASEF has already organised workshops on the topic, engaging labour migration experts from the government, non-governmental organisations, international organisations, the private sector, and academia from the two continents. Drawing upon this experience and the outcomes of the previous work, new initiatives and policy suggestions could be devised by the ASEF in collaboration with international organisations active on labour mobility policies throughout Asia and Europe, among which are ILO and the International Organization for Migration (IOM) and other foundations focusing on labour mobility and migration more generally from the two continents. Their work should be submitted to relevant ministries from ASEM, in particular, immigration authorities and economic, social, and labour entities from the member states, and serve as a knowledge base for policies to be devised within the ASEM context.

**Student/academic mobility.** ASEM’s Education Ministers’ Conference could be the key institution addressing mobility of students between Asia and Europe, by proposing policies that enable degree recognition among academic institutions. Here the experience of the EU with ERASMUS programmes is of particular importance. Also, dual degree programmes could facilitate student and academic staff mobility between the two regions.

**Rights of migrants.** ASEF could also play a key role with regard to policies on the rights of migrants, in collaboration with other entities from ASEM, e.g. the Labour and Employment Ministers’ Conference as well as other organisations from Europe and Asia, and international organisations, such as ILO and the International Organization for Migration (IOM). Having already gained substantial expertise on human rights in general, through the various seminars organised on the topic, ASEF could engage actively with the relevant stakeholders and prepare policy recommendations on migrants’ rights. Such recommendations could be further advanced on the agenda of the high-level Conference of Labour and Employment Ministers.

In sum, for an enhanced people-to-people connectivity and facilitated flow of labour across Asia and Europe, ASEM, as a dialogue and policy cooperation forum, could consider a holistic approach to mobility, where aspects covering economic-related mobility, academic/student exchanges, rights of migrants, as well as control and border management are discussed together. In addition, enabling a horizontal coordination among key state and non-state participants concerned by human mobility would foster policy discussions and open the door for exchanges of good practices in the field, while at the same time enabling the design and implementation of concrete policies.

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# Europe–Asia Cooperation

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## CAPACITY BUILDING PROGRAMMES AND HUMAN RESOURCES DEVELOPMENT IN THE YEARS AHEAD

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Connections between Europe and Asia date back many centuries but these interactions have neither been equal on both sides, nor found to be robust. There are many reasons for this but one important cause is that human resources in Asia and Europe are diverse in terms of competence and skill. On the one hand, this diversity reflects the richness and various talents of pluralistic societies in Asia and Europe. On the other hand, however, the diversity creates skill or knowledge gaps that, in many cases, have prevented further productive and equal interactions and connection between peoples in the two regions. The gaps derive not only from different levels of economic development between Asian and European countries as well as among countries in each region but also from dissimilar ways of life between people in the two regions. Under different schemes with varied scopes, European Union (EU) and Asian countries have undertaken various capacity building programmes to enhance human resources development. However, more institutionalised programmes are needed. This chapter aims to enhance cooperation among Asian and European countries in human resources development. The chapter is in two parts. The first part looks into previous collaborative practices and capacity building programmes to improve human resources in the two regions and identify opportunities for improvements. The second part puts forward three concrete projects that the Asia–Europe Meeting (ASEM) should undertake in the near future to improve Asia–Europe cooperation in human resources development and, in the process, enhance connectivity between the two regions.

### Learning from Previous Capacity Building Programmes

Leaders and officials from EU and Asian countries have long recognised the need to bridge gaps in skills and knowledge among people from the two regions. Education has been perceived as a panacea to such issues but degree programmes in higher education institutions take time and enormous resources. Hence, in the last decade, officials from European and Asian countries have turned to a more targeted but less time consuming and less costly human resource development through capacity building programmes. This part briefly reviews three of such programmes not only to show the value of existing European and Asian connectivity in human resources development but also to identify possible improvements for future cooperation. The three previous programmes include volunteer

programmes conducted by the Asia–Europe Foundation (ASEF), EU support to ASEAN (Association of Southeast Asian Nations) integration, and tandem research training between Germany and Indonesian scholars.

## ASEF Training Programmes for Volunteers

As an ASEM institution that facilitates and supports the interaction in the sociocultural pillar, ASEF has conducted many workshops and training programmes for non-state actors from Asian and European countries. One training programme that is remarkable in terms of quality, system, and outreach is the ASEF Training Programme for Volunteers.

So far, ASEF has carried out three important volunteer training programmes, as follows:

1. Exploring Dimensions of Understanding and Participation, 17 December 2007 in Tallinn, Estonia
2. Asia–Europe Training for Young Volunteers, 9–15 October 2008 in Ha Long, Viet Nam
3. Asia–Europe Training for Young Volunteers, 11–17 February 2009 in Tokyo, Japan

These training programmes were undertaken after a series of ASEF programmes for volunteers were conducted earlier, namely, (1) Networking Asian and European Youth Volunteers on 24–28 June 2006 in Ha Noi and Halong Bay, Viet Nam; (2) Asia–Europe Youth Volunteers Exchange (AEYVE) Job Shadowing, 12–16 October 2007 in various places; (3) Asia–Europe Youth Volunteers Team–Building Partnership (AEVTP), 10 July 2007 in Paris and 1 November 2007 in Tokyo; and (4) six ASEF Volunteer Exchange Programmes.

The ASEF training for volunteers can be assessed in two ways. The strength of these capacity building programmes derives from several aspects. They were built in conjunction with other ASEF practical forums that addressed, enhanced, and practised volunteer-related issues in Asia and Europe. So, the training programmes were not carried out in isolation from other ASEF activities; they rather interconnected with other similar programmes. In addition, the ASEF training programmes on volunteers focused on young people who will represent the future of Asia and Europe. This focus is highly relevant because the programmes have not only nurtured networks among the youth from the two regions but also encouraged them to be more creative and open-minded in taking care of volunteering works. Moreover, the training programme for volunteers is very timely, helping create jobs for the youth as well as encouraging them to pay more attention to less-fortunate people in their surroundings. Unfortunately, the ASEF capacity building trainings have not prevailed; these have not been held since 2009. It seems that the sustainability of such programmes is problematic, despite the importance of this kind of capacity building programme for Asian and European

youth. No information on the career development of participants who were involved in the trainings was also available, making it difficult to evaluate the success of these programmes. In future, this kind of programme needs institutional support not only from the leaders and policymakers in Asia and Europe but also from non-governmental organisations that deal with the youth in the two regions.

## EU-ASEAN COMPASS

On many occasions, EU officials have expressed European support to regional integration in Southeast Asia. Therefore, since 2007 the EU has allocated grants to support the strengthening of ASEAN. EU–ASEAN Capacity Building Project for Monitoring Integration Progress and Statistics (COMPASS) was launched in 2014 as an EU project to support ASEAN integration. This project is planned for 4 years and funded by the EU for €7.5 million. It is based in the ASEAN Integration Monitoring Office (AIMO) and ASEANstats in Jakarta, Indonesia, and managed by the EU delegation in the same city.

After running for two years, COMPASS has shown some strengths and weaknesses. At least four positive aspects can be identified. Firstly, this programme focuses on one of the weak points in ASEAN, namely, data and progress monitoring. By addressing these two often-neglected integrating issues, COMPASS strengthens ASEAN institutionalisation and database. It essentially creates the institutional framework for ASEAN monitoring. It benefits not only the ASEAN Secretariat but also various stakeholders such as political leaders, government officials, the private sector, academia and think tanks, civil society, and citizens of ASEAN. Secondly, this capacity building programme was established as a follow-up of a previous EU–ASEAN Statistical Capacity Building Programme which was also supported by the EU from 2009 to 2012. It shows not only the European countries' consistency in supporting ASEAN integration but also the continuity and sustainability of tackling the weakness of an important component in the decision-making process of regional integration: the statistical data. Thirdly, the programme pays attention to a major gap in ASEAN in that it provides additional support to CLMV countries (Cambodia, Lao PDR, Myanmar, and Viet Nam) in order to enhance those four countries' capability to at least the same level of other ASEAN countries. This policy indicates the project's sensitivity and understanding of one of the most difficult regional integration problems in Southeast Asia. Fourth, this capacity building programme takes place in ASEAN countries but is managed by the donor (i.e. the EU delegation) and executed by a team with members from both Asia and Europe. This strategy can strengthen ownership, transparency, and professionalism of the programme, which can eventually contribute to its success. The programme is in progress and its problems have not been remarkable, but one may point to the lack of information on this programme to the general public. Not many ASEAN citizens realise that they could benefit from this project. The lack of information and socialisation about this programme can limit its expected benefits and utility.

## Germany–Indonesia Tandem Research Training

Over many decades, there have been a lot of connection and collaboration between Asian and European academics but these have mostly been carried out on a personal and ad hoc basis. A capacity building programme to enhance human resource development among academia in Germany and Indonesia has been undertaken in a more innovative and institutionalised way, led by a distinguished professor from Albert-Ludwigs University (ALU) in Freiburg, Germany, with partners in Universitas Gajah Mada (UGM) in Indonesia. This programme aims to introduce an innovative model of academic collaboration that overcomes the dichotomy between ‘native’ and ‘foreign’ scholars in the field of anthropology and establish field-research methodology based on multi-relational practices in dynamic and open social fields. Run since 2004 and funded by the German Government under the German Academic Exchange Service (DAAD), the programme has been conducted as a mix of student-centred fieldwork exercises and teaching based on cross-national and transcultural collaboration between Indonesian and German students and researchers. The ALU-UGM Programme was run as reciprocal practices of ethnography in tandem both in Indonesia and Germany. In the former, German students and professors from the ALU were partnered with Indonesian students and professors. Likewise, in the latter, Indonesian students and professors were partnered with German students and professors. Rather than taking the Germany ethnographic research as the principal method, the programme is open and welcomes the Indonesian approach in ethnography. The tandem mechanism works two ways.

The strengths of this training programme comes in several forms. Firstly, the ALU-UGM programme reflects the efforts by European and Asian scholars to work together in a more systematic and institutionalised way to respond to one of the fundamental problems in Social Science, namely, methodology. Secondly, the training programme was distinctive as it sought to establish an innovative ethnological approach that is based on equality and exchange. Third, this programme was conducted on students, the young generation who in the near future will represent the interactions between Asian and European countries. Their involvement in this programme provided not only interregional and intra-regional networks but also life experiences that would shape their perspectives about each other now and in the future. Fourth, this programme has been documented and presented in detail (Schlehe and Hidayah, 2013) and discussed in order to inspire similar endeavours at other levels, regional as well as interregional, and in other disciplines. Thus, this programme can be a model for other trainings to enhance not only human development in Asia and Europe but also to address the problems of inequality and bias among people from the two regions. Nevertheless, some obstacles to the programme can be identified; they include not only the indispensable role of knowledgeable and broad network of senior scholars who are willing to make changes from existing practices but also the crucial existence of sufficient funding that can support the sustainability of the programme for a longer period.

These three concrete examples show previous capacity building programmes involving Asians and Europeans in highly relevant areas of cooperation, namely, youth volunteers, support for regional integration, and scientific methodological innovation. The examples also represent past experiences of people from the two regions to work together at interregional, subregional, and national levels. The strengths and problems of these examples should inspire further cooperation for ASEM partners to continue the capacity building programmes in order to connect people and institutions from the two regions.

## Three Collaborative Programmes to Enhance ASEM Human Resource Development and Connectivity

Previous connectivity between Asian and European countries in the field of human development through a wide variety of capacity building programmes showed clearly that peoples and institutions of the two regions had the willingness and openness to learn from each other. The gaps in skill, knowledge, and understanding are not one-sided. Asia and Europe have both advantages and deficiencies. Thus, both parties can learn from each other through closer connectivity. The previous and existing programmes reveal that the problems of sustainability, institutionalisation, and information have become weaknesses in such connectivity. Nevertheless, the three problems can also become the opportunities for ASEM to enhance human development programmes in the near future.

This section aims to put forward concrete plans of human development that facilitate further connection between Asian and European peoples. Experiences from previous human development programmes between the two regions serve as references to propose applicable, doable, and sustainable training programmes that can foster connectivity between Asia and Europe. With these backgrounds, this section proposes three training programmes that focus on the issues of public policy, marine protection and development, and urban planning and management. Given the importance of the issues, ASEM Leaders should prioritise these three projects.

However, while these three substantive programmes are vital in their own right, it is now very clear in the emerging literature on human capacity development that—whether in reference to policy or action, to research or application—a new key concept has been identified and clarified. This is the concept of social responsibility as embodied in the practice of corporate social responsibility (CSR) and social risk management (SRM).

Each of the three proposals for future projects can be structured to apply this concept. Indeed, a fourth project should involve training for development leaders in the use of these aspects—CSR and SRM—both to enhance the quality of human performance and to maximise the social benefits while reducing risks and social costs. One of the great

problems for development in Asia is a push for economic growth without regard for social responsibility, accountability, and costs. The words ‘to serve its general public’ (see below) tend to have virtually no meaning unless the social and cultural implications are properly recognised and appropriate action plans are prepared and brought into being. Policies and projects must reflect these concerns.

## Project 1: Training Programme on Public Policy

### **Relevance:**

This training programme is very relevant and urgently required as many policies are poorly designed and/or implemented. The purpose of state and government to serve its general public are not fully understood but in the era of transparency and democratic consolidation, state apparatus cannot neglect their main function to serve people through sound and effective public policies. In any developmental dimension, the apparatus needs to create and implement good and sound public policies in a wide range of sectors, be it infrastructure development, education, civic administration, economic activities, political process, social schemes, etc.

### **Programme Objectives:**

(1) Enhance the understanding and skill of government apparatus in Asian and European countries in designing and implementing public policies; (2) allow free interactions between the state apparatus of different countries in Asia and Europe so they can learn from and help each other; and (3) expand connectivity among government apparatus from the two regions through intra- and extra-regional networks for future needs and challenges.

### **Expected outcomes:**

Annually, 80 trained state apparatuses from Asian and European countries are able to design and apply a sound and effective public policy in a particular sector. They should also be able to share the knowledge and skill to their colleagues and peers upon the completion of the training programme. A total of 240 decision-makers are expected to be trained to enhance their ability in design and implement public policies.

### **Training mechanism:**

A sequence of training programmes, each focusing on a specific sector of public policy, for example, in education, trade facility, infrastructure development, corporate social responsibility, and social risk management, etc. They take place in Asian and European countries with reciprocity.

**Time frame:**

Four training programmes annually; the project runs for three consecutive years. After evaluation, subject to positive results, the project can be extended to another sequence of three years.

**Target audience:**

State apparatus, in each programme that include 25 participants; the group should be a mix of advanced and emerging countries in Asia and Europe.

**Monitoring system:**

At the end of the training programmes, each participant should be able to make a complete design of a sound and effective public policy applicable to his/her country. After one year, they should present the application of their proposed public policy followed by feedback to improve the public policy. This one-year follow-up is also set up as a discussion forum for comparison and revision of the policy.

**Sustainability:**

All ASEM partner countries ought to invest in this project. However, the amount of investment may vary, depending on the level of economic advancement. Advanced countries may bear a bigger share to subsidise emerging countries' contributions. This way the project encourages not only connectivity but also solidarity in human resource development.



## **Project 2: Training Programme on Holistic Approach to Marine Protection and Marine Economic Development**

**Relevance:**

Despite its indispensable role in guarding global food supply and environment, marine areas have not been appreciated, maintained, and preserved adequately. They remain polluted, neglected, and exploited beyond minimum security standards. In fact, marine ecosystems around Asia and Europe have been depleted almost to their limits. Hence, it is important and timely for ASEM Leaders to call for serious attention and more political will from Asian and European countries to take a bigger responsibility in protecting marine areas around their respective regions. To sustain the efforts, ASEM Leaders also need to encourage responsible use of marine resources, and to build marine economy and food supplies that do not harm the ecosystem.

**Programme objectives:**

(1) Combine traditional wisdom/practice and modern science/knowledge from Asian and European countries in dealing with marine areas; (2) spread knowledge and practices of managing a balance between economic development and environmental protection in marine sectors; (3) incorporate the CSR and SRM aspects in marine and coastal development; (4) connect and synergise efforts undertaken by Asian and European countries to take advantage of marine resources in more sensible and responsible ways in order to maintain sustainable growth and ensure food security in the two regions.

**Expected outcomes:**

Four targeted marine areas are reconstructed and revived annually. In three years, 12 depleted marine areas are expected to be alleviated to sustainable marine ecosystems that can support marine economy of local people. Respects to traditional wisdoms and practices are also expected to rise as these can be combined with modern sciences to create the sustainability of marine environment.

**Training mechanism:**

Four groups of competent trainers from Asian and European countries are created. The groups identify several areas of Asian and European marine areas that can be enhanced. Each group builds a training curriculum that is suitable for their intervention. The curriculum combines traditional knowledge and local wisdom with modern social and cultural sciences and advanced technologies. As the form of intervention, each trainer group provides a training programme on marine protection and marine economic development to people in targeted areas. Each training programme is run for one to two weeks, combining theoretical and practical approaches.

**Time frame:**

Four trainings annually; the project is run for three consecutive years. After evaluation and revision, the project may be extended for another three years.

**Target participants:**

Participants can be from different professions, such as fishermen, students, teachers, local government apparatus, businessmen, house wives, etc., especially those who live by or who benefit or suffer from marine areas.

**Monitoring system:**

Trainers maintained measures in the targeted marine areas, before and after intervention, in order to monitor training success and effectiveness.

### **Sustainability:**

All Asian and European countries whose territories host the targeted marine areas can share the financial burden of these programmes. Relevant local industries can also participate as donors.

## **Project 3: Training Programme on Urban Planning and Water and Waste Management**

### **Relevance:**

More than half of the world's population already resides in urban areas. According to a United Nations study, Asia is currently home to 53 percent of the world's urban population, followed by Europe at 14 percent, and Latin America and the Caribbean at 13 percent. It estimates that continuing population growth and urbanisation will add 2.5 billion people to the world's urban population by 2050. Asia and Africa are expected to contribute nearly 90 percent of this increase (UNDESA/Population Division, 2014). In addition, clean water is increasingly becoming scarce across the world. Access to water has also been governed by market mechanism, distributing clean water only to those who can pay the competitive prices. Moreover, waste has created social, health, and environmental problems in many Asian cities. In Europe these problems were generally resolved by the application of modern technologies that linked and managed with the whole system of urban planning. Thus, integrated urban planning and effective governance of water and waste are essential to achieving a sustainable balance among various considerations such as economic growth, social progress, and environmental protection. The task of building liveable cities is getting urgent as Asia is expected to bear the brunt of an accelerated population growth in its urban areas in the coming years. To achieve good urban planning, the Working Group on Urban Planning of the Network of East Asian Think Tanks (NEAT) in their recent study recommended ASEAN+3 Leaders to showcase best practices and enhancing capacity building in urban planning (NEAT Singapore, 2015).

### **Programme objectives:**

(1) Improve human resources in the urban planning sector to support the development of urban areas in Asia in the coming years; (2) empower local actors especially the local government and local community to promote bottom-up urban planning and public participation, and ensure the responsiveness of urban planning policies to local needs; (3) undertake pilot/joint projects or compile case studies to better share knowledge, expertise, and experience on urban planning among Asian and European countries; apply the CSR and CRM in urban planning and water and waste management as a model for sustainable urban society; and (4) promote interregional cooperation in the area of urban planning and water and waste management.

**Expected outcomes:**

About 180 local government apparatuses, people from local communities and city planners, mainly from Asia, are trained so they have the most up-to-date knowledge in urban planning and water and waste management. They are expected to be the agents of constructive changes in their respective cities. Eventually, urban life in Asia is expected to improve.

**Training mechanism:**

The training programmes are run by scholars and professionals. Each programme trains about 20 local government apparatuses and city planners. The programme combines in-class discussion and session with visits to various relevant sites in a particular city. Each training programme may run for two to three weeks.

**Time frame:**

Two training programmes are run annually for three years.

**Target participants:**

Local government apparatus, local community, and city planners

**Monitoring system:**

Each participant is requested to report their city's condition before the training programme, and every two years after the training.

**Sustainability:**

All ASEM partner countries are requested to invest in this project. However, the amount of their investment may vary, depending on the level of economic advancement. Advanced countries are requested to bear a bigger share so it can be used as subsidy for emerging countries. In this way, the project encourages not only connectivity but also solidarity in human resource development.

The three brief training programme proposals above focus on the most pressing problems in Asian and European countries: public policy, marine protection and development, and urban planning and management. Due to environmental and demographic changes in the two regions these problems exist in both Asia and Europe. To tackle these problems, an overarching institutional and capacity building project that integrates the three issues with CSR and SRM is needed. It is vital to change the thinking at government, corporate, and non-governmental organisation levels. Through the training programmes, Asian and European countries can also enhance their connectivity. ASEM Leaders should prioritise human development in these three issues to foster economic growth and sustainable development in inclusive societies in Asia and Europe.

In undertaking these three proposed projects for human development, the problems of previous capacity building programmes can be avoided in several ways. Human development in the ASEM process can be institutionalised by strengthening the capacity and resources of the ASEF. This institution can be the focal points for ASEM training programmes. With its experience of almost two decades, ASEF is also the most relevant organ of ASEM that can socialise all the training programmes. The ASEF info board that has run for many years can be strengthened with a variety of contemporary social media so that it can broadcast all training programmes offered by the ASEM. To maintain the sustainability of the aforementioned human development, ASEM Leaders need to have solid political will. This seemingly difficult commitment did not exist before in ASEM because this interregional forum was designed as a soft institution in which non-binding and informality were prominent (Fitriani, 2014). However, as human resource development becomes an important common interest across Asian and European countries, ASEM Leaders should take an exceptional step towards these programmes in the coming years.

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## Section Five

# THE CONNECTIVITY ROAD MAP: RECOMMENDATIONS TO ASIA-EUROPE MEETING

**Asia-Europe Connectivity  
Vision 2025: A Call for  
Collective Action in  
ASEM 2016, and Beyond**

ANITA PRAKASH  
ECONOMIC RESEARCH INSTITUTE  
FOR ASEAN AND EAST ASIA

# Asia–Europe Connectivity Vision 2025

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## A CALL FOR COLLECTIVE ACTION IN ASEM 2016, AND BEYOND

**ANITA PRAKASH**, ECONOMIC RESEARCH INSTITUTE  
FOR ASEAN AND EAST ASIA

**T**he Asia–Europe Meeting (ASEM) has completed 20 years of existence. In Ulaanbaatar in July 2016, ASEM is poised to enter into its third decade, with commitments for a renewed and deepened engagement between Asia and Europe. The past 20 years have witnessed tremendous change in regional and global relations. New needs and avenues of engagement have emerged during this period. ASEM can, and must, use this juncture to evaluate its role in, and impact on, deepening integration between the two continents. A collective effort towards addressing the demands of greater connectivity between geography, economy, and people of the two regions will be the foundation of a responsive ASEM in its journey into the third decade.

It is commonly understood that improved connectivity and increased cooperation between Europe and Asia require plans that are both sustainable and that can be upscaled. A sustainable vision of ASEM connectivity is embedded in freer movement of people, trade, investment, energy, information, knowledge and ideas, and greater institutional linkages. The preceding chapters on various aspects of connectivity between Asia and Europe draw out workable and, in most instances, proven ideas and actions that can help deepen the Asia–Europe relations.

The important and remaining question is: how to draw a connectivity road map for the next decade which can give ASEM a unity of purpose, which is comparable to, if not more advanced than, the integration and cooperation efforts in other regional groups.

### A Vision Document for Asia–Europe Connectivity

The ASEM Summit in Milan in 2014 underlined the need for connectivity between Asia and Europe where increased and improved ties will bring about economic prosperity and encourage sustainable development through free and seamless movement of people, trade, investment, energy, and institutional connectivity.

The Milan Summit set out an agenda for establishing air, land, and sea connectivity between the two continents, including digital connectivity. The Leaders further encouraged to plan for exchange of best practices of governance and connectivity from the European Union (EU)

and the Association of Southeast Asian Nations (ASEAN), as well as other subregional groups in the region. Finally, the agenda included involving and linking the stakeholders, including businesses, think tanks, and academia.

In Ulaanbaatar in 2016, Asia and Europe have an opportunity, indeed an obligation, to address the global challenges together. This vision document for Asia–Europe connectivity draws from some of the best research and ideas, and best practices, to give the ASEM a broad road map to steer the connectivity agenda beyond 2016, and to set a collective and consensus-based direction for deeper connectivity between the two continents, and their people.

## Understanding the Linkages between Various Aspects of Connectivity

The presentation of ideas of and actions for connectivity in three parts—physical, institutional, and people to people—presupposes collective and convergent decisions for furthering a holistic programme of connectivity. ERIA's wide research and expertise on issues of integration and connectivity in ASEAN and East Asia allows conceptualising the three aspects seamlessly into each other, to be seen feeding into a more prosperous, inclusive, and connected Asia–Europe. A convergent road map for connectivity allows for infrastructure to blend in with e-commerce, ICT with peoples' connectivity, movement of goods and services with human resource capacity, domestic policymaking with international norms and values, and many similar distincts finding a natural fit into one another. What appear at first glance to be selective fields of action are actually linked to feed into every aspect of closer relations between Asia and Europe.

Such interdependence of distinct actions permits the core issue of connectivity to be recaptured for ASEM 2016. ERIA is predisposed to present the Asian understanding of connectivity through community building and cooperation, together with the learning from Europe's success in connecting its people and institutions seamlessly. As Chapter 1 explains, the East Asia notion 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. Despite some differences in emphasis, they are also compatible with European thinking and, therefore, can be effectively utilised by the ASEM. The challenge for ASEM is to recognise the diversities that exist between Asia and Europe, and among the individual countries in Asia and Europe, and yet be able to give to itself and to its constituency a common plan of action for closer relations. It is from this point that the ASEM Connectivity Vision Document has proposed and reconciled the three pillars of connectivity—namely, physical, institutional, and people to people—around which ASEM can develop its Connectivity Work Plan for the coming decade.

## Convergence of Plans for Physical Connectivity

The plan for greater physical connectivity underpins the idea of greater economic integration and peoples' movement across Asia and Europe. Infrastructure that ensure physical connectivity between Asia and Europe will help reduce the cost of investment and trade in goods and services, including service link cost and network set-up cost. Physical connectivity, encompassing both hard infrastructure in transport, information and communication technology (ICT) and energy infrastructure, accompanied with soft infrastructure of regulatory and institutional connectivity will play a crucial role in the process towards a more economically and socioculturally integrated ASEM region.

The modern production networks which enable countries to join the global value chain require service links for just-in-time movement of goods and services. This includes energy connectivity, as it ensures uninterrupted supply of power to commercial and domestic users. It is evident that larger subregional groups in Asia and Europe are pursuing connectivity initiatives on their own or with other countries in the regions, which can potentially be integrated into common connectivity initiatives of ASEM to benefit both regions as a whole.

ASEM can identify the ambitious infrastructure plans of connectivity across Asia and Europe, including the Mongolian plan to connect Asia and Europe through Northeast Asia, China's One Belt One Road Initiative, and the transport corridors which require ASEM's backing, or influence, to achieve the collective decision-making on regulatory, financial, and operational aspects of the projects. ASEM is fortuitously placed, through its membership and reach, to address the challenge of creating infrastructure through different regulatory and institutional regimes. It should offer its platform for resolving these challenges through a collective mandate and mechanism for fostering physical connectivity.

Establishing a working mechanism within ASEM, which is also mandated, and empowered to draw inputs from other organisations and groups working towards regional cooperation—whether in the economic, strategic, or social realm—would be the way forward for ASEM to put a connectivity process for Asia and Europe in place. The expertise and experience of the Organisation for Economic Cooperation and Development, Organisation for Security and Cooperation in Europe, European Union, East European Union, Association for Southeast Asian Nations, South Asian Association for Regional Cooperation, Asia–Pacific Economic Cooperation, Australia–New Zealand Closer Economic Relations are valuable sources for building connectivities, and putting in place cooperation programmes. In order to reach these sources, ASEM must create its own working group that can put forth an optimal and sustainable mechanism of ASEM-led Asia–Europe connectivity.

As ASEM is a group of diverse economies, it can stimulate a reconciliation and convergence of processes—with accompanying mechanisms to support them—that will help achieve optimisation of physical plans and their costs and benefits. A study on such reconciliation and convergence is a good initiative to set the task in motion.

## Deepening Integration through Institutional Connectivity

The potential for Asia–Europe connectivity goes beyond just transport and infrastructure. It requires stronger and, where possible, irreversible linkages between institutions. Deepening integration between Asia and Europe is built on the premise that to facilitate trade and investment, and to bring the people closer than ever, initiatives such as streamlining of regulatory regimes and procedures, reducing behind-the-border barriers, and sharing of knowledge and ideas need to be undertaken under a focused and a planned manner.

Managing maintenance of national identities while benefiting from international economic integration remains a dilemma for all countries in all models of integration seen in Asia and Europe, and elsewhere in world. International supply chains have changed the nature of economic interdependence. Conventional thinking on institutional connectivity cannot optimally reconcile national policies with international interdependence. Deepening of integration allows institutions and regulations to converge towards a conformity or coherence, which is mutually agreed to.

ASEM can recognise the value of institutional connectivity between Asia and Europe by initiating a working mechanism for review of current processes and mechanisms under various subregional agreements, both agreed and under negotiation. This mapping of institutional connectivity will allow ASEM to move forward towards its own collective need, and desirability for greater institutional connectivity. An assessment of the likely impacts of EU-ASEAN FTA, the Eurasian Economic Union, the Asian Infrastructure Investment Bank, and the Trade Facilitation Agreement on greater economic and social connectivity under ASEM can be undertaken as a first step.

In many respects, the EU and Asia stand out as models of how to facilitate trade. The EU is the world's leading trade bloc with respect to eliminating barriers to trade within its common market. Asia has shown that reducing trade costs can lead directly to integration into value chains which ultimately produce a significant development dividend. In order to improve connectivity within and between Asia and Europe, ASEM could support a number of deep integration initiatives in the area of trade facilitation. Logistics services and agricultural trade in perishable goods can be a priority area to begin. ASEM has the opportunity to use the Trade Facilitation Agreement (TFA) to pursue a more ambitious agenda of connectivity.

Greater regulatory connectivity is the key to successful implementation of infrastructure, economic and human resource connectivity plans, and a wider geopolitical integration. The best approach will depend on the goals, the contexts in the respective countries, and the balance of risks with each approach. Managing the expectations gap among member countries is also a key challenge. ASEM can work on creating a mechanism to study and monitor policy convergence on regulatory connectivity.

Deeper integration is both hard to achieve and sustain, and requires hard work and long-term commitments. ASEM can, however, begin with a soft and more informal cooperation between countries for regulatory connectivity, choosing selective sectors to begin with. This can include a scoping study on the capability requirements for Asia–Europe regulatory cooperation. ASEM should impress upon the individual countries the importance of regulatory convergence. Towards this, ASEM should develop and adopt principles of good regulatory practices, with necessary mechanisms in place to encourage member countries to implement these practices. Bridging the gap between theory and practice of institutional connectivity under the ASEM process will deepen the integration of Asia and Europe.

Despite the current non-institutionalised nature of ASEM, it can put a mechanism or a platform in place bringing its members together to identify common issues, design solutions, and share knowledge and ideas. The role of the private sector and businesses is especially important and they must be consulted at all levels in ASEM. A business council, housed under ASEM, may be set to bring together businesses from both regions to form common positions and engage with leaders in public–private dialogue.

## Putting People at the Centre of Connectivity

How do people perceive connectivity? How do they benefit from an increased and improved connectivity between Asia and Europe? How can people be the drivers of Asia–Europe connectivity?

The increasing complexity of global governance renders a difficult dilemma before ASEM, indeed before any intergovernmental platform, about the choice of plans to connect people in a seamless manner. When boundaries of nationality, development, and economic interdependence are stark, creating a purpose-built road map for people-to-people connectivity is an onerous task for policymakers. For ASEM, people-to-people connectivity has always been termed as the ‘go to’ tool for establishing and measuring its relevance. However, this document wants to guide ASEM to follow a holistic concept of people-to-people connectivity which is embedded in wider institutional reforms and cooperation mechanisms.

Movement of people—just as movement of goods and services, investments, and capital—requires good regulatory practices and creating coherent regulatory regimes. Regulatory coherence envisages a review of existing procedures, regulations, discarding those which have outlived usefulness, assessing the value of returns out of regulations, and putting in place a coherent regulatory regime. ASEM can create a working mechanism to assess the extent and scope for regulatory coherence on the regulations that affect people’s connectivity. Travel and tourism are the priority sector of people’s connectivity as they involve interaction of large number of people and connects well with ASEM’s agenda of economic growth and prosperity. ASEM can, and must, study the need for regulatory coherence in these priority sectors.

Public awareness for Asia–Europe cooperation is limited. The gains from economic interdependence are more secure when they are widely understood. Knowledge being the key to this understanding, a greater exchange of knowledge among the people of participating countries in ASEM is the right and desirable road map for ASEM in 2016 and beyond. Such exchanges are the best counterweight to natural and man-made boundaries between and within Asia and Europe. A review and mapping of all existing programmes of people’s connectivity and cooperation under ASEM, including those under the aegis of Asia–Europe Foundation, is the first step towards the larger task of devising a holistic plan for connecting people under ASEM. Allocation of tasks and resources to the review apparatus set up by ASEM can be decided collectively or by a group of selected countries. The review mechanism’s outputs, along with creative programmes for people’s connectivity, can be put up to the leaders in the next summit.

Setting up new platforms and events for track two connectivity among think tanks and academic organisations, business councils, and other common cause groups will provide new impetus to both the people and the policymakers in ASEM. The track two connectivity can also perform a monitoring role for the ASEM in its area of work/expertise, which can then feed back into the connectivity design process of ASEM.

## Designing a Rational Connectivity Plan for ASEM

As ASEM begins to work on the recommendations coming out of the 11th Summit in Ulaanbaatar, supported by this Asia–Europe Connectivity Vision Document, there is a note of caution against seeking extreme tidiness in the road map for ASEM connectivity. ASEM connectivity mechanisms that will be put in place can learn from other international processes, where more time and effort were wasted to eliminate duplication than the total cost of all the duplication that would have incurred in the absence of ‘rationalisation’ efforts. Rules of engagement and cooperation are always good, but the rationalisation between rigidity and flexibility requires human touch. Neat matrices of tasks and results often fail

where people-to-people connectivity is concerned. Outcome-oriented processes and plans, however, tend to work better. Appropriate allocation of funds and capacities will further add to deliver better and sustainable results.

Replicable results from connectivity plans depend on genuine commitment to agreed objectives and processes of reporting progress. Merely completing agreements on connectivity designs and plans on paper, even with provisions for combined examination of compliance, should not be a substitute for genuine commitment. A mechanism for monitoring implementation of the ASEM connectivity plans only revitalises and nourishes the commitment to connectivity.

More prosaically, the ASEM connectivity road map beyond 2016 is intended to foster and embed an understanding of common interest in a regional cooperation which is well balanced with national interests. The mechanisms proposed above are meant to match the expectations of ASEM leadership for maintaining this balance and achieving substantive outcomes around connectivity.

ASEM has substantial policy margin to create a connectivity blueprint for Asia and Europe. The ASEM Connectivity Vision Document provides the template for this blueprint.

## REFERENCE

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## **Asia–Europe Connectivity Vision 2025**

### ***Challenges and Opportunities***

The Asia–Europe Meeting (ASEM) enters into its third decade with commitments for a renewed and deepened engagement between Asia and Europe. After 20 years, and with tremendous global and regional changes behind it, there is a consensus that ASEM must bring out a new road map of Asia–Europe connectivity and cooperation. It is commonly understood that improved connectivity and increased cooperation between Europe and Asia require plans that are both sustainable and that can be upscaled. *Asia–Europe Connectivity Vision 2025: Challenges and Opportunities*, a joint work of ERIA and the Government of Mongolia for the 11th ASEM Summit 2016 in Ulaanbaatar, provides the ideas for an ASEM connectivity road map for the next decade which can give ASEM a unity of purpose comparable to, if not more advanced than, the integration and cooperation efforts in other regional groups.

ASEM has the platform to create a connectivity blueprint for Asia and Europe. This ASEM Connectivity Vision Document provides the template for this blueprint.

### **About ERIA**

The Economic Research Institute for ASEAN and East Asia (ERIA) was established at the Third East Asia Summit (EAS) in Singapore on 21 November 2007. It is an international organisation providing research and policy support to the East Asia region, and the ASEAN and EAS summit process. The 16 member countries of EAS—Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam, Australia, China, India, Japan, Republic of Korea, and New Zealand—are members of ERIA.

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