

# Frames

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## EDITOR'S NOTE

Many of the stories in this issue talk about *connectivity* which seems to have become a buzzword in recent times. But *connectivity* – with its three pillars, i.e., physical, institutional and people-to-people -- is not simply a buzzword; it is actually a challenge for governments and key stakeholders in this region to turn it into reality if we are to achieve a truly integrated, prosperous and enduring Community.

For physical connectivity which is probably the pillar that brings about the most immediate effects in movement in economic activities, one element that may hold the key to making it a reality is partnership between the public and private sectors to bring in needed resources to finance and support projects. Our lead story discusses more about this, the readiness of the ASEAN member states to adopt the scheme, and ERIA's contributions in helping make *connectivity* a reality.

On another front, our Thoughts section focuses on proposed means to cope with

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## ERIA's Contribution

### *Supporting PPPs' Implementation for ASEAN Connectivity*

by FAUZIAH ZEN AND ASTRID DITA

One of the earliest responses of the Economic Research Institute for ASEAN and East Asia (ERIA) to the call of the East Asia Summit (EAS) leaders to have studies and recommendations that would deepen integration, stimulate economic growth and strengthen partnership in the region was its (ERIA) completion of the "Comprehensive Asia Development Plan (CADP)" which provides a grand spatial design of economic infrastructure and industrial placement in ASEAN and East Asia. Acknowledged with appreciation by the leaders during the 5th East Asia Summit in October 2010, the CADP was substantially utilized in the initial drafting earlier of the "Master Plan on ASEAN Connectivity (MPAC)" which was in turn endorsed to and adopted by the ASEAN during the 17th ASEAN Summit also held in October 2010.

Connectivity is a vital part in building and sustaining a community. The MPAC, which consists of three pillars—physical connectivity, institutional connectivity, and people-to-people connectivity—has the objectives of promoting economic growth, narrowing development gaps, building a regional community, enhancing competitiveness, developing deeper social and cultural understanding, promoting greater mobility of people, and connecting ASEAN members within the region and with the rest of world.

In short, the MPAC is *sine-qua-non* to the realization of the ASEAN Economic Community (AEC) and the ASEAN Community as a whole. Improvement of ASEAN physical and institutional connectivity means enhanced trade, higher investment, and greater development and growth which will narrow development gaps. And better people-to-people connectivity will intensify and strengthen ASEAN together as a community.

#### PPPs for infrastructure development in ASEAN member states

Among the three pillars of the MPAC, physical connectivity—particularly the development of infrastructure to connect ASEAN member states—brings the most immediate changes in movement of goods and people, and other economic activities. Thus, highest priorities are often assigned to the creation and improvement of infrastructures in the region. Studies consistently verify that the targeted infrastructure needs are high and the investments required are equally high. For example, the Asian Development Bank (ADB) estimated

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These are numbers which cannot be met by relying on public capacities alone. ASEAN countries on average currently spend only about 4 percent of GDP on infrastructure. This is even significantly lower than their average annual spending of 6 percent during the period 1980-2009 (Wall Street Journal, 2014). Pushing the limit of the public sector may thus be difficult and can possibly get only as far. Surely then, private sector participation becomes more important than ever in the

- There is a chance for risk transfer, which can improve fairness for both the public and the private sectors.
- PPP allows the public and the private sectors to agree on a contract with particular level of output specifications; this would encourage innovation and new technology from the private sectors.
- A contract in the PPP scheme also spans over a life cycle. Life cycle costing requires quality assets for lower future operating costs – providing certainty with future repairs, maintenance, and asset improvements.
- Early delivery of projects.
- Improved asset utilization.

The diagram illustrates the Traditional Procurement vs. PPP Scheme. On the left, a pyramid represents project viability, divided into three sectors: Private Sector (top, green), Public Sector (middle, yellow), and Government (bottom, grey). The pyramid is also divided into three levels: Commercially Viable Project (top), Economically Viable Project (middle), and Nonviable Project (bottom). The right side shows the flow of the PPP Scheme. It includes boxes for Contractors, Offtaker or User, Private Sector, SPV (Special Purpose Vehicle), PPP Contract, Gov Contracting Agency, Government, and ODA/OOF (Official Development Assistance/Official Finance). Arrows indicate the flow of money, risk, and support between these entities.

ASEAN countries have largely been building their infrastructure in the traditional manner. The government usually prepares a list of the infrastructure projects that will be carried out, some directly assigned to state-owned enterprises, some being openly tendered to invite private companies—all at the expense of public capital. While this has been the procedure followed, public money cannot fully respond to the increasing demand of infrastructure due to rapid population, urbanization, and economic growth. This is where partnership with the private sector is seen to help address said concern. Figure 1 depicts how Public-Private Partnership (PPP) provides a way to bring the private sector to work at infrastructure projects that are economically viable but may or may not be commercially feasible. The role of government is vital and in many emerging economies, support from development partners, to a large extent, can substantially accelerate the process.

Moreover, PPPs provide government with additional resources to increase the amount of infrastructure investment and improve operational efficiency.

Implementing PPP, however, is certainly more demanding than the traditional procurement process. Historically, PPPs have been a complex mode of procurement, which take place mostly in the developed countries with already advanced institutions. This is because PPP calls for several prerequisites, i.e., business-friendly environment; government leadership commitment and competency; and sufficient regulatory and institutional framework.

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project experiences—has always been championing PPPs, a message that is clear when one observes its PPP Unit, which reports directly to the nation's president. Countries like Malaysia, Indonesia, and Thailand have vast experiences in BOT projects, one of the forms of PPP modality. At the same time, countries like Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) stand on the other end of the spectrum with limited experience in executing PPP modalities. The CLMV countries need serious support to be ready to embrace PPP. Before they can fully implement PPP, they may need to assess where their respective country stands, to which point they want to go by what period or when, and how they will achieve it.

### Moving forward

Actions must therefore be taken to start making progress on implementing PPPs as an alternative to the traditional procurement, especially in the CLMV countries. CLMV can start by defining the objectives in embracing PPP and mapping their needs to realize their policy. A clear roadmap is critical in order to call for concerted efforts both from internal and international parties. The roadmap must identify technical expertise needed by key stakeholders (project decision makers, responsible government officers, and local consultants). In this connection, ERIA is currently preparing the ASEAN PPP Guidelines, a customized set of PPP Guidelines to provide a strategic way to adopt the principles of PPP. Support from other AMs and international cooperation are important to accelerate the process of

implementing PPP, especially in the newly adopting PPP countries. To strengthen cooperation and facilitate the knowledge exchange, ASEAN needs to establish a regular forum to facilitate knowledge exchange, provide assistance and advice, and promote PPP market in the region.

### ERIA's role

Recognizing the importance of PPPs in realizing the goals of the MPAC, ERIA has invested much effort in supporting the implementation of PPPs through research, capacity building, policy advisory, and public outreach. The accompanying Box details the activities and type of support that ERIA has provided through the years to boost the use and implementation of PPPs for infrastructure development in ASEAN.

It is hoped that such efforts have had an impact in encouraging ASEAN member states to adopt and make full use of this infrastructure procurement and investment modality. □

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## ERIA's Activities on PPPs

### Research

*Financing ASEAN Connectivity.* The financing part is one of the most crucial aspects in filling the development gaps between the earlier ASEAN member states and the newer members such as CLMV. Research on 'Financing ASEAN Connectivity' answers the questions regarding the needs and possible resources to fill the development gap in all ASEAN member states.

*PPP Guidelines.* One of the key findings in the 'Financing ASEAN Connectivity' study is the potential of utilizing PPPs for infrastructure development in ASEAN. Implementing PPPs in ASEAN means having to adapt with the current conditions of institutional development. ERIA strives to introduce the good principles of PPPs by providing a customized set of PPP Guidelines suitable for ASEAN member states.

*PPP country studies.* ERIA has carried out stocktaking studies, probing the status of PPP development in ASEAN member states. In Phase 1, the study focused on middle-income ASEAN countries with their respective existing PPP institutions: Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam. In Phase 2, the subject is focused on the institutional readiness of Cambodia, Lao PDR and Myanmar in case they decide to adopt PPPs in the future.

### Capacity Building

Adoption of good PPP principles in ASEAN member states will not be seamless if the level of understanding among the stakeholders is not the same. This is a critical issue particularly for countries without any prior experiences in PPPs. In 2013 and 2014, several technical workshops and capacity building seminars were held in Cambodia, Lao PDR, and Myanmar, with the goal of expanding local stakeholders' capacities in order to help them understand PPPs better.

### Policy Advisory

ERIA recognizes the importance of collaboration in making PPPs work in ASEAN. Thus, at the same time, ERIA has participated in supporting PPP policy in ASEAN member states in collaboration with other organizations. APEC, JICA, and JETRO are some of the organizations that share the same vision with ERIA on the importance of PPPs.

### Public Outreach

The idea of PPPs as an alternative to traditional (infrastructure) procurement must be spread throughout the region to foster public comprehension and support. ERIA extends assistance in this area through its participation in seminars, conferences, and university lectures on the topic of PPPs and infrastructure development within

## Looking at Indonesia's Gains and Costs in Trade Agreements



Following up on the successful dialogue held in April 2014 in Yogyakarta on the topic “How does Indonesia manage to level up its value added and improve trade competitiveness?” with H.E. Vice President Boediono of the Republic of Indonesia, the Economic Research Institute for ASEAN and East Asia (ERIA), in collaboration with the Indonesian Ministry of Trade, held the second of the East Asia Policy Dialogue series on 12 September 2014 at the Hotel Kempinski in Jakarta on “How can Indonesia gain benefits from regional agreements?” Keynote speaker for this second dialogue was H.E. Pascal Lamy, Honorary President of Notre Europe-Jacques Delors Institute and former Director-General of the World Trade Organization (WTO), with Indonesian Minister of Trade, H.E. Muhammad Lutfi\*, and ERIA Executive Director, Prof. Hidetoshi Nishimura, as opening and welcoming speakers, respectively.

To improve Indonesia's economic competitiveness, Minister Lutfi said that Indonesia must welcome free trade agreements and connect to the world. While he was upbeat on Indonesia's potentials as it joins the ASEAN Economic Community (AEC), he stressed that the country has to work hard to develop and take care of its market. And Indonesia, he said, should take care of its market not by protecting, but by developing: develop infrastructure and power plants, develop industry smartly, and build a robust middle class. He added that, “Since half of ASEAN is Indonesia, we should be a major factor in it.”

Mr. Lamy affirmed this view by saying that open trade system will benefit Indonesia and as such, it is important for the country to continue to be part of the efforts to promote trade through free trade agreements. In looking specifically at

the Indonesian case, he pointed out that there is a new order of world trade taking place which in a way makes the process of regional economic integration very different from what it used to be.

“The new world of trade is a world where production is international or transnational and where the obstacle is not about protecting the product but the consumers....and how to raise the possibility of trade works very differently from the old one,” Mr. Lamy stressed.

Prof. Shujiro Urata, Senior Research Advisor to the ERIA Executive Director, added that because production under this new order is done in different countries, border and behind-the-border issues should be addressed by the governments of the ASEAN countries, including Indonesia, to be able to market products. Policymakers should therefore not only be concerned with trade liberalization but also with facilitation and regulation (related to the behind-the-border issue).

The key to this, according to Mr. Lamy, is for the ASEAN Member States not to spend time and efforts in discussing something that should be done at the multilateral level (for example, ASEAN could adopt a system of harmonized standards to ease intra-ASEAN trade) but for ASEAN to spend more effort on something that could be solved at the regional level and that would be useful to improve its regional trade. ASEAN should also maintain dialogue with partners to capture market shares in the global value chains.

Joining as members of the Policy Dialogue's panel were Mr. Bachrul Chairi, Director-General, Ministry of Trade, Republic of Indonesia; Ms. Shinta Widjaja Kamdani, Chairwoman of the Employers' Association of Indonesia; and Dr. Lili Yan Ing, Economist at ERIA. More than 250 representatives from ministries related to economic affairs, the private sector, academe, embassies, and international organizations also participated actively in the dialogue [To obtain the full materials of the Dialogue, please contact Ms. Elisa Ayu at [elisa.ayu@eria.org](mailto:elisa.ayu@eria.org)]. □

*\*There has been a change in the Indonesian Cabinet under the new Indonesian President, H.E. Joko Widodo, and H.E. Rahmat Gobel has been appointed as the new Minister of Trade.*

### Other ERIA Activities

October 29  
Myanmar-ERIA-Harvard Symposium

November 25  
The 3rd ERIA Editor's Roundtable

November 25  
2nd OECD - ASEAN REGIONAL SME POLICY ROUNDTABLE:  
Good Practices in International Market Expansion for SMEs

December 15  
ERIA - Chinese Academy of Social Science ( CASS ) Symposium on  
Regional Economic Integration and EAS

December 21  
The 2nd Asia Cosmopolitan Awards



## ERIA Inks Agreement for Collaborative Undertakings on Energy

With the oil and gas production of the East Asian region unable to meet an ever-increasing demand, thereupon causing serious concerns over energy security and environmental sustainability in the region, the need for a regional network that would serve as a platform to do research, share information and discuss issues and solutions to address energy matters becomes very important and timely. East Asia is the source of most of the current and future increase in global demand for energy. As such, it has a certain obligation to look for and consider initiatives and options that will help in coping with the energy issues.

It is in recognition of this that prominent energy research institutes representing 16 East Asia Summit (EAS) countries formed themselves into the Energy Research Institute Network (ERIN), with support from the Economic Research Institute for ASEAN and East Asia (ERIA) and the ASEAN Center for Energy (ACE), to tackle the regional energy challenges.

Holding its first meeting in Brunei Darussalam on 6 September 2014, with the Brunei National Energy Research Institute (BNERI) chairing said meeting, ERIN and its members discussed the current energy situation in each of the members' countries and the emerging policies that are reshaping the energy security landscape in the region. They also identified areas that need to be prioritized for future research.

According to Dato Paduka Haji Abdul Wahab bin Juned, Brunei Darussalam's Acting Minister of Energy, in his

opening remarks during ERIN's inaugural meeting, "ERIN plays an important role in creating comprehensive dialogue" to address issues such as policies that are reshaping the region's energy scene.



To facilitate the conduct of joint research and interaction with energy policymakers, ERIN signed a Memorandum of Understanding (MoU) with ERIA before the start of the meeting on the same date. The MoU identifies the mechanism(s) for collaboration in terms of doing joint studies and organizing workshops, round table discussions and other activities that would provide valuable policy recommendations to policymakers and decision makers on energy issues in East Asia. Signing for ERIN was H.E. Dr. Weerawat Chantanakome of the BNERI and Chairperson of ERIN while Prof. Hidetoshi Nishimura signed for ERIA.

In his remarks during the meeting, Prof. Nishimura assured the Network members that the partnership between ERIN and ERIA is one of the key points to be reported to the EAS Energy Ministers Meeting in Lao PDR on 24 September. □

## ERIA Presents Studies on Energy to the EAS Energy Ministers Meeting

During the plenary session of the 8th East Asia Summit (EAS) Energy Ministers Meeting held in Vientiane, Lao PDR on 24 September 2014, Prof. Hidetoshi Nishimura, Executive Director of the Economic Research Institute for ASEAN and East Asia (ERIA), presented ERIA's studies on five energy issues that are of key importance to the future of the EAS energy community. The five areas are on (1) clean and strategic use of coal, (2) sustainable natural gas market, (3) energy efficiency: urban transport sector, (4) power connectivity, and (5) nuclear energy safety.

Highlighting the recommendations and policy implications of the ERIA studies, Prof. Nishimura said that the ERIA energy research aims towards the formation of cooperation for sustainable use of energy for the economic growth in the EAS region. This clearly jibes with the general theme of the Meeting which emphasizes the importance of regional cooperation in achieving energy security. He also informed the Meeting of the recent establishment of the Energy Research Institute Network (ERIN) and its collaboration with ERIA in doing joint research on energy issues. The collaboration was formalized through the signing of a Memorandum of Understanding (MoU) between the two

in Bandar Seri Begawan, Brunei Darussalam on 6 September 2014.

The EAS Energy Ministers welcomed the studies done by ERIA and noted their policy implications. In particular, they pointed out to one of the recommendations of the study on coal that clean coal is indeed pivotal for the future energy use of the region. For the study on natural gas market, they affirmed the importance of having competitive natural gas prices and of further promoting a flexible, transparent and sustainable natural gas market. The Ministers also looked forward to further progress in pursuing regional nuclear safety and forging greater collaboration in capacity building in the area of civilian nuclear energy. Meanwhile, the ERIA study on power interconnectivity provides corroborating evidence that supports ongoing efforts among certain ASEAN countries regarding the purchase of hydroelectricity.

Finally, the Ministers likewise welcomed the establishment of the ERIN and acknowledged the collaboration between ERIN and ERIA in the conduct of research and research-related activities on energy matters. □

## Stepping Up on PPP Implementation to Enhance ASEAN Connectivity

From 2010 to 2013, the Economic Research Institute for ASEAN and East Asia (ERIA) has worked closely with the ASEAN Secretariat and the ASEAN Chair Country in organizing annual Connectivity Symposia that look into issues and topics related to the enhancement of connectivity in the ASEAN and East Asia region.

The Connectivity Symposium serves as a prelude event to the ASEAN and East Asia Summits. It is one of the major fora that ERIA conducts and organizes as part of its contribution and support to the year's ASEAN Chair Country.

For this year's symposium – the fifth – the theme was set on “Catalysing Public-Private Partnership (PPP) to Finance ASEAN Connectivity”. The theme is actually a logical choice as it brings up the issues taken up in last year's symposium (where the focus was on partnering with the private sector in implementing the Master Plan on ASEAN Connectivity or MPAC) to the next level. The symposium was organized jointly by the ASEAN Connectivity Coordinating Committee (ACCC), Myanmar through its National Coordinator, the Ministry of National Planning and Economic Development (MNPED), the ASEAN Secretariat and ERIA and was held on 10 September 2014 at the Hotel Max, Nay Pyi Taw, Myanmar.

Opening the symposium was H.E. Daw Lei Lei Thein, Deputy Minister of Myanmar's MNPED, who made the call for PPP to be utilized in order to mobilize funds and technical resources in implementing the MPAC to improve economic integration in the region. The PPP formula, according to her, might help the ASEAN members get the necessary funding for the implementation of some of the infrastructure projects outlined in the MPAC.

ERIA Executive Director

Prof. Hidetoshi Nishimura, meanwhile, said in his remarks that ERIA is preparing an ASEAN PPP Set of Guidelines customized for Southeast Asian countries and meant to address the different contexts of the ASEAN situation as dictated by the diverse conditions and development status of the ASEAN member countries.

For his part, keynote speaker, H.E. Le Luong Minh, Secretary-General of ASEAN, emphasized in his speech (as read by Dr. AKP Mochtan, Deputy Secretary-General of ASEAN) the importance of the concept of “partnership” between the public and private sectors and their willingness to work together in a win-win environment where both parties share the risks and benefit fairly from their joint ventures.

Also present during the symposium was H.E. Mr. Kimihiro Ishikane, Director General of the International Cooperation Bureau, Ministry of Foreign Affairs of Japan and former Ambassador for the Japanese Mission to ASEAN, who outlined Japan's PPP assistance measures to support ASEAN connectivity plans.

Other speakers during the one-day symposium included several Myanmar and international experts on public-private partnership and ASEAN connectivity. Around 150 representatives from various ministries and agencies, the private sector, academe and international organizations attended the symposium. □



## Indonesian Government Signs ERIA Host Country Agreement

The Government of the Republic of Indonesia has recently signed the Agreement on Privileges and Immunities of the Secretariat of the Economic Research Institute for ASEAN and East Asia (ERIA) or the Host Country Agreement (HCA). Signing on behalf of the Indonesian Government on 13 October 2014 was Foreign Affairs Minister H.E. Dr. R. M. Marty Natalegawa while ERIA Executive Director Prof. Hidetoshi Nishimura signed earlier on 8 October 2014 on ERIA's behalf.

This Host Country Agreement is proof that the Indonesian Government is the Host Country of the ERIA Secretariat based in Jakarta and has supported all ERIA activities since its establishment in 2008 and will continue to support it thereafter. The agreement is also the legal special treatment and law enforcement that the Indonesian Government gives to ERIA as an International Organization.

The HCA contains the duties and responsibilities of the Parties as well as the privileges and immunities granted by the Government of Indonesia to ERIA, including the Secretariat, for ERIA to be able to perform all its functions and operations effectively.

In addition, the agreement also recognizes the accommodations given by the Indonesian Government to the ERIA Secretariat in terms of facilitation, protection and tax exemption as an international organization.

Furthermore, in the near future, the Indonesian Government will ratify the ERIA Host Country Agreement as an internal procedure within the government. The Indonesian Government will also issue a Presidential Decision as the law enforcing the implementation of this agreement. □

## IPR to Enhance SME Development in Myanmar

The Economic Research Institute for ASEAN and East Asia (ERIA), together with Myanmar's Ministry of National Planning and Economic Development (MNPED) and Myanmar's Ministry of Science and Technology, held a one-day symposium on Intellectual Property Rights (IPR) on 9 October 2014 at the Thingaha Hotel, Nay Pyi Taw, Myanmar.

In her welcoming remarks, H.E. Daw Lei Lei Thein, MNPED's Deputy Minister, emphasized the importance of IPR for Myanmar's economic development, especially with regards to attracting foreign investments and promoting technology transfer. "Foreign investors would like to be assured that their Intellectual Property Rights will be respected," she said.

The symposium aimed to identify the IPR system and policies needed for small and medium enterprise (SME) development in Myanmar through an exchange of views and knowledge on IPR principles and procedures as Myanmar continues to implement reforms in many sectors and in opening up its market.

H.E. Dr Aung Kyaw Myat, Deputy Minister of the Ministry of Science and Technology, stressed that Myanmar has been exerting great efforts to establish a proper IPR system. At present, he said that four laws on IPR are in the legislation process and for submission to the Parliament. He pointed out that said laws will protect not only local IPR owners but also foreign owners.

As ASEAN Chair for 2014, Myanmar views SME development as the backbone of ASEAN economic development. "[The] SME sector in Myanmar is an engine of economic development, and also an important factor to reduce regional disproportionality. Enhancing entrepreneurial skill is needed through a strong and complete policy that will guarantee the continuing growth for the enterprises," Dr Kyaw Myat stated.

According to the ERIA study on ASEAN SME Policy Index, SME development in Myanmar is deterred by the lack of common understanding on SME and the absence of

SME development strategy and weak facilitation. The study found two main pillars to support SME development: (a) support and nurture of development of human resources, technology, innovation skills and finances; and (b) facilitation which includes basic infrastructure development, market modernization of enterprises, favourable tax system and good working practices. IPR protection is a key element in these pillars.

The international and regional experts on IPR who shared their experience and insights during the symposium included Mr. Denis Croze, Director of the World Intellectual Property Organization (WIPO), Singapore Office; Mr. Pornvit Sila-on, Head of International Cooperation Unit 1, Department of Intellectual Property, Ministry of Commerce, Thailand; Prof. Phan Quoc Nguyen, Vice-Director, Science, Technology and International Relations Department and Center of Knowledge Transfer, Viet Nam National University, Viet Nam; Prof. Rajah Rasiah, University of Malaya, Malaysia; Dr. Miranda Risang Ayu, New Emerging IPR Specialist, Universitas Padjajaran, Indonesia; Prof. Hiroshi Kato, Faculty of Law, Japan University; Dr. Moe Moe Thwe, Deputy Director, Head of Intellectual Property Section, Ministry of Science and Technology, the Republic of the Union of Myanmar; and Mr. Takeo Donoue, Director-General, Policy Planning and Coordination Department, Japan Patent Office.

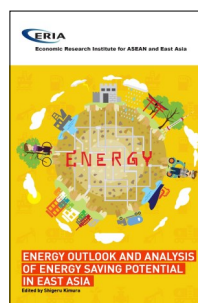
The Symposium was the first event in Myanmar to provide insights on the relationship between SMEs and IPR. In his closing remarks, ERIA Executive Director, Prof. Hidetoshi Nishimura, expressed his hope that the symposium's outcome would be helpful and useful to the ASEAN leaders' discussions for the forthcoming Summit and related meetings. The symposium also opened a new aspect/dimension in ASEAN topics, namely, IPR for SME Development. □



## PUBLICATION UPDATES

### ERIA Holds Book Launch of Two Energy Books in Lao PDR

On the sidelines of the 32nd ASEAN Ministers on Energy Meeting (AMEM) and the 8th East Asia Summit-Energy Ministers Meeting (EAS-EMM) held in Vientiane, Lao PDR on 23-24 September 2014, the Economic Research Institute for ASEAN and East Asia (ERIA) launched two books dealing with energy issues of strategic significance to the ASEAN and East Asia region. The two books are: (1) Energy Outlook and Analysis of Energy Saving Potential in East Asia, and (2) Investing in Power Grid Interconnections in East Asia. The two are among a number of energy research projects undertaken by ERIA in FY 2013-2014 in response to the tasks given by the EAS-EMM. —————→ page 8



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## **ERIA Holds Book Launch.... (continued from page 7)**

The book launch was attended by members of the press corps from Lao PDR and Thailand and was graced by H.E. Daovong Phonekeo, SOE Leader, Lao PDR. In his welcome remarks, Mr. Phonekeo said that the two books answer many questions regarding the efforts of ASEAN countries to improve energy saving measures and the benefits of linking power grids through interconnection projects. During the launch, Special Advisor to ERIA Executive Director on Energy Affairs, Mr. Shigeru Kimura, and ERIA Energy Economist, Dr. Yanfei Li, also presented the key points and policy implications of the reports.

According to Mr. Kimura, the Energy Outlook report is the only energy outlook study that covers 16 EAS countries. It examines two energy outlook scenarios, namely, the Business-as-Usual (BAU) scenario which reflects each of the 16 East Asian countries' existing energy policy, and the Alternative Policy Scenario (APS) which includes additional energy saving goals and action plans currently under consideration in each country. The study focuses on an analysis of the additional energy saving that could be achieved by implementing action plans in each country that are over and beyond those in the BAU scenario. Key results of the report indicate that in the APS case, the increase in final energy consumption by 2035 is projected to be 11.4 percent less than in the BAU scenario. And in terms of CO2 emissions, the APS case projects a significant level of reduction (by 24.9%) vis-à-vis the BAU case in 2035. However, albeit said reduction, the CO2 emission in 2035 will still be above the 2010 level and far above the 1990 level, and will not be enough to mitigate the negative impacts of climate change.

For his part, Dr. Li explained that the second publication on power grid interconnection estimates the cost

and net economic benefits of each possible power transmission line considered for interconnection in the region. Based on the study's estimates, Li said that the Viet Nam-Lao-Thailand-Malaysia-Singapore interconnection route seems to be the most beneficial, with the Cambodia-Thailand interconnection as the second most beneficial. He noted, however, that for the implementation of the power grid interconnections to be promoted and accelerated, there has to be comprehensive guidelines for engaging in effective bilateral or multilateral coordination for said implementation. At the same time, he said that having a favorable investment environment is critical to attract private and foreign capital for said interconnection projects.

In response to media queries on how the book could be useful for ASEAN countries, Mr. Kimura said that the energy outlook study notes the need for more policies and action plans on energy saving measures in each country to improve the level of energy saving and of reduction of CO2 in both the individual countries and the region as a whole. The study's recommendations can therefore provide guidance to policymakers and planners in drawing up more detailed action plans in this respect. On the other hand, Dr. Li noted that since the power grid study develops a tool for integrated regional planning and looks closely into implementation aspects, it can thus help policymakers identify possible barriers to implementation and formulate strategies on how to address such barriers. Both speakers also affirmed the importance of having key stakeholders, especially the media, participate in the promotion of energy efficiency measures and plans through appropriate information campaigns. □

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## **ASIA COSMOPOLITAN AWARDS**

### **2<sup>nd</sup> Asia Cosmopolitan Awards Winners Announced**

**T**he Asia Cosmopolitan Awards Committee, through the Economic Research Institute for ASEAN and East Asia (ERIA), announced the winners for this year's Asia Cosmopolitan Awards in a press conference held in Phnom Penh, Cambodia on 22 October 2014.

The awards are given, on a biennial basis, to individuals or organizations in recognition of their

substantial and significant contributions to the development of a peaceful, vibrant and stable East Asian Community, to the narrowing of development gaps in the region, and to the promotion of sustainable social growth towards cultural and economic integration within East Asia.

First given in 2012, this year is the second time that the awards are presented. The winners are:

<b>GRAND PRIZE</b>	<b>Manmohan Singh.</b> Former Prime Minister of the Republic of India
<b>ECONOMIC AND SOCIAL SCIENCE</b>	<b>Peter David Drysdale.</b> Emeritus Professor of Economics and Visiting Fellow, Crawford School of Economics, Australian National University. <b>Wang Gungwu,</b> University Professor, Faculty of Arts and Social Science, National University of Singapore, and Emeritus Professor, Australian National University
<b>CULTURAL PRIZE</b>	<b>Rithy Panh.</b> Cambodian Filmmaker. <b>The Takarazuka Revue Company,</b> Japanese Theatrical Music Company

The Awards Ceremony will be held on 21 December 2014 at the Nara Prefectural New Public Hall in Japan, with the Nara Prefectural Government and ERIA co-organizing the event. □



## Forging Closer India-ASEAN and East Asia Linkages: A Key Point in Joint ERIA-Government of India Symposium



In the first-ever symposium jointly sponsored and organized by the Economic Research Institute for ASEAN and East Asia (ERIA) and the Government of India through its Department of Commerce, the theme focused on enhancing India's competitiveness and connectivity with the ASEAN and East Asia region through the deepening of physical and institutional connectivity, harnessing of India's demographic dividend, and improvement of its comparative advantage in manufacturing. The symposium, which was held on 3 September 2014 in New Delhi, had H.E. Nguyen Cam Tu, Deputy Minister of Industry and Trade of Viet Nam, as Keynote Speaker and several senior Indian officials in attendance.

It is to be noted that the idea for this symposium was first brought up by Indian Prime Minister, H.E. Narendra Modi, when ERIA's Prof. Nishimura called on him in India when the Prime Minister was still the Chief Minister of Gujarat in 2013.

In his keynote speech, H.E. Deputy Minister Nguyen Cam Tu said that the India-ASEAN relations have developed a good foundation for economic growth in the past two decades. Both are also involved in the ongoing negotiations on the Regional Comprehensive Economic Partnership (RCEP). He stressed that connectivity will further increase economic growth and strengthen the production networks in the region.

India for its part has exhibited high economic growth in recent years, with the doubling of its GDP in less than a decade. Under a new political leadership, India has vowed to intensify efforts to further improve its economic performance and competitiveness, and to forge closer and stronger economic relations with ASEAN and East Asia. And while its "Look East Policy" has taken India closer to Southeast and East Asia, it still needs to pay more attention to domestic reforms, especially in terms of infrastructure development and connectivity, in order to penetrate deeper into the manufacturing hub in Asia.

"We have to ... recognise that India has a relatively smaller presence in the value chains in these regions and we

are conscious of this and we also recognise that in order to be part of these value chains, [there is a] lot of domestic reform we need to do ...", said India's Secretary of Commerce Rajeev Kher. Meanwhile, in his welcome remarks, ERIA Executive Director Prof. Hidetoshi Nishimura mentioned the importance of certain efforts such as the Trilateral Highway and the Mekong-India Economic Corridor (MIEC) which provide opportunities to India and CLMV countries (Cambodia, Lao PDR, Myanmar, and Viet Nam) to be able to build a strong economic and industrial base. He said that ERIA's studies show that the "MIEC would bring a positive effect not only on the Mekong region and India, but on the entire region."

The one-day symposium was divided into three sessions: the importance of connectivity in economic growth; infrastructure for stable and robust growth; and the manufacturing role in harnessing demographic dividend and joining the production networks of Asia.

In the inaugural session, ERIA and India's Research and Information System for Developing Countries (RIS) presented their joint study on "India's Economic Dynamism for East Asia Summit Countries". The study emphasizes on the harnessing of the Indian economic dynamism through the increase of its presence in the East and Southeast Asia region in a mutually beneficial manner. Prof. Nishimura also presented the challenges and some recommendations to address these challenges that lay in India's path to become a leading contributor to the economic progress in the region.

The session on connectivity highlighted the importance of physical connectivity in India, which shall be supported by the information and technology networks. Physical connectivity is related to improvements in the road network.

In the following session on developing infrastructure, some of the important issues brought up were the importance of building infrastructure in India, which help not only the business and rich people but also the poor to grow. This will bring a positive development for better poverty alleviation.

The last session on the role of manufacturing in harnessing the demographic dividend looked at issues relating to the huge labour force in South Asian countries, including India, and the need to consider some changes in labour laws and regulations that would not be restrictive and allow for more employment of the labour force. □

## *Workshops Discuss ASEAN and East Asia Initiatives Towards Responsive Regulatory Regime*



Aiming to highlight efforts in ASEAN and East Asia towards policy and regulatory improvement and engendering good and smart regulations, regulatory coherence and streamlined procedures and processes, the Economic Research Institute for ASEAN and East Asia (ERIA), New Zealand Institute of Economic Research (NZIER), and Malaysia Productivity Corporation (MPC) jointly sponsored and organized a Policy Workshop titled “Towards Responsive Regulatory Regime and Good Regulatory Management Practices in ASEAN and East Asia: Experiences, Lessons and Way Forward” in Kuala Lumpur on 12 September 2014, followed by a 2-day technical workshop on the same theme on 13-14 September 2014.

Opening the workshop was Mr. Yasushi Iwata, General Manager of ERIA, who noted that the lessons and insights to be drawn from the day’s discussion “could contribute to ASEAN’s and the ASEAN Member States’ (AMSs) mapping out of the way forward towards a responsive regulatory regime and regulatory coherence that are important anchors of ERIA’s framework for a Responsive ASEAN post-2015.” Keynote Speaker H.E. Datuk Dr. Rebecca Sta. Maria of the Ministry of International Trade and Industry of Malaysia, meanwhile, emphasized the importance of engaging the private sector and acknowledged that as Malaysia chairs the ASEAN in 2015, this is one of the things that it would like to be able to “have conversation [on] around regulatory practices to have coherence in achieving regional economic integration”.

Participants from ASEAN and East Asian countries presented their country cases in terms of regulatory reform experiences and the evolution and practice of their regulatory management systems. Special emphasis was placed on the successful Malaysian experience under the PEMUDAH.

The country presentations showed that countries differ substantially in regulatory reforms and regulatory management system practices, ranging from streamlining business regulations and reducing administrative procedures

to embarking on major structural and regulatory reforms in response to crises or secular decline in relative standards of living. Notwithstanding such differences, however, the workshop discussions brought out a number of common characteristics of “high performance” regulatory management systems.

Among these are: (a) strong and continuing political commitment from the top leadership; (b) role of the private business sector as managed more productively through robust partnerships with the government sector and other stakeholders such as in the case of focus groups under Malaysia’s PEMUDAH; (c) importance of the use of benchmarks and measurements; (d) a relatively competent and engaged bureaucracy; and (e) critical role of an MPC-type institution which is credible, technically competent and relatively unbiased and independent.

While the participants acknowledged that the regulatory improvement and implementation of good regulatory practices is a long-term and dynamic process, with the impetus or push differing in every country, they agreed that regional agreements and initiatives like the ASEAN Economic Community (AEC) can be the starting points in deepening the AMSs’ efforts at regulatory improvement to achieve a more concerted programmatic and systematic implementation of good regulatory practices in the region.

As a way forward, the participants proposed the following for consideration for 2015:

1. ASEAN to decide to undertake a concerted inventory of business regulations and review of such regulations at both the national and regional levels by each of the AMSs, with an agreed target of reducing unnecessary or overlapping regulations.
2. Institute a regional cooperation program on strengthening the capacity of the government bureaucracies in AMSs through sharing of experiences, cross border or joint training or specialized curriculum offering. The capacity building program can initially emphasize the institutions related to “trading across borders”, “starting a business”, “getting a construction permit,” and “enforcing contracts”.
3. For ASEAN Leaders to agree and mandate AMSs in 2015 to develop and undertake a major concerted initiative on the implementation of good regulatory practices, with clear targets, time lines and action points post-2015. □



## Enhancing Disaster Resilience in Southeast Asia

by FAUZIAH ZEN and SOTHEA OUM, ERIA Economists

While the Asian countries have been successful in achieving economic growth and poverty reduction, the region cannot avoid exposure to a variety of disasters. Asia, particularly the area of the ASEAN Member States (AMSs), is the most prone region to disasters in the world. During the past decade, Asia experienced more than 150 times of natural disasters (40% of the world total) annually, affecting more than 200 million people annually (about 90%); and causing more than USD 41.6 billion in annual damage (39%). Aside from human and economic losses, disasters also pose negative effects on social structures and the environment as they bring about serious psychosocial and family problems.

Majority of the AMSs are uncovered by risk insurance and as such, there is no substantial support from the market. In contrast, risk insurance plays a vital role in the advanced countries to support risk-coping phases. According to the Asian Development Bank (ADB), only 7.6 percent of natural disaster losses in Asia in 2013 were insured, compared to 67 percent in the United States. Asia has contributed almost half of the total losses caused by natural disasters during the last twenty years, estimated at USD53 billion annually.<sup>1</sup>

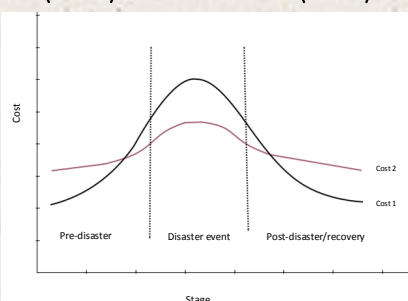
Risk insurance becomes important because it provides protection against uncertainty, facilitates discipline in behavior for the insured, and reduces the aftermath burden. However, the market cannot work independently in this case due to several failures, including: very costly risk assessment and behavior monitoring, low purchasing power (thin market), and lack of understanding by potential consumers. The promotion of risk insurance as protection needs support from the government in the form of: provision of relevant data as public goods (to reduce assessment cost), enforcement of standards (building codes, etc.), provision of risk-related education, and subsidies (to thicken the market).

Expanding insurance coverage is not an easy undertaking. For one thing, the poor may be present-biased, thereby making it a challenge to push them towards taking insurance for “unclear future risks”. Such “present-biased” way of looking at things may also induce substantial procrastination

behaviors. Moreover, disasters seem to undermine the effectiveness of the pre-existing informal network of social safety nets which may stimulate people’s dependence on financial and non-financial assistance from the government, donor agencies, and NGOs.<sup>2</sup> While the situation may weaken the role of the community, it in turn calls for stronger and better support from the government. In terms of costs of natural disasters, generally, the AMSs at present have the “Cost 1” pattern as illustrated in the Figure below. It shows very little funds invested for ex-ante risk management, including mitigation, insurance premium, and preparedness efforts. At the point of disaster occurrence, very huge resources are devoted to saving lives whose risks are actually heightened by poor preparedness. Then in the post disaster stage, there are not much resources to help victims gain back their normal lives. Thus, the costs of post disasters are actually much larger than the cost of damage during the actual event in as much as the potentials and future productivity of the victims are affected.

Serious negative impacts on

**Figure: Cost patterns without insurance (Cost 1) and with insurance (Cost 2)**



psychosocial and family problems also seem to be large among children and teenagers who are in an important phase of accumulating their human capital or education. The government must therefore play an important role in facilitating human capital accumulation of the young who are affected by natural disasters in a broader sense. In addition to the rehabilitation of infrastructure and reconstruction of family and community economies, special care and resources should be provided at schools and out of schools to address the

psychosocial damages caused on the students. Carefully designed “rehabilitation camps” for the affected children may also be effective to weather the problems.<sup>3</sup> All of these are part of post disaster management. With proper risk insurance, we expect that the cost structure during the three phases of disaster could be shifted from “Cost 1” line to “Cost 2” line. Cost 2 line shows the smoothing cost if people are properly insured against disasters. While people need to pay premiums during the pre-disaster period, they would experience or incur less individual costs during the occurrence and recovery periods due to better preparedness (less damage) and claim payment. Smoothing the cost will also help victims and the nation to maintain utility and welfare.

Currently in Southeast Asia, a lot of efforts are devoted to disaster response rather than preparedness management. Risk insurance market development still lags behind other efforts. Disaster resiliency is a core component of sustainability for ASEAN. The region needs effective insurance mechanisms against various kinds of disasters. It is worth pursuing reforms that undertake comprehensive preparations against the risks of a variety of disasters in Asia.

The participation rate for disaster-linked insurance can be increased by contributions from the government in paying the premium. Once the coverage is sufficient in terms of fair calculation of premium, an insurance company can sell Catastrophe bonds (CAT bond). Apart from government contributions, international development partners can take the role of providing soft loans or grants to the government. The international support can be coordinated and the funds can be put into a pool for regional risk insurance.□

<sup>1</sup> Asian Economic Integration Monitor, April 2014, ADB.

<sup>2</sup> Sawada, Yasuyuki (2014). “Disaster Risks, Social Preferences, and Policy Effects: Field Experiments in Selected ASEAN and East Asian Countries”, Overview Chapter. Jakarta: ERIA.

<sup>3</sup> Ibid.

Thoughts provides commentaries and perspectives on certain ASEAN and regional-related issues written by ERIA scholars and other stakeholders in the region. The usual disclaimer applies. You may forward any feedback to the authors at [fauziah.zen@eria.org](mailto:fauziah.zen@eria.org) and [sothea.oum@eria.org](mailto:sothea.oum@eria.org) or to the editor of ERIA Frames at [contactus@eria.org](mailto:contactus@eria.org)

## ERIA Hands Over Outcomes of Myanmar-ERIA-Harvard Symposium to Myanmar Vice President



*Prof. Nishimura with H.E. U Nyan Tun pose for a photo together after the courtesy call.*

Following the success of the joint Myanmar-ERIA-Harvard Symposium on “Maximizing AEC Benefits towards a Peaceful and Prosperous Community: Achievements and Prospects” held in Nay Pyi Taw on 29 October 2014, Professor Hidetoshi Nishimura, Executive Director of the Economic Research Institute for ASEAN and East Asia (ERIA), together with senior officials and economists of ERIA, paid a courtesy call on H.E. U Nyan Tun, Vice President of the Republic of the Union of Myanmar, on 30 October 2014, and reported on the outcomes of the recently concluded symposium.

Handing over the Report of the Symposium to the Vice President, Prof. Nishimura then briefly explained the key outcomes and recommendations of the symposium.

The Vice President thanked Prof. Nishimura and said that “Myanmar has been accelerating the AEC measures, focusing on SME, PPP and post-2015 vision as Chair Country.” He expressed his appreciation on the useful discussions made on these topics during the symposium. He added that SME development is very important and noted on the usefulness of and the realistic analysis made in the ASEAN SME Policy Index study which has been published recently by ERIA and the OECD.

ERIA has been supporting Myanmar’s chairmanship of the ASEAN through the provision of policy recommendations during various ASEAN meetings and the conduct of big events and capacity building seminars. In this regard, the Vice President extended his and his Government’s gratitude and appreciation to ERIA for all the latter’s efforts in helping in the development of Myanmar. He also noted that ERIA’s research works are very crucial for ASEAN community building by 2015 and beyond.

Finally, Prof. Nishimura said that he expects the outcomes and recommendations of the symposium Report to be useful to all ASEAN member countries and to further contribute to the success of Myanmar’s chairmanship of the ASEAN. □

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It describes recently completed and ongoing research as well as highlights of seminars, workshops and symposia, and feedback from capacity building workshops. Thoughts and perspectives on regional issues as written by ERIA officials and scholars and other stakeholders in the region are also presented.

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### EDITOR'S NOTE

*Continued from Page. I*

disaster risks. The topic is timely as we observe the one-year mark of the wrath inflicted by Haiyan, one of the world’s strongest recorded typhoons, when it struck the southern Philippines and some parts of Southeast Asia. How has the recovery and rehabilitation process in these countries, especially the Philippines, been taking place? The aftermath of a disaster usually takes a much higher toll in terms of the victims’ struggle to rebuild lost livelihoods, destroyed lives, and torn relationships. Can something be done to lessen or soften the ‘blows’? The authors of our Thoughts article try to probe into this.

We hope that these stories will help open our eyes and minds to possibilities of an even better ASEAN and East Asia region. □



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