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Institutions for Pan-Asian Connectivity

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The views expressed in this paper are those of the author and do not reflect the views or policies of Asian Development Bank (ADB), ADB Institute, its Board of Directors, or the governments they represent. Based primarily on ADB/ADBI Flagship Study “Infrastructure for a Seamless Asia”, 2009.



Outline

- Need for Connectivity
- Seamless Asia: Concept and Benefits
- Infrastructure Financing Needs 2010-2020
- Role and Structure of Asian Institutions
- Architecture for Subregional Infrastructure Cooperation
- Regional Institution Building
- Role of EU institutions
- Latin America: IIRSA Organizational Structure
- A Cooperation Framework for Pan-Asia Connectivity
- New Institutional Framework for Pan-Asian Connectivity

Need for Infrastructure Connectivity

Current global crisis provides 6 reasons for enhancing infrastructure connectivity for sustainable trade and economic development of Asia:

1. Enhances competitiveness & productivity; economic recovery and help in sustaining growth in medium to long term;
2. Helps to increase standard of living and to reduce poverty by connecting isolated places and people with major economic centers and markets;
3. Narrow development gap among Asian economies by connecting LDCs with major markets and business centers;
4. Promotes environmental sustainability;
5. Infrastructure financing forms an important part of fiscal stimulus package, especially if the crisis is prolonged;
6. Helps in increasing regional demand and intraregional trade for rebalancing Asia's growth.

A Seamless Asia: Concept and Benefits

- Creation of a seamless Asia—an integrated region connected by world-class environment-friendly infrastructure networks
- In view of Asia's enormous untapped economic potential and the ongoing global financial crisis, now is the time to build efficient and seamless connections across Asia and with the rest of the world for a more competitive, prosperous, and integrated region.
- Infrastructure investment promotes growth, access to basic services, economic opportunities, regional and global integration; and poverty reduction
- The required infrastructure investment for pan-Asian connectivity in the transport, communications, and energy sectors during 2010-2020 would produce substantial real income gains of about \$13 trillion for developing Asia during this period and beyond

Benefits of Infrastructure Connectivity

- Accelerate regional cooperation and integration
- Facilitate regional trade integration through physical connectivity as well as institutional linkages
- Stimulate domestic demand and alleviate the further impact of crisis
- Help narrow the development gap among Asian economies
- Promote greater technologies and more efficient use of regional resources

Definition:

Regional Infrastructure Projects

- Regional (or transnational) projects that involve “hard” and “soft” infrastructure spanning two or more neighboring countries;
- National projects that have a significant cross-border impact—in stimulating regional trade and income; or in connecting with the network of neighboring or third countries.

Economics of Regional Infrastructure Network

- Infrastructure networks (i) promote development through regional integration (ii) enhance an economy's rate of innovational and technological advance and thus lift long-term growth (based on Straub et.al, 2008);
- Integration of network industries can generate huge economies of scale and innovation from network externalities;
- Most transport and energy infrastructure networks are club goods since access to them can be regulated (based on Economides, 1998);
- Transport cost often determine how the forces of industrial agglomeration and dispersion shape the economic landscape;
- Value of a regional logistic network depends on its weakest link- giving rise to free rider problem (based on Krugman, 1993);
- Club theory states that a regional or subregional institute can reduce the costs of collective action in providing club goods, to the benefits of all its members.

Financing Needs for Asia's National Infrastructure:2010-2020

(in 2008\$ million)

Sector/ Subsector	New Capacity	Replacement	Total
Energy (Electricity)	3,176,437	912,202	4,088,639
Telecommunications	325,353	730,304	1,055,657
Mobile phones	181,763	509,151	690,914
Landlines	143,590	221,153	364,743
Transport	1,761,666	704,457	2,466,123
Airports	6,533	4,728	11,260
Ports	50,275	25,416	75,691
Railways	2,692	35,947	38,639
Roads	1,702,166	638,366	2,340,532
Water and Sanitation	155,493	225,797	381,290
Sanitation	107,925	119,573	227,498
Water	47,568	106,224	153,792
Total	5,418,949	2,572,760	7,991,709

Indicative Investment Needs for Regional Identified and Pipeline Infrastructure Projects, 2010-2020

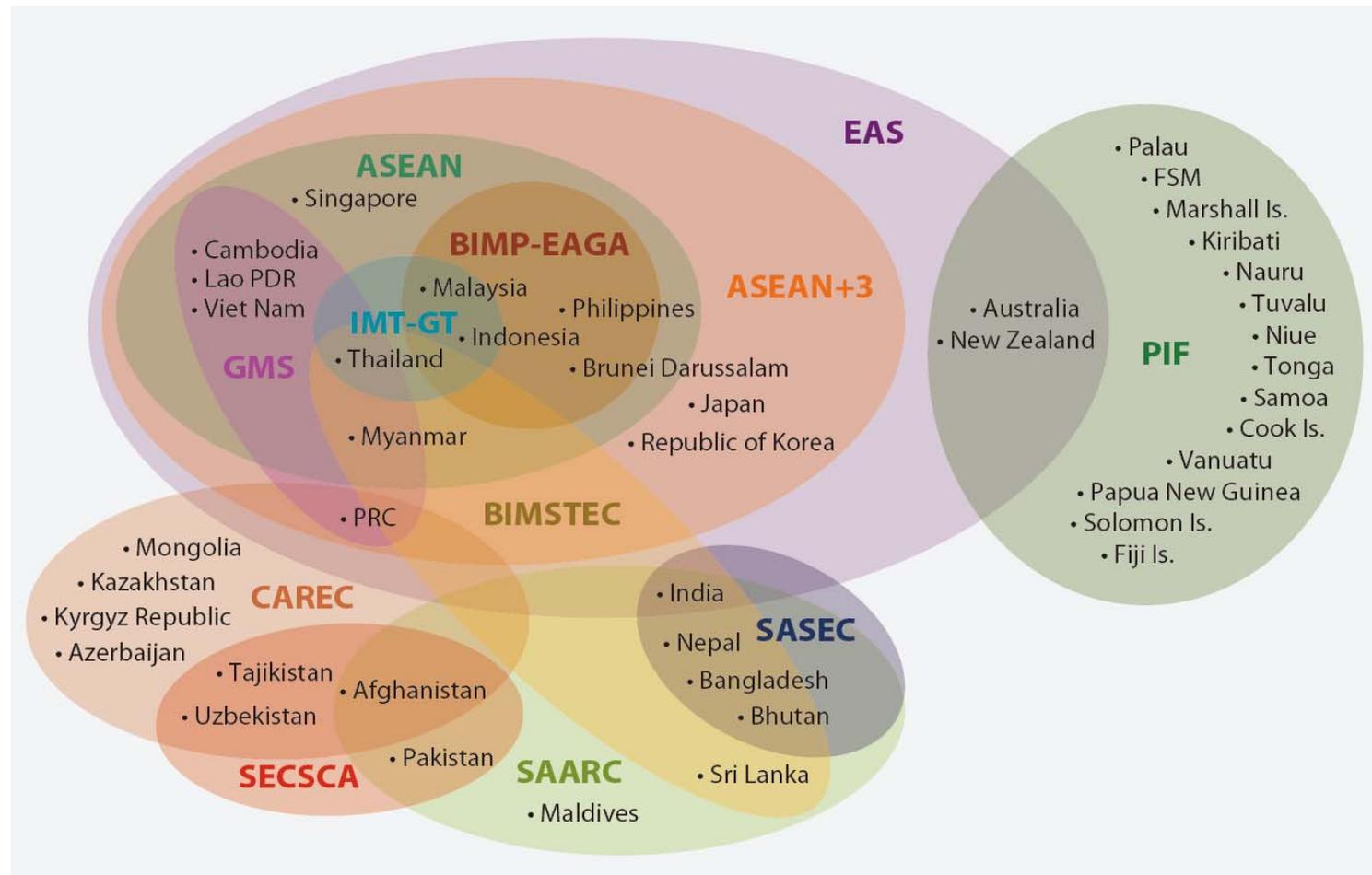
Region/ Subregion	Transport Projects		Energy Projects		Total	
	Cost (\$ million)	No.	Cost (\$ million)	No.	Cost (\$ million)	No.
Asia	177,077	931	–	–	177,077	931
Asian Highway	43,276	121	–	–	43,276	121
Trans-Asian Railway	82,801	45	–	–	82,801	45
Asian Container Ports ^a	51,000	765	–	–	51,000	765
East/Southeast-Central-South Asia^b	–	–	22,975	5	22,975	5
Southeast Asia^c	5,858	17	41,444	33	47,302	50
GMS	5,858	17	2,604	14	8,462	31
Trans- ASEAN Gas Pipeline	–	–	7,000	1	7,000	1
BIMP-EAGA	–	–	100	1	100	1
Others	–	–	31,740	17	31,740	17
Central Asia	21,414	38	11,131	44	32,545	82
CAREC	21,414	38	10,861	43	32,275	81
Others	–	–	270	1	270	1
South Asia	293	3	6,846	6	7,139	9
Total	204,642	989	82,369	88	287,038	1,077

Role and Structure of Asian Institutions

Region					Functions					
	Members	Form	Highest Level	Modalities	Integrati on	Security	Trade	Finance	Infrastruct ure	Socioecono mic
ASEAN	10 countries	Formal	Summit	A, R	●	●	●	●	●	●
GMS	6 countries, ADB	Informal	Summit/ Ministerial	A,F,R	●		●		●	●
MRC	4 countries	Informal	Senior officials	A, F, R	●	●			●	●
IMT-GT	3 countries	Informal	Summit	A, F, R	●		●		●	●
BIMP-EAGA	4 countries, ADB	Informal	Summit	A, F, R	●				●	●
BIMSTEC	7countries	Informal	Summit/ ministerial	A, F, R	●				●	●
CAREC	8 countries, 6 multilateral institutions	Informal	Ministerial	A, F, R	●	●			●	●
SAARC	8 countries, 9 observers	Formal	Summit/ ministerial	A, F, R	●		●	●	●	●
SASEC	4 countries, ADB	Informal	Senior officials	A, F, R	●		●		●	●
SECSCA	6 countries, 1 observer, ADB	Informal	Ministerial	A,F,R	●				●	●
PIF	16 countries, 4 country observers	Informal	Forum Leaders	A, R	●	●	●		●	●

Notes: Modalities: A-Advisory; F-Financing; R-Regulatory

Architecture for Subregional Infrastructure Cooperation



Role of Asian Institutions

- Due to diverse Asian economies, many overlapping subregional institutions are operating with varying speeds & addressing regional infrastructure issues in different degrees with multiple objectives;
- No. of participating countries vary from 3 to 16 countries;
- Most subregional institutions are informal (except ASEAN and SAARC) without any legal binding or enforcement capacity;
- Even formal ASEAN follows non-interference, sovereignty, incrementalism, and consensual decision-making.
- Most operate at summit/ministerial level-some at senior officials level;
- Most take advisory, regulatory and financing modalities;
- Asia needs formal institutions with (i) explicit treaty-based legally binding rules and (ii) regulations with compliance monitored by a standing body or secretariat
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Regional Institution Building: The Cases of APEC and ASEAN+3 (Komori, Yasumasa 2005)

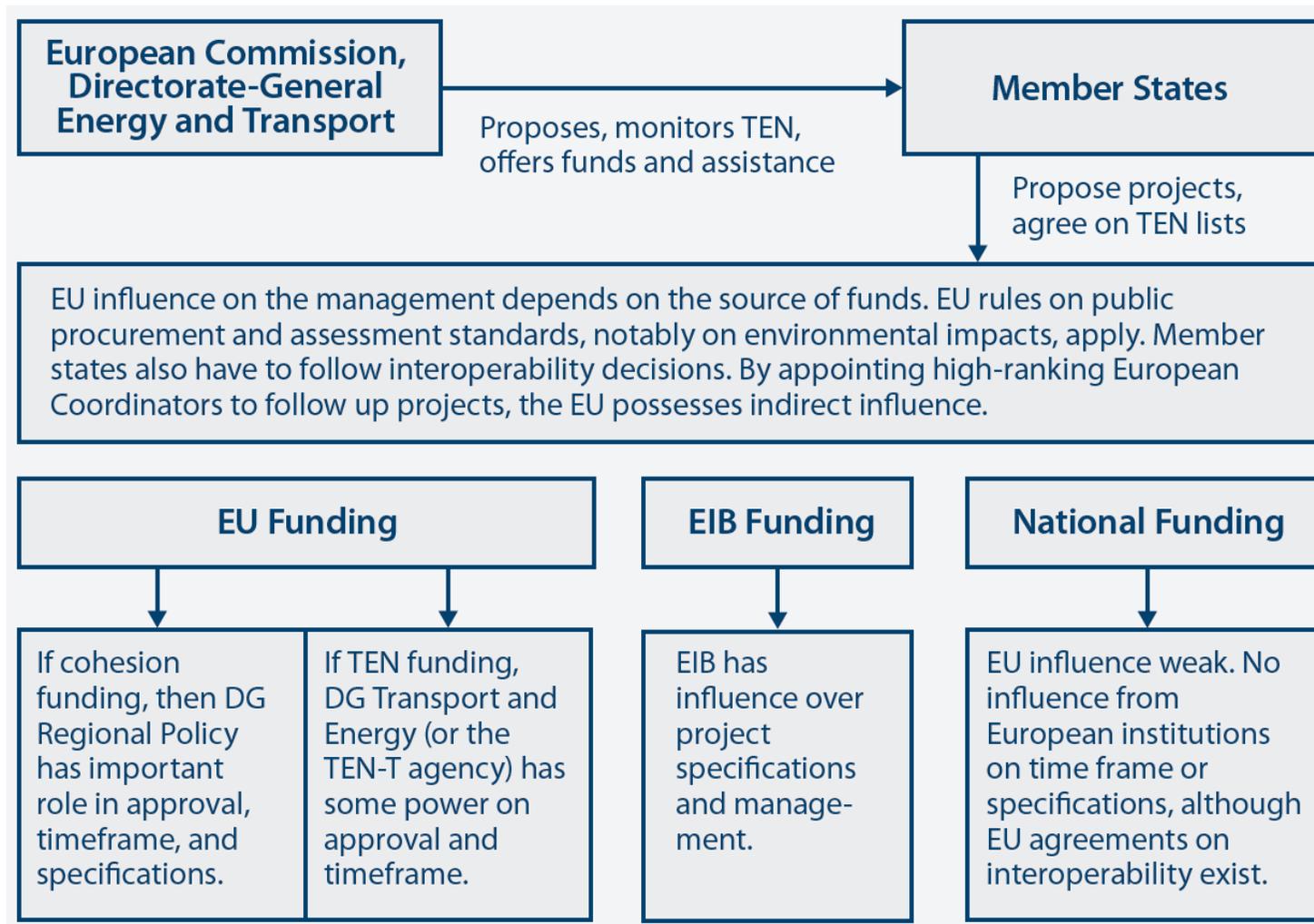
- ASEAN +3 provided an example of what some historical institutionalists call “layering” which involves building new institutions on top of existing institutions by retaining some elements of those institutions and revising others (based on Thelen, 2003)
- Formation of APEC was possible only after substantial and lengthy process of dialogue on issues of economic cooperation in the region at a non-governmental level (based on Harris, 1994)
- Importance of timing and sequence of institution building

Conceptualizing Regional Financial Institutions (RFIs) vs. Global Financial Institutions

(Ravi Kanbur, 2002)

- Responsibility of resources for region specific public goods should be shifted to RFIs
- Global issues such green house gases, financial contagion, global spread of diseases should stay the purview of GFIs
- Country specific operations should be a presumption in favor of donor resources flowing through RFIs
- The governing structure of the RFIs should be independent of any interest.
- RFIs should have roles and responsibility that are best devolved to them and the right instruments for their task vis-à-vis subregional financial institutions.

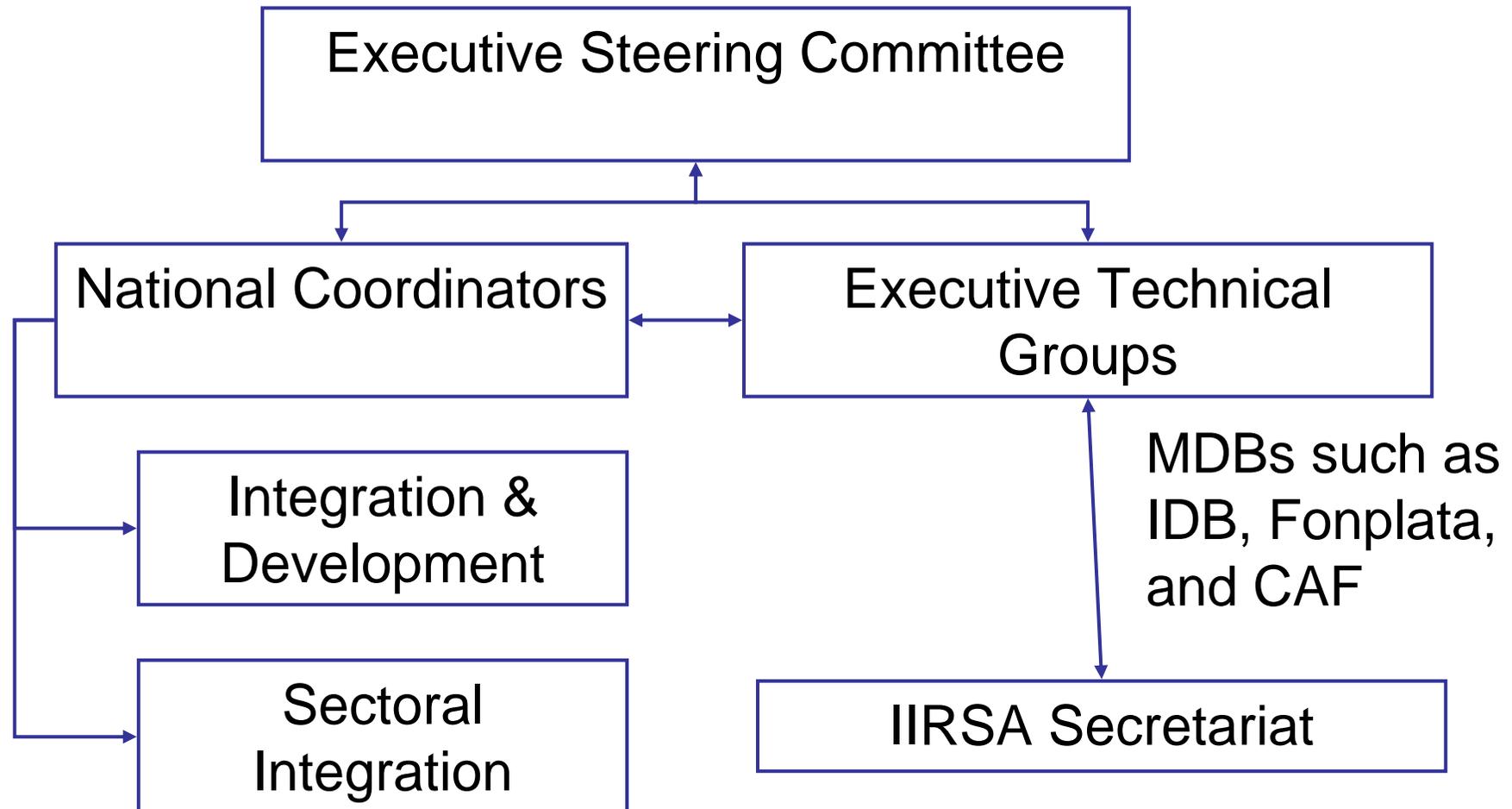
Role of EU institutions in decision-making and management of the Trans-European Networks (TENs)



Source: van der Geest W and Jorge Núñez Ferrer (2008)

The Case of Latin America

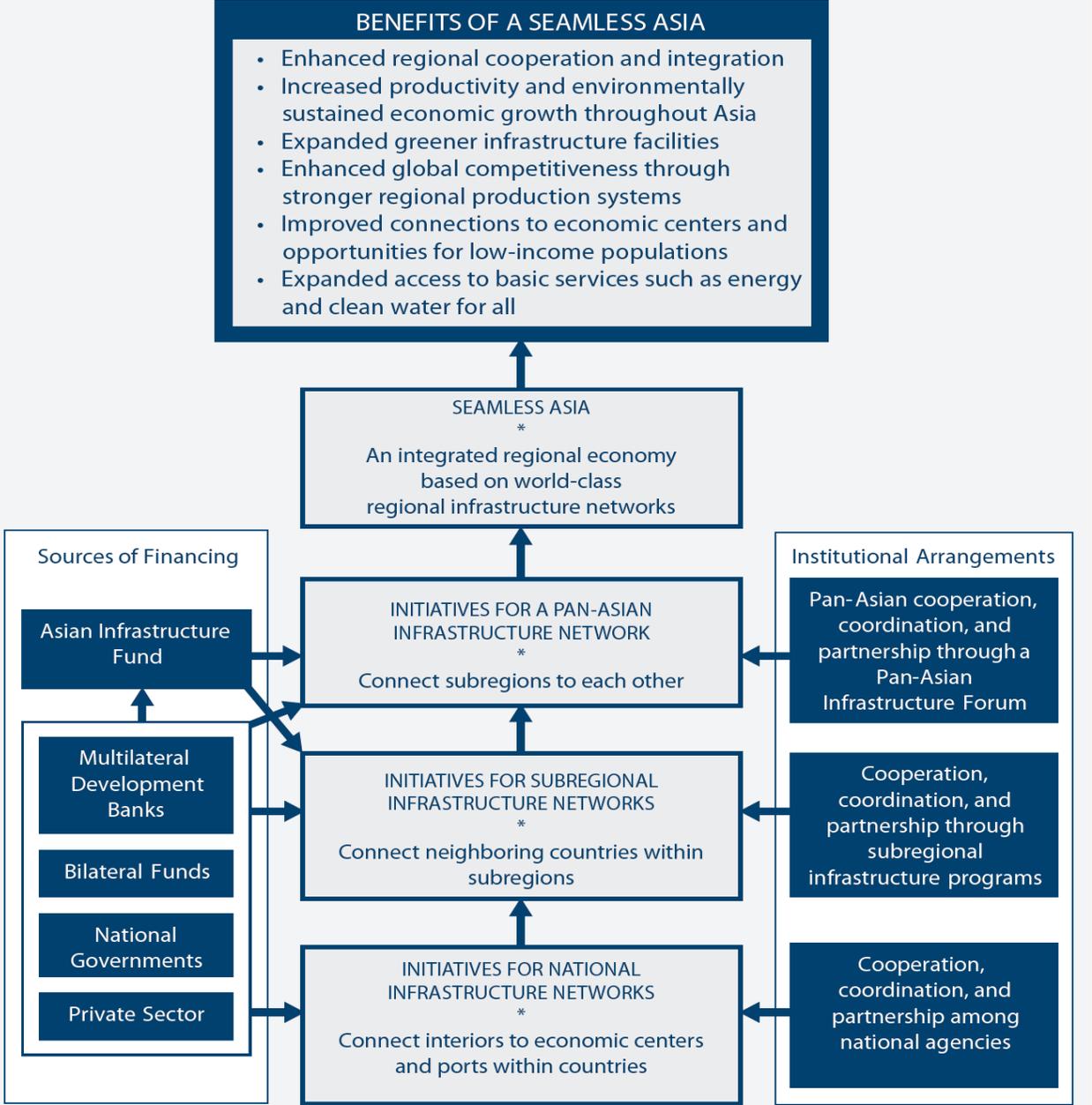
IIRSA Organizational Structure



Note: IIRSA-Initiative for the Integration of Regional Infrastructure in South America; CAF- Andean Development Corporation

Source: http://www.iirsa.org/CD_IIRSA/Index.html

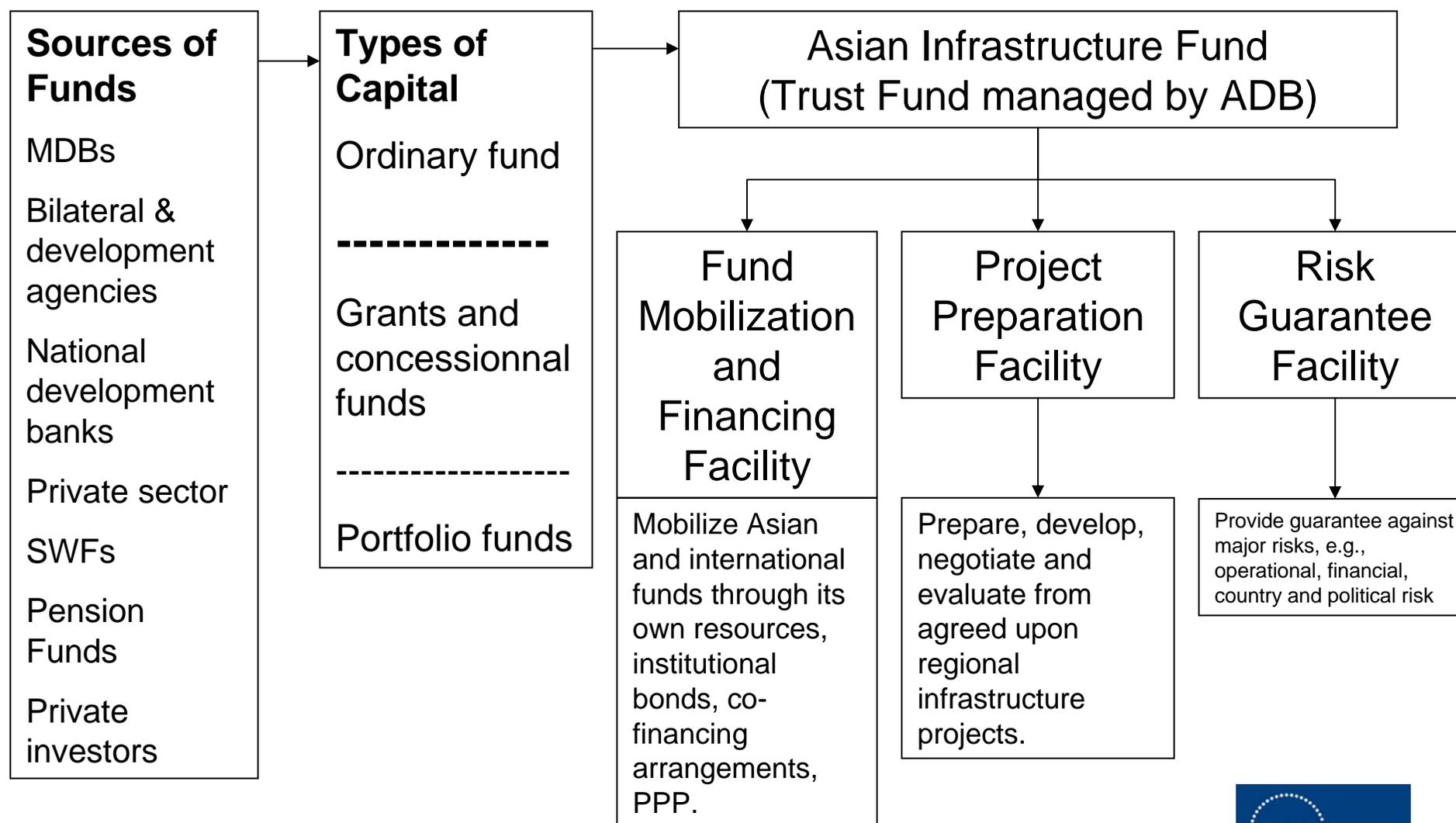
A Cooperation Framework for Pan-Asian Connectivity



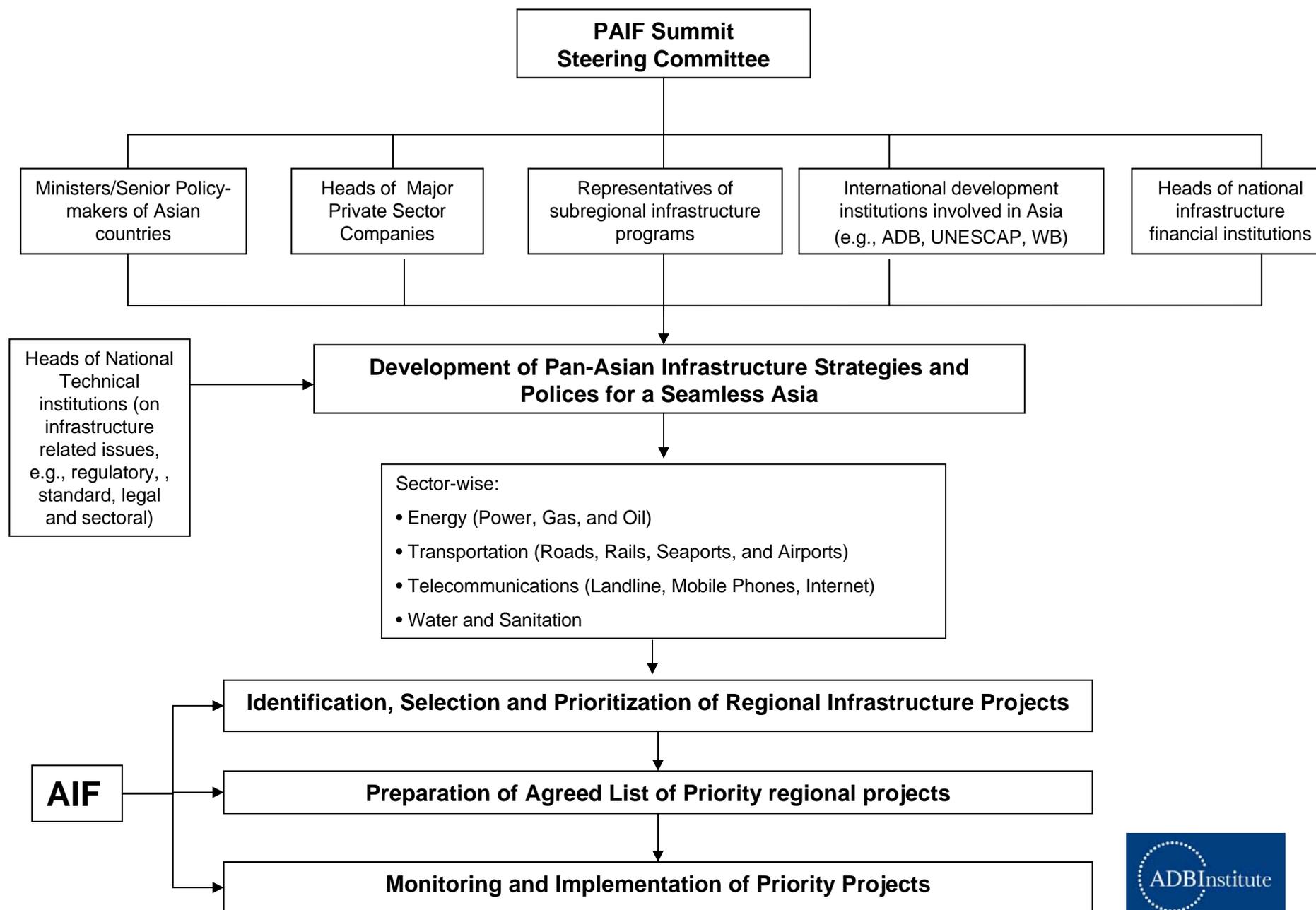
New Institutional Framework for Pan-Asian Connectivity

- Market-led Asia's integration and its fragmented institutional arrangements calls for a pan-Asian approach with a new pan-Asian institutional framework integrating existing subregional institutions.
- A “Pan-Asian Infrastructure Forum (PAIF)” should be established to help coordinate and integrate existing subregional infrastructure initiatives toward a seamless Asia.
- An “Asian Infrastructure Fund (AIF)” is needed to mobilize international funds (public and private) and help prioritize, prepare, and finance “bankable” regional infrastructure projects.

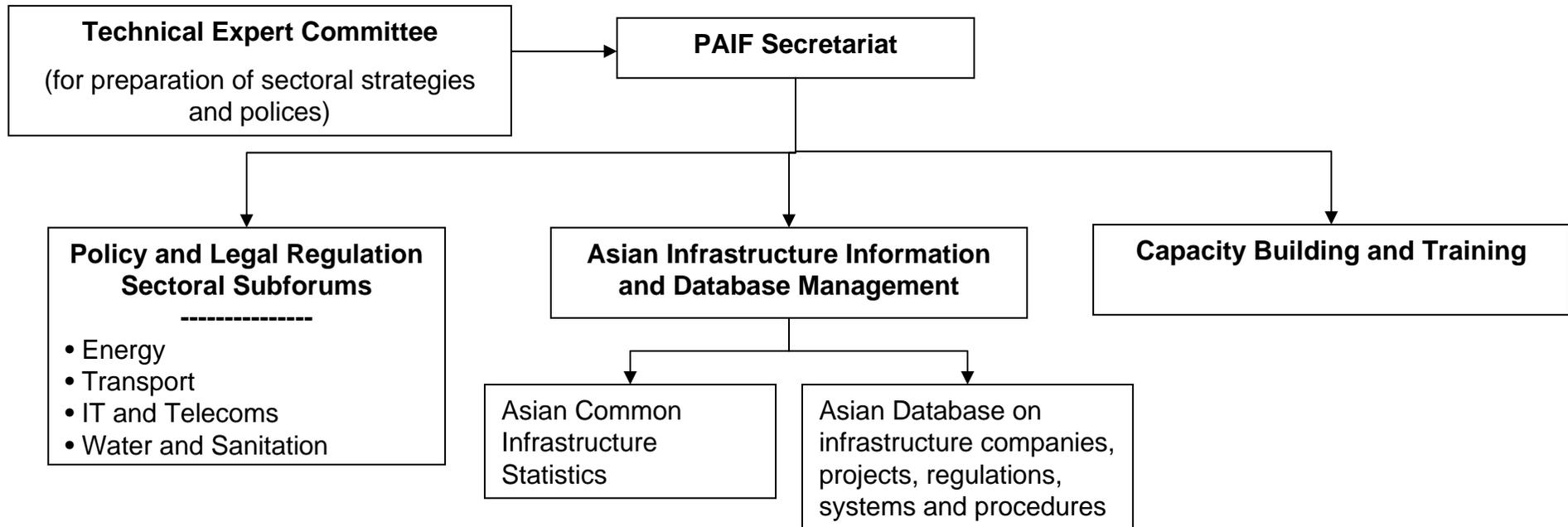
Asian Infrastructure Fund



Institutional Framework for PAIF



Organizational Structure of PAIF Secretariat



Conclusion

A Framework for Pan-Asian Infrastructure Cooperation requires:

- A common vision, strong leadership and a shared commitment by Asian leaders;
- Strong institutional capacities at the national and , subregional and regional level;
- Coherent infrastructure development at the national, subregional, and regional levels;
- Pan-Asian infrastructure strategies to prioritize investments and coordinate policies;
- Effective financing framework to help mobilize the region's vast savings, and encourage public-private partnerships

Thank you

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