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JCER journal discussions ▶

Connectivity and infrastructure in Asia -- huge demand, enormous challenges

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There are no easy answers for the development of infrastructure across Asia. Some topics can be controversial, but these are still important to discuss. About 25 top-level scholars and experts from 13 countries did just that at an international conference in Tokyo earlier this month for the "Asian Economic Policy Review" journal. "Connectivity and infrastructure in Asia" was the main agenda topic, and participants were eager to share their opinions.

Sponsored by the Japan Center for Economic Research, one of the country's leading think tanks, the biannual journal was started in 2006 to publish policy-oriented academic papers. The purpose of the conference was to explore more deeply the journal's papers and offer analyses.

Naturally, improving connectivity and infrastructure is pivotal for the future development of the Asian economy. In 2009, the Asian Development Bank reported that there would need to be \$8.3 trillion in investment between 2010 and 2020 for such efforts. In 2010, the Association of Southeast Asian Nations adopted a Master Plan on ASEAN Connectivity, dubbed MPAC, to develop transport and logistics infrastructure and to ease cross-border movement of people and goods.

Realizing this, however, has not been easy. Limited financial resources mean that leaders have to make politically hard decisions, such as which projects should have priority and which projects should be held back. An investment could become a big waste unless it is also accompanied by appropriate operation. As such, China's attempt to establish the Asian Infrastructure Investment Bank has raised a political disagreements, and questions remain over its governance structure.

Many of the presentations features personal experiences garnered from field research, complete with slide shows of bumpy rural roads and jammed city streets.

Quality vs quantity in China

Situations differ among developing Asian countries, but they all face the same challenge -- improve connectivity and develop better infrastructure.

Assistant Professor Yu Qin of the National University of Singapore spoke about China. Heavy investment has been made in transport infrastructure since the 1990s, and this has improved connectivity. From 1990 to 2014, road mileage in the country was increased 4.8 times. The plan for a highway network to connect all provincial capitals and other cities that have urban-registered populations of more than 500,000 was completed in 2007, 13 years ahead of the original schedule. The country's railroad network has also been developed. The central and local governments, as well as the private sector, have arranged various financing mechanisms to implement large-scale investments.

This ambition is now being expanded to cross-border fields. In late 2013, President Xi Jinping proposed the "One Belt, One Road" initiative. This was followed by the announcement of a \$40 billion Silk Road fund and then the establishment of the AIIB.

There are lingering arguments, however, about the efficiency of China's infrastructure investment. Qin examined past studies and found that no definite conclusions had been made. "Policymakers should pay closer attention to the utilization rate of existing infrastructure stocks before making requests on new investments," Qin said.

India's contrasts

India's situation is characterized as a combination of poor logistical networks and advanced infrastructure for information and communications technology, according to Rajat Kathuria, director and chief executive of the Indian Council for Research on International Economic Relations.

The country has developed its road and railway infrastructure over the past few decades, but these are still far from sufficient. Only 2 percent of the country's roads carry 40 percent of its traffic. One-sixth of the rail network carries over two-thirds of rail traffic. Its rank in



Indonesian President Joko Widodo, center, pushes the control lever forward to start a boring machine for the Mass Rapid Transit system at a ceremony at a future train station in Jakarta on Sept. 21.

the World Bank's Logistics Performance Index remained 54th in 2014. China was 28th, and Thailand was 35th. Airport facilities are still poor and the country faces electricity shortages.

On the other hand, India has "performed admirably" with ICT infrastructure, Kathuria said, and has supported the development of the ICT and business process outsourcing industries. Behind this success, Kathuria sees policies such as the "creation of an 'independent' regulator along with easier rules for market entry."

Strong IT, weak roads

Both Indonesia and the Philippines are large archipelagos that face the challenges of developing inter-island connectivity, as well as intra-island and international connectivity.

Indonesia's poor infrastructure and consequent high logistical costs comes partially from the shortage of investments over the past decade, said Henry Sandee, the senior trade specialist at the World Bank's Indonesia Office. Total infrastructure investment made by both the public and private sectors has been at 3-4 percent of of GDP over this period. It was more than 7 percent before the Asia currency crisis of 1997 and '98. The decline has been especially notable in the private sector. The current figure is about 10% in China and 7.5% in India.

Regulatory bottlenecks, including a fragmented regulation system, is another headache. Sandee stressed the need for a set of measures that should be implemented together -- upgrading infrastructure, regulatory reform and better coordination within the government. These would create better connectivity and infrastructure.

The Philippines is similar to India in terms of having poor infrastructure for transport and logistics but also a strong ICT sector. Gilberto Llanto of the Philippine Institute for Development Studies said the country's public investments were lower than other ASEAN members and called for efforts to increase the governmental revenue through tax efforts and better use of public-private partnerships, or PPP.

Right choices?

Discussions were also held on the assessment of infrastructure investment. Various attempts are being made to answer the question: "Is the money being used effectively?" IDE-JETRO Deputy Director Ikumo Isono presented his analyses on pan-ASEAN projects with the institute's Geographical Simulation Model.

Douglas Brooks, Principal Research Fellow of The Australian APEC Study Center at RMIT University, provided an overview of connectivity, infrastructure, trade and investment in Asia, and how these are being developed and implemented. In addition to physical infrastructure such as roads and ports, "complementary soft, or ICT, infrastructure may be more important," he said.

It is almost impossible to find a simple answer for the best policy for better connectivity and infrastructure that can apply to all of Asia's developing countries, but there may be hints in these discussions. The global value chain, governance, financing, PPP and environmental issues were among the key phrases often discussed in the sessions. Quality of life and social welfare, in addition to topics related to economic development, were also areas of focus. Political leadership, of course, was seen as an essential point.

The proposed working papers are found at:

http://www.jcer.or.jp/academic_journal/aepr/index.html

The final version of the journal will be published in July 2016.