

RESEARCHERS AT SINGAPORE'S INSTITUTE OF SOUTHEAST ASIAN STUDIES SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

---

## Singapore | 3 Feb 2014

---

### **APEC 2013-2014: Continuing to Connect**

*By Reema B. Jagtiani\* and Francis E. Hutchinson\*\**

#### EXECUTIVE SUMMARY

- The 2013 Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting endorsed the 'APEC Framework on Connectivity' and 'APEC Multiyear Plan on Infrastructure Development and Investment' to move beyond trade liberalisation and establish connectivity as a priority area to seize gains available from a better-connected region.
- As this year's Chair, China is likely to maintain 'strengthening connectivity' as a central theme. This dovetails with its efforts to engage Southeast Asia.
- Many member economies will have to invest heavily in physical infrastructure but public funds alone will be far from able to cover this great need. Private sector participation will be indispensable in alleviating the infrastructure-financing deficiency.
- Readiness assessments reveal that several developing APEC member economies require considerable internal reform before they are able to implement public-private partnership programmes for the successful receipt and deployment of private sector investment.

\* **Reema B. Jagtiani** is Research Associate with the Regional Economic Studies Programme at the Institute of Southeast Asian Studies; email: reema@iseas.edu.sg

\*\* **Francis E. Hutchinson** is Fellow and Coordinator of the Regional Economic Studies Programme at the Institute of Southeast Asian Studies; email: fhutchinson@iseas.edu.sg

- The shift towards trade facilitation represents the next step in APEC's trade and investment agenda. Its strategy of boosting connectivity in its institutional, physical, and people-to-people aspects will be a key component in this direction.
-

## INTRODUCTION

While the Asia-Pacific Economic Cooperation (APEC) Summit held in Bali in early October 2013 concluded with relatively modest 'deliverables', the meeting generated significant momentum in addressing 'next generation' trade and investment issues. Indonesia had established connectivity as one of three priorities during its tenure as APEC Chair in the bid to move beyond trade liberalisation to embrace structural issues of interest to the organisation's developing member economies and, in particular, to seize the gains available from a better-connected region. The other priorities were the attainment of the Bogor Goals for developing economies by 2020 and the promotion of sustainable growth with equity.<sup>1</sup>

In their post-meeting declaration, the economic leaders endorsed two key deliverables: the "Framework on Connectivity" and the "Multi Year Plan on Infrastructure and Development and Investment". The Connectivity Framework foresees enhancing physical, institutional, and people-to-people links among APEC member economies in order to improve regional economic integration (see Table 1).<sup>2</sup> And, as a solution to the shortfall in infrastructure financing worldwide,<sup>3</sup> the Multi Year plan establishes regulatory guidelines on delivering bankable infrastructure projects designed to maximize private sector investment. Indonesia will also host a pilot Public-Private Partnership (PPP) Centre with an expert panel as a first step under the plan. The panel will help the Indonesian government identify and coordinate investment-ready infrastructure projects within the country.

Connectivity is a priority area that is especially salient for archipelagic Indonesia, which needs to invest heavily in physical infrastructure to improve linkages across its many islands, exploit natural resources, and supply regional markets.<sup>4</sup> High logistics costs are an increasing burden to its budget and constitute a serious impediment to higher economic growth. Indonesia ranks 59<sup>th</sup> out of 155 countries in the World Bank's "Logistics Performance Index",<sup>5</sup> placing it significantly behind other middle-income countries in the region.<sup>6</sup>

---

<sup>1</sup> When Economic Leaders convened in Bogor, Indonesia in 1994, they drew up the Bogor Goals, which strive for free and open trade and investment by 2010 for industrialized economies and by 2020 for developing economies.

<sup>2</sup> This refers to the freer movement of goods, services, labour, and capital across borders. (Asia-Pacific Economic Cooperation Policy Support Unit (APEC PSU) (2013). "Improving Connectivity in the Asia Pacific Region: Perspectives of the APEC Policy Support Unit".)

<sup>3</sup> Armstrong, Shiro. "Indonesia Connects APEC to Regional Ambitions". *East Asia Forum* (6 October 2013) <<http://www.eastasiaforum.org/2013/10/06/indonesia-connects-apec-to-regional-ambitions/>>.

<sup>4</sup> OECD (2013), *Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap*, OECD Publishing. <[http://www.oecd-ilibrary.org/development/economic-outlook-for-southeast-asia-china-and-india-2014\\_saeo-2014-en](http://www.oecd-ilibrary.org/development/economic-outlook-for-southeast-asia-china-and-india-2014_saeo-2014-en)>

<sup>5</sup> The World Bank (2012). "Connecting to Compete 2012: Trade Logistics in the Global Economy". *The Logistics Performance Index and its Indicators*. <[http://siteresources.worldbank.org/TRADE/Resources/2390701336654966193/LPI\\_2012\\_final.pdf](http://siteresources.worldbank.org/TRADE/Resources/2390701336654966193/LPI_2012_final.pdf)>

<sup>6</sup> In brief, this index measures the quality of trade- and transport-related infrastructure: roads, railroads, ports, and airports, and information technology as well as logistics services. Except for Brunei, all APEC economies are featured in the 2012 index.

Beyond Indonesia, the connectivity agenda also addresses the domestic needs of a number of upcoming APEC chair economies.<sup>7</sup> Over the next few years, a significant number of middle-income economies will chair the grouping, including: the Philippines (2015); Peru (2016); Vietnam (2017); Papua New Guinea (2018); Malaysia (2020); and Thailand (2022). These economies have to address their respective infrastructure financing gaps, and their common national priorities may ensure that momentum for promoting connectivity—both internally and with the rest of the world—endures long enough to minimise scepticism surrounding APEC’s relevance in the future.<sup>8</sup> Furthermore, with regard to Southeast Asia, the connectivity agenda dovetails with efforts to forge an ASEAN Economic Community by 2015.

This *ISEAS Perspective* provides an overview of the challenges and opportunities of improving physical connectivity and institutional connectivity (i.e., trade facilitation) within APEC, with particular reference to middle-income economies. It highlights potential developments over the medium-term in the context of ongoing APEC initiatives and China’s chairmanship.

**Table 1: Aims and Scope of the APEC Connectivity Framework**

Aspect	Definition	Examples
Institutional Connectivity	Refers to procedures or regulations that relate to trade facilitation; in other words, ‘soft infrastructure’.	Trade costs, regional free trade agreements, structural reform, <sup>a</sup> customs and single window policies, and transport and logistics facilitation.
Physical Connectivity	Refers to hard infrastructure that helps increase productivity and facilitates regional trade.	Ports, airports, roads, and railways.
People-to-people connectivity	Refers to the networks across the region, which promote deeper integration between people.	People’s mobility, seamless flows of goods, services, and investments.

<sup>a</sup> APEC leaders have identified structural reform as entailing cooperation in regulatory reform, competition policy, corporate governance, public sector governance and strengthening economic and legal infrastructure, for instance, in relation to the enforcement of contracts through the courts. (APEC PSU (2013), p. 6)

*These aspects are interdependent. Improvements in customs cooperation, for example, will strengthen transport linkages, which will, in turn, facilitate the movement of people. Source: Adapted from APEC PSU (2013).*

<sup>7</sup> See Armstrong 2013.

<sup>8</sup> See, for example, Woodroffe T. “Are we witnessing the slow death of APEC?” *The Canberra Times*. 17 October 2013.

## CHALLENGES TO INFRASTRUCTURE INVESTMENT

According to Asian Development Bank (ADB) estimates, developing Asia needs to invest around US\$8 trillion in national infrastructure and US\$290 billion in regional infrastructure between 2010 and 2020 to sustain growth.<sup>9</sup> However, many of these new infrastructure needs cannot be met exclusively through public funds. For example, the Indonesian government says that it needs investments of up to US\$213.3 billion between 2010 and 2014, but can only finance 20 per cent of the forecasted amount.<sup>10</sup> Budget shortfalls exist in both developed and developing countries, but the extent of the problem can be particularly acute for the developing APEC member economies. Therefore, private sector participation will be indispensable in alleviating the infrastructure-financing deficiency.<sup>11</sup>

However, efforts to attract private sector investment need to be preceded by relevant policy reforms to be sustainable. To this end, public-private partnership readiness assessments have been used to evaluate an economy's regulatory and institutional frameworks, investment climate, operational maturity, and financial facilities to ensure that national programmes are able to attract and sustain private investments.<sup>12</sup> These evaluations emphasize the need for sophisticated financial systems as well as strong legal and regulatory frameworks for the successful receipt and deployment of private sector investment.

Among APEC economies, readiness assessments reveal that the Philippines, Indonesia, Thailand, Vietnam, and Papua New Guinea require considerable internal reform before they are able to implement public-private partnership programmes.<sup>13</sup> In addition, the "Logistics Performance Index" has reported that more than 50 per cent of surveyed logistics professionals perceive the quality of road infrastructure in Indonesia, Peru and Vietnam to be either low or very low. The remaining 17 APEC economies fared only marginally better at or below the 50 per cent level.<sup>14</sup>

## PROMOTING REGIONAL CONNECTIVITY

This is where expertise developed at the Centre in Indonesia may help economies with weak transport and institutional infrastructure design and deliver bankable PPP projects. Beyond Indonesia itself, APEC aims to create a network of regional PPP

---

<sup>9</sup> Erquiaga, Philip C. "For a Better Road to Development, Asia Must Attract Private Partners". *The Jakarta Globe*, 3 May 2012.

<sup>10</sup> APEC PSU (2013), p. 30.

<sup>11</sup> APEC PSU (2013), p. 30 and PECC (2013). *State of the Region 2013-2014*. PECC International Secretariat <<https://www.pecc.org/frontpage-section/publications/530-state-of-the-region-2013-2014>>, p 24.

<sup>12</sup> PECC (2013), p. 26.

<sup>13</sup> Viet Nam and Papua New Guinea fared the least well in readiness assessments. (PECC (2013), p 26.)

<sup>14</sup> The World Bank (2012) and APEC PSU (2013), p. 33.

Centres that will “share good practices, build capacity, and help align standards” among member economies.<sup>15</sup> In addition, APEC’s multi-year focus on infrastructure investment provides economies with a supporting framework that recognises internal reform as a long-term undertaking.<sup>16</sup>

During the APEC Summit in Bali last year, China—as the succeeding APEC Chair in 2014—also committed to following up on Indonesia’s proposed Connectivity Framework and the Multi-Year plan. Under the tentative theme ‘Shaping the Future through Asia-Pacific Partnership’, Chinese officials subsequently underlined their key priorities for this year’s meetings of economic leaders: (i) advancing regional economic integration; (ii) promoting innovative development, economic reform and growth; and (iii) strengthening comprehensive connectivity and infrastructure development.

China is likely to maintain ‘strengthening connectivity’ as a top priority during its chairmanship. This was demonstrated over the course of Chinese President Xi Jinping’s and Premier Li Keqiang’s Southeast Asian tour in October 2013 where they: lobbied for China to participate in several large infrastructure schemes to enhance China-ASEAN connectivity; pushed to renew an agreement for a China-Thailand high-speed railway;<sup>17</sup> and proposed the formation of an Asian Infrastructure Investment Bank with a proposed US\$50 billion to close gaps in financing development projects.<sup>18</sup> As ASEAN will need approximately US\$60 billion a year over the next decade to address its infrastructure needs, the proposed lending capital is expected to enhance existing funding sources available to the Asia-Pacific region, especially the ASEAN Infrastructure Fund, which has a starting capital of only US\$485 million.<sup>19</sup>

## MOVING BEYOND TRADE LIBERALISATION\_

In recent years, the APEC process has been significantly reoriented from trade liberalisation (reducing tariff barriers) to trade facilitation (reducing non-tariff trade transaction costs). As the following macroeconomic indicators suggest, APEC’s initial trade liberalisation efforts have reaped commendable results thus far: average tariff rates in member economies have dropped from 15 per cent in 1994 to 5 per cent today and intra-APEC trade has grown almost seven-fold from US\$1.7 trillion in 1989

---

<sup>15</sup> “Annex A – An APEC PPP Experts Advisory Panel and Pilot PPP Centre” (2013 APEC Finance Minister’s Meeting). Ministerial Statements, APEC PSU (2013) < [http://www.apec.org/Meeting-Papers/Ministerial-Statements/Finance/2013\\_finance/annexa.aspx](http://www.apec.org/Meeting-Papers/Ministerial-Statements/Finance/2013_finance/annexa.aspx)>

<sup>16</sup> Ibid.

<sup>17</sup> Center for Strategic & International Studies (CSIS). “China’s Charm Offensive Signals a New Strategic Era in Southeast Asia”. Southeast Asia from the Corner of 18th and K Streets, Vol. IV, No. 21 (2013), p. 13.

<sup>18</sup> Wong Siew Ying. “China Proposes setting up Asian Infrastructure Investment Bank”. *Channel News Asia*. 3 October 2013.

<sup>19</sup> CSIS (2013), p. 3.

to over \$11 trillion in 2011. And, at the 2012 Summit held in Vladivostok, Russia, the group approved a ground-breaking environmental goods and services agreement that called for tariffs on 54 products, such as solar panels and wind turbine blades, to be reduced to 5 per cent or less. In addition, the APEC List of Environmental Goods extends trade liberalisation efforts to less 'conventional' products thereby creating new markets whilst promoting a valuable green growth strategy.

This shift towards trade facilitation represents the next step in APEC's trade and investment agenda. The three-pronged strategy of boosting connectivity in its institutional, physical, and people-to-people aspects will be a key component in promoting the trade facilitation agenda. A reduction in trade transaction costs entails significant benefits for economic growth. For example, an agreement on trade facilitation at the World Trade Organisation could increase global GDP by as much as US\$1 trillion.<sup>20</sup> Furthermore, a decrease in trade costs is also advantageous to small and medium enterprises (SMEs). This is important because SMEs are typically key drivers of growth especially in middle-income economies. In Indonesia, Malaysia, the Philippines and Thailand, SMEs in the formal sector contribute nearly 60 per cent of GDP and account for as much as 80 per cent of total employment.<sup>21</sup>

## CHALLENGES IN PROMOTING CONNECTIVITY

According to the APEC Policy Support Unit, the group's Trade Facilitation Action Plans have helped reduce the region's trade transaction costs by 5 per cent between 2007 and 2010.<sup>22</sup> Using 2010 bilateral trade data, the report highlights that several bordering APEC economies have attained a similar level of trade costs (approximately 43 to 45 per cent) with the three largest economies of the European Union—France, Germany, and the United Kingdom. Yet, the two lowest costs for bilateral trade in manufacturing goods across bordering economies are between the United States and Mexico (37.1 per cent), which are members of the North American Free Trade Agreement, and Thailand and Malaysia (32.2 per cent), which are members of the ASEAN Free Trade Area.

It is therefore not immediately apparent that APEC initiatives—as opposed to the abovementioned free trade agreements or the fact that they share borders—played a substantial role in reducing costs. In fact, trade costs generated by distance still remain high. The cost of conducting trade between the ASEAN-4 subgroup (Indonesia, Malaysia, Thailand, and the Philippines) and their Latin American counterparts (Chile, Mexico, and Peru) stands at 162.3 per cent. Of course, connecting economies that are on different sides of the Pacific is a very ambitious aspiration and it would be

---

<sup>20</sup> PECC (2013), p. 32.

<sup>21</sup> OECD (2013).

<sup>22</sup> APEC PSU (2013), p. 3.

more appropriate to expect a significant reduction in trade costs between economies within regional subgroups. Trade costs between China, Japan and South Korea stand at a relatively impressive 50.5 per cent but, at 70 per cent, trade costs within the ASEAN-4, for instance, could be further reduced.

The ongoing APEC Business Travel Card initiative can perhaps give us a better picture of what has been achieved on APEC's trade facilitation in the absence of baseline measurements. Designed to streamline the movement of business visitors between APEC countries, the scheme started with just three participating countries in 1997. Today, all APEC members have signed up to the cardholder scheme (the United States and Canada are currently transitional members). Time saved in completing visa applications and immigration processing, as well as a reduction in money spent on visa applications, has helped bring down travel costs by US\$ 3.7 million (38 per cent) over a 12-month period from 2010 to 2011.<sup>23</sup> Up to 91 per cent of a total of 120,000 card holders reported positive experiences with the programme and the next step is to develop ways to extend the scheme to benefit business travellers representing SMEs.<sup>24</sup>

## CONCLUSION

Given the large gaps in infrastructure financing and the comparatively high non-tariff barriers to trade, APEC needs to take a focused approach to promoting and strengthening connectivity if it is to attain the Bogor Goals for developing economies by 2020. To this end, the public-private partnership centre and the business travel card are useful, incremental measures for demonstrating APEC's utility.

In addition, improvements in physical and institutional connectivity represent small steps towards aiding the grouping's contribution to multilateral trade. Greater physical connectivity would improve developing economies' access to international markets and, in turn, increase trade. Secondly, the harmonisation of customs and regulations among member economies could potentially cascade and become international 'best practices' for global trade.<sup>25</sup> Thus, we can expect connectivity to remain at the centre of APEC's concerns for the immediate future. At the same time, its continued commitment to supporting the multilateral trading system seals its relevance in the long-term.

---

<sup>23</sup> APEC PSU (2013) and APEC PSU (2011). "Reducing Business Travel Costs: The Success of APEC's Business Mobility Initiatives".

<sup>24</sup> APEC PSU (2013), p. 48.

<sup>25</sup> Gyngell, Allan and Malcolm Cook. (2005). "How to Save APEC". *Policy Brief*. Lowy Institute for International Policy <<http://www.lowyinstitute.org/publications/how-save-apec>>.



---

**ISEAS Perspective** is published electronically by the Institute of Southeast Asian Studies, Singapore.

Institute of Southeast Asian Studies  
30, Heng Mui Keng Terrace  
Pasir Panjang, Singapore 119614  
Main Tel: (65) 6778 0955  
Main Fax: (65) 6778 1735

Homepage: [www.iseas.edu.sg](http://www.iseas.edu.sg)

ISEAS accepts no responsibility for facts presented and views expressed. Responsibility rests exclusively with the individual author or authors. No part of this publication may be reproduced in any form without permission.

Comments are welcomed and may be sent to the author(s).

© Copyright is held by the author or authors of each article.

Editorial Chairman: Tan Chin Tiong

Managing Editor: Ooi Kee Beng

Production Editors: Lee Poh Onn and Benjamin Loh

Editorial Committee: Terence Chong, Francis E. Hutchinson and Daljit Singh