

ASEAN-Japan Cooperation on ASEAN's Development Gap and Connectivity: Working Together with Regional and Subregional Initiatives

SANCHITA BASU DAS¹

ECONOMIC INTEGRATION AND better connectivity are integral to maximizing ASEAN's economic potential and maintaining its centrality in shaping the Asia Pacific regional architecture. Despite progressing toward its goal of establishing an ASEAN Economic Community (AEC) by 2015 and having achieved several interim goals over the past two decades, the development gap in the region continues to pose a challenge to the ASEAN members. The development gap is also present within the three subregional initiatives in the ASEAN region: (1) the Greater Mekong Subregion (GMS), (2) the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), and (3) the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT).

At the same time, "ASEAN has become increasingly interlinked as an economic bloc, and is attracting world attention as being centred in the new growth center of the world."² The regional grouping has 10 dialogue partners and 5 free trade agreement partners. Informal dialogue relations between ASEAN and Japan were established in 1973 and later formalized in March 1977 with the inception of the ASEAN-Japan Forum. Since then, significant progress has been made in ASEAN-Japan relations, and cooperation spans many more areas, from political-security to economic-financial to socio-cultural relations.

Relations between the two were strengthened by the signing of the Tokyo Declaration for the Dynamic and Enduring ASEAN-Japan Partnership in the New Millennium and the ASEAN-Japan Plan of Action at the ASEAN-Japan Commemorative Summit in December 2003 in Tokyo. However, recent regional economic developments since the 2008 global financial crisis have created an opportunity for the leaders to review the cooperation and to examine how it can further enhance economic aspects of the partnership. The Joint Declaration for Enhancing ASEAN-Japan Strategic Partnership for Prospering Together—also known as the Bali Declaration—was issued by the leaders at the 14th ASEAN-Japan Summit in Bali, Indonesia, on November 18, 2011, announcing their adoption of the ASEAN-Japan Plan of Action 2011–2015.

Given this background, this chapter discusses the future of ASEAN-Japan cooperation in terms of narrowing the development gap in ASEAN and enhancing connectivity. It also looks at coordination at the regional and the subregional levels.

ASEAN-JAPAN COOPERATION

For the last 40 years, the ASEAN-Japan partnership has undergone several stages of development. Starting with economic partnership in the late 1960s and 1970s, the relationship broadened to include political-security cooperation during the 1980s and 1990s and was further strengthened to enhance ASEAN's integration and community-building endeavors. This contributed to close business partnerships with total bilateral trade amounting to US\$248 billion in 2011. ASEAN member states are now major foreign direct investment destinations for Japanese enterprises. Japan was the first dialogue partner country to appoint a resident ambassador to ASEAN in 2010, and the Mission of Japan to ASEAN was established in Jakarta in 2011.

The table in the appendix summarizes what ASEAN-Japan cooperation has contributed in terms of narrowing the development gap and promoting connectivity and subregional cooperation. It is evident that Japan continues to support ASEAN's integration and community-building efforts, including the goal of narrowing the development gap in ASEAN through various subregional development endeavors.

Japan has expressed strong support for initiatives to strengthen connectivity in ASEAN. At the 14th ASEAN-Japan Summit, the ASEAN leaders voiced their appreciation for Japan's strong commitment to enhancing connectivity under the vision spelled out in their agreements on the Formation of the Vital Artery for East-West and Southern Economic Corridor and the

Maritime Economic Corridor, as well as through Japan's support for soft infrastructure projects in ASEAN. Japan identified 33 flagship projects related to the three ASEAN corridors (East-West Corridor, Southern Economic Corridor, and Maritime Economic Corridor).

Japan also plays a substantial supportive role in subregional programs such as the GMS, the IMT-GT, and BIMP-EAGA. In the GMS, Japan provides development assistance through its official development assistance (ODA) and the Asian Development Bank (ADB), where it plays a pivotal role. The Japanese government announced that 2009 would be the "Mekong-Japan Exchange Year," building on the long-term friendship between Japan and the Mekong subregion. It supports infrastructure projects in the GMS and also encourages states along the river to make appropriate reforms. The leaders of the countries in the Mekong subregion also reaffirmed that Japan is a long-lasting, reliable, and indispensable partner for the Mekong subregion during their Fourth Mekong-Japan Summit held in Tokyo on April, 21, 2012.

The ASEAN Economic and Socio-Cultural Community Blueprints recognize BIMP-EAGA as one of the subregional groups to receive support from the Initiative for ASEAN Integration (IAI) and the ASEAN Framework for Equitable Economic Development, mechanisms that aim to achieve the seamless flow of trade, investment, and people within ASEAN by 2015. Japan has also reaffirmed its commitment to assisting the BIMP-EAGA member countries in developing the East ASEAN Growth Area—as a part of efforts for regional integration—by jointly promoting and enhancing connectivity in the growth area, particularly in the areas of human resource development, physical infrastructure, and trade and investment promotion. This is considered a significant contribution to the development of ASEAN's connectivity as well as to economic development and to the narrowing of the development divide among BIMP-EAGA countries.

As an IMT-GT development partner, Japan has been active in its cooperation with IMT-GT members in the areas of food security and food safety as well as alternative energy. In the Fifth IMT-GT Summit in Hanoi in 2010, the leaders agreed to place food safety and high-value agriculture as key areas of engagement with Japan. Japan will continue to intensify its support for partnership to promote economic cooperation with the IMT-GT countries as well as to promote connectivity, trade, investment, tourism, and other areas of mutual benefit with these countries.

THE DEVELOPMENT GAP IN ASEAN, CONNECTIVITY, AND SUBREGIONAL COOPERATION

ASEAN faces an economic challenge from the developmental differences between its more developed (ASEAN-6) and newer members, Cambodia, Laos, Myanmar, and Vietnam (CLMV). These differences exist in terms of GDP per capita (income per capita), human development indicators, and soft and hard infrastructure. For example, Singapore has a first-world per capita income level (US\$49,936) that is 58 times higher than Myanmar's per capita income level of US\$849. Tables 1 through 3 illustrate the differences in economic, human development, and poverty indicators within ASEAN.

Table 1. ASEAN macroeconomic indicators

	GDP (US\$ bn), 2012	Population (mn), 2012	Per capita GDP (US\$), 2012	Share of agriculture in GDP, 2010	Share of industry in GDP, 2010	Share of services in GDP, 2010	Imports/GDP (percent), 2010	Exports/GDP (percent), 2010
Brunei	16.8	0.43	38,801	1	67	32	20	75
Cambodia	14.2	15.2	934	36	23	41	72	54
Indonesia	894.8	244.5	3,660	15	47	38	21	24
Lao PDR	9.3	6.4	1,453	33	32	35	32	29
Malaysia	307.2	29.0	10,578	11	44	45	67	81
Myanmar	54.0	63.7	849	48*	16*	35*	14	20
Philippines	240.6	97.7	2,462	12	33	55	28	21
Singapore	267.9	5.3	49,936	0	28	72	153	171
Thailand	376.9	64.5	5,848	12	45	43	66	66
Vietnam	137.6	90.4	1,523	21	41	38	86	78

Note: * share pertains to year 2004

Source: World Development Indicators, 2012, World DataBank, World Bank.

Table 2. ASEAN human development indicators

	Human Development Index (Rank) (2011)	GDP per capita (PPP US\$) (2012)	Life expectancy at birth (years) (2011)	Adult literacy rate (percent age 15 & above) (2009)	Public expenditure on health (percent of GDP) (2010)	Public expenditure on education (percent of GDP) (2010)
Brunei	33	50,526	78	95.3	2	2
Cambodia	139	2,398	63.1	77.6*	2	3
Indonesia	124	4,957	69.4	92.2*	1	3
Lao PDR	138	3,004	67.5	72.7^	1	3
Malaysia	61	16,942	74.2	92.5	2	4.1*
Myanmar	149	1,401	65.2	92	0	NA
Philippines	112	4,263	68.7	95.4*	1	2.8*
Singapore	26	60,883	81.1	94.7	1	3
Thailand	103	10,023	74.1	93.5^	3	4
Vietnam	128	3,545	75.2	92.8	3	5.3*

Note: * Data for the year 2008; ^Data for the year 2005.

Source: World Development Indicators, 2012, World DataBank, World Bank; UNDP Human Development Report 2011, "Sustainability and Equity: A Better Future for All."

Table 3. Incidence of poverty in ASEAN

	Poverty headcount ratio at national poverty line (percentage)	Poverty headcount ratio at \$1.25 (PPP) a day (percentage)
Brunei	N.A	NA
Cambodia	30.1 (2007)	22.8 (2008)
Indonesia	12.5 (2011)	18.1 (2010)
Lao PDR	27.6 (2008)	33.9 (2008)
Malaysia	3.8 (2009)	0 (2009)
Myanmar	NA	NA
Philippines	26.5 (2009)	18.4 (2009)
Singapore	NA	NA
Thailand	8.1 (2009)	0.4 (2009)
Vietnam	14.5 (2008)	16.9 (2008)

Note: The number in brackets gives the latest years for which data are available.

Source: World Development Indicators, 2012, World DataBank, World Bank.

One key development gap also lies in the infrastructure sector. The development of hard physical infrastructure in CLMV countries is very uneven due to organizational inefficiencies, insufficient budgetary funding, heavy dependence on ODA, and lack of foreign direct investment. The CLMV countries also lack the soft infrastructure (information and communications technology, or ICT) that is an important prerequisite for the next stage of development.³ Table 4 illustrates the digital divide among ASEAN members.

Table 4. ICT infrastructure indicators, 2011

	Fixed-line telephone subscriptions per 100 inhabitants	Cellular subscribers per 100 inhabitants	Internet users per 100 inhabitants
Brunei	19.7	109	56.0
Cambodia	3.7	70	3.1
Indonesia	15.9	98	18.0
Lao PDR	1.7	87	9.0
Malaysia	14.7	127	61.0
Myanmar	1.1	3	1.0
Philippines	7.1	92	29.0
Singapore	38.9	149	75.1
Thailand	9.7	113	23.7
Vietnam	11.5	143	35.5

Source: *ICT Data and Statistics, International Telecommunications Union*, <http://www.itu.int/ITU-D/ict/statistics/explorer/index.html>.

Beyond these economic and social gaps, there are significant disparities in institutional capacity and human resources among the ASEAN member countries. The current weak human resource capabilities in the CLMV countries, together with weak policies and weak institutional and legal frameworks, make it difficult for these countries to raise their productive capacities. These challenges further constrain their capacity to make optimum use of foreign aid.

Initiative for ASEAN Integration

To address the issue of the development gap, ASEAN launched the IAI in 2001. The IAI is primarily directed at the newer ASEAN members, the CLMV. It also encompasses subregional groupings, such as the GMS, BIMP-EAGA, and the IMT-GT. This is expected to assist the CLMV countries to

meet ASEAN-wide targets and commitments. Over the years, the IAI has evolved from a platform of mutual assistance between the ASEAN-6 and the CLMV to an expanded framework that involves dialogue partners and development agencies.

The first IAI Work Plan (July 2002–June 2008) was completed within this policy framework. The work plan covered more than 100 projects in four areas, including infrastructure, human resource development, ICT, and regional economic integration. The second IAI Work Plan (2009–2015), which was endorsed in 2009, is based on key program areas covering all three ASEAN Blueprints.

In general, the CLMV countries have professed their satisfaction with the usefulness of the program and most of its projects. However, the descriptions of the projects reveal their uneven nature in terms of quality and relevance to the IAI's purposes and, therefore, presumably their effectiveness.⁴ The program also seems to suffer from insufficient participation of the CLMV countries in the projects' design and the consequent lack of a sense of ownership of the projects on the part of those countries. At the other end of the process, most projects carry no provisions for follow-through, implementation, or effective dissemination of knowledge or skills gained.

This suggests that there has to be some improvement in the IAI scheme. Coordination has to be strengthened among all agencies. The CLMV countries have to be involved at all stages—conception, selection, and design—of each project.

The Eminent Persons Group's (EPG) report on the ASEAN Charter notes that ASEAN's ability to achieve its long-term economic goals will depend on how efficiently the development gap is addressed. Given the limited financial resources, new strategies to narrow the development gap should be designed to ensure that the less-developed member countries are in a position to participate in and fully benefit from the economic integration process.

Master Plan on ASEAN Connectivity

The 17th ASEAN Summit adopted the Master Plan on ASEAN Connectivity (MPAC) in 2010 in Vietnam. The plan strives to integrate a region of more than 600 million people with a combined GDP of about US\$2.1 trillion. The master plan identifies several priority projects, including the ASEAN Highway Network, a roll-on/roll-off network, and the ASEAN Broadband Corridor. It reviewed the achievements made and the challenges encountered in building up linkages in ASEAN. It also outlined key strategies and

essential actions with clear targets and timelines for addressing the challenges. The master plan has three components: (1) physical connectivity, (2) institutional connectivity, and (3) people-to-people connectivity.

Core initiatives of the master plan include improving the economic resilience of the region through improved production and distribution networks and optimizing benefits from the free-trade agreements of ASEAN. Moreover, greater connectivity results not only in economies of scale but also in higher interaction among countries, boosting multilateral growth and reducing development gaps. Therefore, connectivity is seen as a way of promoting the economic growth and sustainability of ASEAN as a whole.⁵

According to the ADB, the achievement of complete ASEAN connectivity requires around US\$600 billion of investment during 2010–2020, underscoring the need for cooperation with the 10 dialogue partners and for public-private partnerships (PPPs).

ASEAN has come up with new ways of generating funds for its projects under the MPAC. The regional bloc, in collaboration with the ADB, established an ASEAN Infrastructure Fund (AIF) in September 2011. The fund has total capital of US\$485.2 million, of which ASEAN will contribute US\$335.2 million (69 percent), and the ADB will contribute US\$150 million (31 percent). In addition, hybrid capital of US\$162 million—a financial instrument that has both debt and equity characteristics—will be issued after the third and last tranche of the initial core equity contributions. Hence, the total capital structure of the AIF is US\$647.2 million. It has been decided that while Malaysia will be the domicile of the AIF, the ADB will manage and administer the AIF on behalf of ASEAN. The ASEAN member states and the ADB made their first contributions in June 2012.

Subregional Cooperation Arrangements⁶

In the 1990s, Southeast Asia saw the emergence of subregional cooperation arrangements that cross national boundaries but may not involve an entire country. Three important ones were the GMS, the IMT-GT, and BIMP-EAGA (table 5).

Greater Mekong Subregion

The GMS was instituted involving six countries in 1992, with crucial assistance from the ADB. These countries were Cambodia, Laos, Myanmar, Thailand, Vietnam, and China (specifically, Yunnan Province and Guangxi Zhuang Autonomous Region). As five members of the GMS also belong to the ASEAN regional process, the GMS could be seen as an important

Table 5. Subregional cooperation arrangements in Southeast Asia

	GMS	IMT-GT	BIMP-EAGA
Date established	1992	July 1993	March 1994
Population (million people)	326	70	57
Land Area (million square km)	2.6	0.6	1.6

Source: Asian Development Bank, <http://beta.adb.org/countries/subregional-programs>.

way to narrow the development divide in the region. Moreover, the GMS involved two big countries—China and Thailand—and any actions by these two had spillover effects on the smaller countries.

The GMS has largely been seen as a top-down organization facilitated by the ADB. The objective of the GMS program was to enhance connectivity, improve competitiveness, and build a greater sense of community. It covered nine priority sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation.

In 1998, the GMS adopted an economic corridor approach and recognized the development potential of specific geographic areas with improvements in infrastructure and trade facilitation measures.⁷ It designed a holistic strategy to improve and enhance investments in transport, energy, and telecommunications in the subregion. The first GMS leaders' summit endorsed this in 2002.⁸ Four key transport corridors have been identified: the North-South Corridor from Kunming to Bangkok via Chiang Mai, the East-West Corridor, the Southern Corridor, and the Northern Corridor from Nanning to Hanoi.

Apart from physical connectivity, the GMS also adopted the Phnom Penh Plan for Development Management in 2002. The goal is to build the capacity of GMS senior officials for development management by organizing short-term and in-depth learning programs. In 2004, the *Journal of GMS Development Studies* was launched to promote a better understanding of development issues in the GMS among all stakeholders. To complement the journal, a research program was also initiated to help promote a link between knowledge generation and policymaking processes in the subregion.

Despite this, the GMS could not achieve much progress. While the North-South Corridor is the most dynamic, progress on the East-West Corridor, the Southern Corridor, and the Northern Corridor has been slower.

Indonesia-Malaysia-Thailand Growth Triangle

A second subregional cooperation arrangement, the IMT-GT, was launched in July 1993 with 10 provinces from Thailand, Malaysia, and Indonesia. Later, it was expanded to 14 provinces in southern Thailand, 8 northern states in Malaysia, and 10 provinces in Indonesia.

In 2006, the ADB began providing support for the development of the IMT-GT program. It proposed a Roadmap for IMT-GT, 2007–2011, which was endorsed during the Second Leaders' Summit in Cebu, Philippines, in 2007.⁹ The roadmap identified four economic connectivity corridors as keys to strengthening regional infrastructure so as to support increased intra- and extra-regional trade, investment, and tourism: (1) the Songkhla-Penang-Medan Economic Corridor, (2) the Straits of Melaka Economic Corridor, (3) the Banda Aceh-Medan-Pekanbaru-Palembang Economic Corridor, and (4) the Melaka-Dumai Economic Corridor. A secretariat for the growth triangle was also established in Putrajaya, Malaysia, in August 2007 to coordinate activities between the private sector, foreign investors, and other development partners, including the ADB.

In 2009, a broader roadmap was launched, identifying eight potential priority projects for the IMT-GT: (1) Sumatra Ports Development, (2) Melaka-Dumai Economic Corridor Multimodal Transport, (3) Sumatra Toll Roads Project, (4) Melaka-Pekanbaru Power Interconnection in Indonesia, (5) Melaka-Pekanbaru Power Interconnection in Malaysia, (6) Southern Thailand Ports Development Program, (7) Pak Bara Cargo Port, and (8) Hat Yai-Sadao Toll Road in Thailand.

The impact of the IMT-GT on member provinces is difficult to ascertain. Such an assessment is hampered by the relative lack of IMT-GT level trade, investment, and tourism data.

Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area

Lastly, BIMP-EAGA, which covers Brunei and parts of Indonesia, Malaysia, and the Philippines, was launched in March 1994.¹⁰ It should be noted that the constituent parts have relatively weak infrastructure links to the more economically dynamic parts of their countries, i.e., to Java, the Malay Peninsula, and Luzon.

BIMP-EAGA strongly encouraged private-sector participation in the process. The BIMP-EAGA Business Council (BEBC) was launched in November 1994 and served as an umbrella organization for the private sector in the subregion. The BEBC Secretariat was established in Brunei in 1996. Among its activities, the BEBC sponsored print publications

(EAGA Business Update, Weekend Review) and established a website (www.bimpbc.org), inaugurated business forums in 1998, and established an EAGA Network of Information. The secretariat relocated in 2001 to Kuching, Malaysia, and in 2003 undertook a review and restructuring, which shifted authority to centers in other BIMP-EAGA countries. Since the restructuring, the BEBC has refocused its attention toward development of small and medium-sized enterprises.

The impact of BIMP-EAGA has been limited. With little achievement in the first decade after its establishment in 1994, the subregional program in 2005 formulated a roadmap for the next five years (2006–2010).

The December 2008 midterm review highlighted the poor institutional structure as a major factor for the disappointing progress in implementing the Roadmap to Development 2006–2010. It is widely recognized that unofficial trade and migration between the islands are rife. The limited achievements of BIMP-EAGA were also reflected in constant references to the need for re-inventing and re-invigorating.

Following this, during the Eighth BIMP-EAGA Summit in Cambodia in 2012, the BIMP-EAGA Implementation Blueprint 2012–2016 was adopted, calling for increased project delivery and strengthened institutional arrangements. The leaders reiterated their commitments to fast-tracking the implementation of various priority infrastructure projects in the subregion, particularly in the areas of transport, energy, trade facilitation, and ICT, in line with the MPAC.

FUTURE OF ASEAN-JAPAN COOPERATION

It is clear that the regional and subregional initiatives should not be seen separately. ASEAN, as a region, and the subregional cooperation arrangements have similar objectives: promoting trade and investment to increase the competitiveness of their members. Both look to invest in hard and soft infrastructure projects. It should be noted that infrastructure is a public good and hence building infrastructure for the subregion also improves the physical connectivity in the ASEAN region as a whole. The GMS and BIMP-EAGA both involve countries that are very strategically located between the fast-rising economies of China and India. This provides opportunities for forging greater economic integration beyond the ASEAN region. Finally, in the context of the MPAC, 15 priority projects have been identified (table 6). Some of these have had major impacts on individual subregional cooperation programs. Infrastructure improvements such as the Melaka–Pekan Baru Interconnection in the IMT-GT and the West

Kalimantan–Sarawak Interconnection in BIMP-EAGA are expected to improve physical connectivity. Completion of the ASEAN Highway Network and the Singapore-Kunming rail link are likely to have an impact on the GMS.

Therefore, subregional cooperation can potentially support ASEAN's efforts to realize an AEC by 2015 and vice versa.

Table 6. Priority projects under the MPAC

Physical Connectivity

- Completion of the ASEAN Highway Network missing links and upgrade of Transit Transport Routes
- Completion of the Singapore Kunming Rail Link missing links
- Establishment of an ASEAN Broadband Corridor
- Melaka–Pekan Baru Interconnection (IMT-GT, Indonesia)
- West Kalimantan–Sarawak Interconnection (BIMP-EAGA, Indonesia)
- Study on the roll-on/roll-off network and short-sea shipping

Institutional Connectivity

- Development and operationalization of mutual recognition arrangements for prioritized and selected industries
- Establishment of common rules for standards and conformity assessment procedures
- Operationalization of all national single windows by 2012
- Options for a framework/modality toward the phased reduction and elimination of scheduled investment restrictions/impediments
- Operationalization of the ASEAN agreements on transport facilitation

People-to-People Connectivity

- Easing of visa requirements for ASEAN nationals
 - Development of ASEAN Virtual Learning Resources Centres
 - Development of ICT skill standards
 - Launch of ASEAN community-building program
-

Source: Master Plan on ASEAN Connectivity, ASEAN Secretariat website at <http://www.aseansec.org/wp-content/uploads/2013/06/MPAC.pdf>.

Recommendations

The next stage of ASEAN-Japan cooperation needs to seriously address three main issues in ASEAN: the developmental divide, infrastructure development, and coordination between regional and subregional cooperation arrangements. This could be done over the short, medium, or long term, depending on the need for effective regional integration.

Short-Term Measures for ASEAN-Japan Cooperation

ALIGNING SUBREGIONAL PROGRAMS TO REGIONAL INITIATIVES: Looking at the similarities between ASEAN and the subregional initiatives, ASEAN-Japan cooperation should take a more coordinated approach

between ASEAN and the subregional frameworks. Moreover, as subregional initiatives are seen to be progressing slowly, more benefits could be garnered if they are linked to regional activities. The ADB has approved a regional technical assistance project to strengthen regional cooperation and promote links between BIMP-EAGA, the IMT-GT, the GMS, and ASEAN to help implement the MPAC and actualize the AEC by 2015 and maintain it beyond that date.

BIMP-EAGA cooperation has in recent years resulted in activities that help its member countries develop, and it links well with ASEAN's goals, including the implementation of a number of priority projects under the MPAC. Officials from ASEAN and BIMP-EAGA have pledged to boost stronger linkages among sectoral working groups to further strengthen areas of collaboration and explore the untapped economic potential in some subregional groupings within the economic region.¹¹

In addition to the ADB and other efforts, ASEAN-Japan cooperation should also propose a detailed study of opportunities to combine regional and subregional activities. The study can help align the subregional and regional programs, map various activities, and optimize the use of scarce resources. It is important to keep in mind the need to streamline approaches and delineate program responsibilities in light of the many regional and subregional initiatives that often have similar or overlapping objectives, strategies, and action plans. Both initiatives can focus on narrowing the development gap in the region as this is going to be a major factor in the success of the region going beyond 2015.

This is something that needs to be done in the shortest possible timeframe in order to optimize the use of scarce resources. This has not been a feature of ASEAN-Japan cooperation in the past.

Medium-Term Measures for ASEAN-Japan Cooperation

ENHANCING CONNECTIVITY AND ENCOURAGING PPPS: ASEAN-Japan cooperation should look at infrastructure development as a tool for narrowing the development gaps between more developed and less developed countries in the region. For this to happen, ASEAN-Japan cooperation must promote the development of PPP schemes to finance the implementation of the MPAC. The cooperation can draw on lessons from previous engagement with ASEAN, and it can identify the gaps and support the MPAC accordingly.

One key and new area where ASEAN-Japan cooperation can make a serious contribution is in getting the member countries ready for PPP investment. There are several factors that ASEAN needs to have in place before it can attract the private sector to invest in its infrastructure. The region can

develop efficient PPP infrastructure projects provided its member countries have established good governance of accountability, transparency, fairness, and efficiency. The countries also need to develop a favorable regulatory environment and robust institutional framework so as to develop tax incentive policies, tariffs, and risk mitigation mechanisms. ASEAN members must have the operational maturity to oversee a PPP project. Finally, for the financing package that will determine the mix of debt and equity or mix between domestic and external financing, ASEAN states need to develop their capital markets. But to develop these, ASEAN countries, especially Cambodia, Laos, and Myanmar, need not only financial assistance but also significant technical assistance. ASEAN-Japan cooperation can definitely contribute in this area.

Long-Term Measures for ASEAN-Japan Cooperation

ASEAN'S ECONOMIC DIVIDE: Addressing this is an ongoing process under ASEAN-Japan cooperation. If the economic divide in ASEAN is not effectively addressed, a two-tier or three-tier ASEAN would clearly slow down the integration process and undermine the AEC initiative going toward 2030. ASEAN-Japan cooperation should look to enhance the effectiveness of the IAI program in ASEAN. This could be done by involving the CLMV countries from the beginning by assessing their needs and by developing projects jointly. ASEAN-Japan cooperation should also keep a provision for implementation and effective dissemination of knowledge or skills gained, which could be beneficial for the next project.

RESOURCE MOBILIZATION TO NARROW THE DEVELOPMENT GAP: One new initiative that ASEAN-Japan cooperation can undertake is to look for alternative approaches to resource mobilization to narrow the development gap in ASEAN. While funding and loans from international institutions and dialogue partners are able to fill part of the total resource needs, the total amount of the resources mobilized from these traditional sources may not be sufficient to implement all initiatives. This is also recognized by the EPG's report on the ASEAN Charter, which notes that given the limited financial resources available to ASEAN, innovative ways of sourcing development assistance will be needed to narrow the development gap. In this regard, the EPG recommends that a special fund for narrowing the development gap should be established with voluntary contributions from member countries. The group suggests that a new innovative funding mechanism should be explored by experts to raise resources for this special fund through, for example, a share of sales or excise taxes, airport taxes, or visa fees. ASEAN-Japan cooperation

should support this kind of vision of new ways of generating funding and should undertake expert-group studies to explore the feasibility of different options.



Thus, going toward 2030, ASEAN leaders must understand the importance of a harmonious approach to achieving integration. Strong political consensus is needed for cooperation and to build alignments between regional and subregional frameworks. This, if implemented, is expected to narrow the discrepancies among the economic communities and participants; overcome, to a certain extent, the problem of overlapping membership; and accelerate the progress toward an ASEAN community.

Subregional cooperation arrangements such as the GMS, the IMT-GT, and BIMP-EAGA can be viewed as bite-size models for attracting investment and technology as well as building blocks for ASEAN regionalism. Their less-rigid structure as compared with the ASEAN process could be used according to the investors' demand.

Above all, for both subregional and regional processes, most of the decisions and agreements for economic integration are to be implemented at the national level. Hence, strong national mechanisms are needed to plan, organize, coordinate, and follow up on each country's or province's commitments.

ASEAN-Japan cooperation could address all these issues holistically and could not only help ASEAN members meet their goals of integration going toward 2030 but also help ASEAN to maintain its centrality in the broader Asian integration process. This is also enshrined in the Joint Declaration for Enhancing ASEAN-Japan Strategic Partnership for Prospering Together, adopted in Bali on November 18, 2011.

NOTES

1. The author would like to thank Ms. Pham Thi Phuong Thao, Research Assistant at the Institute of Southeast Asian Studies, for her data inputs in the paper.
2. ASEAN Secretariat News, "Cooperation with Dialogue Partners and Strategic Partners Feature High on Summit," November 14, 2012, <http://www.asean.org/news/asean-secretariat-news/item/cooperation-with-dialogue-partners-and-strategic-partners-feature-high-on-summit> (accessed on March 12, 2013).
3. Loraine Carlos Salazar and Sanchita Basu Das, ed., "Bridging the ASEAN Development Divide: Challenges and Prospects," *ASEAN Economic Bulletin* 24, no. 1 (April 2007).
4. Rodolfo C. Severino, "The ASEAN 'Development Divide,'" in Salazar and Sanchita ed., "Bridging the ASEAN Development Divide."

5. Sanchita Basu Das, "Understanding the MPAC," in Sanchita Basu Das ed., *Enhancing ASEAN's Connectivity* (Singapore: Institute of Southeast Asian Studies, 2012).
6. This section is drawn from a longer paper on "Sub-Regional Zones and ASEAN Economic Community," by Richard Pomfret and Sanchita Basu Das, which is a part of the ISEAS-ADB Project on "Assessment of Impediments & Actions Required for Achieving AEC by 2015."
7. Asian Development Bank, 2009, <http://www.adb.org/GMS/agreement.asp>.
8. During the 1990s, activities consisted mainly of piecemeal infrastructure projects managed at the national level.
9. Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), "Building a Dynamic Future: A Roadmap for Development 2007–2011 (Manila: IMT-GT, 2007), <http://www.imtgt.org/Documents/Books/roadmap-development.pdf>.
10. Both the IMT-GT and BIMP-EAGA originally covered smaller areas in the participating countries.
11. Vietnam+, "ASEAN, Sub-regional Group Push for Stronger Linkages," March 9, 2013, <http://en.vietnamplus.vn/Home/ASEAN-subregional-group-push-for-stronger-linkages/20133/32311.vnplus>.

APPENDIX. ASEAN-JAPAN COOPERATION

	AEC Mid-term Review, 2012	Jakarta Framework, 2011	Tokyo Declaration on ASEAN-Japan Cooperation, 2003	ASEAN-Japan Plan of Action, 2003	ASEAN-Japan CEP, 2008	ASEAN-Japan Plan of Action, 2011
Narrow Development Gap	Besides the particular emphasis on the implementation towards 2015, of AEC measures that are the central and foundational elements of ASEAN economic integration and connectivity, and at the same time pushing further ASEAN's integration with the rest of East Asia, ASEAN needs to continue its strong policy emphasis on narrowing development gaps in the ASEAN's regional integration strategy.	An inclusive and equitable society should be formed by ASEAN by developing poor and peripheral regions (geographical inclusiveness), small and medium enterprises (industrial inclusiveness) and raise the incomes of the poor (societal inclusiveness).	Japan and ASEAN to work together to consolidate the foundation for economic development and Japan to continue to give priority to the actual needs of ASEAN member countries during its ODA program. Enhance support and cooperation in developing the Mekong region to narrow the gaps between the new member countries and the other countries of ASEAN, taking into account that development will contribute to reinforcing regional integration, leading to self-sustaining economic growth through integrated approach of economic cooperation, and promotion of trade and investment.	Japan and ASEAN to further cooperation to reinforce the integration of ASEAN, support for the realization of IAI and other regional and sub-regional endeavours to narrow the development gaps in ASEAN. This is one of the measures to consolidate the foundation for economic development and prosperity in the region.	The Agreement sets a framework for the enhancement of economic cooperation among the Parties with a view to supporting ASEAN economic integration, bridging the development gap among ASEAN Member States, and enhancing trade and investment among the Parties. The economic cooperation activities between Japan and ASEAN countries aim at narrowing the gaps of economic development among ASEAN countries and promoting the well-being of the people of ASEAN Member States towards further integration of ASEAN.	ASEAN and Japan to pursue joint actions and cooperation to provide macroeconomic policy support for social economic development in ASEAN member countries to narrow the development gap; enhance support for the realization of IAI and other regional and sub-regional endeavours to narrow the development gaps in ASEAN.
	The priority AEC measures for implementation in the run up to 2015 are the following: tariff elimination, addressing NTBs, trade facilitation, services liberalization, investment liberalization and facilitation, transport facilitation, completion of RCEP negotiations as well as enhancing IAI effectiveness and furthering SME development much more.					
	The MTR examined the two initiatives, including SME development and the IAI, which are important for narrowing development gap within AMSs and for narrowing development gap between AMSs respectively.					

AEC Mid-term Review, 2012	Jakarta Framework, 2011	Tokyo Declaration on ASEAN-Japan Cooperation, 2003	ASEAN-Japan Plan of Action, 2003	ASEAN-Japan CEP, 2008	ASEAN-Japan Plan of Action, 2011
<p>The agricultural development is also a major mechanism for poverty reduction and narrowing development gaps especially in the CLMV countries. IAI has played and continues to play a pivotal role in providing technical assistance from ASEAN-6 to the CLMV countries. As such, IAI is a priority policy measure where major actions should be implemented before 2015.</p>		<p>Enhance regional and sub-regional development including in the Mekong region and BIMF-EAGA to promote economic and social development, sharpen the competitive edge of ASEAN and improve standards of living.</p>	<p>Japan and ASEAN jointly take actions to develop the Mekong region comprehensively (supporting existing projects under GMD programme, e.g. East-West Economic Corridor, and East-West Corridor, improvement of transportation infrastructures, ICT, water resource management, etc.</p>	<p>The Parties to promote regional and sub-regional development through economic cooperation activities including capacity building, technical assistance, and other such activities as may be mutually agreed upon among the Parties</p>	<p>Strengthen cooperation among countries to promote economic development of the Mekong region (supporting existing projects like 11 flagship programmes under the GMS programme)</p> <p>Enhance Mekong – Japan cooperation, support for ASEAN's Mekong Cooperation mechanism and initiatives in particular the ASEAN – Mekong Basin Development Cooperation (AMBDC)</p> <p>Strengthen coordination with the Mekong River Commission in order to promote the sustainable development, utilization, conservation and management of water and resources of the Mekong River Basin</p> <p>Support the efforts of CLMV</p>
<p>Sub-regional cooperation</p>			<p>Japan to support the efforts of the new ASEAN member countries on economic integration and assist them in harmonizing institutions and standards and facilitating movement of goods and persons</p> <p>The agricultural development is also a major mechanism for poverty reduction and narrowing development gaps especially in the CLMV countries. IAI has played and continues to play a</p>		

AEC Mid-term Review, 2012	Jakarta Framework, 2011	Tokyo Declaration on ASEAN-Japan Cooperation, 2003	ASEAN-Japan Plan of Action, 2003	ASEAN-Japan CEP, 2008	ASEAN-Japan Plan of Action, 2011
<p>critical for any economic activity. They can also be major facilitators of deeper regional connectivity and integration</p> <p>In view of the critical importance of transport facilitation and cooperation measures to ASEAN connectivity, single market and production base goal, and competitiveness, the recommendations on the way forward include the redoubling of AMSs efforts to finalize Protocols 2 and to "ratify Protocol 7 (seven AMSs have registered concurrence on Protocol 7) of the AFAFGIT with further flexibility, accelerate the ratification process (including air transport agreements) in a few AMSs, and necessary domestic reforms toward the full operationalization of the transport facilitation agreements.</p> <p>In addition, there is a need to support concerned AMSs to raise necessary funds, by utilizing the AIF or sharing experiences on effective PPP scheme of, for critical segments of the ASEAN Highway Network and the Singapore-Kunming Rail Link.</p>	<p>ASEAN needs to enhance connectivity within the region through free flows of goods, services, people and capital as well as further enhancement of physical infrastructure in the region.</p>				<p>Support the consideration for ASEAN Connectivity Plus in the future</p>

Source: Author's compilation from various sources: Economic Research Institute for ASEAN and East Asia (ERIA), "Executive Summary, Mid-Term Review of the Implementation of AEC Blueprint," October 2012, Jakarta; Ministry of Foreign Affairs of Japan, "Tokyo Declaration for the Dynamic and Enduring Japan-ASEAN Partnership in the New Millennium," 2003, http://www.mofa.go.jp/region/asia-pac/asean/year2003/summit/tokyo_dec.pdf; ASEAN Secretariat, "ASEAN Japan Plan of Action 2003," <http://www.asean.org/news/item/the-asean-japan-plan-of-action>; Ministry of Foreign Affairs of Japan, "Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations," <http://www.mofa.go.jp/policy/economy/fta/asean/agreement.pdf>; and ASEAN Secretariat, "ASEAN-Japan Plan of Action 2011-2015," <http://www.asean.org/archive/documents/19th%20summit/JP-PoA.pdf>.