

Speech by Dato Michael Yeoh, CEO of Asian Strategy & Leadership Institute (ASLI) and Malaysia's Representative to ASEAN High Level Task Force on Connectivity on Emerging Risks from Enhanced Physical Connection

1. Firstly, let me express my appreciation to the organizers for inviting me to participate in this Conference. I congratulate Vietnam's Ministry of Foreign Affairs for this initiative to focus on and further promote ASEAN Connectivity. The adoption of the ASEAN Connectivity Master Plan by the ASEAN Leaders at the 17<sup>th</sup> ASEAN Summit in Hanoi last year is a landmark for ASEAN. ASEAN Connectivity will give further impetus to regional economic integration.
2. Connectivity will propel regions to success as they harmonize their views, goals, frameworks and institutions across the region. Better connectivity between China and ASEAN can help bridge the development divide and facilitate ASEAN business to capitalize on the immense growth opportunities in China. Connectivity between China and ASEAN and ASEAN and the rest of the world will increase ASEAN's ability to compete. Connectivity among nations is the sine quo non in this age of globalization.
3. The ASEAN Connectivity Master Plan has spelt out succinctly the advantages, benefits and challenges of ASEAN Connectivity. To recap some of the advantages of ASEAN Connectivity are the narrowing of the development gaps, enhancing integration and competitiveness of ASEAN, enhancing the well-being and livelihood of ASEAN people and enhancing rules and good governance for ASEAN. The Master Plan on Connectivity also focuses on resource mobilization, including active engagement with

the private sector, dialogue partners like China and Japan and multilateral development agencies such as the Asian Development Bank (ADB).

4. At this Conference, I am asked to speak on the Risks of Enhanced Physical Connectivity. Although I do believe that the advantages and benefits of improved connectivity will benefit ASEAN, we need to take cognizance of some risks that enhanced connectivity will bring. We need therefore to develop new ideas, new mechanism, new processes and new strategies to minimize and overcome these risks. Risk management is a key challenge that ASEAN needs to focus on. The capability of the ASEAN secretariat in risk management needs to be enhanced. Risk management will have an important bearing on financing of ASEAN Connectivity and the cost of funds from private sector borrowings.
  
5. Among the risks that can arise with enhanced connectivity are security risks such as increased transboundary crimes like drug and human trafficking and freer movement of terrorists. The freer movement of people could lead to a rise in undocumented workers and the attendant problems of illegal immigration. This can create social problem like a rise in crimes in some of the receiving countries. It can also make it easier for terrorists to move across border as well as facilitate drug smuggling. Undoubtedly, the rise in the numbers of undocumented workers and illegal immigrants could lead to an increase in the crime rate as well as other social and health problems in the receiving or host countries, for example in Malaysia there are almost two million foreign workers.

6. We need to have new mechanisms that can help overcome and reduce these threats to our security. Nevertheless, we should not allow security risks from preventing ASEAN to enhance closer connectivity. The risks of more open borders can be managed with enhanced security cooperation and better technology.
  
7. Other risks will be economic and financial risks that can arise from undertaking the various cross border connectivity projects. The business and financing risks from such mega projects should also be addressed effectively. The development of an ASEAN Banking Framework or an ASEAN Rating Mechanism can help minimize the economic and financing risks of infrastructure development. Business however must be able and willing to take the business risks in undertaking such projects. The efforts proposed to enhance institutional connectivity can help develop stronger investor confidence in the business community and hence reduce such business risks. Economic viability of such projects such as the ASEAN Power Grid and the TAGP also need to be taken into consideration.
  
8. TAGP aims to develop a regional gas grid by 2020, by interconnecting existing and planned gas pipelines of member states and enabling gas to be transported across borders. The realisation of TAGP is expected to encounter substantial financial and legal complexities, most of which are easier to handle on bilateral basis rather than multilateral. One special challenge for TAGP is that the regional gas supply is dwindling.

Countries like Indonesia and Malaysia, who were once significant LNG exporters, are now looking at ways to supply in their own countries. This is because, in recent times, there have not been any new discoveries of large gas fields.

Reducing power and gas subsidies is critical for many ASEAN countries. It is important to capture economic benefits from market-based pricing in key natural resources, infrastructure and energy sectors. Market oriented reforms are necessary to ensure fiscal stability in countries which subsidise gas and power, to alleviate shortages of natural gas for domestic demand and to maintain a stable policy environment for private sector investments, which require predictability and transparency.

9. Legal risks are also key risks to address in order to attract greater private sector participation in the connectivity projects. In this regard, upholding the rule of laws and enhancing judicial independence can help reduce legal risks. An ASEAN arbitration mechanism can also help address this issue. Harmonization of laws, standards and processes can also help. Policies related to legal and regulatory frameworks should be harmonised and synergised among ASEAN member countries. For example, the legal and policy framework on cross-border power trading in ASEAN remain weak. Some countries like Malaysia, Thailand and the Philippines do not have any existing laws or policies on cross-border power trading. Hence, the importance of “legal connectivity” i.e. being on the same page in terms of the existing legal frameworks, common specifications and standards in implementing the various components of the Master Plan.

10. Another issue we need to address is the risks of delays in implementing the infrastructure projects. Delays in such projects will worsen the risks for the private sector. Hence, utmost priority must be accorded to implementation and monitoring of progress made. Project delays will worsen enterprise risks of companies undertaking such connectivity or infrastructure projects. Quick implementation and speedy roll-out of planned projects will enhance business and investor confidence. The overall implementation plan of ASEAN Connectivity will be overseen by the Connectivity Coordinating Committee (CCC). The CCC is expected to work closely with respective national coordinators for implementation and with relevant ASEAN sectoral bodies. ASEAN CCC is also expected to engage ASEAN stakeholders in this process through communication and exchange of information. For the coordination mechanism, various stakeholders will be involved i.e. the private sector, various sub-regional groups such as the Greater Mekong Subregion (GMS), the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EGA), dialogue partners, multilateral development banks, etc.

11. Another issue I would like to highlight is that in carrying out many of the connectivity and infrastructure projects, the region would have to resort to funding from countries outside ASEAN. In this regard, it may be possible that ASEAN may lose its centrality if it is over-dependent on external financing. Nevertheless, this is a challenge we need to carefully manage as ASEAN on its own may not have sufficient financial resources to undertake all the massive projects on our own. However the new

ASEAN Infrastructure Fund can play a key role in this area of financing. Greater engagement with the private sector through Public-Private Partnerships will be necessary. While PPP has huge potential, it has not yet been fully utilised in ASEAN. For PPP's to be more successful, ASEAN needs to involve corporate leaders, private bankers and entrepreneurs more actively during project and financial decision making processes. It should also be noted that the investment needs of ASEAN such as physical infrastructure have to be translated into commercially viable projects for private investors to take an interest. There has to be a higher quality of information on investment opportunities in the ASEAN countries that are made available to the public. Governments must create an enabling environment that assures investors of predictability, a level playing field, low transaction costs and fair rates of return commensurate with the risks they take. The regulatory framework has to be strengthened to make sure that capital is used appropriately for infrastructure development.

12. ASEAN should continue to remain committed to freer movement of people as proposed in the ASEAN Connectivity Master Plan, despite the risks that can eliminate from closer connectivity. We must not turn the clock back by slowing down efforts to promote freer movement of people. Instead, let us make greater use of technology and innovation and step up security cooperation to deal with the risks of more open borders.
13. Enhanced ASEAN Connectivity is a means to reduce development gaps in ASEAN thus helping the less developed countries reap the benefits of

integration in parallel to their more developed neighbours. It will also raise the overall competitiveness of ASEAN and lead to increased flows of goods, services, people and information across the region. As infrastructure needs are not uniform throughout the region, the infrastructure gaps have to be plugged. The Master Plan on Connectivity has addressed these infrastructure gaps. However, rural connectivity perhaps needed to be further enhanced to reduce the rural-urban divide and to better distribute the benefits of economic integration to more people.

14. In the final analysis, I believe that the advantages and benefits of enhanced connectivity outweighs the costs and risks involved. There can be no turning the clock back for ASEAN to achieve regional economic integration through enhanced connectivity. A Smart Partnership approach focusing on “win-win” can be the way forward for ASEAN. Finally, ASEAN must have the political will to implement in full the ASEAN Connectivity Master Plan and to better manage whatever risks that may arise. In this regard, good governance is an absolute necessity.

Thank you