



# Initiative for ASEAN Integration

## Policy Brief 2

### Enhancing Connectivity to Narrow the Development Gap in ASEAN

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#### Introduction

In order to promote and establish the ASEAN Community by 2015, a High Level Task Force developed the Master Plan on ASEAN Connectivity (MPAC) with the assistance of a number of other international organisations working in the region.<sup>1</sup> The MPAC seeks to contribute to a more interconnected ASEAN through the promotion of *physical*, *institutional*, and *people-to-people* connectivity. *Physical connectivity* refers to the development of national and regional infrastructure development, specifically in the transport, Information and Communications Technology (ICT) and energy sectors. *Institutional connectivity* relates to the policy environment of member countries and includes effective governance and institutions. Finally, *people-to-people connectivity* refers to empowering people and includes greater linkages among ASEAN members in the areas of education, culture, tourism.

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*1 These organisations included the Asian Development Bank (ADB), the Economic Research Institute for ASEAN and East Asia (ERIA), the United Nations Economic and Social Commission for Asian and the Pacific (UNESCAP) and the World Bank (WB).*

While there are clear, tangible benefits of greater connectivity, ASEAN countries also face a number of challenges in realising the objectives of the MPAC. Huge investments will be required to build both the hard and soft infrastructure necessary to expeditiously narrow the development gap. ASEAN countries need to fund infrastructure investments averaging US\$60 billion per year to 2015, and successfully integrate infrastructure programs that are being undertaken at the national, sub-regional and regional levels. Moreover, the environmental and social impacts of large-scale infrastructure projects and the greater mobility of ASEAN's people will need to be addressed. Political commitment to addressing 'brain drain' and the social impacts of migration will also require attention.

The following policy brief provides an overview of those aspects of connectivity that can contribute to a further narrowing of the development gap between ASEAN member states, specifically those between the ASEAN-6 and the CLMV countries.

## **Gaps in Physical, Institutional and People-to-People Connectivity in ASEAN**

**Access to physical infrastructure** varies considerably across ASEAN members, as shown in Table 1. There is a particularly large gap in access to electricity, with 100 per cent of the population having access in Singapore compared to just 13 per cent in Myanmar and 24 per cent in Cambodia. Viet Nam performs exceptionally well on several measures of physical infrastructure, outperforming a number of ASEAN-6 countries. Myanmar, Cambodia and Lao PDR suffer from poor infrastructure investments in a number of areas including electricity, ICT, road density, and improved water sources in particular. The table clearly indicates that infrastructure investments will need to be biased in favour of Cambodia, Lao PDR and Myanmar for a narrowing of the development gap to be realised.

Table 1: Indicators of access to infrastructure for ASEAN members

	Access to electricity (% of population) (2009)	Internet users (per 100 people) (2010)	Mobile subscriptions (per 100 people) (2010)	Rail lines (total route-km) (latest available)	Road density (km of road per 100 km <sup>2</sup> ) (latest available)	Roads, paved (% of total roads) (latest available)	Improved water source (% of population with access) (2010)	Improved sanitation facilities (% of population with access) (2010)
<b>ASEAN-6</b>								
Brunei								
Darussalam	99.7	50.0	109		51	81		
Indonesia	64.5	9.9	92	3,370	25	57	82	54
Malaysia	99.4	56.3	119	1,665	30	81	100	96
Philippines	89.7	25.0	86	479	67	10	92	74
Singapore	100	71.1	145		473	100	100	100
Thailand	99.3	21.2	104	4,429	35	99	96	96
<b>ASEAN-4</b>								
Cambodia	24	1.3	58	650	21	6	64	31
Lao PDR	55	7.0	65		17	14	67	63
Myanmar	13	0.2	1	3,336	4	12	83	76
Viet Nam	97.6	27.9	175	2,347	48	48	95	76

**With regards to people-to-people connectivity**, ASEAN's efforts are currently focused on improving skilled labour mobility. There is increasing movement of skilled workers within ASEAN, and this is associated with greater intra-regional FDI and trade. However, the flow of people within ASEAN is largely asymmetrical, with significant movements to ASEAN-6 countries such as Malaysia, Thailand and Singapore. The free flow of labour is often viewed as a contentious issue and only an incremental approach is being under by ASEAN members.

The asymmetrical labour mobility between ASEAN members is not surprising, as workers from poorer regions seek employment, higher wages and better working conditions elsewhere. A freer movement of labour and people among ASEAN member states may have great

potential in narrowing the development gap.<sup>2</sup> Greater labour mobility also enables migrants to send back (remit) money to their home countries. In areas which suffer from low employment rates and limited income earning opportunities the benefits will be particularly pronounced. Host countries also benefit from filling shortages and skills gaps in their labour force and businesses can benefit from lower wage rates.

## **Suggested Connectivity Policies to Narrow the Development Gap in ASEAN**

### **Physical Connectivity**

To maximise physical infrastructure's development impact a supportive and enabling environment must also exist. Good governance, strong institutions and supportive macroeconomic policies are vital if the potential gains from physical infrastructure are to be realised. Greater connectivity and fewer restrictions on the movement of people as well as goods may have tangible impacts on narrowing the development gap among ASEAN's members.

Empirical evidence suggests that physical infrastructure has its greatest impact in developing countries. **ASEAN, donors and CLMV countries themselves must prioritise infrastructure investments in the CLMV given the lower development indicators that prevail in these countries.** Projects in more rural and remote areas could be prioritised in other ASEAN countries.

Potential projects should be assessed not just according to whether they will spur economic growth in ASEAN countries but whether growth will be pro-poor. This will depend not only on the location of infrastructure but also whether it is biased towards the sectors in

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<sup>2</sup> This issue is explored further Chapter 4 of the Narrowing Development Gap publication: *Feeny, S., and M. McGillivray (2013) "The Role of ASEAN Connectivity in Reducing the Development Gap" in McGillivray, M and D.B Carpenter (2013) Narrowing the Development Gap in ASEAN: Drivers and Policy Options, London: Routledge.*

which the poor are situated. The poor can benefit from infrastructure through income earning opportunities and access to services and the academic literature suggests that the poverty reducing impact of roads appears to be particularly high.

The MPAC provides a comprehensive outline for achieving greater connectivity with 19 key strategies as well as 84 key actions. In relation to physical connectivity, the evidence suggests that priority should be given to the strategies of:

- (i) completing the ASEAN Highway Network which will integrate by road lagging parts of the region;
- (ii) establishing an efficient and integrated inland waterways network which is more relevant to the CLMV;
- (iii) establishing integrated and seamless multimodal transport systems to make ASEAN the transport hub of East Asia (and in particular construct the missing link of the East West economic corridor in Myanmar).

At the same time, the negative impacts of physical infrastructure and greater connectivity need to be considered and addressed. Large-scale infrastructure investments can lead to environmental impacts (such as water and air pollution) and social impacts (including the displacement of communities as well as connectivity possibly leading to more crime, illegal immigration and people trafficking).

### **Institutional Connectivity**

Improving the institutional connectivity of some ASEAN countries should be a priority. ASEAN members, on average, do not perform very well according to indicators of governance, the ease of doing business and logistics. However, there is great diversity in these measures across ASEAN members. While Singapore, Malaysia and Thailand rank highly, considerable improvements need to be achieved by all other ASEAN countries. There is also evidence that the competitiveness of ASEAN countries has actually stagnated over

the past five years, highlighting a further need to improve policy and institutional environments.

There MPAC priorities for greater institutional connectivity include:

- (i) accelerating the development of an efficient and competitive logistics sector;
- (ii) substantially improving trade facilitation in the region; and
- (iii) strengthening institutional capacity in lagging areas in the region and improve regional-sub-regional coordination of policies, programmes and projects.

Aside from the above priorities, ASEAN countries should work together to arrest the slide in almost all governance indicators that is presently being witnessed. **Attention should be placed on tackling corruption and improving government effectiveness and regulatory quality in particular.**

### **People-to-People Connectivity**

If ASEAN countries are serious about narrowing the development gap, they should also prioritise and move beyond the strategy of encouraging skilled labour movement in the Master Plan. Progress in this area has been weak. Restricting mobility to just skilled professions **risks expanding rather than narrowing the development gap** among ASEAN members. The policy allows the richer members to fill gaps in their labour force and while poor nations might benefit from the receipt of remittances, they will also suffer ‘brain drain’ impacts. While it is recognised that greater immigration is politically difficult, more progress needs to be made in this area.

By its very nature, narrowing the development gap involves asymmetries in both costs and benefits. The CLMV countries stand to benefit more from greater physical, institutional and people-to-people connectivity relative to other member countries. Richer ASEAN members and donors must provide genuine financial and

political commitments to narrowing the development gap, recognising that a more equitable ASEAN is in all of its members' long-term interests. CLMV countries must also ensure that their national development policies and development plans align to the broader regional agenda to ensure that these connectivity benefits can be realised.

*This policy brief was written by David Carpenter. It builds on the analysis and insights undertaken as part of the AusAID-funded 'Narrowing the Development Gap in ASEAN' publication, in particular: Chapter Four: Feeny, S., and M. McGillivray (2013) "The Role of ASEAN Connectivity in Reducing the Development Gap" in McGillivray, M and D.B Carpenter (2013) Narrowing the Development Gap in ASEAN: Drivers and Policy Options, London: Routledge.*



Narrowing the Development Gap  
Promoting Inclusive & Equitable Growth in ASEAN



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