

The logo of the Asian Development Bank (ADB) is a dark blue square with the letters 'ADB' in white, serif font.

Asian Development Bank's Regional Cooperation and the People's Republic of China

A review from the 2007 Country Assistance Program
Evaluation on the People's Republic of China: *Success
Drives Demand for More Innovative and Responsive
Services*

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Abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CAREC	Central Asia Regional Economic Cooperation
CAR	Central Asian republics
CSP	country strategy and program
DMC	developing member country
GMS	Greater Mekong Subregion
PRC	People's Republic of China
RCI	regional cooperation and integration
RCIS	regional cooperation and integration strategy
RCSP	regional cooperation strategy and program
RETA	regional technical assistance
SASEC	South Asia Subregional Economic Cooperation

Note

In this report, "\$" refers to US dollars.

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I. Introduction

1. The Asian Development Bank (ADB) support for regional cooperation stems from its Charter, which mandates ADB to promote economic growth and cooperation in the Asia and Pacific region by financing development of developing member countries (DMCs), “giving priority to those regional, subregional as well as national projects and programmes which will contribute most effectively to the harmonious growth of the region as a whole ...”¹ In 1994, ADB adopted a regional cooperation policy² that articulated ADB’s approach to promoting regional cooperation. ADB’s policy and strategy documents, including the long-term strategic framework, 2001–2015, have recognized the importance of regional cooperation in addressing poverty reduction in the region.

2. Since 1994, significant changes affecting ADB support for regional cooperation have taken place. The regional cooperation policy was reviewed, and a regional cooperation and integration strategy (RCIS)³ was formulated in 2006. It acknowledges the need to adopt a more coherent and strategic approach to regional cooperation and integration (RCI) support in the region. Past experience has shown that RCI initiatives can considerably strengthen poverty reduction efforts if they are properly designed and managed. It also provides a coherent strategy for ADB lending and nonlending support across regions and subregions. ADB’s RCIS has four pillars: (i) regional and subregional economic cooperation programs on crossborder infrastructure and related policies and procedures, (ii) trade and investment cooperation and integration, (iii) monetary and financial cooperation and integration, and (iv) cooperation in regional public goods. These pillars are mutually reinforcing, but prioritization of the four pillars and the selection of priorities within each pillar has to be in line with ADB’s Medium-Term Strategy II 2006–2008 and takes into account the specific conditions prevailing in each region or subregion.

3. ADB has supported various regional and subregional economic cooperation programs since the early 1990s. However, its support for regional cooperation has been fragmented and uncoordinated.⁴ To address this, a regional cooperation strategy and program (RCSP) was developed to guide operations in each subregion. The essential objective of the RCSP is to incorporate regional priorities into the operational pipeline and to complement country strategy and programming. The first Greater Mekong Subregion (GMS) and Central Asia Regional Economic Cooperation (CAREC) RCSPs were drafted in 2004, and these involve the People’s Republic of China (PRC) through some of its provinces.

¹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila (Chapter 1, Article I and Article II [iii]).

² ADB. 1994. *Bank Support for Regional Cooperation*. Manila.

³ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

⁴ *Ibid.*

B. ADB Regional Cooperation Activities involving the PRC

4. The PRC is an active player in three ADB subregional programs: (i) the GMS Program, (ii) the CAREC Program, and (iii) the recent PRC-Mongolia Subregional Cooperation. The South Asia Subregional Economic Cooperation (SASEC) program has four countries bordering the PRC. Possibilities for regional cooperation between the PRC and South Asia are currently being explored.⁵

5. **Greater Mekong Subregion.** The PRC is a member of the GMS through Yunnan province, which shares borders with the Lao People's Democratic Republic, Myanmar, and Viet Nam and with Guangxi Zhuang Autonomous Region, which is contiguous to Viet Nam. It has demonstrated strong commitment to regional economic cooperation by pursuing activities not only in its territory but also in other GMS countries. As of September 2006, the PRC had been involved in seven (out of 26) GMS projects that have received assistance from ADB (Table 1) and had participated in 96 (out of 125) regional technical assistance (RETA) projects. ADB's lending operations include projects that will enhance connectivity with neighboring GMS countries. These include projects in Yunnan and Guangxi that form important sections of the North-South Economic Corridor and a railway project to promote tourism.

Table 1: ADB Loans to the PRC Promoting Regional Cooperation in the GMS

Loan No	Project Name	Amount (\$ million)	Year of Approval	Status
1325	Yunnan Expressway Project	150	1994	Completed.
1427	Fancheng Port Project	52	1996	Completed.
1691	Southern Yunnan Road Development Project	250	1999	Completed.
1851	Guangxi Roads Development Project	150	2001	Expected completion Oct 2007.
2014	Western Yunnan Roads Development Project	250	2003	Expected completion Sep 2007.
2094	Guangxi Roads Development II Project	200	2004	Expected completion Dec 2008.
2116	Yunnan Dali-Lijiang Railway Project	180	2004	Expected completion Jun 2010.

ADB = Asian Development Bank, PRC = People's Republic of China, GMS = Greater Mekong Subregion.

Source: ADB database.

⁵ The SASEC RCSP 2006–2008 indicated the possibility of connecting India with the PRC via Nepal to increase trade and investment among the three countries. Similarly, India has also signed a series of agreements with the PRC to end boundary disputes, improve economic ties, and increase bilateral trade. It is also positioning its northeastern states as a gateway to East and Southeast Asia. The Bhutan and Nepal country strategy and programs also cited the possibility of ADB assistance to enhance border-trade connections with the PRC.

6. Meanwhile, the PRC has taken a proactive role in GMS projects and initiatives supported by ADB RETA projects, including the GMS Cross Border Transport Agreement, the Development of Strategic Framework for Action on Trade Facilitation and Investment, the GMS Business Forum, Developing the Energy Sector Strategy, Strategic Environmental Framework, Core Environment Program, and Biodiversity Conservation Corridor Initiative, among others. Unlike loans (which were concentrated in the transport sector), GMS RETA projects involving the PRC mostly funded activities under the agriculture and natural resources sector (29%); energy sector (20%); and law, economic management, and public policy (15%) (Table 2).

Table 2: GMS RETA Projects Involving the PRC by Sector
(\$ million)

Activity	Total	% Share
Agriculture and Natural Resources	4.50	29.3
Energy	3.00	19.6
Health, Nutrition, and Social Protection	1.60	10.4
Industry and Trade	1.88	12.2
Law, Economic Management, and Public Policy	2.30	15.0
Multisector	0.70	4.6
Transport and Communications	1.37	8.9
Total	15.34	100.0

PRC = People's Republic of China, GMS = Greater Mekong Subregion, RETA = regional technical assistance.

Source: ADB database.

7. A study⁶ on the closer integration of Guangxi into the GMS was prepared in November 2005 by ADB in close consultation with the Government of the PRC and the Guangxi provincial government. The study identified a number of high-priority projects in Guangxi that would promote closer cooperation between Guangxi and other GMS countries, including potential projects in use of seaports, participation in regional power grid interconnection, development of economic corridors, health, joint tourism promotion, private sector development, and integrated border area development.

8. **CAREC.** The PRC's involvement in CAREC⁷ started with the participation of the Xinjiang Uygur Autonomous Region, which is the most western territory of the PRC and geographically contiguous to three Central Asian republics (CARs): Kazakhstan, Kyrgyz Republic, and Tajikistan. The collapse of the Soviet Union in 1991 and the subsequent emergence of independent CARs posed challenges and opportunities for regional cooperation. Compared to the GMS, the CAREC program is still in the early stages of regional cooperation, but it has made progress in identifying and mobilizing support for regional projects and expanding policy dialogue with the goal of (i) securing access to larger markets, (ii) reducing transaction costs and facilitating transit and transport

⁶ Butiong, Ronaldo Antonio and Zhang Chuntai. 2005. *Study for the Closer Integration of Guangxi into the GMS*. Manila.

⁷ The European Bank for Reconstruction and Development, the Islamic Development Bank, the International Monetary Fund, the World Bank, and the United Nations Development Programme are also involved in CAREC. In the future, the Shanghai Cooperation Organization and the Central Asia Cooperation Organization are expected to coordinate with Central Asia Regional Economic Cooperation.

across the region, (iii) ensuring energy efficiency and sufficiency in the region, and (iv) preventing negative regional outcomes.

9. ADB is the lead agency in coordinating transport sector activities under CAREC. A regional transport sector road map was endorsed in April 2005⁸ with the goal of developing an integrated and efficient transport system. With regard to the PRC, ADB has provided assistance for the improvement of important sections of the Asian highway network and other Silk Road routes. A \$150 million loan project is also being prepared for upgrading the Korla-Kuqa road in Xinjiang.

10. Drawing on its GMS experience, ADB assisted in the preparation of a regional transport agreement⁹ to reduce nonphysical barriers to trade. Other ADB-supported measures for trade facilitation include ADB's comprehensive customs modernization and cooperation initiative launched in 2003, aimed at strengthening customs organizations and improving governance through cooperation; and ADB's support for bilateral trade and data sharing agreements, and pilot-testing of joint border agreements.

11. In the area of trade, a trade policy coordinating committee was created following a recommendation at the senior officials meeting in April 2004, with support from the International Monetary Fund. Papers on the barriers to trade in Central Asia, regional trade agreements and World Trade Organization accession, and potential comparative advantage in trade for Central Asia were presented by ADB and International Monetary Fund at the second trade policy coordinating committee meeting. Based on a number of policy studies, recommendations were made to reduce barriers to transit trade in the region, and a monitoring and reporting system was set up for the implementation of recommendations by CAREC countries.

12. The PRC is the second biggest consumer of energy next to the United States. Energy security is, therefore, one of its interests in regional cooperation with the energy-rich CARs. It has entered into several bilateral agreements on energy with neighboring CARs. While trading in energy has not yet taken off between the PRC and the CARs under the CAREC program, ADB has provided several advisory technical assistance to promote regional cooperation and trade in the energy sector (Table 3).

⁸ The Central Asia Regional Economic Cooperation (CAREC) Regional Transport Sector Road Map was endorsed by CAREC member country representatives during the senior officials' meeting on 26–27 April 2005 at ADB Headquarters.

⁹ ADB. 2004. *Technical Assistance for Formulating and Implementing an Intergovernmental Agreement of the Shanghai Cooperation Organization Member States on Facilitation of International Road Transport*. Manila (TA 6223-REG, for \$500,000, approved on 23 December).

Table 3: ADB Technical Assistance for Promoting Regional Cooperation in the Energy Sector in CAREC Countries

TA No.	Project Name	Amount (\$'000)	Year of Approval	Estimated Closing
5663	Kyrgyz Republic and Xinjiang Uygur Autonomous Region: Preparing the Regional Power Transmission	360	1995	May 2000
5960	Modernization Project in the Central Asian Republics	900	2000	May 2003
6023	Regional Gas Transmission Project in the Central Asian Republics	900	2002	March 2006
3956	Hydropower Development Strategy (Tajikistan)	600	2002	April 2006
6163	Improved Management of Shared Water Resources in Central Asia	700	2003	December 2007
4596	Preparing the Power Rehabilitation Phase II Project (Tajikistan)	500	2005	October 2006
6267	Establishment of the Central Asia Regional Economic Cooperation Members Electricity Regulators Forum (plus supplementary)	743	2006	March 2007

ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, TA = technical assistance. Source: ADB database.

III. Relevance

The People's Republic of China has pursued regional cooperation with its neighbors through bilateral loans and agreements and through active participation in other regional cooperation groups. It recognizes regional cooperation as an area where the Asian Development Bank has exhibited a clear comparative advantage.

13. **The PRC's Regional Cooperation Strategy Alignment with PRC and ADB Strategies.** The PRC's 10th and 11th Five-Year Plans highlighted its open policy, balanced regional development, and environmental sustainability as crucial ingredients of its overall development agenda. Regional cooperation has played a key role in opening the PRC's economy and will continue to play an important role as the PRC emerges as a major global trading partner and manufacturer. As early as the 1970s, the country sought to secure a regional and global environment for itself and to foster good relations with countries that could aid in its economic development. The PRC has looked beyond its borders to promote expansion of trade, including the improvement of mechanisms and policies to promote the crossborder flow of factors of production. At present, the PRC is a member of seven regional cooperation groups.¹⁰

¹⁰ Asia Cooperation Dialogue, Asia Pacific Economic Cooperation, ASEAN+3, Asia-Europe Meeting, Central Asia Regional Economic Cooperation, GMS, and the Shanghai Cooperation Organization. GMS and CAREC are the ones that ADB is involved in.

14. Regional cooperation is seen as essential to the country's efforts to balance regional disparities by promoting the trade and investment prospects of its less-developed border provinces with neighboring countries. The PRC's "Go west" policy seeks to correct disparities in economic development between the eastern coastal regions and the relatively undeveloped and inland western provinces. By enhancing connectivity, fostering enabling policies, and building institutional capacity favorable to crossborder trade and investment, regional cooperation can help boost growth and prosperity in the western provinces by improving economic competitiveness and providing economies of scale. The best examples are Xinjiang in the western region, Yunnan and Guangxi in the south-central part of the PRC, and the Inner Mongolia Autonomous Region in the north. Recently, the Government has also made efforts to develop other marginalized regions, particularly the northeastern and central provinces. A recent study¹¹ shows the positive impact of Yunnan province's cooperation with the GMS in terms of trade with countries surrounding the Mekong region, such as Indonesia, Malaysia, and Singapore. Physical infrastructure investments may bring markets closer, but the broader and lasting interventions are the legal and regulatory harmonization of tariffs and nontariff barriers, customs procedures, and labor policies.

15. In addition, the PRC cooperates with a number of Asian countries to generate regional and global public goods as well as to foster shared regional prosperity. An emerging priority of the PRC is ensuring environmental sustainability through resource conservation and environmental protection. When border barriers are brought down, environmental issues come to the forefront. A key characteristic of environmental problems is that they are viewed as externalities (public goods), which cannot be addressed only by market forces. In such situations, ADB's involvement becomes beneficial to both parties as crossborder solutions are needed for environmental concerns such as land degradation, dust and sandstorms, air pollution, and downstream impacts of dams. Social concerns like HIV/AIDS¹² infection and drug trafficking have already become part of regional cooperation initiatives. It is essential that ADB systematically supports initiatives that minimize the negative externalities of these problems and monitor the progress.

16. The GMS is a subset of the Association of Southeast Asian Nations (ASEAN) + 1,¹³ while CAREC shares the same geographical region as the Shanghai Cooperation Organization. For the PRC, both GMS and CAREC are important supplements to its other regional cooperation efforts. In some cases, ADB participation is necessary so an agenda can be moved forward. For example, ADB support was needed in an initiative for crossborder transport agreements because it had the experience as well as the financial resources to support crossborder transport agreement negotiations. Similarly, ADB assistance was also sought in the construction of the Singapore-Kunming rail link project, an ambitious project that links seven ASEAN member countries and the PRC via rail. The project was initiated by the ASEAN Mekong Basin Development

¹¹ Poncet, Sandra. 2006. Economic Integration of Yunnan with the Greater Mekong Subregion. *Asian Economic Journal*, Volume 20, Issue 3. Hong Kong (September).

¹² Human immunodeficiency virus/acquired immunodeficiency syndrome.

¹³ Association of Southeast Asian Nations countries plus the People's Republic of China.

Cooperation. ADB is the only multilateral agency to promote regional cooperation in its Charter, and these regional cooperation activities are aligned with ADB's overarching objective of poverty reduction.

17. The PRC has pursued regional cooperation with its neighbors through bilateral loans and agreements and through active participation in other regional cooperation groups. It recognizes regional cooperation as an area where ADB has exhibited a clear comparative advantage. First, regional cooperation involves sensitive coordination with different countries, and ADB's role as an honest broker puts it in a position no country can assume. Political and economic breakthroughs achieved through the GMS program have also established ADB's role as a credible facilitator and matchmaker. Second, the PRC looks to ADB for knowledge transfer because of its technical expertise and its extensive development experience in the region. Third, ADB has the capacity to finance and/or the credibility to mobilize financial support for projects that need huge investments. Fourth, the PRC can and does benefit from a variety of regional public goods produced in partnership with ADB and other countries in the region, e.g., those connected with the environment, social, public health, and finance. Fifth, partnership with ADB in financing regional cooperation projects can help mitigate perceived risks (e.g., political and economic uncertainties).

18. **Alignment of the ADB Program and the PRC's Regional Cooperation Strategy.** ADB strategy documents have recognized that regional cooperation is an essential part of the PRC's strategy for integration with the world economy. Projects that promote regional cooperation or that have regional cooperation impacts have been pursued. However, ADB's country strategy and programs (CSPs) have not been clear as to how these projects tie up with the RCI initiatives of the GMS and CAREC. One of the strategic objectives of the CSP (2004–2006) is the promotion of regional cooperation. The CSP allocated 12% of its programmed loans and 3% of its TAs to projects with regional cooperation impacts (Table 4). Data show that of the \$5.2 billion programmed loans for 2004–2006, \$0.6 billion (12%) was allotted for transport projects connecting the PRC with the GMS. Similarly, \$2.9 million (6%) worth of TA out of the total \$48.8 million TA allocation was programmed for regional cooperation activities. In theory, the CSP identified transport and energy as the priority sectors for intervention, but in practice it concentrated on transport projects. Of the three projects in the lending pipeline, one was dropped from the program. Except for the development of regional and provincial development strategies in provinces along the western border, programmed TA also focused on transport projects. There was no TA programmed for regional surveillance activities as outlined in Table 5 and identified as a priority in the CSP's strategy for regional cooperation, indicating that there is a mismatch between strategy and program.

**Table 4: Regional Cooperation Sector Focus
CSP (2004–2006): Strategy versus Program**

Strategic Objective	Key Thematic Priorities and Sectors of Intervention	Major Types of Investment Projects	Major Areas for Knowledge-Based Products
Promoting regional cooperation (accounts for 12% of total lending and 3% of TA)	Regional cooperation transport and energy	Transport and energy projects to support subregional initiatives	RETA projects to support subregional cooperation initiatives, regional economic surveillance, support for other regional cooperation initiatives.

CSP = country strategy and program, RETA = regional technical assistance, TA = technical assistance.
Source: ADB. 2003. *People's Republic of China Country Strategy and Program (2004–2006)*. Manila.

Table 5: Programmed Loans and Technical Assistance on Regional Cooperation

Project Title	Amount (\$ million)	Year Programmed	Status
A. Loans			
Guangxi Roads Development II	200	2004	Approved in 2004. Expected completion date is December 2008.
Yunnan-Dali-Lijiang Railway	200	2004	Approved in 2004. Expected completion date is June 2010.
Western Regions Road Development	200	2006	Dropped from program.
Subtotal (A)	600		
B. Technical Assistance			
Xinjiang Autonomous Region Economic Development Strategy Study	0.4	2004	Provincial Development Strategy of Selected Provinces in Northwestern Region was approved in 2005 to assist the governments of Xinjiang and governments of Xinjiang and Gansu formulate their development strategies. Included in the CSPU (2005–2007).
Road Safety and Urban Transport Improvement	1.0	2004	
Provincial Poverty Reduction and Development Strategy Study (Western Region)	0.5	2004	Provincial Development Strategy IV amounting to \$0.5 million was included in the 2006 pipeline of the CSPU (2005–2007).
Western Region Roads Development	0.5	2005	Western Roads Development was approved for \$0.8 million in 2005.
Inner Mongolia Autonomous Region Development Strategy Study	0.5	2005	Included in the TA pipeline of the CSPU (2005–2007).
Subtotal (B)	2.9		

CSPU = country strategy and program update, TA = technical assistance.

Source: ADB. 2003. *People's Republic of China Country Strategy and Program 2004–2006*. Manila.

IV. Effectiveness

19. It is too early to assess the effectiveness of ADB's regional cooperation activities involving the PRC. Some projects have been undertaken as part of a whole line of interrelated projects (e.g., the Yunnan Expressway is only a portion of the North-South Corridor). An assessment based on project completion reports or TA completion report ratings would therefore have limited value. Similarly, RETAs for the facilitation of subregional cooperation are undertaken in phases. Therefore, an achievement under one RETA (e.g., a meeting of country leaders or the signing of an agreement) is based on earlier efforts that underlie regional cooperation, such as confidence building and getting the political commitment of countries to participate in regional cooperation activities. Nonetheless, a preliminary assessment of selected regional cooperation projects completed between 2000 and 2005 shows that most regional cooperation activities are generally satisfactory (Table 6).

Table 6: Project Completion Report or TA Completion Report Ratings of Selected Loans and TA Projects on Regional Cooperation

Loan/TA No.	Project Name	Amount (\$ million)	Year of Approval	Completion	PCR/TCR Rating
1325	Yunnan Expressway	150.00	1994	2000	HS
1427	Fangcheng Port	52.00	1996	2001	HS
1691	Southern Yunnan Road Development	250.00	1999	2005	S
5770	Study of Financial Markets in Selected Countries	0.97	1998	2005	S
5818	Regional Cooperation in Central Asia	1.35	1998	2003	S
5824	Regional Study of Nutrition Trends, Policies, and Strategies in Asia and the Pacific (plus supplementary)	0.80	1998/2000	2001	HS
5878	Regional Cooperation for Sustainable Mountain Development in Central Asia	0.38	1999	2003	S
5886	Promoting Subregional Cooperation among Cambodia, PRC, Lao PDR, Myanmar, Thailand, and Viet Nam	0.80	1999	2003	S
5961	Promoting Subregional Cooperation among Cambodia, PRC, Lao PDR, Myanmar, Thailand and Viet Nam (Phase IV-Year 2)	0.80	2000	2003	S
5969	Strategic Study on Development Options for Economic Cooperation between PRC and Mongolia in Eastern Parts of	0.25	2000	2003	S

Inner Mongolia Autonomous Region					
6020	Facilitating Cross-Border Trade and Investment for SME Development in the GMS	0.60	2001	2005	S
6083	ICT and HIV/AIDS Preventive Education in the Cross-Border Areas of the GMS	1.00	2002	2004	S
6084	Promoting Subregional Cooperation among Cambodia, PRC, Lao PDR, Myanmar, Thailand, and Viet Nam (Phase V)	1.00	2002	2005	S

AIDS = acquired immunodeficiency syndrome, PRC = People's Republic of China, GMS = Greater Mekong Subregion, HIV = human immunodeficiency virus, HS = highly successful, ICT = information and communication technology, Lao PDR = Lao People's Democratic Republic, PCR = project completion report, S = successful, SME = small- and medium-sized enterprise, TA = technical assistance, TCR = technical assistance completion report. Source: ADB database.

20. At the Fifth Ministerial Conference held in Urumqi, Xinjiang province in October 2006, ministers from eight CAREC member countries adopted a comprehensive action plan to strengthen momentum and increase the benefits of regional cooperation. The comprehensive action plan provides for broadening the program into new areas such as human development, agriculture, environment, and tourism, while continuing to focus on specific regional initiatives in support of CAREC's priority sectors, transport, trade facilitation, trade policy, and energy.

V. Conclusions and Recommendations

21. The PRC and ADB have a lot to gain from and contribute to regional cooperation (Box 1). It secures the PRC's political and economic interests by fostering goodwill with its neighbors and helps the country achieve its development objectives. Regional cooperation promotes a sense of security and stability, brings down physical and nonphysical barriers, and results in an efficient movement of goods, people, capital, and information. Boosting trade and investment ties with its Asian neighbors expands the market for goods and services produced in the PRC and secures the raw materials that it may require in the future. Regional cooperation helps address challenges that require collective action (e.g., in relation to the environment and health). While opening up the Chinese economy resulted in unprecedented economic growth, it also made the country vulnerable to external shocks. By cooperating on a regional basis, the PRC and its neighbors can safeguard their economies from disruptions that could affect global trade by creating stable and efficient markets.

Regional cooperation is a long process and success cannot be achieved overnight. The Greater Mekong Subregion program took 10 years of ADB negotiation and confidence building before countries could sit together and talk real business. This is where ADB's role as an honest broker is critical.

22. ADB has supported the PRC's efforts to strengthen regional cooperation through the GMS and CAREC subregional programs and more recently through the PRC-

Box 1: Partnership between ADB and the PRC in Promoting Regional Cooperation and Integration in Asia

Physical Connectivity and Infrastructure Development

- Support infrastructure development programs under the Greater Mekong Subregion and Central Asia Regional Economic Cooperation because they can generate tangible results over the short to medium term.
- Support (through guarantees or funding mechanisms) for physical connectivity will stimulate enormous investment demand in South and South East Asia.
- Roads and railway projects connecting western and southwestern PRC with south and central Asia can revive the traditional silk routes and improve trade and social welfare.
- Gas and oil pipeline projects, linking gas supply from Central Asia and Myanmar to the PRC and South Asia consumers.
- Assist in developing regional power trading.

Trade and Investment

- Support for "open regionalism"^a should also consider ensuring the compatibility of free trade agreements (FTA) with WTO principles and support for the formation of regional-wide FTA projects.^b This can be achieved through regional trade policy dialogue and studies/training for DMCs on FTA negotiations to help them design and implement FTA projects that are compatible with WTO rules.

Money and Finance

- ADB support to strengthen regional^c and national financial safeguards and surveillance.

Regional Public Goods

- ADB support in intensifying cooperation to:
 - address the spread of HIV/AIDs and other infectious diseases,
 - develop regional programs on the environment, and
 - learn from the PRC's development experience.
- Assist the PRC to learn from international good practices from other parts of Asia and beyond – e.g., information technology, microfinance, financial governance, environmental protection, managing and avoiding public health outbreaks, and scientific innovations.

ADB = Asian Development Bank, AIDS = acquired immunodeficiency syndrome, PRC = People's Republic of China, DMC = developing member country, HIV = human immunodeficiency virus, WTO = World Trade Organization.

^a Not discriminatory against outside countries (definition from internet = international economics glossary).

^b Consolidate FTA projects, reduce nontariff measures, and improve trade facilitation.

^c By supporting the ASEAN+3 Economic Review Policy and Dialogue Process, Chiang Mai Initiative, and Asian Bond Market Initiative, and examining issues related to greater monetary and financial cooperation and integration (studies on collective exchange rates, currency indexes, institutional and regulatory impediments, closer coordination of monetary policies, etc).

^d Through regulatory and supervisory reforms, etc.

Source: PRC Resident Mission. 2006. *Regional Cooperation and the PRC: Proposed Strategic Direction. Background Paper for the Preparation of the Country Partnership Strategy*. Beijing.

Mongolia subregional program. ADB has also financed projects within the PRC with regional cooperation impacts. ADB strategy documents have indicated support for possible PRC economic cooperation with SASEC countries. The PRC's role as an emerging global economic leader puts the country in a position to assist neighboring countries while pursuing its own interests. The PRC's development agenda also calls for more regional cooperation initiatives, as it seeks to balance the gains of economic growth across its regions and ensure environmental sustainability.

23. There is a need for stronger links between country and regional programs. Regional cooperation should be mainstreamed in future country partnership strategies. In the past, ADB's regional cooperation activities were fragmented and uncoordinated. ADB has taken steps to address this issue, beginning with the adoption of the RCIS in

2006. For ADB regional cooperation activities involving the PRC, stronger internal coordination between the different departments involved in regional cooperation is also required.

24. The emerging ADB strategy for regional cooperation and integration involving the PRC has concentrated on four main areas:¹⁴ (i) strengthening connectivity and market integration; (ii) developing regional public goods; (iii) monetary, financial, and trade reform; and (iv) new frontiers for the PRC involvement in RCI. So far, ADB's regional cooperation assistance has mostly focused on areas (i) and (ii). ADB has established some competency in these two areas through its extensive experience in development work in the region. However, the Asian financial crisis has underscored the importance of integrating and safeguarding regional financial markets. ADB initiatives in this area include capacity-building programs for economic surveillance, financial regulation, and regional and international trade negotiations. Whether ADB has a comparative advantage in initiating monetary, financial, and trade reforms is an area that needs further study.

25. Other areas for possible ADB-PRC partnership includes channeling a portion of the PRC's excess reserves through ADB to fund much needed infrastructure projects in the region. An RCI facility was approved by the ADB Board in February 2007 to fill the financing gap in RCI activities. The PRC may consider contributing to this to supplement the PRC fund for regional cooperation and poverty reduction that was established in 2005. The PRC fund allocates \$4 million annually for 5 years to finance TA operations and other activities in the following areas: (i) research and analytical work; (ii) piloting of innovative work; (iii) capacity building and institutional development in DMCs; and (iv) dissemination, networking, and cross-learning (e.g., workshops, conferences, publications, and website development). As of 31 December 2006, the PRC fund had financed 15 projects amounting to \$5.87 million. The fund has given priority to projects under the GMS (which received 47% of the total value of the fund) and CAREC (which received 26%) subregional programs. In terms of the RCIS pillars, 40% of the total number of projects addressed pillar 1 (regional and subregional economic cooperation programs); 27% addressed pillar 2 (trade and investment cooperation and integration); 20% addressed pillar 4 (cooperation in regional public goods); and 13% addressed pillar 3 (monetary and financial cooperation and integration). However, in terms of value, projects addressing pillar 2 received 35% of the total funds during the period.

26. The Government has also expressed an interest in expanding trade, transport, and investment ties with India. In the last 5 years, the average growth of Sino-Indian trade has been 44% a year, and the PRC is poised to overtake the United States as India's largest trading partner in the future. Increased Sino-Indian trade will generate positive externalities in other South Asian countries. Nepal has proposed to India that Nepal be used for Sino-Indian trade. Alternative routes such as the Nathu La Pass connecting India and Tibet lack infrastructure, while Stilwel Road, which is the shortest road linking southwest China with northeast India, still needs to be reconstructed. The existing Kathmandu-Kodari Road and the construction of the Kathmandu-Rasuwa Road

¹⁴ Liang, J. et. al. 2006. *Regional Cooperation and the PRC: Proposed Strategic Direction (A Background Paper for the Preparation of the Country Partnership Strategy)*. Beijing.

remain the most attractive options for Sino-Indian trade at present and they will help to develop Nepal as a transit point.¹⁵ For ADB to play a facilitating role in this area, new approaches and new institutional arrangements will be required.

27. A lot can be learned from the PRC's development experience. Collaboration with the PRC to develop knowledge products about the country's development strategy could be a model for success for other DMCs.

28. Regional cooperation is a long process and success cannot be achieved overnight. The GMS program took 10 years of ADB negotiation and confidence building before countries could sit together and talk real business. This is where ADB's role as an honest broker is critical. As the gains from cooperation are recognized, ADB can stand back and play the role of facilitator, financier, partner, and source of technical expertise. In the end, the success of regional cooperation will rest on country ownership of regional cooperation activities.

¹⁵ Raj, Prakash. *Nepal as a Transit Point*. Retrieved 1 February 2007 from www.ifa.org.np/pdf/new3.pdf.