Future of Regional Cooperation in Asia and the Pacific

Bambang Susantono  
Vice-President for Knowledge Management and Sustainable Development

Cyn-Young Park  
Director of Regional Cooperation and Integration

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RCI propelled rapid growth and economic transformation in the Asia-Pacific region.

**Asian Share of Global GDP**
- **1980**: 16%
- **2018**: 33%

**Poverty in Asia (% of population)**
- **1980**: 68%
- **2018**: 7%

**Asia’s trade as share of GDP**
- **1980**: 34%
- **2018**: 53%

Sources: Asia’s Journey to Prosperity (ADB, 2020) and World Bank WDI (2020)
Key messages: reshaping RCI for a better future

♦ **Regional public goods**: designing and implementing effective regional responses to common challenges

♦ **Trade and investment that benefits all**: more inclusive participation through resilient value chains, targeted support and digitalization

♦ **Financial cooperation**: improving resource allocation and safeguarding financial stability

♦ **Building resilience**: strengthening cooperation on emerging areas; including health, carbon markets and oceans
Outline

I. Regional public goods: a pillar for RCI
II. Trade and investment for inclusive growth
III. Financial cooperation
IV. Building resilience
I. Regional public goods: a pillar for RCI

- Regional public goods are essential to deal with transnational development challenges

- Awareness of shared benefits can promote collective actions

- Promoting Regional Public Goods:
  - Pursue mutual benefits: RPGs such as cross-border infrastructure connectivity can be better supplied if they are in line with national development strategies.
  - Better identify and measure spillover benefits: clear identification and measurement of spillover benefits allows better attribution of the supply cost of RPGs to all beneficiaries and prevent “free-riding”.
Regional cooperation for public goods can complement national and global efforts

<table>
<thead>
<tr>
<th>Function</th>
<th>Examples of RPGs</th>
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<tbody>
<tr>
<td>Economic Cooperation and Integration</td>
<td>Bilateral and regional trade agreements: FTAs and RTAs</td>
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<td>Regional liquidity support : CMIM</td>
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<td>Human and Social Development</td>
<td>Elimination of communicable diseases</td>
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<td>Natural Resources and Environment</td>
<td>Reduction in greenhouse gas emissions</td>
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<td>River basin management</td>
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<td>Connectivity</td>
<td>Cross-border transport infrastructure</td>
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<td>Cross-border energy trading</td>
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<tr>
<td>Peace and Security</td>
<td>Nonproliferation of nuclear weapons</td>
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<td>Governance</td>
<td>Harmonization of intellectual property rules</td>
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Source: ADB based on Barrett (2018a, 2018b).
Measurement is a first key step for RPG provision

- RPGs can be measured either through inputs to promote RPGs or their benefits (outputs)

CGE = computable general equilibrium, ODA = Official Development Assistance.
Aggregation technology helps design mechanisms for RPG provision

Aggregation technology: “How individual country’s contributions add up to ensure sufficient level of RPGs.”

**Summation:**
The sum of each nation’s contribution equals overall supply

**Policy support:**
Focus on preventing free-riding

**Example:**
Reducing greenhouse gas emissions

**Weakest link**
The smallest contribution by the most vulnerable determines the available level of RPG

**Policy support:**
Assist the most vulnerable (funding and capacity building)

**Example:**
Control of communicable diseases

**Best shot**
The largest contribution by the leading country determines the available level of RPG

**Policy support:**
Dedicated to a leading country with commitment and ability

**Example:**
The Chiang Mai Initiative Multilateralization (CMIM)
Support regional public goods to achieve the sustainable development goals (SDGs)
II. Leveraging trade and investment for inclusive growth

**A more inclusive approach to trade**
Reducing trade costs through domestic and cross-border connectivity
Aid for Trade and Trade Facilitation Agreement where resources and capacities are reduced

**MNEs participation in Global Value Chains**
Engagement in GVCs is related to the presence of trade oriented foreign plants.

**Foreign Direct Investment**
FDI inflows are influenced by the quality of local governance. A favorable business environment may help.
Participation in GVCs can bring spillovers from multinationals’ activity

Countries’ engagement in GVCs can bring more FDI

Affiliates in labor-abundant countries are more likely to trade

Stronger input–output links among domestic firms attracts foreign firms

Affiliates trade more when having strong input–output links with their parent

Trade participation of foreign affiliates and GVC linkages

Source: Future of Regional Cooperation in Asia and the Pacific, Chapter 6, Factory Asia: The Determinants of Multinational Activity in the context of GVCs.
Institutional and policy factors influencing FDI inflows

- The quality of local governance is important for FDI, irrespective of its mode (greenfield versus M&A) and the income level of source or host countries.
- Regional trade agreement increases greenfield investment from high-income countries to developing countries.

**Institutional drivers of Foreign Direct investment**

- Greenfield Investment
- Cross-border M&A
- Governance Index
- Ease of Doing Business
- Regional Trade Agreements
- Bilateral Investment Treaties

**Global Inward Foreign Direct Investment, by Destination ($ trillion)**

Source: Future of Regional Cooperation in Asia and the Pacific, Chapter 7, Policy Factors Influencing FDI Inflows: A Comprehensive Analysis

ROW = rest of the world.
Strengthen regional cooperation and integration: deepening trade, investment and value chains

<table>
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<tr>
<th>Enhance resilience against evolution of globalization</th>
<th>Regional cooperation to cope with common challenges</th>
<th>Intensify national reform efforts to foster further openness</th>
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<tbody>
<tr>
<td>• Diversify trade, supply chains, and investment</td>
<td>• Enhance the resilience of connectivity infrastructure for airports/ports/transport corridors</td>
<td>• Support more openness in trade, especially in services; reduce non-tariff measures</td>
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<td>• Move towards digital transactions through automation and paperless trade</td>
<td>• Manage trade and supply chain disruptions by harmonizing regional health and safety protocols</td>
<td>• Promote effective trade facilitation measures / expand opportunities for FDI</td>
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<td>• Support especially hard-hit sectors like tourism and logistics</td>
<td>• Invest in improving regional health infrastructure and human, animal, and plant disease surveillance capacities</td>
<td>• Integrate micro, small and medium-sized enterprises in regional and global value chains</td>
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III. Financial cooperation: COVID-19 exposed existing and new risks and vulnerabilities

- **Growing financial interconnectedness** highlights risks of spillover and contagion
- Asia’s **bank-dominated** financial systems underpin the banking channel as transmission channel.
- High and rising levels of **private sector debt** poses a risk to banking stability
- Deteriorating **asset quality** in the banking sector and its macro-financial implications
- Asian banks’ international **exposure on the liability side** can be a source of contagion
- Spillovers of **NPL shocks** can transmit through interconnected banking activities
Asian financial systems need to broaden and deepen domestic capital markets

Corporate Financing as % of GDP—Emerging Asia

Notes: Emerging Asia includes the People's Republic of China; India; Indonesia; the Republic of Korea; Malaysia; the Philippines; Thailand; and Viet Nam. 1999 corporate bond data for the Republic of Korea, Malaysia, the Philippines, Thailand, and Viet Nam as of 2000; 1999 stock market capitalization data for Viet Nam as of 2000. 2009 corporate data as of 2010 for India; 2009 stock market capitalization data for Indonesia as of 2010.

Source: AsianBondsOnline; CEIC; Haver Analytics; and national sources.
Policy Considerations for Financial Stability

• Prioritize market confidence and adequate liquidity in crisis times

• Strengthen cooperation to enhance financial resilience
  o Develop and nurture vibrant local currency bond markets
  o High and rising NPLs require preemptive measures and resolution mechanisms
  o Unwind and manage rising debt levels sustainably

• Review and strengthen financial safety nets against potential contagion and spillover effects
IV. Building resilience: PPE chains and health security

**Lessons from past crises**
- Monitor PPE use, distribution and visibility
- Improve just-in-time supply system
- Support domestic manufacturing surge capacity
- Share information and communicating regularly.

**Re-think supply chains**
- Set-up logistics, distribution and supply systems for PPE, medications and vaccines.
- Strengthen supply chain and trade finance programs for MSMEs
- Target aid to support vulnerable groups
- Digitize supply networks

**Long term vision**
- Strengthen regulatory processes and standards for COVID-19 products
- Reinforce national health systems
- Consider a regional trust fund for fighting pandemics in Asia and the Pacific
Synergies between carbon markets and regional cooperation

Regional CO₂ Emissions from Fossil Fuel Combustion, 1990-2018

- The average annual growth rate of global greenhouse gas emissions slowed down to 2.5% in 2010-2018, but regional share is expected to grow continuously.

Synergies and opportunities between regional integration and carbon markets

1. Reducing the costs of climate action and achieving NDC targets
2. Carbon Markets as a tool to foster regional trade
3. Efficiency gains from reduced fragmentation in markets, stability and reduced risks
4. Deploying advanced low-carbon technologies & carbon financing

GtCO₂ = gigatons of carbon dioxide.
Source: Global Carbon Atlas. 2019. CO₂ Emissions

Source: Future of Regional Cooperation in Asia and the Pacific, Chapter 13, Carbon Market Cooperation to Build a Low-Carbon Future
RCI for Ocean Health and the Blue Economy

Oceans governance
• Promote implementation of multilateral conventions
• Improve regional capacity
• Strengthen coordination and enhance transparency

Blue economy
• Introduce new incentives
• Strengthen standards of shipping industry

Knowledge sharing
• Regional data-sharing systems for SDG 14
• Awareness on oceans health

Source: Future of Regional Cooperation in Asia and the Pacific, Chapter 14, Regional Cooperation and Integration for Ocean Health and a Sustainable Blue Economy.
Thank you!