Regional Cooperation and Integration in Asia and the Pacific: Progress, Emerging Challenges, and New Opportunities

**Progress.** Regional cooperation and integration (RCI) has become a valuable means of attaining national development goals. Cross-border infrastructure has been the backbone of the process. Trade liberalization and foreign direct investment (FDI) have played an important role in building global and regional value chains in parts of the region. Liberalizing financial flows has helped drive these changes, while regional public goods (RPGs) have begun to tackle the impact of environmental and regional health issues, among others. To date, economic cooperation mechanisms have been project heavy and institution light.

**Challenges and opportunities.** Despite much progress, developing member countries (DMCs) face challenges in financing and the capacity to implement or manage cross-border infrastructure projects. Taking advantage of better connected markets remains key in the face of decelerating regional trade growth, mixed progress in reducing nontariff measures, rising income inequality that fuels protectionism, and continued bank dominance of financial markets. There is an urgent need to expand RPGs to address the region’s growing vulnerability to climate change, natural hazards, environmental risks, and health security. Challenges confronting collective action on RCI have grown in terms of new multilateral cooperation mechanisms. As greater RCI momentum is created, there is a need to avoid the risk of overlaps, and inconsistencies, and to strengthen the Asian voice in global policymaking, regulation, and response to challenges. Opportunities have risen in terms of emergence of new agreements and initiatives, new market drivers behind regional flows of trade, FDI, technology and labor, and the rise of cities in Asia as potential actors on connectivity, commerce, and RPGs.
ADB’s Commitment to Harnessing Benefits and Mitigating Risks through RCI

Charter mandate and evolution of RCI platforms. Given its Charter mandate, the Asian Development Bank (ADB) has committed itself, in the role of “honest broker,” to promote regional economic cooperation and integration among its DMCs since the early 1990s. Initial RCI operations were focused on Southeast Asia, to sustain peaceful and mutually beneficial economic development among the DMCs in the subregion, with the pioneering platform being the Greater Mekong Subregion Program established in 1992. Overtime, the pragmatic, multitrack, multispeed, and institution-light nature of the Greater Mekong Subregion, with ADB as its secretariat, proved highly successful in developing economic cooperation sector plans and projects between DMCs. ADB subsequently replicated this model in Central Asia through the Central Asia Regional Economic Cooperation Program, and in South Asia with the South Asia Subregional Economic Cooperation Program. ADB’s engagement with other regional cooperation platforms, for example, the Pacific Islands Forum, has been more advisory but has followed the same practical approach to planning projects through these groupings.

Policies, strategies, and evaluation of RCI. ADB’s support for RCI has been underpinned by its policy and strategies. The first regional cooperation policy—Bank Support for Regional Cooperation—was adopted in 1994; and in 2006, ADB adopted a four-pillar RCI Strategy.1 In 2008, Strategy 2020 identified RCI as a strategic agenda and core area of operations. It set a 30% overall target for RCI-related ADB operations by 2020. The midterm review (MTR) of Strategy 2020 reconfirmed RCI in ADB’s strategic agenda, reiterated the 30% operational target, and said the RCI Strategy should also be aimed at extending connectivity intersubregionally, promoting higher productivity and competitiveness, and mitigating vulnerabilities such as climate change and disaster risk. In view of the evolving nature of RCI, an evaluation study also noted that future ADB operations need to galvanize opportunities for greater RCI among DMCs into new business. ADB would need to (i) increase RCI support under all four pillars of the ADB RCI Strategy, (ii) strengthen internal coordination, (iii) develop nonsovereign and public–private partnership financing, and (iv) improve RCI project classification.

1 ADB’s RCI Strategy has four pillars: (i) cross-border infrastructure (both hard and soft), (ii) trade and investment, (iii) monetary and financial cooperation, and (iv) regional public goods. ADB. 2006. Regional Cooperation and Integration Strategy. Manila.
Operational Plan for Regional Cooperation and Integration (RCI-OP), 2016–2020

This Operational Plan for Regional Cooperation and Integration, 2016–2020: Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific was formulated in response to MTR and evaluation recommendations. This RCI-OP is designed to govern RCI operations over the medium term in five main ways.

• First, it will expand a more innovative RCI portfolio (sovereign-funded) as part of the 30% RCI lending target of overall ADB operations under Strategy 2020 by (i) linking the four RCI pillars to mobilize sectors into more pillars; (ii) diversifying RCI lending using RCI set-asides as an incentive, especially for nascent sectors and subsectors; (iii) supporting connectivity and competitiveness policy reforms; and (iv) promoting multicountry and multisector operations for RPGs.

• Second, it will grow the RCI portfolio by focusing support for nonsovereign RCI operations using direct private sector financing as well as public–private partnership modalities.

• Third, it will establish an RCI project classification system based on robust cross-border analytics related to multicountry cooperation that promotes collaborative and mutually beneficial RCI projects.

• Fourth, it will promote a “One ADB” approach to support signature RCI intersubregional projects and efficient use of resources and skills through (i) knowledge sharing across ADB departments; (ii) pilot country programs for intersubregional RCI; and (iii) intersubregional knowledge product development, underpinned by reporting and results monitoring.

• Finally, it will support RCI staff skill development and RCI performance recognition.
The RCI-OP in the Context of Future Development in Asia and the Pacific

Strengthening Connectivity between Economies

- **Improve cross-border physical connectivity.** In partnership with other infrastructure financiers, ADB will scale up and diversify investment in high-quality, cross-border physical connectivity.

- **Enable effective use of cross-border physical connectivity.** ADB will address “soft-side” constraints to physical infrastructure connectivity, including policy, regulatory, and institutional reforms, by continuing to support transport facilitation through road and rail transport interoperability, as well as cross-border energy and information and communications technology interventions.

- **Help promote regional financing for cross-border infrastructure.** ADB will support capital and savings intermediation (particularly from higher-income DMCs) for infrastructure—e.g., sovereign regional infrastructure funds that issue bonds to attract foreign exchange reserves, or other regional infrastructure bond finance that promotes institutional efficiency.
Raising Competitiveness in Connected Markets

- **Promote cross-border economic corridors.** ADB will continue to support investment planning in multiple sectors along economic corridors that take advantage of better access to larger cross-border markets.

- **Support FDI promotion and facilitation corridors.** ADB will support FDI to better match the region’s capital allocation with regional development. Consequently, ADB will support intersubregional FDI facilitation corridors.

- **Promote value chain participation, especially for small and medium-sized enterprises (SMEs).** ADB will support policy-based programs and projects for inclusive business development and SME competitiveness in cross-border markets to help SMEs participate in trade and value chains.

- **Support regional capital market development.** ADB will continue to support regional capital market development—in the process strengthening regional monetary and financial cooperation for a more coherent Asian position on global financial regulatory reform.

- **Promote cross-border skills and knowledge transfer.** ADB will promote cross-border mobility of skilled labor through policy programs in DMCs.
Investing in Regional Public Goods and Collective Action

- **Promote RPGs.** ADB will expand and diversify support to (i) mitigate financial and disaster risks, (ii) improve cross-border health security, (iii) assist DMCs in managing shared natural resources, and (iv) assist countries in implementing COP21 commitments and similar agreements with regional impact.

- **Support cross-border public health investments.** ADB could support investment in (i) health infrastructure; (ii) health software—including hospital accreditation, mutual recognition arrangements for health professionals, regulatory policies for medical goods, quarantine arrangements, and e-health initiatives for regional health solutions; (iii) institutional capacity for surveillance and pandemic preparedness; and (iv) road safety.

- **Mitigate risks and impacts of climate change, natural hazards, and transboundary pollution, and protect biodiversity.** ADB will continue to mainstream disaster resilience in all RCI operations in infrastructure, urban economic zones and industrial parks, and agriculture logistics hubs to preserve functioning supply chains.

- **Strengthen collective action.** ADB can foster a broad range of RCI dialogue for all DMCs and development partners, helping harmonize aid efforts. ADB can support collective action that (i) negotiates agreements; (ii) avoids nonparticipation or “free riding” by individual DMCs—thus strengthening inclusion in collective action arrangements; and (iii) inculcates proactive middle-income country leadership and cooperation with less-developed DMCs on RCI.

Under each operational direction, RCI portfolio growth will accelerate an evolving focus on (i) intersubregional signature projects, (ii) nonsovereign RCI projects, (iii) standout multicountry RCI projects, (iv) sequenced single-country RCI projects, and (v) relevant RCI knowledge products.

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2 The Conference of Parties (COP) to the United Nations Framework Convention on Climate Change meets annually to take decisions that further the implementation of the Convention. The 21st session of the COP was held in November to December 2015 in Paris, France.
Revising RCI Project Classification

To develop a distinctive RCI portfolio, the RCI project classification system will be revised to support the three RCI-OP directions. Each RCI project (single-country or multicountry) must show direct and/or indirect cross-border economic, social, or environmental net benefits. Single-country projects must also support an existing regional RCI agreement or framework.

Implementing a ‘One ADB’ Approach to RCI

Implementing the RCI-OP will require more efficient RCI knowledge sharing internally, coursed through the RCI Thematic Group Secretariat. A corporate report on ADB’s RCI operations will be the basis for an annual High Level RCI Dialogue Forum. Programming will support pilot intersubregional multicountry operations. The criteria and processes for Ordinary Capital Resources and Asian Development Fund set-asides will be made more efficient, and technical assistance (TA) funds will increasingly support project preparatory technical assistance and a single corporate priority TA for linking different collective action platforms and mechanisms.

Upgrading RCI Thematic Skills

The RCI Thematic Group Secretariat will assist the Budget, Personnel, and Management Systems Department with RCI thematic skills analysis along with staff recruitment and deployment. Optimal use of existing staff will be prioritized, especially in divisions/units directly involved in RCI operations.
Operational Plan for Regional Cooperation and Integration, 2016–2020
Promoting Connectivity, Competitiveness, Regional Public Goods, and Collective Action for Asia and the Pacific

Regional cooperation and integration (RCI) has become a valuable means for attaining national development goals. This publication adjusts the implementation of ADB’s RCI strategy to meet recommendations of the midterm review of Strategy 2020 and the institution’s strategic directions. It provides guidance for RCI operations in assisting ADB’s developing members harness increased benefits through improved cooperation and integration. The RCI Operational Plan focuses on strengthening connectivity between economies, enhancing competitiveness across connected markets, and improving regional public goods and collective action. This publication also aims to strengthen ADB’s institutional capacity to lead in advancing RCI based on a larger, more innovative portfolio covering the four RCI Strategy pillars and high-quality operations.

About the Asian Development Bank
ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to half of the world’s extreme poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.