



**STRATEGY 2030**  
**OPERATIONAL PLAN FOR PRIORITY 7**  
**FOSTERING REGIONAL**  
**COOPERATION AND INTEGRATION,**  
**2019–2024**

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SEPTEMBER 2019

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SEPTEMBER 2019



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Publication Stock No. SPR200023  
DOI: <http://dx.doi.org/10.22617/SPR200023>

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Cover design by Anthony Victoria.



Operational Priority 7

# Regional Cooperation and Integration

- Recognizing the unique development conditions, circumstances, and priorities of the five Strategy 2030 country groupings
- Coordinating with sector and thematic groups through “deep dive” workshops and joint knowledge products
- Building regional cooperation and integration knowledge and expertise

## Strategic Operational Priorities

**1** Greater and higher quality connectivity between economies

**2** Global and regional trade and investment opportunities expanded

**3** Regional public goods increased and diversified

## Operational Approaches



Multimodal transport infrastructure connectivity



Renewable energy and sustainable transport



‘Soft’ infrastructure for implementation of trade and investment agreements



Economic corridors



Regional financial cooperation



Regional climate change mitigation and adaptation



Environment and sustainable tourism



Regional education and health services

## Sub-pillars

- Transport and ICT connectivity assets established or improved
- Measures to improve the efficiency and/or productivity of cross-border connectivity supported in implementation
- Clean energy capacity for power trade installed or improved
- Regional or subregional mechanisms created or operationalized to enhance coordination and cooperation among developing member countries (DMCs) in energy, transport, or ICT connectivity
- Measures to improve execution of provisions in existing or new trade or investment agreements supported in implementation
- Measures to develop existing and/or new cross-border economic corridors supported in implementation
- Measures to improve regional financial cooperation supported in implementation
- Regional or subregional mechanisms created or operationalized to enhance coordination and cooperation among DMCs in trade, finance, or multisector economic corridors
- Measures to improve shared capacity of DMCs to mitigate or adapt to climate change supported in implementation
- Measures to expand cross-border environmental protection and sustainable management of shared natural resources supported in implementation
- Measures to improve regional public health and education services supported in implementation
- Regional or subregional mechanisms created or operationalized to enhance coordination and cooperation among DMCs on regional public goods

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# ABBREVIATIONS

ADB	–	Asian Development Bank
AEIR	–	Asian Economic Integration Report
ARCII	–	Asia-Pacific Regional Cooperation and Integration Index
ASEAN	–	Association for Southeast Asian Nations
CAREC	–	Central Asia Regional Economic Cooperation
COP 21	–	21st Conference of the Parties to the United Nations Framework Convention on Climate Change
DMC	–	developing member country
FDI	–	foreign direct investment
GMS	–	Greater Mekong Subregion
ICT	–	information and communication technology
PRC	–	People’s Republic of China
RCI	–	regional cooperation and integration
RPG	–	regional public good
SASEC	–	South Asia Subregional Economic Cooperation
SDTC-RCI	–	Regional Cooperation and Integration Thematic Group
SME	–	small and medium-sized enterprise
TVET	–	technical and vocational education and training

# STRATEGIC OPERATIONAL PRIORITIES

## A. Overview

- 1. Regional cooperation and integration.** Regional cooperation and integration (RCI) is a process in which a group of countries actively cooperate to achieve common goals for mutual benefit.<sup>1</sup> This facilitates market-driven regional integration and the production of regional public goods (RPGs). RCI can encompass different elements, such as promoting and agreeing on trade and investment; developing cross-border infrastructure; deepening regional financial markets; and spurring the cooperation of financial intermediaries, climate change mitigation and adaptation policies, and the harmonization and alignment of sector- and theme-based policies and regulations. RCI has become a valued development strategy; the United Nations recognizes it as an important tool to implement the 2030 Agenda for Sustainable Development.<sup>2</sup>
- 2. Regional cooperation and integration in ADB operations.** The Asian Development Bank (ADB) has gained a comparative advantage in RCI, using an approach tailored to progress RCI appropriately in different parts of the region. This approach has pragmatically focused on projects that built transport and energy connectivity between countries as well as improved trade and investment facilitation, supported high-quality technical studies and advisory work, and shared benefits and risk mitigation among participating developing member countries (DMCs). ADB has operationalized RCI mainly through four subregional programs: Central Asia Regional Economic Cooperation (CAREC), Greater Mekong Subregion (GMS), Pacific Islands Forum, and South Asia Subregional Economic Cooperation (SASEC).<sup>3</sup> These DMC-led RCI programs provide essential platforms whereby ADB, in close cooperation with DMCs and other development partners, plans and implements a substantial portion of its overall support for RCI. The programs have three interrelated components: relationship, knowledge, and investment.
- 3. Regional Cooperation and Integration Operational Plan, 2016–2020.** In 2016, ADB introduced the operational plan to address the RCI-related findings and recommendations of the Midterm Review of Strategy 2020.<sup>4</sup> It detailed ADB's RCI strategic focus as expanding regional connectivity and extending value chains by supporting cross-border infrastructure investments and connecting economic hubs to increase trade and commercial opportunities.

<sup>1</sup> For the purposes of this paper, “region” and “regional” encompass Asia and the Pacific.

<sup>2</sup> United Nations. 2016. Regionalism and the 2030 Agenda. Side event organized during the United Nations General Assembly. New York. 23 September.

<sup>3</sup> ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020*. Manila. Box 1, page 3.

<sup>4</sup> ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020*. Manila; and ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.



4. **Strategy 2030 and regional cooperation and integration.** Under ADB's Strategy 2030, RCI is a strategic operational priority.<sup>5</sup> RCI operations are expected to enhance connectivity and competitiveness, promote RPGs, strengthen cooperation in the finance sector, and strengthen subregional initiatives. This will be achieved through the following strategic operational priorities:

- (i) greater and higher-quality connectivity between economies,
- (ii) expanded global and regional trade and investment opportunities, and
- (iii) increased and diversified RPGs.

## B. ADB Experience and Initiatives

### 1. Regional Cooperation and Integration Progress in the Region

5. **Steady trend of regional cooperation and integration.** The Asia-Pacific Regional Cooperation and Integration Index (ARCII), developed by ADB (Box 1), shows increasing economic integration in the region. Regional integration is a multidimensional process. ARCII comprises six dimensional indices to capture the contributions of six aspects of regional integration: (i) trade and investment, (ii) money and finance, (iii) regional value chains, (iv) infrastructure and connectivity, (v) movement of people, and (vi) institutional and social integration. Studies confirm that RCI has had a significant and positive effect on the region's economic growth and contributed to poverty reduction.<sup>6</sup> The dimensions of the regional value chain, movement of people, and institutional and social integration have played an important role in shaping economic growth. RCI also appears to have provided significant opportunity to reduce poverty. The dimensions of trade and investment, money and finance, and institutional and social integration are drivers of poverty reduction. Their impact in curbing poverty is even more pronounced for lower-income countries. The degree of RCI across all dimensions appears to exert more influence on poverty alleviation compared with efforts aimed at individual dimensions promoting RCI performance by subregion.

6. The region continues to implement and develop trade and investment anchored in agreements, such as, the Association for Southeast Asian Nations (ASEAN) Economic Community, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and the Regional Comprehensive Economic Partnership that reflect an expansion from ASEAN+3 to ASEAN+6 advancing RCI inter-subregionally.<sup>7</sup>

7. **Differential progress on regional cooperation and integration.** The ARCII findings also show variation in RCI across subregions and the six dimensions. RCI is most advanced in Southeast Asia in terms of trade and investment and regional value chains. Lagging dimensions, especially in money and finance and social integration, require greater attention. Regional value chains, infrastructure and

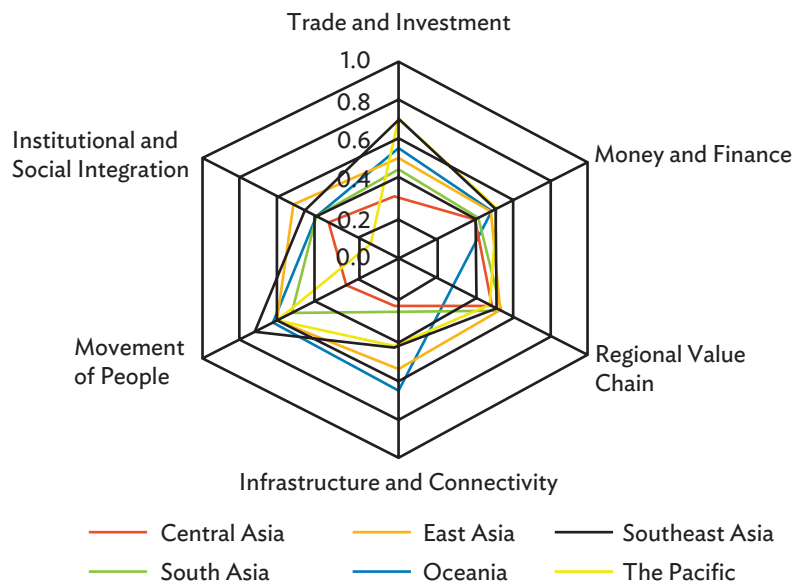
<sup>5</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>6</sup> ADB. 2018. *Regional Economic Outlook and Development Challenges*, in ADB. *Asian Economic Integration Report 2018: Toward Optimal Provision of Regional Public Goods in Asia and the Pacific*. Manila. pp. 12–14.

<sup>7</sup> ASEAN+3 includes the 10 members of ASEAN (i.e., Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) plus Japan, the Republic of Korea, and the People's Republic of China. ASEAN+6 includes all members of ASEAN+3 plus Australia, India, and New Zealand.

### Box 1: Regional Cooperation and Integration Performance in Asia and the Pacific: The Asia-Pacific Regional Cooperation and Integration Index

Developed by the Asian Development Bank, the Asia-Pacific Regional Cooperation and Integration Index is a composite index constructed from 26 indicators categorized into six different socioeconomic dimensional indices: (i) trade and investment, (ii) money and finance, (iii) regional value chains, (iv) infrastructure and connectivity, (v) movement of people, and (vi) institutional and social integration. The index allows for comparative analysis on multiple dimensions and across different subregional groups (and countries) to capture the diversity in the region's regional cooperation and integration (RCI) process and performance. It also assists in identifying strengths and weaknesses in RCI performance.



Source: Asia Regional Integration Center. Asia-Pacific Regional Cooperation and Integration Index. <https://aric.adb.org/database/arici>.

connectivity, movement of people, and institutional and social integration are relatively even across subregions.

## 2. ADB's Experience with Regional Cooperation and Integration Operational Plan, 2016–2020<sup>8</sup>

8. **Regional project classification.** Attention to RCI project classification continues throughout the project cycle. The Handbook for the Classification and Economic Analysis of Regional Projects,<sup>9</sup> prepared by the Regional Cooperation and Integration Thematic Group (SDTC-RCI), provides clearer and more consistent criteria for classifying regional or RCI projects and training for ADB staff on applying the new RCI project classification criteria. Based on updated RCI project classification criteria

<sup>8</sup> ADB. 2017. *Regional Cooperation and Integration in Asia and the Pacific: Implementation of the Operational Plan for Regional Cooperation and Integration, 2016–2020 Corporate Progress Report*. Manila.

<sup>9</sup> Forthcoming. Also see ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila.

and its application further along in the project cycle, the quality of ADB's RCI operations is expected to improve.

9. **Sector and subsector diversification.** Transport needs to be further diversified into subsectors—such as rail, ports, multimodal transport, and transport policy. Support for energy and power will increasingly encompass renewable and clean energy to mitigate environmental impact. RCI operations must diversify into nascent RCI sectors, such as information and communication technology (ICT)-driven digital services, value chains, small and medium-sized enterprises (SMEs) in cross-border trade and investment, cross-border economic zones, and economic corridors, for increasing access to new and larger markets. More regional operations related to public goods are needed to assist DMCs in achieving the Sustainable Development Goals and meeting 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP) 21 targets. This will involve coordinated action on climate change, disaster risk management, and transboundary disease control to mitigate common risks and potential economic and non-economic losses. Therefore, new sectors and subsectors that focus on operations need to be created.

10. **Inter-subregional cooperation.** Sector and subsector diversification of the RCI portfolio needs to be expanded through support for economic corridors that would operate across two or more subregions. These corridors could support long supply chains and regional and global value chains that include firms operating across more than one subregion.<sup>10</sup> However, the share of inter-subregional projects remains minimal. Nevertheless, pilot operations involving direct cooperation among at least two regional departments and the Private Sector Operations Department can be used to facilitate inter-subregional cooperation based on innovative analytical work.<sup>11</sup> Given the complexities of inter-subregional RCI, results may not always occur straightaway. Still, it is important to nurture the environment for such innovative and market-based economic cooperation to exploit economic comparative advantages among DMCs on a wider geographic basis.

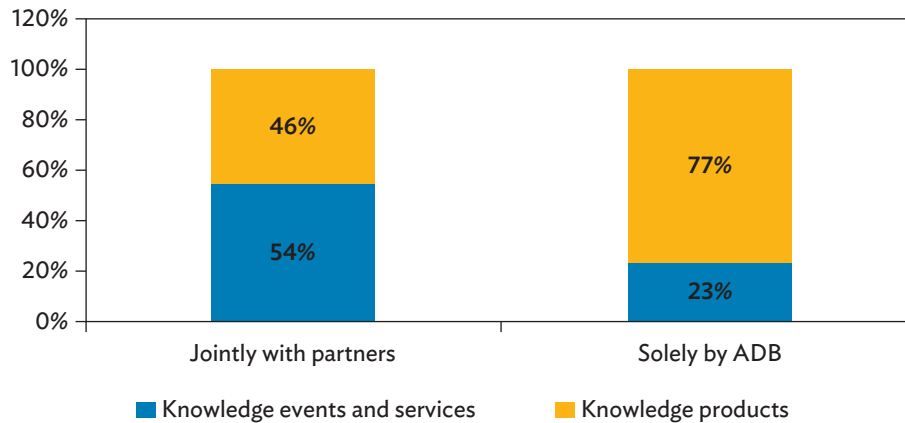
11. **Private sector participation.** In addition to what private sector clients can source from commercial financing markets, ADB seeks to provide targeted advice, value-added structures, and innovative finance for private sector projects that have regional cooperation themes. ADB's private sector operations can play an increasing role in RCI as more DMCs reach middle-income country levels. Future operations can focus on sectors and/or areas with positive RCI implications (e.g., agribusiness development), support for internationalizing SMEs by helping link them to global and regional supply chains, and cross-border markets. Therefore, private sector participation should be strengthened in RCI activities.

12. **Regional cooperation and integration knowledge generation.** ADB knowledge collaboration with external partners has focused more on knowledge sharing and dissemination than on producing knowledge products (Figure 1), and its RCI technical assistance has concentrated on DMC capacity building rather than on other types of knowledge activities. As DMCs become middle-income countries, they will need stronger knowledge content that complements the financing of development projects. ADB needs to focus on producing knowledge products within the organization and with its

<sup>10</sup> ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020*. Manila. para. 36.

<sup>11</sup> This analytical work was initiated in 2017 and involved direct DMC stakeholder participation. ADB is considering the associated results and the concerned DMCs to identify potential new investment operations.

**Figure 1: Regional Cooperation and Integration Knowledge Products Produced in 2016**



ADB = Asian Development Bank.

Source: ADB. 2017. *Regional Cooperation and Integration in Asia and the Pacific: Implementation of the Operational Plan for Regional Cooperation and Integration, 2016–2020 Corporate Progress Report*. Manila. p. 25.

partners to increase the quality and relevance of the content.<sup>12</sup> RCI technical assistance resources will need to focus on upstream knowledge work and midstream pilot activities that generate investment projects, particularly in nascent sectors and for nonsovereign and inter-subregional RCI.

13. **Asian Economic Integration Report.** ADB’s annual flagship publication, the *Asian Economic Integration Report (AEIR)*, regularly provides ADB, DMCs, and development partners with high-quality economic, policy, and topic-specific analyses on key RCI topics in Asia and the Pacific. The results can be used to identify future RCI initiatives in the region. The AEIR will continue to review the progress, policy challenges, and prospects of RCI and provide updates on CAREC, GMS, SASEC, and Pacific RCI performance in its chapter “Subregional Cooperation Initiatives.” The AEIR complements another major ADB flagship publication, the *Asian Development Outlook*, that provides DMCs with knowledge that allows them to consider how RCI links to broader national policy and public expenditure programs.

## C. Key Trends, Challenges, and Opportunities in Developing Member Countries

14. **Transport and communication connectivity.** Strong sustained growth in the region is forecast in all main freight and passenger transport sectors; by 2030, surface freight is projected to increase by 84% and international aviation by 145% compared with 2015.<sup>13</sup> ICT is emerging as a major driver in enhancing efficiencies in cross-border transport (e.g., trace and tracking technology for merchandise, productivity enhancing technology platforms used by logistics providers, and streamlined border

<sup>12</sup> In this context, *The Web of Transport Corridors in South Asia* exemplifies the high quality of innovative RCI knowledge work that can be generated by cooperation between ADB and its key development partners.

<sup>13</sup> T. Duncan. 2019. *Transport and Technology Assessment*, Working Paper (forthcoming).

clearance systems that reduce the associated time and costs incurred by exporters and importers). These trends need to be supported by major investments in additional capacity and new technologies and designs of the region's transport systems, or the region will face limits on the growth and productivity of the tradable sector of the economy. Increased RCI could generate scale economies and lower trade costs, linked to new and/or longer economic corridors in the region. New vehicle technologies are providing a real possibility of green and sustainable transport corridors.

15. **Energy connectivity.** In 2017, the region accounted for nearly two-thirds of the worldwide increase in renewable energy-generating capacity.<sup>14</sup> For the region as a whole, renewable energy capacity has nearly doubled since 2014, reaching 918 gigawatts by 2017. India and the People's Republic of China (PRC) were the biggest contributors; the PRC accounted for nearly half of the growth in worldwide renewable power-generating capacity. There are significant opportunities for cross-border trade in energy, including renewable energy (Box 2).

### Box 2: Trading Renewable Energy through the ASEAN Power Grid

The Association of Southeast Asian Nations (ASEAN) has identified a target of a 23% share of renewable energy in the primary energy mix by 2025. To achieve this target, Asia and the Pacific must double or triple the current share of clean energy. The ASEAN Power Grid (APG) provides a solution to regional clean energy goals and offers the dual benefits of further energy and economic integration, as well as the amplification of ASEAN influence in the global economy and environment.

Integrating clean energy resources into global power grids and markets is challenging because of the variability, uncertainty, and flexibility of the energy supply; financial support; physical infrastructure; and policy mechanisms. Grid interconnections among ASEAN member states could contribute to a higher share of renewable electricity in participating member states. The necessary energy and environmental transformation required in the region necessitates significant cooperation and commitment among governments, businesses, and consumers. The APG requires national and regional support, and the role of ASEAN as a community is vital to the success of the APG. Cross-border, as well as inter-regional, power grid interconnections could relieve burdens related to excess power generation capacity, if participating parties provide mutual support and technical issues are harmonized. In addition to poverty alleviation and developmental impacts, the APG could reduce energy prices, mitigate supply shortages and power shocks, incentivize further market integration, manage regional and subregional resource endowment differences, and facilitate sustainable development goals.

Besides enhancing reserve capacity, the more diversified sources of reserve energy would also improve broader energy security prospects. Although there is concern that relying on other countries for energy lowers energy security, the diversification effects could offset the reliance on energy imports if they are well balanced with other sources of supply (e.g., the share of each source of import is less than 5% or 10%) and if technicalities and relationships of interconnections are well managed.

Source: R.J.P. Silitonga. 2018. Trading Renewable Energy Through the ASEAN Power Grid. ASEAN Centre for Energy. 7 August. <http://www.aseanenergy.org/blog/trading-renewable-energy-through-the-asean-power-grid/>.

<sup>14</sup> International Renewable Energy Agency (IRENA). 2018. *Renewable Capacity Highlights*. March 2018.

16. Cross-border power trade in the region can assist with aligning the power sector's policy and regulatory environments across neighboring DMCs for grid codes, performance standards, regulatory frameworks, and dispute resolution; enhancing the institutional capacities of power utilities and energy ministries across DMCs to support the development of regional power coordination centers and energy regulators; and investing in regional interconnections and grids. Other investments in new technologies (e.g., floating solar photovoltaic, offshore wind farms, and battery storage backed by efficiencies through nanotechnologies that can reduce transmission and distribution line losses) will also be needed to increase renewable energy sources in cross-border energy trade.

17. **Finance.** The region's financial markets are better connected and stronger but are still vulnerable to external shocks. The total cross-border asset holdings from 2010 to 2015 rose from \$11.5 trillion to \$14.6 trillion—a compounded annual growth rate of 4.9%. Intraregional holdings increased 8.8%, and foreign direct investment (FDI) increased from \$2.5 trillion to \$3.6 trillion, accounting for the largest share (39.4%) of intraregional holdings to total holdings in 2015. However, given its much larger holdings of outside assets, the region remains more financially linked to the rest of the world than to itself.<sup>15</sup>

18. Regional policy dialogue and cooperation is needed to improve financial resilience, with a focus on encouraging the diversification of access to finance for investment from banks to bond markets; this would help create greater financial stability. To counter global protectionism, additional efforts are needed to engage in regionalization and partnerships with key regional financial institutions, such as export credit agencies, with appropriate support for effective regional input into global regulatory frameworks for the institutions. To address inequality concerns, the region needs to consider modern financial technology—such as new business models for financial services based on digital technologies—to support financial inclusion while considering gaps in access to finance between the rich and poor, men and women, and rural and urban dwellers; and the need to support the alignment of policy and regulations among DMCs to incentivize the wider application of cross-border financial technology systems, balancing the need for data flows, privacy, and cybersecurity (Box 3).

19. **Trade and investment.** The region recorded the highest growth in merchandise trade volume in 2017 for exports (6.7%) and imports (9.6%), following 2 years of modest expansion. Regarding exports, the region contributed 2.3 percentage points to the global growth of 4.5% in 2017, or 51.0% of the total increase. It also contributed 2.9 percentage points to the world import growth of 4.8%, or 60.0% of the overall increase.<sup>16</sup> Sustaining this performance in a less benign global trade environment will require (i) progress with new regional trade and investment frameworks and (ii) other RCI initiatives to be negotiated or become effective. These could act as effective building blocks for expanding open regionalism and underpinning a multilateral trade system that is under increasing stress.

<sup>15</sup> ADB. 2017. *Asian Economic Integration Report 2017*. Manila.

<sup>16</sup> World Trade Organization. 2018. *World Trade Statistical Review 2018*. Geneva.



### Box 3: Technology and Regional Financial Cooperation

To better manage risks, multiple regulatory bodies require institutions to frequently report massive amounts of data. Apart from strengthening national regulatory capacities, possible cooperation among the region's regulators could lead to more streamlined regulatory technology applications that also address growing financial interconnectedness and help identify cross-border risks. Regulatory technology can be used to support the strengthening of regional cooperation and integration in building appropriate policy and regulatory frameworks, such as the harmonization of regulatory standards or guidelines for digital transformation and data sharing.

Technology also plays an important role in enhancing the efficiency of cross-border payment and settlement systems. However, technological advances alone are not a panacea. Understanding relevant regulations and requirements across all network jurisdictions is essential. Also, technologies used must be harmonized and standardized to ensure interoperability when making cross-border transactions. For example, while quick response codes are used in many countries, the process of generating the codes often varies by country or company-specific circumstances, creating multiple codes at the time of payment.

Further, standardization would reduce vulnerabilities in data security because the lack of an agreed security protocol and experience in sharing security threats could lead to more data breaches. Likewise, standardizing competing blockchain and distributed ledger systems is becoming more urgent. Data in one blockchain system may not be linked with others, while differences in operational requirements may reduce system scalability. Even minimum coordination and standardization can benefit all users and reduce future costs. To promote standardization and harmonization, coordination among stakeholders in all relevant jurisdictions is indispensable. Information sharing and a common understanding of various regulations across jurisdictions are also required.

Source: ADB. 2018. *Asian Economic Integration Report 2018: Toward Optimal Provision of Regional Public Goods in Asia and the Pacific*. Manila.

20. In some cases, liberalization provisions in regional agreements go beyond multilateral agreements. To maximize the benefits from global and regional agreements, special efforts will be needed to enhance the utilization by sectors (e.g., agriculture) that have benefited less from cross-border trade and investment opportunities. Since the world economy is being challenged by protectionism and trade barriers, as well as concerns about the benefits and costs (and their impact on inequality) of globalization, these efforts are particularly important. Furthermore, global value chains have powered the region's trade and investment performance through the specialization of production, particularly in East and Southeast Asia. However, these value chains are evolving because of the impact of disruptive technologies and more efficient service inputs and digital tools, and the explosive growth in digital trade where the business-to-business segment is largest, often representing greater SME participation, especially in services.<sup>17</sup>

<sup>17</sup> In 2017, global gross trade in services totaled \$5.1 trillion, a figure dwarfed by the \$17.3 trillion global goods trade. However, trade in services has grown more than 60% faster than goods trade over the past decade. Some subsectors, including telecommunications and ICT services, business services, and intellectual property charges, are growing two to three times faster. Services also create roughly one-third of the value that goes into traded manufactured goods. McKinsey Global Institute, January 2019.

21. **Inequality.** Gini coefficients for the region show a clear and positive decline in overall between-country inequality, from 48.3 in 1995 to 43.5 in 2005 and 39.5 in 2015.<sup>18</sup> However, there has been a rise of within-country inequality in the region.<sup>19</sup> Economic policy research on trade, growth, and economic inequality in the region concluded that the relationships among international trade, FDI, economic growth, and inequality are complicated; and trade or FDI contributes to inequality, reduces it, or shows no causal relationship. Therefore, there is no one dominant trade, FDI, or inequality relationship that should underpin all trade policy in the region.<sup>20</sup> Nevertheless, mitigating the risk of widening inequality from global and regional trade and FDI warrants efforts to promote more inclusive trade and investment. This would have significant implications on the use and focus of spatial and skills-based RCI approaches, like economic corridor development, to generate wider economic benefits for a larger group of beneficiaries.<sup>21</sup>

22. **Climate change and transboundary ecosystems and natural resources management.** Several factors, such as economic growth, population change, and urbanization, have caused Asia and the Pacific to be a major source of greenhouse gas emissions. It consumes more than half of the world's natural resources, with increasing resource use per person and unit of gross domestic product output, placing increasing stress on transboundary water security and the quality of forest and arable land. The region is also experiencing serious health issues related to atmospheric pollution, an increase in the number of multi-hazardous hotspots, and a rise in the frequency of natural disasters. These trends disproportionately impact the poor and disadvantaged, thereby exacerbating inequality. However, DMCs contributed to the success of the COP 21 targets, and many of them are already increasing investment in climate mitigation and adaptation interventions under their nationally determined commitments. RCI can complement national efforts by supporting cross-border knowledge networks and dialogue on climate issues, producing more RPGs, and preparing subregional partnerships for climate action. RCI can also support DMC cooperation for sustaining the region's largest shared water basins, protecting coastal and/or marine ecosystems, and contributing to healthy oceans.

23. Figure 2 depicts comparative DMC performance (country rankings for 37 DMCs) on seven major environmental performance issues. The results highlight that many DMCs share similar performance challenges and that there is scope for ADB to invest in solutions that could be replicated across neighboring DMCs. The results also show there are many DMCs that do perform well on some of the environmental issues, so RCI investments should also support cooperation among DMCs for sharing knowledge and potential good practices.

<sup>18</sup> United Nations Economic and Social Commission for Asia and the Pacific. 2018. *Inequality in Asia and the Pacific in the Era of the 2030 Agenda for Sustainable Development*. Bangkok.

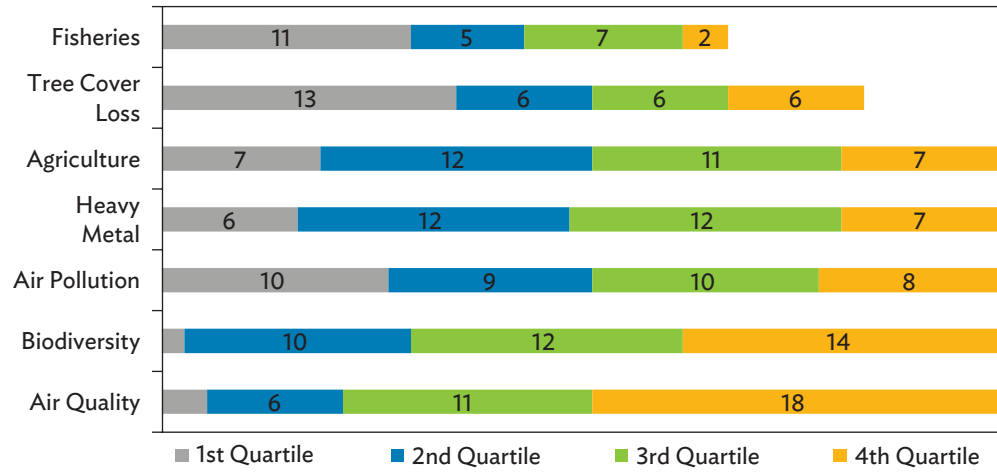
<sup>19</sup> J. Zhuang. 2018. The Recent Trend of Income Inequality in Asia and How Policy Should Respond. Working paper commissioned by the Group of 24 and Friedrich-Ebert-Stiftung New York. [https://www.g24.org/wp-content/uploads/2018/10/Rising\\_income\\_inequality\\_in\\_Asia.pdf](https://www.g24.org/wp-content/uploads/2018/10/Rising_income_inequality_in_Asia.pdf).

<sup>20</sup> T. Greaney and B. Karacaovali. 2017. Trade, Growth and Economic Inequality in the Asia Pacific Region: Lessons for Policy Makers. *Journal of Economics and Political Economy*. 4 (2).

<sup>21</sup> M. Melecky et al. 2018. *The Web of Transport Corridors in South Asia*. Washington, DC. World Bank Group.



**Figure 2: Developing Member Country Environmental Performance Results 2018**

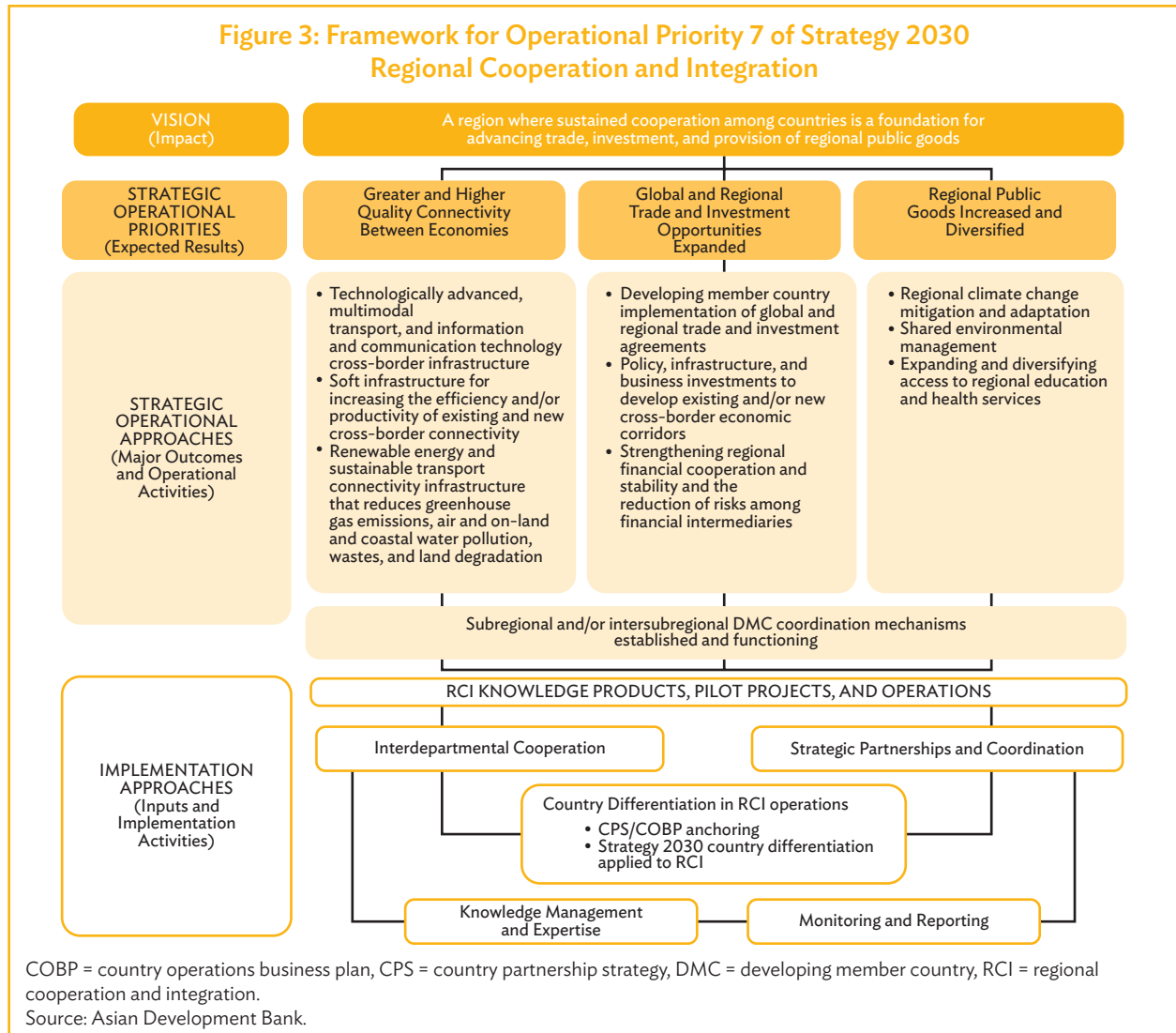


Source: Kai Kim Chiang. Natural Resources Management Assessment. Unpublished.

# OPERATIONAL APPROACHES

## A. Approaches

24. **The regional cooperation and integration theory of change.** The three strategic priorities will allow this operational plan to develop a coherent and mutually beneficial program of DMC-led joint action to support the goals of Strategy 2030. This Section II on Operational Approaches and



Section III (Implementation) set out a strategic agenda of RCI operational priorities, exemplary change initiatives in operational approaches under each of the operational priorities, institutional support, and performance management at ADB during 2019–2024. The implementation of this operational plan includes an operational focus on RCI assistance tailored to different categories of DMCs under its country-differentiated approach. Figure 3 illustrates how the various elements of this RCI strategic agenda are linked and related to one another causally to achieve desired outcomes.

## B. Expected Results

25. **Strategic operational priorities.** The new RCI operational plan covering 2019–2024 will transition to the following strategic operational priorities: (i) greater and higher-quality connectivity between economies, (ii) global and regional trade and investment opportunities expanded, and (iii) RPGs increased and diversified.

26. In order to execute such expected strategic operational priority results, ADB's RCI subregional programs will remain the leading mechanism for programming new RCI operations, and ADB should also engage a wider range of RCI initiatives that may involve cooperation that extends beyond an individual RCI subregional program. ADB's operations should be updated, factoring in emerging RCI trends in the region and ADB's ability to deal with them. ADB should remain proactive in identifying new opportunities for growth and diversity in RCI operations including nascent sectors and/or subsectors and projects involving more than one ADB-assisted subregional program. For example, nonsovereign and inter-subregional RCI operations should increase, results- and policy-based assistance should be used selectively to facilitate further regionalism, and RCI should be a more prominent feature in the country partnership strategy process. RCI should be used to foster the introduction and application of innovation and new technologies in cross-border development activities and to facilitate cooperation among DMCs to spread technology in the region. Since ADB uses RCI to address cross-border externalities of development, it should also be used to help mitigate inequality and climate change in the region.

## C. Major Outcomes and Activities

### 1. Greater and Higher-Quality Connectivity between Economies

27. **Technologically advanced, multimodal transport, and information and communication technology cross-border infrastructure.** ADB will invest in high-quality transport infrastructure connectivity, such as railways, inland waterways, dry ports, and coastal ports and other coastal trade-supportive infrastructure, supporting the effective integration of different modes of infrastructure for multimodal transport and incorporating technological changes (e.g., ICT data) into transport connectivity to improve the tracking of the movement of goods through seamless multimodal connectivity. For example, CAREC railway sector improvement aims to develop a subregional rail traffic model, which will identify the most suitable bulk and containerized cargo flows for rail transport, identify crucial cross-border and multimodal connection points, and link CAREC transport corridor data with data collected for the GMS to enable the development of an Asia-wide rail transport database.<sup>22</sup>

<sup>22</sup> ADB. 2018. *Technical Assistance for Railway Sector Development in Central Asia Regional Economic Cooperation Countries*. Manila.

28. **Soft infrastructure for increasing the efficiency and/or productivity of existing and new cross-border connectivity.** ADB will focus on soft infrastructure support, such as transport facilitation agreements to help the efficient movement of goods, vehicles, and people (including persons with disabilities), across borders, and the harmonization of energy policies and standards to promote renewable energy generation and improve cross-border energy trade. An example of this is SASEC regional energy cooperation that seeks to improve power interconnections drawing on exploiting renewable energy potential across hydropower, solar, wind, and natural gas by developing cross-border regulatory frameworks that harmonize rules on standards and safety, and regional master plans for cross-border power trade and regional gas cooperation.<sup>23</sup>

29. **Renewable energy and sustainable transport connectivity infrastructure that reduces greenhouse gas emissions, air and on-land and coastal water pollution, wastes, and land degradation.** ADB will pursue climate-friendly energy infrastructure connectivity to meet the region's rising demand consistent with climate change commitments. This will require innovative technical assistance, for example, a Central and West Asia knowledge operation on renewable energy integration that aims to increase renewable energy connectivity in CAREC by developing an investment plan for grid system reinforcement to accept large-scale intermittent renewable energy connection and a framework to share capacity reserve.<sup>24</sup> ADB will also emphasize the sustainability of cross-border transport infrastructure, such as the greening of ports.

30. **Strengthening infrastructure sector connectivity cooperation among developing member countries.** ADB will enhance transport connectivity efficiency for different modes of cross-border transport by replicating support for collaborative arrangements like the Greater Mekong Railway Association, which addresses rail-gauge coordination and cross-border rail safety equipment issues. This is reflected in efforts to create a common CAREC rail operator under the Railway Strategy for CAREC; several railway systems intend to develop freight carriage wagon operations that could catalyze private sector operations in this area.<sup>25</sup> ADB will also need to step up the enhancement of cross-border power transmission efficiency and greater power trade through working groups, transmission utility forums, and subregional mechanisms. ADB support for a GMS regional power coordination center is being replicated by other efforts of the SASEC Cross-Border Power Trade Working Group (footnote 23) and SASEC Electricity Transmission Utility Forum<sup>26</sup> to establish a SAARC regional power exchange center.

## 2. Global and Regional Trade and Investment Opportunities Expanded

31. **Developing member country implementation of global and regional trade and investment agreements.** This operational plan is based on supporting open regionalism across Asia and the Pacific. To do so, ADB seeks to strengthen convergence on RCI performance among DMCs by subregion so that subregional agreements—or subregional implementation of wider regional or interregional agreements, e.g., ASEAN Economic Community, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, and Regional Comprehensive Economic Partnership—can be more

<sup>23</sup> ADB. 2018. *Technical Assistance for South Asia Subregional Economic Cooperation Regional Energy Cooperation*. Manila.

<sup>24</sup> ADB. 2017. *Technical Assistance for Regional Cooperation on Renewable Energy Integration to the Grid (Financed by the Asian Clean Energy Fund under the Clean Energy Financing Partnership Facility)*. Manila.

<sup>25</sup> ADB. 2017. *Unlocking the Potential of Railways: A Railway Strategy for CAREC, 2017-2030*. Manila.

<sup>26</sup> SASEC. Discussion Platforms. <https://www.sasec.asia/index.php?page=discussion-platform>.

effectively implemented through ADB-assisted investment operations. Thus, ADB will seek to focus trade facilitation knowledge work on (i) the impact of nontariff barriers for SMEs and rural businesses; (ii) subregional trade facilitation, which builds capacity for border control agencies and their coordination to ease constraints; and (iii) inter-subregional knowledge sharing on trade facilitation regarding best practices globally and from DMCs. ADB's trade facilitation work will become more strategic and comprehensive, aimed at enabling the effective delivery of a series of time-bound results and policy-based operations (knowledge and lending) focused on sets of prioritized national trade facilitation activities that can be horizontally connected through data driven means and institutional coordination. For example, the SASEC program will support trade facilitation, focusing on customs modernization, standards harmonization, and institutional capacity building to help underpin SASEC trade facilitation policy-based interventions.<sup>27</sup> In addition, ADB will support the effective implementation of interregional and inter-subregional trade and investment agreements by promoting the mutual recognition of skills across borders to enable effective business utilization of such agreements. For example, ADB can consider replicating the PRC Guangxi Modern Technical and Vocational Education and Training (TVET) Development Program, which seeks to ensure cooperation between TVET institutions and enterprises in Guangxi and ASEAN countries and increase the number of ASEAN students who receive vocational education certificates from TVET institutions in Guangxi.<sup>28</sup>

**32. Policy, infrastructure, and business investments to develop existing and/or new cross-border economic corridors.** ADB will support policy reforms and infrastructure investments designed to enable wider and more inclusive cross-border opportunities for businesses through economic corridor development in lagging areas. Spatial data and new methods of economic analysis will be used to identify and assess more widespread RCI attributes of economic corridors.<sup>29</sup> This is reflected in a knowledge operation on the preparation of a comprehensive development plan for the Northeast Bangladesh Economic Corridor, which will contain priority economic nodes and industries, an infrastructure strategy, and opportunities for Bangladesh's successful integration into international economic corridors.<sup>30</sup> ADB's RCI knowledge work will continue to support urban infrastructure for enabling business cluster<sup>31</sup> and value chain development for cross-border trade, while tailoring economic corridor knowledge work to advance agriculture, manufacturing, and/or services clusters (e.g., tourism). This knowledge work will leverage and go beyond public sector enabling policies and investments, and thereby promote and facilitate greater nonsovereign operations supporting businesses and value chains related to economic corridors.

**33. Strengthening regional financial cooperation and stability and the reduction of risks among financial intermediaries.** ADB's RCI knowledge work on mitigating shocks related to cross-border financial flows will progress knowledge sharing of the ASEAN+3 experience and practical pilots on

<sup>27</sup> ADB. 2014. *South Asia Subregional Economic Cooperation Trade Facilitation Strategic Framework 2014-2018*. Manila.

<sup>28</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Guangxi Modern Technical and Vocational Education and Training Development Program*. Manila.

<sup>29</sup> For example, the wider economic benefits framework that assesses corridor interventions in relation to economic welfare, social inclusion, equity, environmental quality, and economic resilience with the objective of enlarging those benefits net of costs. See M. Melecky et al. 2018. *The Web of Transport Corridors in South Asia*. Washington DC. World Bank Group.

<sup>30</sup> ADB. 2018. *Technical Assistance for the People's Republic of Bangladesh: Knowledge Solutions for Inclusive and Sustainable Development*. Manila.

<sup>31</sup> A business cluster is a geographic grouping of connected firms and associated institutions in a particular industry or sector. Clusters are considered a means of improving productivity and competitiveness, nationally and cross-border.

creating systems links that can be spread. An example of this would be a knowledge operation for creating a regional settlement intermediary in ASEAN+3, which is designed to promote intraregional bond investments by supporting a pilot for central securities depository links to real-time gross settlements of ASEAN+3 central banks.<sup>32</sup> The depository would act as the regional settlement intermediary, starting in more advanced ASEAN+3 countries and then spreading to other DMCs. ADB will move beyond its existing trade finance program with banks and increase its efforts with other financial intermediaries seeking to promote open regional trade and investment flows. ADB has initiated knowledge work supporting potential development of a regional export credit agency spanning Central and West Asia, East Asia, and South Asia.<sup>33</sup> ADB, in association with development partners (e.g., the International Monetary Fund), will also provide technical support and knowledge exchange on global standards and best practices to relevant subregional working groups.

**34. Strengthening trade and finance sector cooperation and multisector economic corridor coordination among developing member countries.** ADB will increase technical support for subregional trade facilitation working groups supplemented by knowledge exchanges, such as with the World Trade Organization and World Customs Organization, on global standards and best practices, including rapid changes in digital trade. In addition to continued support for ASEAN+3 forums, ADB will undertake support for the Asian Exim Banks Forum in terms of technical knowledge product discussions that can be converted into pilot and financial intermediary or corporate lending projects.<sup>34</sup> ADB should be increasingly characterized by support for regional financial cooperation policy dialogue as reflected by the GMS Financial Sector and Trade Finance Conference in 2018<sup>35</sup> and CAREC Economic and Financial Stability Operational Cluster.<sup>36</sup> In addition to support for subregional urban development working groups that can develop strategic frameworks,<sup>37</sup> economic corridor development work will require ADB support for specific corridor mechanisms for multisector coordination (e.g., the Almaty–Bishkek Economic Corridor Subcommittee).<sup>38</sup>

### 3. Regional Public Goods Increased and Diversified

**35. Regional public goods relative to national and global public goods.** RPGs have the potential to positively influence the impact of national and global public goods by encouraging country-specific and joint actions that increase positive spillovers to neighboring countries (Figure 4).<sup>39</sup>

<sup>32</sup> ADB. 2016. *Technical Assistance for Creating a Regional Settlement Intermediary in ASEAN+3: Cross-Border Settlement Infrastructure Forum*. Manila.

<sup>33</sup> ADB. 2018. *Technical Assistance for Promoting Investments and Economic Growth in Central and West Asia, East Asia, and South Asia Subregions*. Manila.

<sup>34</sup> ADB. 2015. *Technical Assistance for Supporting the Asian EXIM Bank Forum*. Manila.

<sup>35</sup> ADB. 2018. Greater Mekong Subregion (GMS) Financial Sector and Trade Finance Conference. Bangkok.

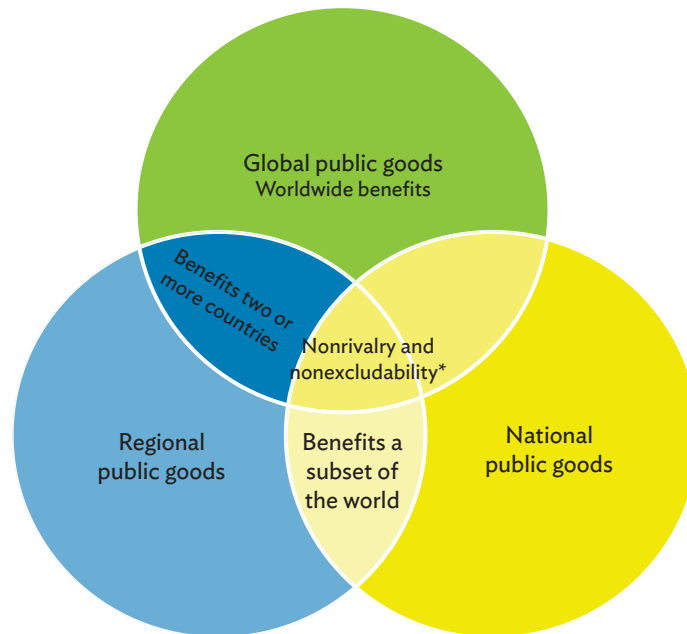
<sup>36</sup> CAREC. Operational Clusters: Economic and Financial Stability. [https://www.carecprogram.org/?page\\_id=13243](https://www.carecprogram.org/?page_id=13243)

<sup>37</sup> Greater Mekong Subregion. Urban Development Working Group. <https://www.greatermekong.org/urban-development-working-group>

<sup>38</sup> ADB. 2017. *Technical Assistance for Almaty-Bishkek Economic Corridor Support*. Manila.

<sup>39</sup> Some national public goods can be interlinked; for example, reducing pollution of a river that crosses borders can be considered an example of both national and regional public goods since a country doing so provides benefits of cleaner water domestically and to its neighbors that share the same river system. Those regional efforts can reduce to a greater extent harmful pollution entering marine and coastal ecological zones and thereby contribute to healthy oceans—a global public good.

**Figure 4: Relationship between Global Public Goods, Regional Public Goods, and National Public Goods**



\* It is possible for the public good to be partially rival and/or partially excludable, in which case it would be an impure public good.

Source: Asian Development Bank. 2018. *Asian Economic Integration Report 2018*. Manila.

36. **Regional climate change mitigation and adaptation.** Climate change poses numerous and varied risks across the region. Although individual subregions face different risks, climate change is not bound by borders. ADB will promote diversified urban sector interventions and innovative technological solutions to improve air quality in cities. This can be done through regional technical assistance that takes advantage of rising consumer consciousness in urban cities across the region by supporting the preparation of city-level clean air action plans and regional knowledge sharing, going beyond nonmarket mechanisms to develop domestic carbon market mechanisms and emission-trading schemes, and linking these domestic markets to one another (e.g., a knowledge operation Supporting Low Carbon Development in Asia and the Pacific through Carbon Markets).<sup>40</sup> ADB will increasingly promote climate change resilience through interventions such as regional disaster risk financing. For example, the Pacific Disaster Resilience Program provides a regional disaster contingent savings facility.<sup>41</sup> It supports policy actions in disaster risk management and provides participating DMCs with a source of contingent financing to cover medium-level risks alongside national funds, private insurance, and international assistance for low-frequency, high-level risk. ADB will also promote

<sup>40</sup> ADB. 2015. *Technical Assistance for Supporting Low-Carbon Development in Asia and the Pacific through Carbon Markets* (Cofinanced by the Government of Finland and the Government of Luxembourg). Manila.

<sup>41</sup> ADB. 2019. *Concept Paper for Proposed Policy-Based Loans and Policy-Based Grants: Pacific Disaster Resilience Program (Phase 2)*. Manila.



transboundary water and natural resource management to address climate change effects (e.g., Strengthening Integrated Water Resources Management in Mountainous River Basins will support integrated water resource management in Afghanistan, Bhutan, and Nepal).<sup>42</sup> Another example relates to river basin organizations and their networks, which build on past efforts of transboundary water management in Central Asia, such as a project in the Panj-Amu Basin shared by Afghanistan, Kyrgyz Republic, Tajikistan, and Uzbekistan that supported an Afghanistan–Tajikistan transboundary technical working group.<sup>43</sup>

37. **Shared environmental management.** Under this operational plan, priority will also be given to opportunities for reducing risks to transboundary natural resources, both inland and coastal areas, and developing related economic activity by promoting sound, shared environmental management and regional tourism based on shared biodiversity. The GMS program has shown that transboundary natural resources and biodiversity conservation programs, complemented by urban water supply and sanitation investments, can generate sustainable tourism projects that protect land and fresh water and/or marine-based environments; this could be replicated as other subregional cooperation programs like CAREC move into the tourism sector.<sup>44</sup>

38. **Expanding and diversifying access to regional education and health services.** This operational plan seeks to replicate support for access to regional education, research, and knowledge exchanges as exemplified by past support for the University of the South Pacific and CAREC Institute to take advantage of the rising opportunities for distance learning and internet access through ICT tools.<sup>45</sup> ADB will support regional health by (i) building on the track record of using regional cooperation for cross-border communicable disease prevention and control (e.g., the GMS Health Security Project that supports effective coordination for surveillance and monitoring, and strengthening joint outbreak investigations anchored in improved health facilities);<sup>46</sup> (ii) enhancing delivery efficiencies through the regional procurement of vaccines;<sup>47</sup> and (iii) promoting effective cross-sector initiatives on regional health, such as through trading food products under sanitary and phytosanitary trade facilitation programs<sup>48</sup> and delivering e-health service initiatives pursuant to ICT connectivity in the Pacific.<sup>49</sup>

<sup>42</sup> ADB. 2016. *Technical Assistance for Strengthening Integrated Water Resources Management in Mountainous River Basins* (Financed by the Japan Fund for Poverty Reduction). Manila.

<sup>43</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Grant Islamic Republic of Afghanistan for the Panj-Amu River Basin Sector Project*. Manila.

<sup>44</sup> ADB. 2019. *Promoting Regional Tourism Cooperation under CAREC 2030 – A Scoping Study*. Manila.

<sup>45</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility (MFF) to The University of the South Pacific (USP) for the Higher Education in the Pacific Investment Program*. Manila.

<sup>46</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Grant to Kingdom of Cambodia, Lao People's Democratic Republic, Republic of the Union of Myanmar, and Socialist Republic of Viet Nam for Greater Mekong Subregion Health Security Project*. Manila.

<sup>47</sup> ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants Independent to State of Samoa, Kingdom of Tonga, Tuvalu, and Republic of Vanuatu for the Systems Strengthening for Effective Coverage of New Vaccines in the Pacific Project*. Manila.

<sup>48</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Grant for Additional Financing to the Lao People's Democratic Republic for Trade Facilitation for Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project*. Manila.

<sup>49</sup> ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Kingdom of Tonga for Introducing eGovernment through Digital Health*. Manila.



39. **Strengthening sector cooperation for regional public goods.** ADB's initial efforts in the GMS in agriculture, water, environment, and tourism will need to be replicated in other parts of the region. Examples of this include the establishment of the CAREC Agriculture and Water Operational Cluster and the CAREC Trade, Tourism, and Economic Corridors Operational Cluster.<sup>50</sup> Cooperation among DMCs in regional education needs to be pursued further and spread to other subregions. Following the development of the Pacific Regional Education Framework, 2018–2030, ADB is also seeking to pursue the Human Development Operational Cluster within the CAREC 2030 Strategy (footnote 50). Urban sector working groups in subregions need to increasingly anchor climate change actions across DMCs. ADB will also engage various subregional groupings to promote “blue economy” opportunities through the sustainable development of tourism, fisheries, and coastal resources.<sup>51</sup> For example, through regional and subregional cooperation programs, ADB will support dialogue among DMCs on transboundary water bodies and marine ecosystems, and build consensus for coordinated actions, including policy and innovative and coastal infrastructure investment.

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<sup>50</sup> ADB. 2017. *CAREC 2030: Connecting the Region for Shared and Sustainable Development*. Manila.

<sup>51</sup> ADB's Action Plan for Healthy Oceans and Sustainable Blue Economies (see <https://www.adb.org/news/adb-launches-5-billion-healthy-oceans-action-plan>) will support the protection and restoration of marine ecosystems and promote inclusive livelihood opportunities. The action plan includes a focus on the 'blue economy' that creates inclusive livelihood and business opportunities in sustainable tourism and fisheries.



# IMPLEMENTATION

## A. Interdepartmental Cooperation

40. On the basis of the “One ADB” approach set out in Strategy 2030 the RCI-related responsibilities of ADB departments and offices are as follows:<sup>52</sup>

- (i) **Regional departments.** RCI divisions and units, in cooperation with resident missions, will continue but also update their secretariat functions to support RCI subregional programs, shifting some administrative functions to DMCs, where appropriate. They will then rebalance their resources toward RCI knowledge activities and policy dialogue that will develop new RCI pipelines (including for inter-subregional RCI), conduct RCI project classification analysis, prioritize projects for RCI set-aside financing, manage external RCI partnerships, and support in-country and intercountry coordination among national sector-based institutions for RCI project planning and implementation. On all aspects of RCI program management, the RCI divisions and units will coordinate, as appropriate, with their department’s sector divisions and resident missions, other regional departments, and the Regional Cooperation and Integration Thematic Group (SDTC-RCI) Secretariat. The regional departments will designate a focal point for RCI at individual resident missions.
- (ii) **Private Sector Operations Department and the Office of Public–Private Partnership.** The Private Sector Operations Department will support innovative nonsovereign lending for cross-border operations especially related to infrastructure projects (such as cross-border energy projects that can connect domestic consumers to global markets for low-cost, lower carbon solutions), and niche projects for agriculture value chains, trade and supply chain finance, SME internationalization, education and health, and disaster risk financing. The Office of Public–Private Partnership will provide transaction advisory services on public–private partnerships for single- and multicountry RCI operations.
- (iii) **Sustainable Development and Climate Change Department.** Sector and thematic groups in the Sustainable Development and Climate Change Department will cooperate with sector divisions in regional departments and the SDTC-RCI on cross-border business development research and pilot projects; the identification of sector and thematic knowledge innovations

<sup>52</sup> Strategy 2030 states, “[t]o deliver on the directions set in Strategy 2030, ADB will reinforce a One ADB approach, bringing together expertise and knowledge in a range of areas across the institution. Staff working on public and private sector operations will work closely together in planning operations, jointly identifying and working on bottlenecks to development results, and processing projects. ADB will develop integrated solutions incorporating advanced technologies, with support from sector and thematic groups. Research functions will help enhance the analytical base of operations and policy dialogue with clients. The One ADB approach will be supported by staff mobility and recognition through performance management.” Footnote 7, p. 28; and Appendix 2.

applicable in cross-border contexts; and information sharing on subregional, regional, and global frameworks and agreements, advising how the agreements can be used to develop new RCI operations (Appendix 1). The SDTC-RCI will provide the trust fund resources, advise operations departments and the Strategy, Policy and Partnerships Department on the allocation of set-aside resources, and support regional departments for preparing country partnership strategies and/or regional cooperation strategies for inter-subregional operations.

- (iv) **Economic Research and Regional Cooperation Department.** The Economic Research and Regional Cooperation Department will continue to produce the annual Asian Economic Integration Report (AEIR); further develop the Asia-Pacific Regional Cooperation and Integration Index (ARCII); disseminate internal and external RCI-related economic and policy research and analysis on global and regional trends and challenges, including trade and investment trends and agreements, identifying their implications for RCI across the region; develop tools for economic analyses of regional projects; undertake research and policy analysis; and develop toolkits supporting regional finance and capital market development.

## B. Strategic Partnerships and Coordination

41. **Sector and thematic groups partnerships.** To more effectively reach out to partners in other sectors and thematic focus areas, the SDTC-RCI will undertake joint technical workshops to incorporate emerging RCI trends and develop joint knowledge products with other sector and thematic groups to generate policy-level discussions at key RCI forums. These efforts will also be designed to identify potential knowledge and financing relationships with key development partners.

42. Cooperation with partners will be based on careful consideration of the potential for significant operational-level complementarity based on additional financing, knowledge and expertise, and other institutional resources. In particular, cooperation with new and emerging RCI initiatives will be based on opportunities for scaling-up high-quality connectivity, fostering stronger cross-border investment and trade growth, supporting global value chain expansion and SME internationalization, achieving progress on climate change, and adhering to high standards of international development administration practices (e.g., safeguards and transparency) for preparing, financing, and implementing RCI operations.

## C. Emerging Areas

### 1. Innovative Operations

43. **Upstream knowledge operations and pilot projects.** Under this operational plan, innovation refers to upstream knowledge operations and pilot projects, especially multisector projects; nascent sector and subsector operations that respond to emerging trends; projects that support the development of new cross-border markets; participation of the private sector in RCI; and cross-border projects leveraging cross-thematic knowledge, such as livable cities projects with regional emissions trading, and rural development projects anchoring agriculture value chain policy reforms for greater market access. Table 1 provides examples of tools to enable these innovations in the RCI portfolio.

**Table 1: Examples of Innovative Regional Cooperation and Integration Operations**

Innovation Tools	Connectivity	Trade and Investment	Regional Public Goods
Existing projects with the potential to be replicated	Improving Internet Connectivity for Micronesia Project in Kiribati, the Federated States of Micronesia, and Nauru	Guangxi Regional Cooperation and Integration Promotion Investment Program in the People's Republic of China  High-Value Horticulture Development Project	Air Quality Improvement in the Greater Beijing-Tianjin-Hebei Region: Regional Emission-Reduction and Pollution Control Facility in the People's Republic of China
Pipeline RCI projects	Dili Airport Runway Rehabilitation Project in Timor-Leste	GMS Cross-Border Livestock Health and Value Chains Improvement Project	Pacific Disaster Resilience Program (Phase 2)
RCI business development research	Armenia-Georgia corridor	Almaty-Bishkek economic corridor  Fergana Valley horticulture value chain	Green ports in the Bay of Bengal
RCI technical assistance or pilot projects	Central Asian power system modernization	India-GMS small and medium-sized enterprise internationalization pilot  Indonesia-Timor-Leste pilot	Joint sector and thematic group work on transboundary water resources management

RCI = regional cooperation and integration.

Source: Asian Development Bank.

## 2. Tailoring Regional Cooperation and Integration Operations through Country Differentiation

### 44. Country partnership strategies and/or country operations business plans anchoring.

The implementation of this operational plan will be anchored in country partnership strategies and associated country operations business plans formulated and operationalized in consultation with DMCs by resident missions to help integrate RCI into national development planning and program prioritization.<sup>53</sup> Broadly, the operational focus of country programs will be on innovation and outcomes (not numeric targets). This means country programs will consider the nature and quality of upstream knowledge operations and pilots, where relevant, to provide DMCs and ADB with greater confidence that investment projects in innovative areas will be viable and beneficial.

45. **Strategy 2030 country differentiation applied to regional cooperation and integration.** By applying country differentiation to RCI, resident missions will consider Strategy 2030, which directs ADB to use differentiated operational approaches to groups of countries to recognize the differences in their development conditions, circumstances, and prioritized needs. Broadly, this operational plan supports RCI operations in each of these six country groupings in the following ways (Table 2):

<sup>53</sup> The preparation of an operational-level regional cooperation strategy and regional cooperation operational business plan will be optional.

- (i) **Fragile and conflict-affected situations.** ADB will support infrastructure that economically links lagging border areas, greater SME participation in local cross-border trade, and disaster risk mitigation and/or response mechanisms involving two or more DMCs.
- (ii) **Small island developing states.** ADB will support the harmonization of policy among these states with global and regional agreements on trade, climate change adaptation, on-land and coastal and/or marine environmental sustainability and ocean health, and disaster risk management. ADB will strengthen cross-border connectivity in ICT and sea and air transport to enable SMEs to take advantage of cross-border digital and merchandise trade. ADB will emphasize institutional strengthening to support efforts to manage economic, climate change, and environmental and health risks; and to develop sustainable economic opportunities from shared natural resources including healthy oceans.
- (iii) **Landlocked developing countries.**<sup>54</sup> ADB will prioritize expanding and improving trade-related infrastructure, including physical connectivity and ICT, to facilitate the seamless shipment of goods over long distances and the crossing of near and distant land borders that will eventually be linked to seaports. ADB's RCI support to the region's landlocked developing countries will include domestic policy reforms that will support more open regionalism. It will also support SMEs and segments of agriculture sectors participating in regional trade and investment, to enable them to integrate more broadly into regional and global markets and the multilateral trading system.
- (iv) **Low-income and lower middle-income countries.** ADB will emphasize support for capacity to implement high-quality trade and investment agreements, foster finance reforms as a building block for financial integration, promote green and integrated connectivity for higher-value trade and FDI, develop economic corridors focused on city-to-city manufacturing and services trade and FDI, encourage agriculture trade and FDI as part of structural transformation to enhance productivity and competitiveness, and help manage shared transboundary natural resources.
- (v) **Upper middle-income countries.** ADB will pilot test RCI operations in nascent subsectors, RPGs, and innovative solutions in conventional RCI sectors for learning and knowledge sharing and assessing the potential for scaling-up and replicating similar operations in other DMCs, especially using public-private partnerships and nonsovereign modalities. ADB will focus on particularly emergent RCI areas, such as regional emissions trading and inter-subregional trade and investment, that foster economically and environmentally sound cooperation with clearly defined mutual benefits between upper middle-income countries and other categories of DMCs.
- (vi) **Pockets of poverty and fragility at the subnational level.** ADB will invest in local infrastructure and skills and SME business development to generate future links to other national areas or economic clusters participating in more advanced cross-border trade and investment.

46. In DMCs that are not part of a RCI subregional grouping, ADB will continue to consider investments in projects that support the country's own connectivity, trade, investment, and public goods priorities, and strengthen its access to associated knowledge and expertise from within the region and internationally. Furthermore, in situations where ADB is involved in processing a multicountry regional project or providing support to a regional institution involving one or more

<sup>54</sup> Strategy 2030 states that special consideration will be given to countries facing vulnerability because of geography.

**Table 2: Operationalizing Regional Cooperation and Integration in Relation to Strategy 2030 Country Groupings**

Grouping	Connectivity	Trade and Investment	Regional Public Goods
Fragile and conflict-affected situations	Infrastructure to link lagging border areas	SMEs to engage in cross-border trade	Disaster risk management
Small island developing states	Information and communication technology, air, and sea connectivity	Upgrading SMEs for digital trade, developing the “blue economy”	Disaster risk management, protection of coastal and marine-based environments, shared education and health services
Landlocked developing countries	Long-distance transport and logistics infrastructure	Economic corridor development, agriculture value chains	Regional education and other sector-based knowledge and/or advisory services
Low-income and lower middle-income countries	Integrated connectivity	Economic corridor development	Transboundary natural resource management
Upper middle-income countries, including addressing pockets of poverty and fragility	Pilot test connectivity technologies	Inter-subregional trade and foreign direct investment, SMEs backward links, higher-quality regional cooperation and integration standards (e.g., labor flows, regional financial markets)	Emission trading, pilot test green technologies, and share results

SME = small and medium-sized enterprise.

Source: Asian Development Bank.

nonmember countries, concerned ADB departments and offices shall liaise with the Office of the General Counsel early on to ensure that the operation is prepared according to ADB policies and procedures.

## D. Knowledge Priorities

47. **Strengthened regional cooperation and integration project classification.** The SDTC-RCI will validate the RCI classification of projects at various stages: RCI programming, project identification and concept formulation, and prior to project approval. An updated scorecard approach (Box 4) will be applied to assess a DMC’s readiness, expected regional benefits or spillovers, and project additionality (e.g., new agreements and alignment of policies). RCI divisions in coordination with their department sector divisions will provide project information at various project stages to enable the SDTC-RCI to consider individual project classification as RCI. Project classification will be strengthened through the development and use of methods for identifying and quantifying regional benefits and spillovers, methods for assessing environmental risks and financial risks, and the use of findings from cross-border sector master plans or associated knowledge work conducted by ADB and/or development partners.<sup>55</sup>

<sup>55</sup> For example, *The Web of Transport Corridors in South Asia*, a 2018 joint publication of ADB, Japan International Cooperation Agency, UK Aid Direct, and World Bank Group that examines how transport corridors can stimulate broader regional integration and economic growth.

#### Box 4: Regional Cooperation and Integration Scorecard for Project Classification

The regional cooperation and integration scorecard approach has two levels of assessment—country and project. The country level assessment examines the context and readiness of the country or countries to implement the project. At the project level, the project’s regional economic benefit spillover and its additional regional benefits will be assessed. The assessment of potential net regional economic benefit is fundamental in the classification, screening, and economic analysis of regional projects. The assessment looks at the potential of the proposed project for producing net regional benefits and how these can spill over to neighboring countries or be shared among all participating countries. The assessment will (i) gauge the expected regional economic benefits, (ii) consider the mechanisms through which they can arise, (iii) make a judgement on the likelihood of their occurrence and magnitude, and (iv) list proposed actions that will generate evidence later at the project preparation stage and allow validation of the statement on regional benefits at the project level. The expected regional benefits and related indicators should be consistently spelled out in the project’s Design and Monitoring Framework.

Source: Regional Cooperation and Integration Thematic Group, Sustainable Development and Climate Change Department, Asian Development Bank.

48. **Building regional cooperation and integration knowledge and expertise.** To expand RCI operations in nascent sectors and subsectors, ADB will strengthen the organization’s RCI expertise in areas such as the development of cross-border energy markets and energy trade agreements, multimodal transport, cross-border cooperation to assist DMCs in implementing their nationally determined contributions under COP 21 in accordance with internationally agreed cooperative approaches and mechanisms, and the use of spatial data and methods of economic analysis to determine wider economic benefits of economic corridors.

# IV

## STRATEGY 2030 OPERATIONAL PRIORITY RESULTS

49. The following are the Strategy 2030 operational priority results under the Operational Plan. These will be monitored under ADB’s corporate results framework<sup>56</sup> and will be reported annually in the Development Effectiveness Review.

Pillar	Description	Indicator with Achievement Rate Target	Sub-pillars
1	Greater and higher quality connectivity between economies	<b>Cargo transported and energy transmitted across borders (\$)</b>	<p>Transport and ICT connectivity assets established or improved (number)</p> <p>Measures to improve the efficiency and/or productivity of cross-border connectivity supported in implementation (number)</p> <p>Clean energy capacity for power trade installed or improved (megawatt equivalent)</p> <p>Regional or subregional mechanisms created or operationalized to enhance coordination and cooperation among DMCs in energy, transport, or ICT connectivity (number)</p>
2	Global and regional trade and investment opportunities expanded	<b>Trade and investment facilitated (\$)</b>	<p>Measures to improve execution of provisions in existing or new trade or investment agreements supported in implementation (number)</p> <p>Measures to develop existing and/or new cross-border economic corridors supported in implementation (number)</p> <p>Measures to improve regional financial cooperation supported in implementation (number)</p> <p>Regional or subregional mechanisms created or operationalized to enhance coordination and cooperation among DMCs in trade, finance, or multisector economic corridors (number)</p>

<sup>56</sup> ADB. 2019. *ADB Corporate Results Framework, 2019-2024*. Manila.



Pillar	Description	Indicator with Achievement Rate Target	Sub-pillars
3	Regional public goods increased and diversified	<b>Regional public goods initiatives successfully reducing cross-border environment or health risks, or providing regional access to education services (number)</b>	<p>Measures to improve shared capacity of DMCs to mitigate or adapt to climate change supported in implementation (number)</p> <p>Measures to expand cross-border environmental protection and sustainable management of shared natural resources supported in implementation (number)</p> <p>Measures to improve regional public health and education services supported in implementation (number)</p> <p>Regional or subregional mechanisms created or operationalized to enhance coordination and cooperation among DMCs on regional public goods (number)</p>

DMC = developing member country, ICT = information and communication technology

Note: indicators in bold font are results framework indicators; the rest are tracking indicators.

Source: Asian Development Bank (ADB). 2019. ADB Corporate Results Framework, 2019-2024.

# APPENDIX 1

## CONTRIBUTION OF SECTOR AND THEMATIC AREAS TO THE OPERATIONAL PLAN

Sector and Thematic Group	Contribution to Operational Plan: Fostering Regional Cooperation and Integration
Climate Change and Disaster Risk Management	Mainstream disaster resilience into all regional cooperation and integration (RCI) operations in infrastructure, urban economic zones and industrial parks, and agriculture logistics hubs to preserve functioning supply chains. It will also support (i) regional disaster risk management and finance; (ii) regional climate data consortia to support cooperation on climate change; (iii) cross-border energy and natural resource management, addressing transboundary water and air pollution, and the protection of biodiversity; and (iv) regional cooperation and knowledge sharing on the design, development, and implementation of domestic emissions trading systems and their interlinks.
Education	The education sector will support RCI in the following areas: mutual recognition of qualifications and standards (education and skills) and common approaches to technical areas (student assessment, labor market assessment, benchmarking standards).
Energy	New technology and operations management for increasing the supply of renewable energy systems adapted to cross-border energy trade to help ensure regional energy security and help reduce carbon dioxide emissions by maximizing renewable energy-based power generation.
Environment	The Asian Development Bank (ADB) will continue to support regional cooperation initiatives to manage critical transboundary ecosystems and other public goods that sustain livelihoods in the region, such as the Greater Mekong Subregion Program. ADB will extend policy dialogue and facilitate regional knowledge sharing and collaboration in these areas: (i) promoting and investing in natural capital (e.g., forests, watersheds, wetlands, landscapes, marine ecosystems, urban ecosystems) and (ii) addressing complex regional environmental issues (e.g., marine pollution).
Finance	Support regional financial cooperation for enhancing the funding and financing of cross-border infrastructure investments, deepening financial markets, favoring efficient financial intermediaries through competition in the finance sector, pooling regional risk, and strengthening financial institutions and regulations.
Gender Equity	Support women's jobs and entrepreneurship in regional trade and tourism, as well as infrastructure development (including special economic zones) in border towns. Integrating gender equality provisions in regional policy dialogues in trade, tourism, agricultural value chains, education, skills, and labor markets, and regional health through subregional cooperation platforms.
Governance	Assist in (i) increasing government's capabilities to expand sector development programs beyond domestic focus, and (ii) enhancing government capacity to create policy reforms that promote competitiveness based on a country's comparative advantage. Good governance is also key in addressing development challenges common to countries in the region (e.g., climate change, corruption, disasters, conflict resolution, and/or peace and security).

Sector and Thematic Group	Contribution to Operational Plan: Fostering Regional Cooperation and Integration
Health	Support member countries to develop regional, multicountry, cross-border, and multisector responses to communicable disease control resulting in increased health security by building resilient, efficient, and responsive health systems.
Rural Development and Food Security	ADB's food security investment will focus on (i) regional policy dialogue for increased food trade and the harmonization of food safety and traceability standards under the regional cooperation programs; (ii) investment in transport, logistics, utility, and marketing infrastructure and their strategic links to improve the food distribution efficiency in terms of distance, time, and cost; and (iii) digital technology applications and supporting policy environment and institutional capacity building for digital food trade hubs and cross-border food value chain management.
Social Development	Explore regional cooperation mechanisms and regional knowledge sharing for the integration of social risk and social development in areas such as promoting inclusive business and social protection initiatives, and regional dimensions of the "care economy." <sup>57</sup>
Transport	Provide modern, including more energy-efficient, cross-border infrastructure connectivity with expansion into information and communication technology (ICT) connectivity to support cross-border digital trade. An expansion of multimodal transport systems (roads, rail, ports, aviation) in the context of competitive economic corridors. Modern cross-border logistics incorporating more ICT, capable of supporting greater diversity of goods and/or services transported, and for improving the effectiveness of detecting illicit trade. Support for designing new and/or improved inter-subregional connectivity.
Urban	Support economic corridor development by investing in infrastructure and capacity building for small and medium towns located along the corridors. Support cross-border town development including the provision of regional public goods, the enhancement of logistics facilities, and trade policies for the seamless movement of people and goods. Promote cross-border tourism activities that will help provide livelihoods to residents of border towns while also promoting local culture and goods to regional and international markets.
Water	Promote and support water information disclosure and data sharing within and/or among developing member countries. Facilitate transboundary cooperation and water security (as requested by developing member countries). Support subregional initiatives on water governance (e.g., Central Asia Regional Economic Cooperation, Greater Mekong Subregion, and South Asia Subregional Economic Cooperation).

ICT = information and communication technology, RCI = regional cooperation and integration.

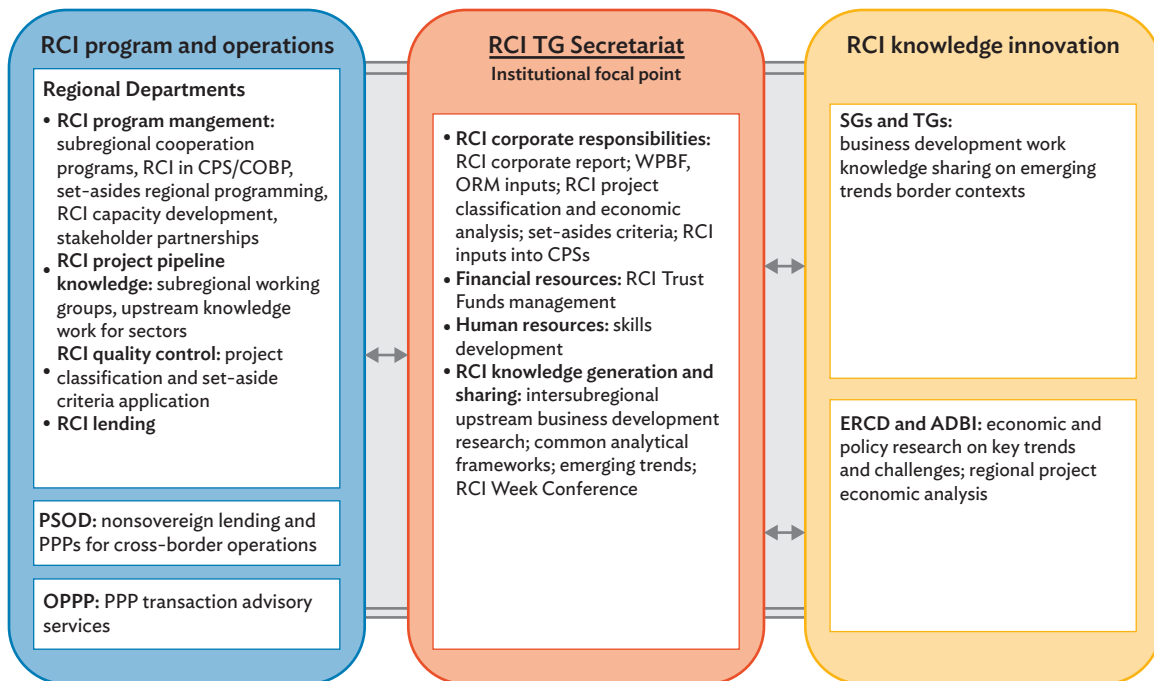
Note: This table is not intended to be nor should it be used as a complete or exhaustive catalog of all potential inputs of sector and thematic groups to the Regional Cooperation and Integration Operational Priority Area covering 2019–2024.

Source: Asian Development Bank.

<sup>57</sup> The "care economy" is concerned with the provision of material and social care for the present and future labor force, and the human population as a whole, including the domestic provisioning of food, clothing, and shelter. Finding solutions to care work is essential if women are to have equal opportunities in the world of work. Source: European Institute for Gender Equality.

# APPENDIX 2

## INTERDEPARTMENTAL COOPERATION MATRIX



ADB I = Asian Development Bank Institute, CPS = Country Partnership Strategy, COBP = Country Operations Business Plan, ERCD = Economic Research and Regional Cooperation Department, OPPP = Office of Public–Private Partnership, ORM = Office of Risk Management, PPP = Public Private Partnership, PSOD = Private Sector Operations Department, RCI = regional cooperation and integration, SG = Sector Group, TG = Thematic Group, WPBF = Work Program and Budget Framework.

Source: Asian Development Bank.

## **Strategy 2030 Operational Plan for Priority 7**

*Fostering Regional Cooperation and Integration, 2019–2024*

Fostering regional cooperation and integration is one of seven operational priorities of the Asian Development Bank (ADB) under its Strategy 2030. This operational plan specifies the strategic approaches and implementation measures required to operationalize the priority. It is part of a series that includes an overview and operational plans for all seven priorities. The series was prepared by members of ADB sector and thematic groups following extensive consultations with internal and external stakeholders.

### **About the Asian Development Bank**

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

