

SUMMARY OF SUBREGIONAL CASE STUDIES

A. Introduction

1. This linked document provides brief summaries of case studies of different subregional programs prepared for the TES. Some common features of different subregional programs are discussed in the last section.

B. Subregional Programs

1. Greater Mekong Subregion

2. In 1992, six countries—Cambodia, the People’s Republic of China (focusing on Yunnan province), the Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam—established the Greater Mekong Subregion (GMS) Economic Cooperation Program. Guangxi Zhuang Autonomous Region of the PRC joined the program in 2004. The program envisages a subregion that is more integrated, prosperous and equitable. The program is now being guided by its third 10-year development plan. Although the program operates without a formal organization or institution, the GMS unit in ADB serves as the secretariat of the program.

3. From 1992 to 2014, the GMS program implemented 69 investment projects across 10 sectors with a total investment of \$16.8 billion. In addition, nearly 200 technical assistance (TA) projects have been implemented. The overall financial support was broadly split one-third each between ADB, governments, and other donors. During 2003–2014, the reference period for the present study, 78 loan or grant projects (26% of total RCI approvals) for \$5.4 billion (24%) and 176 TA projects (20%) were approved for \$260.1 million (28%).

4. The program has a three-pronged strategy: (i) increasing connectivity through sustainable development of physical infrastructure and economic corridors, (ii) improving competitiveness through efficient facilitation of cross-border movement of people and goods, integration of markets, and enhancing value chains, and (iii) building a greater sense of community through shared social and environment concerns. The recent strategic framework focuses on 8 strategic sectors (down from the earlier 11).¹

5. The GMS program is managed by an institutional mechanism involving political and operational levels of the six GMS member countries. It has three levels: (i) GMS Summit of Leaders, (ii) GMS Ministerial Conference, and (iii) working groups. A national interministerial committee assisted by a designated focal point or national secretariat coordinates GMS activities in each country. The GMS program has paid particular attention to the importance of building strategic alliances and partnerships, especially with ASEAN, ASEAN+3, and the Mekong River Commission. It is important that the GMS program’s interactions with other subregional initiatives, such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), continue.

¹ These are: (i) developing the major GMS corridors as economic corridors; (ii) strengthening transport links, particularly roads and railways; (iii) developing an integrated approach to deliver sustainable, secure, and competitive energy; (iv) improving telecommunication links and information and communication technology (ICT) applications among the GMS countries; (v) developing and promoting tourism in the Mekong as a single destination; (vi) promoting competitive, climate-friendly, and sustainable agriculture; (vii) enhancing environmental performance in the GMS; and (viii) supporting human resource development initiatives that facilitate the process of GMS integration while addressing any negative consequences of greater integration.

6. The transport sector, which is served by GMS Transport Forum, enjoys high priority. Its focus is on roads although a GMS rail network is also envisaged. The Subregional Energy Forum is focused on developing an integrated power and energy market. Other sectors of interest include telecommunication and information and communication (ICT), tourism, and agriculture. Tourism is supported by a GMS tourism strategy, while an agriculture working group is seeking to build global competitiveness in food safety and to modernize agricultural trade in a climate-friendly natural resource environment. The environment and biodiversity receive high priority through GMS Environment Operations Center. Apart from education and skills development, the human resource development focus has also addressed safe labor migration, social protection, and HIV/AIDS-related issues.

7. GMS is the pioneer RCI program of ADB. The GMS program covers all pillars of the 2006 RCIS except pillar 3, with pillar 1 leading operations and pillars 2 and 4 in a supportive role. ADB support for communicable disease control stands out as an instance of regional public goods under RCIS.

8. As the pioneer RCI program of ADB, the GMS program covers all the four pillars of the 2006 RCIS, with pillar 1 leading operations and pillars 2, 3 and 4 in a supportive role. The Chiang Mai Initiative (CMI) and its Multilateralization (CMIM) is playing a pivotal role as a measure for monetary and financial stability. Likewise ADB support for communicable disease control stands out as an instance of regional public goods under RCIS.

9. ADB has supported all four roles in the GMS program. As a flagship program of ADB, the GMS has accessed funds, utilized ADB's experience and knowledge, and benefited from its capacity building activities. Above all, the GMS program drew liberally upon ADB's role as an honest broker.

10. The GMS has aimed to connect different areas within the subregion with physical infrastructure (primarily roads and power supply) and then populate these transport corridors with economic activities. These economic corridors attracted investments, entrepreneurs, and labor which have interacted with surrounding productive sectors, resulting in higher economic growth and contributing to rapid poverty reduction.

11. The private sector has been identified as an engine of development under the program. The GMS Business Forum seeks to promote public-private partnerships and to encourage small and medium enterprises.

12. Although monitoring and evaluation arrangements are embedded in a number of sector strategies and sector road maps, their use needs to be strengthened in order to provide effective feedback to the policy makers. It is envisaged more results matrices will be used under the program.

2. Central Asian Regional Economic Cooperation Program

13. The Central Asian Regional Economic Cooperation (CAREC) Program was started by ADB in 1996. The program promotes economic cooperation in Central Asian countries and in the beginning had the following countries as members: Azerbaijan, People's Republic of China (PRC, focusing on Xinjiang Uygur Autonomous Region), Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan. In 2005, Afghanistan, Pakistan, and Turkmenistan joined the program. For Central Asian countries, this opened up the possibility of a north-south opening to the Arabian sea through Pakistan.

14. The CAREC design also involved a partnership between member countries and a group of multilateral development partners. In addition to ADB, the European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IDB), United Nations Development Programme (UNDP), and World Bank are involved and participate in the Development Partners' Forum. ADB serves as the CAREC secretariat, which began operations in 2000. ADB supported 114 loan and grant projects (38% of total RCI approvals) for \$9.5 billion (42%) and 40 TAs (5%) for a total amount of \$52.6 million (6% of total value of RCI projects).

15. A comprehensive action plan prepared in 2006 has underpinned RCI operations in CAREC. The sectoral focus of the program was on transport, energy and trade (both trade facilitation and trade policy). The action plan's objectives were that: (i) ownership of the initiatives of subregional economic cooperation rests firmly with the participating countries, (ii) high-level consensus-building is enabled, and (iii) subregional needs in infrastructure, in particular financing and implementation, are prioritized. Under the program, four action pillars were identified: (i) subregional infrastructure networks; (ii) trade, investment and business development, (iii) knowledge and capacity building, and (iv) regional public goods.

16. The comprehensive action plan was followed by a decade-long framework for 2011–2020 (known as CAREC 2020). It focuses on two distinct but complementary strategic objectives: (i) expanding trade, and (ii) improving competitiveness. The CAREC program forged its vision in the statement: "Good neighbors, good partners, and good prospects."

17. The institutional framework had two broad levels: the policy level and the operational level. The policy level comprised ministerial deliberations addressing strategic concerns and the operational level addressed implementation of the program. In addition, there were a number of working groups and coordination committees.

18. Under pillar 1, the focus was on rehabilitating and reconstructing road networks, especially those that connect central Asian economies with European markets in the west and eastern manufacturing centers in the PRC. Given the substantial movement of goods between the PRC and the European capitals, these Central Asian roads have the potential to serve as a vital conduit, if smooth cross-border movements can be ensured. In the medium to long-term, cross-border connectivity would also help land-locked member countries and thus promote domestic economies.

19. In view of CAREC's energy-producing potential, energy transmission lines promised the development of a subregional power market, if the institutional arrangements for mutual trading could be established and made functional. The experience of the Central Asia and South Asia Electricity Transmission and Trade Project (CASA) and Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan Transmission Line (TUTAP) indicates the complexity of issues involved. In the case of CASA, difficulties were faced in reconciling the opinions of a number of member countries (Afghanistan, Pakistan and Tajikistan). TUTAP was eventually cancelled.

20. In terms of pillar 2, trade policy and trade facilitation were rightly identified as important aspects of RCI under the CAREC program. The Trade Policy Coordination Committee (TPCC) was expected to support operations. The objective of trade expansion was to assist in realizing the vast potential for continental trade spanning the entire Eurasian region, which inevitably traversed Central Asia. Under trade policy, ADB provided support on issues related to accession to WTO and for the establishment of procedures and protocols for promoting intra-regional trade. Progress in this regard has, however, been slow. The Public Management, Financial Sector, and Regional Cooperation Division in EARD, which leads the trade facilitation group of CAREC, is assisting in this regard.

21. Instead of developing financial and capital markets, creating financing instruments, and introducing a single currency under pillar 3, in CAREC the emphasis has been on mobilizing savings for trade-related infrastructure, investments and possibly trade finance. Similarly, there has not been much progress under pillar 4, although notionally this pillar includes communicable disease control, agriculture, disaster risk management and mitigation within its scope. The CAREC Institute is expected to help in this regard. However, most governments have tended to prioritize national investments over regional and subregional projects. This has resulted in a tenuous link between CAREC programs and national development programs. As a corollary to trade expansion, the role of the private sector and public-private partnerships (PPPs) was envisaged as vital in the economic development of CAREC subregion. The Business Development Forum (set up in 2006) and the CAREC Federation of Carriers and Forwarders Association (set up in 2009) are expected to play an important role in these areas but so far private sector involvement has been limited. It is anticipated that the transport corridors will be transformed into logistic corridors and further into economic corridors in a phased manner.

3. South Asia Subregion Economic Cooperation (SASEC) Program

22. SASEC started in 1996 as the South Asian Growth Quadrangle (SAGQ) comprising Bangladesh, Bhutan, India and Nepal. All four countries are part of the larger South Asian Association for Regional Cooperation (SAARC), which approved the formation of these four countries into SAGQ in 1997. In 2000, SAGQ was transformed into SASEC to promote closer economic cooperation among the four member countries. In 2014, the Maldives and Sri Lanka joined SASEC.

23. At the time of the inception of SASEC, there was virtually no trading or any other substantive economic relationship between Bhutan and Bangladesh, or between Nepal and Bangladesh. However, all three countries had an active trading and economic relationships with India, especially with its eastern areas. Bhutan and Nepal were land-locked but had had bilateral trade and transit treaties with India since the 1950s. Bangladesh had an independent outlet in the Bay of Bengal along with its historical road and railway links with India, although these were generally in a state of disrepair and were dysfunctional. Given the proximity of Bangladesh, Bhutan and Nepal to each other and to India, the area naturally formed a cohesive subregion.

24. The SASEC program had a specific significance for India too. The north-eastern flank of India borders the PRC in the north and Myanmar in south. The north-eastern states could play a lynchpin role between South and Southeast Asia. The current government in India attaches a high priority to the SASEC program, and views it as a vital link between India and Southeast Asian economies.

25. While Myanmar is rightly seen as an important step in linking South and Southeast Asia, the formal institutional arrangements for Myanmar's inclusion under SASEC have yet to evolve. At present, Myanmar attends SASEC meetings as an observer.

26. The initial SASEC subregional strategy identified six operational areas: energy and power; environment; information and communication technology; tourism; trade, investment and the private sector; and transport. These were subsequently reduced to only three: trade facilitation, transport, and energy.

27. ADB is supporting a trade facilitation program in the subregion. Transmission lines between India and Nepal are being erected and electricity generated in an ADB-supported hydropower plant in Bhutan is being exported to India. Transmission of energy between Bangladesh and India is also taking place through the Bheramara project. Not much work has been done so far under pillars 3 and 4.

28. During 2003–2014, 55 loan and grant projects were undertaken in the subregion for \$3.9 billion. These constituted 18% of all ADB RCI projects by number and 17% by amount. In addition, 70

TA projects for \$64 million were approved. However, the loan and grant portfolio is heavily lopsided in favor of pillar 1, as hardly any projects were approved under pillars 2, 3 and 4. Little has been attempted in such complex areas as water resources and water management, environment or natural disasters. TA projects were more balanced across the pillars.

29. Potentially, the private sector, including PPPs, has an important role in promoting economic development in SASEC. Given the political sensitivities of the subregion, ADB has been proceeding cautiously and participation by other donors in SASEC is at a low level.

4. Pacific Subregional Cooperation Program

30. The Pacific subregion comprises 14 Pacific island DMCs, characterized by small islands dispersed across large ocean area. These islands have small populations, limited natural resources, and isolated markets. Their economy is mostly dependent upon small businesses, remittances, tourism, and aid.

31. There are a number of subregional organization in the Pacific supporting economic cooperation in various sectors and areas. Foremost among these are the Pacific Islands Forum and the Secretariat of the South Pacific Community. The Council of Regional Organizations in the Pacific (CROP) is a high-level advisory body that seeks to ensure coordination and complementarity between the activities of various subregional organizations. Similarly, the Forum Fisheries Agency (FFA), and the Public Financial Technical Assistance Centre (for financial advisory services) are good examples of subregional cooperation initiative.

32. In the Pacific strategic guidance has been via both external and ADB internal strategies. In 2005, ADB and the Commonwealth Secretariat prepared a joint report to the Pacific Islands Forum Secretariat (PIFS), titled *Towards a New Pacific Regionalism*,² which formed part of the building blocks for the PIFS to prepare the Pacific Plan.³ In 2014, a new framework for Pacific regionalism was prepared emphasizing: climate change adaptation, sustainable fisheries management, trade and transport logistics, ICT, and private sector engagement in infrastructure provision.

33. Since 1996, ADB has produced every five years a regional strategy for Pacific countries, which consistently emphasized subregional cooperation in its operational strategies for the Pacific. The 2015 Interim Pacific Approach is the most recent strategy.⁴

34. Between 2003 and 2014 ADB's portfolio with RCI theme comprised five loan projects (\$79.5 million), four grant projects (\$71.2 million), and 53 TA projects (\$104.24 million). ADB support included: an ADF loan to the University of South Pacific to support establishment of new campuses in Kiribati and Solomon Islands and a Pacific Regional Information and Communication Technology Connectivity Program connecting Samoa, Solomon Islands, Tonga, and Vanuatu by optic fiber cables to the global submarine cable network. ADB has also supported subregional professional services in public sector management, tax administration, banking regulation, audit support, and macroeconomic statistics.

35. Weak capacity and lack of commitment and ownership of RCI on the part of the governments has impeded progress. RCI activities will require an increase in donor support over and above their regular bilateral support.

² ADB and Commonwealth Secretariat. 2005. *Towards a New Pacific Regionalism*. Manila.

³ Pacific Islands Forum Secretariat. 2007. *Pacific Plan*. Suva.

⁴ ADB. 2005. *Interim Pacific Approach, 2015*. Manila.

5. Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)

36. The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)⁵ was launched in 1994 to address the subregional inequalities in development across and within the four nations involved. The program comprised Brunei Darussalam; Indonesia (Kalimantan, Sulawesi, Maluku and West Papua); Malaysia (Sabah and Sarawak and the federal territory of Labuan); and the Philippines (Mindanao and Palawan). ADB has been BIMP-EAGA's regional development advisor since 2001.

37. The cooperation is anchored on five strategic pillars: (i) connectivity, (ii) food strategy, (iii) tourism, (iv) environment, and (v) trade and investment facilitation. The long-term goal is to ensure that non-resource-based industries are established in the subregion. BIMP-EAGA cooperation aims to increase trade, tourism and investments within and outside the subregion and to take full advantage of the subregion's resources and the existing complementarities.

38. The Summit of Leaders is the highest policy level mechanism of BIMP-EAGA and takes place annually. At the subregional level, operations are supported by ministerial meetings and senior officials meetings. The core operational mechanism consists of four working group clusters representing the priority sectors. The BIMP-EAGA Business Council (BEBC) is the official representative organization of the private sector, and is accorded "fifth country" status in recognition of its standing as an equal partner in the development of the subregion. The BIMP-EAGA Facilitation Center (BIMP-FC) acts as the subregional secretariat.

39. ADB's usual support is in the form of TA projects for institutional strengthening and capacity building, private sector development and project identification. In 2008, the BIMP-EAGA governments decided to prioritize community-based eco-tourism for poverty alleviation. Under BIMP-EAGA a number of ADB projects have been carried out in the Coral Triangle area.⁶ These include: strengthening coral and marine resource management; knowledge management, policy and institutional support; and developing sustainable alternative livelihoods in coastal fishing communities.

40. In 2013, ADB approved its first BIMP-EAGA loan for \$49.5 million to build a cross-border power transmission line linking West Kalimantan in Indonesia with Sarawak in Malaysia. This is being complemented by a second loan project to finance the transmission line on the Malaysia side.

6. Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)

41. The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) began in 1993 as a subregional framework for accelerating economic cooperation and the integration of the member states and provinces in the three countries. The program currently covers 14 provinces in southern Thailand, eight states of Peninsular Malaysia, and ten provinces of Sumatra in Indonesia.

42. The strategic objectives of IMT-GT relate to: (i) facilitating trade and investment, (ii) promoting agriculture, agro-industry and tourism, (iii) strengthening infrastructure links and supporting integration of the IMT-GT subregion, (iv) addressing cross-sectoral concerns such as human resource development, labor and environment, and (v) strengthening institutional arrangements and mechanisms for cooperation.

⁵ <http://www.adb.org/countries/subregional-programs/bimp-eaga>

⁶ The Coral triangle is a geographical term referring to a roughly triangular area of tropical marine waters of Indonesia, Malaysia, Papua New Guinea, Philippines, Solomon Islands, and Timor-Leste.

43. A Leaders' Summit, ministerial meetings, senior official meetings, and some specific working groups constitute the institutional structure of IMT-GT. The Center for IMT-GT Subregional Cooperation (CIMT) serves as the central body for monitoring and coordinating RCI activities. The Joint Business Council serves as the private sector counterpart. A Governors' Forum promotes and facilitates projects at the local government level.

44. ADB assisted in the preparation of the Implementation Blueprint for 2012–2016. ADB has also been involved in a number of activities, including identifying feasible border economic zones between Malaysia and Thailand; a scoping study for the green cities initiative; analysis of the feasibility of roll-on-roll-off services, power transmission projects; and the development of a database on trade, investment and tourism, among others.

45. ADB is valued for its technical advice, knowledge work, financial assistance and most of all for its honest broker role. Private sector initiatives at the local level seem to be impeded by lack of information, finances and local stakeholders' support.

7. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

46. BIMSTEC was launched in 1997. The members are Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. BIMSTEC supports SASEC at the project level, and supports SAARC at the subregional level. It links two diverse and dynamic subregions: South Asia and Southeast Asia.

47. BIMSTEC is managed by the BIMSTEC working group, which comprises the ambassadors of the member countries to Thailand and the Director General of the Thailand Department of International Economic Affairs. The BIMSTEC secretariat is established in Dhaka, Bangladesh.

48. Trade-led economic integration through the BIMSTEC Free Trade Area (BFTA) is one of the key objectives of BIMSTEC. The present level of intra-BIMSTEC trade is minimal as the area faces institutional, regulatory and infrastructure obstacles. BIMSTEC is in need of larger investments addressing issues in the following sectors: energy, agriculture, public health, poverty alleviation, counter-terrorism, and measures against transnational crime.

49. ADB support has facilitated a subregional strategy for transport, which serves as a foundation for future public investment and mobilization efforts. ADB's involvement is thus presently focused on pillar 1. Strengthening of road and railway networks is being supported by ADB through a study of BIMSTEC Transport Infrastructure and Logistic Study (BTILS). The program has identified 14 road corridors, 4 rail corridors, 2 inland waterways, 11 maritime gateways, and 15 aviation gateways. Road and railway corridors overlap with the Asian Highways Network (AHN), and Trans-Asia Railway Network (TARN) routes.

50. To address environmental and climate change concerns, BIMSTEC has signed an agreement on setting up a Center for Weather and Climate in India.

8. Salient Features of ADB's RCI efforts

51. Below are the salient features of ADB's RCI efforts.

- (i) Following its role as an honest broker, ADB pursued RCI in a pragmatic manner, preferring to build on existing pathways. ADB has operated within the constraints of prevailing structures of member states, often using a 10-year strategic framework for developing road maps for RCI operations. It has been sensitive to the characteristics of member states, and has generally side-stepped controversies.
- (ii) Building a foundation for medium- to long-term cooperation among DMCs, ADB has focused on supporting pillar 1, and within that establishing connectivity through an emphasis on transport and energy transshipment. After the 1997 Asian financial crisis, ADB also started emphasizing the monetary and financial arrangements for RCI, which is being pursued in a phased manner and has so far focused largely on East, and Southeast Asian countries.
- (iii) Under regional public goods, other common concerns including environmental sustainability, communicable disease control, disaster risk, and relief management have been supported largely through technical assistance grants. ADB has pursued these objectives despite the fact that these operations did not always involve regular lending operations.
- (iv) Once infrastructure, energy markets and provision for public goods are in place, RCI activities in member countries have moved on to focus on economic competitiveness, with an enhanced focus on the private sector and trade facilitation.
- (v) ADB has displayed flexibility in identifying priority sectors or delimiting the scope of RCI activities in member countries. For example, SASEC initially started with six focal areas but it was soon realized that the program was too ambitious. Hence, the scope was reduced to transport, energy, and trade. Similarly, ADB has readily accepted food security, public health, and climatic change concerns under RCI activities. In some regions, such as the GMS, the scope has remained wide and covers as many as eight areas. In the case of CAREC, RCI activities have been undertaken in only four areas. Given the flexibility of ADB's approach to RCI and its multi-track, multi-speed policy, it is difficult to say, without more in-depth analysis, whether a wider scope covering eight sectors is better than a narrow scope of only three or four sectors. The wider scope could simply be a result of ADB's longer involvement in GMS or the fact that member countries had already generated enough trust in each other, or both. The choice of the number of areas of activity is determined by member countries themselves through their ministerial meetings and working groups, and mediated by ADB in its role as an honest broker.
- (vi) Other differences can be seen across subregions. First, internal institutional arrangements and coordination of RCI activities vary in terms of levels and frequencies of meetings across ministerial level, summits, working groups and senior officers' meetings. Second, external coordination arrangements also vary. For example, multilateral donors are fully-fledged members under CAREC program but not in GMS or SASEC.
- (vii) These differences reflect the underlying political economy, degree of mutual trust, and phases of economic development in member countries and are likely to be interlinked. For example, a small regional cooperation program is likely to have relatively simple implementation arrangements, whereas a more developed program is likely to be supported by more elaborate arrangements.
- (viii) Support for subregional programs from within ADB also varied. EARD's Public Management, Financial Sector and Regional Cooperation Division supports the CAREC trade facilitation working group but this kind of cross-departmental linkage is not found anywhere else. There may be a number of reasons for this. The transitional economies of CAREC may have been unfamiliar with international trade. Alternatively, EAPF may have had a special expertise in trade facilitation. If so, this arrangement could be considered for replication throughout ADB. For instance, each regional department could develop expertise in some aspect of RCI and support specialized operations in its

own department as well as in others. This would increase the depth of technical knowledge in the ADB, and could help make the RCI program richer.