

REGIONAL COOPERATION AND INTEGRATION ASSESSMENT (SUMMARY)

A. Sector Performance, Problems, and Opportunities

1. Regional cooperation and integration (RCI) is an integral part of Asian Development Bank (ADB) operations in the People's Republic of China (PRC). All the country partnership strategy (CPS) documents since 2004 have highlighted the importance of RCI for the PRC, and RCI was one of the three pillars of the 2011–2015 CPS for the PRC. During the past CPS period, the regional orientation of the country program was further strengthened to complement ADB's support for regional cooperation programs, particularly the Central Asia Regional Economic Cooperation (CAREC) and Greater Mekong Subregion (GMS) programs. ADB worked closely with the government to support RCI through country programs and regional technical assistance, with a focus on transport connectivity, development of corridor cities, and trade facilitation to promote economic corridors. As of December 2014, ADB's RCI-related lending to the PRC comprised 23 projects for \$3.82 billion, including 7 projects in Inner Mongolia Autonomous Region (IMAR) and Xinjiang Uygur Autonomous Region (Xinjiang) for \$879 million under the CAREC program, and 16 projects in Yunnan Province and Guangxi Zhuang Autonomous Region (Guangxi) for \$2.94 billion under the GMS program.

2. The PRC has also made important contribution to RCI in the region. To strengthen the partnership with ADB for RCI, the PRC established a Poverty Reduction and Regional Cooperation Fund through an initial \$20 million contribution in 2005 and a replenishment of \$20 million in 2012. The PRC has also made efforts to share its rich development experience with other development member countries by cosponsoring with ADB various training programs under GMS and CAREC; setting up a Regional Knowledge Sharing Initiative; and most recently taking the lead in setting up the CAREC Institute.

3. Notwithstanding the progress that has been made, there is still great potential to further strengthen the PRC–ADB partnership for RCI. ADB's RCI-related assistance for the PRC has traditionally focused on improving physical infrastructure including roads, railways, ports and border cities. Most investment projects are national in nature, albeit with regional implications. Trade and investment facilitation has lagged behind construction of physical infrastructure, and enhanced facilitation efforts are needed to transform transport corridors into economic corridors. As the PRC's international trade and overseas investment grow, there is an increasing need to strengthen the economic linkages across different subregions.

4. From the domestic perspective, the PRC also faces some constraints. First, while RCI is often highlighted as one of the strategic priorities in the national development strategies, it is not always fully reflected in the development planning of the border provinces due to the mismatching incentives in the sense that the local governments often see RCI as the responsibility of the central government, with only part of the benefits accrued to themselves directly. Second, there is still a lack of long-term financing for RCI programs and projects, given that there are many competing demands on the public finance. Third, RCI projects by nature are often more complex in design and more challenging in implementation than the traditional development projects, whereas the capacity for designing and implementing RCI programs and projects still needs to be improved, especially at the local government level in border provinces.

B. Government's Sector Strategy

5. The PRC's role in the international economy has changed significantly since 1978 when the country embarked on the program of reform and opening up. In 2010, the PRC became the

world's second-largest economy. By 2013, the PRC also became the largest contributor to the global GDP growth and the world's largest exporter. While various factors have contributed to this significant success, the PRC's steady opening up and integration into the global economic system has played a critical role, bringing huge benefits to the country and the rest of the world. Further integration with the global economic system, supported by a new generation of domestic reforms, will continue to serve the country well in the future.

6. RCI is an important means of the PRC to achieve greater integration with the global economic system, and is an important part of the PRC's national development strategies. The 12th Five Year Plan for National Economic and Social Development (12th plan) which covers the period of 2011–2015 committed the PRC to “strengthen regional cooperation and south-south cooperation by making full use of various international, regional, and subregional mechanisms” (Chapter 53). The priority sectoral areas includes (i) infrastructure development for enhanced connectivity with neighboring countries; (ii) improvement of key border crossing points and border cities and/or towns; (iii) development of border and/or cross-border economic zones; and (iv) development of external-oriented industry clusters (Chapter 50). The priority geographical areas for regional cooperation includes (i) Guangxi as the “new highland” for cooperation with the ASEAN; (ii) Yunnan as the “bridgehead” for cooperation with South Asia; (iii) Xinjiang as the “base” for cooperation with central and west Asia; and (iv) IMAR, Helongjiang, Jilin and Liaoning provinces as the “pivot” for cooperation with the Northeast Asia (Chapter 50).

7. The PRC has recently announced plans to develop a so-called Silk Road Economic Belt and 21st Century Maritime Silk Road (“the Belt and Road”).¹ The strategic initiative aims to promote the connectivity between and among Asian, European and African continents, and establish and strengthen partnerships among the countries along the Belt and Road in the spirit of open regionalism. It cites five priorities for cooperation: (i) fostering economic and development policy coordination; (ii) strengthening connectivity by developing energy, transport, and telecommunications infrastructure and harmonizing standards; (iii) promoting trade and investment through customs, sanitary and phyto-sanitary cooperation, implementation of World Trade Organization's Trade Facilitation Agreement, and development of economic zones and industry clusters; (iv) deepening financial cooperation and integration; and (v) promoting people-to-people exchanges. The “Belt and Road” initiative will have implications for the sub-regional RCI programs supported by ADB—in particular the CAREC and the GMS. There is a need and also great potential to strengthen coordination and synergy between the ADB-led RCI programs and the “the Belt and Road” initiative. This is fully in line with the spirit of open regionalism which both ADB and the PRC advocate.

C. ADB Sector Experience and Assistance Program

8. RCI is one of five core operational areas under ADB's Long-Term Strategic Framework (Strategy 2020). In line with this strategy, ADB will scale up its support for RCI, increasing both the volume of its RCI operations and the share of RCI in total operations to at least 30% by 2020. The 2006 Regional Cooperation and Integration Strategy mandates ADB to support RCI through four pillars: (i) regional and subregional programs on cross-border infrastructure and related software; (ii) trade and investment cooperation and integration to promote intraregional trade and investment; (iii) monetary and financial cooperation to establish a regional financial

¹ *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*, issued jointly by National Development Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce with authorization of the State Council of the People's Republic of China, on 28 March 2015.

architecture to support greater use of Asia's savings for Asia; and (iv) cooperation in regional public goods.

9. The Midterm Review of the Strategy 2020 concludes that, while the strategic directions and priorities with regard to RCI remain valid in general, certain adjustments and improvements would be needed. In addition to further improving regional connectivity through cross-border infrastructure investments, ADB will increase support to second-generation RCI, such as those related to trade facilitation and harmonization of standards, value chain development, investment climate improvement, access to finance, and skills development. ADB will also support regional public goods, including environment protection, control of communicable diseases, fight against natural disasters, and knowledge and development experience sharing.

10. During the next CPS period, RCI will continue to form an important part of ADB operations in the PRC. ADB will strengthen its role in RCI as a financier, knowledge provider, capacity builder, and honest broker. ADB's RCI support to the PRC will continue to be programmatic and result-oriented, centered at the four pillars of the RCI Strategy, and focused on the priorities where RCI impacts are expected to be high. Where appropriate, efforts will also be made to explore new RCI opportunities, including those under the ASEAN–China Pan-Beibu Gulf Economic Cooperation framework and in the Northeast Asia. ADB will work with the PRC and other developing member countries (DMCs) to enhance inter-subregional cooperation. ADB will also help further strengthen the capacity of the PRC in implementing RCI programs.

11. **Pillar 1—Cross-Border Infrastructure and Related Software.** While improving physical connectivity will remain a priority, more opportunities will be explored with regard to trade and transport facilitation, and development of economic zones and industry clusters.

- **Strengthening Connectivity.** In transport sector, ADB will help fill the gaps and missing links in the CAREC and GMS corridor networks (especially in border areas), and support implementation of the GMS Cross-Border Transport Agreement and other relevant bilateral transport agreements. In energy sector, ADB will support power trade and regional interconnection between the PRC and its DMC partners.
- **Promoting Trade Facilitation.** ADB will strengthen support to the PRC's participation in trade facilitation under the CAREC and the GMS programs, and in implementation of the World Trade Organization's Trade Facilitation Agreement. Customs cooperation will remain a focus and the joint customs control between the PRC and Mongolia will be expanded and deepened. Sanitary and phyto-sanitary cooperation will also be supported to facilitate the trade of agricultural and food products between the PRC and its partners.
- **Developing Economic Zones.** ADB will continue to support the PRC's efforts in developing economic zones, focusing on implementing the memorandum of understanding between the PRC and Viet Nam regarding development of cross-border economic zones.

12. **Pillar 2—Trade and Investment Cooperation and Integration.** ADB will continue to support the PRC's participation in regional and subregional trade policy dialogues under various ASEAN+ mechanisms and APEC to expand trade and investment (especially intra-regionally). Assistance will also be provided on structuring, negotiating, and implementing free trade agreements (FTAs). ADB will support dissemination of lessons from PRC's experience with its WTO accession and FTAs (such as the ASEAN–China FTA) for the benefit of other DMCs.

13. **Pillar 3—Monetary and Financial Cooperation.** ADB will help develop stable and efficient regional financial markets and deepen regional financial integration. At the country level, ADB will help the PRC to further strengthen its national financial system through regulatory and supervisory reforms. At the regional level, ADB will partner with the PRC (and other DMCs in the region) to examine issues related to greater monetary and financial cooperation and integration; address regulatory and institutional impediments to regional financial integration; and support policy dialogue and implement consensus recommendations for the ASEAN+3 process.

14. **Pillar 4—Promoting Regional Public Goods.** ADB will support the PRC's participation in various GMS and CAREC initiatives on environment (including climate change), health (focusing on joint control of transboundary human and animal diseases), and some cross-cutting issues in human resource development cooperation (including mutual recognition of skills and qualifications). ADB will also support the PRC's efforts to improve the management of the environment and shared natural resources for sustainable development.

15. ADB will also work with the PRC to properly address the following cross-cutting issues:

- **Strengthening Inter-Subregional Cooperation.** ADB will work with the PRC and other DMCs to improve the inter-subregional cooperation. Pilot efforts will be made to develop Bangladesh-China-India-Myanmar economic corridor.
- **Building Capacity.** ADB will continue to help strengthen the PRC's capacities in implementing RCI programs. Special attention will be paid to meeting the capacity building needs of the border provinces involved in regional cooperation.
- **Sharing Knowledge.** ADB will provide support to the PRC in exchanging and sharing development experience (particularly RCI-related knowledge) with other DMCs, making best use of various existing initiatives and/or platforms such the CAREC Institute and the Regional Knowledge Sharing Initiative. ADB will also explore with the PRC to improve networking among the PRC's RCI-dedicated research institutions.
- **Cofinancing.** ADB will strengthen partnership with relevant PRC financial institutions (such as China Development Bank, Export and Import Bank, and the Silk Road Fund), and the newly launched Asia Infrastructure Investment Bank to jointly finance development projects in Asia, particularly those with strong RCI impacts.

16. To deliver an effective RCI program for the PRC, ADB will strive to further strengthen partnership with all the stakeholders in the PRC. ADB will also improve the internal coordination among various departments to ensure a "One ADB Approach". During the new CPS period, ADB will work with the PRC to explore new and innovative lending modalities (such as Policy-Based Lending and/or Results-Based Lending) to finance RCI projects in the PRC.