ACCELERATING REGIONAL COOPERATION AND INTEGRATION IN ASIA AND THE PACIFIC

2017 CONFERENCE HIGHLIGHTS

NOVEMBER 2019

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Notes:

In this publication, “\$” refers to United States dollars.
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On the cover: Pakistani workers offloading an Indian truck carrying cotton bales at the Wagah-Attari Cargo Terminal; farmers growing organic vegetables in Sam Sung Sub-district, Khon Kaen; Osh-Gulcho Road Rehabilitation Project in Kyrgyz Republic; and border check point on the Lao People’s Democratic Republic side of the Mekong River (photos by ADB).

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Foreword

Regional cooperation and integration (RCI) has made real progress across Asia and the Pacific, and new, large opportunities are emerging. Trends in trade, investment, and labor flows show increasing integration within the region. Driven by regional and global value chains, intra-regional trade has increased over the past decade, accounting for over 50% of total trade involving Asia and the Pacific in recent years. Similarly, intra-Asian foreign direct investment (FDI) has risen above 50% of total FDI inflows. The pace of regional financial integration has been moderate, but progress, especially in East and Southeast Asia, has led to stronger regional financial markets, including regional financial safety nets and monetary and financial cooperation. Intra-regional labor flows are small but should rise with growing investment in physical connectivity and as countries demand higher-skilled labor from across the region. Asian and Pacific nations were at the forefront of contributions by the international community to the recent global climate accord (COP21). An imperative of RCI efforts by the Asian Development Bank (ADB) is realizing the COP21 commitments of countries in the region—supporting collective action among public sector, private sector, and civil society stakeholders, and mobilizing investments in projects generating large positive cross-border benefits that mitigate climate risks for two or more neighboring countries. Regional initiatives for dealing with natural hazards, such as innovative insurance and multicountry risk pooling, can make valuable contributions toward mitigating risk-related impact.

The global and regional environment in which RCI operates is changing and evolving. There are new transboundary opportunities such as digital trade, and emerging transboundary risks, including climate change, which require collective action among countries of the region. There is a need to expand inter-subregional trade and investment. Emerging RCI initiatives have the potential to achieve stronger and broader integration among the region's economies, and to make regional trade and investment more inclusive.

This document records the major contributions of the speakers and panelists, as well as discussions in each session, including the remarks delivered by keynote speakers, during the RCI Week 2017 Roundtable Conference held at the ADB headquarters, Manila, Philippines. It was prepared to serve as an important knowledge resource for improving understanding of evolving RCI issues and challenges facing developing member countries in the Asia and Pacific region, and for strengthening the development effectiveness of ADB's future support for RCI.

Yasuyuki Sawada

Chief Economist

Economic Research and Regional Cooperation Department

Asian Development Bank

Abbreviations

ABMI	Asian Bond Markets Initiative
ABO	Asian Bonds Online
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BEZ	border economic zone
CAREC	Central Asia Regional Economic Cooperation
CBEZ	cross-border economic zone
CSIS	Center for Strategic and International Studies, Washington, DC
DFID	Department for International Development, United Kingdom
DMC	developing member country
ETS	emission trading system
FDI	foreign direct investment
4IR	Fourth Industrial Revolution
FTA	free trade agreement
GDP	gross domestic product
GHG	greenhouse gas
GMS	Greater Mekong Subregion
GVC	global value chain
ICT	information and communication technology
IFI	international financial institution
IOT	internet of things
ISA	International Solar Alliance
IT	information technology
JICA	Japan International Cooperation Agency
MIC	middle-income country
NDC	nationally determined contribution
NSEC	North–South Economic Corridor
PIF	Pacific Islands Forum
PPP	public–private partnership
PRC	People’s Republic of China
QAB	Qualified ASEAN Bank
RCEP	Regional Comprehensive Economic Partnership
RCI	regional cooperation and integration
SASEC	South Asia Subregional Economic Cooperation
SEZ	special economic zone
SMEs	small and medium-sized enterprises
WTO	World Trade Organization

Regional Cooperation and Integration Week

Regional cooperation and integration (RCI) is a Charter mandate and a critical and long-standing area of comparative advantage in Asian Development Bank (ADB) assistance to its developing member countries (DMCs). This is reflected in the continuing growth in demand for RCI knowledge services from DMCs across different parts of the region in response to ADB's RCI Operational Plan (2016–2020) and new subregional RCI strategies such as the Central Asia Regional Economic Cooperation (CAREC) 2030 and the South Asia Subregional Economic Cooperation (SASEC) Vision, and in progress toward the corporate goal of a 30% share for RCI in the overall volume of operations.

RCI is a relevant and effective approach to addressing emerging regional (and global) challenges, including filling cross-border infrastructure gaps with goal of achieving 30% RCI representation of higher-quality infrastructure and coordinating infrastructure initiatives both within and between subregions, harnessing the rise of the region's middle-income countries and large cities that drive regional flows of trade and investment, mitigating rising inequality across countries and widening spatial inequality within countries, countering inward-oriented policies and reinforcing globalization, building closer integration of financial systems while strengthening their collective supervision and resilience to shocks, and mitigating the risks of climate change and health epidemics. ADB's support for RCI extends and amplifies the development outcomes from other investments in key economic and social sectors by focusing on infrastructure connectivity across countries and markets, cross-border productivity and competitiveness, regional public goods, and collective action among RCI stakeholders, and fostering greater private sector participation in cross-border investments in the region.

*Against this global and regional background, the overarching theme for RCI Week 2017 was “Accelerating RCI in Asia for Supporting Economic Growth, Shared Prosperity, and Sustainability.” **RCI Week 2017 was aimed at promoting better knowledge and understanding in the following areas:** (i) planning and operationalizing economic corridors and economic zones to accelerate economic benefits from integration-based growth among DMC economies; (ii) supporting the acceleration of interregional trade and investment-driven economic growth oriented toward shared prosperity across the region; (iii) identifying effective stakeholder cooperation platforms for generating sustainability through financial cooperation and regional public goods; (iv) updating ADB's RCI roles as “honest broker” among RCI stakeholders, as financier, as knowledge provider, and as developer of institutional capacity; and (v) operationalizing effectively the “One ADB” approach to RCI, including corporate-wide accountability in RCI operations and institutional support. With Management's endorsement, ADB is moving forward with specific initiatives to upgrade the organization's RCI skills and capabilities and career development, and to further improve corporate-wide RCI reporting and accountability.*

Participants at RCI Week 2017 were DMC officials with key RCI responsibilities in their respective countries, ADB Management, ADB staff with core RCI responsibilities, and external development partners who work alongside ADB to foster and invest in RCI across Asia and the Pacific. External (non-ADB) participants participated in various sessions only on Day 1 and Day 2 (27–28 November); Day 3 (29 November) involved only ADB participants.

Conference Program

Accelerating RCI in Asia and the Pacific for Economic Growth, Shared Prosperity, and Sustainability

RCI Roundtable Conference: Economic Corridors and Cross-Border Economic Zones to Support Economic Growth in the Region

Monday, 27 November 2017

Auditorium Zones A and B, Asian Development Bank, Manila, Philippines

PROGRAM

Time	Session	Moderator and Panel
9 a.m.–9:05 a.m.	Welcome Remarks and Introduction of Keynote Speaker	Mr. Arjun Goswami , Chief of Regional Cooperation and Integration Thematic Group, ERCD, ADB
9:05 a.m.–9:20 a.m.	Keynote Address: <i>“Accelerating RCI in Asia and the Pacific for Economic Growth, Shared Prosperity, and Sustainability”</i>	Mr. Takehiko Nakao President, ADB
9:20 a.m.–10:40 a.m.	SESSION 1: Strategic Planning Framework of Economic Corridors: Joint ADB, DFID, JICA, and WB Report on Economic Corridors <u>Presenter:</u> Mr. Martin Melecky , Lead Economist, South Asia Region, WB	<u>Moderator:</u> Ms. Amy S. P. Leung , Director General, Sustainable Development and Climate Change Department, ADB <u>Panel:</u> Mr. Yasuyuki Sawada , Chief Economist and Director General, ERCD, ADB Mr. Koki Hirota , Chief Economist, JICA Mr. Martin Rama , Chief Economist, South Asia Region, WB Mr. Duncan Overfield , Deputy Head and Regional Economic Development Lead, DFID
10:40 a.m.–11:00 a.m.	Coffee/Tea	

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Table continued

Time	Session	Moderator and Panel
11 a.m.–12:30 p.m.	SESSION 2: Economic Corridors and Development Impact in Middle-Income Countries Presenters: Mr. Jayant Menon , Lead Economist, ERCD, ADB Mr. Ying Qian , Director, EAPF, ADB	Moderator: Mr. Diwakar Gupta , Vice-President, Private Sector and Cofinancing Operations, ADB Panel: Mr. Suthad Setboonsarng , Board Member of Bank of Thailand, Banpu PLC, and Cambodia Development Research Institute (CDRI) Mr. Pham Thanh Tung , Former Director General of International Cooperation Department, Ministry of Transport, Viet Nam Mr. Rishikesh Singh , Director (Multilateral Institutions), Department of Economic Affairs, Ministry of Finance, India Mr. Wu Tiancheng , Director, Foreign Capital Utilization and Overseas Investment Division, Guangxi Development and Reform Commission, People's Republic of China
12:30 p.m.–1:30 p.m.	Lunch	ADB Executive Dining Room (EDR) Special Facilities Block
1:30 p.m.–3 p.m.	SESSION 3: Subregional Economic Corridors Presenters: Mr. Cuong Minh Nguyen , Principal Regional Cooperation Specialist, SERC, ADB – <i>to present the GMS experience in corridor development and GMS geographic directions</i> Mr. Kristian Rosbach , Economist (Regional Cooperation), CWRC, ADB – <i>to present report on Almaty–Bishkek Economic Corridor</i> Mr. Hoe Yun Jeong , Principal Economist, SARC, ADB – <i>to present report on India's East Coast Economic Corridor (ECEC)</i>	Moderator: Mr. Ayumi Konishi , Special Senior Advisor to the President, ADB Panel: Mr. Thiru S. Krishnan, IAS Principal Secretary to Planning and Development Department, Government of Tamil Nadu, and Chief Executive Officer, Tamil Nadu Infrastructure Development Board, India Mr. Martin Rama , Chief Economist, South Asia Region, WB Mr. Duncan Overfield , Deputy Head and Regional Economic Development Lead, DFID
3 p.m.–3:30 p.m.	Coffee/Tea	

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Table continued

Time	Session	Moderator and Panel
3:30 p.m.– 5 p.m.	SESSION 4: Developing New Cross-Border Economic Zones and Economic Corridors Presenters: Mr. Alfredo Perdiguero , Director, SERC, ADB – to present <i>Scoping Study for the Special Economic Zone in IMT-GT</i> Ms. Anna Fink , Economist (Regional Cooperation), ERCD, ADB – to present <i>Timor-Leste-Indonesia RCI paper</i>	Moderator: Mr. Bambang Susantono , Vice-President, Knowledge Management and Sustainable Development, ADB Panel: Mr. Suahasil Nazara , Deputy Minister of Finance / Chairman of Fiscal Policy Agency, Ministry of Finance, Indonesia Mr. Mothi Kothandabhany , Director, Regional Development Section, Prime Minister's Department, Economic Planning Unit, Malaysia Mr. Paolo Spantigati , Country Director, Timor-Leste Resident Mission, ADB
5 p.m.–5:05 p.m.	Closing Remarks	Mr. Bambang Susantono , Vice-President, Knowledge Management and Sustainable Development, ADB
5:05 p.m. – 7 p.m.	Cocktails	ADB Private Dining Room, Special Facilities Block

CAREC = Central Asia Regional Economic Cooperation, CWRC = Regional Cooperation and Operations Coordination Division, Central and West Asia Department; DFID = Department for International Development, United Kingdom; EAPF = Public Management, Financial Sector, and Regional Cooperation Division, East Asia Department; ERCD = Economic Research and Regional Cooperation Department; GMS = Greater Mekong Subregional Cooperation Program; IAS = Indian Administrative Service; IMT-GT = Indonesia-Malaysia-Thailand Growth Triangle; JICA = Japan International Cooperation Agency; SARC = Regional Cooperation and Operations Coordination Division, South Asia Department; SASEC = South Asia Subregional Economic Cooperation; SERC = Regional Cooperation and Operations Coordination Division, Southeast Asia Department; WB = World Bank.

Note: The full set of presentations made during RCI Week may be found at <https://aric.adb.org/events/rci-week-2017>.

Accelerating RCI in Asia and the Pacific for Economic Growth, Shared Prosperity, and Sustainability

*Emerging Regional Cooperation and Integration (RCI) Initiatives, Financial Cooperation,
and Regional Public Goods: Supporting Shared Prosperity and Sustainability in the Region*

Tuesday, 28 November 2017

Auditorium Zones A and B, Asian Development Bank, Manila, Philippines

PROGRAM

Time	Session	Moderator and Panel
9:15 a.m.–9:20 a.m.	Welcome	Mr. Arjun Goswami , Chief, Regional Cooperation and Integration Thematic Group, ERCD
9:20 a.m.–9:30 a.m.	Introduction	Mr. Yasuyuki Sawada , Chief Economist and Director General, ERCD, ADB
9:30 a.m.–12 noon (Coffee/Tea: 10:50 a.m.–11:05 a.m.)	SESSION 1: Emerging RCI Initiatives A. <i>Trade and Trade Facilitation</i> <ul style="list-style-type: none"> Connectivity and Trade Facilitation for Inclusive Growth ASEAN+6 Architecture B. <i>Connectivity and Competitiveness</i> <ul style="list-style-type: none"> Connecting Asian Initiatives Technology, Competitiveness, and Digital Trade 	<u>Moderator:</u> Mr. Ramesh Subramaniam , Director General, SERD, ADB <u>Presenters:</u> Mr. Jong Woo Kang , Principal Economist, ERCI, ERCD, ADB Ms. Deborah Elms , Executive Director, Asian Trade Centre, Singapore (via videoconference) Mr. Arjun Goswami , Chief, RCI Thematic Group, ERCD Mr. Matthew Goodman , William E. Simon Chair in Political Economy and Senior Adviser for Asian Economics, CSIS, US Mr. Ziyang Fan , Project Head, Digital Trade and Cross Border Data Flows, World Economic Forum (via videoconference), US
12 noon–1:30 p.m.	Lunch	ADB Executive Dining Room (EDR) Special Facilities Block
1:30 p.m.–3:00 p.m.	SESSION 2: Regional Cooperation for Financial Stability and Resilience <ul style="list-style-type: none"> Special Theme Chapter of AEIR 2017 ASEAN+3 Bond Market Initiative including Asian Bond Monitor 	<u>Moderator:</u> Ms. M. Teresa Kho , Deputy Director General, EARD, ADB <u>Presenters:</u> Ms. Cyn-Young Park , Director, ERCI, ERCD, ADB

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Table continued

Time	Session	Moderator and Panel
		<p>Mr. Noritaka Akamatsu, Senior Advisor (Financial Cooperation and Integration), EROD, ADB</p> <p>Mr. Joseph Zveglic, Jr., Director, ERMR, ERCD, ADB</p> <p><u>Discussants:</u></p> <p>Mr. Atsuhiko Yoshitsugu, Director for Promotion of Regional Financial Cooperation International Bureau, Ministry of Finance, Japan</p> <p>Mr. Thomas Benjamin Marcelo, Director, International Relations Department, Bangko Sentral ng Pilipinas, Philippines</p>
3 p.m.–3:15 p.m.	Coffee/Tea	
3:15 p.m.–4:45 p.m.	<p>SESSION 3: Regional Public Goods</p> <ul style="list-style-type: none"> • Trade and SDG 13 • Carbon Trading in Asia • Renewable Energy in Asia • Collective Action for Climate Change and Environmental Protection 	<p><u>Moderator:</u></p> <p>Mr. James Patrick Lynch, Deputy Director General, PARD, ADB</p> <p><u>Presenters:</u></p> <p>Mr. Andrew Prag, Energy Analyst, World Energy Outlook, International Energy Agency (via videoconference)</p> <p>Mr. Andrei Marcu, Director, European Roundtable on Climate Change and Sustainable Transition; Senior Fellow, ICTSD, Geneva, Switzerland</p> <p>Mr. P. K. Pujari, Adviser, ISA, National Institute of Solar Energy Campus, India</p> <p>Ms. Cristelle Pratt, Deputy Secretary General, PIFS, Fiji</p>
4:45 p.m.– 5:00 p.m.	Closing Remarks	<p>Mr. Juzhong Zhuang, Deputy Chief Economist and Deputy Director General, ERCD, ADB</p>

ADB = Asian Development Bank; AEIR = Asian Economic Integration Report; AMRO = ASEAN +3 Macroeconomic Research Office; ASEAN = Association of Southeast Asian Nations; CSIS = Center for Strategic and International Studies; EARD = East Asia Department; ERCD = Economic Research and Regional Cooperation Department; ERCI = Regional Cooperation and Integration Division, Economic Research and Regional Cooperation Department; ERMR = Macroeconomic Research Division, Economic Research and Regional Cooperation Department; EROD = Office of the Chief Economist and Director General, Economic Research and Regional Cooperation Department; ICTSD = International Centre for Trade and Sustainable Development; ISA = International Solar Alliance; PARD = Pacific Department; PIFS = Pacific Islands Forum Secretariat; SDG = Sustainable Development Goals; SERD = Southeast Asia Department; US = United States.

Conference Highlights

Keynote Address by ADB President Takehiko Nakao: “Accelerating Regional Cooperation and Integration (RCI) in Asia and the Pacific for Economic Growth, Shared Prosperity, and Sustainability”

Introduction

Good morning, ladies and gentlemen:

I am pleased to make a few remarks and share my thoughts at RCI Week 2017. The theme of this year’s RCI Week—how to accelerate regional cooperation and integration for economic growth, shared prosperity, and sustainability—is important and timely.

I welcome participants from around the world, including 33 of our developing member countries (DMCs), think tanks, and development partners.

Keynote Address. ADB President Takehiko Nakao.

I believe that regional cooperation is critical to securing Asia's economic future. For 50 years, ADB has supported regional cooperation and integration. It is ingrained in our Charter and will continue as part of our strategic agenda.

Recent Economic Development and Outlook

Let me start by reviewing the region's recent development outlook.

Developing Asia continues to be the world's fastest growing region, with 2017 GDP expected to grow 5.9%. Growth has been supported by more favorable external conditions. Private consumption in the region is also strong.

Trade is rebounding. Trade growth was negative in 2015 and for most of 2016 in many Asian countries, but it has recovered this year. The region's trade grew 7.4% in the first half of 2017.

Despite strong economic growth, Developing Asia faces many challenges. Let me outline a few key longer-term challenges and discuss how RCI can help to address them.

Key Challenges and the Role of RCI

Need to Reduce Inequality

The first challenge is to reduce inequality.

Asia has large income gaps across countries and widening spatial inequality within countries. In many of ADB's developing member countries, disparities exist between coastal and interior regions, between urban and rural areas, and between key production centers and lagging border areas.

Economic corridors can help reduce cross-country and within-country inequality by linking secondary towns and lagging border areas with major production centers. The Guangxi Regional Cooperation and Integration Promotion Investment Program in the People's Republic of China is an example of how economic corridors can enhance growth potential and further economic integration.

Economic corridors within countries can be scaled up across borders. Examples include the ADB-supported Vizag–Chennai economic corridor linking northeast India through Myanmar with Southeast Asia.

Need to Overcome Infrastructure Gaps

As a second challenge, massive infrastructure gaps need to be overcome.

Multimodal transport infrastructure, namely interconnecting rail, road, sea, and air transport with logistics infrastructure, expands trade and facilitates participation in global and regional value chains, particularly for SMEs.

Rail transport for freight can be promoted as an alternative to roads in order to achieve greater cost effectiveness. This has been the case with the Railways Strategy for Central Asia Regional Economic

Cooperation (CAREC), 2017–2030; the Greater Mekong Railways Association; and the Greater Mekong Subregion (GMS) Regional Investment Framework, 2013–2022.

Gateway ports are critical to multimodal transport, especially for landlocked countries. The Port of Chittagong in Bangladesh under the South Asia Subregional Economic Cooperation (SASEC) program is a prime example.

Cross-border energy infrastructure, such as transmission lines, gas pipelines, and hydropower energy trade, connect energy deficit subregions such as South Asia with energy surplus subregions such as Central Asia.

Public-private partnerships (PPP) are often essential for large-scale cross-border energy projects. The Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline is a flagship PPP of the ADB-supported CAREC program.

Information and communications technology (ICT) broadband connectivity promotes cross-border B2C (business-to-consumer) e-commerce and B2B (business-to-business) digital trade.

In the Pacific, ICT regional submarine cable systems open digital trade opportunities.

Need to Promote “Open Regionalism”

The third challenge is to achieve “open regionalism.”

We should resist an inward orientation and pursue open trade and investment regimes through global and regional frameworks.

Open regionalism strengthens RCI and complements global systems.

Through RCI, trade facilitation should be further promoted, including through customs modernization and the removal of behind-the-border barriers.

High quality regional free trade agreements can accelerate not only trade but also cross-border services and investments. The Regional Comprehensive Economic Partnership (RCEP) and the reinvigorated Trans-Pacific Partnership (TPP) can be such instruments. The ASEAN Economic Community is another good example.

Open regionalism can also support multilateral frameworks more straightforwardly. Subregional programs, such as CAREC, support the preparation of non-WTO countries to join the WTO and meet post-WTO accession obligations.

Need to Build Greater Financial Resilience

The fourth challenge is to build greater financial resilience.

Better integrated financial systems, globally and regionally, encourage economic activity, support the start-up of businesses, and provide additional resources to developing countries. They may also bring greater financial inclusiveness within countries.

But integrated financial systems make economies more susceptible to contagion and shocks. Supervision and regulation must be strengthened.

Cross-border cooperation in supervision and regulation for financial institutions, particularly for those deemed systemically important, are key. The ASEAN Banking Integration Framework and Qualified ASEAN Banks scheme, supported by ADB, are making progress.

We must achieve greater cooperation on capital market development. The Asian Bond Market Initiative (ABMI) under ASEAN+3 is an important initiative to deepen capital markets.

There is also ongoing cooperation in regional economic surveillance such as the ASEAN+3 Macroeconomic Research Office (AMRO) in Singapore.

Need to Respond to Climate Change and Provide Regional Public Goods

As the fifth challenge, there is a need to address risks like climate change and provide better regional public goods.

The frequency and severity of natural disasters are increasing. This requires regional cooperation such as regional disaster risk financing facilities, in addition to national efforts and global commitments, to improve mitigation and adaptation.

SARS and the Ebola virus disease as well as HIV and tuberculosis require us to better prepare and manage collective actions in response to epidemics. Epidemics do not respect borders. Greater coordination of health policies, standards, quarantine arrangements, and response mechanisms is needed.

Cooperation on water use among countries along the Mekong River is another important example of working together for regional public goods.

RCI has an opportunity to widen its scope by including knowledge sharing and cooperation in health, elderly care, education, and other social sectors. A regional approach to tourism promotion presents another opportunity. The GMS's Regional Investment Framework 2022 and CAREC's 2030 strategy promote cooperation in these areas.

How ADB Supports RCI

RCI as a Hallmark of ADB

RCI is a hallmark of ADB. ADB itself was created in 1966 to promote RCI in the Asia and Pacific region.

ADB has been an inventor and facilitator of subregional programs. ADB launched the GMS program in 1992, CAREC in 1997, and SASEC in 2001. ADB acts as the secretariat for these programs.

In addition, ADB has been an important partner for ASEAN-related initiatives and for cooperation among Pacific island countries.

I am glad that an increasing number of multilateral and bilateral development partners, including the World Bank, JICA (Japan International Cooperation Agency), and DFID (Department for International Development of the UK), are joining ADB-led subregional initiatives.

Finance Quality RCI Projects

ADB finances quality RCI projects. ADB has set an RCI-related lending volume target of 30% to be achieved by 2020. In 2016, RCI-related lending reached \$5.4 billion, or 27% of total lending volume.

We are cofinancing RCI projects with existing and new partners. Some CAREC road projects are cofinanced with the Asian Infrastructure Investment Bank.

Bankable PPPs are critical to bridging the financing gap. ADB has a dedicated Office of Public–Private Partnership that provides transaction advisory services for such projects.

Our Private Sector Operations Department pursues nonsovereign RCI projects, such as agribusiness value chain investments in Timor-Leste.

To prepare high quality RCI projects, ADB applies sound economic analysis and adheres to stringent social and environmental safeguards.

ADB as an RCI Knowledge Provider

ADB plays the role of an RCI knowledge provider. It publishes the annual Asian Economic Integration Report and studies on economic corridors.

ADB supports ASEAN+3 policy dialogue through technical assistance and knowledge work.

ADB's Economic Research and Regional Cooperation Department works with the CAREC Institute in Urumqi and the ADB Institute in Tokyo, as well as other research partners, in exploring innovative ideas and strengthening capacity building activities for RCI.

Purpose of RCI Week

To conclude, the purpose of RCI Week is to reaffirm the importance of RCI for economic development in Asia and showcase RCI work by ADB, our development partners, and prominent think tanks such as CSIS (Center for Strategic and International Studies), with a view to building greater momentum for RCI.

I hope the presentations and panel discussions over the next 2 days will spark a vibrant exchange of views on how RCI can play an important and effective role to meet the region's longer-term challenges and how we can accelerate RCI in Asia and the Pacific.

I look forward to your active participation.

Day 1

SESSION 1: Strategic Planning Framework of Economic Corridors (Joint ADB, DFID, JICA, and WB Report on Economic Corridors)

Session Background

The development of economic corridors encompasses transport corridor planning, including road, rail, waterway, and gateway port planning; spatial planning, generally centered on urban nodes or hubs; policy reforms, for factor markets, product markets, and transport and trade facilitation at ports, warehouses; and border crossings; and institutional implementation arrangements (cross-border, cross-sectoral, private sector delivery). Economic corridors are designed to support businesses by making available cross-border infrastructure that will enable those businesses to pursue intermediate benefits (e.g., productivity, agglomeration, foreign direct investment, or FDI, land value) as well as to take advantage of wider economic benefits (e.g., income and assets, social inclusion, environmental sustainability). Economic corridor development is inherently multifaceted and complex, involving an integrated network of transport and other infrastructure within a geographic area, policy and institutional reforms designed to improve a region's business climate, and various public and private sector investments. Given the large costs and challenges involved in the successful development of complex economic corridors that can generate investment, or FDI, land value: (i) which factors are key to making an economic corridor a success as a key instrument in economic growth by making those wider economic benefits more obtainable, and (ii) how complementary steps needed to achieve such economic benefits may be appropriately prioritized.

Presentation Highlights

An overview report, “The WEB (wider economic benefits) of Transport Corridors in South Asia,” and co-authored by the Asian Development Bank (ADB), the Japan International Cooperation Agency (JICA), the Department for International Development (DFID) of the United Kingdom, and the World Bank, was presented. The presentation emphasized the use of a holistic appraisal methodology, FIT2Deeds (the Flow, the Intervention, the Typology of impacts, the 2 types of public interventions, and the Deeds of financing and implementation), to amplify the economic benefits of investments in transport corridors and spread them more widely, and to minimize possible negative impact such as congestion, environmental degradation, and other unintended consequences. The regional focus was on South Asia—not only as one of the world's most populous and poorest regions but also as a link between East Asia, Central Asia, the Middle East, and Europe. Case studies of past and recent corridor initiatives provided rigorous analysis of the literature on the spatial impact of corridors, and offered assessments of corridor investment projects supported by international development organizations. Issues such as private sector co-investment, the impact of corridors on small enterprises and women, and issues related to the implementation of cross-border corridors were also highlighted.

Day 1, Session 1 speaker, moderator, and panelists. Martin Melecky (seated), Amy Leung, Koki Hirota, Martin Rama, Duncan Overfield, and Yasuyuki Sawada.

Main Takeaways

The main takeaways from the report (and the presentation) were:

- **Understand the challenges at hand before proceeding with large transport investments.** Countries invest in transport corridors to create an economic surplus. These big investments have big opportunity costs, so ineffective projects should be avoided. Often, the aggregate surpluses are not fairly distributed. Wider economic benefits are imperative for economic viability; their fair distribution is critical to the political sustainability of corridor investments. Corridors can spur equitable growth only when spatial impact[em dash]on nearby corridors and across different population groups—is taken seriously.”
- **Focus on wider economic benefits right from the start in designing corridor programs.** Use key complementary interventions to minimize trade-offs and support losers. Economic benefits could be amplified and more fairly distributed with the help of complementary interventions such as improving education (vocational training in select trades) and strengthening public sector governance around the corridors (administrative capacity and governance effectiveness). Other promising complementary policies are increasing openness to foreign trade and promoting industry and trade competitiveness.
- **Appraise the potential for wider economic benefits with spatial data and reliable economic methods.** Avoid assumptions. Use spatial data; collect the data if these are not available. Realize that the transport infrastructure will last for decades, and that a year of prior data collection is worth it. Use more than one rigorous method for sound economic

appraisal. Network econometrics could be best for appraising corridor placement; reduced-form regressions, for rapidly assessing the potential for wider economic benefits of corridors with decided placement; structural general equilibrium modeling, for capturing indirect and general equilibrium impact on wider economic benefits. Several methods with different strengths give options: “rapid, low capacity” appraisals including those made in pre-feasibility studies; “strategic, high-capacity” appraisals; and sequencing of more reliable (robust) methods before more efficient but risky ones.

- **Engage better with the private sector, considering disparities in regional development.** The success of a transport corridor intervention could depend on how well the private sector and civil society organizations are integrated into program design and implementation. Policy makers must therefore ensure that the private sector understands the corridor program, takes ownership, and is not overwhelmed by the risks. Data on transport corridor projects suggest that private sector engagements have been modest in volume, while the quality of engagement has come into question. Private sector involvement in corridor projects has been limited. The public sector must take the lead, while engaging better with the private sector, but must understand the implications of that sector’s profit orientation, including risk sharing. The private sector tends to cluster its investments around fast-developing growth centers near the corridors. Public investment may be needed to correct the ensuing disparities in spatial development, rebalancing rapid growth in corridor nodes with slow development elsewhere.¹

Panel Discussion

A panel of senior economists from ADB, DFID, JICA, and the World Bank offered the following key perspectives:

- **Recognize the potentially diverse spatial nature of an economic corridor** and its impact, and prepare to inculcate *an economic geography/regional planning and urban planning focus* into the design, feasibility assessment, and implementation of the economic corridor.
- **Conduct high-quality upstream work.** A considerable amount of *upstream* work needs to precede the design of an economic corridor, particularly a cross-border economic corridor. This upstream work may include the preparation or review of sectoral or multi-sectoral master plans while also recognizing the transport sector and urban sectors as “anchor” sectors; household–business–government data gathering and data analysis; review of previous or existing economic corridor performance using different methods; direct consultations with a diverse set of relevant stakeholders (public, private, civil society) who may be positively or negatively affected by the economic corridor; and systematic information sharing and deliberation on the results of all upstream analytics by concerned development finance partners who may participate in the economic corridor.
- **Ensure robust economic analysis.** Economic analysis of economic corridors must go well beyond the essential benefit–cost analysis focused on vehicle operating costs and related direct transport net benefits. Economic analysis must also cover potential impact on household and spatial income equality (within and across borders); technology transfers into the economic corridor; the potential for generating auxiliary bankable projects that

¹ ADB, UKAID, JICA, World Bank. 2018. *The WEB of Transport Corridors in South Asia*. Washington, DC: World Bank.

will mobilize new investment and establish new businesses and productive employment at key nodes of the corridor, and along and contiguous to the corridor; ways in which trade facilitation and other policy reforms might increase the scope and size of net economic benefits from the corridor; and the potential adverse environmental and congestion costs the corridor may impose, net of any investment in mitigating such costs.

- **Understand the noneconomic factors.** Noneconomic factors play a part in government decisions to approve and support cross-border economic corridors. This fact underscores the significance of robust upstream analytics and sound economic analysis, as well as the importance of encouraging the private sector to participate through direct public-private partnerships in financing and building large connectivity infrastructure, and investing around the corridor by starting new businesses, creating jobs, and transferring new technology and skills into the corridor.
- **Apply holistic and innovative methodologies to the development of new economic corridors.** The joint report presented at the session provided several valuable approaches and methodologies for identifying and capturing the wider economic benefits of economic corridors. Governments and external development finance partners should begin to apply these methodologies more systematically, but in ways that suit the specific initial conditions and broader development context bearing on the establishment of a new economic corridor. These methodologies also allow planners and economists to draw on emerging techniques for digital or artificial intelligence-based data analysis and impact assessment techniques that can process very large and interrelated data sets, thus providing analytics that better reflect the complexity of economic corridors, including cross-border corridors.

SESSION 2: Economic Corridors and Development Impact in Middle-Income Countries

Session Background

Over time, middle-income countries (MICs) seek to diversify their economic base within and across sectors; their productivity and improve their competitiveness in regional and global markets; access new technologies and FDI; capture a greater share of economic rent in the products and services they generate; and ultimately create both intermediate benefits (e.g., productivity, agglomeration, FDI, land value) and wider economic benefits (e.g., income and assets, social inclusion, environmental sustainability). Economic corridors provide a means of achieving these goals through geographic-based multimodal transport infrastructure, transport and trade facilitation, and other complementary policies and reforms. There is no single model of economic corridor development; it can depend on other factors such as as initial economic and policy conditions. Implementing corridor investment policies presents real challenges and requires institutional coordination to realize the optimal development impact for MICs. The factors that determine the success or failure of economic corridors also change over time. This session centered on a discussion of Thailand's Eastern Seaboard and an economic corridor established more recently between Guangxi (in the People's Republic of China [PRC]) and Viet Nam. Relevant lessons from these two examples for other MICs initiating and planning economic corridors were also considered.

Highlights of Presentations

First Presentation

The first presentation examined the remarkable development and performance of the automotive sector in Thailand over several decades. Half of the automotive industry's final output is now being exported. In 2015, production exceeded 2 million units, making Thailand the world's ninth-largest automotive producer. The presentation then focused on two main questions:

- Which specific policy measures contributed to the success of Thailand's automotive industry?
- As indicated by the results from a general equilibrium model, what was the economic and social impact (contribution to GDP growth and poverty reduction) of infrastructure investments and the resulting development of the automotive sector?

Enabling policies in infrastructure development. Infrastructure investment in the late 1980s centered on Laem Chabang, a high-capacity deepwater port, where large-scale investments were made in transport infrastructure and utilities. The government encouraged the development of industrial estates along the highway system connected to the port. The port, together with the industrial area immediately adjacent to it, can be considered a hub, but it was the highway system connected to it, along with infrastructure investments in electricity and water along this highway system, that created the Eastern Seaboard Corridor. This transport and infrastructure corridor facilitated the establishment and growth of final automotive assemblers, and manufacturers of parts and components. Within the corridor, industrial clusters linking final manufacturers and parts suppliers can be identified.² But the economic corridor around the port was not originally developed for the automotive industry. Trade policy had a major role to play in this outcome.

Enabling policies in trade. Heavy restrictions on the automotive assembly industry in the 1970s produced disappointing results. From the late 1980s, there was a shift to lower protection and more liberal ownership requirements. The Asian financial crisis of 1997–1998 helped facilitate reforms in the automotive industry. Policy reforms coincided with the decision of major manufacturers to relocate their production globally to lower cost. Global parts manufacturers were permitted to operate in Thailand and supply the major final product manufacturers.

Findings and lessons learned. The findings and lessons learned were as follows:

- **The impact has been significant but limited.** The increase in productivity of the automotive industry helped reduce poverty incidence, especially in urban areas, by an estimated 0.2% of the total population of 60 million. About 120,000 people moved out of poverty (footnote 2). But this estimate applies only to the automotive industry, which is part of a broader range of economic corridor investments. The decrease in poverty incidence could be higher as a whole.

² P. Warr and A. Kohpaiboon. 2017. Thailand's Automotive Manufacturing Corridor. *ADB Economics Working Paper Series*. No. 519. <https://www.adb.org/sites/default/files/publication/411926/ewp-519-thailand-automotive-manufacturing-corridor.pdf>.

- **Both infrastructure investments and policy interventions were essential.** Investments in transport and other infrastructure reduced costs for manufacturers and contributed greatly to the development of the automotive sector. However, infrastructure investments were a necessary but insufficient condition for the emergence of an export-oriented automotive sector. Also playing a key role were complementary interventions, such as changes in trade and industrial policy, as well as an exogenous shock—the Asian financial crisis.
- **Lessons learned have been embedded in the development of a new major economic corridor.** The Eastern Economic Corridor builds on the success of the earlier Eastern Seaboard Corridor and recognizes the role of complementary interventions, including:
 - multimodal transport infrastructure and logistics development, to expedite the movement of goods and services;
 - regulatory reforms, trade facilitation, and institutional changes, to improve the investment climate, facilitate the establishment of enterprises, and enable goods and services to move seamlessly within and beyond the corridor; and
 - multisector industrial and spatial planning, to encourage cluster development and maximize agglomeration effects.

Second Presentation

Discussions during the second presentation pertained to the Greater Mekong Subregion (GMS) North–South Economic Corridor (NSEC), particularly the role of the Guangxi Regional Cooperation and Integration (RCI) Promotion Investment Program.

Key drivers and catalysts. The main drivers and catalysts that defined the potential of the NSEC were: (i) better connectivity developed through the GMS Program and other initiatives; (ii) increase in cross-border trade, investment, and labor mobility between the PRC and Viet Nam; (iii) better political commitment to RCI from the PRC and Viet Nam; (iv) establishment of cross-border economic zones (CBEZs); and (v) support from the GMS Regional Technical Assistance Program.

Possible limiting factors. The Guangxi RCI Promotion Investment Program was formulated to address a number of challenges limiting NSEC performance. Key constraints were inadequate infrastructure and trade-related services in border economic zones (BEZs), gaps in cross-border connectivity, low level of small and medium-sized enterprise (SME) development, risky and costly cross-border financial transactions and perceived noncommercial risks for cross-border investment, and a lack of e-commerce platforms to support local enterprises. There was also an identified need for a more holistic approach addressing NSECD development through multisector interventions, to link and combine investments in physical infrastructure with trade facilitation measures, and for closer cross-border coordination and synergy in policy and investment planning and investment implementation. The expected output of the Guangxi RCI Promotion Investment Program comprised BEZ development, new cross-border connectivity, SME development (financial intermediation loans, business development services, skills development, cross-border labor mobility, border trade centers for SMEs), cross-border financial services, and expanded e-commerce. The expected outcome is greater realization of RCI opportunities for border areas of Guangxi and Northern Viet Nam, contributing to NSEC development. The wider impact will be greater economic integration between Guangxi and the GMS.

Main conclusions. Main conclusions of this approach—developing BEZs to catalyze, expand, and deepen the economic impact of an economic corridor—are as follows:

- **Complementarity of BEZs and economic corridors.** A BEZ is an important and effective element of economic corridor development.
- **Balanced investments in hardware and software.** There is a need to balance hardware and software investments; public and private sector participation; and a domestic as well as a cross-border focus on planning, policy, and investment for mutual benefit.
- **Joint responsibility.** Joint ownership and effective cross-border coordination are prerequisites.
- **Innovation.** Innovations and pilot projects can break down institutional barriers and allow opportunities to be used to full advantage.
- **Valuable role of multilateral development banks.** ADB's involvement in the NSEC was supportive and beneficial, particularly in relation to (i) playing the “honest broker” role for improving cross-border coordination, (ii) providing relevant knowledge and experience and supporting capacity building and institutional strengthening, (iii) supporting improved trade facilitation, and (iv) providing financing for SMEs. ADB's multitranche financing facility proved useful in organizing and financing cross-sector subprojects and highlighting their RCI features and benefits.
- **Potential for replication.** ADB is now considering similar projects in Xinjiang and Inner Mongolia.

Panel Discussion

A panel of senior officials from several Asian countries discussed the two presentations from three perspectives:

- What are the key drivers of the government's initial interest in economic corridors?
- What have the countries concerned done to achieve complementary policies and planning?
- What significant trends or changing circumstances in the region would affect future cross-border cooperation in the development of economic corridors?

Highlights. The highlights of the panel discussions were as follows:

- **Relevance and usefulness of economic corridors in advancing RCI-based economic growth.** Economic corridors help move the region's economies forward—at national, subregional, and inter-subregional levels—and link Asia's economies with global markets. The most critical factor in planning and implementing economic corridors is central government leadership and support, and a willingness to open up the economy to the regional and global markets. However, the needs and perspectives of local government must also be considered in planning, investment, and implementation, particularly in border regions where cross-border flows are handled or managed on behalf of both the public and private sectors, and

where considerable investment is made in cross-border economic zones. In developing an economic corridor, there must be a realization that domestic investment should be combined with export-led growth. The economic corridor should be viewed a spatial opportunity to facilitate infrastructure development, improve access to markets, stimulate trade and investment, boost productivity and efficiency, and improve the regulatory and institutional environment.

- **Broader national and subregional contexts.** Economic corridor planning must be premised on (i) sound understanding of global industry and market trends in relation to market growth, competitiveness, and allocation of investments in different industries; (ii) expectations and interests of foreign investors, particularly those contemplating long-term investments; and (iii) agreements among neighboring countries on the movement of goods that will allow production networks to function cost-effectively. A successful economic corridor will depend, to a significant extent, on trade cooperation among neighboring countries. At the same time, those countries may also be competitors in specific industries and in other markets. For example, without support from the Association of Southeast Asian Nations (ASEAN) Free Trade Area for the movement of automotive parts across the region, Thailand's automotive sector would not be where it is today. With respect to trade concessions, a major beneficiary of the ASEAN Free Trade Area is the automotive sector.
- **Multisector approach and long-term perspective.** The Asian experience shows that for economic corridors to achieve their potential, a long-term, multisector or inter-sectoral approach is needed. Policy reforms and investments spanning transport, manufacturing, services, trade, agriculture, labor, taxation, domestic finance, and FDI must complement one another to realize synergy and widen the impact and the distribution of benefits of economic corridors over time. In the case of the NSEC, the success of the corridor rests on the integration of different initiatives. The GMS initiatives were combined with bilateral initiatives, initially between the governments of the PRC and Viet Nam, on two sub-corridors and one economic belt. Concurrently, negotiations opened up more opportunities for cross-border education and services.
- **Openness to FDI as a success factor.** Openness to FDI has proven to be a real advantage in attracting and sustaining a successful economic corridor. In an economy with a highly developed services sector (such as India, for example), economic corridors have the potential to revitalize manufacturing and restore its leading role in the economy through new technology and skills development, improved efficiency, and product diversification, and generate more productive employment with higher wages. In an economy dominated by a weak service sector, economic corridors can incentivize many new service entities to directly support the national and international firms that make up the modern and diverse manufacturing sector.
- **Spatial approach to infrastructure investment.** The Asian experience also shows that while infrastructure investment in the economic corridor is essential, that wider spatial infrastructure investment is also critical. For example, investments in ports allow the entire value chain to operate subregionally, inter-subregionally, and globally. The development of port areas has, in some cases, led to their designation as BEZs. Other investments in the energy and power sector and the water sector provide crucial support for the operations of a growing number of manufacturing and service firms.

Day 1, Session 3 moderator and panelists. Ayumi Konishi, Thiru S. Krishnan, Martin Rama, Cuong Min Nguyen, Duncan Overfield, Hoe Yun Jeong, Kristian Rosbach.

- **Opportunities to widen development impact.** There is scope for improving the development of economic corridors and widening their development impact in the region. For example, ADB, in cooperation with the governments of the PRC and Viet Nam, is exploring new ways of speeding up activities and processes that enable cross-border trade. New initiatives involve extending credit to SMEs (and even individual citizens) to increase cross-border business activity and expand cross-border e-commerce. Economic corridors need to make a stronger contribution to improving income distribution within and across borders, and to support greater cross-border movement of labor based on market needs.

SESSION 3: Subregional Economic Corridors

Session Background

ADB pioneered the concept of economic corridors in the GMS in the late 1990s. The evolution of economic corridors in the GMS since then provides useful lessons about the role of the private sector in corridor development projects, the geographic scope of such projects, and the need for institutional coordination. The ADB-assisted Almaty–Bishkek Economic Corridor is a pilot cross-border economic corridor and a flagship regional integration project under the CAREC program. The corridor is envisioned as an integrated economic space that strengthens connectivity between the economies of Almaty and Bishkek and increases competitiveness in connected markets. ADB was invited by the Government of India to become its lead partner in the development of the East Coast Economic Corridor, India's first coastal corridor. The Visakhapatnam–Chennai Industrial Corridor (VCIC) is the first phase of this project. The three subregional economic corridors that were selected to provide initial lessons and policy considerations for other DMCs highlight the varied role of different sectors in different corridor development circumstances, the various instruments needed and the challenges involved in catalyzing private sector investment by various business segments in different economic corridors, the geographic scope of different economic corridors, and the institutional coordination mechanisms that could optimize economic corridor development.

Highlights of Presentations

Taken together, the three presentations demonstrated the potential diversity in context and goals surrounding the development of individual economic corridors across a region. In this case, the diversity encompasses the following: (i) small, landlocked economies in transition, having similar natural resources and low population densities (Almaty–Bishkek); (ii) a diverse set of neighboring economies at different levels of development and having different yet complementary economic advantages as well as natural resources (GMS); and (iii) a large country or economy with diverse internal economic strengths and advantages and having exceptional potential to affect neighboring countries in relation to RCI (India). The presentations also highlighted both similarities and differences in the approaches taken to corridor development and in the results achieved, and the continuing challenges.

Key Findings

Key findings from the three presentations were as follows:

- **An economic corridor is a geographically defined area that extends beyond a single transport route.** An economic corridor encompasses an economic zone parallel to the main transport arteries. It serves as a strategic planning framework for economic growth derived from investment, to stimulate the national and transnational movement of people, goods, services, capital, and information along the principal routes and the surrounding areas. An economic corridor may consist of an integrated national or multicountry system or network of interconnected road, rail, ports, and power infrastructure; critical border areas; centers of production (manufacturing hubs, industrial clusters, and economic zones); centers of demand (capitals and major urban centers); and gateways including important inland and maritime ports used for intra-regional, inter-subregional, and international trade. The economic corridor can be linked to regional and global production networks and value chains, and can unify domestic markets and connect them to other corridors in-country and to other countries, as well as to ports in a maritime corridor. It can serve as the backbone of various RCI platforms in various sectors of the economy, focusing government attention on reducing national boundaries or constraints on cross-border flows.
- **Economic corridors can affect the development of several sectors.** Economic corridors can foster development in various sectors, among them, transport, energy and power, agriculture, manufacturing, services, finance, tourism, information and communication technology (ICT), health, education, urban development, environmental protection, and natural disaster preparedness and mitigation. Notable impact includes (i) opening up regional markets for transport and logistics services; (ii) strengthening intermodal transport links; and (iii) facilitating the integration of economic corridors with regional and global value chains in manufacturing, agriculture, and services.
- **The road to success is strewn with a diversity of challenges.** The challenges often relate to (i) slow progress in opening up regional transport and logistics markets; (ii) limited network effects; (iii) resistance to reforms in regulatory barriers to trade, FDI, and labor mobility; (iv) weak or limited participation by the local and subregional private sector; (v) weak institutional structures, particularly outside central government; and (vi) fiscal constraints in poorer countries, which limit sovereign investment in infrastructure. There is scope for identifying new opportunities and realizing improvements in all these areas.

- **The lessons learned are also diverse.** The lessons are: (i) development of economic corridors should not be isolated from broader reform of the national economy; (ii) regulatory barriers are as challenging as infrastructure constraints; (iii) promoting the network effects of economic corridors is critical; (iv) investment and institutional development are especially important at border points, as these are gateways to corridors; (v) private sector participation is essential; and (vi) complementary investment must be made in improving trade finance and trade facilitation.

Panel Discussion

The highlights of the panel discussions were as follows:

- **Economic corridors can be transformative in structure, competitiveness, and economic growth performance.** Experience in the region and elsewhere underscores the importance of planning and designing an economic corridor that is transformative with respect to economic growth, increased diversity or modernity and competitiveness of the structure underlying that growth, the increase in the quantity and quality of the businesses and jobs created, the wider spread or distribution of private and public investments and benefits (generated by the economic corridor) over a defined geography, and the creation of new economic links (spatial and inter-sectoral or inter-industry) within and across borders. Other transformations, in labor migration and urbanization, are likely to occur as a result. Experience also points to the need for a sound understanding of the potential economic complementarity that will drive flows or establish links throughout the economic corridor (and a wider network of economic corridors that may exist or are also being planned), both within a country and especially across borders, resulting in greater specialization, productivity, scalability, and technology adoption, and higher economic rents earned. All of these aspects of a successful economic corridor give further emphasis to the importance of very systematic upstream analytical work, starting with placing or aligning the corridor within a national development or macroeconomic framework. After that, the analytical work involves identifying potential growth sectors and industrial nodes, access or links to production networks and value chains, and the associated FDI or technology transfer; assessing critical infrastructure needs; identifying critical policy reforms to further liberalize the economy and enable the corridor to function successfully; engaging with potential investors; and undertaking extensive consultations with public and private sector stakeholders at national and subnational levels. A significant body of knowledge work, sector master planning, and business research needs to be undertaken by governments, official development finance agencies, and the private sector before any significant commitment or investment is made in an economic corridor.
- **The transformative impact will depend on the initial level of national or subregional development.** The transformative impact on the economy should also be viewed in the context of the stage of development of the country or subregion. For example, one country participating in a cross-border economic corridor may still be at a stage where rural surplus labor is migrating to more productive industrial manufacturing and non-agriculture services in urban nodes. A neighboring country, on the other hand, may use its participation to partially give back to the agriculture sector by investing in high-value primary or processed agriculture products for export to high-income markets.
- **Planning an economic corridor presents special challenges in a low-population or low-economic-density development context.** Closer integration of relatively larger economic

or urban nodes will significantly improve productivity or competitiveness, specialization, technological capability, and skills in some firms, and increase flows of people, goods, services, capital, and information between the nodes. However, these markets can be comparatively small, and so the challenge becomes how to continue driving growth and productivity within the defined spatial zone or how to link up with distant economic corridors and markets. For SMEs in particular, investing in connectivity infrastructure would offer little economic incentive and would be unlikely. Perhaps digital technology platforms could connect SMEs and their specialized services with other economic corridors and markets.

- **Government and private sector commitments should be complementary and should not distort markets.** The development of an economic corridor or special economic zone (SEZ) should be based on sound economic and business-related knowledge work and associated consultations with private sector stakeholders, plus government commitment to relevant policy or regulatory reform and to infrastructure investment. This approach is more effective than fiscal incentives (e.g., tax incentives) in attracting and sustaining beneficial private sector investment, both domestic and foreign. Governments may, however, offer certain fiscal incentives to businesses depending on the private sector's commitment to invest long-term and to create more and better jobs. In other situations, a cross-border SEZ, for example, may not be designed mainly to offer specific fiscal incentives to businesses but to pilot-test changes in policies and regulations. Broadly speaking, committing to and investing in an economic corridor is, in effect, government and development or finance agencies engaging in picking winners, which is something market-based economics usually avoids doing on a sectoral or technology basis. However, the justification in the case of an economic corridor seems to be that while government or development agencies will be reducing a firm's cost of doing business, they still expect businesses to operate and not depend on a continuing stream of price and tax incentives that distort markets.

SESSION 4: Developing New Cross-Border Economic Zones and Economic Corridors

Session Background

Cross-border economic zones (CBEZs) are a special variant of SEZs that seek to promote cross-border trade and border area economic development. Given the characteristics of border areas, and lessons learned from SEZs and CBEZs elsewhere, key components of CBEZs are (i) business development and financial services for small and medium-sized enterprises (SMEs) in border areas; (ii) improved ICT connectivity, and integrated and inter-operable cross-border e-commerce platforms; (iii) improved physical connectivity; (iv) improved policy coordination and harmonization of regulations, especially in trade facilitation; and (v) support for potential growth sectors for bilateral, regional, and global trade and investment. The potential benefit of integrating CBEZs and economic corridors lies in their ability to create economic growth in border areas and strengthen the development of regional economic corridors. Border areas are typically weak links in regional economic corridors. CBEZs can facilitate trade and therefore improve regional connectivity. Furthermore, a CBEZ can act as a growth node along a transport corridor, helping to create the kind of wider economic benefits that will transform a transport corridor into an economic corridor. Linking the two ensures access to major trade gateways. Furthermore, it opens up the potential for engagement in regional and global value chains, increasing the competitiveness and attractiveness of the zone for investment.

Highlights of Presentations

There were two presentations during the session. The first presentation discussed the pre-feasibility study of a planned CBEZ between Indonesia (in North Kalimantan) and Malaysia (in Sabah) under the Indonesia–Malaysia–Thailand Growth Triangle initiative; the second presentation, the pre-feasibility study of the planned CBEZ between Indonesia and Timor-Leste.

Key perspectives and findings. The two presentations featured the following perspectives and findings:

- **Broadly speaking, an SBEZ is a subset or special version of an SEZ.** Both an SEZ and an SBEZ seek to generate a combination of commercial and welfare outcomes resulting from expanded trade and cross-border investment, and may be part of cross-border economic corridors. Either one may represent a pilot test of measures contemplated as part of future economic liberalization or instead be a permanent “special case” of government policy and regulatory practices. An economic zone connected to an economic corridor has the potential to link disadvantaged areas into wider economic corridors and markets, thus helping to reduce inequality. However, an SEZ is frequently (but not necessarily) planned, initiated, and operated on a unilaterally, and without concerted attention to cross-border spillover effects in neighboring countries. An SBEZ, on the other hand, is inherently a product of cross-border interests and dialogue, joint planning, and concern for acceptable sharing of the benefits and costs among neighboring countries. Both an SEZ and an SBEZ may provide opportunities for national and local government to achieve improved growth and development in lagging areas in ways that complement or leverage existing broader intercountry trade and investment agreements, but they do not necessarily represent a commitment to accelerate the opening up of the national economy.
- **There are four major components of analysis in planning an SBEZ.** Each presentation offered a well-structured quantitative and qualitative analysis (scoping/feasibility/business research–type methodology) of a planned SBEZ. Broadly speaking, the analysis has four major components: trade and investment, infrastructure and transport, business and financial services, and the establishment of the SBEZ and institutional arrangements for managing cross-border flows and sustaining joint cooperation. Generally, the approach begins with determining why neighboring countries want to implement an SBEZ. Specific outcomes include developing the private sector; creating better employment opportunities; developing cross-border trade and investment; reducing or limiting overconcentration of industrial agglomeration in other parts of the country; developing specific border areas; and having demonstration areas of exceptional policy or regulation to promote trade and cross-border investment, and reduce inequality and poverty.

The next stage focuses on identifying the specific location for developing an SBEZ by considering, among others, issues such as the geographic area and population that government wants to cover and benefit; fiscal incentives and sources of financing; available infrastructure; potential to develop specific value chains; access to existing economic corridors; standards and regulations; customs, immigration, quarantine, and security situation; transportation infrastructure at the borders; quality of businesses, particularly SMEs; the state of urban development in the region; and the main elements and methods or processes for joint cooperation and management of the SBEZ. The third stage considers the potential of specific industries or sectors and their products and services to expand trade

and cross-border investment if specific constraints are reduced or removed, resulting in an improved business environment for domestic and foreign investors and entrepreneurs. The final stage involves both detailed benefit–cost analysis (where feasible) in relation to individual tradable goods and services and a broader benefit–cost analysis of a program or package of public and private sector investments and the institutional and administrative costs of implementing the SBEZ.

The main segments of this methodology are not mutually exclusive and the process is not linear or entirely sequential. It is an iterative process that requires multiple back-and-forth consultation with all relevant stakeholders, plus the continuous sharing of information and findings to support the gradual development of a structured, consultative, and evidence-based (quantitative and qualitative basis) program and proposals, which stakeholders will accept and can use in meaningful ways to reach decisions. At this time, the findings of each study have shown good success. They indicate real potential for establishing new SBEZs in relation to specific sectors and specific product and service “groups, as well as new infrastructure, to the benefit of the defined geographic areas.

- **Upstream planning and analysis faces challenges, but development partners should still invest carefully in this work.** Experience shows that this approach to planning an SBEZ has a number of associated challenges and lessons learned including (i) insufficient or poor-quality data and information; (ii) the identification of practical but potentially very helpful pilot initiatives that will provide results and mitigate risks to much larger subsequent investments in the SBEZ; (iii) the ability to generate high-quality benefit–cost analysis across the full set of prioritized (by stakeholders) tradable goods and services, and for the broader SBEZ investment package; (iv) knowledge or prediction of the kinds of investments (especially from the private sector) that could be planned or generated as a result of the study; and (v) the ability to use the results of the study to inform or otherwise support broader economic corridor development or plan new SBEZs in other lagging regions nearby. Finally, development partners need to take the time, effort, and expense to invest in these types of feasibility studies (which can take 8–12 months). The results—a highly relevant and coherent knowledge product, inclusive in its preparation and thus with early ownership and a sense of shared responsibility and collective action for establishing the SBEZ—are well worth it.

Panel Discussion

A panel of senior officials from the countries covered by the two presentations shared the following views and perspectives:

- **Governments hold economic and noneconomic perspectives in relation to opening up specific border areas to greater trade and investment.** Governments (both national and local) look at border regions from several broad perspectives including trade, subnational development, and security. Opening up the border at specific locations to greater flows of goods, services, finance, information, and people has potential implications that vary depending on the standpoint taken. Studies done to help in planning and designing a CBEZ must therefore take those perspectives into account. CBEZs can help create new local markets (both supply and demand) and link lagging border regions to markets outside the CBEZ (e.g., by means of ICT-based trading platforms). However, stakeholders, in particular the national government, may prioritize local development and not necessarily want to use the CBEZ to promote economic liberalization.

- **Understanding the local development context is critical to CBEZ design and success.** Studies examining the potential of CBEZs should focus on (i) geographic proximity of economic, commercial, and social outcomes (including greater and higher-quality employment, stronger SME performance, and improved urban development); (ii) localized policy, regulatory, and financial interventions; (iii) infrastructure needs in the border regions; and (iv) the search for and prioritizing of opportunities and possibilities for greater cross-border flows based on clear economic complementarity and synergies between the targeted border regions.
- **Pre-investment studies should aim for mutual benefits and clearly define the respective responsibilities of the key stakeholders.** A CBEZ may be viewed mainly as bilateral cooperation that seeks identifiable mutual or even equal local benefits among the participating countries, and a way of achieving more inclusive development within and across contiguous border areas. This means that pre-investment studies must also define the (likely or preferred) respective responsibilities and authority of subnational as well as national governments to implement and operate the CBEZ over time. Studies should take both a medium- and long-term perspective, for example, considering one or more pilot initiatives over the medium term but taking a long-term perspective on the overall development of the CBEZ and associated public and private initiatives and investments.
- **CBEZs can also build on and leverage existing and effective cross-border activity.** It was recognized that there may be situations—for example, existing trade and cross-border investment flows are already substantial and economic complementarity in nascent products and services is strong—where developing a subregional CBEZ (involving contiguous subnational areas of at least three countries) might be considered, to achieve closer integration of local markets and greater diversification of local economies. This might involve particular focus on regional or even global production networks and value chains, but the essence of this CBEZ-based subregional integration should still be spatial and project-centered. Citizens of neighboring countries should be able to point out specific locations and tangible cross-border activity that allow and encourage them to participate in cross-border business.
- **The possibility of a multicountry SBEZ should be considered.** An SBEZ may provide an opportunity to evolve subregional economic cooperation centered more strongly on multicountry projects and less on national projects that are positioned as regional projects on the basis of some assumed cross-border impact. SBEZs encourage countries to collaborate directly in aligning domestic regulations and planning and investing in connectivity, thereby demonstrating a subregional spirit of collaboration. Where joint working committees have already been established under existing subregional cooperation initiatives, placing the planned SBEZ at the center of those committees could make it more likely that the SBEZ project will move forward and be implemented well. This approach would help ensure that the SBEZ is jointly administered on the basis of mechanisms that involve representatives from all participating countries and use agreed working relationships and authority.
- **The multilateral development bank has a strategic role as integrator.** ADB has and continues to play a strategic integrator role among the participating countries, bringing them to the table to discuss effective SBEZ planning and implementation. ADB plays a crucial role in moving the SBEZ concept forward in the region.

Closing Remarks for Day 1

Main Conclusions

Participants agreed on three main conclusions from the day's presentations and deliberations:

- **The importance of seeking new and bold approaches to regional economic integration.** The conference highlighted this matter in the context of economic corridor development. All four sessions showed how the approach to economic corridor development has continued to evolve over time, from one that is focused mainly on investment in transport infrastructure to one that is much more holistic.
- **The importance of pushing for evidence-based programming and policy making.** Building a solid evidence base is critical as stakeholders adopt more ambitious and innovative cross-border trade and investment opportunities that are not only holistic but also more complex than in the past.
- **The value of collaboration.** Whether the intent is to develop a new, innovative intervention or to push for the greater use of evidence in programming and policy-making process, success comes easier when stakeholders readily share information, expertise, and experience.

Mr. Bambang Susantono, Vice-President, Knowledge Management and Sustainable Development, ADB.

Day 2

Introduction

There were three sessions on the second day of the conference.

The first session centered on emerging RCI initiatives and other market drivers with the potential to accelerate RCI toward more intra- and inter-subregional trade and investment while encouraging open regionalism and engagement with the global economy. The session discussed formal trade and investment initiatives including (i) the ASEAN economic community and the ASEAN+6 Regional Comprehensive Economic Partnership (RCEP), which seeks to make additional progress in reducing nontariff barriers and enhance trade facilitation; (ii) infrastructure aimed at increasing the supply and improving the quality of intra-regional productivity, opening up new opportunities for RCI-based trade and investment; and (iii) new market drivers behind regional flows of trade, FDI, technology, and labor, such as trade advances in information and communication technology (ICT) that can overcome the adverse effects of geography and reduce the cost of engaging in trade while also improving firm-level competitiveness in connected markets. Speakers in this session discussed opportunities and challenges presented by the emerging RCI initiatives and market drivers, and ways of aligning the various initiatives and drivers to include more countries, businesses, and people in cross-border trade and investment, thereby contributing to greater prosperity and inclusiveness in the region.

The second session dealt with regional cooperation for financial stability and resilience. The Asian financial crisis of the late 1990s triggered a wave of financial, economic, and policy reforms. Now, 20 years after the crisis, Asia has a stronger and more resilient financial system in place, although new vulnerabilities have emerged. Speakers discussed the implications of interconnectedness, linkages, and transmission risks in the region, and the need to enhance regional cooperation to safeguard financial stability and promote resilience. Speakers also considered whether and how the lessons

Group photo. Participants of the Conference on Accelerating RCI in Asia and the Pacific for Economic Growth, Shared Prosperity, and Sustainability.

from strengthening financial integration in East and Southeast Asia can be applied in other parts of the region.

The third session focused on regional public goods. Some key development challenges facing the region necessitate collective action to generate better or new public goods. Addressing climate change through both mitigation and adaptation is a clear priority, as climate change continues to impose significant costs on the region. Future climate change impact threatens recent development gains and progress achieved. During this session, speakers considered the adverse impact of economic activities, including international trade, on the environment, and discussed how negative outcomes can be mitigated, especially in small countries and economies, through the harmonization or alignment of policies and regional approaches to investment, and the use of carbon trading and renewable energy technologies.

SESSION 1: Emerging RCI Initiatives

Session Background

Global trade is rebounding. The upturn started in 2016 and continues to accelerate because of sustained and synchronized improvements in domestic demand in advanced economies, as well as in the PRC and other large emerging-market economies. This upward trend is reflected in rising investments, positive manufacturing indexes, and high business and consumer confidence. Global output is forecast to grow by 3.6% in 2017 and 3.7% in 2018. After registering sluggish growth rates of 1.4% in 2015 and 1.7% in 2016, regional trade grew by 7.5% during the first 7 months of 2017. Although favorable external conditions helped, domestic demand and private consumption in developing Asia has been a key driver of this recovery. In 2017, gross domestic product (GDP) grew by 5.9%. Excluding new high-income Asia, the region grew by 6.4%. This cyclical upturn provides an opportunity to continue structural reforms through emerging RCI initiatives in trade and connectivity, which can further boost economic growth. Opportunities under new and emerging RCI initiatives (e.g., ASEAN Economic Community, Regional Comprehensive Economic Partnership, or RCEP, Belt and Road Initiative) can be optimized to promote further growth. These initiatives point to the need to address a variety of structural factors related to global value chain (GVC) expansion, import intensity, and the impact of various trade remedies for increased trade growth. The various RCI initiatives must be examined and considered carefully by countries, development partners, and businesses in terms of their complementarity or divergence; potential benefits, risks, and challenges; and means of harmonizing or aligning the implementation of the RCI initiatives for trade and investment growth. In addition, any new RCI initiative must take into account technology-related developments (e.g., the Fourth Industrial Revolution, or 4IR) whose impact is likely to provide both opportunities and challenges for the future of Asia's GVCs, and for businesses of all sizes to participate in digital trade.

Highlights of Presentations

The session had five presentations, in two parts: Part 1, on recent trends in trade and trade facilitation in Asia and the Pacific, and the ongoing RCEP negotiations; and Part 2, on the realization of opportunities for connectivity, various visions for reconnecting Asian economies, and ways in which the 4IR may affect RCI in Asia and the Pacific. A panel discussion was held after the first two presentations, and again immediately after the fifth and final presentation.

Day 2, Session 1 moderator and panelists. Ramesh Subramaniam, Jong Woo Kang, Matthew Goodman, and Arjun Goswami. Insert photo via videoconference: Ziyang Fan.

First and Second Presentations

The key perspectives and findings from the first and second presentations were as follows:

- Recent data point to a global trade recovery.** Asia is leading the recovery in global trade growth as intra-regional trade integration continues to deepen. RCI is driven by trade and investment, but Asia's value chain links with the global economy have weakened. As Asia is now a global player in e-commerce, new technology can be leveraged to make trade-driven growth more inclusive, for example, by improving cross-border market access for SMEs, although this will require removing regulatory barriers to digital trade. Asia still lags behind Europe in the implementation of World Trade Organization (WTO) Trade Facilitation Agreement (TFA). Overall, trade facilitation has improved, but challenges remain. The implementation of the WTO TFA and other trade facilitation measures is aimed at reducing trade costs; including digital measures will result in much larger benefits. A recent study shows that reducing processing time at the border could significantly increase trade flow in Central Asia Regional Economic Cooperation (CAREC) countries, translating into a projected increase of \$1.4 billion in intra-regional trade.
- The Asian trade landscape is changing rapidly.** As Asia figures prominently in global trade patterns, intra-regional trade is likely to grow further, given demographic trends. The Asian region is becoming an important final market in its own right. Emerging and developing Asia's share of world GDP (at purchasing power parity) increased from around 19% in 2000 to 37% in 2016. During the same period, the share of emerging Asian economies in total global exports of goods grew from about 8% to 21%. Asia is a critical hub for regional value chains and GVCs. But the large number of existing tariffs is very problematic for GVCs, as these are compounded at every border crossing. Incompatibility of country standards is also increasingly becoming a problem. The region has many existing trade agreements, including

free trade agreements (FTAs), but their treatment of tariffs is inadequate and involve multiple and complex rules of origin and customs procedures, resulting in cumbersome, paperwork-intensive processes and time delays. Often, services are not covered, and nontariff issues, including standards, are excluded. Businesses are generally not consulted (or poorly consulted) during FTA negotiations. There are sound reasons for establishing an RCEP, which is designed to be a comprehensive agreement. The RCEP will (i) link 16 Asian economies at different levels of economic development; (ii) improve trade facilitation through similar and streamlined rules of origin and other customs rules and procedures, simplifying and speeding up trade across Asia; (iii) strengthen investor confidence and encourage FDI in new sectors; and (iv) harness potential for including services and addressing issues of product standards, intellectual property rights, and use of a negative list (restrictions) for foreign investments. The RCEP could also provide SMEs with a much larger market and reduce the costs of participating in the market, but this would, in part, require the RCEP to address constraints or restrictions on e-commerce and digital trading platforms (for use by SMEs) and to deal with associated issues such as privacy and data protection. However, the final RCEP agreement may not be as ambitious as initially envisioned; national interests may demand considerable flexibility in relation to specific sectors, tariffs, and trade facilitation arrangements, among others.

Mr. Arjun Goswami, Chief of RCI Thematic Group, ERCD, made a presentation on emerging RCI initiatives in the region.

Panel Discussion

The highlights of the panel discussion on the first two presentations were as follows:

- **Numerous, and in some cases overlapping, FTAs constrain broad-based regional cooperation and economic integration.** Such FTAs are problematic for value chains, given their restrictive rules of origin and other requirements, which significantly limit the range of products that can be compatible with those restrictive rules of origin over the entire value chain extending beyond the FTA. These FTAs also make it difficult for businesses, especially SMEs, to meet the associated compliance costs. It would be better, both from a value chain as well as a market access perspective, for each country to be proactive in taking unilateral efforts that will align its trade and investment policies and regulations with those under wider regional agreements, and over time become a good partner or even a member of the regional agreements.
- **The principle of open regionalism should be an inherent feature of a wider regional trade and investment agreement.** Regional agreements, while better than a set of many bilateral agreements, must also be open to trade and investment with nonmembers within and outside Asia and the Pacific. This way, the regional agreements promote trade creation over trade diversion, while reducing transaction costs and increasing market access for all businesses, regardless of size. Overall, the potential positive welfare effects of moving away from many relatively small FTAs and toward a wider regional agreement are greater and more widely dispersed.

- **Advancing trade facilitation is a priority.** New regional agreements (e.g., RCEP, Comprehensive and Progressive Agreement for Trans-Pacific Partnership) should advance trade facilitation, including, among other things, (i) paperless (if possible, online) procedures; (ii) uniform restrictive rules of origin, including one certificate of origin for a product usable across all countries; (iii) aligned and harmonized customs facilitation, mainly online; and (iv) a uniform *de minimis* level for low-value shipments in e-commerce. Such measures would make it much easier and cost-efficient for SMEs to participate in value chains.
- **There should be greater private sector participation in the formulation of regional agreements.** The region does not yet have a pan-Asian trade association to support constructive and regular engagement between governments and the business community in trade-related matters and initiatives. The ability of governments to take into account the views and perspectives of both small and large businesses is thus constrained. The business community also has limited knowledge and appreciation of the wider and more multifaceted socioeconomic and other national interests and factors that governments are responsible for and must take into account in relation to trade. The establishment of a pan-Asian trade association could help to establish sustained links between governments and businesses, and result in better trade policies.

Third, Fourth, and Fifth Presentations

Key Perspectives and Findings

Key perspectives and findings from the third, fourth, and fifth presentations were as follows:

- **A number of new inter-subregional or pan-Asian initiatives have emerged to strengthen economic connectivity and trade among Asia's economies and with some other regions of the world.** The regional initiatives include (i) the PRC's Belt and Road Initiative, a long-term program of investment in modern connectivity infrastructure to link East Asia, South Asia, and Central Asia, and connect these regions with countries in the Middle East and Eastern Europe; (ii) Japan's Partnership for Quality Infrastructure, which emphasizes high-quality infrastructure for countries in various subregions of Asia, to support economic competitiveness and connectivity to external markets; and (iii) India's vision of achieving nationwide transport connectivity and strengthening other external trade-related connections in South Asia and with Southeast Asian countries. Each initiative is ambitious in its goals and offers great potential economic benefits, but also presents some challenges and risks in terms of implementation. If successful, these initiatives could transform the region into a "supercontinent" with more modern, competitive, productive, and wealthy economies. A main challenge is implementing successfully—with broad stakeholder acceptance—the massive connectivity infrastructure across a region with exceptional socioeconomic, demographic, geographic, and development management diversity. A major potential risk associated with such ambitious, large-scale, and long-term initiatives is that investments may not actually deliver the intended level of economic benefits. Domestic and foreign private investments may not materialize as planned or may require better incentives, and the enabling environment (national and cross-border trade and investment policy and regulation) may not provide sufficient support, among other reasons. However, some notable partnerships are already emerging across the region. India and Japan, for example, have partnered to construct a high-speed rail network in India and develop an Asia–Africa growth corridor. Further, the ongoing expansion of modern economic corridors and SEZs—

including cross-border economic corridors and economic zones—in various subregions of Asia, offers an excellent opportunity to focus investment coordination among the various pan-Asian connectivity initiatives, to achieve complementarity and synergies that drive cross-border competitiveness, economies of scale, and specialization, and raise and align standards in project implementation and trade facilitation.

- **The Reconnecting Asia website is a valuable source of RCI-related project information.** The Center for Strategic and International Studies (CSIS), based in Washington, DC, operates the website.³ This interactive website has maps of the major pan-Asian connectivity initiatives, with links to associated investment project databases. Individual projects are geo-tagged as accurately as public information allows. Along with geospatial data, information about the project sponsor (or sponsors), financing sources, constructors, and other key details are included. When project documentation is not available or does not include maps, CSIS researchers make use of satellite imagery. As more geographic information is collected and made available, it becomes easier to spot spatial trends, such as where projects are being completed on time or where connectivity gaps remain. Such insights can be helpful in optimizing and linking connectivity efforts. The Reconnecting Asia website demonstrates why transparency is important. The reason key information for projects is available is because sponsors and financiers make such information available. As the Reconnecting Asia database expands, it should allow users to identify trends in project participation (e.g., who is partnering with whom). The results show that achieving pan-Asian connectivity does not have to be a simple competition among actors, but instead an effective show of cooperation for development effectiveness. The current 2,200 projects (as of the end of November 2017) is a good start, but it is nowhere near the sum total of all infrastructure activities going on across the continent. CSIS is continuing to add projects every day and it is partnering with ADB.
- **Three types of stakeholders will have a crucial role in building the new pan-Asia RCI architecture.** International financial institutions (IFIs) and bilateral organizations make up the first group of stakeholders. Many connectivity initiatives are not single-sector but instead have significant cross-sector implications. IFIs, in particular, can bring valuable knowledge and expertise, for example, to the planning of a cross-border hydro-based energy connectivity project that inherently involves issues related to water access, water rights, and critical season flows, to sustain the agriculture sector. And even in the case of a single-sector RCI activity, IFIs and bilateral development organizations are perhaps best suited to an impartial examination of cross-border issues such as alignment of trade facilitation measures, cross-border operability of connectivity infrastructure, and movement of professional and skilled labor to meet real private and public sector needs. In the second group of players are global and regional think tanks. The long-term time frames associated with the pan-Asian connectivity initiatives, broadly and in terms of individual large project investments, their risks as well as potentially diverse and long-term impact (both positive and negative); changing technology; and the need for broader trade and investment cooperation frameworks—all these factors make it particularly important to have access to high-quality research on future trends and outlook and their implications, as well as other knowledge, to support public and private sector decision making. The third key stakeholder is the private sector. New investment and acceleration and incubation of many and diverse businesses operating across borders on the basis of the new cross-border connectivity, economic corridor development, and business

³ Reconnecting Asia. <https://reconnectingasia.csis.org/>.

research results will ultimately make it possible for inclusive economic benefits to be realized and maximized.

- RCI technical secretariats remain an important mechanism for fostering and investing in RCI across Asia and the Pacific.** RCI technical secretariats, both subregional and institution-wide secretariats such as those at ADB, can make important contributions to the emerging RCI architecture in Asia. They can support better, more extensive connectivity project mapping, as well as RCI data and information sharing. There is a need for more transparency and information sharing to support better coordination and cooperation among the major RCI stakeholders, such as understanding the plans, programs, benefits, and challenges associated with new initiatives or sharing information from technical discussions of the ASEAN Infrastructure Fund. These RCI secretariats can ensure RCI program coordination by applying three principles: (i) Combine top-down (pan-Asian connectivity) visions and bottom-up (individual project delivery) approaches. Top-down visions bring recognition to regional integration connectivity initiatives, while bottom-up mechanisms can deliver on projects developed on the basis of national and local stakeholder knowledge and consultations. Bottom-up mechanisms include the GMS, CAREC, South Asia Subregional Economic Cooperation (SASEC), the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA), and the Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT). (ii) Put collective action at the core of any alignment process. This means not being limited to one particular pan-Asian connectivity initiative at an inter-subregional, subregional, or national level. Extending outward from a core ASEAN focus to ASEAN+3 and ASEAN+6 in trade and investment integration and financial integration is an application of this principle. (iii) Use rational, well-planned economic corridors—intended as instruments of long-term growth—to anchor connectivity. This approach will make it less likely that subnational areas or landlocked countries will simply become transit routes within extensive cross-border connectivity initiatives. RCI secretariats can effectively mobilize optimal packages of domestic and external financing and advise on the best allocation of resources in relation to complementary or synergistic project-level investment across participating connectivity initiatives.
- The Fourth Industrial Revolution (4IR) will affect the future of RCI in the region.** The Fourth industrial revolution (4IR) fuses the digital, electrical, and physical worlds. Its impact there extends far beyond the internet. For example, three-dimensional (3D) printing will enable many firms in various manufacturing industries to produce a bigger share of parts and final products locally rather than importing them, and this would have significant impact on value chains and associated logistics businesses. Blockchain technology can be used to provide new ways of making payment networks more efficient and transparent so that banking can happen in real-time, even in the remotest parts of the world. The technology will give all relevant parties access to clearing and settlement data on financial transactions and can thus reduce the time and costs involved in approving and carrying out the transaction (e.g., cross-border credit insurance). Blockchain-based financial transaction networks can be designed to support specific cross-border economic corridors. The internet of things (IOT)—a system of interrelated computing devices, mechanical and digital machines, and objects involving constant real-time performance monitoring and transfer of data over a network (without requiring human-to-human or human-to-computer interaction)—is being used in the shipping and airline businesses and at ports and airports to optimize a ship's or plane's environment to suit the needs of its cargo, to select multimodal transport routes and optimal container handling methods and timing, to monitor and identify patterns of cargo loss, and

to constantly track a shipment's location. The IOT is raising the bar for operating standards across regional and global logistics systems. And artificial intelligence has the potential to replace a range of low-skilled and semiskilled jobs in the manufacturing and service industries, further disrupting (beyond the impact of 3D printing) the "Factory Asia" model, which has provided more and better jobs for millions of workers in the region over the past few decades. At the same time, 4IR has the potential to make future economic growth more inclusive through low-cost and highly accessible mobile banking services, online education and skills development, online health services, and e-commerce platforms—all of which can operate across borders and enable individuals and businesses from various income classes to participate in regional (and even global) trade and use (locally unavailable) noncommercial services.

- **Policy must catch up with changes in technology.** There is a growing consensus that technological change is outpacing change in relevant policies and regulations, and this is certainly true of international trade and investment. How to impose a tax on cross-border services, provide consumer protection in cross-border e-commerce, and ensure data protection and privacy are some of the more obvious but very important issues that need to be addressed, and would likely be best addressed on the basis of cross-border dialogue and information sharing (collective action) among the relevant authorities and other stakeholders.

Panel Discussion

Highlights. The highlights of the panel discussion on the third, fourth, and fifth presentations were as follows:

- **The emergence of new pan-Asian RCI initiatives is a generally positive trend.** The various pan-Asian connectivity initiatives are expanding and strengthening an outward trade and investment orientation, which is a very positive development. And because so much of this will show up as tangible investment in physical connectivity and cross-border economic corridors, ways must be found to build up collective action across the initiatives to ensure that they deliver the greatest and most inclusive benefits possible and retain a strong element of open regionalism to one another and to the rest of the world. Some innate element of competition among the initiatives is likely, but it should be based on creating better benefits and not lowering standards of investment criteria or introducing features that may be of interest to individual recipient countries but are not economically feasible or sustainable for them over time.
- **Cooperation among these large-scale and ambitious connectivity initiatives would be beneficial, and development partners should assist the process.** ASEAN provides probably the best anchor for achieving meaningful and durable cooperation, but very importantly it also provides ASEAN+3 and ASEAN+6 frameworks for extending that cooperation—using familiar collaborative approaches—into other subregional frameworks such as SASEC and CAREC. However, each initiative will likely attempt to differentiate itself in some ways, and it is unlikely that we will see seamless and comprehensive cooperation on the basis of macro commitments by all the major sponsors of the initiatives. A more practical approach would be to facilitate cooperation in ASEAN (and possibly in the RCEP agreement) and subregional RCI programs, and in flagship inter-subregional economic corridors, with a focus on the major investment projects.

- **The 4IR poses unique policy and regulatory issues and has potential impact for inclusiveness in relation to RCI.** E-commerce, IOT, artificial intelligence, and the use of digital and internet-based technologies generally show accelerated returns on knowledge and talent. Therefore, sustained investment in widely accessible modern education systems (both in content and in its delivery) including cross-border education services, is essential to realize widespread adoption of these technologies throughout the economy, including international trade and investment, and equally widespread distribution of the economic and social benefits to citizens, businesses, and communities. Experience in Asia and other regions shows, however, that a few very large information technology (IT) firms dominate the regional and global markets. These firms hire fewer (and highly educated and highly paid) employees per unit value of output, thus contributing to income inequality, while they also have exceptional influence in shaping government policy and regulation that affects their business. Policy makers and regulators in the region need to come together and decide on such things as: will they integrate their national online trade- and customs-related websites and databases into regional databases (under a regional trade agreement framework) that may be stored on an IT company server; will they protect privacy and intellectual property transferred online across borders; and will they support freer cross-border movement of people with 4IR skills to meet regional market demand?
- **These 4IR-related issues should be addressed within regional frameworks.** Successful investment in cooperation under pan-Asian connectivity initiatives and the creation of wider and deeper regional markets will depend on less localization and greater regionalization (and globalization) of data, information, technology, finance, and skilled workers, in addition to physical goods. Asia's existing and emerging large regional trade and investment frameworks (e.g., ASEAN Economic Community and RCEP) and the emerging pan-Asian connectivity initiatives together provide the forums and the mechanisms for integrating the 4IR successfully into regional cooperation and integration.

SESSION 2: Regional Cooperation for Financial Stability and Resilience

Session Background

Twenty years after the Asian financial crisis, Asia has stronger and more resilient financial systems in place. The crisis triggered a wave of economic and financial policy reforms that laid the foundation for postcrisis recovery and sustained growth. Yet, Asia should not be complacent as significant challenges remain and new vulnerabilities have emerged. The Asian financial crisis and later the global financial crisis led to a revision in thinking of the relationship between macroeconomic fundamentals and finance, recognizing the impact macro-financial linkages can have on the real economy, which may lead to more rapid transmission and spillover of shocks and risks across economies. There are substantial benefits that come along with greater financial integration, such as more efficient resource allocation, region-wide use of regional savings for investment, better risk sharing, and better access to financial services. Yet, it is also important to understand the risks posed by deepening financial interconnectedness to financial stability, such as vulnerability to external shocks, financial contagion, or liquidity risks stemming from foreign currency funding. Past crises highlight the fact that financial resilience cannot be achieved by individual economies alone. Deepening regional cooperation plays an important role in areas such as asset quality, cross-border supervision of regionally active banks,

Day 2, Session 2 moderator and panelists. Theresa Kho, Thomas Benjamin Marcelo, Atsuhiro Yoshitsugu, Noritaka Akamatsu, Joseph Zveglic, and Jr. Cyn-Young Park.

regulatory standards, mutual recognition, and information sharing to strengthen financial stability and resilience.

Highlights of Presentations

- Greater interconnectedness means greater risks.** Asian financial systems have become increasingly interconnected both regionally and globally. Asia's cross-border assets have grown considerably, from \$11.5 trillion in 2010 to \$14.6 trillion in 2015. Asia's equity markets are more exposed to global shocks. Areas of vulnerability remain, and there are still some regulatory policy gaps that could lead to a further buildup of financial vulnerability. Capital market-based financing solutions such as long-term local currency bond markets are still limited in scope. And there is still heavy reliance on foreign currency- (US dollar-) denominated debt. Rising private sector debt and leverage—combined with the rapid growth of “shadow banking”—risk increasing the region's financial fragility. Any deteriorating bank asset quality can have potential macro-financial feedback effects.
- Financial integration remains ASEAN-centric.** Financial integration involves risks, but at the same time countries pursue integration because there are benefits; countries always try to get the best out of these potential benefits while attempting to control risks. Financial integration also has implications for the policy sovereignty of individual countries. In Asia, that sovereignty is not easily or readily relinquished in the interests of policy alignment or harmonization. Financial cooperation leading to greater financial integration is therefore a particularly challenging task, requiring very strong commitment from a group of countries to

regionalism and to regional initiatives. In the context of developing Asia, this has meant that FCI has tended to be and still is ASEAN-centric, reflected by the three pillars of financial cooperation and integration: ASEAN financial integration, ASEAN+3 financial cooperation, and Asia-Pacific Economic Cooperation (APEC) financial cooperation.

- **ASEAN has evolved an effective architecture for planning and supporting regional financial integration.** There is a well-established and effective ASEAN-centered architecture of financial entities. There are also approved high-level policy frameworks and strategic action plans that bring together senior government and financial officials to deliberate on evolving regional and global financial trends, and to plan and put in place new initiatives, policies, and regulations to strengthen the development of integrated capital markets and monetary and financial integration. ADB's financial cooperation and integration team assists this architecture and, in particular, works closely with the ASEAN Central Bank Senior Level Committee, the ASEAN Capital Markets Forum, and the Asian Bond Markets Initiative (ABMI) of ASEAN+3.
- **The concept of “Qualified ASEAN Banks” is central to banking integration in ASEAN.** Within ASEAN, there is a strong focus on financial integration, financial inclusion, and financial stability with reference to the concept of “Qualified ASEAN Banks,” or QAB. The goal is to establish one integrated banking market, and banks that are granted QAB status operate across ASEAN. In practice, however, while QAB status is based on common principles, it is actually negotiated and granted bilaterally between countries on the basis of reciprocity. At present, banks in Malaysia and Singapore have the greatest region-wide presence. Furthermore, in some ASEAN countries (e.g., Indonesia), there is still considerable scope for local banks to grow and earn strong profits, so the incentive to compete in other country markets may be limited, constraining the number of QABs.
- **In the ASEAN+3 context, there are two pillars of financial cooperation and integration.** One of them, the Chiang Mai Initiative, pooled resources from ASEAN+3 countries to either preempt a new crisis or respond to it at the macro level. It is in effect a crisis response-type facility. The other pillar, the ABMI, is intended to get ASEAN+3 economies to work together and develop local currency bond markets. Evidence shows that the development of local currency bond markets helps mitigate the effect of external financial shocks through financial stability, and regional integration fosters the development of a larger and more liquid bond market, which is more attractive to investors. ADB works with ASEAN+3 and serves as the ABMI secretariat, and assists with the dissemination of technical assistance outcomes across ASEAN+3 (and beyond). Since 2000, the growth of local currency bond markets in ASEAN+3 has been steady and impressive. Government bonds are dominant, but the share of corporate bonds is rising. Japan and the PRC are the largest country markets, but the significance of the bond market in relation to GDP shows that a number of ASEAN countries have made good progress, while others, especially some smaller or weaker economies, have not. ABMI and ASEAN+3 have developed a new road map that focuses on what bonds should finance, from a development perspective, and not just the further growth of the bond market. Catalyzing bond market development in Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, and Myanmar is a priority.
- **Further development of local currency bond markets across the region is key to enhancing financial resilience and mobilizing long-term finance to meet vast infrastructure needs.** The growth of regional banking activities and institutions underpins the need to discuss regional regulatory cooperation, including resolution mechanisms for interconnected

regional banks. The region should consider reviewing and strengthening existing financial safety nets against potential contagion and spillover effects. Asia's financial markets are increasingly open, interconnected, and vulnerable to external shocks. Strengthening the Chiang Mai Initiative Multilateralization and its regional macro-surveillance unit, ASEAN+3 Macroeconomic Research Office (AMRO), can help in monitoring potential risks and slowing the spread of shocks across the region's economy.⁴ Asian Bonds Online (ABO) serves as the key source of market information in support of bond market development under the ABMI in the ASEAN+3 group of countries. The ABO website and database is an important ABMI output, widely recognized within the ASEAN+3 group as well as outside the region. Data from ABO and the Asia Bond Monitor have been widely cited by data providers such as Bloomberg and by bond market participants, regulators, and research institutes like the World Bank.

- **A key strategic issue for ADB is how to go beyond ASEAN+3.** A key strategic issue for ADB is how to go beyond ASEAN+3. ADB is looking to support many more of its member countries in achieving and benefiting from stronger financial cooperation and integration. It is exploring opportunities to assist one or more other groups of countries with a very strong commitment to regionalism, for example, subregional groupings such as SASEC and CAREC, but these groups do not yet have as strong an RCI personality as ASEAN with its own permanent secretariat and dedicated staff and resources. Can these groups of countries begin to work toward a more strategic and concerted commitment to financial cooperation and integration?

Discussants' Key Remarks and Presenters' Responses

- **Need for new policy toolkits.** Advances in technology applied to financial services, continued globalization, and the vast need for infrastructure and corporate investment in Asia's emerging economies mean that financial interconnectedness across Asia and between Asia and the rest of the world will deepen, and potential risks of contagion resulting from a major financial crisis will not weaken. The region's economies must therefore be ready to develop further, and adopt and deploy the full array of their policy toolkit to deal with possible market volatility and safeguard financial stability and support growth. The region has made much progress in policy reform and cooperation arrangements since the Asian and global financial crises. However, to stay abreast, the region's economies must adopt new tools and policies to include better surveillance practices; stress indices; more diverse funding and settlement mechanisms, including those that can accommodate currencies other than the US dollar; and targeted macro-prudential measures. Capacity building at the national level will be very important. ADB, other IFIs, and public and private sector financial institutions in advanced Asian and Pacific economies can provide direct support and assistance in this regard.
- **Much greater and more diverse development of Asian local currency bond markets is a key priority.** Building domestic bond markets is key to opening up economies to more cross-border flows. Some of the groundwork being done in the smaller ASEAN economies is going to be very important in setting the conditions for greater capital openness throughout the ASEAN region, by first developing local currency bond markets to absorb those shocks. The Credit Guarantee and Investment Facility should be used more effectively to reduce the lag between the development of the local government bond market and the development of the corporate

⁴ ADB. 2017. *Asian Economic Integration Report 2017*. https://aric.adb.org/pdf/aeir/AEIR2017_highlights.pdf.

bond market; these local markets should be developed more in tandem. At the same time, it is important to keep in mind the underlying cause of the region's financial structural weakness—the lack of diversified funding sources, in particular overreliance on bank financing with its attendant currency and maturity mismatches. Domestic capital markets that are mostly in a local currency and have more stable cross-border bank flows should be developed. These new domestic capital markets should resonate with the new ABMI agenda, which, among other things, promotes green bonds to finance green infrastructure and to support municipal bonds and investment in urban infrastructure.

- **While there should be less dependence on the US dollar, there is no new single currency on the horizon.** The development of these bond markets must depend less on the US dollar and involve greater cross-border investor participation from within the region. The region does not plan to introduce a single currency, but something akin to a single currency might be used to facilitate cross-border or closed currency transactions if the right technology is available.

SESSION 3: Regional Public Goods

Session Background

Development challenges facing individual countries in the region encompass commitments to advance public goods; this is addressing the need for climate change mitigation and adaptation. Notwithstanding progress on global public goods agreements, climate change is imposing significant costs in Asia and the Pacific, requiring regional public goods that translate directly into adaptation needs. Potential future climate change impact threatens recent development gains and progress toward the Sustainable Development Goals (SDGs). Steps have been taken to adapt to climate change, but significant challenges demand more urgent and more diverse and coherent responses. Most ADB developing member countries (DMCs) have ratified the Paris Agreement; ADB will support its DMCs in meeting their commitments. ADB's Climate Change Operational Framework 2017–2030 positions ADB to facilitate a regional shift toward a climate-resilient development path with lower greenhouse gas (GHG) emissions. The ultimate intent is to support this transition, in line with the Paris Agreement. Linking climate actions to the wider sustainable development agenda will require both sector and regional strategies. ADB's Climate Change Operational Plan 2016–2020 includes support for (i) regional climate data consortia; (ii) cross-border energy and natural resource management, addressing transboundary water and air pollution and biodiversity protection of biodiversity; and (iii) urban emissions trading and technology transfer leading to regional initiatives. This support can help develop a pipeline of RCI knowledge-based investment projects that catalyze “green finance” or meet specific eligibility criteria for “green bond financing” under the ADB Green Bond Framework.

Highlights of Presentations

- **Addressing climate change from a trade perspective provides some interesting results.** A country's economic impact on GHG emissions is related to the goods it produces and consumes, the goods it produces and exports, and the goods it imports and consumes. In this context, an individual product's cross-border value chain can include several stages: importing GHG emission already embedded in the product under development, adding GHG emissions in further stages of production, and exporting the product to the next stage

of development or to final retailing and consumption. The process of trade itself, in particular cross-border transport and communication, also adds to GHG emissions. As trade is an effective means of stimulating economic development and growth across many countries over time, it can potentially result in a steady increase in the global level of annual GHG emissions. But this does not mean that trade inherently undermines the ability of regional and international communities to realize commitments to reduce GHG emissions and achieve agreed global climate goals. Trade itself simply moves emissions from place to place. However, if all emissions were correctly priced under strong policies in different countries, then trade would allocate emissions more efficiently in a more GHG-efficient overall global economy. The problem is not trade but the imbalance between the policy measures of countries, regions, or subregions. Policies for pricing GHG emissions, and essentially making sure that other measures are aligned with climate change objectives, are not the same in all countries. And the differences could shift polluting activities to countries where climate-related regulations are less strong. Trade can also be viewed as an economically sound way of adapting to climate impact. For example, if climate impacts were to significantly change the technical and economic feasibility of producing different crops in one country, a vibrant trade relationship with neighboring countries could help the subregion to adapt successfully on the basis of new comparative advantage.

- **Trade policy may either promote or hinder climate-change mitigation and adaptation efforts at several levels of interaction.** Rules included in the main WTO agreements are generally not seen to be a barrier to climate policy. However, one potentially important measure that has not been tested is the concept of “border carbon adjustments,” whereby a country with a strong policy on carbon dioxide emissions may put in place a border tax on goods coming from countries where emissions are less strongly regulated. This measure is yet to be implemented and there is debate about how and why this may comply with WTO rules and whether it might be disputed in practice. Regional trade agreements increasingly contain environmental provisions, some (including a number of Asian regional agreements) specific to climate change. Many such provisions are not binding or enforceable, but may have some effect on increasing cooperation on climate change. It is important to ensure that other parts of the regional agreement and other regional investment partnerships and agreements are aligned with and do not otherwise counteract climate objectives, e.g., provisions supportive of industries that are very carbon-intensive or highly polluting. Another policy area is tariffs on environmental goods—including goods important in mitigating climate change, such as renewable energy—which still exist in some countries, including several in Asia. Such tariffs are a barrier to promoting low-carbon technologies because they raise costs, e.g., high tariffs on renewable energy goods such as solar panels and solar modules. Similarly, nontariff barriers in environmental services, which tend to be high-technology and high-productivity services, constrain investments in, and the promotion of, new environment-friendly technology and associated business models. High-technology firms often do not sell the technology but lease it as a package of technology and services. The manufacturer has both the knowledge and a clear business interest in maintaining high performance and utilization across markets, thus ensuring efficient technology utilization and a low level of GHG emissions. Finally, some domestic green industrial policies aimed at creating “low-carbon economies,” while very well intended, can actually work against climate change. For example, industrial policies that protect “green” industries from international competition, so that these industries grow more quickly and stimulate employment and economic recovery, can result in supply chains where the protected environmental technology is very complex. Protecting one limited part of the supply chain raises costs for other parts of the supply chain, restricting the value, number, and

types of jobs realized. In the same way, mandating local content requirements for producing or servicing new green technology can raise costs, reduce competitiveness, and raise trade disputes with neighboring countries.

- **Carbon markets have reemerged and have gained in importance.** After the international success of the Paris climate conference in December 2015, and the ratification of the Paris Agreement in September 2016, climate policy makers around the world are adjusting to the reality of the new international climate regime. The essence of the Paris Agreement is allowing parties to determine their own contribution to the fight against climate change, with the overall objective of keeping global warming below 2°C.⁵ The Paris Agreement is a commitment from individual countries to act, not necessarily alone, and to improve climate actions over time. What makes carbon markets meaningful is their ability to work alongside emission regulations and carbon taxes. In the long term, the government could incrementally reduce the cap on emissions to raise the price of emissions and thus “disincentivize” polluters without crippling the country’s energy sector. Increasing the cost of carbon emissions also makes zero-carbon renewable energy more competitive.⁶ Connecting and collaborating is key. As systems continue to evolve and a new generation of emission trading systems (ETSs) emerges, international cooperation will be crucial to the success of carbon pricing—and climate policy. Article 6 of the Paris Agreement sends a strong signal to carbon markets and encourages parties to cooperate to achieve their nationally determined contribution (NDC) targets (footnote 5).
- **Carbon markets in Asia are evolving.** The expectation is that there will be increased South–South cooperation and regional cooperation, and different cooperation models are emerging. These models exemplify a regional focus, with economic and trading links playing an important role, ports and hubs being created, and a greater focus being placed on technology and other types of transboundary cooperation to meet NDC targets. Some progress is also being made in linking ETSs at the national level. In Japan, the cities of Saitama and Tokyo have linked their systems. New regional networks are also beginning to form; these include the trilateral carbon pricing dialogue between the PRC, Japan, and the Republic of Korea, which involves ETS policy makers from all levels of government. International dialogue and collaboration will stimulate mutual understanding and the gradual convergence of diverse systems. In support of this process, constructive exchange of ETS experience and knowledge, enabling policy makers to benefit from the valuable lessons learned by others, contributes to the common understanding of emerging ETS best practices. However, one should expect to see carbon markets developing nationally as well. Local emission trading will gain in strength and effectiveness before a regional or global carbon market develops. The PRC is preparing to launch a national carbon market, initially targeted at the power generation sector.⁷ It would be the largest carbon market in the world. Growth in the number and size of these various carbon markets offers both benefits and risks. The benefits relate to better and more readily available information for setting a price on carbon, incentives to switch to lower-GHG-emitting energy sources and agricultural and industrial processes, incentives for investment and trade in GHG-friendly technology, and improved public health. Risks

⁵ International Carbon Action Partnership (ICAP). 2017. *Emissions Trading Worldwide: Status Report 2017*. Berlin: ICAP. https://icapcarbonaction.com/en/?id=432&option=com_attach&task=download.

⁶ A. Rath and E. Huang. 2017. The Complete Guide to the World’s Largest Carbon Market that Just Launched in China. *Quartz*. 19 December. <https://qz.com/1159667/china-is-launching-the-worlds-largest-carbon-market/>.

⁷ At the time of RCI Week (27–29 November 2017), it was presumed that the plan for introducing a national market in the People’s Republic of China was being finalized. The carbon market was officially launched on 19 December 2017.

relate to the inability of energy-intensive businesses to remain competitive or to adopt green technology as the price of carbon increases (and cannot be passed on to consumers), and a lack of alignment or harmonization of the structure and conduct of national or subregional carbon markets and weak convergence with regard to carbon pricing—all of which could limit cross-border carbon trading. Finally, there is a possibility that the region might see the emergence of “carbon clubs,” which are essentially small multilateral agreements that mix carbon trading with trade rules and financing rules. Under this mechanism, broader regional integration in which carbon is a common factor could develop because carbon emissions will become an increasingly important tradable commodity.

- **There is potential for scaling up solar energy in the region.**⁸ Globally and in Asia, the market for renewable energy, in particular solar energy, is changing in favorable ways. The prices of solar panels continue to decline; the demand for solar energy generation, not just for lighting but also for heating and cooling, is rising; and more off-grid solar solutions are becoming feasible and popular. A key challenge is how to scale up investment in affordable and accessible solar power supply. Collective action can play an important role and is the impetus behind the establishment of the International Solar Alliance (ISA), a common platform for cooperation among sun-rich countries lying fully or partially between the Tropic of Cancer and the Tropic of Capricorn. Currently, 44 countries cooperate under a framework agreement.⁹ Joint efforts are focused on coming up with common or complementary innovative policies, projects, programs, capacity-building measures, and financial instruments to mobilize more than \$1 trillion in investments by 2030. The intent is for countries to draw on international best practices¹⁰ and work jointly toward (i) the adoption of appropriate common performance benchmarks, as well as standardized transaction procedures and documents, (ii) joint financing and conduct of research and development and technology piloting and demonstration, (iii) joint knowledge sharing and capacity building, and (iv) aggregation of demand for specific solar technology and use of international competitive bidding in the procurement of the technology on a very large scale. Cooperation among countries in mobilizing greater finance at scale and reducing the cost of finance would enable countries to undertake more ambitious solar energy programs. For most solar projects today, 10% of the cost of solar power is the cost of finance, driven in part by perceptions of credit risk, particularly for individual lower-income and smaller-scale users. In this regard, the ISA is working with IFIs (including ADB) to earmark a percentage of the investment in energy for funding solar programs. As the ISA makes further progress with its collective action activities, it could be in a better position to consider expanding its membership to other solar-rich countries outside the Tropic of Capricorn and the Tropic of Cancer.
- **Strong and exemplary “Pacific Regionalism” in support of climate-related public goods is necessary.** Shared regional political will is and will remain a prerequisite for collective action on climate change and environmental protection in the Pacific, given that the thematic issues are crosscutting and transboundary in nature. Pacific leaders recently reaffirmed the Framework for Pacific Regionalism as their platform for collective action toward a region of peace, harmony, security, social inclusion, and prosperity. The “Blue Pacific” is the new

⁸ After brief introductory remarks concerning renewable energy, the related presentation focused exclusively on solar energy.

⁹ As of 28 November 2017.

¹⁰ Where appropriate, in direct collaboration with the International Renewable Energy Agency.

narrative that aims to instill deep commitment to collective stewardship of the Pacific Ocean by the 18 Pacific leaders that make up the Pacific Islands Forum (PIF). A number of Pacific regional policy frameworks provide the foundation for implementing collective commitment and action. (i) The Pacific Oceanscape, endorsed in 2010, is a strategic mobilizing framework aimed at revitalizing cross-sectoral planning for the sustainable development, management, and conservation of the Oceania region of the Pacific Ocean. (ii) The Framework for Resilient Development in the Pacific, endorsed in 2016, seeks to integrate climate change and disaster risk management into building the resilience of sustainable development outcomes. (iii) The Pacific Roadmap for Sustainable Development, endorsed recently by Pacific leaders, encourages and offers opportunities to deliver regionally on the international Sustainable Development Goals where it makes sense to do so, considering the transboundary implications and effects. The Secretariat of the Pacific Regional Environment Programme and JICA recently assisted in the preparation of the Cleaner Pacific 2025 Framework, which seeks to establish practical and substantial solutions to prevent and manage waste and pollution in the Pacific. Given these important regional policy frameworks, effective implementation is key to achieving their respective goals. Thus, the PIF guides its members and development partners in the use of adaptable implementation approaches that combine knowledge and expertise with finance, and applies these approaches at the same time and balances them in regional programs and country operations. The PIF has demonstrated leadership in advocating regional collective action, in forming partnership programs (with ADB and others), and in mobilizing and managing resources. A central strength of the PIF as a high-level regional collective action mechanism is its ability to establish and support regional- and country-level operational links and achieve alignment between countries and among external partners through a network of effective country-based programs.

Panel Discussion

Highlights. The highlights of the panel discussion were as follows:

- **Under the new Paris Agreement, two main approaches to producing climate-related regional public goods through collective action are likely to develop.** The first approach is through centralized governance mechanisms using a new or existing institution and with development finance partners like ADB playing a significant role in helping to pool regional resources and knowledge, and build relationships among stakeholders. The second approach is through comparatively small country groupings or even bilateral agreements between parties. Both of these approaches may end up operating simultaneously in the region and ADB could be an effective player in either approach. With its technical expertise in regional and national development and research, and experience in knowledge management, ADB has the capability to provide insights and analysis on global and regional issues and their implications for DMCs, and for policy making and large-scale program development at the regional and national levels.
- **Rational and well-planned increases in the regional and international price of carbon are a key factor.** Under the global development frameworks of the new international Sustainable Development Goals and the recent Paris Agreement, the perceived costs of climate and environmental damage will increase and the price (e.g., the price of carbon or a carbon tax) that polluters will have to pay will correspondingly rise. Increasingly, this will become a factor in the cost of production of agriculture, manufacturing, and services, especially in energy-intensive production processes. If one or more countries use carbon credits of a certain

quality and standard to meet their NDCs, while others impose higher standards as dictated by civil society and government, there will be consequent regional imbalances in trade and competitive pressure. Thus, one of the important roles for a multilateral development partner such as ADB is to convene groupings of countries and subregions to come up with common standards for pricing negative climate and environmental impact and create larger and freer regional markets for green technology and services. As a result, the creation of new climate and environmental regional public goods becomes “common costs” across national and subregional markets and not a competitive factor of production in the region.

Closing Remarks for Day 2

Main Conclusions

As they did on Day 1, the participants agreed on three main conclusions from presentations and deliberations at the end of Day 2:

- The region needs **to take advantage of opportunities presented by evolving and emerging RCI initiatives**, in the areas of regional connectivity, trade and trade facilitation, investment, ICT, and digital trade. However, stakeholders should allow for multitrack and multispeed approaches that take into account relevant differences in geographic and socioeconomic conditions among countries and subregions, and thereby increase the probability that the RCI initiatives will provide wider economic benefits. Also, RCI initiatives should incorporate the principle of open regionalism, which will make emerging RCI initiatives more inclusive and sustainable.
- Twenty years after the Asian financial crisis, Asia is stronger. Its financial systems are healthier, its capital markets are deeper, and regional financial cooperation mechanisms have improved. Nevertheless, greater financial interconnectedness makes the region more susceptible to external shocks and financial contagion. The region must therefore continue with relevant reforms **to address structural weaknesses and to strengthen financial cooperation, including developing local currency bond markets and reviewing regional financial safety nets** to strengthen resilience.
- **Global initiatives on climate change must be complemented with regional approaches** that include close collaboration with development partners and mitigate risks of climate-induced environmental damage, particularly for small economies.

Accelerating Regional Cooperation and Integration in Asia and the Pacific

2017 Conference Highlights

Regional cooperation and integration (RCI) is vital for the development of Asia and the Pacific. It plays a critical role in accelerating economic growth, reducing poverty and economic disparity, raising productivity and employment, and strengthening institutions. For the Asian Development Bank, fostering RCI is a cornerstone of its support to its developing member countries and helps amplify the impact of its other investments. This conference report explores opportunities and challenges for accelerating RCI in the region. It focuses on economic corridors, emerging RCI initiatives, cooperation for financial stability and resilience, and regional public goods.

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.

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