

ADB's Role in Asian Integration: Recent Experiences and Future Challenges

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Outline

- I. What are ADB's Regional Cooperation and Integration (RCI) Mission, Strategy, and Roles?**
- II. What sectors/projects are suitable for regional investments? ADB's Experience**
- III. What are the differences between national and regional projects from an operational perspective?**
- IV. What role does ADB play in fostering regional integration?**
- V. What are the future challenges of Asian Integration?**

Evolution of ADB's RCI Mission

- 1966: Regional cooperation mandated in ADB's Charter
 - Between 1966-1992: DMCs focused on national development, and gradualist approach to RCI adopted;
 - 1992: A good beginning made –Greater Mekong Subregion (GMS) Program launched
 - 1994: Policy on regional cooperation adopted
 - 2006: Watershed year – ADB's Regional Cooperation and Integration (RCI) Strategy adopted
 - 2008: ADB's Strategy 2020 – RCI identified as one of the five priority operational areas
- ➔ **Overarching Objective: Regionally integrated and globally connected Asia**

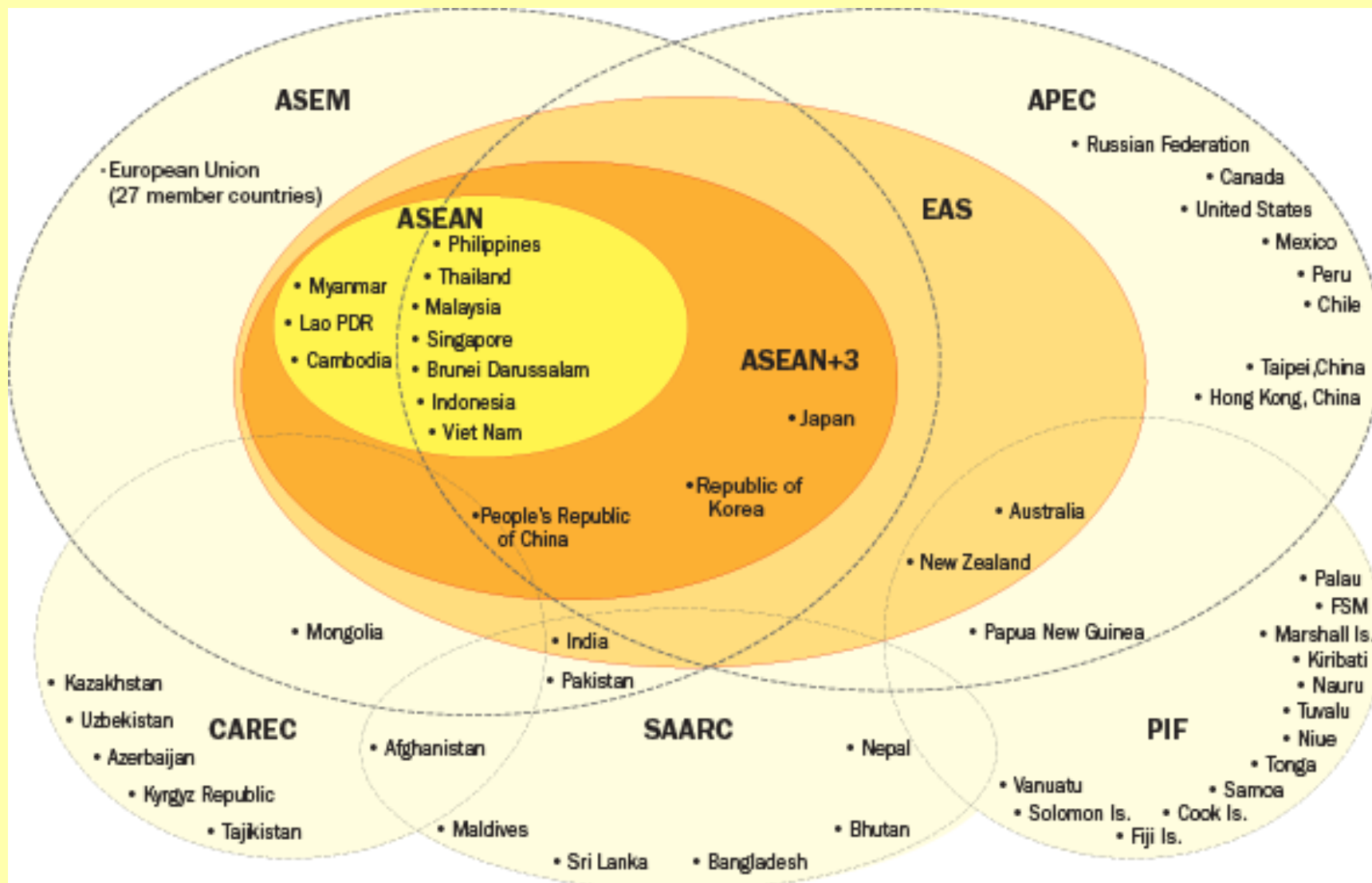
Four Pillars of ADB's RCI Strategy and Focus of Operations

- **Cross-border infrastructure and related software** (both lending and non-lending)
- **Trade and investment cooperation and integration** (primarily non-lending)
- **Monetary and financial cooperation and integration** (primarily non-lending)
- **Cooperation in regional public goods** (primarily non-lending, possibly some lending)

ADB's Role in RCI

- **Financier:** providing financial resources for RCI projects – both loans and grants
- **Honest Broker:** acting as catalyst and coordinator of RCI for DMCs and regional forums
- **Knowledge Provider:** creating, consolidating, and disseminating knowledge and information on RCI to DMCs and regional forums
- **Capacity Builder:** helping countries and regional and/or sub-regional bodies build their institutional capacity to manage RCI

Regional and Trans-regional Forums that ADB Works With



ADB's Subregional Programs

- Greater Mekong Subregion (GMS) Program – 1992
- Indonesia, Malaysia, Thailand Growth Triangle (IMT-GT) – 1993
- Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area (BIMP-EAGA) – 1994
- Central Asian Regional Economic Cooperation (CAREC) – 1997
- South Asia Subregional Economic Cooperation (SASEC) – 2001

Subregional Cooperation Programs



The GMS Program

- ADB's first and most successful subregional program
- GMS countries: Cambodia, the People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam
- **Overarching objective:** Connectivity, Competitiveness, Community

Connectivity...

2015

-  Roads
-  Telecommunications
-  Power Transmission Line



Competitiveness

- Transport and trade facilitation
- Power trade and interconnection arrangements
- GMS Business Forum
- Cooperation in agriculture
- Environment and natural resource management

Community

- Communicable disease control
- Promoting safe migration
- Human trafficking prevention
- Promoting GMS as a single tourist destination
- Building capacity for development management

The CAREC Program

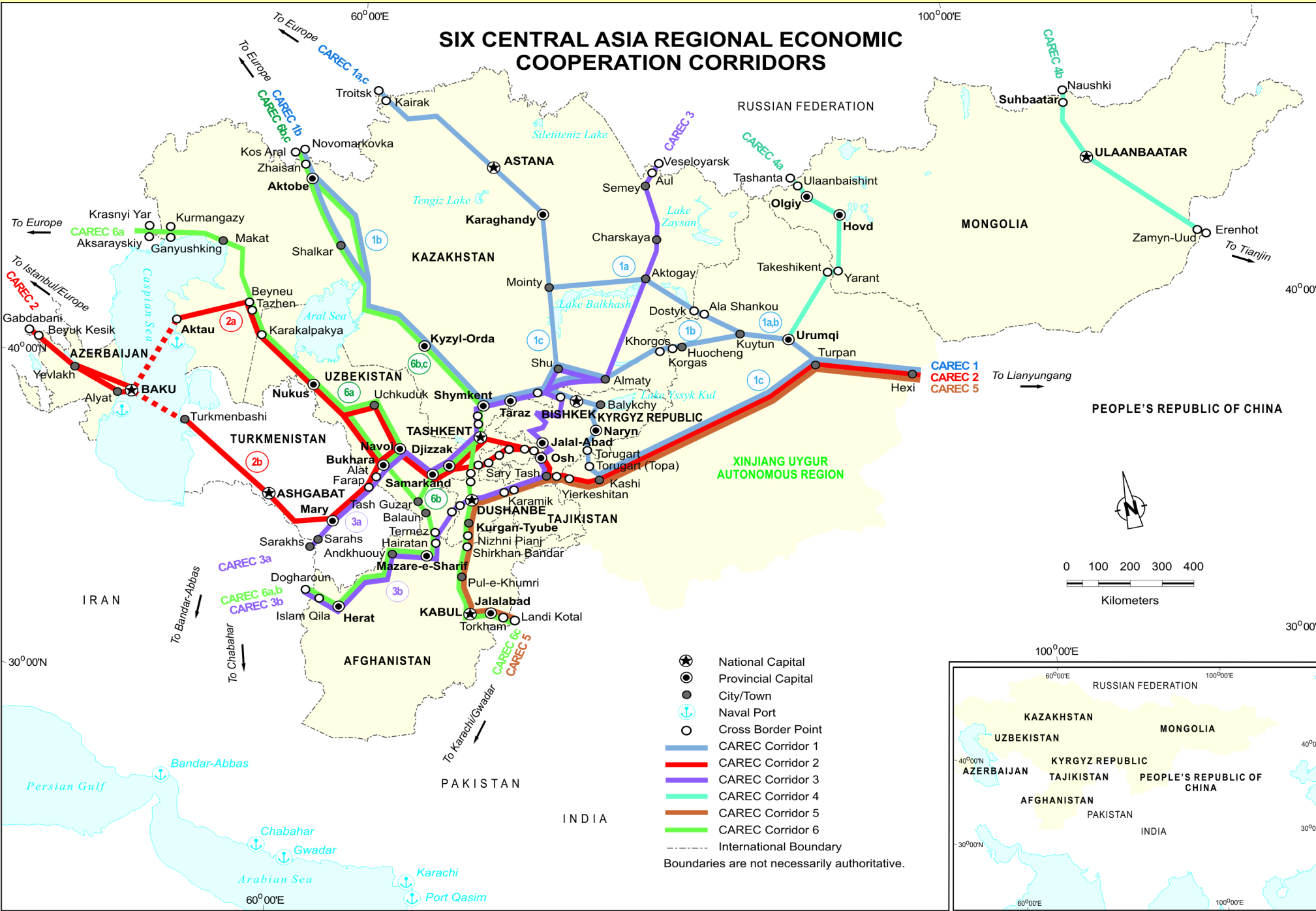
- Eight CAREC countries: Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.
- Six multilateral partners: ADB, EBRD, IMF, UNDP, Islamic Development Bank (IsDB), and the World Bank.
- **Overarching Objective:** foster an increasingly integrated CAREC subregion.

CAREC Program: Strategic Directions

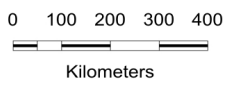
Focus on three sectors – transport, trade, energy – to improve:

- Connectivity
 - Rehabilitation of road and rail networks along six CAREC Corridors to link Central Asian economies with each other and with world markets
- Trade Efficiency
 - Focused support for simplification and harmonization of customs regimes and related border regulations
 - Support for participating countries' accession to WTO
- Energy Trade
 - To ensure energy security and promote energy trade

SIX CENTRAL ASIA REGIONAL ECONOMIC COOPERATION CORRIDORS



- ★ National Capital
 - Provincial Capital
 - City/Town
 - ⚓ Naval Port
 - Cross Border Point
 - CAREC Corridor 1
 - CAREC Corridor 2
 - CAREC Corridor 3
 - CAREC Corridor 4
 - CAREC Corridor 5
 - CAREC Corridor 6
 - - - International Boundary
- Boundaries are not necessarily authoritative.



ADB's RCI Lending (Issues of Definition and Identification)

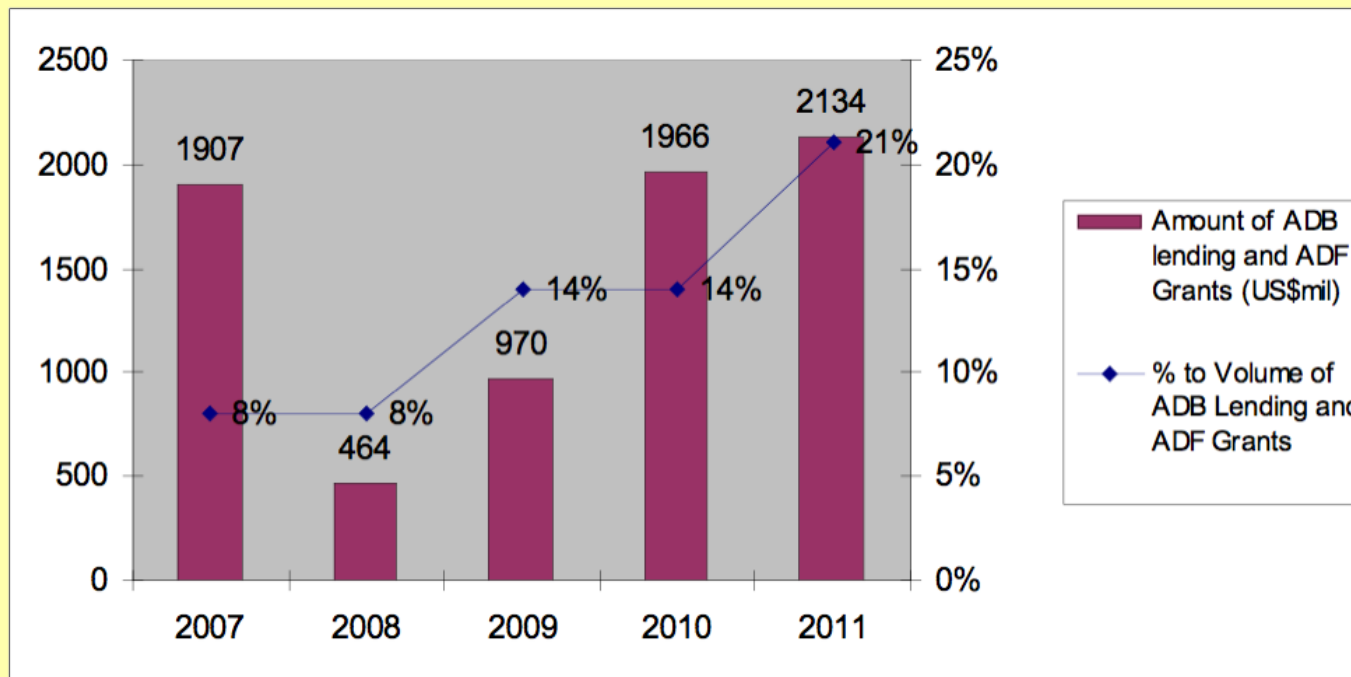
→ What is a regional project?

- Cross-border projects, including sub-regional economic corridors and/or growth triangle areas
- National projects with substantial regional/cross-border dimension:
 - results in significant cross-border trade, capital and labor flows
 - near border projects

Strategy 2020: ADB's Operational Goal for RCI

- Higher lending for RCI, reaching at least 30% of total ADB operations by 2020.

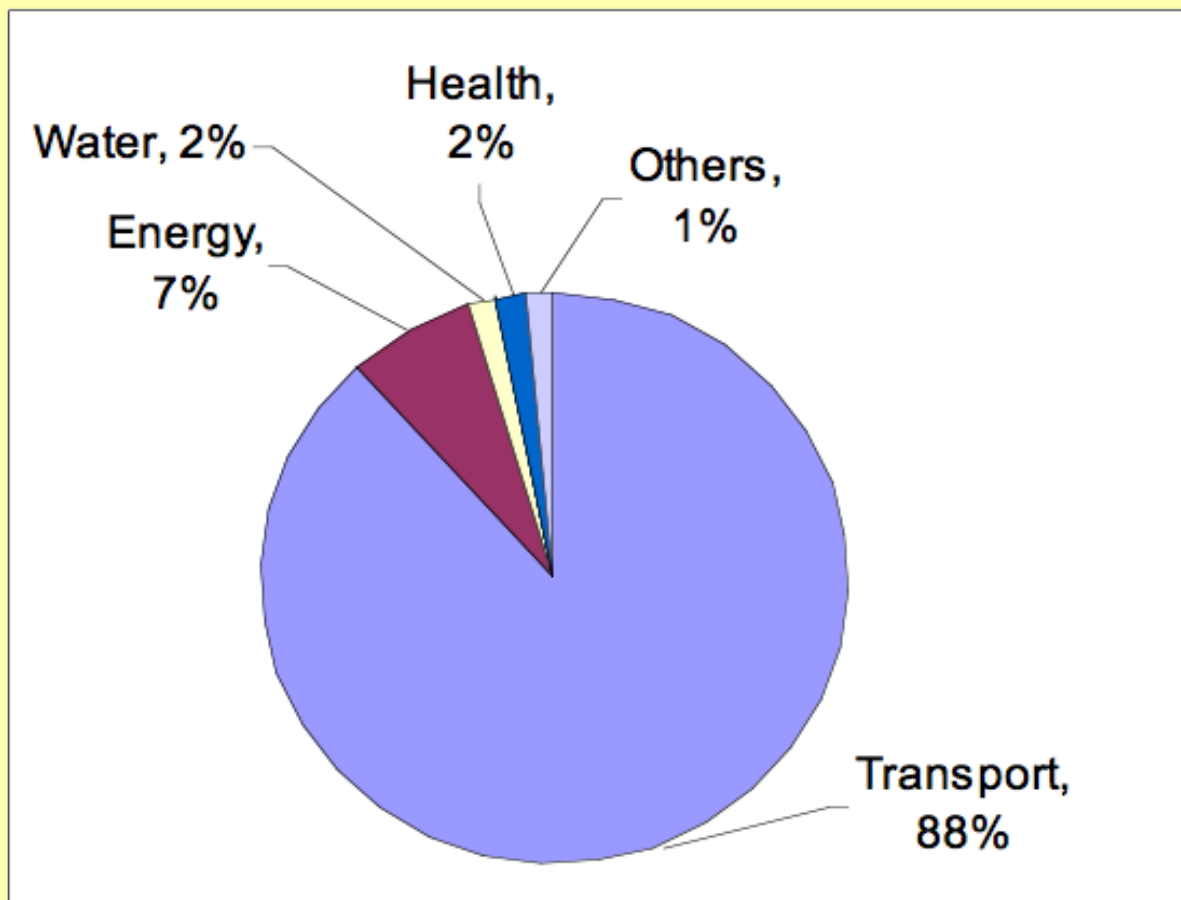
**RCI SOVEREIGN LENDING AND ADF GRANTS 2007-2011:
Volume and Share of Total**



Sources: ADB Work Program and Budget Framework, 2009-2011;
ADB Strategy and Policy Department

Sectoral Composition of ADB's Cumulative RCI Lending

LOANS AND ADF GRANTS, 2005-2009 Actual



Source: ADB Strategy and Policy Department

Regional projects are more difficult to develop and manage

- **Involve greater uncertainty and risk:** the outcome—and hence the benefit—depends upon the performance of other partners.
- **More complex than national projects:** they are more costly to design, and face greater uncertainty in terms of timing and expected benefits.
- **More difficult to manage:** commitment, depending on perceived benefits and national priorities, may differ substantially.
- **Deal with multiple governments.**

Result: Longer gestation and implementation. A regional project takes a longer time to process and implement than a national project.

Even financing regional projects is more complicated

- o Different types of regional projects result in different shares of national versus regional benefits (spillovers), as well as different types of “market failure.”
- o Given spillovers and market failure, special RCI funds and set-asides are often employed to offset disincentives and ensure uptake.

ADB's Special Funds and Earmarking for Regional Projects

○ **Special Funds:**

- RCI Fund (\$40 million, OCR income)
- ICFF (\$29 million, trust fund of GOJ)
- PRC Fund (\$20 million, trust fund of Government of PRC)

○ **ADF earmark:**

- Raised from 5% (ADF IX, 2005-2008) to 10% (ADF X, 2009-2012): SDR 0.7 billion, or roughly US\$1.1 billion.
- Countries must provide 20% of total project cost from national resources to ensure greater ownership.

Summing Up ADB's Experience

- **Finance matters a lot for RCI**
 - Additionality matters
 - Concessionality matters even more, particularly for small, poor countries
- **But beyond financing, “intangibles” are just as or even more important**
 - Acting as honest broker: The ultimate intangible.
 - Acting as knowledge bank and capacity builder: addressing knowledge and capacity constraints can improve uptake of regional projects.
- **At the operational level:**
 - Small, cross-border projects are important for building confidence (GMS and CAREC)
 - Focus on software crucial to complement physical connectivity

The Future Challenges of Asian Integration

- Asian integration quite uneven across subregions
- In subregions where countries are seamlessly connected to each other, integration has been faster
 - Pan-Asian Infrastructure Forum
 - Asian Infrastructure Fund
- Even in subregions where integration has progressed, the next phases of integration would require stronger institutions
 - Top-down vs. bottom-up approach
 - Inter-governmental vs. supranational
- At the national level, need to inculcate stronger sense of RCI in country economic planning

Asia truly is a region of subregions, requiring a multi-track, multi-speed integration process

Type of integration Sub-region	Production Integration (Factory Asia through production networks)	Trade Integration in Final goods	Services Trade Integration	Monetary and Financial Integration
East Asia	High	Moderate	Moderate	Low
South Asia	Low	Low	Low	Low
Central Asia	Low	Low	Low	Low

Source: OREI estimates (preliminary)

Note: If intra-regional share is more than 50% = High; 20-50%=moderate; less than 20%= low (except for the last column on monitoring and integration, where the assessment is based more on qualitative information).

Thank you.

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