



# Conference on Regional Cooperation and Integration

## Experiences in Asia and the Pacific

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## Papers and Presentations

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## Conference on Regional Cooperation and Integration Experiences in Asia and the Pacific

### Session 1: Regional Cooperation Initiatives in Asia and the Importance of Regionalism

#### A. Executive Summary of Key Points & Ways of Looking Forward

Key Messages	Looking Forward
1. Center of gravity is shifting towards Asia, a resurgent and dynamic region; it can benefit from, as well as contribute, to global rebalancing	<ul style="list-style-type: none"> <li>• Take RCI on a new plane &amp; promote cooperation between sub-regions</li> <li>• Continue removing all remaining obstacles for free flow of goods and services as a means of naturally promoting integration</li> <li>• Support private sector efforts related to production networks</li> <li>• Promote south-south cooperation</li> </ul>
2. Innovative solutions required to mobilize resources for RCI interventions	<ul style="list-style-type: none"> <li>• Promote collaboration between governments and businesses, including PPPs</li> <li>• Share knowledge on best practices between sub-regional programs</li> </ul>
3. Significant concerns on negative externalities (e.g. crisis, climate change, disaster risks, security/illicit trade, etc)	<ul style="list-style-type: none"> <li>• Invest in regional public goods</li> <li>• Promote closer cooperation to avoid contagion, through the design of expedient risk-sharing mechanisms; however, put in place preventive domestic policies to avoid contagion, as regional risk-sharing cannot be a substitute for good domestic policy and regulatory frameworks</li> </ul>
4. Cooperation is essential; integration is a long-term goal. Take a balanced approach, by weighing benefits as well as costs (including opportunity costs) and challenges of integration	<ul style="list-style-type: none"> <li>• Ensure RCI leads to inclusiveness</li> <li>• Prepare supportive policies (e.g. compensating measures such as “aid for trade” in case of pursuing trade liberalization) so that integration will not produce unequal net benefits, especially for weaker or smaller countries</li> </ul>

#### B. Key Messages

1. **Center of Gravity is Shifting Towards Asia:** The current regional and global economic context provides an appropriate opportunity to discuss the benefits and costs of regional cooperation and integration (RCI). Despite global economic challenges, Asia has been resilient and dynamic. The region is expected to sustain global growth for several years to come. Stemming from the global economic crisis, there has been significant global rebalancing. Through RCI, the region can reap significant benefits from the rebalancing by positioning itself well. The various sub-regions could adopt strategic approaches to respond to global rebalancing.

2. **Innovative solutions are required to mobilize resources for RCI interventions.** Upwards of \$35 billion has been invested in various RCI projects in ADB's developing member countries (DMCs) covered under CAREC, GMS, and SASEC. Yet, there are large unmet needs. The investment requirements in the transport sector alone amount to upwards of \$300 billion over the next 10 years. The public sector alone cannot meet the near future and medium-term requirements. Governments need to bring in the private sector for financing as well as new solutions through technological innovation.
3. **There are serious concerns relating to negative externalities.** Asia is continuously challenged by environmental degradation, climate change and natural disasters, which have negatively impacted on the people and economies in the region. A totally different form of externalities is global economic crisis. Although Asia survived the Lehman collapse, the region cannot wait for a crisis before it adopts sound risk-sharing mechanisms. The Chiang Mai Initiative Multilateralization (CMIM) is a step in the right direction. Is it adequate; and do other sub-regions need similar financial safety nets?
4. **RCI has considerable benefits along with costs and challenges.** Regional cooperation is recognized widely as an essential first step, while integration is generally a medium to long-term undertaking. Integration is more natural in the context of physical connectivity, while integration on softer aspects such as trade facilitation and financial harmonization take much longer. As RCI has both benefits and costs, a balanced approach needs to be taken in designing and sequencing interventions.

## II. Looking Forward

1. **Adopt innovative approaches to RCI to benefit from global rebalancing.** There are various dimensions of global rebalancing that need to be considered. First, there is a shift towards greater domestic consumption in large economies (e.g. People's Republic of China). Second, there is a clear shift in trade patterns with exports from Asia to the United States and Western Europe declining while intra-regional trade within Asia increasing. Third, there is a realignment in production networks within the region, as countries attempt to move up on the value chain or towards the services sector. Fourth, which is still quite nascent, is that a marginally larger share (than in recent years) of the region's financial resources is being invested within the region. The region can respond to these trends effectively, with sub-regions adopting strategic approaches through RCI. Specifically, there can be greater South-South cooperation within the region. It is beginning to happen, with South Asia and East Asia, for instance, beginning to share knowledge. PRC is supporting Southeast Asian economies in absorbing some of the manufacturing activities that PRC is moving away from. In general, countries in the region can gradually adopt open regionalism as a key guiding principle with respect to RCI. Moving towards open regionalism (i.e. interregional cooperation) may require the expansion of RCI programs to include new contents such as paperless trade. In parallel, with Latin America and Africa offering attractive trade prospects, the region could also develop south-south linkages with those regions. Pursuing knowledge exchange among other regions will be mutually beneficial.
2. **Pursue new generation RCI with partners including the private sector.** RCI programs in the future should fit economic realities and opportunities well to maximize the welfare of people and minimize impact of negative externalities on the people in the DMCs and the region. Challenges have been further globalized, have become increasingly intertwined, and have greater impacts. These are likely to continue. In addition, given the large investment requirements, governments alone will not be able to meet the large infrastructure requirements that greater physical connectivity and sustaining growth in the region demand. The DMCs, ADB and other development partners have to continue our efforts in responding

to the challenges of globalization by working with the private sector to ensure that human resources, capital, and natural resources are employed more effectively, and common issues jointly addressed. Consolidating progress through greater institutional development, capacity building, policy development, and partnerships is required to make subregional programs self-sustaining.

3. **Minimize negative externalities.** New challenges in the 21st century include energy security, climate adaptation and disaster management, financial resiliency and social protection, and dealing with cross-border security (including illicit trade) and other negative externalities. Economic or financial contagion is more a matter of when, rather than if. In order to be effectively prepared, countries need to recognize that risk-sharing is critical. Regional financial safety net mechanisms should be adequate to provide confidence to the public and markets.
4. **Ensure inclusiveness through RCI.** The ultimate goal of RCI is to share prosperity across economies, and thereby to continuously improve the welfare prospects of people in the respective countries/sub-regions. Clearly, like any public policy initiatives, RCI programs and projects have benefits as well as costs. They clearly have a number of challenges. In order to maximize the welfare impact, countries need to adopt a balanced approach by weighing the benefits and costs of RCI. Physical connectivity is very critical, and can be a very robust means of promoting integration. Integration in other areas may be a medium to long-term pursuit. Countries need to prepare ahead of time, and pursue those initiatives that have a net overall benefit.