



Regional Cooperation and Integration

Experiences in Asia and the Pacific

26–27 March 2012
Kunming, Yunnan Province
People’s Republic of China





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Asian Development Bank

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Foreword

Over the past 2 decades, the Asian Development Bank (ADB) has been assisting its developing member countries (DMCs) in reaping the benefits and lowering the costs of globalization by promoting regional cooperation and integration (RCI). ADB has mobilized more than \$35 billion from its own resources and from its DMCs and development partners for RCI investment and technical assistance projects and programs. It has helped build the institutional capacity required for effective RCI management in its DMCs and in subregional institutions. ADB has also created, consolidated, and spread knowledge and information about RCI. In addition, ADB serves as catalyst and coordinator of RCI for many DMCs. In 2006, ADB published its *RCI Strategy* to improve the effectiveness of its RCI support.

The global and regional environment in which subregional cooperation programs operate today is quite different from that in which ADB and its DMCs started their RCI programs. Changing economic conditions increasingly pose new challenges to the DMCs in assessing the value of RCI. It was therefore timely for ADB and its DMC partners to review the status of RCI across Asia, share experiences among RCI programs, and discuss ways to deepen RCI in Asia and the Pacific and widen its scope. In early 2012, ADB, with the support of the Kunming municipal government in Yunnan Province of the People's Republic of China (PRC), organized the Conference on Regional Cooperation and Integration: Experiences in Asia and the Pacific. Held on 26–27 March 2012 in Kunming, this was the first Pan-Asia RCI forum for ADB and its DMCs.

This document records the major contributions of the speakers and panelists, as well as the discussions in each session, including the statements and remarks delivered by the keynote speakers. It was prepared to serve as a basic reference for research and studies that seek to improve understanding of RCI issues and challenges within ADB's RCI programs in an increasingly globalized world.

I thank the Kunming municipal government and DMC participants across Asia and the Pacific for making the conference a great success.



Haruhiko Kuroda
President
Asian Development Bank




Executive Summary

The Conference on Regional Cooperation and Integration: Experiences in Asia and the Pacific was organized by the Asian Development Bank (ADB) with support from the Kunming municipal government, Yunnan Province, People's Republic of China (PRC), and was held in Kunming on 26–27 March 2012. The conference brought together for the first time about 160 participants from ADB and its developing member countries (DMCs) and development partners to share experiences in implementing regional cooperation and integration (RCI) initiatives, present information about problems encountered and innovations introduced to address these challenges, and discuss the implications for future RCI policies and initiatives. The conference focused on the experiences of three ADB-supported subregional programs—the Greater Mekong Subregion (GMS) Economic Cooperation Program, the Central Asia Regional Economic Cooperation (CAREC) Program, and the South Asia Subregional Economic Cooperation (SASEC) Program.

The main topics discussed during the conference were: (i) regional cooperation initiatives in Asia and the importance of regionalism; (ii) regional cooperation in transport and the role of economic corridors; (iii) regional cooperation in energy and climate change; and (iv) regional cooperation in trade facilitation, trade and investment, and regional financial integration. The presentations and discussions covered, among others: (i) major achievements of the subregional programs in the last 10 years; (ii) major positive or negative factors that affected the implementation of the programs; (iii) new technologies, tools, or approaches that broadened opportunities and further strengthened subregional cooperation; (iv) benefits of regional cooperation at the country level; and (v) efforts needed to link subregional to regional and interregional cooperation, for example, open regionalism.

As global economic gravity shifts toward Asia, the promotion of subregional and South–South cooperation will contribute to global rebalancing. In this context, cooperation is essential if integration is to be a long-term goal. Issues such as crisis contagion, climate change and disaster risk, security, and illicit trade all demand attention. There are good investments and regional cooperation opportunities in energy generation and transmission, as well as in the development of regional energy markets and grid interconnectivity. Private sector participation is critical, and increased coordination is needed to enhance environmental sustainability and resilience to climate volatility.

Trade facilitation is multi-sector, multidimensional, and multi-institutional. While good progress has been achieved on the hard or physical aspects of connectivity, major challenges remain on the so-called “soft” aspects, such as policy, regulatory, and procedural measures. More effort is needed to improve trade through border and behind-the-border measures to keep pace with



physical investment, though there is a huge gap there as well. Trade facilitation and trade and investment liberalization should be well coordinated within subregional groupings and across the region as a whole. Transforming transport corridors into dynamic economic corridors can help resolve multifaceted development issues. However, the process must be customized to suit each subregion's specific needs.

The conference participants gave positive feedback on the conference and requested ADB to provide more opportunities for knowledge sharing in subregional programs, particularly to implement projects, remove bottlenecks, and address challenges.



Abbreviations

A&P	annexes and protocols
ABMI	Asian Bond Markets Initiative
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AIF	ASEAN Infrastructure Fund
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN	Association of Southeast Asian Nations
BCI	(GMS) Biodiversity Conservation Corridors Initiative
BIMP-EAGA	Brunei Darussalam–Indonesia–Malaysia–The Philippines East ASEAN Growth Area
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CAREC	Central Asia Regional Economic Cooperation
CBEZ	cross-border economic zone
CBTA	cross-border transport agreement
CDM	Clean Development Mechanism
CEP	(GMS) Core Environment Program
CFCFA	CAREC Federation of Carrier and Forwarder Associations
CMIM	Chiang Mai Initiative Multilateralization
CTS	currency trading system
DMC	developing member country
ECF	Economic Corridors Forum
EU	European Union
EWEC	East–West Economic Corridor
FDI	foreign direct investment
FTA	free trade agreement
GMS	Greater Mekong Subregion
ICT	information and communication technology
IGA	(GMS) Inter-Government Agreement on Regional Power Trade
IMF	International Monetary Fund
IMT-GT	Indonesia, Malaysia, and Thailand Growth Triangle
JICA	Japan International Cooperation Agency
kV	kilovolt
Lao PDR	Lao People’s Democratic Republic
MOU	memorandum of understanding
MW	megawatt
NSEC	North–South Economic Corridor



OREI	Office of Regional Economic Integration (ADB)
PPP	public–private partnership
PRC	People’s Republic of China
PRIF	Pacific Region Infrastructure Facility
RCI	regional cooperation and integration
SAARC	South Asian Association for Regional Cooperation
SASEC	South Asia Subregional Economic Cooperation
SEA	strategic environmental assessment
SEC	Southern Economic Corridor
SEZ	special economic zone
SMEs	small and medium enterprises
STF	(GMS) Subregional Transport Forum
TA	technical assistance
TSS	transport sector strategy
TTF	transport and trade facilitation
UN ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
WCO	World Customs Organization
WTO	World Trade Organization

Conference Program

26 March 2012 (Monday)	
8:30–9:00	Registration
9:00–9:05	Conference Opening Master of Ceremonies: Zhu Yongyang, Vice-Mayor, Kunming Municipal Government
9:05–9:35	Welcome and Opening Remarks Zheng Xiaosong, Director General, International Department, Ministry of Finance, People's Republic of China (PRC) Huang Yunbo, Executive Vice Mayor, Kunming Municipal Government, PRC Xiaoyu Zhao, Vice-President, Operations 1, Asian Development Bank (ADB)
9:35–9:45	Group Photo Session
9:45–10:00	Tea Break
10:00–12:30	Session 1: Regional Cooperation Initiatives in Asia and the Importance of Regionalism <ul style="list-style-type: none"> ▪ Moderator: Ramesh Subramaniam, Senior Director, Office of Regional Economic Integration (OREI), ADB Presenters: <ul style="list-style-type: none"> ▪ Ramesh Subramaniam, Senior Director, OREI, ADB ▪ Porametee Vimolsiri, Deputy Secretary General, National Economic and Social Development Board, Thailand (Greater Mekong Subregion [GMS] Economic Cooperation Program) ▪ Samat Kulmambetov, Head of Customs Policy Division, Ministry of Economy and Antimonopoly Policy, Kyrgyz Republic (Central Asia Regional Economic Cooperation [CAREC] Program) ▪ Rameshore Khanal, Economic Adviser to the Prime Minister, Government of Nepal (South Asia Subregional Economic Cooperation [SASEC] Program) ▪ Iwan J. Azis, Head, OREI, ADB Open Discussion
12:30–13:30	Lunch Cafeteria, 1st Floor, Empark Grand Hotel

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13:30–15:30	<p>Session 2: Regional Cooperation in Transport and the Role of Economic Corridors</p> <ul style="list-style-type: none">▪ Moderator: Juan Miranda, Director General, Central and West Asia Department, ADB <p>Presenters:</p> <ul style="list-style-type: none">▪ Nguyen Ngoc Thuyen, Deputy Director General, International Cooperation Department, Ministry of Transport, Viet Nam (GMS)▪ Roman Sklyar, Vice Minister of Transport and Communication, Kazakhstan (CAREC)▪ Saifuddin Ahmed, Joint Secretary, Economic Relations Division, Ministry of Finance, Bangladesh (SASEC) <p>Panelist:</p> <ul style="list-style-type: none">▪ Li Shusen, First Secretary, Department of International Trade and Economic Affairs, Ministry of Commerce, PRC <p>Open Discussion</p>
15:30–15:45	Tea Break
15:45–17:45	<p>Session 3: Regional Cooperation in Energy and Climate Change</p> <ul style="list-style-type: none">▪ Moderator: Sultan H. Rahman, Director General, South Asia Department, ADB <p>Presenters:</p> <ul style="list-style-type: none">▪ Keobang A. Keola, Director General of the GMS Secretariat, Ministry of Natural Resources and Environment, Lao People's Democratic Republic (GMS–environment)▪ Khin Maung Win, Deputy Director General, Department of Electric Power, Ministry of Electric Power, Myanmar (GMS–energy)▪ Emil Orujov, Advisor, Cooperation with International Organizations Department, Ministry of Economic Development, Azerbaijan (CAREC)▪ Sonam Tshering, Secretary, Ministry of Economic Affairs, Royal Government of Bhutan (SASEC) <p>Open Discussion</p>
18:30	<p>Dinner Hosted by ADB</p> <p>Venue: Banquet Hall, 1st Floor, Empark Grand Hotel</p> <p>Dinner Speech:</p> <p>Rajat M. Nag, Managing Director General, ADB</p> <p>CAREC and GMS Videos</p>

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27 March 2012 (Tuesday)	
9:00–11:15	<p>Session 4: Regional Cooperation in Trade Facilitation, Trade and Investment, and Regional Financial Integration</p> <ul style="list-style-type: none"> ▪ Moderator: Ying Qian, Director, Public Management, Financial Sector and Regional Cooperation Division, East Asia Department, ADB <p>Presenters:</p> <ul style="list-style-type: none"> ▪ Sopheak Sok, Director General, Department of International Trade, Ministry of Commerce, Cambodia (GMS) ▪ Oyunchimeg Dash, Deputy Director-General, General Administration of Customs of Mongolia (CAREC) ▪ Nagesh Kumar, Chief Economist and Director, United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) (SASEC) <p>Panelist:</p> <ul style="list-style-type: none"> ▪ Penchan Manawanitkul, Senior Officer, Consumer Protection and Intellectual Property Division, Association of Southeast Asian Nations (ASEAN) <p>Open Discussion</p>
11:15–11:30	Tea Break
11:30–12:30	<p>Session 5: Summary and Looking Forward</p> <p>Moderators:</p> <ul style="list-style-type: none"> ▪ Vicky Tan, Director, Regional Cooperation and Operations Coordination Division, Central and West Asia Department, ADB ▪ Sekhar Bonu, Director, Regional Cooperation and Operations Coordination Division, South Asia Department, ADB <p>Open Discussion</p>
12:30–12:45	<p>Closing Remarks</p> <ul style="list-style-type: none"> ▪ Hong Weizhi, Vice Secretary-General, Kunming Municipal Government ▪ Klaus Gerhaeusser, Director General, East Asia Department, ADB
12:45–14:00	<p>Lunch</p> <p>Cafeteria, 1st Floor, Empark Grand Hotel</p>
14:30–17:30	Field Visit: Dianchi Wetland, Sewage Treatment Works, and Yunnan Nationalities Village
18:00–20:00	<p>Dinner Hosted by Kunming Municipal Government</p> <p>Venue: Yunnan Nationalities Village</p>



Welcome and Opening Remarks

Zheng Xiaosong
Director General, International Department
Ministry of Finance
People's Republic of China

Distinguished Vice President of ADB Xiaoyu Zhao, Vice Party Chief of Yunnan Province Zhang Tianxin, honorable guests, ladies and gentlemen, good morning.

It is a great pleasure for me to attend the Conference on Regional Cooperation and Integration in Asia and the Pacific in the beautiful city of Kunming. First of all, on behalf of the Department of International Affairs, Ministry of Finance, I would like to extend my sincere congratulations for the successful opening of this conference and a warm welcome to all the distinguished guests from here and abroad!

As global multi-polarization and economic globalization become general trends, regional cooperation has attracted worldwide attention. Facts have proved that regional cooperation is an essential approach to enhancing the coordination of macroeconomic policies and to enabling the economies to cooperate with each other on the basis of their respective competitive advantages for common development.

The Asian Development Bank (ADB) is Asia's largest multilateral development institution. Compared with other international multilateral development institutions, ADB has the unique characteristic and advantage of conducting regional economic cooperation. Today's conference, hosted by ADB, bears significant meaning as it can enhance the exchange and sharing of regional cooperation experiences within the region, and further promote South–South cooperation.

The Greater Mekong Subregion (GMS) Economic Cooperation Program and the Central Asia Regional Economic Cooperation (CAREC) Program are two of the important subregional cooperation programs initiated by ADB. Both of these programs have critical geographic locations, abundant natural resources, and adequate foundations for economic development. All the countries within the GMS and the CAREC subregion are developing countries, which have historical ties of trade, commerce, and cultural exchange, and share a strong wish for cooperation. Although these two programs differ in launching date, location, content, and modes of cooperation, they are confronted with the same challenges and share the same aspirations and goals. Therefore, it has become the consensus of all the member countries to conduct regional cooperation, further enhance economic ties and coordination, and collectively guard against external risks to achieve mutual benefits and win–win results.




Over the years, with strong leadership and support from relevant government agencies in this region and promotion by ADB, the two programs have yielded fruitful outcomes. By the end of 2011, 172 regional cooperation projects had been carried out within the framework of the two programs, with the investment exceeding \$30 billion. The two programs have also provided numerous personnel training sessions for member countries. All these cooperation undertakings are essential to enhanced interconnectivity in infrastructure like transport, energy, and telecommunications; more convenient trade and investment; sustainable development of tourism and agriculture; preservation of biodiversity; and safeguarding of human resources against exploitation. They have greatly boosted regional integration and regional sustainable development.

As a member country of both GMS and CAREC, the People's Republic of China (PRC) has been paying high attention to, actively participating in, and promoting regional cooperation. We have also provided financial and intelligence support within all of our capacity for regional cooperation. Within the GMS framework, the PRC has financed and participated in the construction of the Kunming–Vientiane Road, the Pan-Asia Railway, and other infrastructure projects; initiated the Economic Corridors Forum; actively promoted the construction and utilization of the Subregion Information Highway; contributed immensely to the development of the subregional grid network and trade market; strived to preserve the biodiversity corridor; joined efforts with other subregional member countries in transborder epidemic prevention and control in the border areas; provided professional training to over a thousand personnel from the subregional member countries; set up government-sponsored scholarship programs for students from subregional countries; and provided financial assistance to other member countries.

Compared with the GMS, CAREC started late. However, in the past 10 years, we have witnessed positive results under this program. The PRC has also contributed to this progress by providing financial and technological support to, among others, the CAREC Corridor Project, including the railways and roads connecting the PRC, Kyrgyzstan, and Uzbekistan to the PRC–Russian Federation–Mongolia passage; provided Central Asian countries with technical assistance in agriculture, environment, and capacity building; and sponsored the CAREC Business Development Forum, various symposiums, and training sessions.

In 2005, the PRC government set up the \$20 million PRC Fund for Poverty Reduction and Regional Cooperation in ADB. This fund allocated \$13 million to support 33 regional cooperation projects under the GMS and CAREC programs concerning infrastructure, trade facilitation, knowledge sharing, capacity building, and personnel training. In May 2011, the PRC government committed another \$20 million to continue the PRC Fund and, consequently, to keep playing a positive role in pushing forward poverty reduction efforts in developing member countries in Asia and the Pacific, in promoting social and economic development, and in boosting regional cooperation and knowledge sharing.

Ladies and gentlemen, the current global economic recovery has demonstrated some positive changes, but the prospects are still gloomy. The underlying impact of the global financial crisis is still unfolding, and the vulnerability and uncertainty of global economic recovery are increasing. In recent years, the GMS and CAREC member countries have enjoyed sustained growth in general, pushed forward cooperation in various fields, and exhibited remarkable development potential. However, the countries in these two subregions still face severe challenges of different




scales in the transformation of development approaches and in economic restructuring. Poverty reduction and sustainable development remain daunting tasks. Against this backdrop, we need to come closer and join hands to enhance political mutual trust, enrich our cooperation agenda, improve knowledge sharing between the two programs, leverage our complementary advantages, and step up our cooperation.

As for future development, I would hereby like to put forward a few suggestions.

First, we should pay equal attention to “hardware” and “software.” We should continue the development of hardware such as transport, power, and telecommunication, and at the same time focus on promoting trade facilitation and transborder transport of people and goods by decreasing the cross-border transport costs of production, deepening economic and trade ties among member countries, and continuously expanding the scope of innovation and cooperation on the “software” side. In addition, we should enhance our cooperation in areas such as agriculture, environmental protection, science and technology, tourism, and human resources, so as to lay a more solid foundation for regional sustainable development.

Second, we should enhance efforts in financing. The deepening of regional cooperation in various sectors has generated higher financial demand, making financing the key factor in smooth regional cooperation. Two publications produced last year—namely, *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework 2012–2022* and *CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020*—define the programs’ respective strategic objectives and priority areas, and made an ambitious blueprint for the development of the two programs in the next 10 years. The success of the strategic framework is inseparable from concrete investment planning and financial support. We hope ADB can provide more funding for regional cooperation. We encourage ADB to act as an initiator to mobilize various resources including the private sector’s resources, attract more countries and international organizations to become development partners of the two subregions, and continue to introduce new financing modes and funding sources to instill continued vigor into the regional cooperation framework. Meanwhile, the governments of all the member countries should be more proactive, provide more policy support and have greater sense of ownership, improve the investment environment, enhance capacity building, and provide more convenient conditions to attract investment.

Third, we should further promote South–South knowledge cooperation. The deepening regional cooperation brings more complicated problems and challenges, which make it more necessary for all the member countries to build capacity, and even more important to enhance South–South knowledge cooperation and experience sharing. On the other hand, we should make full use of the existing knowledge-sharing platforms to promote policy dialogue and share successful experiences with one another, and use them to reform the ideals for cooperation and development and strengthen South–South knowledge cooperation. Currently, the PRC and ADB are discussing and studying the feasibility of a regional knowledge-sharing initiative. This initiative will be an important mechanism for engaging countries in Asia and the Pacific in South–South knowledge cooperation, and provide support and services for capacity building and knowledge and experience sharing among developing countries.



Over the years, ADB has served as the secretariat, mediator, and financing body for both the GMS and CAREC programs, and played a crucial role in regional cooperation and integration in Asia and the Pacific. We commend the efforts made by ADB. The future development of regional cooperation still calls for strong support from ADB. We hope that ADB can respond to the needs of all the member countries in the two subregions, increase financial and technical input, and enhance policy research, so as to provide better services to the member countries and push regional integration forward.

In 2008, the PRC government successfully dealt with the global financial crisis, and became the first country in the world to register economic recovery. Ever since the success of 2008, we have been focusing on the theme of scientific development and the major task of transforming the approach to economic development. We strive to enhance and improve macroeconomic adjustment and control, ensure sound and fast economic development, restructure the economy, manage inflationary expectations, more proactively address major issues, consolidate and expand the initial achievements of addressing the financial crisis, and guide regional growth from the policy-driven model to the indigenous growth model. Our national economy has been moving toward macroeconomic restructuring, and has produced sound momentum of relatively fast growth, stable prices, higher profits, and better livelihoods.

We will stick to our proactive fiscal policies and stable monetary policies; make adjustments to adapt to changes in the situation; provide more targeted, flexible, and forward-looking policies; make new progress in economic restructuring; register new breakthroughs in reforms and opening up; and reap new achievements in improving people's livelihoods. I believe the PRC's development will bring better opportunities for our neighboring countries, including those in the GMS and CAREC subregions. The PRC will stick to its diplomatic policy of "building friendship and partnership with neighboring countries," and continue to strengthen cooperation with ADB and other member countries to provide support within all of our capacity for regional cooperation and development, and promote regional development and prosperity.

Finally, I would like to wish this conference the greatest success. Thank you.



Opening Remarks

Huang Yunbo
Executive Vice Mayor
Kunming Municipal Government
People's Republic of China


Distinguished Vice President of the Asian Development Bank (ADB) Xiaoyu Zhao, and officials from the East Asia, Southeast Asia, Central and West Asia, South Asia, and Pacific Asia departments of ADB;

Respectable Chairman of the Bangladesh Tariff Commission Md. Mozibur Rahman; Vice-Minister of the Ministry of Transport and Communications of Kazakhstan Roman Sklyar; Economic Adviser to the Prime Minister of the Government of Nepal Rameshore Khanal; First Deputy Minister of the Ministry of Economic Development and Trade of Tajikistan Hamidullokhon Fakerov; Secretary of the Ministry of Economic Affairs of the Royal Government of Bhutan Dasho Sonam Tshering; Deputy Minister of the Ministry of Transport and Communications of Maldives Adnan Ali; Deputy Director-General of the General Administration of Customs of Mongolia Oyunchimeg Dash; Director of Customs, Ministry of Finance of Timor Leste Brigida Da Silva; and other leaders from Asia and the Pacific countries;

Honorable Director General Zheng Xiaosong and Deputy Director General Wang Zhongjing of the International Affairs Department, Ministry of Finance of the People's Republic of China (PRC), and leaders and guests from the Ministry of Human Resources and Social Security; Ministry of Environmental Protection; Ministry of Agriculture; Ministry of Health; General Administration of Customs; General Administration of Quality Supervision, Inspection and Quarantine; People's Bank of China; China Banking Regulatory Commission; Industrial and Commercial Bank of China; Agricultural Bank of China; China Construction Bank; Bank of Communications; China Southern Power Grid; Xinjiang, Inner Mongolia, Jilin, and Guangxi delegations; and China International Chamber of Commerce for the Private Sector;

Ladies and gentlemen, good morning!

Today, in this season of hope and with great pleasure, we are getting together at the Conference on Regional Cooperation and Integration in Asia and the Pacific in the beautiful Spring City of Kunming and welcoming the honorable leaders and guests. Entrusted by Party Secretary Zhang Tianxin and Mayor Zhang Zulin and on behalf of the Kunming Municipal CPC Committee, Kunming Municipal People's Government, and the 7.26 million people of all ethnic groups in Kunming, I would like to congratulate everyone on the opening of the conference and extend




a warm welcome to all the distinguished guests. I also want to give my heartfelt gratitude to leaders, guests, and friends who have been supportive of the development of Kunming over the years.

In July 2005, with attention and support from ADB, Kunming successfully hosted the Second GMS Leaders' Meeting. In November 2009, a seminar cohosted by the Ministry of Finance and ADB on Experience Exchange on the Loan-Supported Urban Development Projects in Kunming opened a new channel for communication among governments, enterprises, and academic circles in the Asia and the Pacific region. For many years, ADB has been conducting dialogue, sharing information, and networking through forums, which have greatly promoted cooperation in Asia and the Pacific and comprehensive, sound, and rapid economic and social development of the region. We are glad to see that in Asia and the Pacific we have further enhanced transport infrastructure, developed information highways, facilitated trade and investment, promoted economic and technological cooperation, improved companies' financing environment, and broadened cultural cooperation. All these achievements have contributed to mutual understanding among our people, promoted the economic development of countries, boosted cross-cultural communication and exchange, and brought real benefits to people in this region. More and more countries, organizations, and companies are showing great interest in knowledge sharing—as we are doing now—and the region is becoming increasingly attractive.

In the world today, as the new technological revolution represented by information technology develops rapidly, modes of production, exchange, and consumption and all aspects of economic and social development are undergoing extensive and profound change. The new technological revolution has further promoted a new round of global industrial revolution, expanded international investment, and strengthened cooperation between countries and regions, thus promoting economic globalization. With the new technological revolution as its inner drive, economic globalization has become a major trend of our time. Under such circumstances, cooperation between nearby regions, having similar cultures and related interests, continues to grow and has become a realistic choice for regional members to participate in globalization, improve competitiveness, and realize common development. Cooperation has become the trend of our time in line with economic globalization.

Located in southwest PRC, Kunming is an important bridge linking the PRC to the rest of the world. It is the capital city, as well as the political, economic, cultural, and social development center, of Yunnan Province. It has a favorable geographic location, with Guizhou and Guangxi provinces reaching the coastal regions on its east, Chongqing and Sichuan extending to the central part of the PRC on the north, Viet Nam and the Lao People's Democratic Republic connecting with Thailand and Cambodia on the south, and Myanmar adjoining India and Pakistan on the west. In addition, Kunming is the junction of the great international passage from south to north and the third Euro-Asian continental bridge from east to west—both under construction at present. Kunming is also the intersection of the ASEAN "10 +1" Free Trade Area, the Greater Mekong Subregion Economic Cooperation Zone, and the Pan-Pearl River Delta Economic Cooperation Zone. In recent years, Kunming has been promoting economic and cultural exchange and cooperation with Asia and the Pacific and has developed a friendly relationship with the region in all respects. In 2011, trade between Kunming and other Asian




countries achieved a high growth rate, increasing by 23.3% year on year and accounting for 51.8% of Kunming's total trade with foreign countries.

ADB is the largest multilateral development organization in the region. It has made important contributions to the economic development of Yunnan and has shown great concern and provided support for the development of key projects in Kunming. The Qingshuihai Lake Water Diversion Project in Kunming is a model project under ADB loan preparation work, and ADB has assisted Kunming in obtaining a \$500,000 grant from the United Nations Human Settlements Programme for a demonstration program of comprehensive environmental improvement of communities. It has also worked hard together with Kunming to explore innovative cooperation models. In 2007, the Private Sector Operations Department of ADB made Kunming one of its two regional cooperation pilot cities. Kunming has actively secured nonsovereign loans to promote the development of environmental protection and water projects, greatly enhancing the effects of its cooperation with ADB and helping to accelerate inbound and outbound investments. At present, Kunming aims to grasp the important opportunities of the national "Go West" Strategy and the development of Yunnan as the bridge linking the PRC to other Asian countries. Its goal is to build a modern Kunming and make it an international city in the region. The main theme is scientific development and the main guiding principle is accelerating the transformation of the economic development mode. Kunming is making efforts to expand domestic demand, promote reform and opening up, and improve people's living standards.

As a starting point, we are seeking steady and sound growth, encouraging innovation and promoting leap-forward development, and trying to make Kunming a pleasant and livable city. We will also play a great role in regional cooperation, having Yunnan's advantageous location, and grasp the opportunity of this conference to further promote Kunming's opening up and develop our export-oriented economy.

With the support of the Ministry of Finance of the People's Republic of China and the Yunnan Provincial People's Government, the Kunming Municipal People's Government and ADB are co-hosting the Conference on Regional Cooperation and Integration: Experiences in Asia and the Pacific here in Kunming, attended by leaders from Asia and the Pacific countries. With the theme of regional cooperation, we will discuss regional development plans and promote communication and development of cooperation in various sectors. This is a conference on Asia and the Pacific regional cooperation—a beginning to expand regional cooperation, trade, and investment between the PRC and other Asia and the Pacific countries, and also a concrete practice of making Kunming an international city and bridge of the PRC to the southwest. The successful opening of the conference will help Kunming utilize its location, resources, and industrial advantages; make full use of the international and domestic markets; and further promote communication and cooperation within Asia and the Pacific, with positive impact and far-reaching influence.

We believe that the successful opening of the conference will provide better conditions and larger opportunities for the further integration of Yunnan, particularly of Kunming, into the Asia and the Pacific region and the PRC–Association of Southeast Asian Nations (ASEAN) Free Trade Area, and for the development of the Pan-Asia market. We sincerely hope that all leaders and



guests here will continue to show great interest in Kunming. We will make progress together, achieve mutual benefits and win–win results, and create a better future.

I wish all the leaders, guests, and friends a healthy stay in Kunming, a good family life, and all the best!

I wish the Conference on Regional Cooperation and Integration in Asia and the Pacific great success!

Thank you!



Opening Remarks

Xiaoyu Zhao
Vice-President, Operations 1
Asian Development Bank

Distinguished government officials, Director General of the Ministry of Finance Zheng Xiaosong, ladies and gentlemen, good morning. On behalf of the Ministry of Finance and the Kunming municipal government, I would like to extend our heartfelt gratitude to the Asian Development Bank (ADB) for its support for this conference. ADB is an international agency, and because the working language of ADB is English, please allow me to speak in English.

On behalf of ADB, let me start by saying what a unique opportunity this conference presents to all of us. This is the first comprehensive regional conference where more than 150 officials working with all subregional programs have gathered to discuss major achievements, challenges, and the future of regional cooperation and integration (RCI). Speaking from ADB's point of view, our 1966 Charter gives priority to national as well as regional and subregional projects and programs that contribute most effectively to the harmonious economic growth of the region as a whole. Over the last decade and a half, ADB, together with our developing member countries (DMCs), has delivered an increasing number of RCI activities. Considering this, the time is now right for us to come together to share experiences and learn from one another.

The circumstances under which we work toward RCI today have changed dramatically, and particularly so over the past 5 years. The global financial crisis and the so called "Great Recession" have forced us to reevaluate the role and structure of regional cooperation. In many ways, there is added urgency to think further and move ahead on RCI in a more concerted manner. Throughout the multi-paced and multitrack global recovery, we have seen the center of economic gravity gradually shifting to Asia. No doubt the advanced economies of Europe and the US will continue as critical markets for Asian products. But the deep structural changes needed in the developed economies mean that they are unlikely to grow as before. This means emerging markets, such as those in Asia, will increasingly rely on building new sources of growth from within. This is where RCI holds so much promise for ultimately reducing poverty and increasing the standards of living of Asians.

In the meantime, strong global linkages have intensified the need for closer regional economic cooperation. All of us present today in this room have responded to the challenges of globalization by working among ourselves and with our neighbors, as well as our development partners, to ensure that human resources, capital, and natural resources are more effectively employed, and current issues are addressed. Intraregional trade is a good indicator. Take the Association of Southeast Asian Nations (ASEAN) as an example. In 2000, 58% of ASEAN exports were for

Asian markets. In 2010, this figure increased to 74% and the value of those exports jumped from \$190 billion to nearly \$520 billion, a 275% increase. Regionalism works.

In responding to this substantial surge in trade volumes, there are increasing demands for speedy logistics services and mounting security concerns. Asia as a whole has seen large-scale investments in the development of transport and trade facilitation hardware and software using new technology and procedures. Asia has also intensified cooperation among all stakeholders including the private sector. Regional power transmission and information and communication technology (ICT) programs have also been promoted in Asia, contributing to rebalancing within and among countries. As a result, new investments have taken place, offering employment opportunities for people across the region.

In parallel, however, Asia has also faced several challenges, including environmental degradation, climate change, and natural disasters. These challenges have in turn intensified cooperation at national and regional levels. Asia has confirmed the importance of regional cooperation to ensure the quality of people's lives.


RCI is one of ADB's three operational strategies, and also one of the five core areas of operations. Under our Strategy 2020, ADB is first of all increasing financial resources for regional projects and initiatives and mobilizing funding and technical assistance. Second, we are also expanding the creation and dissemination of knowledge and information on RCI, and this is one reason we are here today. Third, we are furthering support to build institutional capacity to manage regional cooperation and integration. And fourth, we are strengthening ADB's role as a catalyst and coordinator of RCI.

Let me quickly offer a synopsis of major subregional programs in the region.

The Greater Mekong Subregion (GMS) Economic Cooperation Program, during the first 2 decades of operation, has without doubt proven that RCI provides benefits in terms of the so-called "3Cs"—enhanced connectivity, improved competitiveness, and a greater sense of community. In December last year, GMS leaders endorsed a new Ten-Year Strategic Framework for 2012–2022, which focuses mainly on policy and institutional reforms, multisector physical infrastructure investments, and transport and trade facilitation along the GMS corridors. Also in the pipeline are regional power market development, increased tourism development, and natural and human resource management initiatives. There will be an increased role for knowledge management and partnerships, and more direct work with the private sector and development partners like ADB.

The Indonesia, Malaysia, and Thailand Growth Triangle (IMT-GT) and the Brunei Darussalam–Indonesia–Malaysia–The Philippines East ASEAN Growth Area (BIMP-EAGA) have also grown in stature and in range of activities.

The Central Asia Regional Economic Cooperation (CAREC) Program has been in existence for over 10 years. This program has moved from consultations and studies on the benefits of regional cooperation to the implementation of over 120 priority regional projects worth over \$19 billion. CAREC members use regional cooperation to help reach their respective national development



objectives. Last November, the CAREC ministers endorsed a pragmatic and focused strategy for the next decade—CAREC 2020—which will guide continued efforts to build and enhance infrastructure connectivity and related software, and look for ways to promote commercial activities along the CAREC corridors.

And to round out the major initiatives represented here, there is the South Asia Subregional Economic Cooperation (SASEC) Program, which covers Bangladesh, Bhutan, India, and Nepal. Energy, transport, and trade facilitation are their priority sectors, along with the implementation of the ongoing regional ICT and tourism development projects. SASEC is open to working with the South Asian Association for Regional Cooperation (SAARC), another regional mechanism, and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

To conclude, it is very exciting to see participants from all these vibrant regional cooperation initiatives coming together to share on-the-ground experiences, and discuss challenges and the future of RCI. We have a full schedule, with a number of presenters and panelists for this 2-day event, focusing on five major common topics:

- Major achievements of various subregional programs in the last 10 years;
- Major factors that have had a positive or negative impact on the implementation of subregional programs;
- New technologies, tools, or approaches that may be introduced to broaden opportunities and further strengthen subregional cooperation;
- Benefits of regional cooperation at the country level; and
- Efforts needed to link subregional, regional, and interregional cooperation, namely, to create open regionalism, which will eventually link these programs into what may, in the future, develop into Pan-Asian integration.

Finally, let me thank the Ministry of Finance of the People’s Republic of China, the Yunnan Provincial Government, and the Kunming municipal government for supporting this conference. I look forward to vibrant discussions and welcome you all again on behalf of ADB. Thank you all very much.

SESSION 1

Regional Cooperation Initiatives in Asia and the Importance of Regionalism

Main Objective of the Session	
The main objective of this session was to provide an overview of ongoing regional cooperation initiatives in Asia and those directly involving the Asian Development Bank (ADB), and to review experiences in developing broader (more countries and sectors) and deeper (more substantial institutional setup) regional cooperation programs. The importance of regionalism and regional institutions in maximizing the benefits of globalization was also discussed in the session.	
Moderator	
Ramesh Subramaniam, Senior Director, Office of Regional Economic Integration (OREI), ADB	
Presenters	
<ul style="list-style-type: none">▪ Ramesh Subramaniam, Senior Director, OREI, ADB▪ Poramatee Vimolsiri, Deputy Secretary General, National Economic and Social Development Board, Thailand (Greater Mekong Subregion [GMS])▪ Samat Kulmambetov, Head, Customs Policy Division, Ministry of Economy and Antimonopoly Policy, Kyrgyz Republic (Central Asia Regional Economic Cooperation [CAREC])▪ Rameshore Khanal, Economic Adviser to the Prime Minister, Government of Nepal (South Asia Subregional Economic Cooperation [SASEC])▪ Iwan J. Azis, Head, OREI, ADB	
Summary of Key Lessons Learned, Future Agenda, and Open Discussion	
Key Lessons Learned	Future Agenda
<ul style="list-style-type: none">▪ The center of gravity is shifting toward Asia, a resurgent and dynamic region, which can benefit from, as well as contribute to, global rebalancing.	<ul style="list-style-type: none">▪ Adopt innovative approaches to regional cooperation and integration (RCI) to benefit from global rebalancing.<ul style="list-style-type: none">– Take RCI to a new plane and promote cooperation between subregions.– Continue removing all remaining obstacles to the free flow of goods and services as a means of naturally promoting integration.– Support private sector efforts related to production networks.– Promote South–South cooperation

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Summary of Key Lessons Learned, Future Agenda, and Open Discussion	
Key Lessons Learned	Future Agenda
<ul style="list-style-type: none"> ▪ Innovative solutions are required to mobilize resources for RCI interventions. 	<ul style="list-style-type: none"> ▪ Pursue new-generation RCI with partners, including the private sector. <ul style="list-style-type: none"> – Promote collaboration between government and business, including public–private partnerships. – Share knowledge of best practices between subregional programs.
<ul style="list-style-type: none"> ▪ There are significant concerns over negative externalities (financial crises, climate change, disaster risk, security risk and illicit trade, etc.). 	<ul style="list-style-type: none"> ▪ Minimize negative externalities. <ul style="list-style-type: none"> – Invest in regional public goods. – 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 substitute for good domestic policy and regulatory frameworks.
<ul style="list-style-type: none"> ▪ RCI has considerable benefits along with costs and challenges. Cooperation is essential; integration is a long-term goal. Take a balanced approach by weighing the benefits, as well as the costs (including opportunity costs) and challenges, of integration. 	<ul style="list-style-type: none"> ▪ Ensure inclusiveness through RCI. <ul style="list-style-type: none"> – Ensure that RCI leads to inclusiveness. – Prepare supportive policies (including compensating measures such as “aid for trade” if trade liberalization is sought) so that integration does not produce unequal net benefits, with detriment to weaker or smaller countries.
Key Lessons Learned	
<ul style="list-style-type: none"> ▪ The center of gravity is shifting toward Asia. The current regional and global economic context provides an appropriate opportunity to discuss the benefits and costs of RCI. Despite global economic challenges, Asia has been resilient and dynamic. The region is expected to sustain global growth for several years to come. Global rebalancing, stemming from the global economic crisis, has been significant. Through RCI, the region can reap significant benefits from rebalancing by positioning itself well. The various subregions could adopt strategic approaches to respond to global rebalancing. 	
<ul style="list-style-type: none"> ▪ Innovative solutions are required to mobilize resources for RCI interventions. More than \$35 billion has been invested in various RCI projects in ADB’s developing member countries (DMCs) that are part of CAREC, GMS, and SASEC. Yet, there are large unmet needs. The investment requirements in the transport sector alone top \$300 billion over the next 10 years. The public sector by itself cannot meet short- and medium-term requirements. Governments need to attract financing, as well as new solutions through technological innovation, from the private sector. 	
<ul style="list-style-type: none"> ▪ There are serious concerns relating to negative externalities. Asia is continuously challenged by environmental degradation, climate change, and natural disasters, which hurt people’s welfare and damage economies. A totally different externality is a global economic crisis. Although Asia survived the Lehman Brothers’ collapse in September 2008, the region cannot wait for another crisis before it adopts sound risk-sharing mechanisms. The Chiang Mai Initiative Multilateralization (CMIM) is a step in the right direction. But is it adequate? And do other subregions need similar financial safety nets? 	

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<ul style="list-style-type: none">▪ RCI holds considerable benefits along with its costs and challenges. Regional cooperation is widely recognized 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; integration in “softer” aspects such as trade facilitation and financial harmonization takes much longer. As RCI has both benefits and costs, a balanced approach to designing and sequencing interventions needs to be taken.
Future Agenda
<ul style="list-style-type: none">▪ Adopt innovative RCI approaches to benefit from global rebalancing. Various dimensions of the global rebalancing need to be considered. First, there has been a shift toward greater domestic consumption in large economies (for example, the PRC). Second, there has been a clear shift in trade patterns, with exports from Asia to the US and the European Union (EU) declining even as intraregional trade within Asia is increasing. Third, there has been a realignment in production networks within the region, as countries attempt to move up the value chain or toward services. Fourth, and still quite nascent, is the marginally larger share (than in recent years) of the region’s financial resources being invested within the region. The region can respond to these trends effectively, with subregions adopting strategic approaches through RCI. Specifically, there can be greater South–South cooperation within the region. This is beginning to happen, with South Asia and East Asia, for instance, beginning to share knowledge. The PRC is supporting the Southeast Asian economies in absorbing some of the manufacturing the PRC now discourages. In general, countries in the region can gradually adopt open regionalism as a key guiding principle with respect to RCI. Moving toward open regionalism (greater interregional cooperation) may require expanding RCI programs to include new technologies such as paperless trade. With Latin America and Africa offering attractive trade prospects, the region could also develop South–South linkages with those regions. Pursuing knowledge exchange with other regions would be mutually beneficial.
<ul style="list-style-type: none">▪ Pursue new generation RCI with partners, including the private sector. Future RCI programs should fit in well with economic realities and opportunities to maximize welfare and minimize the impact of negative externalities on DMC populations. Challenges have become further globalized, are increasingly intertwined, and have greater and wider impact. These are likely to continue. In addition, given the large investment requirements, governments alone will not be able to meet the huge infrastructure requirements of greater physical connectivity and sustained growth in the region. The DMCs and ADB, as well as other development partners, must continue to respond to globalization by working together with the private sector to ensure that human resources, capital, and natural endowments are employed more effectively, and common issues are jointly addressed. Progress consolidated through greater institutional development, capacity building, policy development, and deeper partnerships can sustain subregional programs.
<ul style="list-style-type: none">▪ Minimize negative externalities. New challenges in the 21st century include energy security, climate adaptation and disaster management, financial resiliency and social protection, and cross-border security (including illicit trade), among others. Economic or financial contagion is more a matter of when, rather than if. To prepare effectively, cross-country risk sharing is critical. Regional financial safety nets should be sufficiently strong to provide both public and market confidence in case of economic shocks.
<ul style="list-style-type: none">▪ Ensure inclusiveness through RCI. The ultimate goal of RCI is to share prosperity across economies, and thereby continuously improve the people’s welfare in their respective countries and subregions. Clearly, as in any other public policy initiative, the physical connectivity of RCI programs and projects is critical and can be a robust means of promoting integration. Integration in other areas may be a medium- to long-term pursuit. To maximize the welfare impact, countries need to adopt a balanced approach by weighing the benefits and costs of RCI. Countries need to prepare ahead of time, and pursue those initiatives that have net overall benefit.

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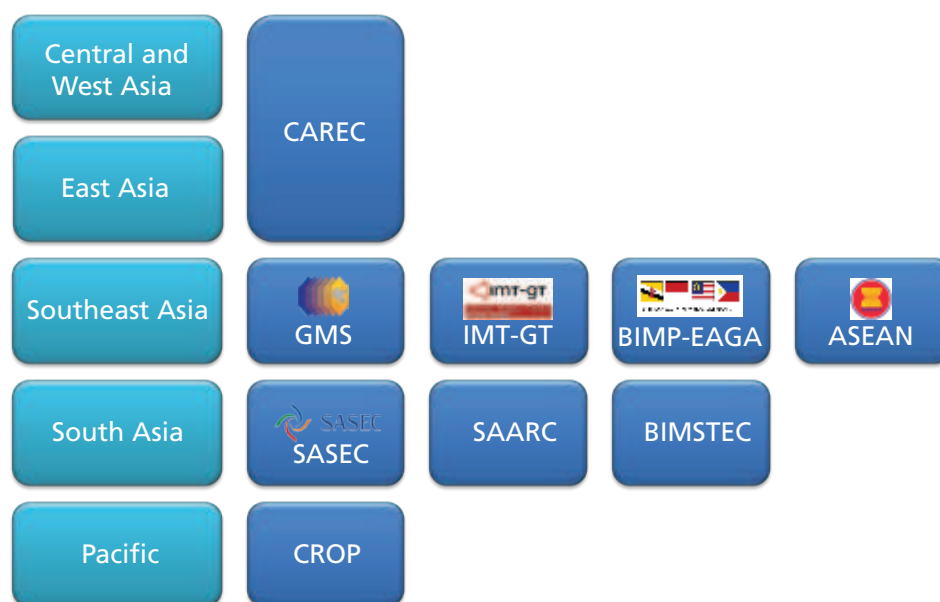
Open Discussion

- A representative from Afghanistan raised the issue of lack of energy investments and asked ADB and Afghanistan's neighbors for support. Juan Miranda of ADB said that, although a country like Afghanistan has huge energy potential, issues surrounding trade and security, and sustainability issues such as private investment, need to be addressed first before regional energy investments.
- On the possibility of Afghanistan joining SASEC, Rameshore Khanal of SASEC affirmed Afghanistan's call for support. But as SASEC membership is predicated on shared borders, CAREC may remain the more appropriate program for Afghanistan.
- A representative from Bhutan noted that SASEC's institutional framework is different from that of GMS and CAREC. Mr. Khanal ascribed the difference to the existence of SAARC, SASEC's high-level body.
- On financial integration, a question on how the CMIM can expand membership was raised. Iwan Azis of ADB said that, before expanding membership, the CMIM should first establish its credibility as a regional financial institution.
- The panelist from the GMS, Porametee Vimolsiri, emphasized the point that major RCI benefits outweighing costs are best seen at the micro level—reduced travel hours, employment in border areas, increased private investment at the borders, and more investment opportunities—adding that countries consciously try to ensure that all parties benefit from integration. He expressed support for knowledge-sharing initiatives where most of the big programs implemented are based on sound research, and underscored the central importance of agreements to the successful implementation of any RCI initiative. A bottom-up mechanism, where those who will use the corridors have priority, is effective and vital to the success of cross-border development, Mr. Vimolsiri said.

Title	Regional Cooperation Initiatives In Asia
Presenter	Ramesh Subramaniam, Senior Director, OREI, ADB

Major institutions for Asian integration. Let me present a quick summary of what we have done together, working with all the subregional cooperation programs (Figure 1.1). After that, we will listen to the panel of presenters.

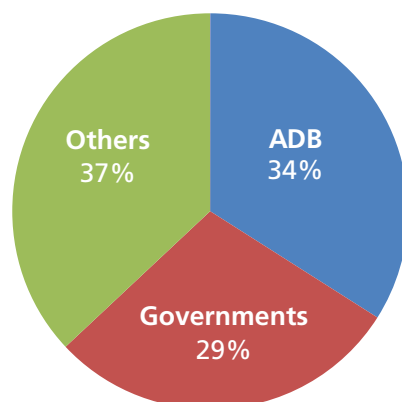
Figure 1.1. Major Institutions for Asian Integration



ASEAN = Association of Southeast Asian Nations; BIMP-EAGA = Brunei Darussalam–Indonesia–Malaysia–The Philippines East ASEAN Growth Area; BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; CAREC = Central Asia Regional Economic Cooperation Program; CROP = Council of Regional Organizations for the Pacific; GMS = Greater Mekong Subregion; IMT-GT = Indonesia, Malaysia, and Thailand Growth Triangle; SAARC = South Asian Association for Regional Cooperation; SASEC = South Asia Subregional Economic Cooperation.
Source: Office of Regional Economic Integration, ADB.

The Greater Mekong Subregion Economic Cooperation Program. Along with the central theme of the “3 Cs”—connectivity, enhanced competitiveness, and the sense of community brought about by the GMS Program—money is also essential to get infrastructure and other investments going. In this endeavor, working with governments and other development partners, particularly ADB, from a leveraging point of view, is quite substantial (Figure 1.2). Over the past 18 years (1992–2011), over \$15 billion was mobilized for infrastructure projects, as well as trade facilitation. In addition, to ensure that the investments were sustainable, over 175 technical assistance projects amounting to about \$300 million were approved. Now, with the investments already in place, how can we make sure the gains made are robust?

Figure 1.2. GMS Projects: Funding Sources, 1992–2011



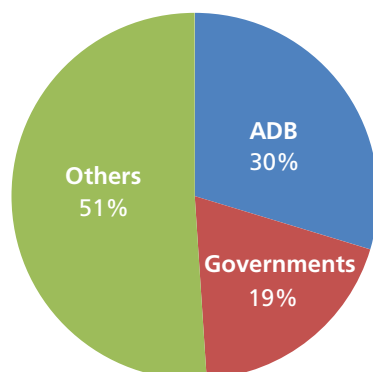
ADB = Asian Development Bank, GMS = Greater Mekong Subregion
Source: GMS Secretariat.

Other subregional programs in the Association of Southeast Asian Nations. Aside from the ASEAN itself, two other subregional programs are the Indonesia, Malaysia and Thailand Growth Triangle (IMT-GT), which started in 1993, and the Brunei Darussalam–Indonesia–Malaysia–The Philippines East ASEAN Growth Area (BIMP-EAGA), which started in 1994. Under these two subregional programs, substantive investment opportunities have been identified and resources mobilized by all member countries, development partners, and particularly ADB. For IMT-GT, the priority has been connectivity projects, amounting to over \$5 billion. For BIMP-EAGA, projects worth about \$1 billion which involve a fair number of peer support and peer projects of about \$22 million, have been identified. With respect to ASEAN, in addition to subregional cooperation programs, one key part of the work done together by the various countries is trade and monetary cooperation, particularly financial sector cooperation. All countries affected by the 1997 Asian financial crisis have come together to strengthen macroeconomic surveillance and monitoring.

As for regional institutional mechanisms such as ASEAN+3, the ASEAN+3 Macroeconomic Research Office (AMRO) has been established and significant work has been done to strengthen the regional financial safety net. Working with ASEAN, ADB is also pleased to have been involved in the setting up of the ASEAN Infrastructure Fund last year, with initial equity and hybrid capital of about \$650 million. In addition, as part of the financial sector and market integration efforts, the Asian Bond Markets Initiative (ABMI) has progressed well and will celebrate its 10th anniversary this year.

The Central Asia Regional Economic Cooperation Program. CAREC, established 10 years ago, about a decade after the GMS, has been able to garner substantial resources, driven partly by need. By the end of 2011, total mobilization efforts amounted to about \$19 billion. Governments have put in close to \$4 billion, other development partners about \$10 billion, and ADB about \$6 billion (Figure 1.3). Similar to the GMS, to ensure project sustainability, the CAREC program has provided technical assistance support totaling close to \$160 million, for preparation as well as capacity building.

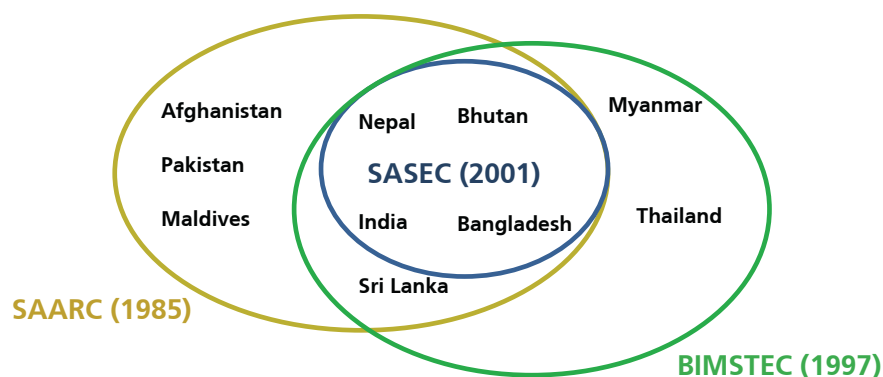
Figure 1.3. CAREC Projects: Funding Sources, 2001–2011



ADB = Asian Development Bank, GMS = Greater Mekong Subregion
 CAREC = Central Asia Regional Economic Cooperation.

South Asia Subregional Economic Cooperation. Established about 10 years ago, SASEC has gained significant momentum, particularly over the last 3 years. In October 2011, at a key meeting in Bangkok, several priority investment projects worth over \$2 billion, in transport, energy, security, and trade facilitation, were identified. SAARC and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) are providing overall coordination and secretariat support (Figure 1.4).

Figure 1.4. South Asian Association for Regional Cooperation (SAARC), South Asia Subregional Economic Cooperation (SASEC), and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)



Source: SASEC Secretariat.

Council of Regional Organizations for the Pacific. Established in 1988, CROP is older chronologically than even the GMS Program. Given the unique characteristics and requirements of the subregion, the countries included need to improve information and communication technology (ICT) connectivity and aviation safety control. ADB supports, among others, the Pacific Region Infrastructure Facility (PRIF) to help mobilize close to \$600 million in infrastructure support for the subregion, along with a significant amount of technical assistance funding.

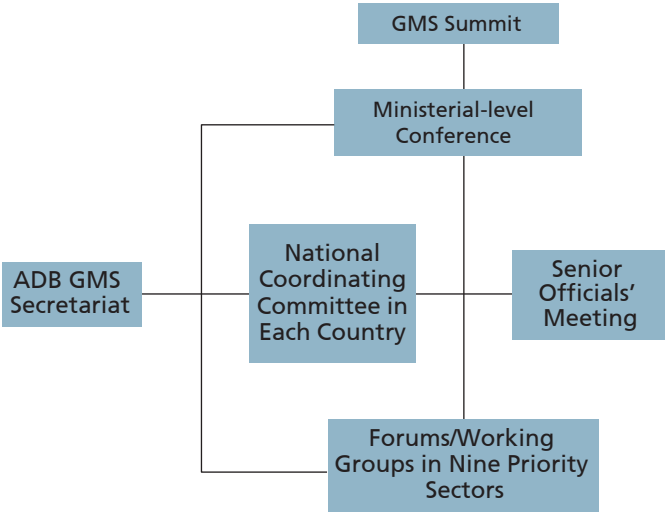
Title	Greater Mekong Subregion Economic Cooperation Program
Presenter	Porametee Vimolsiri, Deputy Secretary General, National Economic and Social Development Board, Thailand

Overview of the GMS Program. The GMS Program, covering Cambodia, the PRC (specifically Yunnan Province and, later on, the Guangxi Zhuang Autonomous Region), the Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam began in 1992. The program looks forward to a more integrated, prosperous, and harmonious subregion, as summed up in the so-called “3Cs”: enhanced connectivity, improved competitiveness, and a greater sense of community:


- Improved connectivity, through the development of subregional transport, power, and telecommunications infrastructure;
- Improved competitiveness, through transport and trade facilitation, the development of logistics systems, regional power trade, harnessing of ICT, cross-border agricultural trade, and promotion of the GMS as a single tourist destination; and
- A sense of community through a joint response to shared social and environmental concerns, such as the prevention and control of communicable diseases, and the protection of the subregion’s rich biodiversity and ecosystems.

The GMS is managed at the highest level at the GMS summit meeting of leaders (Figure 1.5). The first summit was held in Phnom Penh, Cambodia, in November 2002; the second in Kunming, PRC, in July 2005; the third in Vientiane, Lao PDR, in March 2008; and the most recent in Nay Pyi Taw, Myanmar, in December 2011. The summit is crucial in developing momentum for cooperation. For example, a national coordinator can find it quite difficult to coordinate ministries and agencies to work on one agenda, but when top leaders are committed to the program, then the process becomes much easier.

Figure 1.5. GMS Institutional Structure



ADB = Asian Development Bank, GMS = Greater Mekong Subregion. Source: GMS Secretariat.



Under the GMS mechanism, the ministerial conference provides overall policy guidance and support in implementing the program. At the working level, a national coordinating committee is established in each country. Senior officials' meetings, with ADB assistance, provide central secretariat and coordinating support. ADB has been an important component and remains important in achieving program results. ADB provides secretariat, as well as technical and financial support, to the program. Under this coordinating agency, there are working groups that meet regularly.

Major achievements, success factors, and lessons learned. As of December 2011, a total of 56 GMS projects totaling almost \$15 billion had been invested. One priority sector of the GMS is establishing infrastructure links in the region. During the early years of the program, there was no feasible route for water transport, telecommunication lines like those mostly in Thailand were poor, and there was only one cross-border power line between Thailand and Lao PDR. One can imagine how challenging it was at the time to look at road conditions and say that in the future there would be good roads connecting the subregion for people, transport, and trade.

By 2010, the major road connectivity under the GMS Program had been completed. The east–west corridor leads from Viet Nam on the east, through Lao PDR and Thailand, to Myanmar on the west. The road from Kunming down to the northern part of Bangkok, Thailand, connects to Malaysia and Singapore. In the southern part, a road heads along the coast from Thailand to Cambodia and Viet Nam, and one goes to Phnom Penh, Cambodia, and Viet Nam. Many people travel the roads, and companies use the roads to trade goods between countries. In spite of the road network, however, people still complain that they waste time at the border changing trucks, and going through immigration, customs, and quarantine on both sides—all of which cost time and money for their business. Therefore, the demand for improving “soft” infrastructure is strong. The other connectivity is in power transmission. New power transmission lines and power generation plants have been or are being built. The basic telecommunications backbone, covering all countries in the subregion, is already in place. That said, regional power trade will be an area that will expand quickly as demand for energy consumption increases.

By 2020, the GMS Program aims for more connectivity corridors. From Myanmar going north, GMS is hoping to connect to India. From Viet Nam, the north–south road going north to Nanning and across to Kunming will then travel to Myanmar.

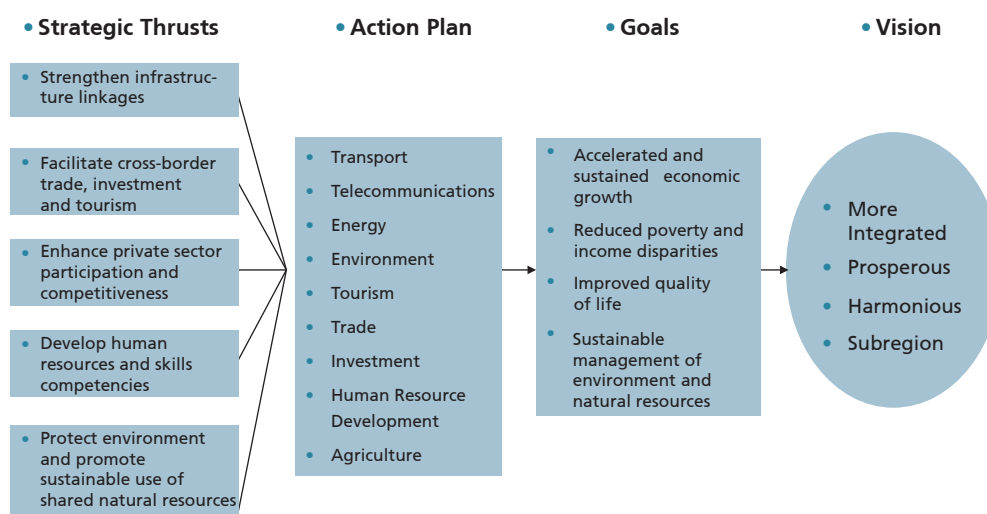
Apart from physical construction, we have also achieved nonphysical progress, namely, a GMS cross-border transport agreement, work on food and agricultural products, and progress in adapting to climate change. The Mekong Region Tourist Corporation Coordination Office has been established and administers cooperation in limiting negative externalities such as HIV/AIDS control and protected migration.

The GMS Program owes its success to several factors. The first crucial factor is collective political will and commitment. Country ownership is also vital. Clearly defined functioning administration mechanisms supported by ADB are important. And, finally, partnerships between member countries to mobilize the required resources are especially important. There might be a time when some members ask, What can we get from this cooperation? It is therefore important

that the program meets the line interests of member countries. These countries must also commit more in terms of regional development and, in the end, attain mutual benefit.

Challenges and the way forward. At the Fourth GMS Summit held in December 2011 in Nay Pyi Taw, Myanmar, the GMS leaders endorsed a new GMS Strategic Framework covering 2012–2022 (Figure 1.6). While the overall goals remain the same, the strategy for the next 10 years will focus more on five areas: (i) strengthening infrastructure links; (ii) facilitating cross-border trade, investment, and tourism; (iii) enhancing private sector preparation and competitiveness; (iv) developing human resources and skill competency; and (v) protecting the environment and promoting the sustainable use of shared natural resources.

Figure 1.6. GMS Strategic Framework, 2012–2022




GMS = Greater Mekong Subregion
Source: GMS Secretariat.

The strategic thrusts cover many areas of the action plan, and the goals for the next 10 years are to accelerate and sustain economic growth, reduce poverty and income disparity, improve the quality of life, and achieve the sustainable management of the environment and natural resources.

The main challenge is to continue to develop the northern corridor—it needs more funding, and this is quite challenging. Particularly through exports, the region can benefit from opportunities dynamic Asia now offers, such as deepening links with the PRC and India, South Asia, and the ASEAN economic community.

The top issues we have not faced before, apart from trade and logistics development, are issues like climate change and global warming. Last year, Thailand experienced a very serious environmental disaster. But in this region, many countries face calamities every year. So in terms of the environment and disaster preparedness, countries will need to cooperate further.



For the GMS Program to progress, the new direction we contemplate is more via the software aspect of cooperation. We will do more in trade and transport facilitation, as well as other software, such as sectors that facilitate power trade and transmission, and internet connectivity. Over the next 10 years, the GMS Program will stress rural connectivity so the program will have better rural connectivity between countries in the subregion, as well as some hybrid training, if possible, for further cultural integration. The mobilization of private investment for financing and other activities will also be important. The way forward for the GMS is to continue what we have learned and to realize that country ownership and result-oriented programs are crucial for success.

Title	CAREC Program: Good Neighbors, Good Partners, Good Prospects
Presenter	Sanjar Mukanbetov, Deputy Minister, Ministry of Economy and Antimonopoly Policy, Kyrgyz Republic

Overview of the CAREC Program. The Central Asia Regional Economic Cooperation (CAREC) region covers a huge area of over 9 million square kilometers. It consists of Afghanistan, Azerbaijan in the Caucasus, the PRC, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. The PRC participates in CAREC through the Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region.

There is a clear rationale for regional economic cooperation in CAREC. Landlocked countries that need to be land linked have a strong potential to benefit from intercontinental trade, which almost tripled during the past decade. However, less than 1% of East Asian trade with Europe travels over land routes. According to estimates from the School of Advanced International Studies of Johns Hopkins University, overall trade would increase by as much as \$12 billion, or by 80%, if the north–south corridor linking Central Asia and Afghanistan were improved.

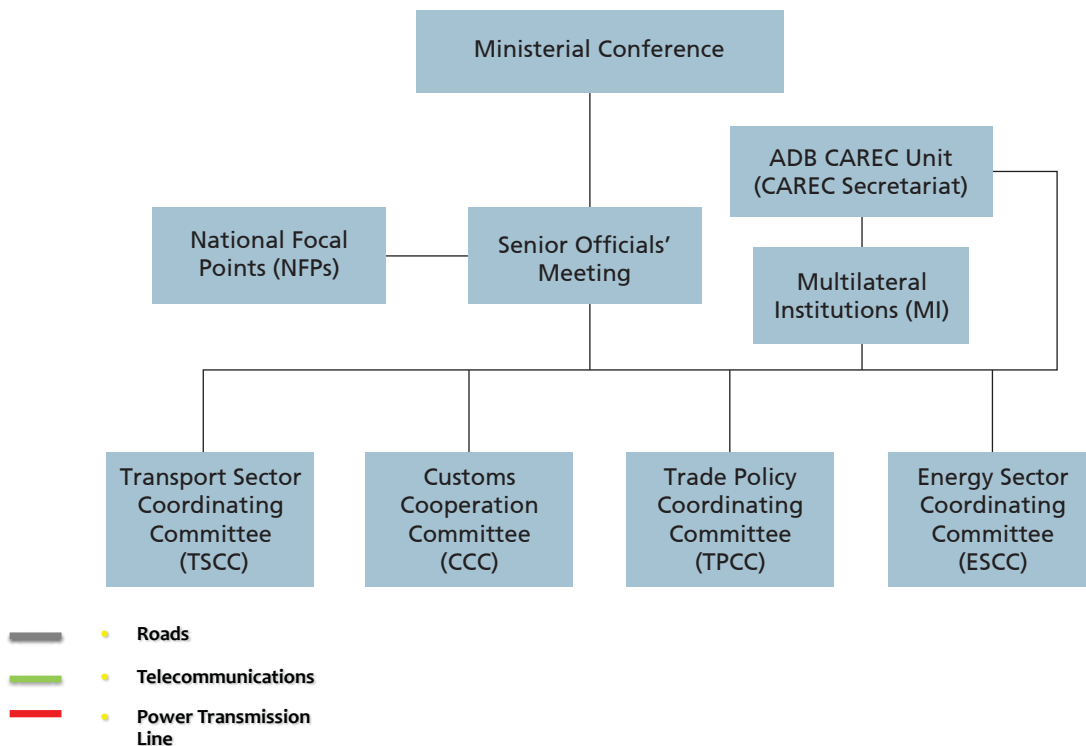
CAREC is a partnership among the 10 countries mentioned above, supported by six multilateral institutions: ADB, the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the World Bank, and the United Nations Development Programme. CAREC is a project-based, activity-driven regional cooperation program that is informal in nature, as it is not governed by any charter or intergovernmental agreement. Despite this, there is serious commitment toward regional economic cooperation.

Launched in 2001, the CAREC Program focuses on four priority sectors—transport, trade facilitation, trade policy, and energy. For each of these, strategies and action plans have been developed and serve as the basis for the planning and implementation of priority projects. These projects cover both the hard aspects of physical infrastructure and the soft aspects of related policy and regulation. My colleagues will give you more information on the CAREC sectors and projects in subsequent sessions.

CAREC emphasizes the importance of monitoring and assessing progress and results in all its projects and initiatives. Each year, the CAREC secretariat carries out a development-effectiveness review of the program, which assesses in broad terms the progress made over a 12-month period. CAREC’s integrated approach, which allows it to focus on both the hard and the soft aspects of cooperation, and its emphasis on results and development effectiveness of its initiatives are key technological hallmarks of the program.

CAREC consists of a three-tiered organizational structure that is founded on the program’s activity-driven nature (Figure 1.7). The ministerial conference provides the strategic direction and overall guidance for the program. It is assisted by the senior officials’ meeting, which is held at least twice a year, and oversees the progress of all CAREC project initiatives. Sixty coordinating committees are responsible for overseeing the planning, preparation, and implementation of CAREC projects and initiatives. ADB serves as CAREC secretariat, providing technical, coordinating, and administrative support to all CAREC bodies. All six multilateral institution partners provide financial and technical assistance to the CAREC Program.

Figure 1.7. CAREC Institutional Arrangements




ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation.
 Source: CAREC Secretariat.

Major achievements, success factors, and lessons learned. As of January 2012, over 120 CAREC-related projects with a total value of over \$19 billion had been approved. They were funded by CAREC governments and multilateral institutions and partners. Over 75% of the total amount invested went to the transport sector, mostly roads and railways that form part of CAREC corridors. The results of CAREC so far are as follows:

- Outputs (as of the end of 2011)
 - 4,000 kilometers (km) of roads and 2,240 km of railways improved
 - Transport facilitation agreements signed by Afghanistan, the Kyrgyz Republic, and Tajikistan
 - Increased power generation capacity and interconnections
 - Central Asia regional power master plan
 - Joint customs control and customs modernization
 - Officials trained to prepare for World Trade Organization (WTO) accession
- Outcomes
 - Thirteenfold increase in intraregional trade (2001–2008)
 - Fourfold increase in total exports (2001–2010)

CAREC's output today is contributing to improved regional economic cooperation manifested in the expansion of strong interregional trade and total exports of CAREC countries. These



improvements have, in turn, contributed to better economic performance of member countries in terms of economic growth and increased transparency. Indeed, CAREC has made good progress in its first decade. But the cooperation agenda is far from being complete.

Key challenges include, among others, the need to secure greater ownership and commitment by member countries, the need to mainstream CAREC in national development agendas, and the need to further accelerate regional project planning, preparation, and implementation especially in “soft” areas of cooperation.

Challenges and the way forward. The next 10 years of CAREC will be guided by the new CAREC 2020 strategic framework, which was endorsed by the CAREC ministers last November. CAREC 2020 has two measurable objectives: (i) expanding trade, and (ii) improving competitiveness. CAREC 2020 is focused on what CAREC does best: transport, trade facilitation, energy, and trade policy. CAREC 2020 calls for strong support from the CAREC Institute, which will help provide knowledge, resources, and training for the program.

CAREC 2020 is focused on transforming transport corridors into full-fledged economic corridors. These corridors are expected to increase intercontinental trade and therefore promote open regionalism. CAREC 2020 will be operationalized through a medium-term rolling pipeline of priority regional investment projects. Country ownership of these projects and their mainstream development plans are key features.

The resource requirements of CAREC 2020 include strengthening existing partnerships with multilateral institutions, and broadening partnerships to include other development partners such as bilateral donor agencies and the private sector.

In conclusion, CAREC is a young but accomplished regional cooperation program. It has delivered important results and has proven to be an important means of achieving the development objectives of its member countries.

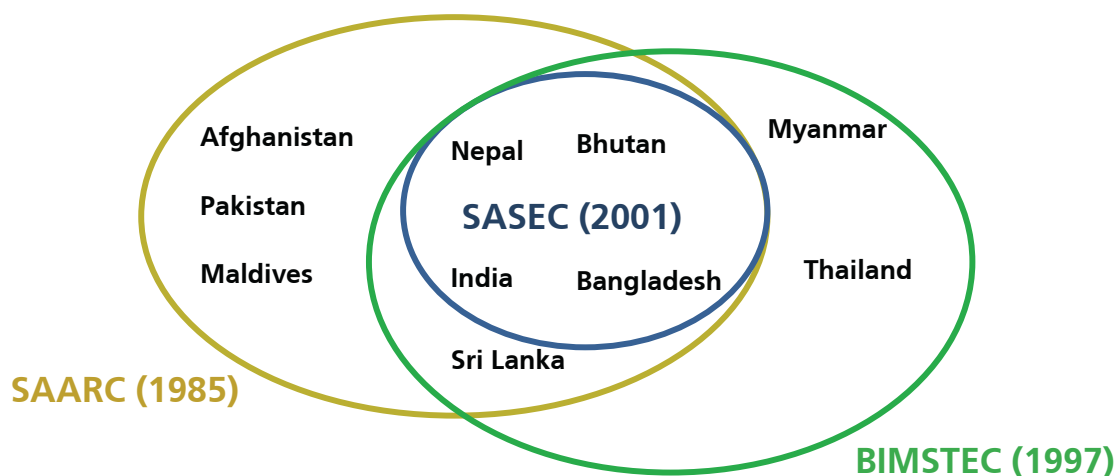
Title	SASEC Program: Regional Cooperation Initiatives in South Asia and the Importance of Regionalism
Presenter	Rameshore Khanal, Economic Adviser to the Prime Minister, Nepal

Overview of the SASEC Program. For the South Asian region, the fundamental framework has been the South Asian Association for Regional Cooperation (SAARC), involving Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. SAARC has a history of 26 years, and is now in its 27th year.

Under SAARC, there are two subsets. One is the South Asia Subregional Economic Cooperation (SASEC), which has been the regional cooperation framework among the less developed countries in the region—Bangladesh, Bhutan, India, and Nepal (Figure 1.8). The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is an offshoot that does not involve all of the SAARC countries. Afghanistan, Maldives, and Pakistan are not included; the rest have joined hands with Myanmar and Thailand. BIMSTEC involves multisectoral technical cooperation focusing on tourism, trade, and other economic activities.

SASEC has been ably supported by ADB. From the beginning, ADB has provided secretariat support. SASEC requires consensus under its regional cooperation integration initiative.

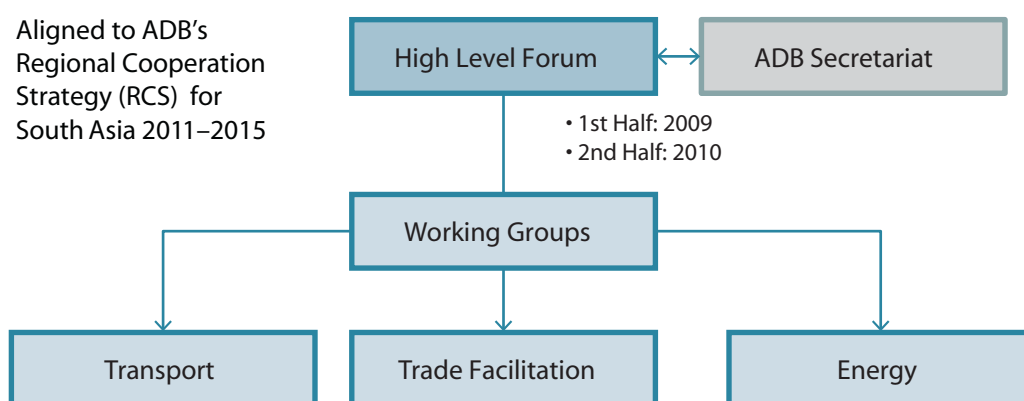
Figure 1.8. RCI in Practice in South Asia



BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, RCI = regional cooperation and integration, SAARC = South Asian Association for Regional Integration, SASEC = South Asian Subregional Economic Cooperation
Source: SASEC Secretariat.

SASEC operates through different groups, but the highest level is the high-level forum, which met in 2009 and 2010 (Figure 1.9). Since the creation of the high-level forum, the activities of SASEC have gone up significantly. ADB is the secretariat for the high-level forum. Under the high-level forum, there are working groups for each sector—transport, trade facilitation, and energy. Each of these groups meets quite often; in the last two and a half years there have been more than nine meetings in different places and altogether \$2 billion worth of projects identified under the transport, trade facilitation, and energy sectors.

Figure 1.9. SASEC Operational Framework, 2010 Onward



ADB = Asian Development Bank, SASEC = South Asian Subregional Economic Cooperation
Source: SASEC Secretariat.


Major achievements, success factors, and lessons learned. While SAARC has 12 core areas of cooperation, ranging from scientific investment to infrastructure to macroeconomic cooperation, SASEC is basically confined to six different cooperation areas agreed on by all member countries and prioritized by all four members: (i) transport; (ii) trade, investment, and private sector cooperation; (iii) energy and power; (iv) environment; (v) tourism; and (vi) ICT.

First, in transport integration, the focus is on corridor efficiency of roads and other transport infrastructure among the four countries. There is also proper inspection for trade and the movement of goods and the information concerning the goods.

Second is trade, investment, and private sector cooperation, where a forum for the private sector, known as the South Asia Business Forum, has been established. Discussion on tariff and nontariff barriers between and among countries is also the domain of this area. Human resource development, ICT, agroforestry, and tourism—these are areas SASEC is currently upgrading in trade, investment, and private sector cooperation.

The third area of cooperation, which is very important, is energy and power. South Asia now has a severe power service problem, but it also has the prospect of developing energy in the region itself. Connectivity and transmission links between the member countries are encouraged and the Bangladesh–India link and the Nepal–India link are being constructed. Then there is the hydropower project in Bhutan, also financed under SASEC. Rural electrification, which will empower the rural people, and cross-border projects that support the energy sector, particularly transmission links, are other spheres of SASEC operation.

The fourth area of cooperation is the environment, mainly focusing on regional air quality management, as the SASEC countries share the same ecological area. Most of the water comes from the Himalayan watershed. The networking of experts for ecological management,



environmental issues, climate change, freshwater pollution, hazardous waste management, and a sustainable development corridor was a notable achievement through 2009 under the SASEC mechanism.

The fifth area is tourism. The South Asia subregion is very rich in Buddhism landmarks, and linking these locations is one of the priorities of SASEC, as is developing tourist infrastructure, which a number of projects are currently addressing.


And the final area of cooperation is the ICT information highway corridor among all four countries. An e-communication center is also under implementation in different countries under the SASEC mechanism. So far, loan projects worth around \$16.8 million have been approved for Bangladesh, Bhutan, India, and Nepal.

Challenges and the way forward. The SAARC region is central to all subregional cooperation mechanisms. The 21st century is the Asian century. Economic growth in Asian countries has been tremendous. Of total global GDP, the GDP contribution of Asia is expected to reach about 52% by the year 2050, according to estimates in *Asia 2050*, a recent ADB publication. Of the total world production, the PRC and India account for the largest share, so there is investment potential in this region, and SAARC can play a pivotal role in connecting Central Asia with South Asia and also with the PRC. Along with this, the connection with the GMS, ASEAN, and IMT-GT, and within SASEC, can be promoted through the SASEC subregion of SAARC and through the SASEC mechanism.

Two of the SASEC countries, Bhutan and Nepal, are land-locked and they provide opportunities as they require access to the sea for trade. Trade within the SAARC subregion can take place over land. But trade outside SAARC requires access to the sea. SASEC can be instrumental in this regard. At present there is no clear infrastructure, but work toward providing better access to land-locked countries has been encouraging. There is also the possibility of improved transport and transit agreements. Unlike ASEAN, where about 23% of the total trade of the member economies occurs within the region itself, SAARC trades mostly with countries outside the region. The total trade between member countries is only 2% of total trade. There is also huge scope for improvement in trading among the countries within the subregion through the elimination of all physical barriers, and also nontariff and other barriers. Similarly, streamlining the processes among the countries offers enormous opportunity for expanding trade.

SASEC maintains a certain centrality of its own, working with Myanmar on one side, with the PRC or the Tibet region of the PRC on the north side, and with Pakistan on trade and investment activities. All this is possible through the construction of the Asian highway and trans-Asian railway. And this can create a win-win opportunity to unlock the potential of Asia to reach its projected GDP share of global GDP.

Increasing investments and trade can benefit the SAARC subregion as a whole and the countries within SAARC-SASEC as well if their production systems were linked, with industries in one country being supplied from other members. That way, manufacturing growth can take place. The region's competitiveness in global trade can also be enhanced through improvements in



regional infrastructure and collaborative work between manufacturing networks in different countries. Intraregional and interregional trade can expand if SASEC gets stronger. The major problem faced by all SASEC countries is the lack of jobs. The need for job creation is immense, as many of the SASEC countries are highly remittance dependent. That means these countries are exporting labor to other countries. The situation can be improved if jobs were to be created within the SASEC countries themselves.

Another prospect is addressing regional issues. One of the major problems is the power outage and power service problem in the SASEC subregion, which can be resolved through better cooperation. The SASEC subregion is also vulnerable to climate change. The Himalayan region, which is the freshwater reservoir for most of the farmers in the region and also for hydropower development, is threatened by climate change. Production requires regional investment, support, and understanding. We are also very prone to disasters, like Southeast Asia. We have disease outbreaks, floods, droughts, etc. Disaster management needs the collaborative support of all countries. Bangladesh and India are coordinating with Nepal in disaster management.

Similarly, to manage external economic shocks, we need to have better collaboration. That is where new opportunities lie. We have seen and learned this from the global and European crises, where exports, as well as industrial activity, declined. Better regional cohesion and regional economic integration can mitigate the problem. Knowledge sharing can happen through stronger regional cooperation. Many border areas of the member countries are poor because of poor economic integration. If regional economic integration is increased, such border areas can become rich. Most of the economic activities in all these countries are confined to central areas or areas close to seaports. Through better economic integration, the poverty in border areas can be minimized and border security improved as a result.

Title	Regional Integration and Cooperation: A Balanced View
Presenter	Iwan J. Azis, Head, OREI, ADB

Introduction. The three presentations summarized what has happened in the region—CAREC, GMS, and SASEC. The next question is, What is the impact of what has happened? What are the implications? Has the welfare of the region improved? Is there any evidence of this?

The indicators—both standard economic indicators like per capita income and the Human Development Index—show some improvements. But still there is the question of whether the improvement is because of regional integration, or because of something else. This is because many of the countries in the subregions have been doing quite well because of unilateral policies, so it is not so much a matter of integration. But it is not too difficult to imagine that with physical connection the probability of getting more integrated—say, in the area of trade—would be bigger. What immediately comes to mind is the benefit of having a bigger market, more economies. That is one potential benefit of regional integration.

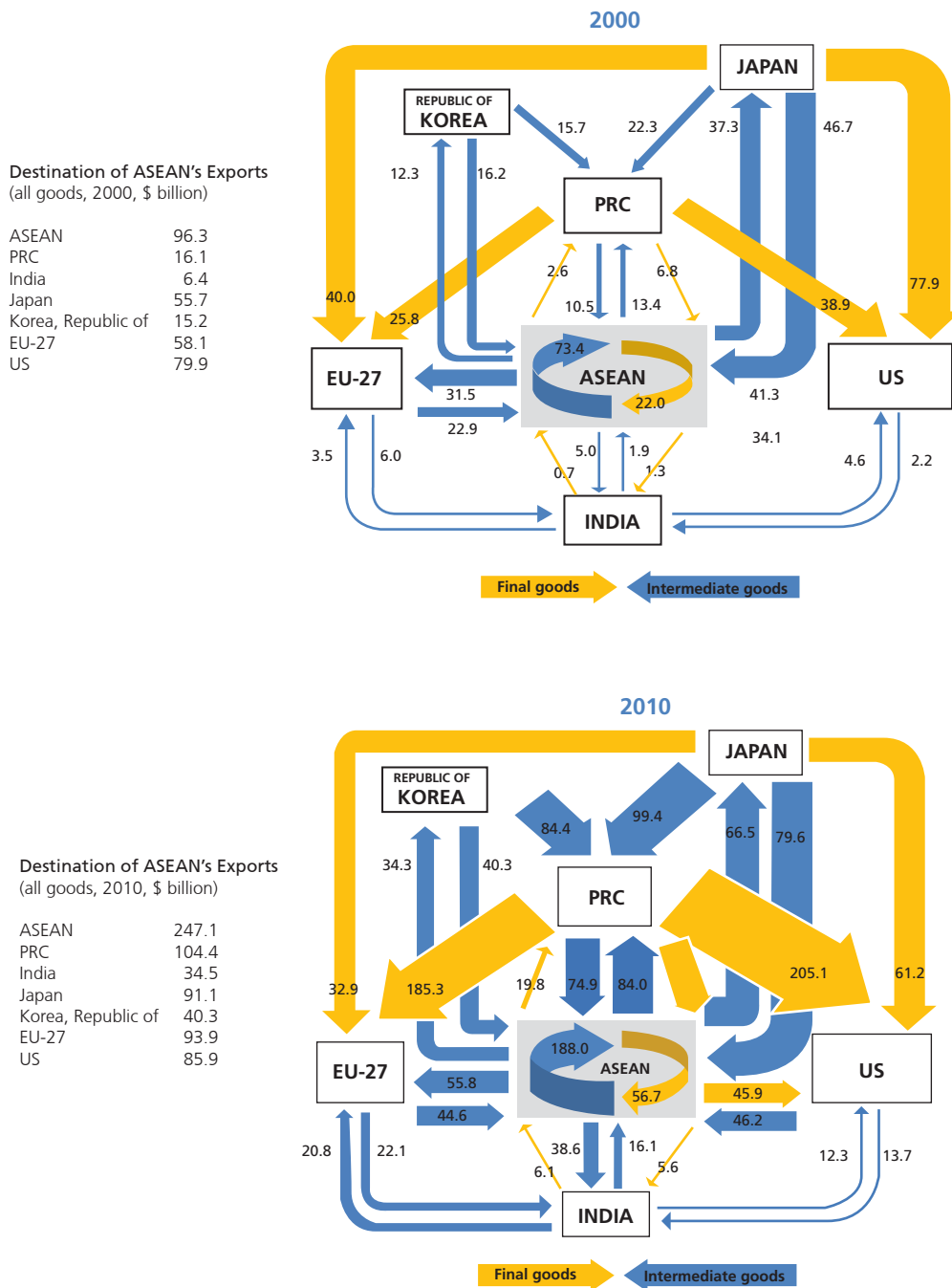
Trend of integration in Asia. What has really happened in the region in the area of trade? In the last 10 years there has been a massive increase in the volume of intra-Asian trade, as well as in the volume of trade between Asia and the US and Europe (Figure 1.10). This increase has contributed to the success of the Asian economies, which rely on trade and are pretty competitive. A second, more important, conclusion that can be drawn from Figure 1.10 is the dominance of the PRC in this massive increase in trade. In the year 2000, trade between Asia and Europe and the US was primarily dominated by Japan, an active exporter to the US and Europe. But by 2010, export dominance had been taken over by the PRC, with its huge exports of final goods.

The patterns of trade in Asia are quite easy to summarize. As far as trade in intermediate goods is concerned, it is really intra-Asian trade. But trade in final goods is with traditional markets, that is, with the US and Europe. What has changed in the past 10 years is that Japan used to be the dominant exporter but the PRC now holds dominance.

Most important for this session is the third conclusion that can be derived from Figure 1.10. Intra-Asian trade—be it between the PRC and ASEAN, between the PRC and Japan and the Republic of Korea, or between ASEAN and Japan and the Republic of Korea and Japan—has been increasing in the last 10 years. One would well be curious to know what caused this. As indicated earlier, more integrated systems and regional cooperation, and the proliferation of free trade agreements (FTAs), are part of the reason. However, while FTAs do play a role, it is not a major one. The utilization of FTAs in Asia is less than 20%. Most of the extraordinary trade growth within Asia is due to the unilateral liberalization policies adopted by Asian countries.

That said, if one were to look at the degree of integration, one should look not just at trade but also at the financial side. Here the picture is not so bright in terms of the degree of integration. Two simple sets of statistics, equity market investments and bond market investments, are proof of this. Equity market investments within Asia are less than 25%. That means more than 75%, more than three-fourths, of the financial investments of Asian investors go abroad, to the US or

Figure 1.10. Trade Integration and RPN in Asia, 2000 and 2010 (\$ billion)



PRC = People's Republic of China, EU = European Union (27), RPN = regional production networks, US = United States.
 Note: Final goods comprise capital goods and consumption goods, while intermediate goods comprise primary goods, parts and components, and processed goods for industry. Data are based on the Broad Economic Categories classification.
 Source: Calculated from UN Comtrade database.

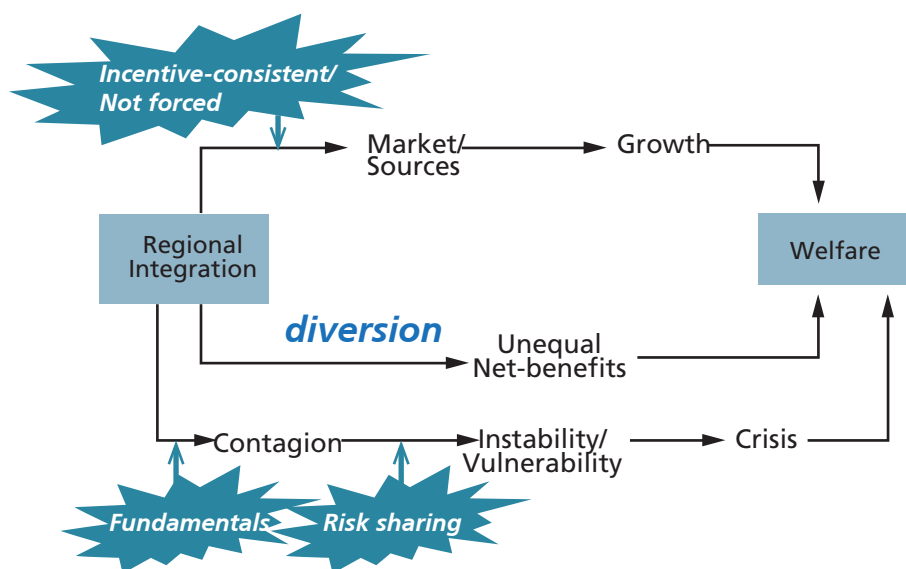
Europe, or, to some extent, to other emerging markets like Latin America. What about the bond markets? Investments within Asia are less than 5%. More than 95% of the investments made by Asian investors in the bond markets go outside the region.

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Benefits and costs of integration: a conceptual framework. Trade is doing well and integration has improved, but financial integration has been very limited. Is there something wrong? The answer is, It depends on whom you are talking to. A strong proponent of integration would argue that this is not good, and that every country has to make an effort to increase integration. On the other hand, limited integration can also be seen as not too bad at all. The major difference between trade in goods and trade in finance is asymmetric information. It leads to risks and vulnerability, and what happened in 1997 during the Asian financial crisis, mostly because of financial liberalization, is still fresh in the minds of policy makers in Asia. A more liberal, more integrated financial sector carries major risk, compared with liberalized, integrated trade.

Since there are always pluses and minuses in regional integration, as in any other strategy or policy, one must look not only at the positive side or only at the negative side (Figure 1.11). On the positive side, greater integration would create a bigger market and potential economies

Figure 1.11. A Concept of Regional Integration: A Balanced View



Source: Office of Regional Economic Integration, ADB.

of scale. But forcing integration might also create some risks, some costs. An example is trade diversion. Economists understand that there is trade diversion and trade creation; there is also finance creation and finance diversion. But Asia is not all the same—some Asian countries are less developed than others—so one has to be really careful in pushing the idea of integration, because there is always the risk that the net benefits will be unequal. From that standpoint, the degree of integration in Asia so far is fine.

But the most risky and most costly outcome of having a more integrated system is the potential for contagion. We are living in a period when Europe, a major region in the world, is in that situation. Europe is so integrated that when one country gets into trouble, its problems spread to the other countries.


Cooperation to counter contagion: crisis prevention and resolution. The next question is, What is to be done? If one wants to cooperate further but is facing those risks, what should one do? The first defense is to make one's system fundamentally strong so that the probability of contagion is less. The second is to explore the possibility of risk sharing. After all, risk sharing is the essence of cooperation. Unfortunately, this is an area where ASEAN+3 needs further strengthening. ASEAN+3 is the model of financial cooperation right now, particularly when it comes to providing financial safety nets. There are several reasons for this.

After the Asian financial crisis in 1997, many countries, especially those in ASEAN+3, wanted to have a funding source other than the International Monetary Fund (IMF), partly because the IMF policy did not work. They wanted to set up their own monetary fund. Quietly but persistently, the ASEAN+3 governments worked to bring about such a regional financial arrangement. Finally in 2000, in Chiang Mai, Thailand, the Chiang Mai Initiative, was set up. Ten years later, the Chiang Mai Initiative Multilateralization (CMIM) Agreement was signed.

An IMF-like institution has at least three basic attributes. One is the ability to provide liquidity support to any country in Asia that falls into crisis and needs such support. The second attribute is surveillance. In 2010, leaders of ASEAN+3 decided to set up the ASEAN+3 Macroeconomic Research Office (AMRO) in Singapore in order to engage in regional surveillance analysis. The third attribute of an IMF-like institution is monitoring. With the help of ADB, AMRO is doing monitoring work. ADB has also been helping to strengthen the surveillance mechanism of AMRO.

The developments so far have been limited. The amount of money that the ASEAN+3 members have committed to AMRO and CMIM is very small: only 2.5% of their overall total foreign reserves, or around \$120 billion. ASEAN+3 officials have discussed doubling this amount to \$240 billion, but that is still only 5% of their total foreign reserves. If a country were to fall into a financial crisis, similar to what happened in the US—given the considerable differences between present-day financial crises and those in the 1980s and 1990s—it will need a massive amount of liquidity support. Would \$250 billion be enough?

CMIM financial support is also still linked with the IMF. Any amount over 20% (30% as of



May 2012) of allowable borrowing requires going through the IMF conditionality. It must be noted in this regard that a strong stigma is still attached to IMF lending in the region. From that standpoint, cooperation in providing the financial safety net has been very limited.

The question is why. There are many reasons, but one major reason is that in the current global financial crisis, Asia is doing pretty well. When one is doing pretty well, one does not feel compelled to prepare a stronger financial safety net.

To summarize, regional cooperation is very important, and needs to be strengthened in the region, but as far as integration is concerned, we need to take a more balanced view of the pluses and the minuses.


Session 1	Summary Discussion and Open Forum
Moderator	Ramesh Subramaniam, Senior Director, OREI, ADB

Summary of presentations. I will just do a bullet-point summary of what the four panelists raised, and then leave the floor open. In these eight points, I am also going back to what the three keynote speakers said.

- Clearly there are a lot of needs we must focus on, particularly regional connectivity, as well as energy and a number of other issues.
- Software is very important. Panelists looked at trade facilitation, which was behind the border type of issues. Investment climate was also indirectly mentioned, as were other software aspects that need to be looked at.
- How can trade–transport corridors be transformed into viable economic corridors? What needs to be done? What lessons have been learned? What can each subregional program learn from the others?
- There is a need for new technology and innovation. How can we promote this through regional cooperation? I was very impressed with the way Mr. Khanal talked about new technology, totally paper-free.
- There is also a need for knowledge sharing and South–South cooperation.
- Regional public goods are very important. What have we done in this regard? Have we done them well? How can we improve and strengthen ourselves?
- Crisis and risk sharing are two related points. Every crisis is an opportunity, but at the same time, does the absence of a crisis lead to complacency? Are we not integrated because things have been going well? Asia has been resilient, but should we not be looking ahead and taking this as a lesson learned from the eurozone crisis?
- There is a need to look at welfare. What are we doing this for? Why is there regional cooperation and integration? Clearly this is to improve the welfare of the people in the countries as well as in the subregion. The framework for looking at the costs and benefits of regional integration clearly says that cooperation is very important, but integration is a long-term goal. Clear benefits and challenges are there, but we also need to look at the costs before we look at particular solutions and adopt them.

Questions:

Kamal Safi, Member of National Assembly, Lower House, Afghanistan: What are the criteria for the inclusion of a country in the economic cooperation programs? If the main criterion is poverty, then Afghanistan should get more attention and more focus. As I see it, Afghanistan is given less attention and less focus in these programs. Regarding the energy sector, we are a country rich in water but not enough funds have been given to the energy sector so we just buy energy from our neighbors. This is a great deal of concern to our nation. Regarding SASEC, as you mentioned, four countries—Bangladesh, Bhutan, India, and Nepal—are included. But I would also like our country to be included. I would like to have ADB top management’s attention to our capacity building as well, and particularly in the scholarship sector. As you know, we were at war for more than 30 years and we are still at war with terrorism. One of the factors discouraging tourism is less development. If we can get more attention to development



in our country, in jobs and the welfare of the people, then we can also eliminate terrorism to some extent.

Karma Tshering, Program Officer, National Environment Commission, Bhutan: First, I would like to congratulate all the speakers for their very informative presentations. The question that I have is this. When I look at the institutional structure of the GMS and CAREC, I find that there is a significant difference with the structure of SASEC. In the SASEC subregion, we have committees formed, and a lot of the outcome is aimed toward projects and their financing. In the GMS and CAREC, from the presentation I have seen, you have a structure that is driven by summits. And I feel that in the South Asia subregion, one of the major problems we have is the pace at which these project ideas are conceived: it takes a long time before they actually materialize. So perhaps my recommendation would be that we need to look at the structure and see how it can become more dynamic.

Answers:

Rameshore Khanal, Economic Adviser to the Prime Minister, Government of Nepal: On the inclusion of Afghanistan in SASEC, the four countries are in SASEC because they are adjacent—they share borders. The issues that Afghanistan faces are similar. Afghanistan happens to be landlocked and it is a hydropower-rich country. On those two counts, Afghanistan is very similar to SASEC countries. But I think you can be close to another mechanism, such as SAARC, is the umbrella organization through which SASEC operates. So through SAARC, we can talk about regional issues like energy sharing with Pakistan and India, and hydropower development.

I fully support the point made that aid, or financial support for hydropower development, not only for Afghanistan but for Nepal as well, is low. This is something we should work together on, with the donor community, to accelerate investments in hydropower development.

On the SASEC structure, in fact, I myself was wondering why the structure of SASEC is different from that of CAREC or GMS. But one thing that separates SASEC from other subregions is that we have the blessing of SAARC. But SAARC somehow did not get traction initially, although now it is picking up along with SASEC. There are different forums in and under SAARC where policy makers at different levels meet and deliberate, not only on projects but also on policy integration. For example, we also have the SAARC ministers meeting, and we often meet on the sidelines of the ADB meetings.

Now, we need to evaluate these forums to see if they are really working to expedite not only physical projects but also the software side of integration. So I think this reaction today gives me the opportunity to personally review the entire gamut from the perspective of how other subregions are operating. I think your comments are very good, we should keep discussing this more, and I think we should work more together.

Juan Miranda, Director General, Central and West Asia Department: As far as Afghanistan is concerned, I just want to make two points. First, energy in Afghanistan has good potential. But you have to imagine life around 3 days. On day 1, we don't have the investments in place

to develop energy resources because they are long-term investments. So on day 1, we bring the energy in, because if we don't, we are in darkness. We've now brought it in, and that's why today, Kabul has electricity supply 24 hours, 7 days a week. There's nothing wrong with bringing in electricity at a reasonable price. That's why trade is good for everyone.

But on day 2, we still have a problem, because hydrocarbon reserves are being identified, little flags are being put on them. We have to get the investments and the investors to actually work on them so that by day 3 we will have those investors and investments to make it happen. For that, we need to have a few other things—stability and risk predictability—in place. And we're working on that, as you know.


As far as transport is concerned, our investments in Afghanistan are second to none. We're building a national network that brings the country together. But it brings the country together with others as well. That's one of the beauties of regional cooperation. It's about connecting North to South, the North with the materials to ports in the South. I will discuss this in a later session on the various programs for trade and transport. The network also connects cities within countries, because it many parts of the country, north, south, and central. And all these are happening. We're building roads, we're building railways, we're doing sustainable work in creating things like railway authorities and road hubs, and training people. What we need now is one of the most fundamental things, and that is financing. The 8 July (2012) conference in Tokyo is going to be a defining moment for all of us in the region, but also, of course, for Afghanistan.

Porametee Vimolsiri, Deputy Director-General, National Economic and Social Development Board, Thailand: I wish to address Dr. Azis' question—whether he can see the benefits of regional integration so far. I agree that it is difficult to measure, but it is very easy to see. It's difficult to measure because many factors are happening at the same time. Also the infrastructure system that we have set up has not yet been fully utilized. But many micro- to middle-sized projects show what we have invested in, and the benefits delivered to the people. When the work is finished, people can go from Thailand to Kunming, to Lao PDR and Viet Nam, much more quickly and more easily. We can see economic activity in Southeast Asia that we would never have seen if not for this cooperation.

Private transport companies and commercial companies used to complain about Thai border crossings. Now movement is smooth. So all these things are real evidence of the benefits.

If we have free trade in ASEAN, and if the cost of transport from Thailand or member countries within the region to the PRC by land is cheaper than the cost of shipping the product to New York or Tokyo, then it makes sense that this intraregional integration is the way to go, to build more trade integration within the region.

Integration will definitely have its negative side. Hence, we need to make some preparations behind the border. In the case of monetary integration, I think the lesson of financial liberalization clearly shows that we need to prepare a lot in terms of domestic institutions before opening up. So there will be real caution when we get ready to enjoy monetary integration. But alternatively, on the physical side, for transport connectivity in GMS, there are also some preparations that




must be made. For example, if transport flows increase, then we have to make sure accidents do not increase as well. But I think this is less of a constraint than the monetary side. So I think that members are encouraged to join. This is also true when it comes to knowledge sharing and other cooperation. Most of the big programs implemented are based on sound research and, hence, any knowledge-sharing initiatives should be supported.

Iwan Azis, Head, OREI: If you look at episodes of financial crisis around the world over the last 100 years, there is one common indicator prior to a crisis. The more liberalized financial sector is usually, but not always, accompanied by a bubble. This is true whether it is a real-estate bubble or a financial sector bubble. It happened in the US, in Europe, even in Asia in 1997. In Mexico in 1994 it was the same thing. So if you're looking at the region in Asia, in ASEAN+3, I'm not going to say it's not going to happen. But I think the probability is small. The financial sector will not be fully liberalized. So the degree of the bubble—and, of course, there are some bubbles, especially in capital cities—should not reach the point that it will lead to a financial crash or financial crisis.

However, that said, you can become an innocent victim of someone else's crisis, because of contagion. This is the point I'm trying to make. And it is another argument why this region has to be a little bit careful in pursuing and promoting financial integration. Because the more you are integrated, the greater the probability you will suffer contagion from somewhere else. These days, everybody is talking about the impact of the euro crisis on Asia. And from the analysis I've heard, most of the impact is through trade channels, because exports to Europe and the US have been declining, and that is true. But even in the financial sector there is also an impact. And I personally think that the impact of the euro crisis on Asia through the financial sector will get bigger, because most of the ASEAN+3 countries have been liberalizing their financial sectors, and are therefore prone to contagion from external shocks. So that is the issue for non-ASEAN+3 members.

Your second question supports unilateral trade. Again, what happened in the other parts of the world? If you look at intra-Asian trade, as I said earlier, the classical pattern of trade in the region is this: final goods are always traded with the US and Europe, intermediate goods within Asia. But if you look at the trends since 1997, the year of the Asian financial crisis, the share of intra-Asian trade has been going up and Asia's exports to the US and Europe have been declining. At the beginning of the global financial crisis, intra-Asian trade went up even further. That has been happening over the last 3 years. If you look very carefully at the details of exports from Asia after the Lehman Brothers' collapse in October 2008, Asian exports have been expanding not only within Asia but with other emerging markets as well—Latin America, South Africa, India. So even among ASEAN+3, exports are going outside the region. Now, is this structural or is it cyclical? There are those who will argue that the crisis in the US and Europe will be temporary, especially now that there are so many signs that the US will recover. I personally think not. I think that for the next 10 or 15 years, Asia cannot rely too much on the European and US markets. This means that intra-Asian trade and trade with other emerging markets will go up by default. Even if no deliberate policies are written by the region's governments, the private sector—and I'm talking about exporters and importers—will be looking for alternative markets. As I said, this has been happening in the last 3 years. And we know that in the last 3 years, no specific



policy was launched or promulgated by any country in Asia. And yet it is happening because the private sector knows best where the opportunities lie, where the market is more efficient. And my guess is the trend will continue.

Now recently, we at ADB have been approached by some countries in South Asia that would like to participate in this fast-growing trade in East Asia. We know that one of the strong driving forces of strong trade and economic performance in East Asia is production networks. So now we are involved in a joint project with the Indian government, because the government would like to explore the possibility of participating in production networks with the East Asian countries, for example. My guess is that intra-Asian trade, as well as trade between Asia and emerging markets, will dominate trade growth in the next 10–15 years.

Today is 26 March 2012. But let's imagine today is 26 March 2022. I'm sure by then, CMIM membership will be more than 13. You raised one very important point; in fact, there have been discussions about making regionalism open. After all, regionalism in Asia has always been open, so there will be more members. However, there is not one area I would consider too slow. Because before you move to that level, you have to prove yourself worthy of being among the 13, and even among the 13 regionalism is not yet effective. As you know, when the Republic of Korea was in trouble in October 2008, instead of going to the CMI or the IMF, it went to the US Federal Reserve, just to get a swap arrangement. Also, among the "+3" countries, there have been bilateral swap arrangements, especially since the euro crisis and particularly during last couple of months. So until the CMIM really shows credibility—and as I said, credibility requires very strong political will, which, in my personal opinion, is not yet there—it is still too far-fetched to think about expanding its membership. But once the ASEAN+3 CMIM proves effective, then I do not see any reason why it should not open up to other members.

SESSION 2

Regional Cooperation in Transport and the Role of Economic Corridors

Main Session Objective	
The main objective of this session was to discuss the issues hampering regional transport cooperation and approaches to enhancing that cooperation. Particular attention was given to the development of transport corridors for seamless connections and the role of economic corridors in promoting local and regional economic development. The discussion focused on issues related to logistics, nodal city development, and public-private partnerships.	
Moderator	
Juan Miranda, Director General, Central and West Asia Department, ADB	
Presenters	
<ul style="list-style-type: none">▪ Nguyen Ngoc Thuyen, Deputy Director General, International Cooperation Department, Ministry of Transport, Viet Nam (GMS)▪ Roman Sklyar, Vice Minister of Transport and Communication, Kazakhstan (CAREC)▪ Saifuddin Ahmed, Joint Secretary, Economic Relations Division, Ministry of Finance, Bangladesh (SASEC)	
Panelist	
Li Shusen, First Secretary, Department of International Trade and Economic Affairs, Ministry of Commerce, PRC	
Summary of Key Lessons Learned, Future Agenda, and Open Discussion	
Key Lessons Learned	Future Agenda
<ul style="list-style-type: none">▪ Multimodal transport connectivity: key to regional cooperation	<ul style="list-style-type: none">▪ Continued importance of connectivity for all subregions
<ul style="list-style-type: none">▪ Good progress on “hard” (physical) aspects	<ul style="list-style-type: none">▪ Need for concerted effort and political will for “soft” aspects, including institutional strengthening
<ul style="list-style-type: none">▪ Limited progress on “soft” (policy and regulatory) aspects	<ul style="list-style-type: none">▪ Need for customized economic corridor development
<ul style="list-style-type: none">▪ Transformation of transport corridors into economic corridors a priority for all subregions	<ul style="list-style-type: none">▪ Potential for linking subregions together

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table continued

Key Lessons Learned
<ul style="list-style-type: none">▪ Multimodal transport connectivity: key to regional cooperation. The improvement of multimodal transport links connecting neighboring countries is the most obvious and perhaps the most important area for economic cooperation. All subregional groupings recognize that regional transport connectivity lubricates the wheels of international trade. About three-quarters of approved investments in GMS and CAREC have been directed to transport.
<ul style="list-style-type: none">▪ Good progress on “hard” (physical) aspects. Considerable progress has been made in building cross-border physical connectivity in the three subregional programs, particularly road and rail corridors. Highest priority has been accorded to the rehabilitation and improvement of existing alignments.
<ul style="list-style-type: none">▪ Limited progress on “soft” (policy and regulatory) aspects. Some progress has been made on soft aspects, but much remains to be done. Addressing these nonphysical barriers to cross-border transport is equally, if not more, important than physical connectivity. Unlocking borders to enable and ease cross-border movement of goods and people helps maximize the benefits of transport corridors.
<ul style="list-style-type: none">▪ Transformation of transport corridors into economic corridors a priority for all subregions. The transformation of transport corridors into economic corridors is a priority in all subregional groupings. There is a need to link infrastructure connectivity more closely with trade and investment opportunities in participating countries or subregions.
Future Agenda
<ul style="list-style-type: none">▪ Continued importance of connectivity for all subregions. The connectivity agenda remains and will continue to be important for all subregional groupings in the coming years. Much still has to be done to fill in even the key missing links, ensure proper operation and maintenance, and promote intermodal and multimodal linkages.
<ul style="list-style-type: none">▪ Need for concerted effort and political will for “soft” aspects, including institutional strengthening. Progress on the soft aspects of connectivity has not been easy, and requires strong political will among the participating countries or subregions. Concerted effort within and between participants is needed to make significant progress in this area. Efforts to widen and develop economic corridors also entail institutional strengthening, including enhancing decentralization and encouraging stakeholder participation from subnational or provincial entities and the private sector.
<ul style="list-style-type: none">▪ Need for customized economic corridor development. Economic corridor development needs to be customized to suit the specific opportunities and challenges each subregion offers. In some cases, initiatives may encompass better infrastructure links—improvements in trade, investment, and production opportunities. In other cases, transformation into economic corridors can happen through urban and integrated rural development along transport corridors and at borders, along with increased private sector participation in promoting logistics, industrial clusters, and special economic zones, and increased trade in agricultural products. Widening and deepening transport corridors thus requires greater knowledge and experience in support policy and regulatory cooperation, as well as substantial investments in multisector, second-generation projects.
<ul style="list-style-type: none">▪ Potential for linking subregions together. There is great potential for linking subregions together, and collective subregions with other geographic regions via transport networks. This is critically important in the context of expanding interregional and intercontinental trade—a major boost to expanding markets.

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Open Discussion

- A representative from Bangladesh noted the differences in developmental stage and pace of development in the three subregions, and asked how SASEC can “become GMS and CAREC,” given that SASEC includes three least developed countries. Sultan Hafeez Rahman of ADB said that Bangladesh holds many prospects. But how these will be realized depends to a large extent on how SASEC evolves and also how SAARC evolves, as the program (like GMS and CAREC) is project driven. The program serves primarily as a mechanism to facilitate and address the growing demands of the countries concerned. Currently, there are regional investment projects in various sectors such as energy and telecommunications.
- On the question of how CAREC promotes transport connectivity, CAREC panelist Roman Sklyar said that, aside from hard transport infrastructure, trade and logistics facilities and services are prioritized.
- A question was raised from Indonesia on how BIMP-EAGA and IMT-GT fit into the equation. Pradeep Srivastava of ADB explained that, unlike the three subregional programs, BIMP-EAGA and IMT-GT are subnational programs and private sector led.

Title	GMS: Cooperation in Transport and the Role of Economic Corridors
Presenter	Nguyen Ngoc Thuyen, Deputy Director General, International Cooperation Department, Ministry of Transport, Viet Nam

Transport in overall GMS strategy. The main principle for transport in the overall GMS strategy is the “3Cs.” The first “C” is connectivity. There is a need to enhance connectivity and the need to be together to enhance connectivity. Without connectivity, countries are far away from one another. The second is improved competitiveness—the sense of development. And the third is a greater sense of community—communities at peace together. Improved infrastructure links and the software that underpins that connection help integrate markets and promote trade and investment.

The transport sector was one of the earliest areas of cooperation in the GMS. In the mid-1990s, with support from ADB technical assistance, a transport sector study was undertaken, resulting in the first GMS Transport Sector Strategy (TSS). At that time, ADB also helped organize the GMS Subregional Transport Forum (STF), which serves as the vehicle for planning and technical coordination in the GMS transport sector.

The first TSS focused on establishing cross-border links, giving priority to improving and rehabilitating existing routes as against new construction, facilitating cross-border movements of goods and people—thus eventually leading to the formulation of the landmark GMS Cross-Border Transport Agreement (CBTA), also with ADB assistance. The CBTA is a key transport and trade facilitation instrument.

The second and current TSS, which covers 2006–2015, aims to advance connectivity further through the establishment of well-built, seamless, multimodal cross-border infrastructure, and of a fully “connected” GMS. Among the overarching goals are (i) completing GMS corridors, including providing links with other subregions, particularly South Asia; (ii) promoting economic efficiency and reduced transport costs; (iii) moving toward an open market for transport services in the subregion; and (iv) promoting multimodalism in transport services. Thus, the investment projects recommended in the second TSS include not only roads, but also railways, and port and airport improvement projects.

The importance of transport is reflected in the fact that the transport projects account for the bulk of the GMS portfolio. The total investment in GMS transport projects reached about \$12 billion, or about 80% of the overall GMS investment portfolio at the end of 2011.

Evolution and achievements of GMS transport cooperation. Among the most impressive results of the GMS Program are in the area of transport connectivity. In 1992, there were only a few all-weather roads in the subregion, mostly in Thailand. Work on cross-border road links and subregional transport corridors under the first GMS Transport Sector Strategy (1994–2006), the product of the 1993 transport study, and further pursued under the second and current strategy (2006–2015), has dramatically changed the GMS connectivity landscape. The infrastructure base of the three original GMS corridors—East–West, North–South, and Southern—is basically in place.



There are three main GMS economic corridors where work has proceeded so far:

- The East–West Economic Corridor (EWEC), running from Da Nang in Viet Nam, through Lao PDR and Thailand to Myanmar. This represents the only continuous land route connecting the South China Sea and Andaman Sea.
- The North–South Economic Corridor (NSEC), which covers the major routes running from Kunming in Yunnan, PRC, passing through Lao PDR and Myanmar, and then through Chiang Rai to Bangkok in Thailand. Its other arm runs from Nanning in Guangxi, PRC, through Hanoi to Haiphong in Viet Nam.
- The Southern Economic Corridor (SEC), which runs through the southern parts of Thailand, Cambodia, and Viet Nam.


The benefits of these cross-border transport links established under the GMS Program are already being felt. For example,

- The Phnom Penh–Ho Chi Minh City Highway Project along the Southern Economic Corridor reduces travel time and increases cost savings, boosts border trade between Cambodia and Viet Nam by 40%, increases cross-border passenger traffic by 53% yearly, increases tourism, and helps establish industrial zones in Viet Nam.
- The East–West Corridor project links Viet Nam and Lao PDR along Route 9. This project has reduced travel time from Dong Ha in Viet Nam to Savannakhet in Lao PDR from 12 hours to 3 hours; encouraged investment flows and given rise to new structures, markets, guesthouses, restaurants, trade, and service enterprises in district towns along the way; and generated new employment opportunities for villagers who previously were subsistence farmers.

Economic corridor approach. The economic corridor approach has been adopted as a means of achieving connectivity. Under this approach, infrastructure is planned and developed taking into account the economic potential of a set of specific geographic areas. This approach is practical as it tries to maximize the impact of limited resources for regional projects by concentrating them in certain strategic areas. Basically, this approach can be described as using transport corridors to provide a backbone for RCI projects and activities.

The economic corridor approach to subregional development was first adopted in 1998 and has gained increasing ownership among the GMS countries. Transport infrastructure forms the backbone of the key GMS economic corridors that have been substantially completed in the past 15 years.

The economic corridors are also expected to expand the benefits of improved transport links to remote and landlocked locations in the GMS, which have been disadvantaged by their lack of integration with more prosperous and better located neighbors. The corridors will also open many opportunities for various types of investments from within and outside the subregion, and promote synergy and enhance the impact of subregional activities through project clustering. The spatial focus can also facilitate prioritization of regional projects, and coordination of national projects among neighboring countries.



Corridor development may be viewed as a process with many aspects and stages (Figure 2.1). The x (horizontal) axis represents the progression of a corridor from having only national scope to having a cross-border or regional scope. The y (vertical) axis represents the progression from having a narrow function—just physical connection—to a broader function, a combination of many other activities supported by the corridor.

In Zone I, the corridor starts with just the establishment of a road or highway, with the narrow function of providing transport connectivity within national boundaries. The key activities and investments here are in infrastructure construction.

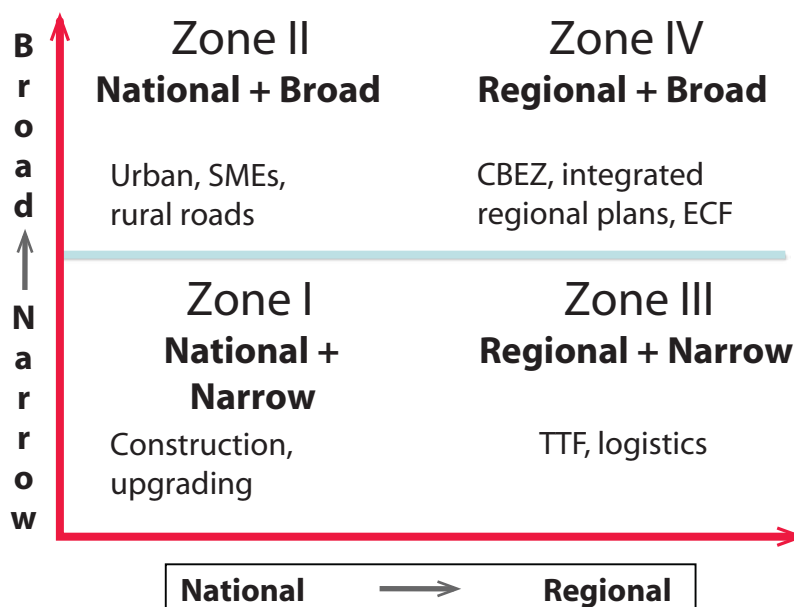
In Zone II, the corridor takes on a more diversified and broader character through a wider array of initiatives undertaken along and around the transport link. These include activities that may be broadly termed as “area development” through a variety of methods such as encouraging urbanization, improving urban infrastructure, promoting industrial development, enhancing the business climate and the capacity of small and medium enterprises (SMEs), and building secondary and feeder roads that link the rural areas to the main corridor roads and nodal points. All these activities may be labeled “corridor widening.”

In Zone III, narrow and regional, is the extension of transport connectivity across national boundaries to one or more countries within the region. Apart from the establishment of physical transport links, this zone may be viewed as the subsequent stage in which efforts are made to reduce or remove barriers to the movement of goods and people across borders through transport and trade facilitation (TTF) measures. Initially, the focus of the “narrow” corridor is moving goods and people quickly and cheaply from one big urban center to another along the corridor. But enhancing the “regionality” of the corridor also requires developing the areas between the centers. These developments can be supported with stronger trade and logistics facilities and services—for example, dry ports and inland container depots, warehouses, special economic zones (SEZs), and intermodal transport links along the corridor.

Finally, Zone IV marks the last stage of corridor development, wherein the transformation of the corridor is completed from a narrow, national entity into a seamless regional entity, as well as from a narrow instrument of transport connectivity into a locus of broader economic activities. This is an advanced stage and requires substantial and well-coordinated efforts among the countries involved in the corridor. Movement toward Zone IV corridors will often require joint regional plans, or joint plans for cross-border area development by the countries concerned or, at least, coordination of national plans. This is what we are trying to do under the GMS Economic Corridors Forum (ECF), which was established in 2008 as the main advocate and promoter of economic corridor development in the GMS, as well as the central venue for coordinating all efforts.

Challenges going forward. Corridor development continues to play an important role in the new GMS Strategic Framework, which was endorsed and adopted by the GMS Leaders at their Fourth Summit in Nay Pyi Taw, Myanmar, in December 2011. The new framework aims to ensure the GMS Program’s sustainability and continued effectiveness as it faces a complex external environment both regionally and globally in the new decade.

Figure 2.1. A Framework for Corridor Development




CBEZ = cross-border economic zone, ECF = Economic Corridors Forum, SMEs = small and medium enterprises, TTF = transport and trade facilitation.
Source: GMS Secretariat.

At the same time, the new strategic framework emphasizes the need to broaden and deepen the economic corridors by taking into account inter-linkages across sectors, adopting a multi-sector approach to economic corridor development, ensuring that benefits are spread extensively along and around the corridors, accelerating the implementation of transport and trade facilitation (TTF) measures, and dealing with social and human resources, food and energy security, and climate change concerns.

Moreover, although the framework provides the key strategies and goals of the GMS Program, there is still a need to prepare a regional investment framework and master plan consisting of a new generation of specific, time-bound, and well-coordinated activities, programs, and projects, based on solid analytical work and a strong knowledge platform. Such an investment framework is currently being prepared under a regional technical assistance project supported by ADB.

Corridor development efforts in the GMS in the medium to long term can thus be seen within the context of the simple framework for corridor development. Much of the efforts in the last 15 years have been in Zone I activities, namely, the establishment of narrow connectivity through the construction and improvement of transport corridors. The work to be done now will focus on a new generation of projects and activities in Zones II and III, in pursuit of the following key thrusts:

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- Widening the corridors, such as by expanding and completing the infrastructure base to include secondary and feeder roads, multimodal and intermodal transport facilities, corridor towns, and area and urban development, and promoting logistics development along the corridors (an ADB-supported technical assistance project on Transport and Logistics Assessment to Enhance Trade Facilitation in the GMS, is currently being implemented, and aims to provide guidance on priority activities to be undertaken to achieve these goals);
 - Complementing hardware or infrastructure investments with increased focus on software, or the policy and institutional dimensions of RCI, including capacity building;
 - Strengthening the effectiveness of corridor development through greater decentralization, involving all stakeholders, particularly provincial and local authorities and the private sector;
 - Giving more attention to multi-sector coordination and cross-sectoral links;
 - Building closer links and complementarity with the broader regional agenda and other regional initiatives (for example, ASEAN); and
 - Intensifying resource mobilization by closely engaging development partners and the private sector in corridor development.

Transport sector cooperation will continue to play a key role in the sustainability and continued success of the GMS Program. We have our past achievements as a solid foundation to build on. But we have to meet the new challenges by aggressively and consistently pursuing this new generation of regional cooperation undertakings.

Title	CAREC: Regional Cooperation in Transport and the Role of Economic Corridors
Presenter	Roman Sklyar, Vice Minister, Ministry of Transport and Communication, Kazakhstan

Overview of the transport sector of the CAREC Program. The Sixth CAREC Ministerial Conference in Dushanbe, Tajikistan, in November 2007 endorsed the CAREC Transport and Trade Facilitation Strategy, and the seventh conference in Baku, the action plan for the strategy. The strategy aims to establish competitive transport corridors, facilitate efficient movement through corridors and across borders, and also develop sustainable, safe, and user-friendly transport and trade networks. Through regional corridor reports, the strategy identifies the optimal roads to gain access to external markets for the import and export of goods. New communication routes linking Europe and Asia benefit all countries throughout the Eurasian continent. And they constitute the main priorities for Kazakhstan and the rest of the Central Asian region as they connect Europe and Asia across this vast territory.

The CAREC region and neighboring areas have a sufficiently dense and efficient network of routes to support trade and integration with major global chains. CAREC corridors have been strategically identified to promote both intraregional and interregional connectivity.

Strategic progress and achievements. Corridor 1 runs from the Russian Federation through Kazakhstan and the Kyrgyz Republic to the PRC. It includes 15,600 km of roads and 12,000 km of railroads. Linking Western Europe with Western PRC is a project implemented within this corridor since 2009. Its total length is 8,445 km, with 2,700 km traversing Kazakhstan, of which 2,452 km are under rehabilitation. The project cost is \$5.5 billion. The corridor will reduce travel time for road transport by almost 3.5 times—from 45 days down to 10 days—as compared with maritime routes. Additional measures taken to further develop the station and the railroad section will increase its cargo capacity to 20 million tons by 2020 from the current 16.5 million tons. To promote multimodal transport along this corridor, the construction of a railway extension was completed along Corridor 3 last year. This railroad extension will allow increased trade flows between the PRC and Kazakhstan attract increased shipments from Central Asia to the PRC and Southeast Asia, one of two international border crossing points newly opened. It will also reduce the length of the existing route by 500 km. CAREC is also currently taking steps to implement the construction of a new railroad. This project is 998 km long and costs approximately \$4 billion. It will streamline freight-traffic distribution in Kazakhstan and reduce the distance by 1,300 km. Combined, the two rail border crossings between the PRC and Kazakhstan will increase cargo transport by approximately 13 million tons per year by 2020.

Corridor 2 runs from the eastern border through Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan, and the Kyrgyz Republic to the PRC—comprising 9,900 km of roads and 9,700 km of railways. To develop this corridor, Kazakhstan is energetically modernizing and expanding its western Aktau seaport, which will increase its handling capacity to 18 million tons from 13.5 million tons today. The Aktau seaport accounts for 31% of the total Caspian Sea turnover.

Corridor 3 comprises 6,900 km of roads and 4,800 km of railways, running from the west and south Siberian region of the Russian Federation through Afghanistan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan to the Middle East and South Asia.


Corridor 4 comprises 2,400 km of roads and 1,100 km of railways and serves as a trade route from the Russian Federation through Mongolia to the PRC.

Corridor 5 comprises 5,700 km of roads and 2,000 km of railways, running from the PRC through the Kyrgyz Republic to Uzbekistan and Afghanistan and to the Middle East and South Asia. Projects are being identified to extend this corridor to Pakistan, a new CAREC member country, and further to the warm seaports on the Arabian Sea.

Corridor 6 comprises 10,600 km of roads and 7,200 km of railways running from the Russian Federation to Kazakhstan, Uzbekistan, Tajikistan, and Afghanistan and to the Middle East and South Asia. This corridor is closely related to the Western Europe–Western PRC project mentioned earlier, and is planned for completion by 2014.

Considerable progress has been made in putting in place the required investments and logistics in the six CAREC corridors and the action plan was endorsed in 2008. At the end of 2011, about 4,000 km of roads, or 49% of the total length for upgrading, had been completed. For railways, about 2,200 km of railways, or 37% of the total length for upgrading, had been completed. By 2017, it is envisioned that the corridors will form an integrated network of roads and railways connecting the CAREC countries with one another and CAREC itself with neighboring regions.

Key challenges and future directions. Lessons from the subregion's development show that improved physical transport connectivity is necessary—but not sufficient—for increasing trade and investment. Equally if not more important are measures to mitigate nonphysical barriers to cross-border movements of goods, vehicles, and people. These nonphysical barriers include restrictions on the entry of motor vehicles, different standards for vehicles, driver qualifications, and difficult forms and other red tape related to customs procedures. Recently, a tripartite agreement was signed between Afghanistan, Kyrgyz Republic, and Tajikistan to facilitate transport along the road sections in CAREC Corridor 5. The soft aspects of connectivity will help transform the transport corridors into economic corridors. An economic corridor is a geographic area centered on transport where commercial activities are concentrated. A study to look into ways to develop the economic corridors in the CAREC region will begin this year. The CAREC transport sector coordinating committee has identified key challenges faced by the sector. These include, first, identifying new investment projects after the endorsement of CAREC 2020 by the CAREC ministers last November. A new action plan of medium-term priority projects was also approved. The second challenge is inadequate road maintenance after the completion of construction or rehabilitation. Poorly maintained roads constrain mobility significantly, raise operating costs, and increase accident rates. It is necessary to implement a well-planned program of road maintenance. Last is the need to accelerate trade and transport facilitation. CAREC 2020 places a high priority on trade and transport facilitation as an important prerequisite for economic corridor development.



A 2012 midterm review of the Transport and Trade Facilitation Strategy will be conducted. The midterm review is expected to update and refine the strategic and operation priorities of the CAREC transport and trade facilitation sectors, including key priorities, projects, and initiatives. Medium-term priority transport projects formulated to operationalize CAREC 2020 will be implemented. These projects are expected to fill the gaps in developing transport corridors. Finally, on the “soft” side of the CAREC transport sector, work will be expanded on corridor-based transport facilitation agreements to address key nonphysical barriers to the transnational movement of goods, vehicles, and people.

At present, efficient and reliable functioning of regional and transcontinental connections is becoming especially important and can be ensured only by a concerted effort of all participating countries along the routes within their respective national boundaries, and by a joint response to global challenges at the international level. Facilitating international transport and establishing an efficient transit and transport system based on the principles of safety, reliability, and cost-effectiveness are key factors in economic development and trade cooperation in the Euro-Asia region.

Without doubt, this conference will become a significant international event. The conference allows discussion of transport issues in a broader format and with a more global perspective. This, in particular, determines the uniqueness of the event and the value of decisions made. Progress is possible only on the basis of constructive dialogue and mutually beneficial cooperation through the discussion of transport initiatives of all countries involved. This meeting will give new positive momentum to the development of economic relations between the countries in the Central Asian and Pacific region.


Title	SASEC: South Asia Regional Cooperation in Transport and the Role of Economic Corridors
Presenter	Saifuddin Ahmed, Joint Secretary, Economic Relations Division, Ministry of Finance, Bangladesh

Issues and challenges. Building on shared history and culture, the South Asia Subregional Economic Cooperation covering Bangladesh, Bhutan, and Nepal was launched, with ADB support, in 2001 to facilitate economic cooperation initiatives. Trade in South Asia is largely asymmetric. Some countries trade mostly within the region, while others trade mostly with the rest of the world. For example, because of geographic disadvantage, Bhutan and Nepal trade primarily with India. Their export shares within the region are 86% and 65%, respectively; almost 90% of the goods they export go to India. However, intra-subregional exports for Bangladesh and India are very small within the subregion. Moreover, trade between Bangladesh, Bhutan, and Nepal is small. South Asia in general, and SASEC in particular, is a small player in global trade. SASEC international trade accounts for only 1.3% of world exports and 1.8% of imports. A small portion is traded among the SASEC member countries themselves.

On the surface, SASEC continues to remain fragmented, for historical, political, and economic reasons. For example, road transport constrains the movement of goods through lack of cross-border agreements, and consequently, transshipment takes place at the border, introducing added transport costs. Railways experience technical constraints related to different rail gauges and missing last-mile connectivity. For inland water transport, protocol routes are underutilized because of drafts, insufficient navigational aids, limited ports of call, and nonrenewal of protocols. It would be possible to convert these transport corridors into economic corridors to open opportunities for various types of investments in remote and inaccessible areas.

Progress and achievements. The SAARC Regional Multimodal Transport Study endorsed at the 2007 SAARC Summit in New Delhi, India, identified 10 road corridors, 5 rail corridors, and 2 inland water corridors, and developed an action plan to remove constraints on connectivity and trade. ADB has extended support to develop transport projects along these main corridors at the national and regional levels. For example, ADB's regional road project in Bangladesh will connect Banglabandha and Burimari, and connect India with Dhaka and Chittagong Port in Bangladesh. Another is the subregional transport facilitation project in Nepal that involves upgrading border access roads to two lanes connecting Burgunj with Tribhuvan Highway, and Bhairahawa with the East–West Highway—a length of 42 km.

Challenges and way forward. The SASEC Transport and Trade Facilitation Working Group endorsed the development of roads and land customs stations along two subregional priority road corridors (SRCs)—SRC 4 and SRC 8. SRC 4, from Karkabhitta, Nepal, to Panitanki, India, and from Phulbari, India, to Banglabandha, Bangladesh, is 40 km. SRC 8 is from Phuentsholing, Bhutan, to Jaigon, India, and from Changrabandha, India, to Burimari, Bangladesh, covering 110 km.




For SRC 4, the proposed investments in India will improve existing roads to typical two-lane highways with paved shoulders along with structures and bridges and road safety requirements. The corridor expands to four lanes at several required portions, and adds one alternative road section between Fulbari and the Medical road intersection, totaling 15 km. The development of the Panitanki land customs station, which will include access roads, site development, parking, warehouses, cargo handling, and equipment, among others, and the improvement of the existing Phulbari land customs station will also be explored. The Bangladesh portion of the road is being developed and the widening to two lanes of the Banglabandha–Panchagar road is expected to be completed by June 2012. Further preparation for extending the road to Rangpur has been initiated under ADB technical assistance (TA). The Banglabandha land port in Bangladesh is being developed by a private operator, and this needs to be expedited. Other than this, missing segments between Banglabandha–Mongla and Chittagong seaport would be prepared under an ADB TA.

For SRC 8, the proposed investments in India will improve existing roads to standardized two-lane roads with paved shoulders along with road safety requirements, add the alternative Pasakha access road, and develop the land customs station on the Pasakha access road. In Bangladesh, the development of the four-lane Joydevpur–Chandra–Tangail–Hatikamrul road—110 km in total—to connect Banglabandha with Chittagong Port is being considered. The project investment is expected to be \$240 million. Preparatory works for the Bangladesh portion of the road connecting with Burimari is under feasibility study, with the detailed design expected to be completed by early 2013. Feasibility studies for a land customs station and land customs port at Burimari will be completed by the middle of 2012. In Bhutan, the Thimphu–Phuentsholing road has already been developed. However, a mini dry port at Phuentsholing and traffic diversion measures are required. An access road with direct access to Pasakha is needed. ADB will conduct a feasibility study on the Toribari land port, other alternative roads, and any infrastructure required for the connectivity of Bhutan and India in SRC 8.

To address the “soft” aspects of trade facilitation, the Transport and Trade Technical Working Group also endorsed program support to address policy, regulatory, and institutional reforms and technical assistance to support capacity-building activities.

While road and rail networks are well connected within parts of Bangladesh, India, and Thailand, they are sparse in the northeast region of India and Myanmar and moving toward the GMS region. Substantial highway and railway links are missing across national boundaries. While in many cases national highways and railways are well developed within the national boundaries, investments are needed to complete regional connectivity. The “last-mile” effort in connectivity has a major impact on Asia’s overall connectivity.

In South Asia, \$8.7 billion worth of investments will be needed to upgrade 2,841 km of roads. High priority rail projects in India and Bangladesh will involve upgrading 1,234 km and 3,244 km of railways, respectively, and constructing 129 km and 219 km of missing links, all costing up to about \$11 billion.



In fact, ADB, the World Bank, and the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) have developed knowledge products related to regional transport in South Asia. Among the development partners so far, ADB has been playing a vital role in SASEC countries, developing transport corridors and working from both a technical, as well as an investment project viewpoint. Also, to develop these corridors into economic corridors, there is a need for additional projects in sectors like roads, railways, tourism, and ICT, among others. It is hoped that ADB regional cooperation initiatives will grasp the importance of the future development of SASEC region. Other development partners like the Japan International Cooperation Agency (JICA) and the Department for International Development (DFID) of the UK are providing assistance primarily for national transport projects in South Asia. Private sector involvement in the development of roads, railways, ports, and civil aviation has been successful in the past and there is significant scope for greater engagement in SASEC areas.

In conclusion, an integrated and efficient transport network is an essential tool in creating the enabling environment for regional and international trade in South Asia. The last-mile effort to connect missing links between railways and national highways will reap large benefits. In addition to north–south connectivity, east–west connectivity will connect SASEC with CAREC in the west and GMS in the east.


Session 2	Regional Cooperation in Transport and the Role of Economic Corridors
Discussant	Li Shusen, First Secretary, Department of International Trade and Economic Affairs, Ministry of Commerce, PRC

Over recent years, participants in regional economic cooperation programs have agreed that economic corridor development is the new pillar of regional economic development, combining transportation, resources, and geographic advantage and translating these into economic development. Despite differences in content, subregional programs for economic corridor development show some similarities. First, they all take infrastructure development as the foundation of corridor development. And second, the transformation from transport corridor to economic corridor runs through three stages: “hard” (infrastructure-oriented) development in the first stage, emphasis on both “hard” and “soft” aspects of development in the second, and participation of government and enterprises, or public–private partnerships, crucial to economic corridor development, in the third stage.

On behalf of the PRC Ministry of Commerce, I wish to share some of my observations and views on economic corridor development, in particular on GMS economic corridor development.

First, institutional arrangements are the foundation of an economic corridor. In 2008, PRC Premier Wen Jiabao proposed to establish a GMS economic corridor forum at the Third GMS Leaders’ Meeting, and this proposal has established a new platform for communication and cooperation in corridor development. So far, we have held three sessions of the GMS Economic Corridor Forum and the fourth session is to be held in Myanmar in June this year. Within this framework, all countries within the region stress policy dialogue and communication, and the sharing of information and experiences—discussing the problems and challenges facing them, to enhance cooperation and ties between government and business, and promote the transition from transportation corridor to economic corridor. Through their concerted efforts, economic corridor development has become one of the priority areas for the GMS over the next 10 years, in the GMS Strategic Framework 2012–2022. The Economic Corridor Forum has become a comprehensive coordinating mechanism. Nationally, all countries should also establish the coordinating mechanisms for economic corridor development.

Second, trade facilitation and investment are crucial to the success of economic corridor development. After many years of concerted efforts, GMS transport infrastructure has been put in place, laying the foundation for economic corridor development. At present, because of barriers to the movement of goods across borders, the development of economic corridors has been restricted (and there has been no synergy effect). Therefore, we should take positive and effective measures in logistics, customs inspection, and quarantine to enhance the level of trade facilitation and create favorable conditions for economic corridor development. Stakeholders should also promote the early implementation of CBTA in countries where conditions permit, increase input into port infrastructure development, and also enhance the capacity of customs inspection and quarantine staff through technical assistance and training. Attracting investment is also an important part of economic corridor development. On the one hand, the GMS countries will cooperate with ADB in formulating a regional investment strategic framework and trying



to get more infrastructure investment. On the other hand, the GMS countries must strengthen their ties and communications between government and the business community to effectively enhance the business environment in the region, and to encourage and guide the participation of business in economic corridor development.

And, finally, a new cooperation model has the potential to further economic corridor development. To effectively promote economic corridor development, all parties, while promoting cooperation in traditional areas, should also create new measures, approaches, and systems. Cross-border economic zones (CBEZs) have had a crucial role in economic corridor development. Therefore, their effects can be widespread and they can play a complementary role in industrial and resource development. The PRC and Viet Nam have conducted cooperation in the PRC–Viet Nam CBEZ for many years and have put in place a working mechanism. ADB also adopted a TA program for the PRC–Viet Nam CBEZ and helped in the planning of the Pingxiang–Dong Dang, Liangshang CBEZ. The PRC would like to continue discussion with developing countries and has contributed to the construction and development of CBEZs. Besides industrial parks and special economic zones, industries can concentrate on enhancing cooperation between government and business and improving the functional capacity of the corridors. Therefore, all these models are effectively serving economic corridor development. Now, in Cambodia, Viet Nam, and Thailand, the PRC has four overseas economic cooperation zones, which are good platforms for attracting investments and creating jobs. The PRC sincerely hopes that all countries in this process, both within and outside the region, can invest in the region and participate in the benefits to neighboring countries and subregions.

To conclude, it was suggested that CAREC and SASEC can borrow from the GMS experience in terms of economic corridor development. Economic corridor development is an important approach to integrated regional development. The PRC would like to work with other countries, central governments, local governments, ADB, and other regional organizations to steadily promote the development of economic corridors so as to further promote regional economic integration.

Session 2	Summary Discussion and Open Forum
Moderator	Juan Miranda, Director General, Central and West Asia Department, ADB

Introduction. Collaboration is a means to an end in the majority of countries. It may not be the only means but, in some, it is by far the most important debate especially if the country is landlocked and small and wants to sell things to others.

The discussion is then focused on the cooperation part. The questions are: Why transport? And why corridors? There is a huge envelope requirement in front of us. Investment requirements amount to \$320 billion across the region. In fact, transport corridors are important because they will cut costs. They will increase productivity, which in turn will make everyone competitive and cut costs further. They create better conditions for investments and better conditions for investors and, inevitably, those conditions lead to opportunity, not only for intermediate goods but for final goods as well. If one produces something, one has to take it to market. Therefore, transport corridors are preconditions for interregional trade and also world trade.

Transport corridors require good logistics services. Logistics is a key part of economic activities, particularly those that are developed. And, last but not least, transport corridors will lead to inclusiveness. One can tell good stories associated with them because we have built communities together and can make countries “bigger than themselves.” There was a point made this morning about Afghanistan, that the railway and road projects are about putting people together within the country by linking them to the neighborhood. Such projects therefore contribute to inclusive economic development.

Summary of presentations. The first presentation was on GMS. The presenter focused on the “3 Cs”: connectivity, competitiveness, and community. The economic corridor approach was also discussed. The new GMS Strategic Framework established in 2007 was presented. It emphasizes sustainable investments, effective and broadened to take care of cross-sector linkages to underpin economic development.

The next presentation was on CAREC. CAREC started only about 10 years ago but has come a long way since. There was a focus from the presenter on the physical aspects and the nonphysical elements. On the physical side, there was a description of six corridors. CAREC is going to make a huge difference to the landlocked countries to bring them out of isolation in the years to come, on the east, west, north, and south. The future in areas such as links from the Caspian to the Black Sea and between markets in the south and markets in the west was presented. Sustainability is also needed because if roads are not maintained, there will be no roads for trade. There will be a review at midterm.

A presentation on SASEC followed. The focus was intraregional trade and its asymmetry. That is, some countries trade among themselves, but some trade more with the outside world, with the benefit of a lot of information and also facilities to make that happen. A flagship transport study talked about 10 road corridors, 5 railroad corridors, and 2 inland waterways. Two subregional priority road corridors were presented.

The SASEC working group came up with a couple of top priorities, and these showed something really interesting concerning economic corridors. Effective services attract businesses. So logistics and the activities that revolve around them will also show that investments are needed in upgrading and rehabilitation and, in some cases, new investments. There is also a need for the private sector to come in. One concept discussed is dry ports. A country like India has many, but other countries in the region could investigate this opportunity. Finally, soft infrastructure mixed with policy regulation, capacity building, and institution strengthening is also important. Two flagship projects for the future, the Asia highway and the trans-Asian railway, were discussed. With the huge investment costs, public–private partnerships and work with multilaterals such as ADB should be actively pursued.


The discussant wrapped up by indicating that transport can contribute to economic development more, if the transport corridors are transformed into economic corridors. Hard and soft infrastructure investments and collaboration between governments and the private sector are critical.

A couple of observations to conclude. The development mechanisms for institutional togetherness and also the coordination of those mechanisms is a success factor. Trade facilitation is the second key synergy creator, with a focus on customs systems and procedures, and quarantine. CBTAs are also part of the strategic compact. So there is a call for a new deal on economic cooperation, one that puts economic corridors at the center to allow the various isolated areas to be converted into opportunities for economic cooperation and integration.

Questions:

Md. Mozibur Rahman, Tariff Commission, Bangladesh: We have listened to very good presentations of three subregional programs. And I think we have noticed a striking difference between development and the acceleration of development in these three subregional programs. I come from a country that is a member of SASEC. But unfortunately in SASEC there are two least developed countries (Bangladesh and Nepal). And my country, Bangladesh, is one of the most populous countries in the world. The Bangladeshi people depend on trade. This means that transport and trade facilitation should be expedited. We are delighted to see that the CAREC transport development corridor is taking a route up to Pakistan, which connects the central republics to the Middle East. I am also glad to see that the GMS has a program for connecting up to Myanmar. I would like to see Bangladesh connected with Myanmar as well in the future, so that there is connectivity with GMS. If we want to improve the condition of these people, trade and industry are a must. How can ADB help accelerate investments and connectivity in the transport sector, and also address related issues including trade facilitation and other difficulties?

Sopheak Sok, Director-General, Department of International Trade, Ministry of Commerce, Cambodia: Before I ask my question, I would like to share GMS experience in the development of the economic corridors. We started our program in 1992. We focused mostly on infrastructure development. Several years later, we came up with the initiative for economic corridor development. And then in 2004, the Economic Corridors Forum (ECF) was held and we got consensus on how to sustain and balance the development of the corridors. The Second ECF



started the Governors Forum. We discussed how to develop the local production base and tourism in towns bordering the corridors, with the help of the private sector. Public–private partnership goes along with that. But we are still facing challenges related to software development and trade facilitation. Later on in Vientiane, we also discussed the principles of corridor development and we came up with several forums and a project development framework. The economic corridors are deepening the GMS framework itself, so many initiatives have been taken to develop the transport corridors and turn them into economic corridors. Coming back to the question, on the very comprehensive presentation made by Vice Minister Roman Sklyar—his proposition on transport corridor development—I would like to check whether there are any related initiatives taken by Kazakhstan to maximize the benefits of road and rail sections already in place in the country.

Naindra Prasad Upadhyaya, Joint Secretary, Ministry of Commerce and Supply, Nepal:

Transport corridors can be easily developed. Basically, to have economic corridors, we should have not only a transport network but also lots of software activities, for example, customs, tariffs, testing requirements, quality standards, and one thing that did not come up here, factor mobility. If there is factor mobility, then developing economic corridors may not be that easy or beneficial at all. If we are talking about tourism—like in South Asia—Nepal has many ecotourism spots. These can be developed into tourist and religious sites. Now my question for my colleague from GMS, Mr. Thuyen, is this: I am really impressed with the glimpse you have given us of the physical achievements of GMS in this area. Can you share with us some experiences in customs coordination and quarantine requirements, and also the mobility of people, particularly workers? What is the experience of GMS? How far have these procedures been liberalized so that economic corridors can be developed? The second question is for the panelist Mr. Shusen. I think you have explained to us that SASEC can learn from what worked in the GMS. Do you see the PRC as a member of GMS developing infrastructure and also developing economic corridors? Perhaps the PRC is thinking about future links with the SASEC region?

Huda Bahweres, Assistant to the Deputy for Regional Economic Cooperation, Coordinating Ministry for Economic Affairs, Indonesia:


First of all, I would like to congratulate ADB for holding this conference and to thank ADB for inviting Indonesia to the conference. And now my question: Is there any reason not to include BIMP-EAGA and IMT-GT in the discussion? I think ASEAN as a separate regional mechanism is expected to move forward to improve or achieve the ASEAN Economic Community by 2015. So I would like to know the reason for the noninclusion. And then, on the GMS, I am very impressed with the achievement of the subregional mechanism. I have two questions here. Five members of the GMS, if I am not mistaken, are ASEAN member states. I am wondering how these countries harmonize or prioritize their actions in the GMS, especially actions related to physical connectivity or transport or hard infrastructure under the Master Plan on ASEAN Connectivity, which was endorsed 2 years ago. Also, I think I saw a number of ASEAN–GMS members who are also part of the BIMP-EAGA and IMG-GT subregions. Is there any mechanism for knowledge sharing between GMS and those two subregional groups? Because I think, from the presentation, that the concrete achievements of the GMS must be shared by the two separate subregional groupings.

Answers:

Sultan Hafeez Rahman, Director General, South Asia Department, ADB: Regarding the question specific to Bangladesh, the country, of course, is a very important link in this whole chain. So there are a lot of prospects. And whether one is able to realize these prospects or not will depend to a large extent on how SASEC evolves, and also how SAARC evolves. There's been a lot said about the challenges. More will be said about this aspect so I shall not get into that. The transport connectivity issues should have been quite clear from Mr. Saifuddin's presentation. But in the SAARC multimodal study, which ADB also supported, a number of corridors were identified. And we are working on this. We have picked up investment projects and we are indeed moving ahead with those, with deliberation. I think that in the coming years—I would say even this year—there may be major breakthroughs in the road transport connectivity along the Nepal–India–Bangladesh and Bhutan–India–Bangladesh routes. And in the future, of course, we look forward to better Southeast Asian connectivity between Bangladesh and Myanmar, and also between India and Myanmar on its northeast border. Kunming is also central, so it will definitely take a strategic look at this entire region, I think. Then the prospect of South Asia being connected with Kunming through Bangladesh is also, I would say, very much on the radar and on the cards. Regarding flagship projects, SASEC has an investment project in information and communications technology (ICT) involving four countries—India, Bangladesh, Bhutan, and Nepal. This was approved in 2007. It's ongoing, and it will create regional ICT connections among these countries, and provide gateways to international communication networks. So it should reduce costs a great deal and open new avenues for connecting communities within these countries. Tourism and transport projects are ongoing. The Bangladesh–India power interconnection project was approved in 2010, and we hope there will be connection within the next 2 years, with potential for moving up to 500 megawatts (MW) of electric power from India to Bangladesh at a time when Bangladesh is in desperate need of power. There is also a Nepal–India power connection that we are working on. And we have supported a Bhutan–India project. So potentially, these are the beginnings of a South Asia power grid involving at least these four countries, and we are in discussion about a power link between India and Sri Lanka. It will then be a question of getting the larger picture in place, the institutions, the regulations, and so on. So a lot is happening. And let me say this emphatically, that SASEC, like GMS and CAREC, is a project-driven regional cooperation initiative. The institutions in countries come together around projects that are identified and that we can try to foster. And that's where we are right now.

Sekhar Bonu, Director, South Asia Department, ADB: Director General Rahman has given a comprehensive response, so I don't have much to add. The only thing is that in trade facilitation you can have infrastructure, but without comprehensive interventions and trade facilitation, there is no synergy. Keeping this in view, in Kolkata we had a comprehensive framework of trade facilitation support and a very detailed blueprint for the next 5 years that has been agreed on by the countries and that ADB will continue to support over the next 3–4 years. And we hope that with the infrastructure and with the trade facilitation phase, moving from road corridors to economic corridors will become a reality.

Nguyen Ngoc Thuyen, Deputy Director General, International Cooperation Department, Ministry of Transport, Viet Nam: I'd like please to respond to my colleagues' comments on my presentation on the GMS—what we have done in connectivity. What I meant during the




presentation is comprehensive activity. You cannot do only the physical work. Even now we are still building some major corridors, for example, from the southeastern part of Viet Nam through Hanoi to Lao Cai, Hekou of the PRC, to Kunming. We're also building a railway route—it's already included in the second transport sector strategy—and indeed we are thinking of more. There's also likely to be service sector development, such as tourism and logistic services, contributing to economic corridor development. And the development of the east–west corridor connecting Da Nang port in Viet Nam through Lao PDR and Thailand to Myanmar has been good. We hope there will be a breakthrough in the last section in Myanmar, where we now have some smooth signal to open up the section—the Indian Ocean connected with the Pacific Ocean. That's giving the latter impetus to develop. And together with the software aspect of trade facilitation, we're going to make it a very good corridor.

Roman Sklyar, Vice Minister of Transport and Communication, Kazakshtan (CAREC):

What we'd like to say is that Kazakhstan, having such a vast geographic territory, placed a lot of attention on logistics, with our head of state, Nursultan Nazarbayev, establishing the task of making Kazakhstan a transport and logistics hub of the central region. As for transformation of transport corridors into economic corridors, to my mind, this reform actually starts at the time of construction. I will explain this to you. Here's a mega road project from western Europe to western PRC. It covers several countries, more than 3,000 km in the PRC, then Kazakhstan, and the Russian Federation. The cost of the project is more than \$5 billion, and ADB is one of the key lenders to this project. We are very happy to cooperate with ADB. Cooperation started from the very beginning of construction, when we attracted road construction companies. They introduced new technologies; when constructing road structures our engineers learned from these companies how to do the job qualitatively. And the Ministry of Transport and Communication is learning from our colleagues in ADB how to do business properly. This is very important to us. So in the future, we will have developed a program of development for transport logistics. And along this corridor with Kazakhstan, dry ports are being constructed and free economic zones are being developed to produce various types of products. Together with the PRC, we implemented a joint project at the border between Kazakhstan and the PRC. Realizing the importance of the PRC government program, we knew we had to go west. We are ready to support the PRC in implementing it. We position ourselves as a transit country for the PRC to get connected with Europe using the shortest land route. We continue cooperating in this area. So, to my mind, this is how transport corridors are gradually transformed into economic corridors. We understand we have to develop harmonized rules and procedures to be applied in the countries that are part of this corridor. We have to simplify customs and all the procedures. We have to construct infrastructure, and this is the so-called economic development of this corridor, so that car maintenance, fuel stations, among others, would make their contribution to transport operators, and make Kazakhstan a transport and logistics hub for the Central Asian region.

Li Shusen, First Secretary, Department of International Trade and Economic Affairs, Ministry of Commerce, PRC:

I listened to a question about a corridor between the PRC and South Asia. I think this is a very good vision. But it is regrettable that the PRC is not a member of SASEC. So we have some difficulties in cooperation with SASEC member countries. In the future, when the time is right, new cooperation vehicles can be found. And we can have further discussions and communications on the sidelines of this meeting.



Pradeep Srivastava, Senior Regional Cooperation Specialist, Regional Cooperation and Operation Coordination Division, Southeast Asia Department, ADB: The reason for not having a much more enhanced presence of BIMP-EAGA and IMT-GT is partly the different nature of their programs. They are subnational programs. In that sense they are not similar to the programs that are being discussed here—the GMS, CAREC, and SASEC. Also, they are programs that are meant to be private sector–led as the member countries emphasized. Again, this is a slightly different orientation from the efforts being discussed here. Yet, we are exchanging information with BIMP-EAGA and IMT-GT. ADB is working on a strategic framework for both of these programs, and an implementation blueprint. So really it’s a question of a slight difference in the nature of the programs.

Summary of the discussion. I will start by thanking my partners here at the podium for their presentations and the panelists for bringing together and wrapping up all those key points, which were very helpful. I take away four points from the discussion:

- We have to transform the transport corridors into economic corridors that support regional cooperation. We have to show ownership. We have to nurture it. It’s a continuous, ongoing task. We have to have the big picture, although we start with small things. We have to keep going by blending hard and soft infrastructure, by putting together the bits and pieces that bring the communities, private and public, into play.
- Upstream reforms bringing in the private sector are needed for regional transport connectivity, because \$320 billion is going to be too much to put together. The private sector has an important role to play.
- We need financial schemes. We didn’t talk much about this today. We did talk a little bit this morning about helping to make things happen, particularly if the private sector is going to be involved—of course, also with the public sector. We, at ADB, have to take care of a number of facilities, such as the ASEAN Infrastructure Fund. Transport and trade facilitation, including, CBTA and customs modernization are crucial to the successful development of economic corridors.

SESSION 3

Regional Cooperation in Energy and Climate Change

Main Session Objective	
The main objective of this session was to discuss how various energy issues can be addressed in a regional cooperation context and how public goods in environment protection and climate change (including natural disasters such as earthquakes, floods, and tsunamis) can be maximized on regional platforms.	
Moderator	
Sultan H. Rahman, Director General, South Asia Department, ADB	
Presenters	
<ul style="list-style-type: none">▪ Keobang A. Keola, Director General of GMS National Secretariat, Ministry of Natural Resources and Environment, Lao PDR (GMS–environment)▪ Khin Maung Win, Deputy Director General, Department of Electric Power, Ministry of Electric Power, Myanmar (GMS–energy)▪ Emil Orujov, Advisor, Cooperation with International Organizations Department, Ministry of Economic Development, Azerbaijan (CAREC)▪ Sonam Tshering, Secretary, Ministry of Economic Affairs, Bhutan (SASEC)	
Summary of Key Lessons Learned, Future Agenda, and Open Discussion	
Key Lessons Learned	Future Agenda
<ul style="list-style-type: none">▪ The impetus for energy cooperation lies in the diversity and abundance of energy resources, which are unevenly distributed across Asia.	<ul style="list-style-type: none">▪ Greater investments and cooperation in energy generation and transmission
<ul style="list-style-type: none">▪ While energy trade offers significant benefits, it has been taken up largely on a bilateral basis.	<ul style="list-style-type: none">▪ Development of regional energy markets and interconnectivity of grids
<ul style="list-style-type: none">▪ Shortages in energy supply due to limited public sector fiscal capacity indicate a clear need for greater private sector engagement.	<ul style="list-style-type: none">▪ Innovative ways of increasing private sector participation and energy financing
<ul style="list-style-type: none">▪ Increased coordination is needed to enhance environmental sustainability and climate resilience.	<ul style="list-style-type: none">▪ Increased investments in adaptation, mitigation, and disaster risk management

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Key Lessons Learned

- **The impetus for energy cooperation in Asia lies in the diversity and abundance of energy resources, which are unevenly distributed within and across subregions.** Asia is rich in large and diverse sources of energy, which are unevenly distributed. For instance, hydropower potential is vast in some Central Asian countries (such as Kyrgyz Republic, Pakistan, and Tajikistan), in South Asia (Bhutan and Nepal), and in GMS countries (Lao PDR and Myanmar). Hydrocarbon sources are also spread across Central Asia (such as in Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan), South Asia (coal in India and Sri Lanka; natural gas in Bangladesh), and the GMS countries (coal in Viet Nam and natural gas in Lao PDR). The existence of diversified energy sources in Asia is beneficial to countries in the region because such energy sources allow them to share low-cost energy resources. The substantial energy reserves in Asia also help the sector and markets expand and the sector can enjoy scale economies in production. Furthermore, because of the abundance of clean energy sources, Asia can expand the use of cleaner and more sustainable sources of energy.
- **While energy trade offers significant benefits, it has been taken up largely on a bilateral basis.** At present, energy trade takes place mostly on a bilateral basis across Asia. There is existing energy trade through cross-border electrical grid interconnection, oil and gas pipelines, etc. Trade on a subregional or regional basis is yet to be developed, but it has tremendous potential. For instance, trade in South Asia has been largely bilateral. There is existing or proposed energy connectivity between Bhutan and India; Nepal and India; and Bangladesh and India. However, there is at present no energy trade on a trilateral basis, whether among Bangladesh, Bhutan, and India, or among Bhutan, India, and Nepal. Such subregional energy trade will be beneficial in meeting power shortages in parts of Bangladesh, India, and Nepal, and in expanding export opportunities for Bhutan.
- **Shortages in energy supply due to limited public sector fiscal capacity indicate a clear need for greater private sector engagement.** Today, many countries in Asia are facing significant energy shortages and subsequent power failures, which are limiting economic growth and poverty reduction. Despite having large supply potential, countries are operating far below the national capacity for economically viable energy. Bhutan and Nepal stand as classic examples of this. Countries will therefore need to increase both public and private sector investments in the power sector. Bhutan's experience in green power development through the public-private participation (PPP) modality has been a good success story. Given this and other cases in Asia, it will be worthwhile for Asian countries to further pursue partnership with the private sector.
- **Increased coordination is needed to enhance environmental sustainability and climate resilience.** Climate change impact is increasingly visible in Asia and the Pacific through changes in temperature and season cycles, greater variability of the monsoon, melting of glaciers, increased frequency of tropical cyclones, and rise in the sea level. Countries in Asia that host a large share of the world's population are highly vulnerable to climate change. Pacific Island countries draw attention to the severe impact that climate change may bring to these countries, including rising sea levels and the need for coordinated effort in dealing with the challenges. The presentation on SASEC highlighted the climate change impact of melting glaciers and rising flood levels. With these rapid changes, countries are at a critical stage and there is a strong need to enhance preparedness, strengthen disaster management, and increase resilience to climate volatility. Both climate mitigation and adaptation issues were underscored during the discussions. There is a great need for countries in Asia to take a coordinated approach to addressing these issues.

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Future Agenda
<ul style="list-style-type: none">▪ Greater investments and cooperation in energy generation and transmission. Countries in Asia are operating below existing potential for energy generation and transmission. There is a strong need to strengthen generation capacity, modernize national power systems, and expand bilateral trade. Countries are already taking this forward at different levels. For example, electricity trade between Afghanistan and Uzbekistan has increased access to electricity for city dwellers in Kabul. In South Asia, Bhutan and India have ongoing projects that will expand capacity significantly by 2020. There is a substantial need to scale up these initiatives to reap maximum benefits from diverse and abundant energy sources. The concept of energy rings can be pursued to promote dialogue and cooperation across subregions.
<ul style="list-style-type: none">▪ Development of regional energy markets and interconnectivity of grids. While bilateral trade is quite common across Asia, there is great potential for regional trade markets. Aside from the hardware improvement of grid connectivity, significant challenges are posed by the software aspects, including policy and regulatory issues. A common experience among the regional energy programs is the immense complexity of cooperation in the software aspects that act as barriers to the effective formation of regional power grids and energy markets. Improvement in software areas is time consuming and challenging mainly because of the need for institutional reforms, regulatory improvement, and negotiations to ensure mutual benefits to all participating countries. For this reason, initiatives related to the software aspects should be initiated and pursued well ahead of hardware improvement. Participating countries should strengthen their regulatory and policy regimes, planning capability, and institutional mechanisms, and create an enabling environment for energy trade. Furthermore, constraints that prevent the effective functioning of the existing regional grids need to be systematically removed through intraregional cooperation.
<ul style="list-style-type: none">▪ Innovative ways of increasing private sector participation and energy financing. There is a critical need to increase momentum to fast-track private sector engagement and develop innovative ways of increasing energy financing in Asia. Creating an enabling environment for investment opportunities, building capacity to develop new financing opportunities, and increasing dialogue and knowledge sharing with private sectors may open doors for alternative options. Efficient risk-sharing arrangements between the public and private sectors are also critical, given the massive scale of investments. Further, innovative solutions such as the integration of the Clean Development Mechanism (CDM) into subregional projects can be pursued. An example is the Dagachhu hydropower project financed by ADB, which enhanced capacity building in the Department of Energy of Bhutan, providing the necessary skills and know-how to utilize its CDM potential in other projects.
<ul style="list-style-type: none">▪ Increased investments in adaptation, mitigation, and disaster risk management. Regional cooperation is seen to pay more attention to the energy–environment–sustainable growth nexus and the resource management and environmental planning requirements. The GMS panelists shared their experience in biodiversity conservation corridors, capacity development (particularly in climate change mitigation and adaptation), and environmentally sustainable sectoral development strategies in transport, energy, telecommunication, tourism, and agriculture for sustainable growth. Strengthened regional cooperation would be crucial in developing more focused energy policies, harmonizing energy planning with water resource planning, promoting other renewable energy resources and CDM projects, strengthening energy conservation programs, and mainstreaming climate change adaptation policies.
Open Discussion
<ul style="list-style-type: none">▪ A question on how India can become a conduit in regional power connectivity was raised. SASEC panelist Sonam Tshering responded that the development of the South Asian grid has been a high-priority agenda in all meetings of South Asian energy ministers. He added that India has been stressing the need for bilateral connectivity. Once the grid exists, demand and supply mechanisms will no longer be an issue as there will be central load dispatchers that will interconnect with one another.

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- A concern raised by one of the participants was the lack of effort, particularly in the Pacific subregion, to mitigate the risk of climate change. ADB staff responded that ADB, with support from other multilateral organizations, is now implementing a climate change program in the Pacific, which has three strands. One is providing incremental finance for climate change adaptation, the second has something to do with disaster risk management and mitigation, and the third is related to improving coordination and partnership with other multilateral organizations.
- Hamidullokhon Fakerov of Tajikistan raised the need for a proper mechanism for the efficient use of hydropower and fuel resources. Because of the regional significance of the water resources in his country, he mentioned that Tajikistan is prepared to cooperate with other countries in sharing these resources, and willing to share its experience.

Title	GMS: Ensuring Environmentally Sustainable Development
Presenter	Keobang A. Keola, Director General, Ministry of Natural Resources and Environment, Lao PDR

My presentation will be dealing with the GMS region's experience in environmental protection and climate change response. Since the 1990s, growth in the region has been fueled largely by exports driven by the extraction of natural resources, including water resources to support rapid expansion especially in hydropower development, land resources for increased agricultural production, mining and mineral-based industries, and timber and other forest resources. The problem is that key development sectors depend very much on the condition of the natural resources that are available but are often mentioned as major drivers of resource depletion, environmental degradation, and ecosystem fragmentation. Thus, while additional investments are necessary to deliver the desired development outcomes, there is a need to maintain and restore our ecosystems critical for ensuring performance, productivity, and sustainability of investment.

The environment–development nexus was recognized early on in the GMS Program. Thus, ADB supported the establishment of the Working Group on Environment in 1995 to ensure that the environmental aspects are addressed in a broad range of GMS Program initiatives. The Working Group on Environment's areas of focus can be summarized in a rough timeline—from the development of the subregional environmental monitoring and information system (1995–2000), to the development and implementation of the Strategic Environment Framework (SEF) for the GMS (1998–2005) to guide investment decisions in critical sectors and hotspots, to the launching of the Core Environment Program (CEP) and its flagship project, the Biodiversity Conservation Corridors Initiative (BCI) (2005–2012).

The First GMS Environment Ministers' Meeting in Shanghai, PRC, in May 2005 and the Second GMS Summit in Kunming in July 2005 endorsed the CEP and the BCI and adopted a regional approach to addressing the strains that GMS economic growth has placed on the environment. The Environment Operations Center was established in 2006 to provide operational capacity to the Working Group on Environment and to implement the CEP and the BCI. Phase 1, from 2006 to 2009, cost about \$36 million, and the supplementary phase, from 2009 to 2011, cost about \$7 million. The program scope covered pro-poor biodiversity corridors, strategic environmental assessments of GMS sector strategies and investment plans, environmental condition and performance assessment indicators, capacity strengthening, and deployment of innovative financial instruments such as payment for environmental services to augment financial resources in the region.

The major achievements to date are as follows. Environment and social planning and safeguard tools have been tested and applied to support sector planning, and technical capacity to use these tools have been enhanced. Five strategic environmental assessments have been conducted in support of energy, tourism, and provincial land-use planning. Decision support tools such as spatial multi-criteria analysis have been used to balance economic and social and environmental outcomes. Environmental performance assessment reporting systems have been applied and replicated in the region. The results of these tools are now being integrated into national

socioeconomic development plans. One example is a recent strategic environmental assessment of power development in Viet Nam, whose recommendations have been incorporated into the national Power Development Plan VII for 2011–2015.

The program has also developed partnerships with other GMS working groups under the open cooperation framework and with ADB sectors to provide technical support and capacity building of the Regional Power Trade Coordination Committee and input to the GMS Strategic Framework, and support the regional working group on transport with environmental safeguards.

Under the BCI, pro-poor sustainable management and use schemes have been established to enhance livelihoods and protect ecosystem services. In the six BCI pilot sites, environmental management, ecosystem connectivity, and livelihood improvement strategies for local communities, including carbon offset services, have been implemented. The BCI has been successful in institutionalizing benefit sharing for conservation, poverty reduction, and rural development, and in establishing landscape-based integrated ecosystem management regimes. Figure 3.1 provides a summary of the BCI achievements from 2006 to 2010 across the six pilot sites, showing the quantities involved. One of the major achievements of the program is the uptake and replication of the BCI through TA programs in Cambodia, Lao PDR, and Viet Nam amounting to \$69 million in grant and loan funds under the Biodiversity Conservation Corridors Investment Program.

Figure 3.1. Achievements of the Biodiversity Conservation Corridors Initiative

<ul style="list-style-type: none"> ▪ The BCI flagship component has been successful in <ul style="list-style-type: none"> – Institutionalizing benefit sharing – Establishing landscape-based integrated ecosystem management – Pilot-testing national policy interventions: biodiversity corridor regulatory regimes ▪ BCI approaches are now being scaled up through three country technical assistance programs in Cambodia, Lao PDR, and Viet Nam under the Biodiversity Conservation Corridor (BCC) Investment Program. 	Beneficiaries (households covered)	28,367
	Number of villages/communes covered	164
	Area under BCI corridors (ha)	1,294,936
	Area under strict protection in BCI landscapes (ha)	2,000,000
	Average value of forest ecosystem services (US\$/ha/year)	\$5,136
	Area reforested/enriched (ha)	3,722
	Amount disbursed to local communities/development funds (US\$)	\$337,399
	Total no. of local committees/development funds established	181
	Improved land tenure rights (ha)	32,265
	Participants in capacity building events	7,057

BCI = Biodiversity Conservation Corridors Initiative, ha = hectare.
 Source: GMS Secretariat.

Climate change is increasingly being integrated into CEP and BCI implementation through the building of capacity for climate change risk and vulnerability assessment and the reduction of carbon dioxide emissions from land-use change, in such sectors as energy and transport; the mapping of climate change risks and vulnerabilities; the development of vulnerability profiles

and adaptation options for agricultural communities in BCI areas; the development of pilot projects in energy efficiency and logistics; and the improvement of local coping capacity and livelihood opportunities.

There is now a more pressing need to protect the investments that will drive the development of the GMS region, especially those to be undertaken under the new GMS Strategic Framework 2012–2022, which was endorsed at the Fourth GMS Summit in Myanmar in December 2011 (Figure 3.2). The environment is a high priority, and the framework emphasizes the need to balance development and environment across all sectors. Phase 2 of the CEP-BCI implementation, from 2012 to 2016, is expected to contribute directly to overall regional impact in the new GMS Strategic Framework, namely, to increased economic growth and reduced poverty, reduced greenhouse-gas emissions, and improved biodiversity conservation.

Figure 3.2. GMS Strategic Framework 2012–2022: Environment Embedded

Sector	Sector Outcome	Environmental Dimension	Overall Impact
Corridor Development/ Trade	Increased trade Cross border investments	Promoting environmentally friendly products (standards and labeling), improved environment planning, green cities	Continued economic growth
Transport	Improving connectivity	Low-carbon transport, environment safeguards compliance	
Energy	Enhance energy access	Low-carbon energy, demand-side management, renewable energy	
Telecom	Access to information	Environmental monitoring and information exchange	Reduced poverty
Tourism	Increased sustainable tourism	Ecotourism, environmental safeguards and planning	Reduced GHG emissions
Agriculture	Increased sustainable agriculture	Organic agriculture/certification, land-use planning, biofuels	Integrity of ecosystems and biodiversity maintained
Environment CEP-BCI	Sustainable environment management	Biodiversity conservation (protected area management); recognition of ecosystem services (conservation landscapes); innovative financing, policy, capacity, institutions	
Human Resource Development	Migration/skilled labor	Green jobs	

BCI = Biodiversity Conservation Corridors Initiative, CEP = Core Environment Program, GHG = greenhouse gas, GMS = Greater Mekong Subregion
Source: GMS Secretariat.

In July 2011, the program framework for the GMS Core Environment Program was endorsed at the Third GMS Environment Ministers' Meeting. There is a TA for the next phase of the program, submitted to and approved by the ADB Board in December 2011, with cofinancing of \$14 million from the Government of Finland and \$0.8 million from ADB. The next phase of the CEP-BCI implementation, from 2012 to 2016, will begin in the second half of 2012. The four components are (i) improvement of environmental planning systems, methods, and safeguards; (ii) improved management of transboundary diversity conservation landscapes and local livelihoods; (iii) development of climate-resilient and low-carbon strategies; and (iv) improvement of institutions and financing for sustainable environmental management.

Title	GMS: Harnessing Energy Development Opportunities
Presenter	Khin Maung Win, Deputy Director General, Department of Electric Power, Ministry of Electric Power, Myanmar

My presentation will focus on the GMS approach to energy cooperation to achieve efficient, reliable, and sustainable energy supply in the GMS region. Energy is one of the early recognized high priorities of GMS cooperation. Given the demand for energy in the GMS, the GMS Program has focused on high energy and power trading. If GMS countries were to take advantage of abounding energy resources, such as hydropower and gas, the region would eventually improve competitiveness and create a sense of community (Figure 3.3).

Figure 3.3. Energy Cooperation: Managing the Evolution of the GMS Power Market



GMS = Greater Mekong Subregion, MOU = memorandum of understanding.
Source: GMS Secretariat.

Developing regional power markets. There is ample supply of energy resources in the GMS that can satisfy the growing demand for electricity in the subregion. But the geographic distribution of those resources is uneven. This gives the GMS countries a good rationale for developing regional power markets.

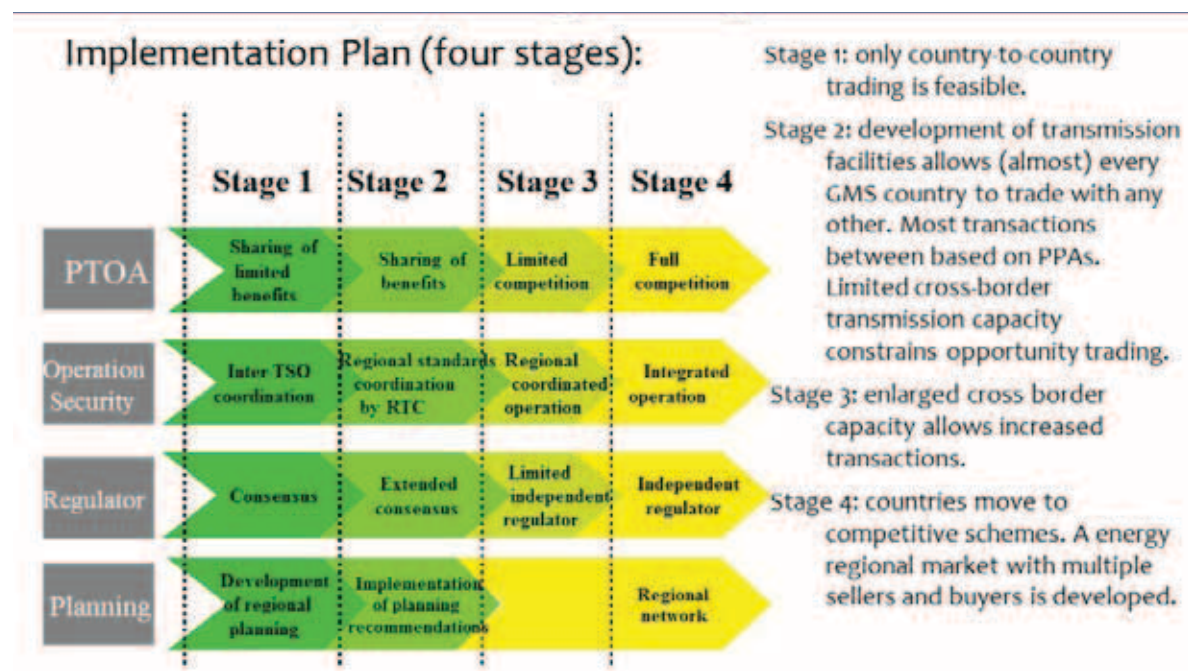
Power has so far been traded only on a bilateral basis in the GMS. Bigger benefits will not be realized unless a regional power transmission network is formed. This involves developing and operating in a coordinated manner a competitive regional electricity market in the GMS region. Through the power trade, GMS members will realize additional benefits such as reduced investment in power reserves to meet peak demand.

Under the GMS Program, cooperation in power development involves a two-pronged approach to developing the regional power market. The first involves providing the policy and institutional framework for promoting opportunities for extended cooperation in regional power trade. The second involves a building-block approach to developing the essential grid interconnection of infrastructure that will physically facilitate the cross-border dispatch of power.


The Inter-Government Agreement on Regional Power Trade (IGA) signed during the First GMS Summit in November 2002 provides the operational framework for power trade development. The IGA established the Regional Power Trade Coordination Committee (RPTCC) in 2003, which then formed working groups to carry out energy activities and studies. The Regional Power Coordination Center (RPCC) is being planned to deal effectively with the GMS power market's changing needs. The design of the RPCC, including the drafting of the memorandum of understanding (MOU) creating the RPCC, is now being discussed by the RPTCC.

The ADB study on the power trade operating agreement recommended that the market evolve through four stages, with a "competitive regional market" as the final, long-term target. The general characteristics of each stage, according to particular aspects of the power market, are as follows. Under the IGA, two MOUs were signed during the second and third GMS summits. They set the rules for initial trade in stage 1 and the milestones needed to achieve transition in stages 1 and 2. In stage 1, only country-to-country power transactions are feasible. In stage 2, trade between any two GMS countries will be possible, eventually using a third GMS country's transmission facilities. The GMS is now in stage 1 (Figure 3.4).

Figure 3.4. Implementation Plan: Four Stages



ADB = Asian Development Bank, GMS = Greater Mekong Subregion, MOU = memorandum of understanding, PPA = power purchase agreement, PTOA = power trade operating agreement, RTC = regional transmission coordinator, TSO = transmission system operator. Source: GMS Secretariat.



Developing the grid interconnection infrastructure. The focus of power cooperation in the GMS until 2020 is essential physical power interconnection, and harmonization of transmission planning, design, and operational practice. The Regional Indicative Master Plan on Power Interconnection in the GMS, which identified essential physical power interconnection in the region up to 2020, was completed in 2002. The master plan, updated in 2010, identified three poles of development on the basis of simulations for a range of regional power system scenarios.

GMS energy challenges: social and environmental sustainability impact. Although the GMS region has experienced impressive economic growth in the last decade, there are still enormous energy challenges. In 2005, 20% of the population was still without access to electricity. And the target energy consumption is still very low by world standards. Other challenges include rising energy vulnerability with high dependence on oil imports. High economic growth and increases in energy demand have put increasing pressure on land and water systems in the GMS. Additionally, the climate change issue requires urgent promotion of energy efficiency, renewable energy, and low-carbon resources.

ADB's role under expanded GMS energy cooperation. In addressing the remaining GMS energy challenges, ADB is expected to be, first, a catalyst for dialogue; second, a supporter of energy policy reform within the GMS countries; third, a promoter of capacity building; and, fourth, an information clearinghouse. While the focus on power trade will continue, there will be increasing emphasis on more sustainable energy development.

The GMS road map for expanded energy cooperation was adopted by the GMS countries in June 2009 to develop the regional power market, enhance access to modern energy, develop capacity for energy efficiency and renewable energy, improve information exchange, and promote private sector participation. ADB is financing priority TA projects under the Subregional Energy Sector Forum, which will promote renewable energy and energy efficiency business models and improve strategic environmental assessment practices in the energy sector.

Title	CAREC: Energy Cooperation
Presenter	Emil Orujov, Advisor, Cooperation with International Organizations Department, Ministry of Economic Development, Azerbaijan

The presentation is focused on CAREC initiatives in the energy sector.

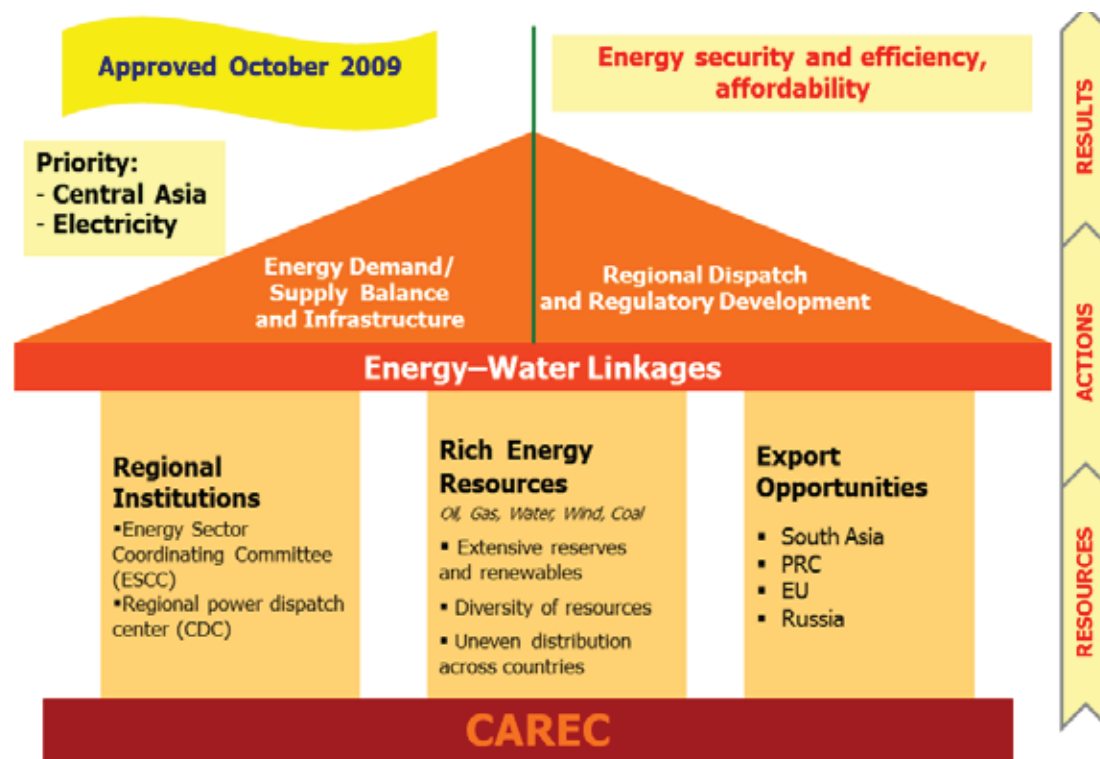
CAREC countries have significant energy resources. Fossil fuels are abundant in Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. Hydropower is concentrated mostly in Kyrgyz Republic, Pakistan, and Tajikistan. The uneven distribution of the energy resources has created loss of opportunities and provided challenges to regional cooperation. Energy and water resource management also affects energy cooperation.

Most of the CAREC-related energy projects are aimed at strengthening generation capacity and expanding bilateral electricity trade. Three factors that justify energy cooperation are: (i) inadequacy of present energy-related infrastructure; (ii) opportunity to have a shared electricity grid; and (iii) need for legal and regulatory reforms.

CAREC energy sector strategy. The strategy was approved by the CAREC ministers at the seventh meeting held in Baku in 2008. The strategy's long-term vision is to ensure energy security and enhance economic growth through energy trade, domestic and cross-border investments, capacity building and knowledge sharing, and adoption of key policy measures. Taking into account the various geopolitical economics in the CAREC region, the strategy focuses on five energy corridors. The first focus is cooperation opportunities within Central Asia. Second is energy trade and enrichment between Central Asia and the PRC. Third is energy and the potential for electricity trade between Central Asia and South Asia. Fourth is Central Asia and the Russian Federation, given that the latter remains an important energy trade partner for CAREC countries. Fifth is energy exports to the European Union.

CAREC energy action plan, 2010–2013. The plan was approved by the ministers in a conference in Ulaanbaatar in October 2009 and is currently being implemented. The action plan framework has three pillars (Figure 3.5). Pillar 1 addresses energy demand, supply balance, infrastructure, and constraints. It aims to enhance the most efficient use of energy resources across the region. Pillar 2 addresses regional dispatch and regulatory development. Pillar 3 relates to the analytical framework of energy water interest issues, which will forward the project that will promote dialogue among the countries concerned. The Energy Sector Coordinating Committee coordinates and oversees the implementation of the action plan.


Figure 3.5. CAREC Energy Sector Action Plan, 2010–2013



CAREC = Central Asia Regional Economic Cooperation Program, CDC = Coordinating Dispatch Center, EU = European Union, PRC = People's Republic of China.
Source: CAREC Secretariat.

CAREC achievements. CAREC is action oriented. By October 2012, CAREC will have completed 26 energy projects, amounting to almost \$3.8 billion. The energy sector accounts for about 21% of all CAREC investments. Most CAREC-related energy projects are aimed at strengthening generation capacity, modernizing national and regional power systems, and expanding bilateral electricity trade. Among many others, one notable achievement of ADB is its assistance in expanding Afghanistan electricity trade. Since January 2009, over 100 megawatts (MW) of power from Uzbekistan has been supplied to Kabul, Afghanistan, providing the city's 4 million people with electricity for 24 hours for the first time in decades. Another achievement was the construction of a 220-kilovolt (kV) transmission line to link Sangtuda-1 hydropower station in Tajikistan to Kunduz, Baghlan, and Pule Khumri in Afghanistan. This enables the export of up to 300 MW from Tajikistan to Afghanistan. The first section of the line has been completed and power export is ongoing.

Under the Energy Sector Action Plan (2010–2013), key factors in achieving progress in the energy sector are knowledge sharing and training, and the legal and regulatory base in member countries.



CAREC 2020 and the energy sector. The energy sector is one of the operational priorities of the CAREC 2020 Strategic Framework. CAREC countries strongly recognize the importance of the growth of the energy sector and energy sector cooperation to sustainable economic development. The priorities are to establish foundations for energy security through regional cooperation, exploit the large potential for intraregional energy trade, and promote energy efficiency and renewable energy.

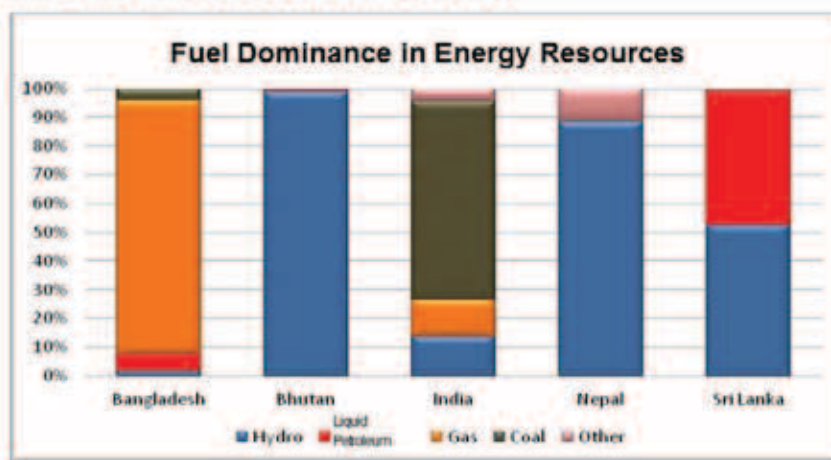
Title	SASEC: South Asia Regional Energy Cooperation
Presenter	Sonam Tshering, Secretary, Ministry of Economic Affairs, Bhutan

The presentation provides an overview of South Asia’s energy supply and demand and is focused on energy cooperation in the subregion.

Current supply and demand scenario. The subregion has over 1.3 billion people (21% of the total world population). It has varied energy sources in the form of hydropower, coal, natural gas, and other renewable energy resources (Figure 3.6).

Figure 3.6. South Asian Energy Context

- Subregion has over 1.3 billion people in the subregion (21% of the total world population)
- Wide variation in abundant resource endowments in the form of hydropower, coal, natural gas, and other renewable energy resources
- Dominance of single fuel in energy mix



Source: SASEC Secretariat.

Sri Lanka and Bhutan are very well connected as far as distribution is concerned. The current demand for electricity in the South Asian region is close to 300,000 MW. There is a very large deficit, but there are also large unexploited resources in the region (Table 3.1).

Table 3.1 Energy Demand and Supply

Energy Reserves of SASEC Member States					
Fuel Type	Bangladesh	Bhutan	India	Nepal	Sri Lanka
Coal (million tons)	884	2	90,085	NA	NA
Gas (trillion cubic feet)	21	NA	39	NA	NA
Oil (million barrels)	12	NA	5,700	NA	150
Hydro (MW)	330	30,000	150,000	42,000	2,000
Biomass (million tons)	0.1	26.6	139.0	27.0	12.0
Installed Capacity (MW)					
Fuel Type	Bangladesh	Bhutan	India	Nepal	Sri Lanka
Thermal	5,841	17	124,730	53	1,390
Coal	200	0	105,437	NA	NA
Gas	4,651	0	18,093	NA	NA
Oil	990	17	1,200	NA	NA
Hydro	220	1,488	38,848	652	1,382
Nuclear	0	0	4,780	0	0
Renewable Energy Sources	NA	1	22,233	NA	45
Total	6,061	1,506	190,085	705	2,817

MW = megawatt, NA = not available or not applicable.

Note: Clean energy resource potential is yet to be exploited. Countries either remain energy deficient or are not able to optimally harness and utilize their resources. There is rising fossil fuel import dependence and need for diversification.

Energy Demand					
	Bangladesh	Bhutan	India*	Nepal	Sri Lanka
% of Population with Electricity Access	42%	85%	56%	25%	88%
Annual Generation (MU)	29,247	7,046	788,355	3,711	10,715
Electricity Demand (MU)	NA	1,684	861,591	4,693	NA
Surplus/Deficit	-25%	76%	-9%	-20%	-37%
Future Demand (GWh)	71,990	2,500	2,550,000	8,990	22,040

* India's demand is expected to rise by 7.4%. There was peak shortage of 9% in 2011.

GWh = gigawatt-hour, MU = million units, MW = megawatt, NA = not available or not applicable, SASEC = South Asia Subregional Economic Cooperation.

Source: www.bpdb.gov.bd, www.cea.gov.in, SRETS, 2010, MoEA-Bhutan, Ceylon Electricity Board, energypedia.info-Nepal.

So this is basically the reason why we need regional energy cooperation in terms of energy resource diversification and energy security, sharing of low-cost energy resources, economic opportunities for energy-exporting countries, and enhanced opportunities for climate change mitigation.

South Asia energy ring. In South Asia, there is a concept of an energy ring. In an energy ring, what is examined is how electricity and gas could be transferred within the region. Studies have been carried out in terms of both the energy grid as well as the gas pipeline grid. There are already many studies and what is needed is to put the results of these studies into more concrete action.

Figure 3.7 shows the regional energy players.

Figure 3.7. Regional Energy Players



BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, SAARC = South Asian Association for Regional Cooperation, SARIE = South Asia Regional Initiative for Energy, SASEC = South Asia Subregional Economic Cooperation. Source: SASEC Secretariat.

SAARC Energy Center. The South Asian countries established an energy center in 2006 in Islamabad, Pakistan, as a result of the numerous summits that were organized (this one was an outcome of the 2005 summit)—17 summits in our 27-year history. Unfortunately, there have been only four energy ministers’ meetings. This shows lack of political will to put energy cooperation into focus. The purpose of the SAARC Energy Center is basically to have almost a one-stop shop that will provide all the required information as far as energy is concerned—on energy efficiency, renewable energy, data, expertise, and other issues. The SAARC Energy Center basically functions according to the directives of the summit and the declaration, as may be provided every now and then by the energy minister.

The objectives of the center are to: (i) strengthen South Asia’s capacity to collectively address global and regional energy issues; (ii) facilitate energy trade within the SAARC region, through

the establishment of a regional electricity grid and natural gas pipelines; (iii) promote more efficient use of energy within the SAARC region; (iv) enhance cooperation in the use of new and renewable energy sources in the region, thereby contributing toward more sustainable development in the SAARC member countries; (v) serve as a focal point for providing reliable energy data for the individual member countries and the South Asian region; (vi) enhance SAARC expertise in energy development and management; and (vii) promote private-sector investment and participation in energy activities in the region.

The programs of the SAARC Energy Center are demand driven; based on a holistic approach drawn from decisions and declarations of the summit, directions from the energy ministers, guidelines given by the Working Group on Energy and the Governing Board of the center, and the approved 5-year Strategic and Operational Plan of the SAARC Energy Center; and participatory design with member states.

One important study that has been carried out through the SAARC Energy Center and supported by ADB is a regional energy trade study. This was endorsed in 2011. The study identified trade options and opportunities for cooperation and proposed trade options and opportunities including the establishment of (i) a regional power market (expanding the Indian power market to include neighboring countries through power interconnections between India and Nepal, India and Bhutan, India and Bangladesh, and India and Sri Lanka); (ii) a regional crude oil refining facility; (iii) a regional liquefied natural gas terminal; and (iv) a regional power generation facility. Most of the issues being examined are related to regional trade. And many regional expert groups have been formed as a result of this study.

Initiatives in regional energy trade. Some of the initiatives and outcomes of SAARC toward fostering regional energy trade are the following: (i) the formation of SAARC expert groups on electricity, oil and gas, renewable energy, and technology transfer/knowledge sharing to take the recommendations of SAARC regional energy trade study forward; (ii) approval of a study on regional power exchange for the establishment of a regional power market to enhance regional energy trade in the SAARC region; (iii) the finalization of a common template on technical and commercial aspects of electricity grid interconnections and a concept paper on the road map for the development of the SAARC market for electricity; (iv) the adoption of the SAARC Regional Energy Trade Study (SRETS) report by the SAARC energy ministers; (v) the finalization of the SAARC Inter-Governmental Framework Agreement for Regional Energy (Electricity) Cooperation; and (vi) the conclusion of the Inter-Governmental Framework Agreement for Regional Energy (Electricity) Cooperation and the study on regional power exchange.

Ongoing ADB-assisted energy projects. One ongoing project is the 126 MW Dagachhu hydropower project. Although the capacity is only 126 MW, what makes this project special is that it is the first public-private partnership (over \$220 million) in Bhutan supported by ADB. The partners in this particular project, the equity owners, are the Pension Fund of Bhutan, Green Power Corporation, and Tata Power from India (the last-named with a 26% stake in this project). This could perhaps be the first cross-border CDM project. This is scheduled to be commissioned by 2013. The project has been registered with the United Nations Framework Convention on Climate Change (UNFCCC). Bhutan on its own will not qualify for CDM status since the country's

energy source is hydropower and the baseline is negative. Nonetheless, Bhutan has entered into cooperation with India so the baseline of eastern India is being used.


Another ongoing ADB-assisted project is the transmission link between Bangladesh and India (500 MW, 400 kV D/C). This provides access to the Indian power market. Still another is a transmission link between Nepal and India (1,000 MW, 400 kV Dhalkebar–Muzaffarpur). There is also a 210 MW Nikachhu hydropower plant in Bhutan, which is a PPP project and whose project preparation has been initiated.

Future projects. There are plans to increase interconnections between India and Nepal and Bangladesh–India eastern border interconnections. There will also be investments in cross-border power generation and transmission interconnections between India and Bhutan and between India and Nepal. The India–Sri Lanka 127 km +/-400kV HVDC grid interconnection via submarine cables is already being contemplated. PPP projects will also be supported. And it is hoped that ADB will continue to be a major player as far as supporting these projects is concerned. There is an ADB TA to support capacity building and energy sector dialogue to develop a subregional power generation and transmission master plan, establish the South Asia Transmission Utility Forum, promote renewable energy as well as energy efficiency practices, facilitate the establishment of a regional power market, and facilitate the harmonization of power system requirements to allow cross-border trading.

Bhutan's experience. Bhutan has been a leader in regional cooperation as far as electricity is concerned. Techno-economical feasibility in today's context has been proven for 24,000 MW of the 30,000 MW potential. Probably in a few years down the line, when energy sources become even more scarce, all 30,000 MW will become viable. Currently, only 5% (75% of the generation exported to India) has been harnessed. Almost 50% of our national revenue comes from exports of electricity to India. We also hope to have 100% access to electricity by 2013 (over 77% of households currently have access to grid electricity). That's not too far away and here credit should be given to ADB for the support we have received.

A major cooperation project between Bhutan and India is the 10,000 MW hydropower generation initiative. Overall, the agreement and protocol with the Government of India to develop this and mechanisms and modalities of implementation are in place. The intention is that all of these projects will be commissioned by 2020. Three projects totaling 3,000 MW are currently under construction. They will all be completed, it is hoped, by 2015–2016. Within 2012–2013, another six or seven projects, some of which will be between the Governments of Bhutan and India, are expected to be launched. Some of them will be done on what is known as the public–public partnership model, not the normal PPP model.


We have 8 circuits of line available between Bhutan and India, with the capacity to transfer 3,000 MW—4 circuits of 400 kV line, 3 circuits of 220 kV line, and 1 circuit of 132 kV line. So if the power is available, the connectivity is already there. If we're talking about a connection with Bangladesh, as long as the connection between India and Bangladesh can be developed, it can be quite easy to transfer power from Bhutan. Interconnections with India in the future (by 2020) according to the National Transmission Grid Master Plan include (i) 400kV D/C Quad moose



line from Lhamoizingkha to Alipurduar (India); (ii) 400kV D/C Quad moose line from Jigmeling to Alipurduar (India); (iii) 400kV D/C Quad moose line from Sankosh to Alipurduar (India); and (iv) 400kV D/C Quad moose line from Yangbari to Baranagar (India).

Challenges for regional cooperation. Access to finance for least developed countries is definitely a challenge, given the huge investments required. Just in the context of Bhutan alone, if 24,000 MW were to be realized, we are looking at an investment of well over \$20 billion. Political will also needs to be strengthened. In terms of the institutional structure, a lot of work has been done at the technical level. And now we need to find the right political drive to push many of the studies that have been carried out. Environment and climate change are big challenges in our region. If you look at the energy source, almost 75% is thermal, basically coal, so carbon dioxide emissions are a challenge. On the other hand, if you look at countries like Nepal and Bhutan, there are resources like hydropower. The Eastern Himalayas have been most affected by climate change. We no longer see the level of snowfall that we used to see. Our glaciers are melting much faster. And, in fact, in Bhutan, we have a project that is currently being supported under the National Adaptation Plan on Climate Change. Some of our glaciers are melting quite rapidly. So if we do not do anything, there will be floods—glacier lake outburst floods. And they could create disasters not only in Bhutan but also downstream in India and Bangladesh. At the same time, since we are so heavily reliant on water resources, if all our lakes dry up, there will be major problems not just for Bhutan but for the whole region. Private participation is needed in infrastructure like energy. Somehow in our region, we tend to classify energy as a strategic resource. And we tend to believe that strategic resources should be developed only by the government. And this is what I find to be a major challenge. Anytime when we talk about private sector development we say, “Oh, I don’t think the private sector will be able to do this because the cost will be so high.” And that’s where the whole issue of affordability comes in. When you live in a region where more than half the population is below the poverty level, affordability is definitely an issue. So how best can you make energy more available? Definitely, getting access to financing mechanisms is one of the ways of making energy more affordable. And, finally, one very important issue in our region is the right of way. I’m sure this is an issue in all countries when you build transmission lines. In the context of Bhutan, we have a constitutional requirement to maintain 60% forest coverage. And unless we can send electricity through the sky, developing our 30,000 MW is going to be a challenge. So we hope to look at technologies that are more environment friendly.

In conclusion, if South Asian connectivity is to improve, investment in the regional grid has to be treated as a high priority. We need to develop great connectivity between Nepal and India. Right now, they have a 132 kV line that can transfer only about 50 MW. I also referred to the numerous studies that have been carried out under SAARC, the South Asia Regional Initiative for Energy (SARIE), BIMSTEC, and SASEC. All these studies need to be harmonized to achieve synergies and mainstream strategies. And we need clear timelines to achieve our goals. The SRETS study that was funded by ADB has now been endorsed by the member countries. We now need to see how we can get financing for the recommendations of the study. We also need to work on the policy environment policies that are conducive to cross-border investment flows (public–private partnership and other investment models). I think there was a reference to a legal framework in one of the earlier presentations. Of course, the



most important need is strong political commitment and will of the member states to implement the recommendations in a time-bound manner. And, finally, our hope is for ADB to continue to play a catalytic role and bridge the gap through TA and investment support. I don't think that can be overestimated. In the energy sector in Bhutan, ADB's story is a success story. And I do hope this will translate into more action within the region.

Session 3	Summary Discussion and Open Forum
Moderator	Sultan H. Rahman, Director General, South Asia Department, ADB

Introduction. Asia has been the fastest-growing subregion in the world for the better part of 2 decades. Economic growth has averaged 7% over this period, lifting millions out of poverty. Asia’s rapid economic growth was made possible by massive increases in energy consumption. Every percentage point growth in GDP results in an increase in energy consumption of about 1.2%. So if GDP has grown by 7%, Asia’s economic output has doubled in 10 years and, hence, energy consumption has doubled in about 8 years in the same period. These are obviously stock numbers but they have profound implications, not only for the region’s economies, but also for the social well-being of the entire region. The region’s breakneck pace of economic growth has put enormous pressure on environment and natural resources, to the region’s mounting detriment. In the widespread mass of natural wealth, clean air, clean water, pristine forests, and biodiversity, the rate at which growth has taken place is increasingly manifested in global climate change concerns. Although life on earth may not have evolved as an integral part of its natural ecosystem, human progress must best unfold in harmony with the environment that has nurtured life. Development processes powered by energy, which do not take cognizance of the environment, are no longer sustainable. Energy and climate change, because of their externalities, lend themselves to regional cooperation. For each country, there is much to learn from the experience of other countries in managing energy resources and addressing climate change concerns, to understand the challenges that lie ahead and to be ready to address them, both within countries and collectively across countries. Given the diversity of resources—hydropower, fossil fuels, new and renewable energy technologies—and the uneven distribution of these resources, there is huge potential for regional cooperation in these areas.


Summary of presentations. We have had very interesting presentations. The first presentation in this session, by Mr. Keola, focused on the importance of diversity conservation and various Asian cooperation initiatives. Particular emphasis was made on the biodiversity corridors that were proposed and the work that was going on in the GMS in these corridors. Biodiversity conservation is crucial in cleaning up the carbon suspended in the air. There have been great achievements in this aspect. And I hope that this very important environment sustainability project will be implemented in the future. The presentation ended with an action plan. I got the sense that there is great momentum in diversity conservation in this important subregion. Mr. Win complemented the presentation on GMS on the energy–power side and spoke about the uneven distribution of the sources of energy across the region. He traced the evolution of thinking about the regional power grid, beginning with the agreement in 2007 and the more recent developments in the harmonization and design of the regional power grid and the development of a master plan for power sharing in 2010. He noted that, to continue this process, we need greater achievements in regional cooperation in energy. Specifically for this regional power grid, reforms in energy capacity development are necessary. Energy efficiency and renewable energy need to be focused upon. And private sector participation is important in furthering regional cooperation.

In Mr. Orujov's presentation, he drew attention to the activities that are taking place in the CAREC region and he made some remarks about South–South cooperation that were encouraging. He pondered on the achievements of the CAREC subregion in energy cooperation, noting that strengthening generation capacity and maximizing power systems were priorities. Expanding bilateral energy trade and knowledge sharing and training will also continue to be a priority. In terms of future directions, he pointed to the foundations for energy security that need to be developed, the exploitation of large ventures of regional cooperation in energy trade, and the promotion of energy efficiency and renewable energy technologies.

Mr. Tshering made a presentation on SASEC, pointing out the rich hydropower and other natural gas resources in the subregion. Overall, he pointed out that, in terms of demand and supply balance, there is potentially a large surplus in energy. But in terms of exploited energy resources in the region, there is actually a deficit: the region imports 75% of its petroleum needs. He spoke of the SASEC energy link, mentioned the study that had been undertaken, and pointed to several other studies that have been done. He pointed out, in particular, the Dagachhu hydropower project as an example of bilateral cooperation in energy trade. He mentioned specific characteristics of this project that are laudable, especially the fact that it was the first public–private partnership in regional cooperation in energy. He also pointed out the future projects that were very much in the pipeline—the Nepal–Bangladesh connection, the interconnection of power grids (the India–Sri Lanka proposed power grid connection, the northeast India–Bangladesh connection). These projects, if developed, are going to be major contributions in the next 3–5 years in promoting energy cooperation and integration of the power systems of these countries, thereby laying the foundations for accelerating power-sharing possibilities in the region. The challenges that lie ahead, which Mr. Tshering also mentioned, are more than I would like to cite. But let me state some of the challenges. He noted the need for huge investments in the energy sector and the impending problem of climate change, particularly the glacier melts. We know that the Himalayan glaciers are melting at a rate much higher than anticipated. These will not melt in geological time, but more recent data are actually quite staggering. And on the huge investment needs, he pointed out the need for private sector participation. He spoke about private sector participation in the power sector in promoting subregional cooperation in the SASEC region. Overall, I think we have had a very good session. A great realization is that regional cooperation in energy is vital and is in the economic interest of each one of these subregions. But it is important to focus on both energy efficiency and renewable energies. Large investments are required and ADB has a role to play in this. There is growing realization in the region, but this is something all the subregions must act on and they have therefore drawn up action plans to continue the work that they have started.

Questions:

Dasho Sonam Tshering, Secretary, Ministry of Economic Affairs, Bhutan: The development of the South Asian grid has been a high-priority agenda in all South Asian energy ministers' meetings. Now in all the regional meetings that we have attended, India has been stressing the need to have bilateral connectivity. Regarding the example that I gave earlier in terms of Bhutan and India, we now have bilateral connectivity. And we have plans for Nepal and India and for India and Bangladesh. So once those are carried through, I would think that the grid



would take shape. And one thing that I would like to mention to some of my friends from South Asia who are here: once we have a grid, I don't think we have to worry who the client is, whether it's India, Bangladesh, or Nepal. We should look at all the multiple functions and it's something along those lines that we expect the South Asian grid to function. So there isn't going to be "this power is meant for India; this is meant for Bangladesh." There will be a supply-and-demand mechanism. There will be central load dispatchers that will have to interconnect with one another.

Rameshore Khanal, Economic Adviser to the Prime Minister of Nepal: Developing the power grid connection in South Asia is, of course, important. I think this was highlighted by the presenter as well. I think he did it quite beautifully. But more than that, I think we should also be talking about the development of the regional energy market. As the physical activities progress, we should also be trying to develop the architecture for this energy market. Currently, the market is not perfectly competitive.

John Licht, Trade Policy Adviser, Melanesian Spearhead Group Secretariat, Vanuatu: I've been listening with great interest to the discussions this morning and this afternoon. We've had a good opportunity to look at climate change, which does pose a considerable threat to the Pacific. I recall a recent study released in March 2012 that pointed to some interesting figures. If I may just quote from that study, then perhaps we can see if we can get clarification as to what may be possible and useful recommendations. Climate change in the Pacific has actually affected 42 million people in Asia and the Pacific, and these 42 million were misplaced or displaced during the 2010–2011 period. That's twice the population of Sri Lanka. And also not a good figure or statistic to come out in this report is that 8 out of 10 of the countries that were affected are low-lying islands, mostly in the Pacific, South Asia, and Southeast Asia. The Pacific island countries have continued to face considerable threat, as we all know. That is not news to all of us here. And our leaders are concerned. The Pacific Regional Environment Programme (PREP) has been doing coordinating work on the environment in the Pacific. The Pacific island countries, Southeast Asia, and South Asia are going to face the considerable effects of global warming, particularly a rise in sea levels. Another study that came out last year points out to ocean acidity and the likelihood of its effects on our fishery resources. As you know, the Pacific is made of small island states—there are about 20,000–30,000 islands in the Pacific. They cover what is perhaps the largest exclusive economic zone in the world. Perhaps out of this forum, ADB, along with the specific forums in the region, can identify a road map for the Pacific.

Robert Guild, Director, Pacific Department, ADB: I appreciate the concerns raised about coordination and cooperation in response to climate change in the region. To put it very briefly, ADB has the Pacific Climate Change Program, which has three strands. One is providing incremental finance for climate change adaptation, a second has to do with managing and mitigating disaster risk, and the third has to do with improving coordination. The main way that we do this is through the kind of partners that we just heard about, for example, the Secretariat of the Pacific Community, the Pacific Regional Environment Programme, the United Nations Development Programme (UNDP), the Global Environment Facility (GEF), the Climate Investment Funds. The main way that we do this right now is through the pilot program of climate resilience. We have a regional component, as well as several national tracks, where we


cooperate with the World Bank and other development partners in the region. The best that I can say is that it is a somewhat small kitchen with a lot of cooks in it and everyone is struggling to be heard and to find the way forward on that. ADB is doing its best, along with all of the other partners, and I'll be happy to discuss this further.

Hamidullokhon Fakerov, First Deputy Minister, Ministry of Economic Development and Trade, Tajikistan: You mentioned the uneven distribution of hydropower resources and fuel resources. We do need a proper mechanism for the efficient use of these resources. With regard to the distribution of hydropower resources, in Tajikistan, we possess about 50% of all hydro resources in central Asia and only 5% of this is used. And what has been said in relation to the construction of the new facilities is that it would adversely affect all the downstream countries. Such arguments need some scientific justification. Tajikistan, in promoting its project, is drawing on scientific facts. Currently, we cooperate with ADB, which is supporting the construction of one more hydropower plant in Tajikistan. Speaking further about water resources, we have a problem. A lake in Tajikistan accumulates several million cubic kilometers of water and is a very important hydro resource for the entire Central Asian region. In this sense, Tajikistan is prepared to cooperate and to monitor this resource. A drought in Central Asia would be a heavy blow to the region.

Karma Tshering, National Environment Commission, Bhutan: I would like to address these two questions to Madame Keobang from Lao PDR. These are related to incorporating mainstream environment into our policy and plans. I was listening to your presentation and I learned that strategic environmental assessment (SEA) is being used as one of the tools in planning. I want to know how successfully this has been done and also the results of the integration of SEA into government plans.

Sealiimalietoa Isara, Deputy Chief Executive Officer, Policy Management, Ministry of Finance, Samoa: I would just like to follow up on the climate change issue. I would like to thank in particular our colleague from Bhutan who identified the climate change risk and the threat from the melting of the glaciers. He said that when the glaciers melt, the low-lying areas in India will also suffer from flooding. That is very true. The floodwaters then flow to the sea and raise the sea level. And that is where we come in because we are all affected. As a colleague from Vanuatu noted, some of the islands are now submerged at high tide. I address my question to ADB: Is there any mechanism available that we can use to measure the emission levels of a country? I know there are international protocols already signed and ratified, but I do not know whether anyone is following them. Perhaps emissions can also be a very important issue that we should be looking at. I would like to thank the ADB Director for pointing out all these and what ADB is doing. And I like his analogy of having a small kitchen with a lot of cooks waiting to be heard. When we look at the presentations, there is none for the Pacific. So how do we make our voices heard?

Nagesh Kumar, Chief Economist and Director, UN ESCAP: This is a very interesting discussion that is going on here and I am listening very carefully because there are so many lessons coming out of your presentations that we can use in our collaborative work with ADB on regional economic cooperation and integration. Now the point made by one presenter



is that India should be seeing itself not only as an importer of energy from other South Asian countries but also a supplier when there is a need or potential. Grid connectivity across these countries is needed, and once you have a grid and also regional energy markets, it is just a matter of exchanging across any interconnections, whether you are importing or exporting. What is being done in South Asia in the area of hydropower could possibly be extended to other sources of energy like solar and wind power, not so much in creating but in learning from one another. And there are some very interesting lessons coming out of the use of solar power. So this is another area of cooperation: not just hydropower but also wind and solar energy.



Dinner Speech

Rajat M. Nag
Managing Director General
Asian Development Bank

Introduction

Distinguished government officials, guests, ladies and gentlemen,

On behalf of ADB, I join VP Zhao in welcoming you to this Conference on Regional Cooperation and Integration. I am also very pleased to see such an impressive collection of participants. This meeting is the first time we have drawn together all our regional cooperation and integration programs in one place. Your participation in this event has truly enriched our collective learning and knowledge sharing. Each one of you brings with you a vast amount of practical experience in regional cooperation and integration (RCI).

As some of these programs have been operating for more than a decade, this is an opportune time to take a good, honest look at what has really been accomplished and where more work is needed. It is in a sense both a “reality check” and a chance to learn from one another the various facets of regionalism, open regionalism, and RCI.

This evening I want to discuss two sets of issues:

First, how does regional cooperation happen? Specifically, what drives regional cooperation? You have heard, and will continue to hear, plenty about specific experiences, what works, what does not, and what needs more attention across the various pillars of connectivity. On these issues, you may know a lot more than I do. Ultimately, the question is, What drives cooperation? Is it derived only from crisis management?

Second, I would like to raise five issues we can all ponder over the coming months as our work progresses—issues that will have an effect on the overall mood influencing RCI.

How RCI Happens

There are several ways to look at RCI. In normal times, national governments make their policy choices on the basis of what is best for the nation and its people. But we are becoming increasingly melded together by an expanding globalized economy, where cross-border linkages

have become ever more pronounced. The production networks and the supply chains that feed them require the ability to freely move goods, services, capital, people, and ideas across borders.

And as these things move from surplus to deficit regions, and are replaced by units of value—call this “finance”—distortions tend to occur. Then something bursts. In 1997 in Southeast Asia that something was financial mismatches in currencies and loan maturities. As I am sure you heard this morning from Iwan Azis, in 2008 it was complicated financial instruments that left risk scattered throughout the financial world with little hope of being found, let alone being repaid. These financial crises spawned contagion—in 1997 around Asia; in 2008, around the world.


These are the events, some financially catastrophic, that disrupt real economic growth, create recessions, and hurt the welfare of constituents—events that force governments and policy makers into dialogue, cooperation, and greater integration, to resolve distortions, it is hoped. That is force majeure, or top-down RCI.

I am not suggesting that the results are necessarily bad. From the 1997 Asian financial crisis, the Association of Southeast Asian Nations (ASEAN), Asia’s longest-standing regional grouping, became something of a hub for wider regionalism. The People’s Republic of China, Japan, and the Republic of Korea realized the benefits—some might say, the necessity—of working with ASEAN to create ASEAN+3. That sparked dialogue processes that have resulted in the Chiang Mai Initiative Multilateralization reserve pooling arrangement, the establishment of the ASEAN+3 Macroeconomic Research Office, the Asian Bond Markets Initiative, the Credit Guarantee and Investment Facility, and work on regulatory harmonization and standardization, among others. With interest from India, Australia and New Zealand, and, since November last year, the Russian Federation and the US, we now enjoy a much-expanded East Asia Summit process.

In 2008 we saw recognition of the need to restructure the global financial architecture, with the G20 becoming the guiding force. Multilateral finance institutions, including ADB, were allocated additional resources. New global regulatory frameworks were established and are still being discussed and implemented to varying degrees. And the strength of emerging markets—and their potential for working more closely together—is growing. I refer here to Latin America and Asia, and Asia and Africa—so-called “South–South” cooperation.

My point here is that these crises—and the increased regional cooperation and integration they spawn—are generally what gather all the news and attention. They are indeed extremely important, because they highlight not just the need for greater cooperation, but the need to establish better safety nets, financial and otherwise, for better surveillance and monitoring, thus promoting future crisis prevention.

Now, let’s stand back and look at RCI from a different perspective, one that grows out of a shared need and desire for development, one that cannot happen without increased trade. Asia has seen a substantial increase in trade—both external and intraregional—as a result of production networks, supply chains, and deepening globalization in general. There have been many developments in trade facilitation and security driven by new technology, and increased cooperation between governments and the private sector. These have created new investment



and employment opportunities, resulting in improved living standards across the region. However, mounting security threats, especially after 9/11, have increased the complexity of border risk management. In addition, countering illicit trade continues to be a challenge globally. Natural disasters affect lives and economic activities, disrupting supply chains and distribution networks. All these are challenges that must be addressed. Customs modernization, trade facilitation, and security measures are critical in meeting the complex challenges of the 21st century.

These are a few examples of what can be called a more “bottom-up” approach to regional cooperation and integration. Compared with crisis-driven cooperation, it may garner less media attention, but in many ways it is directly linked to people’s daily lives, contributing to people’s welfare. In other words, this bottom-up RCI is more adept at reducing poverty and creates more inclusive, sustainable, and balanced development in the long run.

This is the reason why we have structured this conference around sharing experiences across those subregions that have taken on the challenge of doing RCI from the ground up.

Food for Thought

Before concluding, let me highlight five issues all of us can mull over during the coming months:

- **The first is future global or regional financial crises.** The current economic weakness, especially in the European Union, is a factor we must consider in managing our economies over the next several years. While economic crises are unpredictable, Asian countries have suffered from a series over the past few decades. We can try to prevent crises, but they tend to occur despite our best efforts. The possibility of future shocks is there. And while RCI is designed to survive shocks, it must also contribute to national resilience. RCI must be built with an eye to providing tools to support poverty reduction even in times of crisis. I am very happy to report to you that discussions are well under way toward doubling the amount of the Chiang Mai Initiative Multilateralization reserve pooling arrangement. ADB has continued to support trade during this challenging time through our Trade Finance Program, which provides guarantees and loans through banks, and supported about \$3.5 billion in trade in 2011.
- **Second, let’s consider specific short-term concerns.** In the near term, the world economy will be characterized by relatively weak economic growth in advanced economies, coupled with high commodity prices—especially for energy. These likely trends must be reflected in national policies. RCI programs will need to think about the oft-cited call for rebalancing from a reliance on export-oriented development to a more domestic demand as a share in the sources of economic growth. Energy and food security is also likely to increase as a priority issue as costs rise.
- **The third issue is climate change.** RCI must be seen as a part of both climate change mitigation and climate change adaptation—both driving down carbon emissions and reducing the impact of climate change. Climate change may lack the immediacy of a financial crisis, but it is no less important. Increasingly rich, urbanizing middle-income countries with democratic governments may in fact find greater public demand for better, more environment-friendly development.

- **Fourth is technological change.** Over the span of a few decades, computers have revolutionized business and personal life—and government. These changes will only accelerate. They will particularly affect the means by which trade can be eased and financed. RCI must anticipate and encourage the use of these constantly upgrading technologies. This requires continuous human resource development to better adapt to future technology requirements.
- **Finally, adapting to higher living standards and public expectations is an increasing challenge for governments.** Asia's unprecedented growth, especially in the PRC and India, has raised living standards and transformed economies. RCI must examine future market patterns. For instance, growing economies are likely to be dominated increasingly by services, so trade policies must be oriented toward easing the cross-border movement of services and people as much as goods. Skilled labor migration has been a part of several cross-border arrangements. But managing unskilled labor migration is a unique challenge, particularly where it has occurred illegally. The food basket will change to reflect higher living standards and the trade profile will be altered to accommodate these changes.

Conclusion

In conclusion, as you know, RCI is not easy. But ADB is ready to work with you to meet the challenges in this 21st century of bringing our countries and people closer together. With your wisdom and expertise, I believe that we can improve our efforts to deliver successful and sustainable RCI to people across Asia and the Pacific. This conference is an excellent opportunity to take our work forward.

I look forward to tomorrow's sessions. And, before we conclude our dinner, I would like to propose a toast to all of you—both for the hard work you have accomplished, and for the challenging work ahead in building an Asia in which regional cooperation and integration can flourish.

To a successful conference and a bright future for Asian regionalism!

SESSION 4

Regional Cooperation in Trade Facilitation, Trade and Investment, and Regional Financial Integration

Main Session Objective	
The main objective of this session was to discuss the role of regional cooperation in enhancing trade facilitation and the importance of a regional platform in promoting trade and investment, and regional financial integration.	
Moderator	
Ying Qian, Director, Public Management, Financial Sector and Regional Cooperation Division, East Asia Department, ADB	
Presenters	
<ul style="list-style-type: none">▪ Sopheak Sok, Director General, Department of International Trade, Ministry of Commerce, Cambodia (GMS)▪ Oyunchimeg Dash, Deputy Director-General, General Administration of Customs of Mongolia (CAREC)▪ Nagesh Kumar, Chief Economist and Director, UN ESCAP (SASEC)	
Panelist	
Penchan Manawanitkul, Senior Officer, Consumer Protection and Intellectual Property Rights Division, ASEAN	
Summary of Key Lessons Learned, Future Agenda, and Open Discussion	
Key Lessons Learned	Future Agenda
<ul style="list-style-type: none">▪ Regional integration in trade and finance is a long-term undertaking and requires deeper efforts at various levels and considerable national-level readiness.	<ul style="list-style-type: none">▪ Begin with regional cooperation and sequence policy and regulatory reforms for regional integration.<ul style="list-style-type: none">– Adopt measures that increase the mobility of goods and services in a mutually beneficial manner.– Pursue innovative financing solutions to help the private sector (such as trade finance, leasing, and logistics).– Promote the integration of capital markets, beginning with national-level reforms followed by regional harmonization.

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Key Lessons Learned	Future Agenda
<ul style="list-style-type: none"> ▪ Trade facilitation is multisectoral and multidimensional. Some progress has been made on this front, but a lot more effort is needed to improve trade through border and behind-the-border measures in order to keep pace with physical investments. <ul style="list-style-type: none"> – Developing member countries (DMCs) in Asia and the Pacific have invested large amounts in physical transport infrastructure for connectivity. However, improvements in customs services at the border and other trade control services behind the border have not kept pace. As a result, trade flows continue to be constrained. – Most trade facilitation measures are nondiscriminatory and thus consistent with open regionalism. Countries that have implemented better trade facilitation measures have enjoyed more economic prosperity. – Trade facilitation involves many agencies dealing with multidimensional issues. Speedy customs clearance requires the coordinated efforts of many agencies. Trade security concerns were heightened after the 9/11 attacks and amid growing illicit trade. Countries in Asia and the Pacific must improve their ability to coordinate and integrate all elements of trade facilitation and security measures to meet rapidly evolving trade challenges in the 21st century. 	<ul style="list-style-type: none"> ▪ Continuously promote trade facilitation agencies under regional cooperation programs. <ul style="list-style-type: none"> – Address incentive issues affecting different stakeholders and enhance their commitment. – Adopt integrated trade facilitation measures and set realistic and sequenced deliverables, with clear performance indicators and accountability. – Coordinate with the private sector and adopt new technology solutions that reduce human interface.
<ul style="list-style-type: none"> ▪ Trade facilitation and trade and investment liberalization measures should be pursued in parallel and in a well-coordinated manner within subregional groupings and across the region. <ul style="list-style-type: none"> – Trade and investment liberalization is an important measure needed for countries to participate in the global economy. But without adequate trade facilitation measures, it will not achieve the intended outcomes. Trade negotiations under the WTO framework and many high-quality FTAs are starting to address a wide spectrum of trade facilitation issues. Regional cooperation platforms are best suited to the process. – There is a need for a strong partnership between stakeholders in trade facilitation and those in trade and investment liberalization. 	<ul style="list-style-type: none"> ▪ Promote trade facilitation in an integrated manner with investment liberalization and promotion. <ul style="list-style-type: none"> – Use free trade agreement (FTA) negotiations and subregional and World Trade Organization (WTO) efforts as platforms for promoting trade and foreign direct investment (FDI). – Address supply chain constraints through coordinated investments along with trade promotion. – Promote regional hubs or economic clusters.

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Open Discussion

- A representative from South Asia asked how South Asia trade can move forward. The speaker from UN ESCAP pointed out the great potential for trade in South Asia. As South Asia is a hub of inter-Asia trade, governments, the private sector, and multilateral development banks should seize this opportunity to realize this trade potential. Bilateral agreements and maximized trade opportunities for South Asia, particularly with India, should also be explored.
- On the lack of private sector participation, a representative from Central West Asia raised the need for strengthening institutions and seeking more involvement from the private sector in dialogues and discussions, such as this conference. As the private sector is the engine of growth, especially at the borders, it needs to be part of any knowledge-sharing initiatives. Transit issues, tax policies that need to be revisited, and the improvement of infrastructure border links were also subjects raised.
- Sopheak Sok explained the bottom-up and top-down approaches used by the GMS. With regard to the former approach, there is a working group to discuss implementing issues. Issues and concerns on coordinated border management for GMS trade facilitation are being explored at the working level. For issues that cannot be resolved at the working-group level, GMS has higher-level platforms, such as ministerial meetings and leaders' meetings, which provide venues for discussing (and possibly resolving) the issues and coming up with mutual agreements and policy reforms to further assist in the implementation of trade facilitation in the region. With regard to the top-down approach, policy reforms agreed to at the leaders' level serve as guiding principles for implementation and cascade to the working-group level for implementation. On the GMS cross-border transport agreement (CBTA), the role of the different national agencies is important. Thus, coordination among the different agencies should be strengthened. If agreement on a certain issue cannot be reached at the working-group level, the issue is raised with the leaders during the summit meetings.
- Penchan Manawanitkul of ASEAN also shared the organization's experience. As in the GMS, a working group has been created to discuss implementation issues and within the established institutional framework the group finalizes ASEAN agreements for implementation at the national level. Ms. Manawanitkul also emphasized the role of the private sector in implementing trade facilitation.
- A representative from the CAREC Federation of Carrier and Forwarder Associations (CFCFA) raised the need for regional customs standardization to reduce transaction costs, thus promoting international trade. He also raised the issue of logistics and a lack of financial support for small and medium enterprises (SMEs). Ms. Manawanitkul of ASEAN said that ASEAN is trying to ensure compliance with international standards and that it has put in place platforms for promoting coordination with the private sector. A working group also exists to address issues on SMEs, financing in particular. At the moment, ASEAN needs to conduct further studies assessing the supply-side aspects of SME financing. ASEAN will continue to promote SME financing and explore the possibility of engaging CFCFA in ADB efforts on SME financing and other PPP-related initiatives.

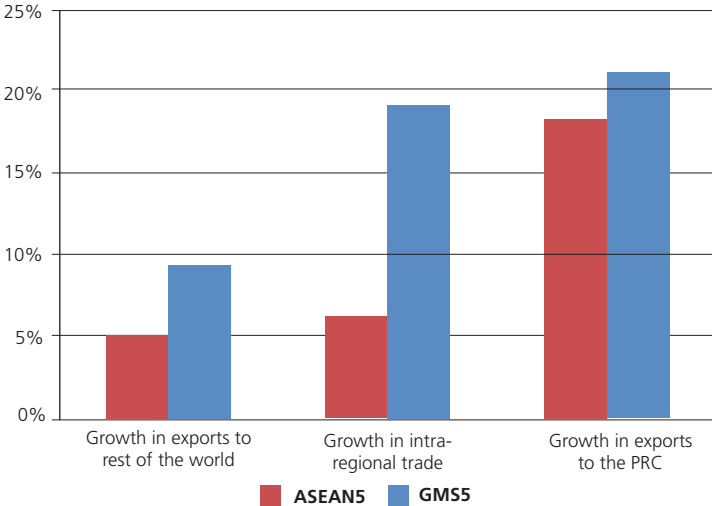
Title	GMS: Trade, Investment, and Transport and Trade Facilitation
Presenter	Sopheak Sok, Director General, Department of International Trade Ministry of Commerce, Cambodia

The GMS Program focuses strategically on the so-called “3 Cs” of connectivity, competitiveness, and community. The overarching objective is to link the countries in the subregion through improvements in infrastructure together with the related software, thus overcoming domestic market constraints and promoting trade and investment to further boost economic growth.

The presentation is focused on five areas: (i) trade flows and investment, and how they are linked together in the regional market; (ii) the GMS cross-border transport agreement; (iii) the challenges with the GMS customs transit system; (iv) the expanding scope of the transport trade finance investment in the GMS; and (v) future directions of transport and trade facilitation in the GMS, as guided by the new GMS Strategic Framework for 2012–2022.

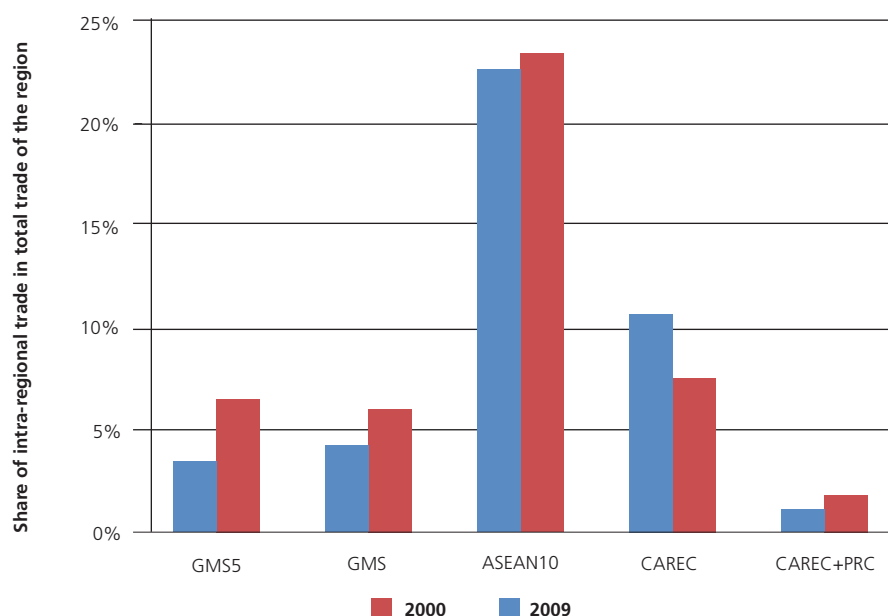
Intraregional trade and investment. Figure 4.1 shows intraregional trade for GMS5 (the GMS excluding the PRC) versus the ASEAN5. In the GMS, intraregional trade has grown rapidly in the past decade, increasing by 5.9 times from \$13.87 billion in 2000 to \$81.17 billion in 2009. This increase in trade has come despite the need for improved trade facilitation in the region. The pattern has been the same for the growth of exports to the rest of the world and the growth of exports to the PRC. In each case, GMS5 growth has been higher than the growth of the ASEAN5. Figure 4.2 shows that intraregional trade increased in the GMS, the GMS5, the ASEAN10, and CAREC plus the PRC from 2000 to 2009. Within the ASEAN, intra-GMS5 trade grew the fastest, though its share in intra-ASEAN trade remains small. Between the GMS5 and CAREC, regional integration has increased steadily in the GMS5.

Figure 4.1. Intraregional Trade: GMS5 vs ASEAN5



ASEAN = Association of Southeast Asian Nations; ASEAN5 = Brunei Darussalam, Indonesia, Malaysia, Philippines, and Singapore; GMS = Greater Mekong Subregion; GMS5 = Cambodia, Lao People’s Democratic Republic, Myanmar, Thailand, and Viet Nam; PRC = People’s Republic of China.
Source: Calculated from UN Comtrade database.

Figure 4.2. Intra-regional Trade: GMS, GMS5, ASEAN10, CAREC, CAREC+PRC



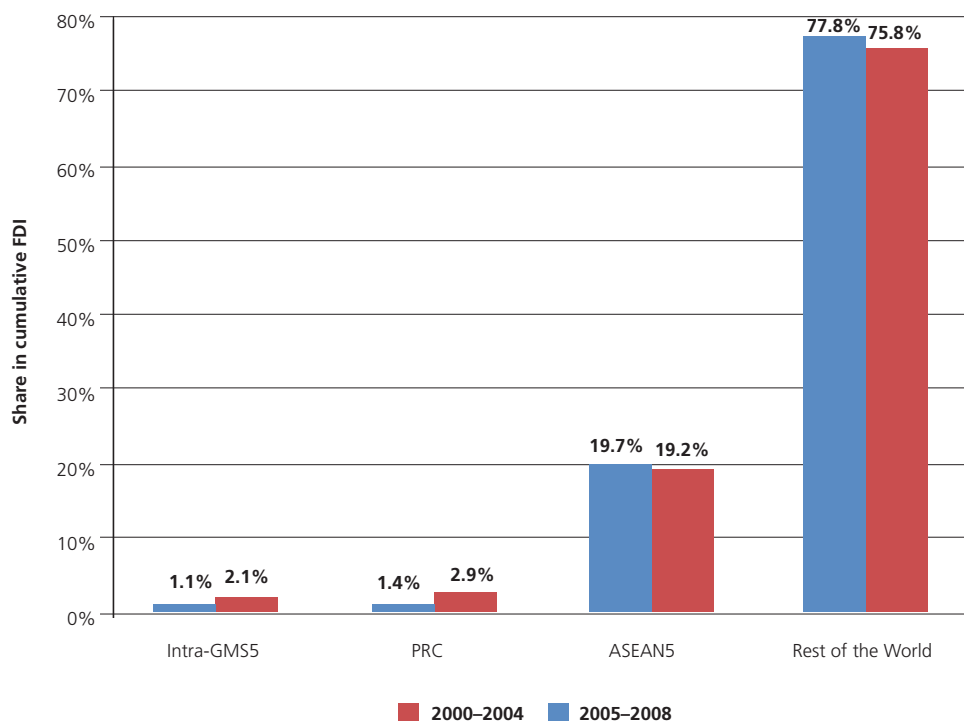
ASEAN = Association of Southeast Asian Nations; ASEAN10 = Brunei, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam; CAREC = Central Asia Regional Economic Cooperation; GMS = Greater Mekong Subregion; GMS5 = Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam; PRC = People's Republic of China.

Source: Calculated from UN Comtrade database.

Before 2009, the GMS relied on markets in the US, EU, and others. After the onset of the crisis, the countries and the region looked for markets in Asia, especially in the ASEAN and among members of the GMS. Moreover, with the ASEAN signing an agreement with the PRC, export markets opened within the region as well. Trade rebalancing toward regional markets can help enhance resilience to downturns in Europe and the US.

With regard to investment, FDI inflows from the rest of the world to the GMS5 have accounted for the largest share; the ASEAN5's share in cumulative FDI was about 19.7% in 2000–2004 but slowed down slightly to 19.2% during 2005–2008 (Figure 4.3). The PRC accounted for 1.4% and 2.9%, respectively, of the cumulative FDI during the same periods. The share originating from within the GMS5 was 1.1% in 2000–2004, which increased to 2.1% in 2005–2008. The flow of capital in the region is a complicated issue and disrupts the flow of FDI.


Figure 4.3. Share in FDI Flows to GMS5



ASEAN = Association of Southeast Asian Nations; ASEAN5 = Brunei Darussalam, Indonesia, Malaysia, Philippines, and Singapore; FDI = foreign direct investment; GMS = Greater Mekong Subregion; GMS5 = Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam; PRC = People's Republic of China.
Source: ASEAN Secretariat.

Economic corridors. Viet Nam's industrial development has been concentrated along the Southern Economic Corridor (SEC) and the industrial zones in Viet Nam, especially those surrounding Ho Chi Minh City. This shows the importance of the development of the economic corridor and the flow of goods from Thailand to Viet Nam across Cambodia, or from Cambodia to Viet Nam and then to a third country. As pointed out in several studies, especially those undertaken by the Mekong Institute, one issue is the similarity in the major products produced by Thailand, Cambodia, and Viet Nam along the corridor, especially along the SEC, where fisheries predominate in all three countries. This has created tough competition among these countries since they have been relying on the same markets. Cambodia is now relying on preferential markets like the EU and Japan.

GMS Cross-Border Transport Agreement. The CBTA was an early initiative in transport and trade facilitation in the GMS to complement investments in physical infrastructure. It consolidates all key non-physical measures for efficient cross-border land transport by seeking to simplify inspection procedures and visa formalities, promote exemptions from inspection of goods in transit, and enhance the exchange of traffic rights so that vehicles in one country can operate in a neighboring country.



All the GMS countries have signed the CBTA along with its 20 annexes and protocols (A&P). Four countries (Cambodia, the PRC, Lao PDR, and Viet Nam) have also ratified all of the A&P, while the other two are working on ratification (one country just ratified 16 A&P and another one ratified only 14 A&P). CBTA implementation at the GMS level is led by the Joint Committee of National Transport Facilitation Committees (NTFCs) or their equivalent in each country. The implementation of the CBTA has begun at three pairs of border crossing points—Lao Bao (Viet Nam) and Dansavanh (Lao PDR), Mukdahan (Thailand) and Savannakhet (Lao PDR), and Hekou (PRC) and Lao Cai (Viet Nam)—which are covered by bilateral MOUs between the countries.

Even if not all countries in the region have ratified the CBTA, pilot projects have been initiated. The one between the PRC and Viet Nam started in 2007 and includes a single-window inspection process. The Lao Bao–Dansavanh pilot project using single-stop inspection was initiated in 2005, but information and communication technology (ICT) equipment still needs to be installed and a common area developed. For that reason, implementation has not been going smoothly for some time. Moreover, documentation and procedures between the two countries need to be developed. At Mukdahan and Savannakhet, the equipment is available and procedures have been laid down but implementation has not been easy, according to an ADB study. The roads to the major cities to where most of the goods will be sent and from major cities like Bangkok, Incheon, and Hanoi have not been fully expanded. These are the three major cities that need to be connected. Lao PDR, Thailand, and Viet Nam need to seriously consider expanding the roads in the transport and economic corridor. Countries that trade heavily with one another are encouraged to come up with their own implementation plan for the CBTA.

East–West Economic Corridor. The corridor is about 1,450 kilometers long. Undeveloped or missing sections of the road have been constructed since 2007. It is the only direct, continuous land route between the Indian Ocean (Andaman Sea) and the South China Sea. It links the following points: (i) Mawlamyine–Myawaddy in Myanmar, (ii) Mae Sot–Phitsanulok–Khon Kaen–Kalasin–Mukdahan in Thailand, (iii) Savannakhet–Dansavanh in Lao PDR, and (iv) Lao Bao–Dong Ha–Hue–Da Nang in Viet Nam. However, traffic in the region has not been as busy as expected. The EWEC provides a link from India to Myanmar to Bangkok in Thailand to Lao PDR to the Da Nang seaport in Viet Nam and so on through the North–South Economic Corridor. Two different routes along the north–south axis are part of the North–South Economic Corridor initiative: (i) Kunming–Chiang Rai–Bangkok via the Lao PDR and Myanmar route; and (ii) Kunming–Hanoi–Hai Phong, which connects to the existing Highway No. 1 running from the northern to the southern part of Viet Nam.

Southern Economic Corridor. This is a major corridor with three main subcorridors. The first one is the central subcorridor from Bangkok–Phnom Penh to Ho Chi Minh City–Vung Tau. Since this subcorridor was developed, investment trade flows from Thailand to Cambodia and from Cambodia to Viet Nam (and vice versa) have increased. A special economic zone has been established along this corridor. The second one is the Southern Coastal subcorridor from Trat in Thailand to Koh Kong–Kampot in Cambodia to Ha Tien–Ca Mau–Nam Can in Viet Nam. This is the best corridor for developing tourism. All of the sections are in place, but the software needs to be developed. The third one is the Northern subcorridor from Bangkok to Siem Reap and then to the northeastern part of Cambodia, known as Stung Treng, and

to Rattanakiri–O Yadav, before linking to Pleiku Ku–Quy Nhon, a seaport in Viet Nam. In the Cambodian portion of these three major subcorridors, most of the roads and facilities are ready. Logistics are also being developed along these three subcorridors.

There are 22 SEZs developed in Cambodia. There have been a large number of investments in five of the largest SEZs, especially from the PRC; Taipei, China; and Viet Nam. These countries are relocating their factories to SEZs in Cambodia since products exported to the EU are duty-free, and therefore compare favorably with exports from Viet Nam. Aside from the duty-free status, low labor costs in Cambodia are also an advantage. The corridor is helping in the relocation of investments among countries in the subregion and helping local export industries.


Customs Transit System. An ambitious component of the CBTA is the GMS Customs Transit System (CTS), on which work started in 1999. The CTS draws on the provisions of the Transports Internationaux Routiers (TIR) system, adapted to the GMS. Pilot operations of the customs transit and temporary admission system and the GMS road permit system have been undertaken along the EWEC. The use of the CTS by the private sector has been much less than anticipated. Traders continue to use traditional methods to move goods along the EWEC. Several reasons have been identified for this, including the complexity of the design, cumbersome bureaucratic arrangements, lack of openness and clarity in operating responsibilities, and restrictive guarantee requirements.

In parallel, five of the six GMS countries that are members of ASEAN have also signed on to the ASEAN CTS. The existing trade volumes and patterns of the region, as well as its geography, do not seem to justify running two different CTS regimes that are not directly compatible.

Separation of CTS from CBTA. Transport versus trade issues may enhance the effective implementation of both. A pragmatic approach for the GMS as it goes forward would be to separate CTS from the CBTA. This would contribute to the effective implementation of the GMS action plan for trade facilitation and transport facilitation by separating the two.

Extension of EWEC operations. The three GMS countries of Thailand, Viet Nam, and Lao PDR are in the final stages of discussion of an addendum to the memorandum of agreement negotiated in June 2011, which would extend EWEC operations to include Bangkok, Ha Noi, Vientiane (Thannaleng), Hai Phong, and Laem Chabang. The extension is expected to make the EWEC more attractive to the private sector.

Transit fees, documentation, and insurance. A number of roads and rails and ancillary facilities have been developed in the GMS. Logistic arrangements have been made in some GMS countries but the CTS needs much more work. Under the GMS framework, there have been improvements in the system, yet there are still many complaints from the private sector about the high price of customs documents, the different fees charged in different countries, and the varying transit fees and other document requirements between countries. UN ESCAP has been helping in comparing the required documents with those of countries that are members of the World Customs Organization. However, progress on reforms within the GMS countries is still at different levels. This is causing problems related to costs and the time needed to clear goods.




Transport ministry colleagues are also working hard to get the proper seal for trucks in transit because some countries require so many different seals. There is a need to harmonize the seal system of trucks for the transit of goods. Trucks are also limited in their use of roads by the host countries. This can be a major problem because sometimes a direct route would be cheaper and require less time but a host country might not allow trucks to use the direct route. Efforts need to be made to enable the free movement of goods from one country to another.

Cross-border insurance is another issue because of its high cost. There is no joint cross-border insurance scheme. Insurance for cargo should cost the same from one country to another in the subregion. The World Customs Organization has been providing advisory support in simplifying the process and moving toward standardized regulations, requirements, and procedures for clearing goods that cross borders.

While the CBTA and the WTO—as did the General Agreement on Tariffs and Trade (GATT) before it—provide freedom of transit, the details of the procedures and regulations need to be worked out to facilitate the transit of goods. The tracking system in the member countries has been identified by the private sector as a major problem. An appropriate tracking system must be adopted and harmonized. At the same time, unnecessary fees and charges have to be eliminated; if not, the most-favored-nation rate has to be introduced so that all transport operators—domestic as well as foreign—are charged the same rates. Because of the lack of capital for improving and maintaining roads and rails, some countries impose very high fees for the transit of trucks. This issue has to be dealt with. In addition, regulations have to be harmonized and dispute settlement mechanisms have to be established because issues may arise or traffic accidents may occur in the transit country and there should be mechanisms that are ready to be used. Most of these regulations were laid down in the 20 annexes and protocols of the GMS, but the details need to be resolved by the member countries.

The implementation of the CTS reform will take time and require strong political will because of the very complicated issues involved. The system is also different from that of ASEAN, which has its own procedures, agreement, and regulations, such as the ASEAN single window. Business entities like the US–ASEAN Business Council have been proposing the ASEAN single window, but only some countries have joined the pilot projects while others are waiting for details of agreements on transport to be worked out, especially protocol 7 of the ASEAN transport agreement. Regarding transport and trade issues, sometimes these have to be dealt with separately to enhance the effectiveness of implementation of both, but sometimes they must be dealt with at the same time because they are linked together. Structural reforms are needed to deregulate some laws and regulations so that they harmonize with international standards.

Expansion of the scope of transport and trade facilitation in the GMS. Leaders have adopted the new strategic framework of the GMS, which contains a new program for dealing with trade and transport facilitation. These actions have to be implemented. At the same time, coordinated border management is an urgent task. Several issues beyond the border also need to be addressed. Japan and Australia are helping the GMS countries in addressing these issues by introducing ICT and risk management systems and providing scanning machines and other equipment.



Future directions for the GMS. The strategic framework of the GMS is the umbrella framework that is being used and it is anchored on the corridor development approach. The current focus is on software aspects to complement the hardware investment started several years ago. Increased links within a broader regional integration agenda help to clarify which regional issues will be covered by the GMS and which others are better left to other regional organizations. Related sectors like border towns, SEZs, and roads linking one corridor to another to reduce distances for transported goods must also be developed. Efforts are being made to introduce a “three-country” transit agreement. Recently, meetings were held between Cambodia, Lao PDR, and Viet Nam to discuss the transit of goods from Lao PDR across Cambodia and into Viet Nam. Lao PDR is very keen to have this export route because it is a landlocked country seeking to export goods to Cambodia and then on to the port of Ho Chi Minh City. An MOU addressing this export route is likely to be signed this year.

The GMS countries are accelerating efforts in trade and transport facilitation, with ADB helping in addressing specific issues. Greater attention is being paid to multi-sector coordination and cross-sector links. Being prepared for each corridor are strategies and action plans that recognize inter-linkages across sectors while focusing on a few high-profile initiatives, including further infrastructure development in border towns and towns along the corridors; rural road development to feed into corridors; improvements in transport and trade facilitation with a comprehensive approach; and better investment promotion for SEZs established along borders. The promotion of corridor investment will be a key task of the Economic Corridors Forum in the future.


Title	CAREC: Trade Facilitation and Mongolian Customs—Experiences and Challenges
Presenter	Oyunchimeg Dash, Deputy Director-General, General Administration of Customs, Mongolia

The CAREC countries are working together to move people, goods, and vehicles across borders faster, more efficiently, and in a less costly manner. Without these measures, the development of transport corridors and their transformation into economic corridors is severely diminished. The six corridors under the CAREC Program are being supported by two programs—customs cooperation and integrated trade facilitation. Customs cooperation plays an important role in coordinating and discussing the main policy issues of transport and trade facilitation (TTF). To implement trade facilitation at the border, CAREC has been closely coordinating with the World Customs Organization (WCO), particularly on the use of the WCO's Customs in the 21st Century agenda to guide the implementation of CAREC TTF programs. Strong political will is necessary to implement cross-border management. To further promote joint customs control, bilateral agreements between countries should be strengthened. Infrastructure gaps and institutional and organizational issues should be addressed. Capacity building at the local level and knowledge sharing among customs administrators in the region should also be conducted.

Customs cooperation. Customs cooperation promotes customs reform and mobilization. The CAREC Customs Cooperation Committee organizes regional forums to address issues of common interest. This committee comprises several government officials from relevant agencies and ministries of all CAREC countries. It meets at least once a year and discusses all the main policies and issues of trade facilitation. In 2010, the meeting was held in Japan and was organized by Afghanistan as a CAREC member. Last year, the committee met in Azerbaijan and representatives from the WCO took part in that meeting.

During the past 10 years (CAREC celebrated its 10th anniversary in 2011), the CAREC Customs Cooperation Committee has focused its work on five priority areas. First is the simplification and harmonization of customs procedures, which is being done as required under the revised Kyoto Convention. Second is information technology for customs modernization and data exchange. Automation of customs systems will facilitate the exchange of information, reduce clearing time, and speed up the movement of traffic across borders. Third is risk management and post-entry audit. An audited post-clearance, post-audit control regime is required under the revised Kyoto Convention and should be supported by effective risk management. These procedures have very important roles in trade facilitation. Fourth is joint customs control. Fifth is regional transit development.

Customs cooperation in the region includes automation of customs procedures, implementation of risk management in customs control, and establishment of a single electronic window. Mongolia has established a customs automated information system with risk management modules that provide a solid basis for the implementation of risk management for a single electronic window in the country.



There are several institutional and organizational issues. Efforts are needed to build capacity. Within CAREC, capacity-building training sessions are hosted and organized by member countries. WCO's regional training centers also provide training, and one of the challenges for national customs administrations is to equip the national training centers to host such training programs. Mongolia's customs administration is now working toward enhancing training centers and in the future the country can host regional training programs.

Another area that would benefit from regional cooperation is regional supply chain security. The cross-border issue of transport of hazardous chemical products and the need for independent laboratories is important. This is a very complex issue but one that CAREC member countries need to work on steadily.

Integrated trade facilitation. This includes corridor performance measurement and monitoring, sanitary and phyto-sanitary cooperation, regional improvement of border service projects (border crossing points and a single window), and the CFCFA. At the subregional level, different levels of infrastructure development are causing delays and bottlenecks. The Regional Improvement of Border Services (RIBS) Project will help address these problems. The next step for this project should be the building of a mechanism for designing interconnected customs information exchange systems and improving facilities at border crossing points along the CAREC corridors.

Title	Regional Economic Integration in South Asia: Potential, Barriers, and Options
Presenter	Nagesh Kumar, Chief Economist and Director, UN ESCAP

Asia and the Pacific and the changing economic geography. The Asia and Pacific region has emerged as a new economic growth pole. The growth of emerging Asian economies in 2004–2007 averaged 7.8%, compared with 2.7% among the rich countries. A disproportionately high share of incremental output in the world has been coming from Asia. The region with three of the four largest economies in the world is emerging as a center of gravity in the world. There has been the rise of the Asian middle class as a final consumer in recent years, and the region has the largest markets for a growing number of products and services.

Emerging postcrisis global economic order. The postcrisis scenario reveals a continuing uncertain and subdued outlook for developed economies. It would be difficult to return to a precrisis “business as usual” scenario. The past trend of Western economies providing economic stimulus for the Asia and Pacific region by increasing imports from this region may not be easy to replicate in the future. Advanced economies will need to unwind global imbalances by restraining debt-fueled consumption and increasing savings and exports. Asia and the Pacific will have to increasingly drive more of the world’s economic dynamism, which increasingly has to be sustained by domestic demand. Regional economic integration will have to play a key role in a future development strategy.

Regional economic integration in South Asia. South Asia has been one of the least integrated regions in the whole continent, but this also means there is tremendous potential to be exploited in the development of the region. The potential benefits of South Asian economic integration remain underexploited. The share of intraregional trade, for example, remains low for two reasons. First, intraregional trade in SAARC is underreported because of informal trade and third-country trade. The underestimation is significant for smaller countries and less for a large country like India, which accounts for 50% of the gross domestic product (GDP) of all the SASEC countries. Only about 25% of the potential is realized. The potential for increased intraregional FDI also remains to be exploited. India–Sri Lanka investment flows in recent years indicate the potential for bilateral FDI. Intraregional trade, however, has expanded very rapidly, so this is very encouraging for the future.

A study of trade, manufacturing, and services completed in 1991 established the significant opportunities for regional economic integration that could enhance complementarities among the countries in the subregion. Regional cooperation began with the SAARC Preferential Trading Arrangement (SAPTA) in 1994, followed by the South Asian Free Trade Area (SAFTA), and later complemented by member bilateral free trade agreements in the region, especially the India–Sri Lanka FTA signed in 1998, which was implemented beginning in 2000. Some very interesting and encouraging results have come from that experience. And then there have been unilateral preferences pursued by some countries with some other members of the subregion. In particular, India has unilateral preferences with Nepal and Bhutan.

Trade facilitation has been on the SAARC agenda. Customs cooperation covers infrastructure development at land customs stations, the smoothing of custom procedures and harmonization of documentation, automation in clearing, electronic data interchange (EDI), harmonization of tariff lines, etc. The SAARC Working Group on Customs Cooperation has been dealing with different types of issues including infrastructure development at land customs stations. Implementation has, however, been very slow and there is a need to move forward.

Recently, the South Asian Regional Standards Organization was set up in Bangladesh to develop common standards for SAARC and move toward mutual recognition of conformity assessment procedures and accreditation. Transport arrangements efforts have been mostly at the bilateral level between India and Nepal and between India and Bhutan.

Bilateral transit arrangements with India have been made by the landlocked countries of Nepal and Bhutan, as well as Bangladesh. Last year, time was allotted for allowing Indian territory to be used for Bangladesh–Nepal trade. The SAARC Regional Multimodal Transport Study adopted in 2007 and supported by ADB identified 10 corridors for implementation. Efforts are, however, needed to speed up implementation. The SASEC initiative covers infrastructure aspects of cooperation in energy, transport, and trade.

Major barriers. The major barriers to enhanced trade in the region are tariffs and nontariff barriers, which lead to informal trade and third-country trade. Poor transport connectivity leads to high trade costs within the subregion. The benefits of geographic proximity are not being exploited. For example, trade costs for intraregional trade are the same as those for trade with the EU. Other barriers are poor banking links and poor supply capabilities. Trade imbalances between India and other South Asian countries (India–Bangladesh and India–Nepal) persist because of uneven supply capacities. Freeing trade can help in addressing the supply constraints by using FDI to create supply capacities for export.

The way forward. Several recommendations have been given: (i) expediting the completion of SAFTA, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) FTA, and other bilateral initiatives to support free trade with substantial potential for the efficiency-seeking restructuring of industries and the creation of supply capabilities in smaller countries; (ii) strengthening transport connectivity and trade facilitation; (iii) strengthening cooperation in banking, investment, and services; (iv) deepening regional cooperation beyond SAFTA; (v) facilitating the emergence of regional hubs based on comparative advantages (e.g., Sri Lanka for rubber-based industries and Bhutan for forest-based industries); and (vi) strengthening trade facilitation by improving infrastructure at border posts and in transit facilitation, moving to a single window and paperless trade, and concluding agreements for mutual recognition of standards and conformity assessment procedures.

Title	Regional Cooperation in Trade Facilitation, Trade and Investment, and Regional Financial Integration
Panelist	Penchan Manawanitkul, Senior Officer, Consumer Protection and Intellectual Property Rights Division, ASEAN

According to the ASEAN Economic Community (AEC) Blueprint, the AEC will be founded on four pillars: (i) single market and production base, (ii) competitive economic region, (iii) equitable economic development, and (iv) integration into the global economy. Emphasis is being placed on the third pillar. Greater private sector engagement is also emphasized to enhance the Asian integration process through feedback from the private sector on impediments to the free flow of goods, services, investments, and capital.

The AEC has almost completed the implementation of measures designed for the first phase of 2008–2009 and has moved on to the second phase of implementation covering the period 2010–2011. Two more phases are scheduled to be completed before the target date of 2015 for the AEC’s realization.

Single market and production base: free flow of goods. The ASEAN Trade in Goods Agreement has entered into force. Tariffs on intra-ASEAN trade are almost zero among ASEAN6 and between zero and 5% among Cambodia, Lao PDR, Myanmar, and Viet Nam. The current focus is trade facilitation and nontariff barriers.

The pilot project of the ASEAN Single Window was launched in seven ASEAN member states in November 2011 to test the feasibility of its design. The pilot project is expected to be completed by October 2012.

The ASEAN Consultative Committee for Standards and Quality continues to monitor the development of the integration initiatives for the agro-based products, automotive, electrical and electronic equipment, health care (cosmetics, health supplements, medical devices, pharmaceuticals, and traditional medicine), and rubber-based products sectors.

Single market and production base: free flow of services and skilled labor. All 10 ASEAN member states have fulfilled their commitments under the seventh package of commitments included in the ASEAN Framework Agreement on Services. The agreement contains commitments in at least 65 service subsectors. The eighth package of commitments was signed on 28 October 2010 on the sidelines of the 17th ASEAN Summit. The ASEAN member states are now working to fulfill their respective commitments under the eighth package, which includes higher levels of liberalization, such as allowing at least 70% foreign equity in priority sectors and 51% in all other sectors.

On the mobility of labor, ASEAN has concluded seven professional services mutual recognition agreements in engineering services, architecture services, nursing services, medical practitioners, dental practitioners, accountancy, and surveying. These agreements are in various stages of implementation.

Single market and production base: freer flow of capital. The implementation of the road map for the monetary and financial integration of ASEAN is well under way. The fifth package of financial services negotiations under the ASEAN Framework Agreement on Services has been completed, and the protocol implementing the fifth package of financial services was signed in May 2011. Subsequently, the sixth round of negotiations was launched, signifying the commitment of the ASEAN member states to allow greater access to financial services. A bond market development scorecard has been developed, and an action group has been set up to identify impediments to integrated bond markets and to develop an implementation plan for addressing the gaps. On capital account liberalization, substantial progress has been made in relaxing the limitations on foreign exchange purchases and other payments for invisible transactions and current transfers. The assessment and identification of rules for liberalization of freer flows of FDI and portfolio investments have been completed. Member states have also started to amend their legal and regulatory frameworks, as needed, to promote FDI and portfolio investments.

To facilitate the integration of capital markets, a scorecard has been developed to measure the extent to which national capital markets comply with ASEAN standards and to facilitate the removal of obstacles in the path toward capital market development. The marketing and branding activities for ASEAN Exchanges, an initiative linking seven stock market exchanges, were also launched on 8 April 2011 to further promote ASEAN as an asset class.

The ASEAN Infrastructure Fund (AIF) is currently being set up with an initial equity contribution of \$485.2 million, of which \$335.2 million will come from nine ASEAN members and the remaining amount will be provided by ADB. The AIF, which is going to be located in Malaysia, is a strong initiative that can facilitate physical connectivity and narrow the infrastructure development gap in ASEAN. The AIF shareholders' agreement was signed by the ASEAN member states and ADB on 24 September 2011 during the informal meeting of ASEAN finance ministers in Washington, DC.


Single market and production base: free flow of investments. ASEAN has embarked on initiatives based on international best practices to make ASEAN an attractive investment region. All 10 member states have ratified the ASEAN Comprehensive Investment Agreement, with a scheduled reduction in the reservation list.

ASEAN has developed an approach to, and procedures for, eliminating or reducing investment restrictions and impediments. Facilitation and promotion will be the focus.

Integration into the global economy. As of May 2011, ASEAN had ratified ASEAN Plus One FTAs with its dialogue partners—the PRC, Republic of Korea, Japan, Australia, New Zealand, and India.

The ASEAN–China Free Trade Area (ACFTA), which was realized on 1 January 2010, has the world's largest consumer market, with 1.9 billion consumers and GDP of \$7.7 trillion in 2010.¹

¹ AIMO database; and IMF World Economic Outlook database, October 2010.



Overall, the PRC maintained its position as ASEAN's largest trading partner for the second consecutive year, accounting for 11.3% of ASEAN's total trade. Meanwhile, ASEAN was the PRC's fourth-largest trading partner, with a share of 9.8% of the PRC's total trade.

Master Plan on ASEAN Connectivity. The master plan, endorsed by ASEAN leaders in October 2010, is a concrete manifestation of the leaders' vision of a region with enhanced connectivity, which will benefit the member economies and peoples of ASEAN, and contribute to ASEAN community building.

ASEAN connectivity consists of three dimensions and the master plan spells out strategies and key actions for enhancing regional connectivity in each of these dimensions, namely, physical, institutional, and people-to-people connectivity.

Conclusion. In realizing the AEC, the ASEAN member states have exerted efforts to ensure the timely implementation of the AEC Blueprint measures. The ASEAN member states have also been tasked with strengthening their respective national coordinating agencies to effectively coordinate implementation across various ministries and agencies. Regular private sector engagement is an important tool for ASEAN policy makers in assessing the impact and effectiveness of the policies and measures undertaken.


Session 4	Summary Discussion and Open Forum
Moderator	Ying Qian, Director, Public Management, Financial Sector and Regional Cooperation Division, East Asia Department, ADB

Lin Zhong, chairman, CFCFA: I am attending this conference on behalf of the CAREC Federation of Carrier and Forwarder Associations. My first question is on regional standardization. We think that we are lagging far behind on this front. And now the lack of regional standardization has impeded the flow of goods. For example, the lack of standardized documentation has become the largest trade barrier. We are living in a world with ICT and regional cooperation. If we want to facilitate market access and trade and logistics, and increase our influence in the international arena, we need regional standardization. We should standardize documentation so that the landlocked countries will be more linked to the international market and their transaction costs will therefore be reduced. We should also have a clearer relationship between regional standardization and national standardization of the member states, as well as international standardization. My question is: Does ADB have any plans of supporting a regional standardization program or project? Does CAREC plan to move in this direction?

My second question is about logistics and finance. The facts have shown that modern logistics need strong financial support, and logistics development will also facilitate innovation in the financial system, including financial instruments, and in financial regulation. Right now, many logistics SMEs do not have a strong asset base, so it is very difficult for them to have financing, and that has impeded their further development. Does ADB intend to support those logistics SMEs? Can you provide some transport vehicles or can you provide financing and leasing arrangements so that the SMEs can have vehicles to transport goods across the border?

And my third question is about involving a greater number of enterprises in regional cooperation. We know that CFCFA, with the strong leadership of ADB, was set up and covers 20 sector associations from 10 central Asian countries. Since the founding of CFCFA, we have conducted corridor performance measurement and monitoring and we have also organized some meetings with private entrepreneurs to give their feedback to ADB. We know this is a good effort made by ADB to promote private sector participation in regional cooperation and we believe that the enterprises are the main players in the marketplace. They definitely have an indispensable or irreplaceable role for CFCFA. Does ADB plan to take any other measures such as providing more online learning or making efforts to standardize documentation, or do you want to provide financing and leasing arrangements for the SMEs?

Nagesh Kumar, Chief Economist and Director, UN ESCAP: I'd like to thank the participant from Bangladesh for putting on the table a very important point that South Asia was once one single administrative and political unit. This also means that its transport and trade were integrated. But these links were broken after the subcontinent gained its independence. Separate political entities arose, somehow we could not evolve a framework for connecting to one another, and those links stopped at the borders. All this is very unfortunate. It means that the opportunity that was available to South Asia in the past, being at the center of eastern trade, has been denied to the subregion. But because these links were once present, it is also much easier to revive them.



The opportunity is there. It is also very easy to reconstruct and revive those links now that there is awareness of the missed opportunities. So I think we should look at this matter that way because there is no point in belaboring the history of why the links were broken. We should see the opportunity that is waiting and those that are ready to be taken advantage of. There are benefits to reviving connectivity so that if we can connect all the way from Afghanistan, Pakistan, India, Bangladesh, and on to Myanmar then it is a revival of the same previous route. And then there are the tremendous opportunities waiting to be exploited from that. So I think the message is loud and clear: the governments and ADB and all other regional bodies should welcome this revival of connectivity. About the responsibility of a big neighbor to do more, I think India has been trying in its own way to do as much as possible. One example from the recent past that comes to mind is what India did last year when its attention was drawn to the 46 lines of food products that Bangladesh was exporting. India immediately allowed these products unrestricted entry into the Indian market. I recently heard that for the first time in history Bangladesh food exports to India will exceed the \$1 billion mark, a very encouraging sign. I think one should look at the future and if we can sustain this kind of dynamism then it is only a matter of time before we reach this balance.


On the lack of FDI, I agree with you, Mr. Ahmad (Norwan Ahmad of the Prime Minister's Department of Malaysia), that FDI is given by the private sector and the private sector calculates things in its own way. An investment climate, facilitation, and all that must be provided. But I see no reason why businessmen would not want to take the opportunity to extend their businesses and profit from the opportunities that are there in the country. Indian FDI has expanded in Sri Lanka in the past 10 years, encouraged by the substantial potential just waiting to be exploited. If we can provide a similar kind of facilitation on the Bangladesh side, I'm pretty sure that FDI would also happen. And I'm sure you remember that some very major proposals for more FDI from India to Bangladesh were on the table some years ago but they did not take off. There are many opportunities in this subregion waiting to be exploited. If there is understanding of all the opportunities available, it is just a matter of time before they are realized.

Sopheak Sok, Director General, Department of International Trade, Ministry of Commerce, Cambodia: Maybe I haven't explained to you yet the original structures and institutions of the GMS. We have the working groups covering different areas, the committees at the national level, and the GMS meetings at the regional level. The GMS leaders hold summit meetings every 2 years to discuss the major issues that cannot be decided at the lower levels. These are the appropriate structures and they are quite different from those of the other subregions. Now I'd like, come back to the implementation of the CBTA. So far all GMS countries have signed the CBTA. To see the benefits of implementation, some countries have already come up with country plans and structures. But other countries are not yet ready, so we are taking a top-down approach with them. The working groups and committees are working out the details of these issues. On the implementation side, as I have explained to you, some countries have not signed all the annexes and protocols, and are having problems streamlining procedures. The customs transit system also needs transport operators at the regional level. And for trade facilitation, we need coordinated water management. Those are the problems that we are taking back to the private sector. The GMS is quite different from other subregional groupings because the national transport and trade facilitation committees consult closely with the trade forwarder associations at the country level, and there is the GMS Business Forum at

the regional level. The business forum will come up with a proposal for the private sector and then, on 13 December 2012, there will be a meeting between the GMS and the business sector. So this structure is quite good: if the ministers can't decide on an issue, we leave it up to the leaders to decide.

Oyunchimeg Dash, Deputy Director-General, General Administration of Customs, Mongolia: Customs–business partnership is an important pillar of efficient customs activity. The rule-implementing measures in Mongolia provide a good example of this. In line with a parliament decision, a national committee was set up to establish the electronic single window, and this committee has two secretaries. One represents Customs, the leading government agency, and the other represents the Mongolian National Chamber of Commerce and Industry, or the private sector group. Our collaboration will enable the implementation of this important and very difficult project in Mongolia and I hope that it will work. Also, one of the most important institutions in trade facilitation is the customs brokers' institution. As you know, customs brokers are private companies and assets to trade. So this is another area that needs attention. We are working to amend the law on customs brokers, to enable this institution to do a better job in trade facilitation.

Penchan Manawanitkul, Senior Officer, Consumer Protection and Intellectual Property Rights Division, ASEAN: Regarding the question on standardization, I will just brief you a little bit on ASEAN's Consultative Committee for Standards and Quality. ASEAN aims to be not just a common market but a single production base as well. In manufacturing, the intermediary groups that need to export to other countries will have to expand. We need to comply with international standards, especially those of the US and Japan, in the following sectors: automotive, auto parts, and electronics. Under the consultative committee, we have subproduct working groups that work on specific products in consultation with the private sector, and partners that work on the standardization of products and services. For other standardized documents under the articles of goods agreements, we are looking at a national single window for each member state. At each single window, we should have the standard documents—Form D, the standard template, as well as the ASEAN customs declaration documents that are also standard documents. We see comments, especially from Japanese business associations, that some ASEAN member states do not have FTA-related documents translated into English, making it quite difficult to achieve documentation standardization. But we have the customs declaration documents in the standard form. On the question regarding SME access to finance, this is one of our top priorities. In the plan of action, we are looking into the details, especially SME access to finance. One of the key problems of SMEs is access to finance, especially because of the asymmetric information between lender and borrowers. So we are hiring experts to study SME access to finance because we know only the demand-side problem but we not the supply-side problem of how SMEs can comply with the requirements of the banks. Another initiative is the work that we are doing together with Japan, one of our key partners, in trying to prepare a credit risk database of SMEs in each ASEAN member state and establish this database within credit guarantee institutions and banks. We also have a survey on financial facilities in ASEAN member states and another initiative that will help SMEs to promote SME service centers not only in the capital but also in key cities in other trading areas. This will provide a bunch of services not only in trade. We will try to encourage the SME agencies in all ASEAN member states to work together with



local banks, financial institutions, and other institutions to come up with alternative financing products, for example, leasing and matching micro-funding sources with SMEs.

Ying Qian, moderator: Thank you, Ms. Manawanitkul, for giving us very good information about how ASEAN is handling some of these questions with our private sector partners. We at ADB encourage trade facilitation efforts through the CAREC Federation of Carrier and Forwarder Associations. This organization has served a very useful purpose in reaching out to the private sector and bringing private sector concerns into our CAREC consultation efforts. ADB will continue to engage your group (CFCFA) and at the regional and national levels we trust you will continue to provide us with good ideas on how to formulate interesting projects both on the assistance side and the investment side.

SESSION 5

Summary and Looking Forward

Main Session Objective	
The main objective of this session was to summarize the key lessons learned and experiences shared in the various RCI groupings, and identify the follow-up actions needed to make subregional cooperation more effective and to move toward open regionalism.	
Moderators	
Vicky Tan, Director, Regional Cooperation and Operations Coordination Division, Central and West Asia Department, ADB	
Sekhar Bonu, Director, Regional Cooperation and Operations Coordination Division, South Asia Department, ADB	
Presenters	
Vicky Tan, Director, Regional Cooperation and Operations Coordination Division, Central and West Asia Department, ADB	
Sekhar Bonu, Director, Regional Cooperation and Operations Coordination Division, South Asia Department, ADB	
Summary of Key Lessons Learned, Future Agenda and Open Discussion	
Key Lessons Learned	Future Agenda
Session 1: Regional Cooperation Initiatives in Asia and the Importance of Regionalism	
<ul style="list-style-type: none">▪ The global center of gravity is shifting toward Asia, a resurgent and dynamic region. The shift can benefit from, as well as contribute to, global rebalancing.▪ Innovative solutions are required to mobilize resources for RCI interventions.	<ul style="list-style-type: none">▪ Take RCI to a new level. Promote cooperation between subregions and South–South cooperation. Continue removing all remaining obstacles to the free flow of goods and services as a means of naturally promoting integration. Support private sector efforts related to production networks.▪ Promote collaboration between governments and businesses, including PPP entities, and between countries and institutions to support knowledge sharing and innovation.

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<ul style="list-style-type: none"> ▪ There is significant concern about negative externalities (e.g., crisis and contagion, climate change, disaster risks, security, and illicit trade). ▪ Cooperation is essential; integration is the long-term goal. Take a balanced approach by weighing the benefits as well as the costs (including opportunity costs) and challenges of integration. 	<ul style="list-style-type: none"> ▪ Invest in regional public goods. Promote closer cooperation to avoid contagion and share risks, along with preventive domestic policies to avoid contagion, as regional risk sharing cannot be a substitute for good domestic policy and regulatory frameworks. ▪ Ensure that RCI leads to inclusiveness. Prepare supportive policies so that integration does not produce less net benefits, especially for weaker or smaller countries.
Session 2: Regional Cooperation in Transport and Roles of Economic Corridors	
<ul style="list-style-type: none"> ▪ Multimodal transport connectivity is the key to regional cooperation. ▪ Good progress has been achieved on the hard (physical) aspects. ▪ There has been limited progress on soft (policy and regulatory) aspects. ▪ Transforming transport corridors into economic ones is a priority for all subregions. 	<ul style="list-style-type: none"> ▪ Connectivity will remain important for all subregions. ▪ Exert concerted effort, summon political will, and strengthen institutions for the soft aspects of connectivity. ▪ Customize economic corridor development. ▪ Exploit the potential for linking the subregions together.
Session 3: Regional Cooperation in Energy and Climate Change	
<ul style="list-style-type: none"> ▪ The impetus for energy cooperation lies in the diversity and abundance of energy resources that are unevenly distributed across Asia. ▪ Despite the significant benefits from energy trade, it has been taken up largely on a bilateral basis. ▪ Shortages in energy supply due to limited public sector fiscal capacity indicate a clear need for greater private sector engagement. ▪ Increased coordination is needed to enhance environmental sustainability and climate resilience. 	<ul style="list-style-type: none"> ▪ Increase investments and cooperation in energy generation and transmission. ▪ Develop regional energy markets and interconnectivity of grids. ▪ Find innovative ways of increasing private sector participation and energy financing. ▪ Increase investments in adaptation, mitigation, and disaster risk management.
Session 4: Regional Cooperation in Trade Facilitation, Trade and Investment, and Regional Financial Integration	
<ul style="list-style-type: none"> ▪ Trade facilitation at the border and behind the border considerably lags behind physical investment. ▪ Trade facilitation is a multi-sector, multidimensional issue that requires reaching out to all stakeholders and breaking down institutional barriers. 	<ul style="list-style-type: none"> ▪ Adapt international best practices and use modern technologies. ▪ Establish regional and national institutions (including new technology) conducive to trade facilitation, and involve the private sector.

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<ul style="list-style-type: none">▪ Work on trade facilitation, as well as trade and investment liberalization, should go hand in hand in a regional grouping.▪ Regional financial integration is important but there is a disconnect between it and subregional cooperation programs.	<ul style="list-style-type: none">▪ Promote trade facilitation issues in FTAs and in WTO negotiations.▪ Examine how to connect the dots between regional financial integration and subregional cooperation programs. Local-currency trade settlement could be the first step.
Open Discussion	
<p>The following comments were made during session 5 (Summary and Looking Forward) presented by ADB:</p> <ul style="list-style-type: none">▪ Rameshore Khanal of Nepal (SASEC) emphasized the need to pursue regional power energy trade and promote markets for it, promote economic corridors, and address local currency issues and visa processing, especially for the South Asian countries. Since political will was highlighted as a key to success, there should be a platform for bringing in politicians and making them aware of the benefits of promoting RCI. Roman Sklyar of Kazakhstan, on the other hand, requested ADB to provide more opportunities for subregional programs to come together and share their experience in implementing subregional projects and addressing bottlenecks and challenges.▪ Keobang A. Keola of Lao PDR (GMS) emphasized the need to incorporate the environmental sustainability aspect in all economic development efforts. She requested the mainstreaming of climate change issues in subregional programs. A representative from CAREC further supported the need to address environmental issues. A regional approach is required for this. He asked for ADB's support in addressing this challenge, especially with regard to water resources.▪ A representative from the GMS said that the standardization of customs procedures should be a key message.▪ A representative from the Pacific shared her subregion's experience in RCI. Given the differences in geographic characteristics among the countries, she said, economies of scale, more than economic and trade integration, are the ultimate focus of Pacific subregional RCI efforts. She also raised the issue of the impact of regional integration on national sovereignty.▪ ADB received positive responses and commendations from participants in this first Pan-Asia RCI forum, and was urged to provide more opportunities for knowledge sharing among the subregional programs, particularly opportunities to come together and share experiences in implementing subregional projects and addressing bottlenecks and challenges.	



Closing Remarks

Hong Weizhi
Vice Secretary-General
Kunming Municipal Government

Honorable Zhao Xiaoyu, ADB Vice President, distinguished guests, dear friends, ladies and gentlemen,

The Conference on Regional Cooperation and Integration: Experiences in Asia and the Pacific, hosted by the Asian Development Bank and organized by the Kunming Municipal Government, will conclude today. With the theme of regional cooperation, this conference further expanded the area of cooperation and discussed new approaches to systematic regional development. During the conference, representatives conducted extensive exchange and interaction on issues of transport, energy, environment, trade facilitation, investment, and financial integration of the region. Given the informative presentations on how to promote multilateral pragmatic cooperation and deliver common development in Asia and the Pacific, this conference has proven to be fruitful and visionary.

The conference has won great support from countries and international organizations from Asia and the Pacific, as well as Chinese authorities and the Yunnan Provincial Government. On behalf of the Kunming Municipal Party Committee, the Kunming People's Government, and the 7.26 million people of Kunming, I'd like to express my warmest congratulations to the convenors for the success of the conference.

We are confident that, through this conference, the participants have come to know Kunming city and feel closer to the people here. We'd like to create a better future hand in hand with our friends from home and abroad.

Thank you.



Closing Remarks

Klaus Gerhaeusser
Director General, East Asia Department
Asian Development Bank

Vice Governor of Yunnan Province, Mayor of Kunming Municipality, Vice President of ADB and other senior staff of ADB, distinguished presenters and panelists, esteemed participants, ladies and gentlemen,

I would like to thank you for your active participation in the first Asia and Pacific-wide Conference on Regional Cooperation and Integration in this beautiful city of Kunming, where representatives from ADB's developing member countries have come to share experiences and lessons learned in implementing regional cooperation initiatives.

I would also like to take this opportunity to thank the participants, presenters, and panelists for the very informative and enlightening sessions we have had the past 2 days. My special thanks go to the joint organizing team from ADB and Kunming Municipality for their excellent preparations for this conference.

ADB's two moderators in session 5 provided an excellent wrap-up of the discussions in various sessions and identified key messages and follow-up actions. I will try not to repeat what they have said, but instead highlight 10 "takeaways" that are particularly relevant to our thinking and to our work in the future as far as regional cooperation is concerned.

What Constitutes a Good Regional Cooperation Program

- Regional cooperation programs can come in different sizes, formats, and approaches, but definitely they need to serve the interests of their members and have a coherent institutional mechanism, implementation capability, and buy-in from all stakeholders involved.
- To be sustainable, regional cooperation programs also need tactical approaches, sustainable financing, and continued results monitoring, reflection, and redirection, supported by knowledge generation and experience sharing.



Alignment of National and Regional Incentives

- Countries participate in regional cooperation programs that offer a variety of incentives, including trade expansion, access to regional and global markets, investment attraction, better management of natural resources, and the opportunity to address regional public good issues.
- Clearly, national security, domestic market protection, and labor migration, among other issues, are also concerns.
- It is important for the regional cooperation mechanism to have incentives that are attuned to the needs of all members in order to reinforce the members' interest in and ownership of the program.

Connectivity, Corridors, and Local Economic Development

- Connectivity through infrastructure development plays a dominant role in all regional cooperation programs. This is an area where ADB and the DMC governments have done well. However, transport infrastructure development needs to be combined with a broader development program, to ensure that benefits can be widely shared, along with the physical transport corridors, to promote broader economic development and private sector investments.

Sustainable Development

- Complex links between climate change, energy, and poverty are serious challenges for any country. Regional cooperation can offer an effective platform for addressing issues such as the utilization of natural resources and the containment of cross-boundary pollution. Peer pressure within a regional cooperation grouping can also serve as a good incentive for a country to adopt sensible policies for sustainability.

Trade Facilitation and Trade Liberalization

- Trade facilitation through simplification and harmonization of trade procedures among regional cooperation program members is often considered low-hanging fruit, but yields good results. Trade facilitation measures are also often nondiscriminatory; thus, the impact can move beyond the immediate regional grouping to other countries. Trade liberalization (including investment liberalization), on the other hand, is often a much more formal process involving government-to-government negotiations and concessions. Trade liberalization measures are important both in opening up foreign markets and in enhancing competition in domestic markets.
- Trade facilitation and trade liberalization measures should be implemented hand in hand so that the market liberalization efforts will not be undermined by inadequate procedures in areas like customs and other trade controls.

Private Sector Engagement in Regional Cooperation

- The private sector plays an important role in shaping regional cooperation programs. Private firms are direct beneficiaries of regional cooperation programs through better interconnectivity and market expansion. They can also become strong advocates for regional cooperation and implementers of certain regional cooperation measures.

Subregional vs Regional vs Global Cooperation and Integration

- Cooperation programs have advantages and disadvantages at the subregional and regional levels in Asia and the Pacific. Subregional programs can be more adaptive to one country or a group of countries; hence, they can be more operations oriented. Regional programs will need to work within a common denominator, but they can address higher-level issues and thus have a bigger impact.
- The key is to find synergy through an integrated system of complementary subregional and regional programs to address issues at the most suitable level.
- There is a growing trend for regional cooperation programs to cooperate and learn from one another. Efforts are being exerted among ADB, the Inter-American Development Bank (IADB), and other multilateral development banks are exerting efforts to strengthen dialogue and enhance cooperation among regional cooperation platforms. The first step, of course, is knowledge sharing.

Regionalism

- The global financial crisis triggered advances in regional policy cooperation from 2008 onward, especially in the realm of financial and monetary cooperation in Asia. We are at the stage of pursuing inclusive forms of regionalism, which attempt to strike a balance between helping ourselves and supporting balanced and sustainable growth of the global economy. Asia is searching for modes of regional cooperation that complement the current global macroeconomic rebalancing agenda of the G20, and support global integration and openness.
- Through the tireless efforts of ADB member countries and ADB, we have already built a set of successful subregional programs. The next move is to link subregional programs in ways that can reap better benefits. For example, SASEC participants are scheduled to join CAREC participants in the coming Seminar on Legal Framework of Single Windows to be held in Seoul on 24–27 April 2012.
- This conference is a first step toward getting subregional programs to work together, and we are looking forward to inter-subregional cooperation.

The Never-Ending Job of Breaking Down Institutional Barriers

- Cooperation often means breaking down traditional institutional barriers within a country and at the subregional and regional levels. New institutions will also need to be built to enhance institutional capability to formulate and implement regional cooperation programs.

What ADB Should Do

- Regional cooperation and integration is the key building block in ADB's Strategy 2020 and ADB has shown its strong commitment to being an effective channel of regional cooperation and integration in Asia and the Pacific.
- Obviously there are many things that ADB needs to do, has to do, and can do. However, ADB will be able to do these things only together with you, our member countries.
- ADB will also need to break down our own institutional barriers to regional cooperation and integration. This conference is a good example of seamless cooperation among ADB's five regional departments and the Office of Regional Economic Integration. We will build on the success of this conference to further develop ADB's capability to deliver high-quality programs for regional cooperation.

Conclusion

I believe the conference has done an excellent job of highlighting many successful factors and critical issues for regional cooperation in the Asia and the Pacific. The insightful deliberations and discussions were clearly all based on rich experiences in the field and offered many fresh new ideas for us all to work together to move the regional cooperation agenda in Asia and the Pacific forward.

I hope the 10 "takeaways" I have come up with, as well as others that each of you have come up with, will stay in our minds. The homework then for each of us is to continue to reflect and act on these "takeaways," conduct research on some of them, and crystallize new ideas based on our reflections and actions.

I would like to reaffirm ADB's support for regional cooperation and integration. We need to plan together, work together, and evaluate progress together. As we move forward, let us keep in mind that we all have common objectives in promoting regional cooperation, whether we are members of CAREC, GMS, SASEC, BIMP-EAGA, IMT-GT, SAARC, or ASEAN. Let us commit to promote opportunities for livelihoods and a better quality of life for the people in our region.

Thank you once again. I hope you enjoy the remaining parts of the program of this conference and have a safe journey home.



APPENDIX 1

ADB's Regional Cooperation and Integration Strategy

ADB adopted a strategy to guide its work with developing Asian nations on regional cooperation and integration (RCI) on 25 July 2006. The strategy is designed to support ADB's overarching goal of poverty reduction through regional collective actions that lead to greater physical connectivity; expansion of trade and investment; development of financial systems and macroeconomic and financial stability; and improved environmental, health, and social conditions. The RCI strategy aims to build and deepen integration under four interrelated pillars:

- **Pillar 1: Regional and subregional programs on cross-border infrastructure and related software.** Improved cross-border physical connectivity can contribute to poverty reduction by providing greater opportunities for the poor to participate in market activities. Cross-border infrastructure projects—e.g., transport, energy, and telecommunications—are essential for the movement of goods, services, people, and information across countries. They enlarge market access, reduce economic distance, and facilitate trade, investment, and labor flows. The resulting intensification of cross-border economic activities can create employment, particularly in the labor-intensive sectors of DMCs, thus contributing to poverty reduction.
- **Pillar 2: Trade and investment.** The acceleration of trade and investment integration of DMCs with regional and non-regional economies can help reduce poverty. Economic opening and globalization, if appropriately managed, can have significant impact on poverty reduction. Trade openness and FDI inflows can connect developing economies with global markets where there is demand for developing country products. As developing economies have a comparative advantage in labor-intensive products, creating demand for such products can increase demand for labor or small pieces of land, which are typically the only assets that the poor own. Trade and investment cooperation and integration at the regional level has a similar, and even greater, impact on poverty reduction.
- **Pillar 3: Money and finance.** FDI inflows also have a positive impact on poverty reduction. FDI brings in not only capital but also production and management expertise and regional and global distribution links, thus relaxing DMCs' constraints, generating higher economic growth and employment, and reducing poverty. FDI provides an excellent vehicle through which the recipient DMCs can participate in regional and global supply networks and maximize their comparative advantage. Developing countries with large flows of investment are more successful in reducing poverty.

- **Pillar 4: Regional public goods (RPGs) such as the prevention of communicable diseases and environmental degradation.** The provision of RPGs is critical in supporting poverty reduction efforts. By working together to promote RPGs, DMCs can deal with the adverse impact of cross-border issues. This has been highlighted by the region's past experiences in dealing with the outbreak of communicable diseases, environmental problems, and other transnational issues. For the DMCs, RCI provides an additional platform that can supplement, complement, and even strengthen national policies and programs aimed at socioeconomic development and poverty reduction, and global efforts to achieve global financial stability.

The key objective of the strategy paper is to guide ADB's support for the ongoing process of RCI in a coherent way and to facilitate new forms of RCI initiatives that are needed in the future. ADB plays four distinct roles in supporting and promoting RCI:

- as a money bank, by providing financial resources for RCI projects, programs, and related technical assistance, and helping developing countries mobilize additional funding and technical assistance;
- as a knowledge bank, by creating, consolidating, and disseminating knowledge and information on RCI;
- as a capacity builder, by helping countries and regional or subregional bodies build institutional capacity to manage RCI efforts; and
- as an honest broker, in performing its roles as a catalyst and coordinator of RCI for the DMCs.



APPENDIX 2

List of Participants

I. PARTICIPATING COUNTRY DELEGATIONS

A. Central and West Asia

Afghanistan

1. Kamal Safi, Member of National Assembly, Lower House
2. Ramazan Jumazada, Member of National Assembly, Lower House

Armenia

3. Hovhannes Avetisyan, Head of Investment Policy Department, Ministry of Economy
4. Hayk Harutyunyan, Head of Investment Projects and Capital Expenditures Department, Ministry of Energy and Natural Resources
5. Vahe Jilavyan, Chief of Staff, Ministry of Transportation and Communications

Azerbaijan

6. Gafgaz Adigozalov, Senior Adviser, Department of International Relations, Ministry of Transport
7. Emil Orujov, Advisor, Cooperation with International Organizations Department, Ministry of Economic Development

Georgia

8. Ada Nardaia, Chief Specialist, European Affairs and International Economic Relations, Department of Foreign Trade and International Relations, Ministry of Economy and Sustainable Development
9. Nino Berianidze, Chief Specialist, Economic Policy Division, Department of Analysis and Policy, Ministry of Economy and Sustainable Development
10. Nino Javakhishvili, Senior Specialist, External Relations Department, Ministry of Finance

Kazakhstan

11. Birzhan Zhumagulov, Chief Specialist, Investment Policy Department, Ministry of Economic Development and Trade

Kyrgyz Republic

12. Samat Kulmambetov, Head of Customs Policy Division, Ministry of Economy and Antimonopoly Policy
13. Adylbek Akmatov, Head of Transport Sector Department, Ministry of Transport and Communications

Pakistan

14. Itifkhar Ahmad Rao, Additional Secretary-II, Economic Affairs Division
15. Zia ud Din Wazir, Additional Director, Intelligence & Investigation, Peshawar, Federal Board of Revenue
16. Muhammad Shoaib, Director (Road Transport), Ministry of Communications

Tajikistan

17. Hamidullokhon Fakerov, First Deputy Minister, Ministry of Economic Development and Trade
18. Abdusamad Rajabov, Head of Main Department of Investment and Foreign Aid Coordination, State Committee on Investments and State Property Management
19. Firdavs Hayokhojaev, Senior Consultant, Secretariat of President

Turkmenistan

20. Myratgeldi Berdiyev, Head, Department of Industry Sectors Development, Ministry of Economy and Development
21. Ahmet Uvdiyev, Deputy Head, Public Finance Department, Ministry of Finance

Uzbekistan

22. Djamshid Abdusalamov, Head of Department, Foreign Economic Relations and Investments, Uzbekenergo
23. Oybek Shagzatov, Deputy Head of Department, Registration and Monitoring IFIs and country-donors projects, Ministry of Foreign Economic Relations, Investments and Trade
24. Botirjon Dadamatov, Head of Unit, Customs Control Department, State Customs Committee

B. East Asia

Mongolia

25. Khuushaan Gantumur, Deputy Director, Road and Transport Policy Department, Ministry of Road, Transportation, Construction and Urban Development

People's Republic of China

26. Zheng Xiaosong, Director General, International Department, Ministry of Finance
27. Wang Zhongjing, Deputy Director General, International Department, Ministry of Finance
28. Zhang Minwen, Director, International Department, Ministry of Finance
29. Pan Wenxing, Director, International Department, Ministry of Finance
30. Wang Ling, Deputy Director, International Department, Ministry of Finance
31. Li Hongna, Section Chief, International Department, Ministry of Finance
32. Hu Xue, Section Chief, International Department, Ministry of Finance
33. Jin Xiaoming, Specialist, Electric Power Research Institute
34. Li Ping, Section Chief, International Cooperation Department, General Administration of Customs
35. Yao Xiaodong, Director, Ministry of Human Resource and Social Security
36. Wang Yanguo, Secretary-General, China International Chamber of Commerce for Private Sector
37. Zhang Ming, Director, International Cooperation Department, Ministry of Agriculture
38. Feng Yong, Director, International Cooperation Department, Ministry of Health
39. Wang Hui, Engineer, International Cooperation Department, Ministry of Environment
40. Zhao Xu, Engineer, International Cooperation Department, Ministry of Environment

Guangxi Zhuang Autonomous Region

41. Wu Yingyun, Deputy Director, International Financial Cooperation Division, Department of Finance
42. Yan Yan, Deputy Director, Regional Economic Cooperation Division, Development and Reform Commission
43. Li Minjian, Director, ASEAN Cooperation Division II, Department of Commerce

Jilin Province

44. Sun Hongguang, Deputy Director General, Finance Bureau, Baicheng Economic Development Zone
45. Guan Tingzhi, General Manager, Investment and Development Limited, Baicheng Economic Development Zone
46. Feng Limin, Director, Water Resources Bureau, Baishan

Inner Mongolia Autonomous Region

- 47. Yang Aijun, Deputy Director, Foreign Affairs Division, Finance Bureau, Alxa League
- 48. Fan Hongmei, Section Chief, Foreign Affairs Division, Finance Bureau, Alxa League
- 49. Liang Liwen, Section Chief, Foreign Affairs Division, Finance Bureau, Xilin Gol League

Xinjiang Uygur Autonomous Region

- 50. Chen Chunping, Deputy Director General, Department of Finance
- 51. Li Xiaosong, Director, Central Asia Regional Economic Cooperation Division, Department of Finance
- 52. Yu Pengfei, Deputy Director, Regional Development Division, Development and Reform Commission
- 53. Zhu Xianqiang, Section Chief, Central Asia Regional Economic Cooperation Division, Department of Finance
- 54. Guo Dehui, Director, Scientific Research Office, Xinjiang University of Finance and Economics

Kunming (KMG)

- 55. Li Yi, Secretary, Kunming Municipal Committee, Communist Party of China
- 56. Zhang Zulin, Mayor
- 57. Yang Yuanxing, Chairman, People's Congress
- 58. Tian Yunxiang, Committee Chairman, Chinese People's Political Consultative Conference
- 59. Huang Yunbo, Executive Vice Mayor
- 60. Yu Gongbin, Vice Mayor
- 61. Zhu Yongyang, Vice Mayor
- 62. Zhao Xuefeng, Secretary-General of KMG
- 63. Hong Weizhi, Vice Secretary-General of KMG
- 64. Li Jiangping, Deputy Director, Foreign Capital Center, Department of Environment, Yunnan
- 65. Xu Yunhua, Sector Chief, Department of Environment, Yunnan
- 66. Li Yugong, Section Chief, Electricity Regulatory Commission, Yunnan

C. Pacific

Papua New Guinea

- 67. Elizabeth Kup, Senior Aid Coordinator, Department of National Planning and Monitoring
- 68. Koney Samuel, Assistant Secretary, Department of National Planning and Monitoring



Samoa

69. Sealiimalietoa Isara, Deputy Chief Executive Officer, Policy Management, Ministry of Finance

Timor-Leste

70. Brigida da Silva, Director of Customs, Ministry of Finance

D. South East Asia

Cambodia

71. Vasim Sorya, Director-General, Ministry of Public Works and Transport
72. Sovanna Toch, Director, Department of Energy, Ministry of Industry, Mines and Energy
73. Sokheang Lay, Economic Policy Analyst, Supreme National Economic Council
74. Chanrithy Chuon, National Coordinator, GMS Working Group on Environment, and Director, Department of Natural Resources Assessment and Environment Data Management, Ministry of Environment

Indonesia

75. Huda Bahweres, Assistant to the Deputy for Regional Economic Cooperation, Coordinating Ministry for Economic Affairs
76. Dekky Hartoko, Head of Sub Division, Directorate of Funds, Directorate General of Debt Management, Ministry of Finance
77. Herry Maryadi, Head of Section, Directorate of ASEAN Economic Cooperation, Ministry of Foreign Affairs

Lao PDR

78. Douangmala Chanthalangsy, Director, International Financial Institution Division, Department of International Cooperation, Ministry of Planning and Investment
79. Latthana Douangboupaha, Director, Trade Facilitation Division, Department of Import and Export, Ministry of Industry and Commerce
80. Somchit Khammoungkhoun, Deputy Director of Summary, Department of External Finance, Ministry of Finance

Malaysia

81. Norwan Ahmad, Principal Assistant Director, Economic Planning Unit, Prime Minister's Department

Myanmar

- 82. Ko Ko Lay, Deputy Director, Directorate of Trade, Ministry of Commerce
- 83. Khin Maung Kyaw, Deputy Chief Engineer (Roads), Public Works, Road Department, Ministry of Construction
- 84. Daw Bi Bi, Chief Accountant, Myanmar Port Authority, Ministry of Transport

Thailand

- 85. Jatuporn Wongta, Director, Neighboring Countries Cooperation Division, Ministry of Transport
- 86. Dararut Ritoonyakorn, Chief, International Energy Cooperation Section, Ministry of Energy
- 87. Nonglak Wongsuksiridacha, Chief, International Transport Affairs Sub-Division, Department of Land Transport
- 88. Phacharang Praprutitum, Transport Technical Officer, Department of Land Transport
- 89. Sasiphand Bhanarai, Fiscal Policy Office, Ministry of Finance
- 90. Natchalai Thanapunyarak, Investment Promotion Officer, Office of the Board of Investment

Viet Nam

- 91. Nguyen Thi Thanh Phuong, Deputy Director General, Foreign Economic Relations Department, Ministry of Planning and Investment
- 92. Pham Thi Anh, Deputy Director General, Ministry of Foreign Affairs
- 93. Duong Hung Cuong, Official and GMS Focal Person, Foreign Economic Relations Department, Ministry of Planning and Investment

E. South Asia

Bangladesh

- 94. Farzana Afrose, First Secretary (Customs), National Board of Revenue
- 95. Md. Mozibur Rahman, Tariff Commission
- 96. Md. Mofazzel Hossain, Power Division, Bangladesh Secretariat

Bhutan

- 97. Tandin Tshering, Director, Department of Industries, Ministry of Economic Affairs
- 98. Niralal Rai, Executive Engineer, Field Division, Department of Roads, Ministry of Works and Human Settlement
- 99. Karma Tshering, Program Officer, National Environment Commission

India

- 100. Puneet Agarwal, Deputy Secretary, Department of Economic Affairs
- 101. Sanjeev Kaushik, Director, Department of Economic Affairs

Maldives

- 102. Adnan Ali, Deputy Minister, Ministry of Transport and Communication
- 103. Nuha Mohamed Riza, Business Development Consultant, Ministry of Economic Development

Nepal

- 104. Ramesh Raj Bista, Joint Secretary, Ministry of Physical Planning and Works
- 105. Naindra Prasad Upadhyay, Joint Secretary, Ministry of Commerce and Supplies
- 106. Rajan Khanal, Joint Secretary, Ministry of Finance

Sri Lanka

- 107. Sivagnanam Yogendra, Additional Director General (Network Planning) and Acting Director (Engineering Services), Ministry of Ports and Highways
- 108. Kannangara Liyanage Wuayasinghe, Assistant Director, Ministry of Power and Energy
- 109. Kurukula Arachchige Nanayakkara, Research Assistant, Department of Trade, Tariff and Investment Policy

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- 113. Pema Dorji, Director, SAARC Secretariat
- 114. Tareque Muhammad, Director, SAARC Secretariat
- 115. Patricia Cornish, Acting Head, Strategic Engagement Policy and Planning, Office of the Director-General, Secretariat of the Pacific Community
- 116. John Harold Licht, Trade Policy Adviser, Melanesian Spearhead Group Secretariat
- 117. Jurgen Steiger, Program Director, Sino-German Economic and Structural Reform Program and Deputy Country Director, GIZ
- 118. Peter Fedon, RCI Consultant, GIZ
- 119. Capt. Lin Zhong, Chairman, CAREC Federation of Carrier and Forwarder Associations
- 120. Kakhramon Millebayevich Sidiknazarov, Chairman, Association of International Road Carriers of Uzbekistan
- 121. Lutfilla Abdullajonovich Sharopov, Director, Tapes Trans Company

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122. Dasho Sonam Tshering, Secretary, Ministry of Economic Affairs, Bhutan
123. Roman Sklyar, Vice Minister of Transport and Communication, Kazakhstan
124. Keobang A. Keola, Director-General, GMS National Secretariat, Ministry of Natural Resource and Environment, Lao PDR
125. Sopheak Sok, Director-General, Department of International Trade, Ministry of Commerce, Cambodia
126. Nguyen Ngoc Thuyen, Deputy Director-General, International Cooperation Department, Ministry of Transport, Viet Nam
127. Oyunchimeg Dash, Deputy Director-General, General Administration of Customs, Mongolia
128. Porametee Vimolsiri, Deputy Director-General, National Economic and Social Development Board, Thailand
129. Khin Maung Win, Deputy Director-General, Department of Electric Power, Ministry of Electric Power, Myanmar
130. Rameshore Khanal, Economic Adviser to the Prime Minister, Nepal
131. Saifuddin Ahmed, Joint Secretary, Economic Relations Division, Ministry of Finance, Bangladesh
132. Nagesh Kumar, Chief Economist and Director, UN ESCAP, India

IV. Panelists

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135. Li Shusen, First Secretary, Department of International Trade and Economic Affairs, Ministry of Commerce, PRC
136. Penchan Manawanitkul, Senior Officer, Enterprise Development, ASEAN Secretariat

V. Asian Development Bank

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140. Juan Miranda, Director General, Central and West Asia Department
141. Sultan Hafeez Rahman, Director General, South Asia Department
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145. Ying Qian, Director, Public Management, Financial Sector and Regional Cooperation Division, East Asia Department
146. Vicky Castillo L. Tan, Director, Regional Cooperation and Operations Coordination Division, Central and West Asia Department

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147. Robert Lee Guild, Director, Transport, Energy and Natural Resources Division, Pacific Department
 148. Paul Heytens, Country Director, PRC Resident Mission
 149. Hao Zhang, Senior Advisor to the Vice President
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Regional Cooperation and Integration: Experiences in Asia and the Pacific
26–27 March 2012, Kunming, Yunnan Province, People's Republic of China

Over the past 2 decades, the Asian Development Bank (ADB) and its developing member countries have worked together to promote regional cooperation and integration (RCI). Evolving economic conditions continually pose new challenges to RCI efforts. In March 2012, about 160 representatives from Asia and the Pacific met to share their RCI experiences and discuss strategies for deepening RCI in the region. This summary of the conference features the discussions and presentations including information on major RCI programs. It aims to improve understanding of RCI and help guide future strategies within the region.

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Based in Manila, ADB is owned by 67 members, including 48 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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