5 Subregional Cooperation Initiatives

Subregional Cooperation Initiatives

Central and West Asia: Central Asia Regional Economic Cooperation Program

The Central Asia Regional Economic Cooperation (CAREC) program plays a pivotal role in promoting regional economic cooperation through common infrastructure development and policy dialogue. Intraregional trade and investment shares have started to rise, as CAREC was particularly instrumental in creating a network of multimodal transport corridors that open up economic opportunities by lowering trade costs, enhancing the flow of trade and people, and linking Central Asian countries to each other and with the rest of the world. CAREC members are expected to set new targets for a 2025 strategy reflecting the region's emerging new challenges and opportunities.

Overview

Established in 2001, the CAREC program today covers 11 countries: Afghanistan, Azerbaijan, the People's Republic of China (PRC), Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. The program focuses on regional infrastructure development and trade issues prioritizing the following areas of cooperation (i) energy, (ii) transport, (iii) trade facilitation, and (iv) trade policy.[37]

CAREC members vary significantly in population, basic economic structure, and development patterns, as well as trade links among themselves and externally (Table 5.1). From a geographical perspective, the group is centered on five Central Asian economies (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan), stretches eastward to the PRC and Mongolia, south to Afghanistan and Pakistan, and to Azerbaijan and Georgia west of the Caspian Sea.

CAREC's institutional framework is informal and project-oriented. In the initial years, its programs focused on building confidence and improving communications among members. The first Senior Officials Meeting was held in 2001 and Ministerial Conference in 2002. Now in its second decade, CAREC is guided by the ADB Strategy 2020, which has the primary goal of enhancing participating economies' trade and competitiveness (ADB 2012). The program's overall portfolio has grown to 166 projects, a total of $27.7 billion by the end of 2015, from its initial six projects of $247 million.

Six multilateral institutions support CAREC: the ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank. Out of the program's total investment as of 2015, ADB financed 35.5%, CAREC governments 25.1%, World Bank 21.5%, Islamic Development Bank 5.8%, European Bank for Reconstruction and Development 5.1%, and other development partners 7.0%.

[37] More information about CAREC is available from the program's website: http://carecprogram.org/

Table 5.1: Selected Economic Indicators—CAREC, 2015

	Population (million)	**Nominal GDP** ($ billion)	**GDP Growth** (%, 2011–15 average)	**GDP Per Capita** (current prices, $)	**Trade Openness** (total trade % as of GDP)
Afghanistan	32.5	19.2	4.7	591	44.7
Azerbaijan	9.7	53.0	2.8	5,492	79.3
People's Republic of China	1,370.0	10,900.0	7.4	7,956	48.7
Kazakhstan	17.5	184.0	3.9	10,514	71.2
Kyrgyz Republic	6.0	6.6	4.5	1,102	139.5
Mongolia	3.0	11.8	8.5	3,986	109.6
Pakistan	189.0	270.0	4.6	1,429	32.7
Tajikistan	8.5	7.8	6.4	926	90.6
Turkmenistan	5.4	37.3	9.5	6,946	117.6
Uzbekistan	31.3	66.7	8.1	2,131	60.5
CAREC	1,672.7	11,556.4	7.2	6,909	49.6

CAREC = Central Asia Regional Economic Cooperation, GDP = gross domestic product.
Note: Total trade is equal to exports plus imports. Georgia only became a CAREC member in October 2016.
Source: ADB calculations using data from World Bank. World Development Indicators. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed November 2016).

Priority Areas

The CAREC Program's priority areas of cooperation include transport and trade facilitation, energy, and trade policy; with investment projects concentrated mostly in transport.

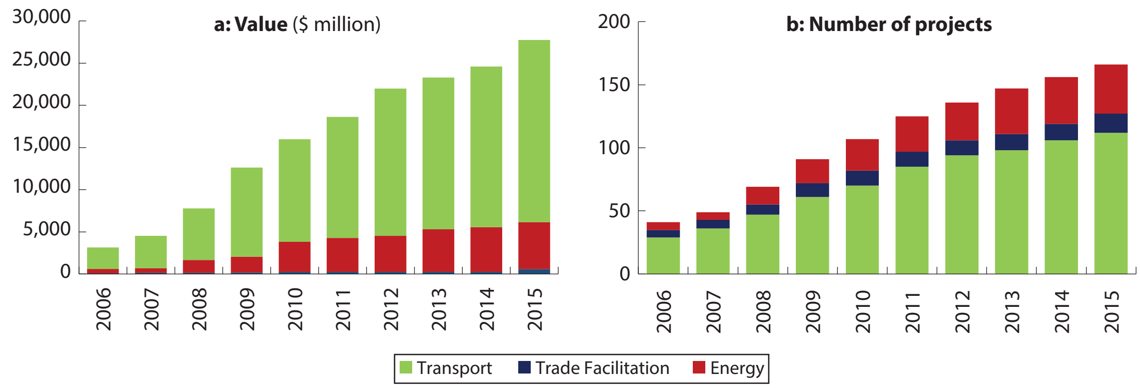
Transport and trade facilitation. CAREC aims to develop sustainable, user-friendly transport infrastructure and trade networks to enhance competitiveness and ensure safe and efficient movement of goods and people across the region. The CAREC Transport and Trade Facilitation Strategy 2020 seeks to accomplish three main tasks: (i) develop a multimodal corridor network comprising roads, railways, logistics hubs, and border crossings; (ii) improve trade and border crossing services—through customs reforms and modernization, coordinated border management, development of national single windows, and integrated trade facilitation; and (iii) strengthen institutions, policies, and operational effectiveness to better support road maintenance, road safety, and seamless rail connections (ADB 2014a).

ADB has provided technical support for trade facilitation under the CAREC program. Thirteen technical assistance projects have been delivered regionally and in the PRC and Mongolia from the start of the CAREC program in 2001 through 2015, cumulatively amounting to $21.2 million. Three investment projects totaling $60 million have been delivered in the PRC and Mongolia.[38] Investment projects in the Kyrgyz Republic, Pakistan, and Tajikistan complement these efforts. Delivery of this technical support is guided by the CAREC Transport and Trade Facilitation Strategy 2020 (ADB 2014). The strategy targets three sector outcomes: (i) establish competitive corridors across the CAREC region; (ii) facilitate the efficient movement of goods and people through the CAREC corridors and across borders; and (iii) develop sustainable, safe, user-friendly transport and trade networks. CAREC trade facilitation has two components:

(i) Customs cooperation entails customs reform and modernization in five priority areas: simplification

[38] In addition to contributions under the CAREC program, $24 million for an investment project supporting the development of cold chain logistics facilities at Tianjin port, in the PRC, was approved in 2012. Tianjin, at the south end of the CAREC transport corridor 4b linking Mongolia and the PRC, has since the 1990s served as a key seaport for Mongolia's international trade (based on a bilateral agreement signed in 1991). The project thus also supports the improvement of services to Mongolia's export of agricultural produce.

Figure 5.1: CAREC Approved Investment Projects by Sector (cumulative since 2001)



CAREC = Central Asia Regional Economic Cooperation Program.
Source: ADB. CAREC Program Portfolio.

and harmonization of customs procedures, information and communication technology for customs modernization and data exchange, risk management, joint customs control, and regional transit development.

(ii) Integrated trade facilitation promotes efficient regional trade logistics development and supports the development of priority trade corridors, single-window facilities, enhanced interagency cooperation and private sector participation, improved sanitary and phytosnitary (SPS) measures, and capacity building.

The trade facilitation program is coordinated through (i) the Customs Cooperation Committee, which comprises heads of customs administrations of all CAREC economies and provides a regional forum for discussing issues of common interest; and (ii) the CAREC Federation of Carrier and Forwarder Associations.[39] The association's major objectives are to facilitate transport, trade, and logistics development in the region and to advance the interests of road carrier, freight forwarder, and logistics service provider member associations.

In addition, ADB worked with CAREC economies to launch a regional initiative on SPS cooperation, and the CAREC Ministerial Conference in September 2015 endorsed a CAREC Common Agenda for Modernization of SPS Measures.

ADB supports trade facilitation initiatives through regional technical assistance and investment projects. This support has encouraged progress in customs modernization and trade facilitation in CAREC economies. Particularly important are the CAREC Regional Improvement of Border Services projects in the Kyrgyz Republic, Mongolia, Pakistan, and Tajikistan. The projects aim to streamline transport, customs, and other border control operations along CAREC corridors and thereby increase trade in Central Asia. ADB is also supporting a project to modernize SPS inspections of import and exports of agricultural-food products in Mongolia to rehabilitate laboratories and inspection and quarantine facilities at the border.

Energy. The long-term aim for strengthening the energy sector is to achieve regional energy security, integrated markets, and energy trade-driven economic growth. The CAREC Energy Strategy and Work Plan (2016–2020) includes thematic priorities to (i) invest in strategic projects, (ii) develop sustainable energy resources, (iii) enhance technological knowledge and capacity, (iv) establish robust legal and regulatory frameworks to support private investment, and (v) support cross-border energy trade (ADB 2015a). These priorities translate into six work areas: (i) develop the East-Central Asia-South Asia regional energy market, (ii) promote regional electricity trade and harmonization, (iii) manage energy-water linkages, (iv) prioritize clean energy technologies, (v) mobilize financing for priority projects, and (vi) promote capacity building and knowledge management.

[39] The organization was established in 2009 under ADB financing as a nongovernment and nonprofit organization, and incorporated as a limited company in 2012.

Trade policy. CAREC also supports national trade policies aimed at promoting growth in an open-economy environment. The CAREC 2013–2017 Trade Policy Strategic Action Plan aims for (i) accession to the World Trade Organization (WTO) by all members, (ii) greater trade openness with simplified trade taxes and elimination of quantitative restrictions, (iii) reduction of the negative impact of technical regulations and SPS measures on trade, (iv) expansion of service trade, and (v) enhancement of members' capacity building and knowledge sharing on trade issues (CAREC 2013).

CAREC investment projects focus on transport, which in 2015 reached $21.6 billion (or 78% of the total), followed by energy ($5.6 billion invested, or 20.2%) (Figure 5.1). Resources allocated to trade facilitation and trade policy projects were $584 million in 2015 (or 1.8% of the total). In addition, CAREC received 253 technical assistance projects worth $440 million from 2001 to 2015. CAREC countries financed 23%, ADB 32%, CAREC multilateral partners 8%, and other development partners 37%.

Development Results

CAREC annually reviews progress toward the goals of the Comprehensive Action Plan through a "development effectiveness review". The assessment uses quantitative indicators and qualitative information to describe the challenges faced by the program and highlight opportunities for complementary work between sectors. It aims to help members take corrective action when targets are not met.

Transport and Trade Facilitation. CAREC members have agreed to create six multimodal transport corridors in the region. By 2015, substantial progress was made toward corridor implementation with the development of two ports, two logistics centers, three border crossings, and six civil aviation centers. As a result, CAREC projects contributed to building (or improving) 809 kilometers (km) of expressways or national highways, bringing cumulative progress to 7,229 km, or 93% of the target under the Transport and Trade Facilitation Strategy 2020. Moreover, 2015 CAREC operations included project implementation in road safety, road asset management, transport facilitation, and the improvement of a total of 40 km of railways. In October 2016, the CAREC Ministerial Conference endorsed the CAREC Road Safety Strategy 2017–2030 and the CAREC Railway Strategy 2017-2030.

Trade facilitation also helped achieve positive results. ADB estimates that average time taken to clear a border-crossing point along CAREC transport corridors—by rail and road—was reduced to 13.1 hours in 2015 from 14.1 in 2014 (ADB 2015b). The drop in travel time by rail was also high—from 32.6 hours to 27.4 hours in 2015; while average train travel speed increased 20%. Cross-border time by road was reduced to 9.3 hours in 2015 from 9.9 hours in 2014. Similarly, costs decline: average border-crossing cost dropped to $161 in 2015 from $172 in 2014 as road transport costs declined from $177 to $149. Average border crossing costs, by contrast, rose from $148 to $208, as fees associated with the transfer of goods increased. A Regional Food Safety Initiative was launched at the 15th CAREC Ministerial Conference to help institutionalize international food safety standards in participating countries and contribute to CAREC's Common Agenda for Modernization of Sanitary and Phytosanitary Measures.

Energy. In 2015, CAREC energy strategies were aligned with major global trends, accounting for the reduction in renewable energy prices and international commitments on climate change. The program has embraced a new strategy aimed at promoting energy efficiency and diversification to reduce members' dependence on fossil fuels. In addition, it is building human resources from CAREC economies and increasing their capacity to discuss climate change and related technology through specific training on regulation, forecasting, off-grid solar systems, and storage. Preparations for the Turkmenistan–Afghanistan–Pakistan (TAP) Transmission Line for export of power from Turkmenistan to Pakistan through the southern Afghan corridor have started. A 500kV transmission line of the Turkmenistan-Uzbekistan-Tajikistan–Afghanistan–Pakistan (TUTAP) Interconnection Project for the Turkmen section has been completed and construction of the other sections has begun. ADB is providing transaction advisory services for the Turkmenistan–Afghanistan–Pakistan–India (TAPI) gas pipeline. It also helped establish the project company with Turkmenistan Gas as the consortium leader and supported the TAPI stakeholders finalize and sign a Shareholder Agreement in December 2015 and an Investment Agreement in April 2016. The project is now moving to the detailed design stage. An Energy Investment Forum was successfully held in October 2016 in Islamabad, which provided a platform for government officials, potential investors, energy companies, financing institutions and development partners to deliberate on policy environment and investment opportunities in the energy sector.

The completion of ADB projects in Azerbaijan, Mongolia, and Uzbekistan helped achieve long-term regional energy targets. In 2015, 923 km of transmission lines were installed or upgraded, over 201 megawatts (MW) of generation capacity added or rehabilitated, and almost 785 mega volt amps installed or upgraded in substations. CAREC also made progress in the development of the Central Asia-South Asia Regional Electricity Market, and pipes are being laid for the natural gas pipeline that will connect Turkmenistan, Afghanistan, Pakistan and India. Activities are under way to complete the Turkmenistan-Afghanistan interconnection under the broader TUTAP project.

Trade Policy. The progress in trade policy has been mixed due to the changing macroeconomic environment and government policy responses to mitigate the negative impact of external shocks on their national economies. During 2015, at least eight CAREC economies were able to (i) eliminate all import taxes and fees—or incorporate them into tariffs, (ii) reduce average tariff rates to 10% or less, (iii) cap tariffs at 20%, (iv) eliminate or convert quantitative import restrictions into tariffs, and (v) acknowledge the importance of the WTO SPS and technical barriers to trade agreements. In addition, five countries eliminated all remaining discrepancies between taxes applied to domestic production and imports. Kazakhstan became a member of the WTO in November 2015, while the Kyrgyz Republic joined the Eurasian Economic Union in August 2015. Moreover, Afghanistan's WTO membership terms were approved at a special ceremony in December 2015, while the PRC ratified its WTO Trade Facilitation Agreement. Recognizing the post-accession challenges, CAREC has been deepening its collaboration with international development partners to help newly acceded members in meeting their WTO commitments especially in the areas of SPS measures, technical barriers to trade and expansion of services trade, through knowledge sharing and capacity building.

Economic Corridor Development. In 2014, CAREC started the Almaty–Bishkek Corridor Initiative (ABCI) between Kazakhstan and the Kyrgyz Republic, aiming to increase economic activity for creating jobs, diversifying the economy, and promoting sustainable development through an economic corridor linking the two cities.[40] Technical and economic analyses have been completed and priority areas have been identified in education, heath, agriculture, agribusiness, tourism, disaster risk management, and information and communications technology. The ABCI Investment Framework was adopted at the 15th CAREC Ministerial Conference. The investment framework details the conceptual development plan for economic corridor in the region, comprising investments, policy reforms and institutional development. The two participating countries, Kazakhstan and the Kyrgyz Republic, are working to institutionalize Almaty-Bishkek economic corridor development by establishing a Corridor Development Authority with coordination at higher government levels.

CAREC Institute. The virtual CAREC Institute, created in 2007, established its physical base in March 2015 in Urumqi, PRC, and established a management team a few months later. The intergovernmental agreement for the CAREC Institute was signed in the sidelines of the 15th Ministerial Conference in Islamabad. The institute, which aims to generate world-class knowledge resources in CAREC's priority areas, conducts research and capacity building activities for CAREC members and trains government officials and other country experts on regional economic cooperation issues.

Opportunities and Challenges

Slowing growth. In 2015, economic growth dropped sharply in seven CAREC members (including the five Central Asian economies plus Azerbaijan and Mongolia), hit by external macroeconomic shocks including the fall of oil, gas, and other commodity prices; the recession in the Russian Federation; and slower economic growth in the PRC. These economies face the challenges of accelerating structural transformation and economic diversification; improving the local business environment

40 Almaty and Bishkek city administrations signed a memorandum of understanding in November 2014.

to facilitate private initiative, entrepreneurship, and job creation; and enhancing human capital development, especially through educational reform. Afghanistan and Pakistan, meanwhile, are struggling with internal security issues, with considerable impact on economic development prospects.

New multilateral initiatives. Nonetheless, the recent progress of initiatives strengthening economic cooperation in Central Asia offers new growth opportunities for members. Examples include the PRC's Belt and Road initiative, the New Silk Road pioneered by the United States, the Eurasia Initiative promoted by the Republic of Korea, Quality Infrastructure sponsored by Japan, and the Silk Road Fund set up by the PRC. The entry of Kazakhstan and the Kyrgyz Republic into the Eurasian Economic Union is also expected to reduce internal trade and investment barriers to the free flow of goods, services, and people, and promote economic growth—providing further impetus to the development of the ABCI economic corridor between Almaty and Bishkek. At the same time, the recent establishment of the Asian Infrastructure Investment Bank and the New Development Bank expands multilateral development financing options in the region.

New development strategy. At the 15th Ministerial Conference in October 2016, CAREC members decided to start working on a new development strategy following an extensive Mid-Term Review, bringing the group to the year 2025. Some institutional mechanisms may need strengthening and some sector focus may need recalibration, while the program's overall coverage may be expanded to include areas beyond transport, energy, and trade.

Southeast Asia: Greater Mekong Subregion Program

Since its establishment in 1992, the Greater Mekong Subregion (GMS) Program has gained strong ownership and active participation from the GMS economies using an activity-based and results-oriented approach. And better cross-border connectivity within the subregion has helped improve members' socioeconomic conditions. GMS economies nonetheless face unprecedented changes creating both serious challenges and widespread opportunities.

Overview

Cambodia, the PRC (Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam make up the GMS. The subregion's aggregate GDP expanded from $796 billion in 2010 to $1.2 trillion in 2015 (Table 5.2). GMS economies have averaged 6.9% gross domestic product (GDP) growth annually in the last 5 years, led by double-digit growth in Guangxi Province (10.1%) and Yunnan Province (11.1%).

GMS members are also more integrated with each other. Intra-GMS trade shares increased from 2% in 1992 ($5 billion) to 9.3% in 2015 ($444 billion). Aggregate intra-GMS foreign direct investment (FDI) increased from $8.3 billion in 2001–2006 to $29.2 billion in 2010–2015. And physical connectivity among members improved. The PRC's liner shipping bilateral connectivity index reached its highest with Viet Nam (0.59), followed by Thailand (0.58) in 2015. Viet Nam's connectivity with Cambodia (0.29) and Myanmar (0.22) were more modest in 2015.

Robust GDP per capita growth has lifted GMS incomes. Guangxi and Yunnan per capita income (current international dollars, purchasing power parity) rose 13.1% and 12.4%, respectively, (2010- 2014 average annual growth), the highest rates in the subregion. Incidence of poverty also dropped for all GMS economies, as per data from the early to mid-1990s and the early 2000s.

Table 5.2: Selected Economic Indicators—Greater Mekong Subregion, 2015

	Population (million)	**Nominal GDP** ($ billion)	**GDP Growth** (%, 2011-15, average)	**GDP Per Capita** (current prices, $)	**Trade Openness** (total trade as % of GDP)
Cambodia	16	18.0	7.4	1,128.1	146.0
Guangxi, PRC	48	269.3	10.1	5,610.0	17.1
Yunnan, PRC	47	219.8	11.1	4,677.4	10.6
Lao People's Democratic Republic	7	12.3	7.7	1,761.1	64.9
Myanmar	54	56.3	7.5	1,042.3	51.8
Thailand	68	395.2	2.9	5,811.3	101.6
Viet Nam	92	193.2	5.9	2,100.4	169.5
GMS	332	1,164.2	6.9	3,506.6	74.0

PRC = People's Republic of China, GMS = Greater Mekong Subregion, GDP = gross domestic product.
Note: Weighted average for GMS GDP average growth rate using the economies' nominal GDP.
Source: ADB calculations using data from CEIC.

Strategic Areas of Cooperation

The latest GMS strategic framework is anchored on a corridor-development approach that focuses on widening and deepening GMS economic corridors along several important routes by developing areas along and contiguous to these corridors (ADB 2011).[41] This requires close intersectoral coordination; involvement of all key stakeholders, particularly provincial and local authorities and the private sector; and a clear concentration on making a manageable number of effective interventions work. It also requires coordinated and resolute action on transport and trade facilitation, promotion of cross-border economic linkages, and logistics development along GMS corridors. This can contribute to increased demand for trade, boosting trade benefits for the less-developed economies and reducing poverty.

The GMS Program continues to focus on a broad range of sector and multisector strategic priorities:

- developing the major GMS corridors as economic corridors;
- strengthening transport links, particularly roads and railways;
- developing an integrated approach to deliver sustainable, secure, and competitive energy;
- developing and promoting tourism using the Mekong as a single destination;
- promoting competitive, climate-friendly, and sustainable agriculture;
- enhancing environmental performance; and
- supporting human resource development initiatives that facilitate GMS integration while addressing any negative consequences of greater integration.

To implement its strategic framework, the GMS endorsed a regional project pipeline for 2013–2022 of 200 projects estimated at $52 billion.[42] During the 21st GMS Ministerial Conference in December 2016, GMS Ministers endorsed the Regional Investment Framework Implemention Plan 2020, which provides a shortlist of 107 investment

41 At the 4th GMS Summit in December 2011 in Nay Pyi Taw, Myanmar, leaders endorsed a new GMS Strategic Framework for 2012–2022. It builds on the success and progress of the GMS Program, and the continuing commitment of the member economies to increased regional integration and action-oriented approach to cooperation that adheres to the principles of country ownership, equal consultation, mutual benefit, steady progress, focus on results, and recognition of the varying levels of members' development.

42 The regional project pipeline is referred to as the GMS Regional Investment Framework 2013–2022 (GMS RIF) (ADB 2013). The projects in the GMS RIF are being financed and will be financed by GMS governments; ADB, together with other development partners; and the private sector.

and technical assistance projects estimated to cost $32.7 billion.

The program's institutional arrangements have also contributed to its success thus far. They include (i) a GMS leaders' summit at the political level, (ii) a ministerial conference supported by meetings of senior officials, (iii) ministerial level meetings on key sectors, and (iv) sector forums and working groups at the program and operational levels. A national secretariat coordinates GMS activities in each economy. The GMS Secretariat at ADB headquarters provides overall secretariat support to the GMS Program in coordination with the national secretariats. Private sector and development partners are also invited to join many of the meetings. The GMS Business Council and the GMS Freight Transportation Association facilitate GMS cooperation with the private sector. GMS institutional arrangements have proved flexible, simple, and generally effective in supporting the pragmatic, activity-driven, and results-oriented approach.

Development Results

The GMS Program has made important contributions to greater economic integration and prosperity of the region.

Since its launch in 1992, it has enhanced economic relations among the GMS members by focusing on high-priority subregional projects in transport (hardware and software), energy, urban development, tourism, agriculture, the environment, and human resource development.

Cross-border physical connectivity. Cross-border infrastructure development has been the core of the program, with the near completion of the transport component of its three main corridors—the East-West, North-South, and Southern Economic Corridors (Table 5.3). The reach of these corridors is also being widened through several bridges and linked secondary roads. Since 1992, almost 7,000 kms of road have been built and rehabilitated. The program is also preparing a new GMS Multimodal Transport Strategy to broaden its focus on the transport sector to include railways. A broad long-term strategy for connecting railways is

Table 5.3: Status of Greater Mekong Subregion Economic Corridors

Description	Status
North–South Economic Corridor	
• The North–South Economic Corridor involves three routes along the north-to-south axis of the GMS: • The Western Subcorridor: Kunming (People's Republic of China [PRC]) – Chiang Rai (Thailand) – Bangkok (Thailand) via Lao People's Democratic Republic (Lao PDR) or Myanmar • The Central Subcorridor: Kunming (PRC) – Ha Noi (Viet Nam) – Hai Phong (Viet Nam) which connects to the existing Highway No. 1 running from the northern to the southern part of Viet Nam • The Eastern Subcorridor: Nanning (PRC) – Ha Noi (Viet Nam) via the Youyi Pass or Fangchenggang (PRC) – Dongxing (PRC) – Mong Cai (Viet Nam) route.	The construction and rehabilitation of corridor roads have substantially been completed, with funding assistance from the ADB and countries' internal budgets, as well as support from other development partners, the PRC, and Thailand. The last key missing link, the Fourth International Mekong Bridge between Chiang Khong (Thailand) and Houayxay (Lao PDR) was opened to traffic in December 2013.
East–West Economic Corridor (EWEC)	
Runs from Da Nang Port in Viet Nam, through the Lao PDR, Thailand, and to the Mawlamyine Port in Myanmar.	The key sections of the road corridor have been completed, with the ADB and Japan helping finance key sections in the Lao PDR and Viet Nam, including Route 9, the Hai Van Tunnel, and the Da Nang port. Thailand is helping finance connections between Thailand and Myanmar at the Myawaddy-Mae Sot border by upgrading the existing section of the East–West Economic Corridor road in Kayin State, while ADB is financing the section from Eindu to Kawkareik in Myanmar.
Southern Economic Corridor	
• The Central Subcorridor: Bangkok–Phnom Penh–Ho Chi Minh City–Vung Tau; • The Northern Subcorridor: Bangkok–Siem Reap–Stung Treng–Rattanakiri–O Yadov–Pleiku–Quy Nhon; • The Southern Coastal Subcorridor: Bangkok–Trat–Koh Kong-Kampot–Ha Tien–Ca Mau City–Nam Can; and • The Intercorridor Link: Sihanoukville–Phnom Penh–Kratie–Stung Treng–Dong Kralor (Tra Pang Kriel)–Pakse–Savannakhet, which links the three Southern Economic Corridor subcorridors with the East-West Economic Corridor.	The key sections of the Southern Economic Corridor are also mostly completed, with the key missing link (the Mekong Bridge at Neak Loeung along the Phnom Penh-Ho Chi Minh City Highway) having opened to traffic in 2015 with financing assistance from Japan.

Source: ADB.

in place, together with a plan for coordinating GMS railway development.

Transport and trade facilitation. Initiated in 1999, the landmark GMS Cross Border Transport Facilitation Agreement uses a single legal instrument for key, nonphysical measures for efficient cross-border land transport. With the ratification of Thailand and Myanmar in 2015, the agreement is now fully ratified by all GMS members. The Single Stop Inspection between the Lao PDR and Viet Nam at Lao Bao–Dansavanh in February 2015 is among its major achievements. New Single Stop Inspection sites are being developed at other border crossing points along the East-West and Southern economic corridors. Development impact of both hardware and software was significant at key border crossing points: travel time between Bavet (Cambodia) and Moc Bai (Viet Nam) was reduced from 9–10 hours in 1999 to 5–6 hours in 2013. Cross-border trade increased from $10 million in 1999 to $708 million in 2013. In Moc Bai border economic zone, 41 projects totaling $270 million were implemented and nearly 3,000 jobs created. The GMS National Transport Facilitation Committee Retreat in July 2016 reached a historic agreement to launch the GMS Road Transport Permit by January 2017, a significant step toward opening the GMS transport market.

Energy. GMS power projects are preparing grid interconnections in the GMS, while major hydropower projects have been developed with private sector participation, as Nam Theun 2 Hydroelectric Project. Before 1992, the only significant GMS cross-border power transmission existed to export hydropower from the Lao PDR to Thailand through two 200 MW hydropower plants. Some low voltage lines also connected certain areas in the Lao PDR to Thailand and separately to Cambodia, distributing power to remote border regions. Moreover, remote border regions of Cambodia, the Lao PDR, and Viet Nam have benefitted from accessing cross-border power supply based in neighboring countries. Recently, the GMS economies agreed to establish the Regional Power Coordination Center, a permanent institution to enhance regional power trade and implement regional power interconnection initiatives in the GMS. The selection of the center's host country is under way.

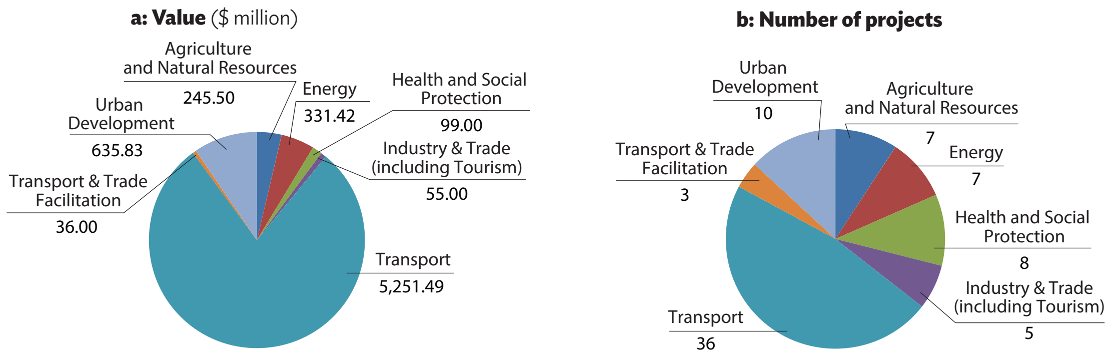
Agriculture. The Core Agriculture Support Program (CASP) Phase I, 2011–2015 focused on issues involving cross-border trade in food and agricultural products, and climate change adaptation. The CASP II 2011–2020 is focusing more on issues of expanding cross-border trade in agricultural-food products, climate change adaptation, and food and bioenergy security. A Strategy and Action Plan for Promoting Safe and Environment-Friendly Agro-Food Value Chain Investments in the GMS is being developed.

Environment. The GMS countries recognize the importance of addressing environmental concerns.[43] Achievements include (i) capacity development for a range of environmental and social planning and safeguard methods and tools, (ii) integration of strategic environmental assessment results into national socioeconomic development plans, and (iii) replication of Biodiversity Conservation Corridor approaches in Cambodia, the Lao PDR, and Viet Nam. The Fourth Environment Ministers' Meeting in Myanmar in January 2015 reaffirmed support for implementing priority environment projects in the GMS Regional Investment Framework Implementation Plan, emphasized the importance of investing in the subregion's natural capital as well as its physical, human, and social capital to secure more inclusive and sustainable GMS development.

Tourism. A series of promotional campaigns and other subregional cooperation initiatives have helped place the GMS firmly on the world tourism itinerary. Tourist arrivals in the GMS reached 57.9 million in 2015 and tourism receipts $65 billion, from $15.6 billion in 2007. A new GMS Tourism Marketing Strategy and Action Plan for 2015–2020 was endorsed by the GMS Tourism Working Group in 2015 (ADB 2015c). Preparation of the 2016-2025 GMS Tourism Sector Strategy is also under

43 In 2005, the GMS Environment Ministers endorsed the Core Environment Program and Biodiversity Conservation Corridors Initiative (2005–2011), which consolidated environmental initiatives under a single integrated program with the aim of achieving a poverty-free and ecologically rich GMS. The second phase for 2012–2016 is part of an ongoing, concerted effort by multiple development and implementing partners to strengthen the means to address environmental issues in a regional development context. It also addresses current and emerging environmental pressures within the GMS Economic Cooperation Program and the economic corridors, alignment with GMS economies' and ADB's economic development and investment strategies and frameworks.

Figure 5.2: Sectoral Distribution of GMS Investment Projects Financed by ADB, 1994–2015



GMS = Greater Mekong Subregion.
Source: ADB Southeast Asia Department.

way. An award-winning Mekong tourism digital platform features visitor information, an e-magazine, and social media. Efforts are also progressing toward establishment of the Mekong Tourism Coordinating Office in Bangkok, Thailand as an intergovernmental organization.

Human resource development. Major accomplishments including the implementation of projects focused on preventing and controlling communicable diseases, including HIV/AIDS. The GMS led a successful pilot project implementing a framework for the mutual recognition of skills and qualifications to address skill shortages and enhance subregional competitiveness. It also extended efforts to support safe labor migration and address human trafficking. Frameworks are being developed for the mutual recognition of skills and qualifications in selected skill areas, new training standards for technical and vocational education and training, and an Academic Credit Transfer System Framework and university networking system.

The GMS impact and success across this broad range of areas would not have been possible without the mobilization of substantial financial resources. As of December 2015, ADB had extended loans totaling $6.6 billion for 76 investment projects costing about $17.8 billion in total (Figures 5.2a and 5.2b). These have involved subregional roads, railway improvements, hydropower projects, corridor town development, tourism infrastructure development, communicable disease control, trade facilitation, and biodiversity conservation. GMS governments and development partners provided $4.7 billion and $6.5 billion, respectively, for these projects.

From 1993 to 2015, ADB also provided about $124.9 million for 205 technical assistance projects with a total cost of $368.95 million for project preparation, capacity development, economic, thematic, and sector work, and coordination and secretariat assistance. GMS governments contributed $20 million, while development partners provided $224.02 million in cofinancing. ADB has also played the role of honest broker for the GMS Program, facilitating subregional dialogue and promoted agreements on key issues among GMS economies.

Opportunities and Challenges

Rising Mekong Regionalism. Despite major downside risks to the global and regional economy, regional cooperation and integration in the GMS, continues to deepen and intensify. First, the establishment of the Association of Southeast Asian Nations (ASEAN) Economic Community in 2015 creates major opportunities to accelerate and deepen regional economic integration.

Second, various subregional programs are emerging in the GMS subregion. Starting with the GMS Program in 1992, 11 additional regional arrangements involving one or all Mekong countries were established during 1992–2015.

Third, bilateralism has become more prominent. In some sectors, bilateral and trilateral agreements offer more practical and speedier solutions than regional arrangements that often take time for negotiation and ratification. Within this context, bilateral arrangements are emerging and becoming part of the Mekong regionalism process. If GMS economies can capitalize on these trends, they can be better placed for better income growth and poverty reduction.

Structural changes. Major structural changes are likely within Asia in coming years. And it will be important for GMS governments and firms to be fully aware of their implications, preparing to adapt and take advantage of new opportunities. Economies are rebalancing toward domestic markets throughout Asia, which will likely continue as an emerging middle class boosts consumption. Higher unit labor costs (and possibly appreciating currencies) in the PRC as well as other Asian economies will lead to shifts in corporate strategies. Meanwhile, for exports, the most rapidly growing markets will be in Asia, with the PRC and India likely to be particularly important for the GMS because of their size, growth, and proximity. To benefit, the GMS must ensure it retains competitive advantage through appropriate macro and other policies fostering a positive business climate, combined with enhanced transport and service connectivity.

Missing infrastructure links. The bulk of the missing links is in Myanmar, which has only joined corridor development since its political opening in 2012. While most major roads along the corridors have been completed, the feeder road network connecting production and trade hubs within the corridor is not yet fully developed, and interoperability among different modes of transport remains inefficient.

Development assistance. As noted in the previous section (see "Central and West Asia: CAREC Program"), new financing sources are emerging such as the Asian Infrastructure Investment Bank and Silk Road Fund. GMS economies can capitalize on these new development sources to help meet infrastructure needs.

Urban investments. Strategically targeted, economically sound, and environmentally sustainable urban investments are crucial to widening and deepening GMS corridors. Spatial concentration of development and growing urbanization are likely to continue. Both are important features of efficient and speedy development, but they can also lead to growing inequality within economies and across countries. In this context, the GMS focus on agriculture, infrastructure, and human resources can help produce more equitable growth within and between GMS members.

Migration. Migration within and across countries will almost certainly be a powerful force in enhancing GMS living standards. While some economies are aging faster, which can cause labor shortages and sap competitiveness, working-age populations are increasing in others and will need good job opportunities. Imbalances in labor availability alongside economic disparities driven by spatial concentration of economic development will create push and pull forces for migration. This calls for stronger human capital development and better mechanisms to promote safe migration and to connect migrants with their homes, such as good transport links and financial services that support remittance transfers.

Climate change. Two aspects are important to the GMS—in addition to implications for food security. First, the push to mitigate climate change, including controlling greenhouse gas emissions, is raising the value of still-ample GMS forest resources. It also creates additional incentives for investment in new green growth technologies. Second, the increasingly likely need to adapt to climate change will raise the value of commodities used intensively in scarce factors such as water. GMS countries need to unlock the potential value-added of their natural resource supply through appropriate agriculture, human resource, and infrastructure development. Development of low-carbon cities and low-carbon power generation are equally important.

East Asia: Support to CAREC and GMS Programs

Emerging government-led multilateral cooperation initiatives are opening new opportunities to engage inter-subregionally and offering strong potential to enhance the impact of existing support through the two programs.[44]

44 The ADB's East Asia department has also provided technical assistance to formalize and deepen the Association of Southeast Asian Nations (ASEAN)-PRC, Pan-Beibu Gulf Economic Cooperation, and exchanges information with the Greater Tumen Initiative in which Mongolia and the PRC, as well as the Republic of Korea and the Russian Federation, participate. The Greater Tumen Initiative was established in 1991 with United Nations Development Program support to promote regional development in northeast Asia.

Nonetheless, regional integration in East Asia, inherently connected to the CAREC and GMS programs, faces crucial constraints—some practical obstacles, others more policy- or capacity-related—such as long delays at border crossings. Research, monitoring, and reporting mechanisms can identify the causes of bottlenecks. Given the PRC's position as principal trading partner to both ASEAN and Central Asian countries, it is critical to address these constraints to improve cross-border infrastructure connectivity in both CAREC and GMS.

Overview

Mongolia and the PRC are active participants in ADB's CAREC Program (Mongolia and the PRC) and the GMS Economic Cooperation Program (the PRC). ADB country partnership strategies for both the PRC and Mongolia highlight regional cooperation as a cross-cutting theme and thrust of ADB assistance.

In addition, trade and investment relations between the PRC and Mongolia have flourished in recent years. The PRC has become Mongolia's largest trading partner and principal source of foreign direct investment. ADB supports the development of an enhanced economic partnership between the two.

Progress on Regional Cooperation

Mongolia. Regional cooperation and trade are critical for promoting economic growth in landlocked Mongolia. International trade has always been important for the economy given its abundance of natural resources and agriculture. Regional cooperation offers an opportunity to strengthen physical and economic links with the country's neighbors to access broader markets and realize growth potential.

The strategic priorities for Mongolia under CAREC are physical connectivity and trade facilitation. ADB has provided financial support for the construction of regional roads and railways, regional logistics development and infrastructure, and urban services in border towns. Support has also been provided for the modernization of customs services and improvement of SPS measures to increase trade in agricultural and food products.

Mongolia is implementing transport projects along the Trans-Mongolian CAREC corridor and the Western Regional Road Development to the PRC border. Also in progress are the construction of the access road from Ulaanbaatar to the new international airport, the Western Regional Road Development Phase 2 connecting Ulaanbayshint (border point to the Russian Federation) and Yarant (border point to the PRC), and the Undurkhaan-Baruun-Urt-Bichigt-Huludao/Chifeng-Jinzhou road.

People's Republic of China. ADB works closely with the government to support regional cooperation and integration through country programs and regional technical assistance, with a focus on transport connectivity, development of corridor cities, and trade facilitation to promote economic corridors. The PRC has upgraded road and rail routes to its northern, western, and southern borders in Yunnan province ("Yunnan"), Inner Mongolia, Xinjiang Uyghur, and Guangxi Zhuang ("Guangxi") Autonomous Regions, mostly internally financed through significant ADB contributions under CAREC and the GMS (Box 5.1).

The PRC has also contributed substantially to regional cooperation and integration, both financially and through sharing its rich development experience. To strengthen the partnership with ADB, the PRC established a Poverty Reduction and Regional Cooperation Fund. Alongside ADB, it is also sponsoring, training programs under GMS and CAREC, setting up a Regional Knowledge Sharing Initiative, and taking the lead in establishing the CAREC Institute.

New initiatives. Following the global financial crisis, new government-led, sub-regional, and inter-subregional cooperation initiatives have emerged to promote regional integration as part of an overall effort to diversify export markets toward Asia. These provide new layers of engagement, complementing existing regional platforms such as GMS and CAREC.

The most notable is the PRC's initiative developing the Silk Road Economic Belt and the 21st Century Maritime Silk Road, jointly called the Belt and Road Initiative (Box 5.2). The "belt" on land aims to promote greater connectivity between the PRC and the central and western parts of Eurasia. The "road" at sea seeks to

Box 5.1: PRC Involvement in Greater Mekong Subregion Economic Cooperation

The Greater Mekong Subregion (GMS) North–South Economic Corridor connects the province of Yunnan and Guangxi Zhuang Autonomous Region of the People's Republic of China (PRC) with Thailand, and is a direct conduit between southern PRC and northern Viet Nam, as well as with Myanmar and the Lao People's Democratic Republic. Yunnan and Guangxi share the PRC's only two borders with Association of Southeast Asian Nations (ASEAN), making the corridor a clear gateway for ASEAN–PRC trade. This is expected to expand rapidly with the implementation of the free trade agreement between the PRC and ASEAN.

ADB is facilitating implementation of the memorandum of understanding (MOU) between the PRC and Viet Nam on jointly developing border economic zones, and a new regional technical assistance project is being prepared to provide support for border economic zone development. Implementing the MOU is expected to boost trade and investment, contributing to the development of the North–South Economic Corridor. Work is also under way to design a regional cooperation and integration loan for Guangxi Zhuang Autonomous Region to enhance the PRC participation in the GMS program, with expected positive spillovers for Viet Nam.

Source: ADB East Asia Department.

establish closer links with economies in South and Southeast Asia, as well as Africa. As outlined in the 13th Five Year Plan 2016–2020, the Belt and Road Initiative serves to implement the government's foreign policy. It will also help develop the PRC's more remote regions by enhancing connectivity to national and international markets as part of the government's strategy for rebalancing growth.[45]

[45] For instance, the Belt and Road Initiative starts in the central PRC Xian, opening trade routes to inland provinces.

Box 5.2: Belt and Road Initiative

The Belt and Road Initiative aims to strengthen infrastructure on the westward land route through Central Asia and Europe and the southern maritime route through Southeast Asia, on to South Asia, Africa, and Europe.

The initiative has two components: (i) the Silk Road Economic Belt; and (ii) the 21st Century Maritime Silk Road. The belt links the People's Republic of China (PRC) by land to Central Asia and Europe, while the Maritime Silk Road would connect the PRC's east coast to Europe. The two-pronged initiative would connect Asia and the Pacific, Europe, and Africa across five routes:

The Silk Road Economic Belt will focus on three economic corridors linking the PRC to:

(i) Europe through Central Asia and the Russian Federation;
(ii) the Middle East through Central Asia; and
(iii) Southeast Asia, South Asia, and ports in the Indian Ocean.

The Maritime Silk Road will focus on linking the PRC coastal ports to:

(i) Europe and
(ii) the southern Pacific Ocean.

The Belt and Road Initiative's networks connecting Asia, Europe, Africa, and the Middle East will pass through more than 60 countries in five regions that are home to 3.2 billion people (about 45% of the world total) and a combined gross domestic product (GDP) of $13 trillion in 2014 (box table). Trade in Belt and Road Initiative nations with the PRC reached around $1 trillion in 2014.

The economic and infrastructure conditions vary considerably across countries along the initiative route. At present, there are 9 low-income economies; 16 lower-middle-income economies; 14 upper-middle-income economies; and 7 high-income economies. Alleviating poverty therefore remains a major challenge. The economies are also diverse in land area, population density, road density, paved roads, and rail density, and so on. Many economies along the route have poorly developed transport infrastructure networks relative to population density (box figure). Paved to total roads ratio is relatively low and rail access or movement for some is limited. These gaps in transport infrastructure hamper trade and investment flows.

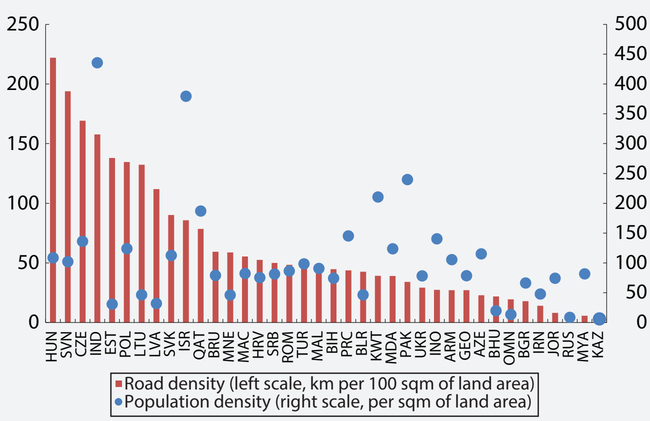
Thus, the Belt and Road Initiative—if supported by adequate resources and well-designed sequencing—could help the region address some of these challenges by drawing investments in infrastructure and enhancing connectivity to facilitate trade flows.

Economies Covered in the Belt and Road Initiative

Region	Economies
Central and West Asia	Afghanistan, Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Uzbekistan, Turkmenistan
Southeast Asia	Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam
South Asia	Bangladesh, Bhutan, India, the Maldives, Nepal, Sri Lanka
Other Asia	Mongolia, Timor-Leste
European Union	Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia
Middle East	Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, Yemen
Others	Albania, Belarus, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, the Russian Federation, Serbia, Ukraine, Turkey

Note: Economies in Asia grouped based on ADB definition.
Source: HKTDC Research. http://china-trade-research.hktbc.com

Population Density, 2014 Versus Road Density, 2011



ARM = Armenia, AZE = Azerbaijan, BGR = Bulgaria, BHR = Bahrain, BIH = Bosnia and Herzegovina, BLR = Belarus, BRU = Brunei Darussalam, BHU = Bhutan, PRC = People's Republic of China, CZE = Czech Republic, EST = Estonia, GEO = Georgia, HRV = Croatia, HUN = Hungary, IND = India, INO = Indonesia, IRN = Iran, ISR = Israel, JOR = Jordan, KAZ = Kazakstan, km = kilometer, KWT = Kuwait, LTU = Lithuania, LVA = Latvia, MAC = Macedonia, MAL = Malaysia, MDA = Moldova, MNE = Montenegro, MYA = Myanmar, OMN = Oman, PAK = Pakistan, POL = Poland, QAT = Qatar, ROM = Romania, RUS = Russian Federation, SRB = Serbia, sqm = square meter, SVK = Slovak Republic, SVN = Slovenia, TUR = Turkey, UKR = Ukraine.
Source: ADB calculations using data from World Bank. World Development Indicators. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed June 2016).

The PRC National Development and Reform Commission explained its vision and action plan for Belt and Road Initiative on 3 March 2015 (NDRC et al. 2015). It aims to institute a new era of "open regionalism" that creates greater momentum for regional cooperation and integration across and beyond Asia and the Pacific and on a geographic scale far exceeding past efforts. Investments coordinated under the initiative will help align development plans of economies connected across the initiatives corridors, expand markets, and promote investment while boosting employment growth and enhancing cross-cultural exchange and knowledge. It is formulated as a strategic framework for PRC financial institutions (Asian Infrastructure Investment Bank, Silk Road Fund, and dedicated financial arm to be established under the Shanghai Cooperation Organization, among others); and bilateral and multilateral partners. However, the success of the Belt and Road Initiative relies on strong cooperation networks.

Targeted government-led initiatives could strengthen these commitments, such as the trilateral cooperation of the PRC, Mongolia, and the Russian Federation promoting the development of a Eurasian land bridge as an economic corridor connecting the three economies and prioritized by the Belt and Road Initiative. The economies launched a joint development plan in June 2016. Mongolia's Steppe Road Program, which will focus on construction and rehabilitation of trans-border transport infrastructure, will also be anchored to the Belt and Road initiative.

Opportunities and Challenges

New multilateral cooperation mechanisms, particularly recent ones from the PRC, move regional cooperation and integration beyond the conventional subregional approach toward more inter-subregional cooperation.

This has implications for ADB-supported subregional programs—particularly CAREC and the GMS. There is a need to strengthen coordination and synergy between the existing regional cooperation and integration programs and the Belt and Road Initiative Program and other new government-led initiatives. Providing effective coordination and objective intermediation is a hallmark of

ADB's approach to regional cooperation and integration. ADB's long experience and outreach can help build coherence on regional issues and programs, along with country-level implementation.

South Asia: South Asia Subregional Economic Cooperation Program

Since 2001, the South Asia Subregional Economic Cooperation (SASEC) program has been helping members improve cross-border connectivity and increase trade through a pragmatic, results-oriented initiative focused on transport, trade facilitation, and energy. Priority areas have included (i) improving international corridors to expand trade and commerce; (ii) modernizing customs operations, improving border facilities, and facilitating trade through transport; and (iii) improving cross-border power transmission connectivity to boost energy security and reliability in the subregion. Changing global economic and trade landscapes have prompted SASEC economies to develop a new vision to achieve the subregion's collective growth and development objectives.

Overview

SASEC was formed in 2001 when four South Asian Growth Quadrangle countries (Bangladesh, Bhutan, India, and Nepal) requested for ADB assistance in advancing their economic cooperation initiative. The initiative stemmed from the belief that regional cooperation can help address constraints of size, geography, and institutional capacity that hinder the subregion's development (Table 5.4). The SASEC economies lack the factors that typically drive faster integration, while facing high costs to trade, inadequate infrastructure, and landlocked status—especially in smaller Bhutan and Nepal. ADB functions as lead financier, Secretariat, and development partner, with support covering (i) capacity building and institutional strengthening, (ii) various regional initiatives, and (iii) financing for projects and technical assistance. In 2014, the Maldives and Sri Lanka joined the program, expanding opportunities for enhancing economic links in the subregion.

The SASEC program is institution light but project heavy.

SASEC institutional arrangements are simple. SASEC Nodal Officials meet once a year on the sidelines of ADB's Annual General Meetings to discuss the program's strategic issues, and again during the yearly meeting of SASEC working groups, which reviews progress of

Table 5.4: Selected Economic Indicators—SASEC Members, 2015

	Population (million)	**Nominal GDP** ($ billion)	**GDP Growth** (%, 2011-15, average)	**GDP Per Capita** (current prices, $)	**Trade Openness** (total trade as % of GDP)
Bangladesh	161.0	195.1	6.3	1,212	42.1
Bhutan	0.8	2.0	5.9	2,532	116.0
India	1,311.1	2,116.2	6.7	1,614	30.4
Maldives	0.4	3.1	4.8	7,681	200.7
Nepal	28.5	20.9	4.1	732	53.2
Sri Lanka	21.0	82.3	6.1	3,926	48.5

GDP = gross domestic product, SASEC = South Asia Subregional Economic Cooperation Program.
Sources: ADB calculations using data ADB (2016); CEIC; World Bank. World Development Indicators. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed November 2016).

projects and plan future activities.[46] SASEC has also taken a flexible, multi-track, multi-speed, and building-block approach that has enabled economies to process projects at their own pace and build on success at each step. This approach has benefited the program by improving cross-border connectivity, facilitating faster and less costly trade and generally reducing various cross-border constraints. Since 2001, 43 SASEC projects worth more than $8.8 billion have been completed or are under way.

Strategic Areas of Cooperation

Transport, trade facilitation, and energy. Since 2011, SASEC has focused on three sectors—transport, trade facilitation, and energy. Cooperation in transport seeks to promote connectivity among national transport systems to facilitate the seamless movement of goods and people across the subregion. This is complemented by trade facilitation to reduce or eliminate bottlenecks at the border as well as along the supply chain to lower trade costs. Cooperation in energy seeks to enhance electricity trade to expand and diversify energy supply to secure power reliability.

Other subregional initiatives. SASEC working groups in these three sectors meet regularly to plan and monitor implementation of regional projects and resolve project-related issues. SASEC also complements the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) by implementing some key SAARC projects. ADB has provided technical assistance to assist SAARC and BIMSTEC carry out analytical studies, such as the SAARC Regional Multimodal Transport Study and the BIMSTEC Transport Infrastructure and Logistics Study—transport master plans for the two programs. Through technical assistance to SAARC and BIMSTEC, and constructive dialogue with their secretariats, ADB helps advance economic cooperation of the two organizations and SASEC to broaden benefits to the region's constituents.

[46] The SASEC working groups include the Trade Facilitation and Transport Working Group and Energy Working Group. Subgroups (such as the SASEC Customs Subgroup and SASEC Electricity Transmission Utility Forum) meet at least yearly to discuss detailed activities under the working group's work plans.

Development Results

SASEC cooperation has improved access to key markets in smaller economies, reduced real trade costs and behind-the-border barriers to stimulate investment; and enabled cross-border power exchanges to ensure power supply affordability, reliability, and overall grid stability.

Transport. The SASEC program is developing sections of two high-priority SAARC Corridors—Corridor 4 covering Kakarbhitta (Nepal)- Panitanki/Phulbari (India)–Banglabandha (Bangladesh); and Corridor 8 covering Phuentsholing (Bhutan)–Jaigaon/Changrabandha (India)–Burimari (Bangladesh). Various SASEC road connectivity projects in Bangladesh, Bhutan, Nepal, and India's northeastern regions are improving parts of the Asian Highway Network, constructing alternate routes and developing access roads while improving land customs stations and customs systems. ADB-supported railway enhancement projects in Bangladesh are improving the international connectivity of the rail system. Improvements in border-crossing facilities such as land customs stations and dry ports in Bhutan, and land customs stations and integrated check posts in India are speeding border processing and increasing efficiency. When completed, the SASEC-Myanmar Corridor will promote South Asia-Southeast Asia connectivity. SASEC also plans for comprehensive port development in Bangladesh and India to better handle subregional maritime trade. SASEC transport projects have all emphasized "last-mile" connectivity, improving border facilities and promoting multi- and inter-modality (road-rail-water transport)—when combined with enhanced transit facilities and trade facilitation measures, will help maximize trade and commerce expansion.

Trade Facilitation. SASEC's Trade Facilitation Strategic Framework 2014–2018 is undertaking several national and subregional projects in five priority areas: (i) customs modernization and harmonization, (ii) standards and conformity assessments focusing on SPS measures, (iii) improvement of cross-border facilities, (iv) through transport facilitation, and (v) institutional capacity building. It has provided support to Bangladesh, Bhutan, the Maldives, and Nepal to undertake policy-based and regulatory reforms and streamlining processes and procedures, as well as planning the institutional arrangements toward the establishment of national single windows (ADB 2014).

The Trade Facilitation Strategic Framework, the SASEC Customs Subgroup, is overseeing subregional and national projects including exchange of documents at major border crossings and automation of transit processes.

Protocols to implement the Bangladesh-Bhutan-India-Nepal Motor Vehicles Agreement are being finalized. This landmark framework agreement aims to facilitate passenger, personal, and cargo vehicular traffic between these countries to reduce costly and time-consuming transshipment of people and goods at border crossings. A similar Motor Vehicles Agreement among India-Myanmar-Thailand will be finalized soon to ensure efficient transport between South Asia and Southeast Asia. Key training programs have been implemented in the areas of customs core competencies (such as customs valuation, risk assessment, national single window) and standards and conformity assessment. This trade facilitation will help create a more closely integrated subregional market that can enhance scale economies of local firms, increase competition and efficiency, and reduce real trade costs and behind-the-border barriers to attract more investment into SASEC members.

Energy. SASEC economies are forging bilateral and regional arrangements for energy trade, recognizing the multiple benefits of integrated energy markets, and enabling sharing of generation investments and improving energy security.

Bhutan has developed hydropower projects for export. The first Bangladesh-India 500 MW interconnection started in October 2013, and an additional 500 MW transmission capacity will be in place by December 2017. Approvals in 2015 included technical assistance in Bhutan to prepare hydropower for export from the eastern region, and a second interconnection project to increase capacity of imports from India to Bangladesh.

An ongoing project preparatory facility for energy in Nepal has been helping prepare energy export projects using public–private partnerships for hydropower and power transmission projects. An energy reform program in Nepal for ADB assistance in 2017–2019 is also being prepared under the facility.

The SASEC Electricity Transmission Utility Forum is overseeing the conduct of the SASEC Transmission Master Plan Study, which is looking at the most economical cross-border transmission options and generation plants for 2020–2030.

All these efforts at improving cross-border interconnections for power trade are already bringing concrete benefits. The first interconnection project enabling export of up to 500 MW of power from India to Bangladesh, which commenced in 2013, is helping reduce power shortages in Bangladesh, providing alternative markets for Indian power suppliers, and improving grid stability in the subregion. Rising exports of Bhutan's hydropower to India boosts environment-friendly and sustainable power sources in the overall energy mix of the subregion.

Opportunities and Challenges

South Asia faces numerous challenges as it works to regain and sustain the pre-crisis high economic growth momentum. SASEC economies are formulating a SASEC Vision to provide the overarching framework to achieve members' collective growth and development objectives.

The SASEC Operational Plan's focus will involve (i) reinforcing existing value chains and developing new value chain linkages between in-country corridors, (ii) upgrading key transport and trade facilitation infrastructure, and (iii) designing institutional mechanisms for coordination and collaboration among the government and various stakeholders in economic corridor development.

Challenges include (i) increasing productivity and investment, (ii) creating jobs for the growing labor force, and (iii) mitigating macroeconomic and structural vulnerabilities. To do this, a SASEC Vision document provides the overarching framework and long-term strategy for sustained and inclusive growth.

For the next decade, SASEC's agenda will be framed within wider integration processes taking place in Asia. This implies enhancing economic linkages with East and Southeast Asia and harnessing the full potential of Asian integration. SASEC's connectivity agenda should be better aligned with the frameworks of SAARC and BIMSTEC to generate greater synergy with these regional initiatives. The SASEC Operational Plan for 2016–2025 reflects these priorities, with SASEC's current pipeline of projects reflecting priority projects identified by SAARC and BIMSTEC studies—supplemented with projects that will meet the subregion's emerging needs. Myanmar is considering full membership in SASEC—a step that will help realize SASEC's strategic role in building connectivity between South Asia and Southeast Asia (SASEC Secretariat 2016).

Transport. The challenge is to address capacity constraints and increased demand for service quality and safety given continued economic growth, rising incomes, and greater demand for travel. Transport infrastructure will help realize seamless movement along intermodal transport systems in key trade routes by removing physical and nonphysical constraints, thus increasing trade. Promoting "multimodality" for transport will involve developing land and maritime transport, improving access to and reducing congestion at border crossings, and improving logistics infrastructure.

Trade facilitation. Trade facilitation bottlenecks are the leading nontariff barriers constraining intraregional trade within SASEC—long travel times and high costs to trade in South Asia. For the next decade, cross-border transport and trade facilitation will involve extending the Trade Facilitation Strategic Framework 2014–2018 and expanding its thrusts to cover multimodal transport, including both land- and sea-based transport focusing on logistics chains. A key component of the trade facilitation strategy is to elevate the practices and processes of border clearance to international best practices.

The operational priorities for trade facilitation for 2016–2025 will focus on simplifying border-crossing procedures and optimizing the use of automated systems; promoting inter-agency collaboration to develop national single windows; strengthening national conformity boards; developing SPS-related facilities and exploring mutual recognition agreements; implementing through-transport motor vehicle agreements; developing trade-related infrastructure and logistics facilities in SASEC ports, as well as land borders; and building institutional mechanisms to enhance trade information and regional cooperation among trade-related stakeholders in the SASEC region.

Energy. The main challenge is to meet the growing demand from strong economic growth and rising per capita incomes. Other challenges include reducing coal as fuel for power generation and import dependence, lack of capacity and diversification of energy sources to meet energy needs, inadequate infrastructure and policy frameworks that limit power trade potential, and lack of funds for capital-intensive energy investment.

Improving energy trade infrastructure and developing regional power markets should be complemented by developing low-carbon alternatives along with energy efficiency and conservation measures. The operational priorities for energy for 2016–2025 are (i) improving interconnections to access large-scale electricity and natural gas resources, (ii) harnessing unused regional hydropower potential, (iii) developing low carbon energy (wind and solar), and (iv) facilitating bilateral and regional coordination mechanisms and knowledge sharing.

Economic corridor development. The SASEC Operational Plan 2016–2025 includes economic corridor development as a new priority area, focusing on transport connectivity and trade facilitation to be complemented by multi-sector investments in special economic and industrial zones and logistics centers, backed by coordinated plans for raising domestic competitiveness (SASEC Secretariat 2016). The economic corridor development approach aims to extend the positive effects of simple transport routes by spreading benefits to the hinterlands for more inclusive growth, and by synchronizing and integrating urbanization and sustainable industrialization to boost productivity and living standards.

The Pacific: Framework for Pacific Regionalism

A new Framework for Pacific Regionalism developed by and for Pacific island countries underpins a more focused push toward greater regional cooperation among the small and remote economies of the Pacific.

Priorities include fisheries, climate change and disaster risk reduction, and information and communications. Progress has been most evident in oceanic fisheries, where regional action has resulted in substantially higher revenues from fishing licenses sold to foreign fleets. As with previous attempts at promoting broader regionalism in the Pacific, effectively translating regional strategies and policies into workable national actions is a key challenge.

Overview

Endorsed by Pacific Islands Forum Leaders at their 46th forum in July 2014, the Framework for Pacific Regionalism is the subregion's current master strategy for strengthening cooperation and integration between the states and territories of the broader Pacific subregion (Pacific Islands Forum Secretariat 2014a). It includes 13 of the 14 Pacific developing member countries (DMCs) of ADB (Timor-Leste being the exception).

The framework replaced the 2005 Pacific Plan for Strengthening Regional Cooperation and Integration under which progress was stalled by excessive "priorities" and issues surrounding sovereignty and a lack of regional ownership (ADB and ADBI 2015).

The new framework supports "focused political conversations and settlements that address key strategic issues, including shared sovereignty, pooling resources and delegating decision-making" (Pacific Islands Forum Secretariat 2014a). Instead of a list of priorities, the framework outlines a clear process through which Pacific priorities will be identified and implemented.

Strategic Areas of Cooperation

A Specialist Sub-Committee on Regionalism was subsequently established to consider proposed priorities from stakeholders including Pacific governments, regional and international organizations, civil society organizations, and citizens. The first 68 submissions received were considered against the test for regionalism consistent with the new framework. Five regional issues were passed on to the Pacific Island Leaders. These were then discussed during the Pacific Islands Forum in Port Moresby, Papua New Guinea in September 2015 (Pacific Islands Forum Secretariat 2015). A further 47 submissions were considered and four regional issues passed to the leaders for discussion ahead of the September 2016 meeting in Pohnpei, Federated States of Micronesia. The 2016 Forum Communique highlighted regional issues including oceans, climate change and disaster risk management, cervical cancer, harmonization of business practices, and fisheries (Pacific Islands Forum Secretariat 2016).

Oceanic fisheries. After successfully raising fishing license revenues with the establishment of a regional vessel day scheme, Pacific governments are now considering further regional cooperation initiatives to increase economic returns from fisheries while ensuring sustainable resource management.

The Parties to the Nauru Agreement's vessel day scheme involves a subgroup of Pacific economies—including Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Solomon Islands, and Tuvalu. The vessel day scheme is one of the most successful examples of regional cooperation in the Pacific. It aims to safeguard sustainability and maximize revenues from the sale of fishing licenses to foreign fleets that work the vast exclusive economic zones of Pacific DMCs (Table 5.5). It establishes a maximum number of total days for fishing in the waters of agreement members, allocated to each country based on historical fishing in their economic zones. Countries can either sell their vessel days to fishing fleets, subject to a minimum benchmark fee, or trade days with other members. Since full implementation in 2012, the scheme has generated a substantial increase in incomes from the extensive fisheries resources of its members (Figure 5.3).

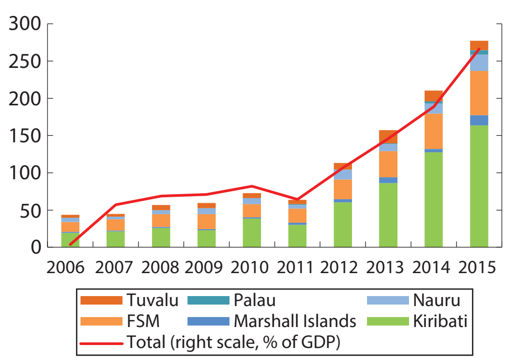
Table 5.5: Land Area and Exclusive Economic Zones of Pacific Developing Member Countries

Pacific DMC	Land Area		EEZ		EEZ to Land Area
	km²	% of total	km²	% of total	
Cook Islands	240	0.0	1,830,000	9.7	7,625.0
Fiji	18,274	3.4	1,281,122	6.8	70.1
Kiribati	811	0.1	3,437,345	18.2	4,238.4
Marshall Islands	181	0.0	1,992,232	10.5	11,006.8
Federated States of Micronesia	702	0.1	2,992,597	15.8	4,263.0
Nauru	20	0.0	308,506	1.6	15,425.3
Palau	459	0.1	604,289	3.2	1,316.5
Papua New Guinea	462,840	85.2	2,396,575	12.7	5.2
Samoa	2,840	0.5	131,812	0.7	46.4
Solomon Islands	28,900	5.3	1,597,492	8.5	55.3
Timor-Leste	14,870	2.7	77,051	0.4	5.2
Tonga	750	0.1	664,853	3.5	886.5
Tuvalu	26	0.0	751,797	4.0	28,915.3
Vanuatu	12,189	2.2	827,891	4.4	67.9
Total	543,102	100.0	18,893,562	100.0	34.8

DMC = developing member country, EEZ = exclusive economic zone, km = kilometer.
Sources: ADB 2016. ADB Basic Statistics 2016 Manila; and University of British Columbia. Global Fisheries Cluster Sea Around Us Project. www.seaaroundus.org

During the Pacific Islands Forum in September 2015, leaders endorsed the Regional Roadmap for Sustainable Pacific Fisheries, setting a 5-year window for further increasing economic returns from fisheries through regional cooperation. A joint taskforce composed of Parties to the Nauru Agreement, the Forum Fisheries Agency, and the Forum Secretariat was created to develop a work program for achieving this objective. During the subsequent Forum held in September 2016, Pacific Leaders endorsed the taskforce's work program and report, covering four key areas: reform management of longline fisheries, increasing employment and ensuring effective labor standards, facilitating investment and trade, and value chain participation.

Figure 5.3: Fishing License Revenues—Select Parties to The Nauru Agreement Members
($ million)



FSM = Federated States of Micronesia.
Source: ADB. 2016. *Pacific Economic Monitor* (July). Manila.

Climate change. Recognizing climate change as the single greatest threat to security, livelihood, and well-being across the subregion, Pacific governments are working together to keep the focus on the subregion's vulnerabilities prominent in global discourse.

The Pacific Islands Forum is the subregion's primary vehicle for maintaining a strong, unified voice calling for urgent action to address looming and potentially existential climate change threats. Pacific governments welcome the Paris Agreement and fully support its goal of limiting global temperature rises to 1.5 degrees celsius above pre-industrialized levels.

The 47th Pacific Islands Forum (September 2016) recognized and endorsed the Framework for Resilient Development in the Pacific for its potential to support coordinated action on climate change and disaster risk management. As a voluntary and nonpolitical framework, the framework supplements rather than replaces existing regional statements or declarations, and is seen to be fully operationalized upon entry into force of the Paris Agreement. As of September 2016, eight Pacific economies had already ratified the Paris Agreement, and the Pacific Islands Forum is encouraging all members to sign and ratify it by the end of 2016.

ADB has continuously supported Pacific DMCs through a series of regional climate change initiatives, including the Pacific Climate Change Program. This program is envisioned to be a "one-stop-climate change service" responding to climate change-related technical and financing needs across the Pacific. ADB has mobilized about $80 million in new and additional financing from the Climate Investment Funds and Green Energy Fund and is working closely with Pacific countries, especially Fiji, to access Green Climate Fund resources. More broadly, ADB is looking to work with Pacific governments and regional agencies to explore options to strengthen disaster risk financing.

Information and communication technology (ICT). ICT remains grossly underutilized across the Pacific, and governments are turning to subregional cooperation to help unlock massive potential benefits from better digital connectivity.

Pacific governments recognize the wide range of economic opportunities ICT solutions present, including greater access to global knowledge and world markets. However, challenges to full connectivity in the subregion are significant. In the remote island countries of the Pacific, as little as 1% of the population has access to the internet, and costs are largely prohibitive—amounting to as much as $650 per month. The Forum Secretariat and the University of the South Pacific—a regional university supported by 12 Pacific island countries—are considering the creation of a regional ICT Advisory Council that could help facilitate greater digital connectivity in the subregion.

ADB's ICT operations in the Pacific focus on funding ICT infrastructure through submarine cable projects, developing regulatory capacity, and supporting applications for social services, including e-Health and e-Learning initiatives. For example, the cost of internet access in Tonga fell by 60% in 2013 after completion of the submarine cable system linking Tonga to Fiji—a component of the Pacific Regional Connectivity Project—cofinanced by ADB and the World Bank. While there have been clear gains in ICT access, for example, setting up an online company registration system that reduced the number of days to start a business from 14 to 1, challenges with uptake remain, with still under 10% of Tongan firms with their own websites (compared with a 40% average for Asia and the Pacific) (ADB 2015).

Support for Regional Institutions

Some of the most significant regional services today are offered through the Pacific Aviation Safety Office, Pacific Financial Technical Assistance Centre, the Pacific Association of Supreme Audit Institutions, and more recently, the Private Sector Development Initiative, the Pacific Regional Infrastructure Facility, and the Pacific Islands Financial Managers' Association (ADB 2009). These regional institutions are predominantly development-partner funded. They help achieve economies of scale in delivering services.

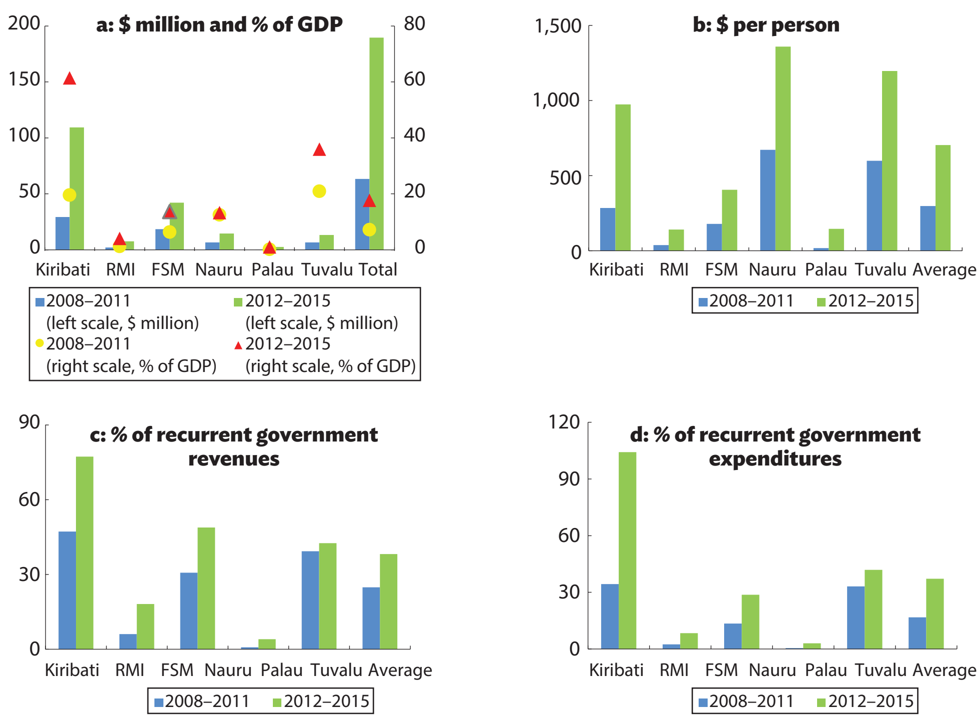
Development Results

Fishing license revenues. In the Pacific, fisheries have perhaps achieved the most dramatic progress in regional cooperation with tangible economic gains. In 2010, fishing license revenues collected by Parties to the Nauru Agreement members amounted to only about 2.9% of the estimated $2.0 billion value of the total tuna catch. By 2014, this increased to 10.4% ($2.6 billion). Available data from Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, and Tuvalu show a twofold increase in fishing license revenues since full implementation of the vessel day scheme in 2012. Collections climbed from the equivalent of 7.1% of GDP in 2008–2011 to 17.7% in 2012–2015. In per capita terms, average fishing license revenues amounted to $704 per year in 2012–2015, 136% higher than in 2008–2011, across these six island countries (Figure 5.4).

At the country level, Kiribati saw the most dramatic rise in fishing license revenue collections. Collections in 2015 reached $164 million, a staggering 99% of GDP. Strong fishing license collections have helped reverse Kiribati's fiscal position from previous deficits to rising surpluses equivalent to 10% (2013), 23% (2014), and 48% (2015) of GDP. These surpluses allowed the government to deposit increasing amounts into the Revenue Equalization Reserve Fund (RERF). Building up the RERF is central to Kiribati's long-term fiscal sustainability, and increased collections and prudent use of fishing license revenues have so far contributed to this significantly.

In general, other Parties to the Nauru Agreement members have also benefited, with sharp increases in fishing license revenues enabling island countries to (i) improve fiscal positions, (ii) increase savings in public trust funds, and (iii) fund sensible increases in government expenditures. As revenue increases are derived from a structural shift to a new licensing regime underpinned by the vessel day scheme, annual collections can be sustained at current high levels provided regional cooperation and conservation agreements remain effective. Given the high importance of the public sector in Pacific economic prospects, improved fiscal outcomes through greater regional cooperation in oceanic fisheries management can help fuel more inclusive and sustainable growth.

Figure 5.4: Relative Importance of Fishing License Revenues, 2008–2011 versus 2012–2015



FSM = Federated States of Micronesia, GDP = gross domestic product, RMI = Marshall Islands.
Source: ADB. 2016. *Pacific Economic Monitor* (July). Manila.

Opportunities and Challenges

The Framework for Pacific Regionalism ultimately aims for a more focused and streamlined regional agenda that is determined and driven by the Pacific's own leadership. Learning lessons from previous, less successful attempts at advancing a regional agenda is an appropriate first step. Challenges remain, however, particularly in ensuring that agreed upon regional policies and priorities are effectively operationalized.

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