

# 6

## Updates on Subregional Cooperation Initiatives

Subregional cooperation initiatives in Asia and the Pacific generally seek greater cooperation and economic integration in transport and trade; access to global value chains, markets, and tourism, along with economic corridor and shared resource development.<sup>78</sup> They are wide in variety and include subregional initiatives that are led and monitored by the Asian Development Bank (ADB) such as the Central Asia Regional Economic Cooperation (CAREC) Program, the Greater Mekong Subregion (GMS) Program, and the South Asia Subregional Economic Cooperation (SASEC) Program. Government-led subregional programs include the Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT), the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA), the South Asian Association for Regional Cooperation (SAARC), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the Pacific Islands Forum.

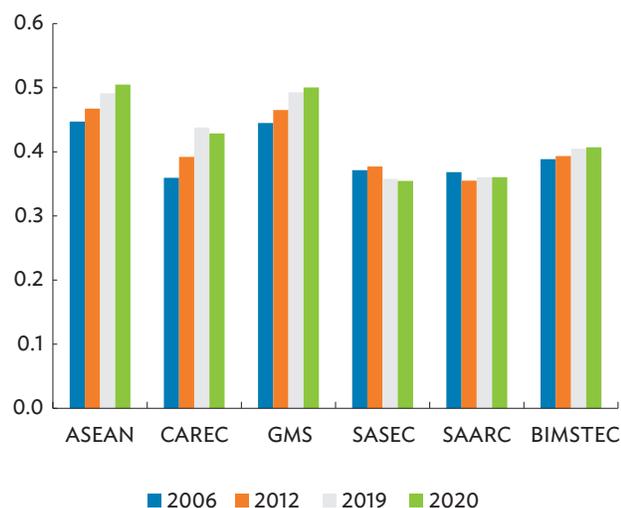
This chapter begins with a difference from previous reports, highlighting estimates from the Asia–Pacific Regional Cooperation and Integration Index (ARCII), a measure of the progress of subregional initiative, with a focus on intrasubregional integration (ie. integration among members of the subregional initiative). It then examines how they have progressed over the past year, particularly through and recovering from the coronavirus disease (COVID-19) pandemic, as well as geopolitical tensions from the Russian invasion of Ukraine in

February 2022, which has added to global supply chain disruptions, pushing up energy prices and contributing to high inflation, food shortages, financial turmoil, and reduced remittances. Economies at the local and regional levels continue to make significant efforts to foster resilient economic growth and socioeconomic stability amid these challenges. The discussions also highlight ADB’s contribution to promoting subregional cooperation through inclusive and sustainable cross-border development.

### Integration Index Estimates for Subregional Initiatives

ARCII estimates show most of the subregional initiatives gaining traction from 2006 to 2020 (Figure 6.1). Initiatives and programs comprising economies from Southeast Asia, exhibited the highest levels of intrasubregional integration. They also indicate consistent improvement over time. Starting from a low base for performance in 2006, the CAREC initiative show considerable improvement up to 2019. The COVID-19 pandemic did not shock regional integration trends as much as had been expected, with just a few initiatives, including SASEC and SAARC, reporting lower intrasubregional integration estimates in 2020 over the previous year, while the overall regional trend remained stable.

<sup>78</sup> Asia and the Pacific, or Asia, consists of the 49 regional member economies of the Asian Development Bank (ADB). The composition of economies for Central Asia, East Asia, the Pacific and Oceania, South Asia, and Southeast Asia are outlined in ADB. Asia Regional Integration Center. Economy Groupings. <https://aric.adb.org/integrationindicators/groupings>.

**Figure 6.1: Overall Integration Indexes, by Subregional Initiative**


ASEAN = Association of Southeast Asian Nations, BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, CAREC = Central Asia Regional Economic Cooperation, GMS = Greater Mekong Subregion, SAARC = South Asian Association for Regional Cooperation, SASEC = South Asia Subregional Economic Cooperation.

Notes: Based on the Asia-Pacific Regional Cooperation and Integration Index (ARCII) estimates. The bars reflect intrasubregional integration.

Source: ADB. Asia Regional Integration Center. ARCII Database. <https://aric.adb.org/database/arcii> (accessed December 2022).

The extent of regional cooperation and integration within subregional initiatives varies across the eight dimensions of the ARCII (Figure 6.2). The largest gaps are observed in trade and investment, infrastructure and connectivity, and institutional arrangements. Economies in ASEAN and GMS are the most integrated among members in these dimensions. While SAARC and SASEC were the least integrated in 2020, their performance in some dimensions, including environmental cooperation in SASEC, does not fall too far behind other subregional initiatives.

Overall, an increase in intrasubregional integration is apparent in most subregional initiatives. The improvement is most prominent in CAREC, which posted a 19.1% increase in the overall index from 2006 and 2020. The mild shock to regional integration brought about by the COVID-19 pandemic is mostly seen in regional value chain, people and social integration, and infrastructure and connectivity, which slightly declined across many subregional initiatives from 2019 to 2020. However, over the same period, all subregional initiatives became more integrated infrastructure and connectivity in technology and digital connectivity.

**Figure 6.2: Dimensional Estimates by Subregional Initiative, 2020**

Subregional Initiative	Trade and Investment	Money and Finance	Regional Value Chain	Infrastructure and Connectivity	People and Social Integration	Institutional Arrangements	Technology and Digital Connectivity	Environmental Cooperation	% Change in Overall ARCII (2006/2020)
ASEAN	0.24	0.49	0.63	0.68	0.51	0.71	0.48	0.36	▲ 12.93
CAREC	0.13	0.33	0.60	0.45	0.44	0.60	0.47	0.30	▲ 19.14
GMS	0.29	0.35	0.64	0.63	0.51	0.79	0.48	0.35	▲ 12.51
SASEC	0.18	0.33	0.53	0.33	0.38	0.40	0.33	0.32	▼ -4.47
SAARC	0.21	0.29	0.51	0.42	0.34	0.54	0.32	0.24	▼ -2.16
BIMSTEC	0.19	0.33	0.60	0.49	0.43	0.59	0.33	0.29	▲ 4.78

ARCII = Asia-Pacific Regional Cooperation and Integration Index, ASEAN = Association of Southeast Asian Nations, BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, CAREC = Central Asia Regional Economic Cooperation, GMS = Greater Mekong Subregion, SAARC = South Asian Association for Regional Cooperation, SASEC = South Asia Subregional Economic Cooperation.

Note: The bars reflect intrasubregional integration.

Source ADB. Asia Regional Integration Center. Asia-Pacific Regional Cooperation and Integration Database. <https://aric.adb.org/database/arcii> (accessed December 2022).

Spider charts showing the ARCI estimates of subregional integration for each of the subregional initiatives are presented in Annex 6a.

## Central Asia Regional Economic Cooperation Program<sup>79</sup>

The Central Asia Regional Economic Cooperation (CAREC) Program is a partnership of 11 countries (Afghanistan, Azerbaijan, the People's Republic of China [PRC], Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan) working together with support from development partners to accelerate

growth and reduce poverty in the subregion.<sup>80</sup> The CAREC 2030 strategy fosters an open and inclusive cooperation platform to help connect people, policies, and projects for shared and sustainable development.<sup>81</sup> Building on more than 20 years of progress in transport, energy, and trade connectivity (Table 6.1), CAREC is expanding cooperation into new areas—including economic and financial stability, agriculture and water, and human development, as well as cross-cutting themes of digital connectivity, gender equality, and climate change mitigation and adaptation. Strengthening regional cooperation and integration among CAREC member countries is key to mitigating the impact of the pandemic and the Russian invasion of Ukraine, and for setting the path for a green, sustainable, and inclusive recovery.

**Table 6.1: Selected Economic Indicators, 2021—Central Asia Regional Economic Cooperation Program**

	Population (million)	Nominal GDP (\$ billion)	GDP Growth (2017–2021, average, %)	GDP per Capita (current prices, \$)	Trade Openness (total trade, % of GDP)
Afghanistan	40.1	19.9	1.5	497	31.4
Azerbaijan	10.3	54.6	1.1	5,296	62.1
China, People's Republic of	1,425.9	16,579.1	6.0	11,627	36.5
Georgia	3.8	18.7	3.7	4,976	76.7
Kazakhstan	19.2	197.1	2.8	10,268	51.7
Kyrgyz Republic	6.5	8.5	1.7	1,308	84.6
Mongolia	3.3	15.8	3.1	4,723	102.0
Pakistan	231.4	348.2	3.7	1,505	29.0
Tajikistan	9.8	8.8	7.1	897	66.0
Turkmenistan	6.3	62.2	0.8	9,808	21.5
Uzbekistan	34.1	69.2	5.0	2,030	54.8
<b>CAREC</b>	<b>1,790.7</b>	<b>17,382.2</b>	<b>5.9</b>	<b>9,707</b>	<b>36.7</b>

CAREC = Central Asia Regional Economic Cooperation, GDP = gross domestic product.

Notes: CAREC's average GDP growth rate is weighted using nominal GDP. Average GDP growth data for Afghanistan is 2016–2020. Total trade refers to the sum of exports and imports. ADB placed on hold its assistance in Afghanistan, effective 15 August 2021 (ADB, 2021f. ADB Statement on Afghanistan. News release, 10 November. <https://www.adb.org/news/adb-statement-afghanistan>). The data on Afghanistan were collected from international sources.

Sources: ADB calculations using data from ADB, Asian Development Outlook database for GDP growth; and Haver Analytics, Inc. for nominal GDP, population, and trade.

<sup>79</sup> Contributed by the CAREC Secretariat including staff from the Regional Cooperation and Operations Coordination Division of the Central and West Asia Department and Public Management, Financial Sector, and Regional Cooperation Division of East Asia Department, ADB.

<sup>80</sup> ADB placed on hold its assistance in Afghanistan effective 15 August 2021. (ADB, 2021f. ADB Statement on Afghanistan. News release, 10 November. <https://www.adb.org/news/adb-statement-afghanistan>). The data and information on Afghanistan were collected from international sources.

<sup>81</sup> The CAREC 2030 strategy focuses on five operational clusters: (i) economic and financial stability; (ii) trade, tourism, and economic corridors; (iii) infrastructure and economic connectivity; (iv) agriculture and water; and (v) human development.

## Overview

**Investments continue to grow and help CAREC countries mitigate impacts from the COVID-19 pandemic and the Russian invasion of Ukraine.**

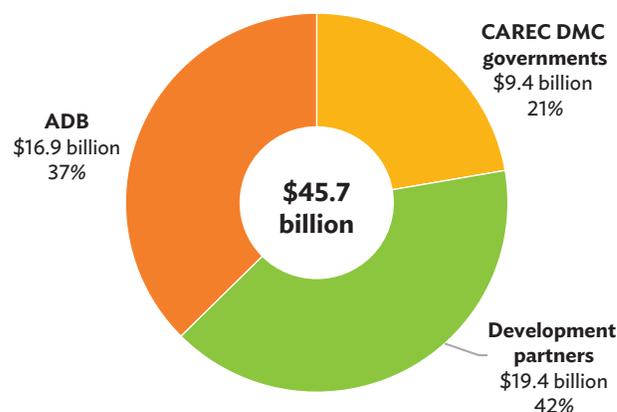
As of June 2022, CAREC investments reached \$45.7 billion and covered 246 regional projects (distributed across all CAREC countries), increasing from \$41.1 billion in June 2021. Of the total, more than \$16.9 billion was financed by ADB, \$19.4 billion by other development partners, and \$9 billion by CAREC governments (Figure 6.3). Transport has the biggest share, at about 71% of these investments, or more than \$32 billion; energy accounts for 22%, or more than \$10 billion; and trade accounts for 3%, or \$1.4 billion (Figure 6.4). Although majority of CAREC investments are focused on these traditional support sectors, it is diversifying, including into agriculture and tourism.

## Performance and Progress over the Past Year

**Implementation of CAREC 2030 is being strengthened for a resilient post-pandemic recovery and to improve socioeconomic stability.**

In 2022, the COVID-19 pandemic still poses threats to global and regional growth. In addition, the Russian invasion of Ukraine induced a series of international sanctions against the Russian Federation and adversely affected all countries in the region. ADB’s Building Resilience with Active Countercyclical Expenditures (BRACE) program is helping CAREC countries mitigate the social and economic impacts of the pandemic and the Russian invasion of Ukraine. ADB has provided four BRACE programs to CAREC countries— the Kyrgyz Republic, Pakistan, Tajikistan, and Uzbekistan— totaling \$2.1 billion in loans and grants. These provide (i) food security, price stability, and business support; (ii) direct social assistance; and (iii) social protection and employment support, in particular, strengthening the support for the poor and vulnerable groups and

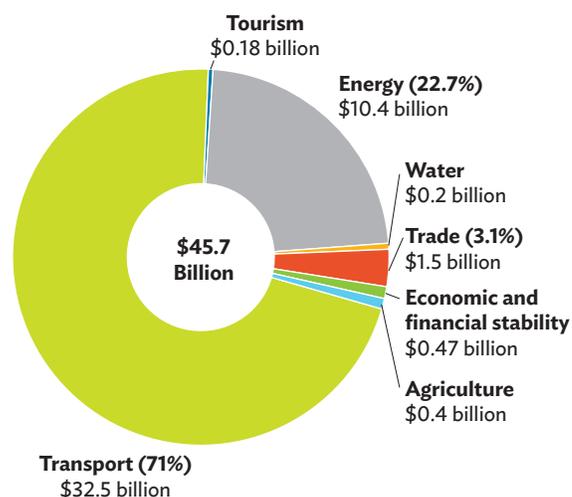
**Figure 6.3: Investments by Funding Source—Central Asia Regional Economic Cooperation Program** (as of 30 June 2022, \$ billion)



ADB = Asian Development Bank, CAREC = Central Asia Regional Economic Cooperation, DMC = developing member country.

Source: ADB. 2022a. CAREC Program Portfolio. Unpublished.

**Figure 6.4: Investments by Sector—Central Asia Regional Economic Cooperation Program** (\$ billion)



CAREC = Central Asia Regional Economic Cooperation.

Source: ADB. 2022a. CAREC Program Portfolio. Unpublished.

improving economic resilience, including upgrading skills of returned migrants to seek alternative destination countries, and of small and medium-sized enterprises (SMEs) that manufacture for export markets. The CAREC secretariat has undertaken several key knowledge works to provide policy recommendations for CAREC countries

to address new challenges through regional cooperation including a CAREC Post-Pandemic Framework for a Green, Sustainable and Inclusive Recovery; a Regional Cooperation Framework for Agricultural Development and Food Security in the CAREC Region; and a Scoping Study on Supporting Regional Actions to Address Climate Change as a Cross-Cutting Theme under CAREC 2030.

Taking advantage of the improved COVID-19 situation and the relaxing of travel restrictions in the region, the CAREC secretariat strengthened contacts and links with CAREC countries by organizing events with virtual and physical participation.

**Economic and Financial Stability.** The cluster continues its mandate of promoting policy dialogue on important economic and financial stability issues in CAREC, as well as regional learning on macroeconomic policy coordination. In October 2022, a high-level policy dialogue was co-organized virtually with the International Monetary Fund and the World Bank under the theme of Dealing with Risks and Vulnerabilities: Tightening Global Financial Conditions Amid Post-Pandemic Recovery and Geopolitical Conflict. Senior government officials including central bank governors, vice-governors, and finance ministers attended, and presentations highlighted the emerging risks and vulnerabilities to financial stability in the region amid tightening global financial conditions, with discussions on policy measures to mitigate risks in CAREC countries from the Russian invasion of Ukraine. A study on the CAREC Regional Capital Market Landscape recommended a road map for enhancing capital market development, including a forum on the structure of capital market regulators and identifying pilot projects and studies in improving capital market development in areas such as bond and equity markets, legal and regulatory harmonization, capacity building, standard setting, cross-listing, and mutual and multilateral recognition. Technical assistance supporting the CAREC Regional Capital Markets Regulators Forum was approved in August 2022.

**Trade, Tourism, and Economic Corridors.** Progress has been notable in implementing international trade agreements, aligning with international standards, and accelerating digital trade among CAREC members. Azerbaijan and Uzbekistan advanced their efforts

in World Trade Organization (WTO) working party discussions, while Turkmenistan was granted acceding country status in February 2022 and began its accession work program in July 2022. CAREC members are on track for implementing commitments under the WTO Trade Facilitation Agreement, with the PRC and Georgia having implemented them all. In September 2022, the CAREC Forum on Developing Sustainable Economic Zones and the Roundtable on Supply Chain Connectivity and Resilient Border Operations were organized in Mongolia and virtually. Tailored in-country activities on sanitary and phytosanitary measures were conducted in Azerbaijan, Mongolia, Pakistan, and Uzbekistan from March to July 2022. CAREC countries continue to promote e-commerce and accelerate digital trade, with Pakistan launching an e-commerce portal in 2022, and Uzbekistan and the PRC exchanging electronic phytosanitary certificates through the International Plant Protection Convention's ePhyto solution. Turkmenistan acceded to the UN Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific in May 2022, Mongolia in July 2022, and Tajikistan in December 2022, joining Azerbaijan and the PRC as parties to the treaty.

Efforts continue to support CAREC countries' interest to pursue free trade agreements. A report on the feasibility of a CAREC-wide free trade agreement was presented in August 2022, and phased implementation of capacity building activities is actively being undertaken through various blended learning techniques and modern approaches. A webinar series on e-commerce was organized in May 2022, and two studies assessing the regulatory framework and infrastructure of developing e-commerce ecosystems were completed in 2022. The CAREC Trade Information Portal was updated in August 2022. As part of the dissemination plan, the quarterly newsletter *CAREC Trade Insights and News* was launched in 2022 and is published quarterly. Several key studies and events were completed in 2022, including (i) a flagship study on Progress in Trade Facilitation in CAREC Countries: A 10-Year Corridor Performance Measurement and Monitoring Perspective; (ii) the CAREC Digital Trade Forum; and (iii) the 20th Year of Customs Cooperation Committee.

In **tourism**, initiatives and activities in 2022 under the CAREC Tourism Strategy 2030 and its accompanying Regional Tourism Investment Framework 2021–2025 included development of the CAREC tourism portal (set to be launched in the first quarter of 2023) as a regional tool for sharing and consolidating tourism-related information and generating opportunities for the private sector. A report assessing tourism infrastructure, services, and project prioritization for tourism investments is being finalized. A pilot study on the Assessment of Common Health and Safety Protocols and Standards in Kazakhstan and the Kyrgyz Republic has been completed. The pilot aims to improve existing health and safety protocols and measures, develop capacities of stakeholders, and harmonize a regional accommodation classification system, with virtual and physical training sessions conducted in both countries. The pilot supports development of a travel bubble under the Almaty–Bishkek Economic Corridor (ABEC) and will help establish the Almaty–Issyk Kul tourism cluster. It is a concept that can be replicated in other CAREC countries. Further capacity building on sustainable tourism development has also been conducted in 2022, along with convening the Tourism Working Group, which has discussed next steps for implementing the tourism strategy.

CAREC countries have achieved notable progress on **economic corridor** development (ECD), promoting it as a national development strategy to strengthen economic links and drive trade through cross-border cooperation and achieve wider economic benefits. Two CAREC initiatives have produced substantive results. The already mentioned ABEC saw the first ABEC-supported project approved by ADB to strengthen regional health security. Other ADB-supported projects include Preparing the Modern Agriculture Wholesale Market Development Project, the Issyk-Kul Lake Environmental Management for Sustainable Tourism Project, and the ABEC Regional Improvement of Border Services Project. Urban air quality measuring devices were deployed in Bishkek and Almaty, while the road map for Shymkent–Tashkent–Khujand Economic Corridor development is also making notable progress, with pre-feasibility studies on an International Center for Industrial Cooperation between Kazakhstan and Uzbekistan, and a Trade and Logistics

Center in Sughd Oblast of Tajikistan being finalized. An ADB-supported study on an ECD framework and operational guidelines has been completed, providing guidance to ECD operations for ADB and its developing member economies, reflecting wider economic benefits and capturing the diversity of regions in Central Asia.

**Infrastructure and Economic Connectivity.** In the transport sector, most planned events and knowledge products were completed in a timely manner and continued to support capacity development of government ministries and relevant authorities. With COVID-19-related restrictions generally more relaxed across CAREC countries, the 19th Transport Sector Coordinating Committee Meeting, and the 6th Railway Working Group Meeting were conducted physically on 17–20 October 2022. Training workshops on road safety and road asset management systems took place virtually. The transport sector also produced key knowledge products, such as *Road Asset Management System and Performance-Based Road Maintenance Contracts in the CAREC Region*, and *The Situation of Railways in CAREC Countries and Opportunities for Investment, Commercialization, and Reform*. The CAREC Road Safety Engineering Manual 5: *Star Ratings for Road Safety Audit* and the CAREC Road Safety Report Card were published in June and July 2022. Other key knowledge products on aviation and cross-border transport and logistics are underway, including the *Aviation Freight Study*, the *Low-Cost Carriers Study*, and *Developers' Guide on Planning and Design of Logistics Centers*. The ongoing CAREC Regional Improvement of Border Services projects in Pakistan, Mongolia, and the Kyrgyz Republic continue to support cross-border trade expansion in the CAREC region.

In the **energy** sector, phase 1 activities under the CAREC Energy Strategy 2030 were completed. The Energy Sector Coordinating Committee (ESCC) endorsed a plan to establish a CAREC Green Energy Alliance to be the region's first targeted financing vehicle for green energy projects and launched the first regionwide energy efficiency campaign. The ESCC launched a 24/7 tool for policy makers—the *CAREC Energy Reform Atlas*—which aims to support decision makers in resolving the typical dilemmas in energy sector reform. The ESCC also laid foundation for a new Regional Transmission

Cooperation Association as a body to establish regional grid enhancement plans and execute future cross-border projects. Another 2030 flagship deliverable—the *CAREC Energy Outlook 2030* was endorsed and officially published in December 2022 and will attract much-needed investment. The first CAREC Women-in-Energy Program was launched. It includes an action plan and a new CAREC energy web platform ([www.carecenergy.org](http://www.carecenergy.org)) targeted at improving women’s employability, visibility, and education in the energy sector. The program’s visibility received a significant boost as the new online energy platform led to organizations and development partners expressing significant interest in joining the program.

### A CAREC Regional Infrastructure Projects

**Enabling Facility** is being conceptualized under ADB-supported technical assistance. It aims to reduce regional infrastructure financing gaps and strengthen the capacity of CAREC member countries to develop regional infrastructure projects. These include project preparation and readiness, initial design, and the application of appropriate financial solutions including bankable projects for investment opportunities catalyzed by private sector and public–private partnership financing. An ADB-supported transaction technical assistance facility, operational from November 2021 with initial funding of \$1.4 million, is supporting ADB in preparing regional infrastructure projects. Structured finance and cofinance experts have been engaged to help the CAREC secretariat deliver the required outputs. The enabling facility concept is a work in progress; consultations with ADB’s internal counterparts, development partners, potential donors, and CAREC stakeholders took place in 2022.

**Agriculture and Water.** Steady progress has been made in this cluster. For **agriculture**, a recently concluded technical assistance succeeded in aligning national food safety regulations in compliance with international food safety standards for Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Technical training was also provided to establish national future actions, such as providing knowledge support in this area, and to explore country-specific lending opportunities to improve food safety laboratories

and related infrastructure, in accordance with the preferences and priorities identified by CAREC member countries. The CAREC secretariat has completed work on the Cooperation Framework for Agricultural Development and Food Security in the CAREC Region to address deepening challenges exacerbated by the pandemic and the Russian invasion of Ukraine. The framework prioritizes activities that foster agriculture modernization and improve food security in the region, and was prepared in consultation with CAREC member countries. It served as a key deliverable for the CAREC Ministerial Conference in November 2022.

In the **water** sector, efforts continue to expand the geographic scope of the pillar framework on water sector cooperation into more CAREC countries (e.g., Azerbaijan and Georgia), and identify pipeline projects in fostering climate-resilient and productive water systems and sustainable water resources management in the region from an initial five Central Asian countries in 2021. Activities in 2022 to facilitate these included five national consultations and a regional consultation workshop in November to identify synergies with ongoing and pipeline projects and to develop a short list of potential projects for more detailed project design and possible funding in 2023. The second policy dialogue on Sustainable Water Governance in Central Asia was held virtually on 27 April 2022, and ADB presented findings of an analytical report, *Water Footprint Analysis of Central Asia*, which outlined policy recommendations for mitigating climate change challenges through sustainable water management practices. Knowledge events on related topics were also carried out in 2022, in alignment with a study by the CAREC Institute entitled *Water Infrastructure in Central Asia: Promoting Sustainable Financing and Private Capital Participation*.

**Human Development.** Good progress has been made in implementing the CAREC Health Strategy 2030. Consultations on the implementation of the strategy started in the second quarter of 2022 with agreement from interested CAREC countries (e.g., Georgia) in incorporating regional approaches in their national health strategies. A Regional Investment Framework (2022–2026) is being finalized following consultations and country feedback during the 2nd Meeting of the CAREC

Working Group on Health in October 2022 in Georgia. A series of regional webinars in 2022 focused on *Covid Vaccine Hesitancy and Behavior Change Communication*, *Strengthening Health Supply Chain Management and Regional Collaborative Procurement*, and *Practical Epidemiology for COVID-19*. These were conceptualized in coordination with CAREC member countries. A webinar series on *Digital Health and Regional Collaboration among Drug Regulatory Authorities* has started in December 2022. In addition, support to piloting a regional health security dashboard was explored. The updated CAREC health subsite provides an overview of key milestones in the CAREC health work.<sup>82</sup>

In **education**, \$2 million of ADB technical assistance was approved in October 2021 to support regional cooperation on skills development in CAREC countries. This was intended to spearhead support for CAREC member countries' ongoing standardization and harmonization of technical and vocational education and training (TVET) and higher education by developing a regional database and labor market information system on skills needs, regional job search and placement, and collaborations in cross-border higher education and TVET. The inception meeting and a roundtable were held in June 2022 in Tbilisi, Georgia. The focus was on key developments, challenges, and opportunities for collaboration on skills development in the CAREC region. Two policy papers facilitating CAREC countries' policy formulation on education cooperation were reviewed by CAREC countries. They included a systematic assessment of existing relevant skills and utilizable skills in CAREC countries, and looking at how well skills development systems function in CAREC countries, particularly on higher education and TVET. ADB is working with partners interested in developing the CAREC University Consortium Network to serve as a platform for consultations among academic stakeholders and as an exchange mechanism for collaborative initiatives in the region.

CAREC has laid the groundwork to advance **cross-cutting themes** in its 2030 strategy. On **gender**,

ADB is implementing technical assistance to promote gender equality as a specific measure in the CAREC Gender Strategy 2030. An inaugural expert group meeting and a CAREC Women's Empowerment Forum were held in August 2022, where representatives discussed strategy implementation issues, agreed on the working mechanism, and shared experiences in promoting women's economic and social empowerment. Preparatory work is underway to develop a regional gender action plan in collaboration with potential partners, to generate investment opportunities for regional cooperation projects, promoting women participation and gender equality, and facilitating knowledge sharing and cross learning. A CAREC Gender web page was launched on LinkedIn and Facebook to promote the CAREC Gender Strategy 2030. In addition, concept notes about a CAREC businesswomen forum and other regional pilot activities are being developed in consultation with the Regional Gender Expert Group.

#### **Information and communication technology (ICT)**

has become a crucial tool for connectivity since the onset of the COVID-19 pandemic. Various activities are being undertaken to implement the CAREC Digital Strategy 2030. The CAREC Digital Strategy 2030 portal was created on the CAREC website to promote it. The CAREC Digital Strategy Steering Committee held its first meeting in October 2022. The CAREC program is supporting the development of the startup ecosystem in the region to mitigate the economic impact of the COVID-19 pandemic and facilitate economic revival. Initiatives are being implemented under a virtual startup ecosystem hub, which will engage relevant stakeholders to promote networking and knowledge exchange. These include the launch of the CAREC Startup Map<sup>83</sup> and the CAREC Innovation Network to encourage cross-country cooperation and collaboration between entrepreneurs and stakeholders active in the region. As part of hosting open innovation challenges, the secretariat concluded the CAREC University Startup Generator challenge in which more than 100 students developed their startup ideas.

<sup>82</sup> CAREC. Health. [https://www.carecprogram.org/?page\\_id=19337](https://www.carecprogram.org/?page_id=19337).

<sup>83</sup> CAREC Startup Ecosystem. <https://www.startupcarec.org/> (accessed November 2022).

## Prospects

### **ADB will continue supporting sustainable and resilient economic growth in CAREC.**

The Russian invasion of Ukraine led to more aggressive monetary tightening in advanced economies, while COVID-19 lockdowns in the PRC worsened regional economic prospects. CAREC countries are all affected by the Russian invasion of Ukraine in varying degrees. In the September 2022 edition of the *Asian Development Outlook Update*, growth projections for the Caucasus and Central Asia were revised upward from 3.6% to 3.9% for 2022 and from 4.0% to 4.2% for 2023, mainly reflecting the sharp increase in inbound money transfers to some countries due to a large influx of foreign visitors relocating their businesses from the sanctioned Russian Federation (ADB 2022b). However, growth prospects across the CAREC region remain uncertain and may decelerate in the coming months amid the uncertain geopolitical environment and possible renewed COVID-19 outbreaks. In addition, climate change and its impact on agriculture, the environment, and health remain a long-term risk to the region's economy.

Consistent with CAREC 2030, the priority agenda for 2022 aims to facilitate a green, sustainable, and inclusive post-pandemic recovery by restructuring economic paradigms to balance visions of growth and development with attention to pressing issues. These include development of (i) the CAREC Post-Pandemic Framework for Green, Sustainable and Inclusive Recovery, which provides analysis on and policy recommendations in overcoming old and new challenges for a green, sustainable, and inclusive recovery in the region; (ii) a systematic regional approach to the climate agenda by informing the climate change issues with recommended policies and instruments, including regional cooperation in addressing climate issues in CAREC countries; and (iii) a cooperation framework for agricultural development and food security in the CAREC region by introducing modern agricultural technologies to adapt to and mitigate climate change effects for improved agricultural productivity, modernizing sanitary and phytosanitary measures and food quality systems, improving customs administration to facilitate trade

of agriculture products, and developing agricultural extension services and food value chains to improve availability, affordability, and stability of food supply.

## Policy Challenges

### **CAREC needs to strengthen the implementation of existing strategies to achieve tangible results and increase visibility on the ground.**

Since the adoption of CAREC 2030 Strategy in 2017, CAREC has renewed strategies in its traditional sectors (e.g., transport, energy, trade), and formulated strategies in the new sectors and thematic areas (e.g., tourism, gender, health, ICT) under its five operational clusters. Strengthening the implementation of existing CAREC strategies remains a priority for boosting people-centered development to facilitate resilient recovery and inclusive growth. It also remains a challenge given that prolonged pandemic conditions have made full physical interaction among CAREC stakeholders difficult in the short term. Progress in implementing existing strategies is slow, as most of the physical events had to be either postponed or replaced with virtual ones. Networks among CAREC countries are a struggle without face-to-face contact, affecting the momentum of implementing these strategies, particularly in new sectors, as regular contact among CAREC stakeholders remain crucial for implementation.

To mitigate these challenges, the CAREC secretariat has strengthened the implementation of the CAREC Digital Strategy 2030 by promoting the utilization of ICT tools and online platforms to improve the efficiency of online communication. This includes the establishment of a CAREC Innovation Network that connects key startup stakeholders in the region to foster engagement and collaboration among CAREC countries and develop the region's startup ecosystem. The secretariat has also upscaled its communications, in close collaboration with ADB's Department of Communications through various measures to reflect the tangible achievement of CAREC and benefits to local communities, including through proactive interviewing with local beneficiaries of CAREC projects, and other measures.

## Greater Mekong Subregion Program<sup>84</sup>

Cambodia, the PRC (Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam are the six members of the Greater Mekong Subregion (GMS) Program.<sup>85</sup> ADB houses the GMS central secretariat. The GMS has created an interconnected subregion that continues to see improved economic growth amid enhanced connectivity and competitiveness. Since the program's 1992 launch, 122 investment projects and 236 technical assistance projects amounting to a total of \$30.2 billion have been approved. Of this amount, ADB contributed \$14.1 billion, GMS governments \$6.6 billion, and other development partners/the private sector \$9.5 billion.

### Overview

#### Growth rebounded for most GMS members in 2021 as COVID-19 vaccination coverage increased and mobility restrictions were eased.

For countries whose growth bounced back, recovery was underpinned by solid export performance and stronger domestic consumption and/or investment for some. For GMS as a whole, growth rebounded to 4.2% in 2021 from 0.3% in 2020 (Table 6.2).

#### New challenges emerged in the external environment that may dampen recovery.

Geopolitical tensions from the prolonged Russian invasion of Ukraine pushed up commodity prices and led to tightening monetary policy in advanced economies. These add to existing risk that a more deadly COVID-19 variant may emerge, and uncertainty brought about by rapid technological change. Nonetheless, the correct mix and timing of policy responses can overcome these challenges. The reopening of tourism, an important sector in some GMS countries, will support economic recovery.

#### Performance and Progress over the Past Year

#### The program has achieved impressive outcomes in its efforts to build community, connectivity, and competitiveness.

Connectivity in particular has been dramatically enhanced by 12,500 kilometers (km) of new or upgraded roads and more than 1,000 km of railway lines. Over 3,000 megawatts of electricity have been generated, and over 2,700 km of transmission and distribution lines now provide electricity to close to 165,000 new households.

**Table 6.2: Selected Economic Indicators, 2021—Greater Mekong Subregion**

	Nominal GDP (\$ billion)	GDP Growth and Trend (2017 to 2021, average, %)		GDP Growth (%, y-o-y)	GDP per Capita (current prices, \$)	Inflation (%, y-o-y)	Merchandise Export Growth (%)
Cambodia	26	4.3	↓	3.0	1,586	2.9	1.6
Guangxi ZAR, PRC	384	6.2	↑	7.5	7,618	0.9	15.4
Yunnan Province, PRC	421	7.6	↓	7.3	8,978	0.2	20.9
Lao PDR	19	3.9	↓	2.3	2,498	3.7	25.8
Myanmar	65	3.2	↓	-5.9	1,211	3.6	-7.0
Thailand	506	1.2	↓	1.5	7,066	1.2	19.2
Viet Nam	366	5.3	↓	2.6	3,757	1.8	18.9
<b>GMS</b>	<b>1,787</b>	<b>4.6</b>	<b>↓</b>	<b>4.2</b>	<b>5,192</b>	<b>1.2</b>	<b>17.8</b>

GDP = gross domestic product, GMS = Greater Mekong Subregion, Guangxi ZAR = Guangxi Zhuang Autonomous Region, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China, y-o-y = year-on-year.

Sources: ADB calculations using data from ADB. Asian Development Outlook database for GDP growth and inflation; CEIC Data Company for Guangxi ZAR and Yunnan Province, PRC; and Haver Analytics, Inc. for nominal GDP, population, and trade.

<sup>84</sup> Contributed by GMS Secretariat, Southeast Asia Department, ADB.

<sup>85</sup> ADB has temporarily put on hold sovereign project disbursements and new contracts in Myanmar effective 1 February 2021. ADB is closely monitoring the situation in Myanmar and remains committed to supporting its people.

The GMS Economic Cooperation Program Strategic Framework 2030 (GMS 2030), which sets the program's direction and priorities was endorsed by GMS leaders in 2021 (ADB 2021a). The new strategy is guided by the program's vision of developing a more integrated, prosperous, sustainable, and inclusive subregion. GMS 2030 supports the new mission statement for the GMS Program, which aims to further expand community, connectivity, and competitiveness while promoting environmental sustainability and resilience; enhanced internal and external integration; and inclusivity.

The GMS Regional Investment Framework (RIF), a medium-term pipeline of priority investment and technical assistance projects, operationalizes GMS strategic thrusts and priorities. The RIF's 2022 *Fourth Progress Report*, which is the last update of the RIF 2022, mentions a total of 120 investment and 85 technical assistance projects requiring financing of \$77.6 billion. A new 3-year rolling pipeline of projects under RIF 2023–2025 was developed and completed in line with the principles of the GMS 2030. Standards for project inclusion in the new pipeline were raised with respect to project readiness, economic and social returns, and adherence to good environmental and social practices and project management standards that increase the attractiveness of initiatives to development partners and the private sector.

GMS countries cooperate in important projects and/or activities in priority GMS sectors that support its three pillars.

### **Pillar 1: Community**

**Health and Other Human Resources Development.** The GMS Health Cooperation Working Group continues to implement the GMS Health Cooperation Strategy 2019–2023, which has three pillars: (i) strengthening national health systems to tackle transnational health threats and address health security as a regional public good; (ii) responding to the health challenges and health impacts because of connectivity and mobility; and (iii) health workforce development (ADB 2019).

In 2021, the \$5 million technical assistance program, Supporting Enhanced COVID-19 Vaccination and

Post-COVID-19 Health Security Response in Southeast Asia, assisted countries in vaccine rollout and delivery, supporting pillar 1 of the strategy (ADB 2021b). In February 2022, ADB further supplemented COVID-19-related assistance to Cambodia with the approval of a \$95 million Asia Pacific Vaccine Access Facility loan intended for the purchase of safe and effective COVID-19 vaccines.

Under pillar 2, a proposed ADB project will improve access to health services for migrant workers in selected GMS border areas through social infrastructure development and support for health financing. The project showcases the comparative advantage of ADB in the GMS, building on ongoing support for health security, migrant population health, communicable disease control, and the strengthening of health systems. The GMS Secretariat also organized the Mekong Dialogue on Labor Mobility in May 2022 to share knowledge and good practices for a post-COVID-19 recovery and better migration management. The initiative looked at addressing the impacts of labor mobility and strengthening border health systems as part of improving regional health security in the subregion.

Another priority in the GMS Health Cooperation Strategy is One Health. A One Health response takes a unified approach to environmental, animal, and human health and their interactions, and to upgrading cross-border cooperation instruments. The Strengthening Regional Health Cooperation in the GMS project supports the promotion and implementation of collaborative, interdisciplinary, and cross-sectoral One Health responses to public threats. In June 2021, a GMS regional meeting discussed One Health systems and policies in the GMS. A follow-up meeting in April 2022 dealt with operationalizing and integrating One Health approaches for a green and sustainable post-COVID-19 recovery in the subregion. The project is also funding assessments to strengthen reporting systems on public health emergencies of international concern.

**Environment.** Environmental sustainability and robust response to climate change is a key priority for the GMS Program. The Core Environment Program Strategic Framework and Action Plan 2018–2022 aims

to mainstream sound environment management and climate resilience across priority sectors to improve the development impact and sustainability of the GMS Program. The GMS Working Group on Environment will complete a new GMS 2030-aligned strategy in 2023.

An additional grant amounting to \$2 million was approved in 2021 to support green and resilient COVID-19 recovery in selected GMS countries through the GMS Climate Change and Environmental Sustainability Program (CCESP). The additional grant will finance CCESP's work on policy support, institutional and technical capacity building, and field demonstrations. Demonstrations will be used to pilot climate action practices, innovative technologies, and financing instruments. These demonstrations could eventually be scaled up or lead to wider investments across GMS countries.

In June 2022, a workshop promoted a deeper understanding among GMS stakeholders and implementing partners about CCESP's activities. The workshop discussed how to develop demonstration proposals, sought to identify and encourage innovative ideas and demonstration proposals, and share how they will be selected.

The GMS Working Group in Environment met in October 2022 to discuss key challenges and possible solutions in the light of the UN Biodiversity Conference (COP15-Part 1) and the UN Climate Change Conference (COP26), and prepared for the COP27 and COP15-Part 2 international meetings. The working group discussed national and subregional climate resilience and post-2020 biodiversity conservation frameworks and actions in the GMS in the context of COPs and COVID-19. Group participants agreed on priority actions for regional cooperation under the CCESP to improve climate and disaster resilience, and biodiversity conservation in the GMS.

## **Pillar 2: Connectivity**

**Energy.** GMS 2030 emphasizes stronger promotion of regional cross-border power trade, establishing regional technical and regulatory conditions for developing

regional markets, and expanding investments in clean and renewable energies with a greater role for the private sector. In support of GMS 2030, GMS countries are working together to achieve greater integration of renewable energies in countries' energy development plans. In July 2021, ADB approved a technical assistance for knowledge and support—Accelerating the Clean Energy Transition in Southeast Asia—to help countries in the subregion accelerate their transition to cleaner, climate-friendly forms of energy.

In July 2022, GMS member countries convened the final meeting of the GMS Regional Power Trade Coordination Committee, a landmark meeting signaling its evolution into the GMS Energy Transition Taskforce. The taskforce has an expanded mandate to accelerate the clean energy transition in addition to its continued focus on power trade expansion. That mandate includes a multi-country pilot project and activities across three other workstreams: renewable energy and energy storage, energy efficiency, and green finance.

**Cross-Border Transport Connectivity.** Transport infrastructure remains the backbone of the GMS Program. The RIF 2022 mentions 68 transport investment projects with financing worth \$65.8 billion, or 85% of the total RIF value. For the new RIF 2023–2025, transport projects remain the bulk of GMS investments, at 46% of their estimated value.

Innovation in the railway subsector is being sought as part of GMS 2030, given that it is the most energy-efficient and environmentally friendly mode of transportation. Through the framework of the Greater Mekong Railway Association, GMS countries are pursuing various priority railway links: the Vientiane–Boten Railway (416 km, valued at \$5.8 billion) and the Yuxi–Mohan Railway (517 km, valued at \$8 billion) that make up the Lao PDR–PRC (Vientiane–Kunming) Highspeed Rail Project #5 priority link (operations launched in December 2021). In the first half of 2022, the priority link transported 3.27 million passengers (2.86 million in the PRC and 410,000 in the Lao PDR) and 4.03 million tons of goods, including 647,000 tons of cross-border goods. It implemented efficient trade facilitation by reducing clearance time to 5 hours compared with 24 hours by road—in part because

of high road demand. The significant GMS investment projects are part of the bigger Kunming–Singapore railway or the Pan–Asia railway Network, which is a network of railways connecting the PRC and all contiguous Southeast Asia.

### **Pillar 3: Competitiveness**

**Agriculture.** The GMS Sustainable Agriculture and Food Security Program, an ADB regional technical assistance, continues to help GMS countries with greening their supply chains, improving food safety and quality, and tackling key climate change challenges to agriculture. The program supports the GMS 2030 aim to raise food safety and quality standards for expanding exports and encouraging climate- and environment-friendly production practices along the value chain, as well as efforts to sustain natural assets with a focus on small-scale farmers and micro, small, and medium-sized agro-enterprises. In 2021, \$1.75 million in additional funding was approved to promote inter-subregional cooperation and the COVID-19 response and recovery of food systems in the GMS. In 2022, the program stepped up preparation of five pilot demonstrations and value chain studies, all aimed at addressing systemic vulnerabilities and risks in agri-food value chains while adding stricter cross-border trade regulations by introducing internationally recognized digital traceability standards and approaches in the subregion.

The June 2022 meeting of the GMS Working Group on Agriculture focused on adaptations in the context of climate change and used the water–food–energy nexus as a key analytical lens/approach to facilitate discussion. Group members agreed to five priority actions that will serve as guide for the transition to long-lasting food security and sustainable agriculture practices in the subregion.

The GMS Cross-Border Livestock Health and Value Chains Project, planned for Cambodia, the Lao PDR, and Viet Nam, will promote regional cooperation and health security. The project aims to reduce transboundary animal diseases, food safety, and zoonotic disease risk; and improve climate change adaptation, resilience of livestock value chains, and COVID-19 responses.

**Tourism.** GMS countries started to reopen to international travelers in late 2021, while considerable reductions in travel restrictions or requirements by the first half of 2022 allowed for the increase in tourist arrivals and generated receipts.

GMS countries' continued COVID-19 response and recovery efforts for the tourism sector were supported by the GMS Tourism COVID Recovery Communications Plan and accompanying Tool Kit prepared and implemented by the GMS Tourism Working Group. These guided the dissemination of accurate and engaging information to support a safe, resilient, and sustainable GMS tourism recovery.

Many ongoing and proposed ADB-assisted projects are promoting resiliency, sustainability, and inclusion in the GMS tourism sector. These include (i) GMS Tourism Infrastructure for Inclusive Growth Projects (\$220 million); (ii) Guangxi Li River Comprehensive Ecological Rehabilitation Project (\$371 million); (iii) ADB Frontier Fund—a nonsovereign investment fund that will invest in growth-oriented tourism-related SMEs in Southeast Asia (emphasizing the Lao PDR and Cambodia) and the Pacific (\$28 million); (iv) Urban Environment Improvement Investment Project (\$33 million); (v) Hoa Binh Tourism Infrastructure Development Project (\$75 million); and (vi) Lao Cai Sustainable Urban and Infrastructure Development Project (\$86 million).

**Urban Development.** GMS 2030 priority directions for urban development include building resilience of cities to future pandemics over the medium term (through the enhanced use of digital technologies, among others) and in the long term develop livable cities that combine gray, green, and blue infrastructure and strategies for a holistic development. Recently approved GMS RIF projects supporting these directions include (i) Guangxi Regional Cooperation and Integration Promotion Investment Program–Tranche 3 (October 2021, \$326.7 million); and (ii) Livable Cities Investment Project (Cambodia, November 2021, \$196.1 million).

Bavet, Kampot, and Poipet were chosen as sites for the Livable Cities Project in Cambodia because they have potential to service cross-border trade (Bavet for

Viet Nam–Cambodia border trade and Poipet for Thailand–Cambodia trade), and opportunities to promote tourism (Kampot). The project will provide improved infrastructure (wastewater and solid waste management services, and urban stormwater drainage systems) and support capacity development that will strengthen the institutional capacity of municipal administration in operations and the maintenance of public services to facilitate sustainable and economic growth over the long term.

The GMS Urban Development Working Group met in February 2022 to discuss emerging ICT and digital solutions. Water service providers were also presented with new, transformative opportunities for more efficient water management, and for improved customer services. This will support GMS economies in building resilience of cities. The working group also agreed to take steps toward developing a new GMS Urban Development Strategic Framework (2023–2030).

## Prospects and Policy Challenges

**Substantial funds are required for countries to take advantage of rapid changes in technology (especially through digitalization) and ensure that commitments to a green and inclusive growth are met.**

Some countries have yet to recover from the heavy public spending needed to combat the COVID-19 pandemic. Moreover, current tight monetary conditions to combat inflation do not favor attempts to raise funds.

To help GMS countries overcome these challenges and to meet GMS 2030 priorities for improving competitiveness, member countries agreed to establish the GMS Trade and Investment Task Force. The task force promotes trade and investment facilitation among members and external parties, which will enable open, fair, and nondiscriminatory business environments to flourish, and so help jumpstart GMS economies and sustain recovery.

An initial scoping study (September 2021–February 2022) took stock of progress in trade and investment facilitation in GMS (ADB 2022d). The study also identified areas of improvement to better facilitate trade and investment in the subregion and mapped out short- and long-term interventions. The task force was established in March 2022 and its 2-year work plan was approved in its first meeting on 28 October 2022. One of the main agreements was for the task force to focus work on a “digital supply chain” and the need to consult and coordinate activities with relevant GMS working groups and committees and the private sector.

Strengthening collaborative arrangements is one of the best options GMS countries have to tackle current policy challenges. Work with other regional cooperation and integration programs like ASEAN will ensure that GMS actions complement the wider regional agenda. Establishing the GMS Trade and Investment Task Force is consistent with the GMS 2030’s collaborative approach that embraces private sector solutions to leverage expertise and financing.

## Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area and Indonesia–Malaysia–Thailand Growth Triangle<sup>86</sup>

*The Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, or BIMP–EAGA, is a cooperation initiative established in 1994 to spur development in remote and less-developed areas in the four participating Southeast Asian countries. BIMP–EAGA cooperation is anchored on five strategic pillars: connectivity, food basket, tourism, environment, and sociocultural and education. Thanks to strong ownership and commitment, as demonstrated by the financial, human and technical resources put in by member governments, BIMP–EAGA has helped support more balanced and inclusive growth in the subregion, boosting*

<sup>86</sup> Contributed by Regional Cooperation and Operations Coordination Division, Southeast Asia Department, ADB.

*trade, tourism and infrastructure investments, and contributing to regional economic integration in the ASEAN Economic Community. ADB has been a development partner of BIMP-EAGA since 1996 and the program's Regional Development Advisor since 2003.*

The Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT) was established a year earlier than BIMP-EAGA in 1993. The IMT-GT consists of the 10 provinces of Sumatra, Indonesia; 8 states in peninsular Malaysia; and 14 provinces in southern Thailand. Malaysia is in the process of including a further three states, thus encompassing the entire peninsula. The goals of the IMT-GT program are similar to BIMP-EAGA: to accelerate economic growth and transformation in its member states, especially those with less developed areas along coastal and border areas. The program's aspiration is to leverage underlying economic complementarities, comparative advantages, geographic proximity, and the close historical, cultural, and linguistic ties of its member provinces and states.

## Overview

**Even as the COVID-19 pandemic continued to present an array of challenges to both BIMP-EAGA's and IMT-GT's development agenda, its targets remain on track.**

A 2022 midterm review found some BIMP-EAGA sectors exceeding goals, thanks to well-defined project management mechanisms and planning. Connectivity remains a cornerstone of BIMP-EAGA cooperation, and 88 priority infrastructure projects with the combined \$24.23 billion are helping to generate cross-border activities, promote access to markets, reduce trade and transport costs, and facilitate growth between neighboring production, export, and consumption points. Despite the challenges of COVID-19, about one-third (27) of the priority projects have been completed. A further 10 projects were due for completion in 2022, with 8 large-scale infrastructure projects having completed phases, and a remaining 43 projects in different stages of implementation.

In IMT-GT, amid finalizing the Implementation Blueprint 2022–2026, the second such 5-year plan, officials are taking stock and strategizing initiatives to alleviate some of the devastation from the COVID-19 pandemic. Tourism, arguably the most economically devastated segment, is the bellwether for the services sector. It has been earmarked as a key subsector for focused recovery with several key IMT-GT activities planned in 2023–2025: the Visit IMT-GT 2023 year to mark its 30th anniversary, preparation of a regional Tourism Recovery Communication Tool Kit and mobilization of the ASEAN Post Pandemic Tourism Recovery Plan. Over the longer term, the implementation blueprint centers on efforts to restart some \$39 billion worth of priority projects comprising quality infrastructure and software.

## Performance and Progress over the Past Year

**The pace of the recovery varied across the countries in the BIMP-EAGA and IMT-GT subregions.**

In 2020 and 2021, fiscal policy helped cushion the impact of COVID-19 and a robust recovery in domestic demand supported economic growth. Commodity exporters—Indonesia and Malaysia stand out—benefited from rising commodity prices, and tourism showed some recovery signs in 2021. Inflation was relatively low and driven largely by the continuing economic recovery and elevated energy and commodity prices. Recovery was ongoing in 2022 but new challenges cast a shadow over the path for both the BIMP-EAGA and IMT-GT subregions. Weaker growth in key export markets, challenges following the Russian invasion of Ukraine, disruptions in trade supply chains, more aggressive monetary tightening in advanced economies, and the movement of energy and food prices will underpin the growth momentum in the BIMP-EAGA and IMT-GT subregions.

While COVID-19 reduced trade and production in BIMP-EAGA, direct foreign and domestic investments continued to rise (Chapter 3), helping to boost economic recovery as the subregion continued to

build on its achievements in improving connectivity, strengthening trade and supply chains, and promoting inclusive growth.

At their annual ministerial meeting in 2022, BIMP-EAGA leaders expressed appreciation for ADB's cooperation, including support for the COVID-19 response, transport and energy projects, analytical work on border areas and special economic zone development, promotion of green recovery, support for the tourism revival, the protection of marine ecosystems, and the provision of capacity-building opportunities for government officials. ADB support to BIMP-EAGA countries included \$875 million through the Asia Pacific Vaccine Access Facility to help the Philippines and Indonesia procure and deliver safe and effective vaccines, and \$3 billion in quick-disbursing loans to support their COVID-19 response.

New challenges during the pandemic also intensified the need for timely and innovative knowledge solutions. ADB provided key knowledge work to support special economic zones and the subregion's economic corridors. Recommendations from member states were instrumental in the expansion of IMT-GT to encompass the entire Peninsular Malaysia by including the states of Johor, Pahang, and Terengganu—expanding IMT-GT so that it now borders Singapore. In turn, a new economic corridor was added to the existing five corridors. Economic Corridor 6 is envisaged to stretch from the eastern seaboard of Thailand, across the flank of the east coast of Malaysia to Singapore, connect with the Riau Islands and Batam and Bintan, reaching land again at Pekanbaru in Sumatra.

**Progress in Subregional Connectivity.** Despite the pandemic, priority infrastructure projects were completed in 2020 and 2021 at BIMP-EAGA, including the Temburong Bridge (Sultan Haji Omar Ali Saifuddin Bridge) in Brunei Darussalam, the Manado–Bitung Link (Toll Road) in Indonesia, the LNG ISO Tank Export Facilities in Bintulu Port in Malaysia, the Juwata International Airport (Tarakan) in Indonesia, Mukah Airport (Sarawak) in Malaysia, and the General Santos Astropolis Airport in the Philippines. The road projects are expected to reduce costs and travel time and lead to greater efficiencies and competitiveness; the ports will

contribute to maritime connectivity; the liquefied natural gas export facility will serve as a pioneering ASEAN port exporting alternative and renewable energy sources; and the airports will improve access to tourist destinations and the movement of cargo.

In the energy sector, completed projects include the enclave interconnections in North Kalimantan in Indonesia for the Tidang Pale–Malinau Segment of the Tanjung Redep–Malinau Transmission, and the Mindanao Transmission Backbone Upgrading in the Philippines.

ADB's road projects in BIMP-EAGA countries include the Improving Growth Corridors in Mindanao Road Sector Project in the Philippines, which will upgrade 300 kilometers of national roads, where implementation is ongoing. Another planned ADB road project is the National Roads Development Project in Kalimantan, Indonesia, which is slated for approval later in 2024. The project will improve regional connectivity by rehabilitating and upgrading 280 km of road sections in North and East Kalimantan, with road safety and biodiversity designs included. As part of its support of Sulawesi following the 2018 earthquake and tsunami, ADB is providing about \$110 million for the rehabilitation and reconstruction of three seaports, and the rehabilitation and upgrade of the Mutiara Sis Al Jufri Airport in Palu.

Working groups across sectors in IMT-GT achieved consistent progress over 2021–2022, despite the challenge of meeting virtually. The Working Group for Transport Connectivity has 22 ongoing projects including 17 priority connectivity projects and 5 others. The working group also added three new priority connectivity projects.

## Prospects

**The two subregional programs, as building blocks of ASEAN integration, are aligning recovery and resilience measures with the ASEAN Comprehensive Recovery.**

With ADB's support, BIMP-EAGA is preparing to refine its long-term plans and goals, based on the results of

a midterm review of the BIMP-EAGA Vision 2025, to ensure that work remains relevant and responsive to the challenges and opportunities beyond the pandemic. For IMT-GT, ADB provided support for the preparation of the IMT-GT Implementation Blueprint 2022–2026 by engaging local consultants, providing technical inputs, thematic studies, and helping with technical editing. ADB will support the blueprint through the preparation of national strategic action plans that will be linked to the respective national plans.

Amid the pandemic, BIMP-EAGA leaders recognized the need for stronger border cooperation to sustain trade and ensure that supply chains remain open. Accordingly, increased cooperation in monitoring and inspection of goods under the One Borneo Quarantine Initiative helps safeguard the opening of borders to trade and to enhance protection from pests and diseases.

BIMP-EAGA has aligned its measures with the ASEAN Comprehensive Recovery Framework's broad strategies, given the subregion's role in ASEAN integration. This includes aligning the BIMP-EAGA Tourism Recovery Framework with the ASEAN Post Pandemic Recovery Plan. For its part, ADB has supported development of the BIMP-EAGA Tourism Recovery Communications Plan and Tool Kit, which is aligned with the ASEAN Post Pandemic Tourism Recovery Plan. ADB has also organized workshops to provide officials of national tourism organizations with focal points from BIMP-EAGA, with foundational tools in strategic communications planning customized to the needs of the subregion's tourism recovery.

In addition to tourism, IMT-GT ministers in 2022 endorsed the recommendations of the implementation blueprint. The recommendations covered the expansion of the additional economic corridor, Economic Corridor 6, and discussed agriculture commodity improvements and leveraging quality infrastructure to support sustainable urban development. The blueprint calls for member countries to develop their own strategic action plans to identify synergies between respective national strategies with regional cooperation and integration development strategies.

## Policy Challenges

### Greater energy access and reliability is needed to drive BIMP-EAGA's recovery and future economic development.

The signing of the Sabah–Sarawak Power Interconnection Power Exchange Agreement between SESCO, a subsidiary of Sarawak Energy Bhd, and Sabah Electricity Sdn Bhd, will pave the way for establishing the Borneo Grid and the ASEAN Power Grid. The Sabah–Sarawak project also complements the Trans Borneo Power Grid Sarawak–West Kalimantan Interconnection Project, both of which are vital to the ASEAN Power Grid project. ADB is also helping Indonesia build a cross-border high-voltage transmission line and substation linking the West Kalimantan grid with that of Sarawak, Malaysia, which is another important component in the Trans Borneo Power Grid for enabling power trading between BIMP-EAGA countries.

For IMT-GT, the absence of respective explicit national strategies for subregional cooperation discourages in-country stakeholders from making long-term investment commitments in the subregion. Hence, there is an urgent need for individual strategic subregional cooperation action plans to guide systematic involvement of public and private stakeholders in IMT-GT and help them navigate the complex subregional institutional setup and engagement processes.

## Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation<sup>87</sup>

*ADB's role in advancing regional cooperation and integration in South Asia and Southeast Asia through its support for the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and its member states is evolving and expanding. Early focus on research in transport connectivity has widened to cover institutional strengthening and regional policy dialogue*

<sup>87</sup> Contributed by Thiam Hee Ng, director, Regional Cooperation and Operations Coordination Division (SARC), South Asia Department; Dongxiang Li, lead regional cooperation specialist, SARC; Lani Garnace, economics officer, SARC; and John Mercurio, ADB consultant, SARC.

on a range of areas, including trade, tourism, financing, and people-to-people exchange. ADB-supported studies are helping shape policies and programs. Institutional strengthening and regional policy dialogue activities have progressively equipped BIMSTEC with the capacity and knowledge to plan, implement, and monitor these policies and programs.

## Overview

### Regional cooperation and integration is at the heart of ADB's partnership with BIMSTEC.

ADB's work with BIMSTEC began in 2005 when the bank began offering technical and financial assistance. ADB collaborates closely with the BIMSTEC secretariat to advance economic cooperation and integration in South Asia and Southeast Asia through (i) research and knowledge outreach; (ii) institutional strengthening; and (iii) regional policy dialogues. ADB also supports BIMSTEC member states through technical assistance projects and project financing under GMS and South Asia Subregional Economic Cooperation (SASEC) programs.

BIMSTEC is a regional organization of seven member states in the littoral and adjacent areas of the Bay of Bengal, which constitute a contiguous region. This subregional organization was formed on 6 June 1997 through the Bangkok Declaration.<sup>88</sup> Member states include five from South Asia (Bangladesh, Bhutan, India, Nepal, Sri Lanka) and two from Southeast Asia (Myanmar and Thailand).<sup>89</sup> The BIMSTEC subregion is home to around 1.8 billion people, about 22% of the global population and has a combined GDP of \$4.3 trillion (Table 6.3). Its secretariat was established in Dhaka in 2014.

The economic bloc was formed by four member states with the acronym "BIST-EC" (Bangladesh, India, Sri Lanka, and Thailand Economic Cooperation). Following the inclusion of Myanmar in December 1997, the group was renamed "BIMST-EC" (Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation). The grouping took its current name with the admission of Nepal and Bhutan at the Sixth Ministerial Meeting in 2004.

BIMSTEC constitutes a bridge between South Asia and Southeast Asia and reinforces relations among these countries. The group has also established a platform

**Table 6.3: Selected Economic Indicators, 2021—Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation**

	Population (million)	Nominal GDP (\$ billion)	GDP Growth (%, 2017–2021, average)	GDP per Capita (current prices, \$)	Trade Openness (total trade, % of GDP)
Bangladesh	169.4	416.3	6.4	2,457.9	25.6
Bhutan	0.8	2.4	1.5	3,140.9	170.4
India	1,407.6	3,176.3	3.8	2,256.6	30.4
Myanmar	53.8	65.2	3.2	1,211.2	45.4
Nepal	30.0	35.8	5.0	1,193.5	49.2
Sri Lanka	21.8	89.0	1.8	4,086.6	30.1
Thailand	71.6	505.9	1.2	7,065.6	105.4
<b>BIMSTEC</b>	<b>1,754.9</b>	<b>4,290.9</b>	<b>3.7</b>	<b>2,445.1</b>	<b>39.2</b>

BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, GDP = gross domestic product, IMF = International Monetary Fund.

Note: BIMSTEC average GDP growth rate is weighted using nominal GDP. Nominal GDP figures are based on IMF staff estimates.

Sources: ADB calculations using data from ADB, Asian Development Outlook database for GDP growth; and Haver Analytics, Inc. for nominal GDP, population, and trade.

<sup>88</sup> BIMSTEC. 1997. *Declaration on the Establishment of Bangladesh–India–Sri Lanka–Thailand Economic Cooperation*. Bangkok.

<sup>89</sup> ADB has temporarily put on hold sovereign project disbursements and new contracts in Myanmar effective 1 February 2021. ADB is closely monitoring the situation in Myanmar and remains committed to supporting its people.

for intraregional cooperation between SAARC and ASEAN members. For this reason, ADB's support to BIMSTEC is bolstered by the GMS and SASEC programs. The BIMSTEC Charter, signed by leaders of member states in Sri Lanka at the 5th BIMSTEC Summit in March 2022, mandates the organization to cooperate with international and regional organizations that have similar aims and purposes. It directs BIMSTEC member states to "cooperate more effectively in joint efforts that are supportive of and complementary to national development plans of the Member States which result in tangible benefits to the people in raising their living standards, including through generating employment and improving transportation and communication infrastructure" (BIMSTEC 2022).

## Performance and Progress over the Past Year

### ADB's role in advancing economic cooperation and integration in South Asia and Southeast Asia through BIMSTEC is evolving and expanding.

The early years of the partnership focused on research in transport connectivity. But this has gradually widened to cover institutional strengthening and regional policy dialogue on a wider range of areas, including trade, tourism, financing, and people-to-people exchange. ADB-supported studies are helping shape economic cooperation and integration policies and programs (ADB 2008, 2018a). Institutional strengthening and regional policy dialogue activities have progressively equipped BIMSTEC with the capacity and knowledge to plan, implement, and monitor these policies and programs. Recently, ADB responded quickly to a BIMSTEC request to prepare studies to tap opportunities for member states on tourism, trade facilitation, and transport infrastructure financing. Its reports are being finalized for publication.

**Tourism Development.** ADB, prompted by the collapse of tourism due to the COVID-19 pandemic, assisted BIMSTEC with the *Leveraging Thematic Circuits for BIMSTEC Tourism Development* study. In analyzing ways to revive tourism, the study provides valuable

inputs needed to draw up a comprehensive strategy on developing tourism in the subregion. Recommendations include improving tourism infrastructure, stimulating the sustainable development of themes for tourists to follow (the so-called thematic circuits), using marketing and branding, and putting a focus on developing human resources for meeting public and private sector tourism development needs.

**Trade Facilitation.** The BIMSTEC Trade Facilitation Strategic Framework 2030 was prepared to respond to BIMSTEC's call for promoting intraregional trade by reducing nontariff barriers. It identifies nontariff barriers to trade in the subregion and provides a structured approach to enhancing trade facilitation. This effort has four main components: (i) soft infrastructure, including the promotion of increased remote processing and clearances, automation, and the rationalization of documentation; (ii) hard infrastructure, including developing land border facilities, inland clearance container depots, dry ports, and testing laboratories; (iii) logistics, including promoting advanced logistical applications and strengthening linkages between national single windows and port community systems; and (iv) building institutional capacity and promoting mutual cooperation among member states to facilitate transfer of technical skills.

**Transport Connectivity.** The ADB-supported BIMSTEC Master Plan for Transport Connectivity was adopted in March 2022. The document is the first of its kind to be adopted by BIMSTEC leaders and contains a comprehensive 10-year strategy and action plan to improve transport linkages in the subregion. Since the leaders of member states called for its immediate implementation, ADB is now poised to help implement 141 flagship projects to improve transport connectivity in the Bay of Bengal at an estimated cost of \$47 billion. These projects cover eight operational areas: (i) roads and road transport; (ii) railways and rail transport; (iii) ports and maritime transport; (iv) inland water transport; (v) civil aviation and airports; (vi) multimodal and intermodal transport; (vii) trade facilitation; and (viii) human resources development (ADB 2022e). They will be monitored against strategic goals over the 10 years of the plan.

**Transport Connectivity Financing.** ADB supported a study on *Financing for Transport Connectivity Infrastructure* to fill financing gaps of projects included in the master plan. The study assesses the financing landscape for infrastructure in the subregion and analyzes the various modes for financing transport infrastructure, including public–private partnerships. Its recommendations include ensuring adequate enablers for the strategy, planning, coordination, and implementation of projects. Formulating standard contractual agreements and harmonizing technical standards for use in regional projects are also recommended, as is setting up a BIMSTEC regional fund to address funding challenges and to better control project preparation and implementation timelines.

**Policy Dialogues and Capacity Building.** Success in providing just-in-time responses to BIMSTEC’s knowledge needs is built on sound policy dialogues with representatives from member states. As in previous years, ADB supported important events organized by the BIMSTEC secretariat, including the BIMSTEC Transport Connectivity Working Group meetings that served as the main channel for policy discussions leading to the formulation of the master plan. Knowledge sharing has also played a huge part in the success of the ADB–BIMSTEC partnership. Although sidelined by the pandemic, training and capacity-building activities remained on top of ADB–BIMSTEC partnership initiatives. In 2021, the BIMSTEC secretariat and ADB agreed to follow a revised list of training activities focused on strengthening the capacities of the secretariat and member states to promote cooperation and integration.

## Prospects

**The BIMSTEC Charter stipulates the group’s objectives, principles, and organizational setup and arrangements to accelerate economic growth and social progress.**

The month before BIMSTEC heads of government signed the charter at their March 2022 summit, ADB and the secretariat specified their cooperation arrangements through a memorandum of understanding (MOU), the

secretariat’s first MOU with an international organization. Under the MOU, ADB will help BIMSTEC in planning and managing projects and programs by providing technical and financial assistance for information exchange, knowledge products formulation, policy dialogue, knowledge sharing, and institutional development.

An area where BIMSTEC requested significant focus is ADB’s support for the BIMSTEC Master Plan for Transport Connectivity. Using the SASEC forum and the network of ADB resident missions, ADB is taking stock of the status of transport projects and formulating a 3-year rolling action plan. ADB will help the secretariat organize a workshop in 2023 to discuss the initial progress and arrangements for its implementation, including the financing arrangements for some of the projects.

ADB will also continue to support regional policy dialogues, knowledge sharing, and capacity building. Facilitation of knowledge exchange and dialogues with ASEAN, UNESCAP, and other international organizations will constitute an important engagement. And as to the direct engagement with BIMSTEC secretariat, the first ADB-supported institutional development activity on team building, leadership, and emotional intelligence was held in Dhaka in April 2022 for secretariat officials and staff.

## Policy Challenges

**Progress in BIMSTEC can be accelerated by tackling the challenges of enormous and unmet resource requirements, improving institutional capacity, and removing system constraints.**

The group’s ambitious economic and social advancement agenda has already achieved much good progress in areas such as transport connectivity and trade through the efforts of BIMSTEC member states and the support of development partners.

The February 2022 MOU provides a great opportunity for ADB and BIMSTEC to work together more closely to accelerate economic cooperation and integration,

particularly in the broad areas of transport connectivity, trade facilitation, energy, environment and climate change, tourism development, and infrastructure financing.

The subregion's geographic contiguity, abundant natural and human resources, rich historical linkages, and common cultural heritage present great potential for BIMSTEC to promote cooperation and integration in areas identified in the agreement. ADB welcomes the convergence of BIMSTEC's development agenda and ADB's strategic priorities. With the BIMSTEC Charter's statement of renewed commitment to the cause of promoting peace, prosperity, and sustainable development, ADB is committed to accelerating and expanding support to BIMSTEC under Strategy 2030 and through the GMS and SASEC programs to achieve a prosperous, sustainable, resilient, and inclusive Bay of Bengal region.

## South Asia Subregional Economic Cooperation<sup>90</sup>

*The ADB-supported South Asia Subregional Economic Cooperation (SASEC) program is a partnership of seven countries (Bangladesh, Bhutan, India, Maldives, Myanmar, Nepal, and Sri Lanka) that aims to improve economic cooperation and address development challenges in the subregion.<sup>91</sup> ADB is lead financier, secretariat, and development partner, financing investments and technical assistance. By 2022, SASEC has built a portfolio of 77 projects amounting to almost \$18 billion, with the largest share of investments made for connectivity infrastructure. SASEC members are now undertaking a strategic refocusing of the program through a reorientation of the SASEC Vision (ADB 2017), including adding climate, pandemic, and disaster resilience as an operational priority and new initiatives across areas of cooperation. Institutional improvements, the establishment of a SASEC secretariat within the subregion, and a mechanism for deeper sectoral focus are also being pursued.*

## Overview

**In 2022, SASEC pushed forward with strategic refocusing of the program to support the post COVID-19 green and resilient recovery efforts of its member countries.**

Bangladesh, Bhutan, India, and Nepal established SASEC in 2001 to strengthen subregional economic cooperation and address development challenges such as persistent poverty and demographic expansion (Table 6.4). Maldives and Sri Lanka joined in 2014 followed by Myanmar in 2017, expanding opportunities to enhance cross-border connectivity, intraregional trade, and regional cooperation and integration.

In 2021, ADB committed \$1.26 billion in regional cooperation and integration assistance for three multisector projects, one transport, and one energy project. It was on track to commit \$1.81 billion for 13 projects in 2022.<sup>92</sup> Robust growth in GDP per capita in Bangladesh, India, and Maldives in 2021 (ranging from 6% to 26%) will continue in 2022–2023 for these countries; however, low growth or declines in GDP per capita in Sri Lanka and Myanmar in 2021 are expected to deepen poverty in these countries.

By 31 October 2022, 77 projects (\$17.56 billion) had been financed along with \$199.68 million in 143 technical assistance grants. Investments in infrastructure connectivity accounted for the largest share (44 projects, \$12.32 billion), with power generation, transmission, and cross-border electricity trade next (16 projects, \$2.92 billion). Investments in economic corridor development and/or multisector projects (8 projects worth \$1.94 billion), trade facilitation (5 projects worth \$328.15 million), ICT (2 projects worth \$20.80 million), and health (2 projects worth \$25.92 million), constituted the remainder (Figure 6.5). ADB committed about \$10.31 billion in investments (\$6.94 billion from ordinary capital resources and \$3.37 billion in concessional finance), while SASEC members and cofinanciers contributed over \$7.25 billion.

<sup>90</sup> Contributed by Thiam Hee Ng, director, SARC; Tadateru Hayashi, principal economist, SARC; Pia Reyes, senior regional cooperation officer, SARC; Esnerjames Fernandez, associate regional cooperation officer, SARC; Jesusito Tranquillino, ADB consultant, SARC; and Leticia de Leon, ADB consultant, SARC.

<sup>91</sup> ADB has temporarily put on hold sovereign project disbursements and new contracts in Myanmar effective 1 February 2021. ADB is closely monitoring the situation in Myanmar and remains committed to supporting its people.

<sup>92</sup> Consisting of four transport projects, two trade facilitation program loans, one clean energy project, four multisector corridor development projects, and two health projects.

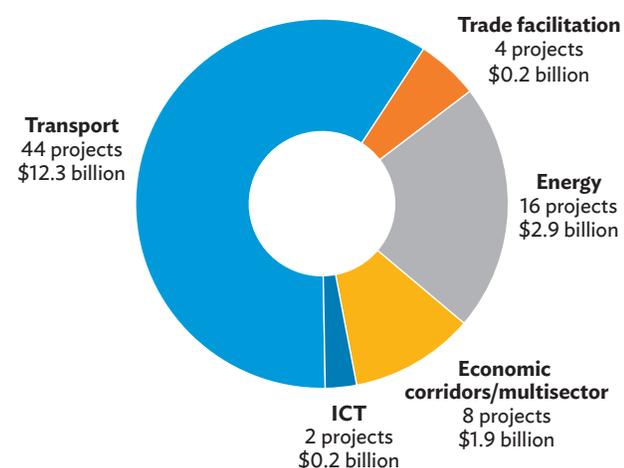
**Table 6.4: Selected Economic Indicators, 2021—South Asia Subregional Economic Cooperation**

Economy	Population (million)	Nominal GDP (\$ billion)	GDP Growth (% , 2017–2021, average)	GDP per Capita (current prices, \$)	Trade Openness (total trade, % of GDP)
Bangladesh	169.4	416.3	6.4	2,457.9	25.6
Bhutan	0.8	2.4	1.5	3,140.9	170.4
India	1,407.6	3,176.3	3.8	2,256.6	30.4
Maldives	0.5	5.2	6.1	9,979.7	52.4
Myanmar	53.8	65.2	3.2	1,211.2	45.4
Nepal	30.0	35.8	5.0	1,193.5	49.2
Sri Lanka	21.8	89.0	1.8	4,086.6	39.9
<b>SASEC</b>	<b>1,683.8</b>	<b>3,790.2</b>	<b>4.1</b>	<b>2,250.9</b>	<b>30.6</b>

GDP = gross domestic product, SASEC = South Asia Subregional Economic Cooperation.

Note: SASEC average GDP growth rate is weighted using nominal GDP, based on International Monetary Fund staff estimates.

Sources: ADB calculations using data from ADB, Asian Development Outlook database for GDP growth; and Haver Analytics, Inc. for nominal GDP, population, and trade.

**Figure 6.5: Total Portfolio By Sector—South Asia Subregional Economic Cooperation, 2001–2022**  
 (as of 31 October 2022)


ICT = information and communication technology.

Source: ADB estimates and ADB 2022c.

SASEC knowledge initiatives tackle trade constraints discussed in SASEC Vision and Operational Plan documents (ADB 2016, 2017). These and added complications from pandemic-induced supply chain disruptions, provide the basis for a strategic refocusing, aligned with the subregion's targets for the Sustainable Development Goals (SDGs).<sup>93</sup> ADB has completed studies on advancing maritime sector cooperation, strengthening tourism cooperation mechanisms, and promoting safe mobility and better road asset management. Route initiative studies have identified issues that hamper cross-border flows and solutions that will create highly facilitated trade corridors (HFTCs).<sup>94</sup> Supply chain mapping studies explored how to harness complementarities between SASEC corridors and actions to strengthen value chains. A scoping study on One Health, initiated by the climate, pandemic, and disaster resilience operational priority, looked at improving health security through harmonized policy and project interventions.<sup>95</sup>

<sup>93</sup> Also to better align with ADB's Strategy 2030 (ADB 2018b).

<sup>94</sup> HFTCs are economic trade routes that enhance trade and transit efficiency in the region and can generate demonstration effect leading to adoption of similar facilitation measures in other cross-border corridors and lead to better regional integration. Crucial elements of HFTCs include (i) full implementation of WTO Trade Facilitation Agreement measures, (ii) systems interoperability, (iii) developing testing and certification facilities and progressing to mutual recognition, (iv) seamless cross-border transport operations, and (v) coordinated border infrastructure development.

<sup>95</sup> One Health is a United Nations' initiative to forge close collaboration between human and animal health measures to address the risk of spread of zoonotic diseases. The SASEC scoping study looked at potential regional-level interventions such as disease surveillance systems to enable seamless information sharing and monitoring between countries.

Updates to the Action Plan on SASEC Initiatives 2022–2024 reflect revised SASEC priorities under the SASEC Operational Plan 2016–2025 (ADB 2016) and its 2019 revamp (ADB 2020a). Project tables featuring the SASEC operational priorities are now to be updated quarterly and made available in real time on the SASEC website.<sup>96</sup>

## Performance and Progress over the Past Year

The two-pronged approach for strategic reorientation of the SASEC program was endorsed at virtual meetings of SASEC nodal officials and working groups in June 2022. The new climate, pandemic, and disaster resilience operational priority includes strengthening regional health security through the One Health Approach. Proposed new initiatives to realign priorities include (i) promoting HFTCs, (ii) ramping up maritime cooperation, and (iii) implementing the tourism program.

The second approach, institutional enhancement, involves regularizing SASEC finance minister meetings, strengthening subregional and national institutional arrangements for SASEC, and establishing a SASEC secretariat. Subgroups will be formed for more focused discussions on sector-specific or other issues and actions. The identified subgroups cover (i) food regulators' forum; (ii) tourism; (iii) supply chain development; (iv) road/rail, maritime, and inland waterways; and (v) a business forum.

**Transport.** In 2021, ADB provided \$400 million for the Dhaka–Sylhet Corridor Road Investment project tranche 1, which will improve the efficiency, connectivity, and safety of this international corridor. The SASEC program will continue to prioritize enhancing multimodal linkages between port gateways and landlocked areas, including improving Nepal's transit trade access to Indian ports. Maritime investments and further knowledge work will arise from recommendations of the completed maritime cooperation studies discussed at SASEC meetings in June 2022. These studies looked into improving port

facilities, port approaches, and hinterland connectivity infrastructure, as well as developing cruise passenger terminals and adopting environmental management system for ports, among others. The road safety and asset management study findings will support the incorporation of road safety and performance standards in future road project designs. All these efforts contribute to the realization of a safe, efficient, and seamless movement of cargo and passenger traffic between intermodal transport systems along key trade routes.

**Trade Facilitation.** In addition to expediting cargo clearance and promoting efficient compliance management, SASEC will focus on addressing trade barriers and border facilities issues to achieve a more efficient trade logistics experience in the subregion, as provided under the SASEC Trade Facilitation Framework for 2014 to 2018 (ADB 2014), and extended to 2025 under the SASEC Operational Plan. The Customs Subgroup has advanced national and subregional projects (e.g., electronic data exchanges, transit automation, capacity building), and adopted measures to help customs administrations better handle trade disruptions. SASEC mechanisms will be used to improve border infrastructure. The Bangladesh SASEC Integrated Trade Facilitation Sector Development program, with an ADB commitment of \$143 million in 2022, will support customs modernization, upgrade cargo transshipment, and improve infrastructure at key border crossings. Moreover, SASEC cross-border route studies will guide actions in HFTCs, such as upgrading certification facilities and streamlining transport operations to improve trade and transit efficiency, aligning operations toward better regional integration.<sup>97</sup>

**Energy.** Developing connectivity for regional power trade remains SASEC's priority for the energy sector. ADB committed an additional \$60 million in 2021 for strengthening Nepal's transmission system. While the SASEC Regional Power Trade Framework Agreement has not been finalized, bilateral power trade arrangements continue to advance. This will eventually lead to facilitation of transmission corridor access and more competitive pricing of traded power. The SASEC Cross-Border Power Trade Working Group will oversee this and firm up the priority

<sup>96</sup> South Asia Subregional Economic Cooperation. <http://www.sasec.asia/>.

<sup>97</sup> Along the (i) Kolkata–Dhaka, and (ii) Kathmandu–Kakarvitta–Panitanki–Phulbari–Bangalbandha–Chattogram/Mongla routes.

regional transmission and generation pipeline by updating the SASEC power master plan. In line with ADB's new Energy Policy, SASEC countries have agreed to emphasize renewable clean energy, but have stressed the need for long-term low-cost financing for transition to cleaner energy. The program will implement a Green Fuel Development initiative, which will examine and share clean energy technology through a new regional technical assistance program.

**Economic Corridor Development.** Comprehensive development plans were prepared from 2018 for sections of India's East Coast Economic Corridor in SASEC Corridor 2, outlining linkages between production networks and ports along the east coast, combined with a business-friendly policy framework. The India Northeast Region Corridor study expands the earlier Vision Study to develop Assam as India's expressway to ASEAN. In Bangladesh, both the Southwest and Northeast corridor studies identify multimodal transport spines that would link to gateways and markets in India, Bhutan, and Nepal, spurring industrial growth. The India studies, covering master planning for selected corridor nodes, have led to an ADB commitment of \$797 million for four multisector/economic corridor development projects in 2021–2022 (as of 30 June 2022). These projects aim to enhance transport connectivity and facilitate industrial development in line with the recommendations of various studies.

## Prospects

The refocusing and realignment of SASEC priorities are reflected in the Action Plan on SASEC Initiatives 2022–2024, which can be used as a tool to monitor the progress of shortlisted projects and programs and to devise actions to follow up on various knowledge initiatives for better program coordination and effectiveness. These aim to move the program forward.

The One Health approach includes knowledge-sharing events to trigger policy discussions on how the SASEC platform could better address regional health security issues. A regional One Health working group has been formed with planned activities that include bridging the information gap and building a regionwide early warning system about health threats.

In transport, the maritime subgroup will focus on priority port logistics and infrastructure investments to be pursued. In trade facilitation, HFTC implementation may be initiated through national working groups to develop consensus on customs interventions/trade protocols and through-transport mechanisms for each corridor. Moreover, the SASEC Food Regulators' Forum will address sanitary and phytosanitary and technical barriers to trade and harmonize regulations and standards with a view to improving regional trade in food products.

To support economic corridors, the supply chain development subgroup will discuss findings of mapping studies to improve production linkages for priority sectors within and between SASEC corridors. The tourism subgroup will develop strategies for joint marketing and promotion of unique travel circuits while looking at easing border travel constraints. And the proposed SASEC Business Forum will facilitate public–private dialogue on key subregional issues and coalesce private sector positions on improving the business environment.

Also, the establishment of the SASEC secretariat in the subregion will enable more effective coordination among development partners operating in all member states. The SASEC secretariat can help better synchronize the SASEC-related programs of development partners and promote deeper understanding of the synergies and impacts of initiatives.

## Policy Challenges

**Wide-ranging institutional enhancement, while geared to meet the strategic reorientation of the SASEC program, will need stronger ownership from member countries. The program will also require more effective resource mobilization to support its strategic goals.**

SASEC member countries have shown strong ownership of the SASEC program, having generally endorsed the proposed institutional enhancements during the meetings of the working groups and nodal officials in June 2022. However, they would demonstrate stronger commitment

to the program by organizing requisite national coordination bodies and building internal mechanisms for focal agencies to work more closely with the subgroups and forums that will be established under the program. A subgroup tasked to implement the economic corridor approach will require multisectoral engagement.

Moreover, creating the planned institutions, conducting new studies, and revising the SASEC Vision will all require additional resources. Given that the pandemic has strained member countries' fiscal positions, there is some urgency in improving resource mobilization for the program. With that in mind, the formation of the SASEC Business Forum is a way to generate wider private sector buy-in for SASEC initiatives.

## South Asian Association for Regional Cooperation<sup>98</sup>

*The South Asian Association for Regional Cooperation (SAARC), founded in 1985, was established to promote collective social, economic, and cultural progress of its eight member states in South Asia: Afghanistan,<sup>99</sup> Bangladesh,*

*Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. ADB commenced dialogue with the SAARC secretariat in 2003. ADB and the secretariat signed an MOU on 12 April 2004 to establish a cooperative relationship with a view to promoting regional cooperation among the SAARC member states. The first SAARC summit was held in Dhaka, Bangladesh in 1985. The association's secretariat was established in Kathmandu on 16 January 1987.*

## Overview

**The COVID-19 pandemic affected the normal functioning of SAARC, just as it did for other subregions. However, ADB has helped by extending significant assistance to the SAARC secretariat in several areas.**

Several important areas of cooperation under SAARC include trade, transport, energy, climate change, poverty alleviation, and agriculture. SAARC has established several technical committees, working groups, and other mechanisms to pursue its goals. Since the MOU in 2004, ADB has extended its support in research and knowledge

**Table 6.5: Selected Economic Indicators, 2021—South Asian Association for Regional Cooperation**

Member states	Population (million)	Nominal GDP (\$ billion)	GDP Growth (%; 2017–2021, average)	GDP per Capita (current prices, \$)	Trade Openness (total trade, % of GDP)
Afghanistan	40.1	20.1	1.3	502.2	31.1
Bangladesh	169.4	416.3	6.4	2,457.9	25.6
Bhutan	0.8	2.4	1.5	3,140.9	170.4
India	1,407.6	3,176.3	3.8	2,256.6	30.4
Maldives	0.5	5.2	6.1	9,979.7	52.4
Nepal	30.0	35.8	5.0	1,193.5	49.2
Pakistan	231.4	348.2	3.7	1,504.9	29.0
Sri Lanka	21.8	89.0	1.8	4,086.6	30.1
<b>SAARC</b>	<b>1,901.5</b>	<b>4,093.4</b>	<b>4.0</b>	<b>2,152.7</b>	<b>30.0</b>

GDP = gross domestic product, SAARC = South Asian Association for Regional Cooperation.

Notes: Average GDP growth rate for Afghanistan covers until 2020. SAARC average GDP growth rate is weighted using nominal GDP. Nominal GDP figures are based on International Monetary Fund staff estimates. ADB placed on hold its assistance in Afghanistan, effective 15 August 2021 (ADB. 2021f. ADB Statement on Afghanistan. News release. 10 November. <https://www.adb.org/news/adb-statement-afghanistan>). The data and information on Afghanistan were collected from international sources.

Sources: ADB calculations using data from ADB. Asian Development Outlook database for GDP growth; and Haver Analytics, Inc. for nominal GDP, population, and trade.

<sup>98</sup> Contributed by Thiam Hee Ng, director, SARC; Dongxiang Lee, lead regional cooperation specialist, SARC; Lani Garnace, economics officer, SARC; and Subash Sharma, ADB consultant, SARC.

<sup>99</sup> ADB placed on hold its assistance in Afghanistan, effective 15 August 2021 (ADB. 2021f. ADB Statement on Afghanistan. News release. 10 November. <https://www.adb.org/news/adb-statement-afghanistan>). The data and information on Afghanistan were collected from international sources.

dissemination, capacity building and institution strengthening, and regional policy dialogue. With ADB support, SAARC has been able to conduct various studies. These include a Regional Economic Integration Study (Phases I and II); the SAARC Regional Multimodal Transport Study (SRMTS); a study for the SAARC Agreement on Trade in Services; and *Climate Risks in the SAARC Region: Ways to Address the Social, Economic and Environmental Challenges*. Table 6.5 presents some most recent economic indicators for SAARC member states.

The objectives of SAARC as enshrined in its Charter<sup>100</sup> signed on 8 December 1985 are to (i) promote the welfare of the people of South Asia and to improve their quality of life; (ii) accelerate economic growth, social progress, and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential; (iii) promote and strengthen collective self-reliance among the countries of South Asia; (iv) contribute to mutual trust, understanding, and appreciation of one another's problems; (v) promote active collaboration and mutual assistance in the economic, social, cultural, technical, and scientific fields; (vi) strengthen cooperation with other developing countries; (vii) strengthen cooperation among themselves in international forums on matters of common interest; and (viii) cooperate with international and regional organizations with similar objectives.

The meetings of the heads of state or government of the SAARC countries are the highest decision-making authority of the group. The summits are held biennially and are hosted by the member state chairing the association, with that responsibility rotating in alphabetical order. Nepal is the current chair, having hosted the 18th meeting in Kathmandu in November 2014.

## Performance and Progress over the Past Year

In June 2020, ADB approved a regional technical assistance project, Strengthening the Implementation of Regional Cooperation and Integration Initiatives of the

South Asian Association for Regional Cooperation, in the amount of \$800,000. Endorsed by member states in September 2021, it is now being implemented. It covers areas such as regional economic integration, financial cooperation, transport connectivity, trade facilitation, climate change, and poverty alleviation.

**Financial Cooperation.** Informal meetings of SAARC finance ministers are held every year on the sidelines of ADB annual meetings. Sixteen have been held. Economic Recovery from COVID-19: Towards Inclusive and Resilient Growth was the theme of the last one, which took place on 5 May 2021. The next informal meeting will be held in May 2023.

**Transport Connectivity.** The SRMTS was conducted with the support of ADB. Member states have taken actions necessary for implementing prioritized recommendations identified in the study. At the 14th SAARC Summit in 2007, governments called for the SRMTS to be extended to all member states. The next summit in Nepal in 2014 saw leaders stress the need to link South Asia with contiguous regions, including Central Asia and beyond, by all modes of connectivity. The Third SAARC-ADB Special Meeting on Regional Economic Integration, in 2017, invited member states to put forward proposals for updating the SRMTS to the SAARC secretariat and follow up on the study's recommendations. Accordingly, the SRMTS is now being updated with the financial and technical assistance of ADB. An inception report and country-specific questionnaires have been circulated among all member states through the SAARC secretariat.

**Energy Cooperation.** ADB has extended support for the energy sector in SAARC in recent years. In this regard, the Capacity Building Training Program on HVDC Transmission Systems was organized on 14–18 February 2022. Similarly, another Capacity Building Training Program on Cross Border Electricity Trade among SAARC Countries was organized by ADB on 17–26 May 2022. A SAARC Council of Experts of Energy Regulators (Electricity) is functioning with the financial and technical assistance of ADB and has held four meetings, with a fifth scheduled for 2023.

<sup>100</sup> SAARC Charter. <https://saarc-sec.org/index.php/about-saarc/saarc-charter>.

**Trade Facilitation.** ADB is also undertaking a study to promote intraregional trade by harmonizing the 8-digit Harmonized System tariff lines of all SAARC member states. It comes at the request of the SAARC secretariat and member states. An inception report and questionnaire were prepared and forwarded through the SAARC secretariat for member states to take action.

**Regional Economic Integration in SAARC.** ADB assisted SAARC in conducting the *Regional Economic Integration Study*. Foreign secretaries of member states had approved the second phase of the study in 2014. Subsequently, through four meetings of representatives from the Ministries of Commerce and Finance, the SAARC members have identified seven recommendations for priority action. These are (i) the reduction/removal of nontariff barriers and para-tariff barriers; (ii) energy cooperation; (iii) trade facilitation measures; (iv) investment cooperation; (v) a reduction of products in sensitive lists; (vi) the SAARC Agreement on Trade in Services; and (vii) improvements in connectivity (rail, road, air, maritime) among member states.

The fifth meeting of the Representatives of the Ministries of Commerce and Finance of the SAARC Member States is expected to be held in 2023. The theme of the Fifth Meeting would be “Reduction/Removal of NTMs/PTBs.”

**Poverty Alleviation.** ADB has also agreed to assist SAARC in contextualizing the SDGs and the Post-2015 Development Agenda for the SAARC region and to revisit the 2004 SAARC Plan of Action on Poverty Alleviation, as mandated by the SAARC leaders.

ADB will help identify common priority SDGs to appropriately contextualize them for the SAARC region; monitor the progress of key performance indicators; suggest mid-course correction; review the progress and revisit the 2004 poverty alleviation action plan; and prepare a concept paper for deliberation during the Consultative Workshop on Contextualization of SDGs in SAARC. Members of the SAARC Inter-Governmental Expert Group on Poverty Alleviation will attend the

workshop along with other relevant authorities/experts from member states.

**Other Areas.** As part of its technical assistance to SAARC, ADB has also provided for the conduct of other analytical studies and the organization of knowledge-sharing and capacity-building activities related to COVID-19, agriculture, food security, and other topics that the SAARC secretariat may request it look into.

## Prospects

### SAARC-ADB activities are likely to pick up in the coming months.

The current focus is on accelerating the implementation of agreed activities. The actions include (i) updating and extending the SRMTS, including adding a chapter on connecting South Asia with Central Asia; (ii) conducting a study on harmonization of 8-digit HS codes; (iii) conducting special meetings on the Regional Economic Integration Study (Phase II); (iv) holding the 17th Informal Meeting of SAARC Finance Ministers on the sidelines of ADB’s 56th annual meeting; (v) holding an intergovernmental expert meeting on climate change; (vi) holding a consultative workshop on the contextualization of SDGs in SAARC; and (vii) assisting other projects requested by SAARC, such as technical support to the SAARC Energy Center for the creation and management of a database of regional regulatory functions and trade.

## Policy Challenges

Considerable scope exists for the timely implementation of activities agreed through various SAARC mechanisms. This is brought to the attention of the SAARC secretariat at meetings and bilateral consultations between ADB and SAARC. ADB has expressed its commitment to assist SAARC in different areas of cooperation, particularly toward the passage of a South Asia Economic Union.<sup>101</sup> Holding the long-pending 19th

<sup>101</sup> To assist SAARC in its journey towards South Asian Economic Union, the next phase of the study, “Next Steps to South Asian Economic Union - Regional Economic Integration Study (Phase-II)” has been conducted with the support of ADB. SAARC has already implemented initial steps such as SAARC Preferential Trading Arrangement (SAPTA) and South Asian Free Trade Area (SAFTA) for this purpose.

SAARC Summit, set to take place in Islamabad, Pakistan would invigorate the SAARC process.

The objectives of SAARC are aligned with those of other regional groupings such as BIMSTEC, CAREC, and SASEC. Intraregional connectivity, trade facilitation, assisting the power trade, and tackling climate change are among the initiatives SAARC has in common with other subregional organizations in South Asia and Central Asia. Since many SAARC member states are also in these regional groupings, it is important to enhance dialogue between them to promote synergies and complementarities. The efforts of all economic cooperation and integration initiatives in South Asia should focus on collaboration in critical areas such as transport, energy, trade, and finance for the benefit of the people living in South Asia. ADB can play a significant role in sharing best practices and study results across regional organizations with a view to deepening their impact.

## The Pacific: Regionalism to Support Resilience<sup>102</sup>

*ADB's work in the Pacific is helping to build and sustain resilience in the subregion, including through connectivity, subregional trade, and development of regional public goods. This work is aligned with the goals and priorities of the Pacific Islands Forum, whose 2050 Strategy for the Blue Pacific Continent seeks to employ regional mechanisms to build security, inclusive growth, and resilience. Regional cooperation and mechanisms are instrumental in broadening the reach of ADB support, collaboration, and knowledge work throughout the Pacific. Regional financing and technical assistance, in particular, are helping developing member countries respond to and recover from the impacts of climate change and disasters.*

### Overview

ADB's regional strategic framework for the Pacific seeks to build and support resilience in the subregion, including through connectivity, subregional trade,

and the development of regional public goods, and is closely aligned with the goals and priorities of the Pacific Islands Forum—the principal regional platform—which works toward building security, inclusive growth, and resilience. Regional cooperation and mechanisms are instrumental in broadening the reach of ADB support, collaboration, and knowledge work throughout the Pacific, and in addressing many of the challenges facing ADB developing member countries, such as small size, remoteness, limited capacity and weak institutions, and vulnerability to climate change and disasters caused by natural hazards.

Guided by ADB's corporate regional cooperation and integration operational plan, operations in the Pacific continue to focus on improving connectivity (air, land, and maritime) and trade, and enhancing regional public goods that bring shared benefits and development outcomes to many of ADB's developing member countries in the Pacific. In 2022 alone, ADB approved \$86.4 million in regional investment loans and grants, and \$51.6 million in regional technical assistance (including co-financing).

### Supporting Resilience for the Blue Pacific Continent

**ADB's regional strategic framework, the Pacific Approach 2021–2025, articulates the goal of building and supporting resilience across its 14 Pacific developing member countries.** The approach puts a focus on preparing for and responding to shocks, delivering sustainable services, and supporting inclusive growth. It also highlights the importance of supporting regional cooperation and integration initiatives that deepen collaboration among Pacific countries, including coordinating with regional organizations; exploring and developing regional investment and technical assistance projects; working across Pacific developing member countries on topics of mutual interest; and supporting regional policy studies and dialogue.

**The Pacific Approach aligns with the aims of the Pacific Islands Forum.** The Forum aims to achieve “a resilient Pacific Region of peace, harmony, security, social

<sup>102</sup> Contributed by Rosalind McKenzie, principal operations coordination specialist (fragile situations), Social Sectors and Public Sector Management Division (PASP), Pacific Department; and Cara Tinio, associate economics officer, PASP.

inclusion, and prosperity, that ensures all Pacific peoples can lead free, healthy, and productive lives” (Pacific Islands Forum 2022). It promotes political dialogue and decision-making among its 18 members (which include ADB’s 14 Pacific developing member countries) and collaboration with international agencies. The Forum also represents its members’ interests in other international settings. Its secretariat facilitates dialogue and coordinates implementation of regional policies and initiatives. The Council of Regional Organisations of the Pacific (CROP), a high-level multisectoral advisory body, helps facilitate policy formulation at national, regional, and international levels.

In July 2022, Forum members approved the 2050 Strategy for the Blue Pacific Continent, their framework to realize a collective vision for the Pacific. The strategy outlines the following thematic areas: (i) political leadership and regionalism; (ii) people-centered development; (iii) peace and security; (iv) resource and economic development; (v) climate change and disasters; (vi) ocean and environment; and (vii) technology and connectivity. Regional cooperation and integration runs through many action points in these strategic pathways and is recognized as key to enabling access to affordable and quality social services, ensuring that ocean-based natural resources are used sustainably, strengthening resilience to climate change and disaster risk, promoting connectivity, and accelerating economic growth.

**ADB is an observer in the Forum and supports its development objectives through regional operations.** ADB has collaborated with CROP member agencies, including the Secretariat of the Pacific Regional Environment Programme and the University of the South Pacific (USP), to establish a platform for capacity building and knowledge transfer on environmental and social sustainability (ADB 2020d). It has helped organize and cosponsor regional knowledge events such as the 2015–2017 Pacific Update Conferences with USP and other partners, and workshops on managing fisheries revenues with the Forum Fisheries Agency and the Pacific Financial Technical Assistance Centre. ADB has also engaged in technical collaborations with the Pacific Community to build the subregion’s statistical capacity.

Its ongoing work with USP is helping expand access to higher education through projects to improve regional university campuses and learning programs, including distance learning (ADB 2012).

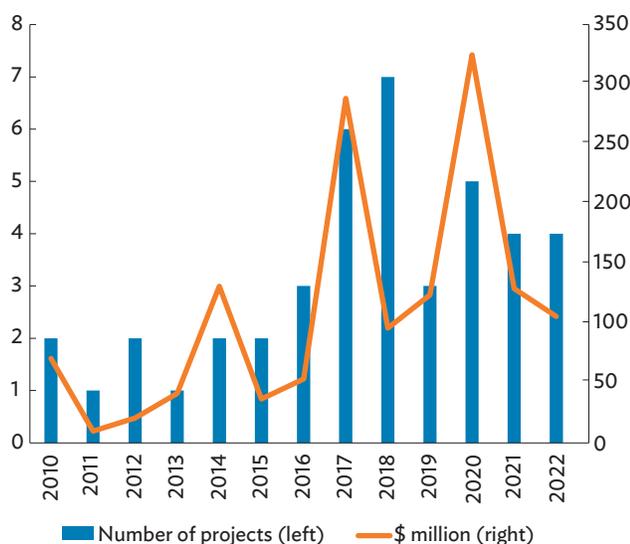
**ADB supports regional digital and transport connectivity and trade for economic development.**

Outside of collaborations with CROP member agencies, ADB also supports the Forum through its regional programming (Figures 6.6 and 6.7). For instance, it helps enhance resilient and sustainable connectivity and accelerate economic growth in the Pacific through investment projects that are improving the flow of goods and services, a crucial step for these geographically remote, highly dispersed, and heavily import-dependent economies. ADB has enhanced internet connectivity in Tonga, Samoa, and Palau by linking them to the international submarine cable network and is pursuing similar investments in the Cook Islands and Kiribati. Further, it developed major seaports in the Cook Islands, Papua New Guinea, and Vanuatu, among others, with ongoing investments continuing to enhance the safety, security, and sustainability of Apia Port in Samoa and upgrade Nuku’alofa Port in Tonga. Port improvements in Tonga will allow deployment of larger vessels, reduce shipping and import–export costs, and encourage regional trade to neighboring states, with connecting shipping routes such as the Cook Islands, Samoa, and main trading partners. A 2022 investment in Tuvalu will simultaneously strengthen domestic shipping and make travel between Fiji, Kiribati, and Tuvalu safer and more convenient, contributing to better subregional business and trade and helping maintain cultural linkages (ADB 2022f). ADB also extended an innovative loan to Fiji Airways, the subregion’s largest airline, to help sustain its business during the disruptions arising from the COVID-19 pandemic and subsequently ramp up its flight operations (ADB 2020b); and expects to support additional sea and/or airport connectivity projects in the Cook Islands, Fiji, Papua New Guinea, Solomon Islands, and Tonga before 2025.

ADB is also helping governments strengthen their capacity and readiness to safely reopen borders to tourists. This includes approval of a 2022 investment to enhance safety measures at Fiji’s Nadi International

Airport, an important Pacific gateway, and a COVID-19 testing facility for asymptomatic tourism- and travel-related testing and disease control (ADB 2022g). This builds on ADB’s experience implementing similar improvements in the Cook Islands in 2021. These projects will provide critical assistance toward reinvigorating regional and international tourism in the Pacific, a key economic growth driver that was virtually shut down by the COVID-19 pandemic.

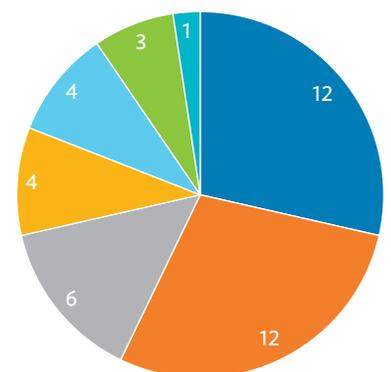
**Figure 6.6: ADB Regional Investment in the Pacific—Loans and Grants, 2010–2022**



Source: Asian Development Bank.

**ADB builds regional public goods by addressing regional health challenges.** ADB continued to bolster the emerging recovery and resilience of the Pacific subregion by approving additional financing in 2021 of its regional program strengthening systems for effective coverage of new vaccines, approved in 2018, to include COVID-19 vaccines (ADB 2021c; Tinio et al. 2022). Helping the governments of Samoa, Tonga, Tuvalu, and Vanuatu prepare to receive and roll out COVID-19 vaccines contributes to safer subregional travel, tourism, and trade, and aligns with the Forum’s focus on people-centered development. ADB expects to extend this regional vaccine coverage support in the subregion.

**Figure 6.7: ADB Regional Investment in the Pacific—Loans and Grants by Sector, 2010–2022 (number)**



- Public sector management
- Transport
- ICT
- Education
- Energy
- Health
- Finance

ICT = information and communication technology.

Source: Asian Development Bank.

**Policy-based operations help strengthen resilience.**

ADB’s Pacific developing member countries are island states that are small and/or facing the challenges of fragile situations with limited institutional capacities. Policy-based mechanisms therefore are integral to fostering key reforms and promoting regionalism in these economies. Support to the Cook Islands, for example, is helping to implement quarantine-free travel arrangements and reforms that improve labor mobility and competition in the telecommunications sector (ADB 2021d, 2021e). In addition, ADB approved a policy-based grant in 2022 to Samoa to strengthen foreign investment and establish an online credit registry that will bring regional benefits to the subregion (ADB 2022h).

**Regional technical assistance is a key channel for support to the Pacific.**

Since January 2020, ADB has funded over \$38 million in regional technical assistance projects in the Pacific, enabling robust training and capacity building for developing member countries in support of several of the Forum’s 2050 Strategy focus areas. Current technical assistance is, among others, strengthening education, gender, and social

protection development outcomes; building gender-responsive judicial systems; developing health sectors and COVID-19 responses; creating solutions for climate and disaster resilience; supporting analysis of exclusive economic zones; establishing a regional network of energy regulators; and developing regional financial integration systems and instruments.

## Promoting Climate Change Agenda as a Cross-Cutting Theme

### Strengthening CAREC Cooperation in Promoting Climate Change Agenda

Climate change is a defining challenge for global development in the 21st century. The CAREC region contributes to and is increasingly affected by climate change effects. CAREC countries are increasingly associated with key challenges related to climate change, including high energy intensity with renewable energy accounting for a small share in overall energy mix, and are highly exposed and vulnerable to disasters such as earthquakes, floods and droughts, and an increasing scarcity of water resources to support the sizable population working in agriculture and husbandry. All these affect socioeconomic development—including human health, poverty, and inequality—and create potential fragility and conflict in the region. The CAREC 2030 has envisioned these challenges by aligning closely with the Sustainable Development Goals and the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21). Climate change is thus identified as a theme that cuts across all five operational clusters of CAREC 2030.

ADB has set an ambitious climate finance target of \$100 billion from 2019 to 2030, to effectively finance climate mitigation and adaptation efforts in its developing member countries to reduce greenhouse gas emissions, and so contribute to low-carbon economic growth. This also cascades in CAREC operations, with 60% of projects required to contribute to climate change mitigation and adaptation. ADB is helping CAREC countries undertake initiatives and actions to promote the climate change

agenda across CAREC's operational clusters. These include

- (i) Conceptualization of a CAREC Green Energy Alliance as a new financing vehicle to support energy efficiency projects and renewable energy projects. The Alliance provides a virtual platform for a marketplace of projects and supports the preparation of high-quality investment-ready projects.
- (ii) Strengthening regional cooperation on disaster risk management by developing a disaster risk transfer facility in the CAREC region to support collaboration among member countries on disaster risk financing and help governments make informed decisions on disaster risk management.
- (iii) Promoting green and resilient transport connectivity, such as upgrading the railway lines by electrifying rail sections and incorporating climate-resilient components in all road rehabilitation projects in CAREC countries.
- (iv) Promoting cooperation in transboundary water resources management and integrated urban development by designing and applying a water sector cooperation framework to foster climate-resilient and productive water systems and sustainable water resources management in the region.
- (v) Strengthening the implementation of the new CAREC digital strategy to promote e-commerce through digitalizing sanitary and phytosanitary measures, customs services, and other processes.

### Developing A Climate Change Action Plan in BIMSTEC

ADB would also like to expand the cooperation to other important areas such as energy, environment and climate change, and people-to-people exchange. Following a request from BIMSTEC, ADB is preparing the BIMSTEC grid interconnection master plan to provide a framework to enhance power grid connectivity across member

states. The plan focuses on developing interconnecting transmission line infrastructure to facilitate power trade among BIMSTEC countries and enhance energy cooperation and gradual evolution to market-based power trade. Likewise, the recently completed BIMSTEC tourism study may also be upgraded to set out a holistic regional strategy and plans that encompass infrastructure, marketing and branding, capacity building, skills development, and the like, while covering key thematic circuits in the region. Input from member states and private sector stakeholders are being sought. This holds tremendous potential for development. ADB could also work with BIMSTEC to develop an action plan for climate change, disaster risk management, and environmental conservation.

## Review of Climate Change Initiatives in the SAARC Region

In response to SAARC's request, ADB is also making efforts to review the implementation of the Thimphu Statement on Climate Change, develop a road map for implementing the study on climate risks in the SAARC region, and suggest a way forward. ADB has agreed to assist in organizing a meeting of the SAARC Inter-Governmental Expert Group on Climate Change for this purpose and to advise on measures for effective implementation of the Thimphu statement and the Dhaka Declaration and SAARC Action Plan on Climate Change through all SAARC member states, as well as regionally.

## Regional Action to Address Climate Change and Disaster Risk in the Pacific

**The Pacific is one of the most vulnerable regions of the world to the impacts of extreme weather events and natural hazards.** Over 2018–2021, the *World Risk Report* consistently ranked five ADB Pacific developing member countries within the 20 countries most exposed to risk, with Vanuatu the most exposed throughout this period. The Pacific economies' narrow output bases, limited implementation capacities, and distance from global supply chains make reconstruction,

rehabilitation, and recovery particularly challenging. This is compounded by the increasing frequency and intensity of extreme weather events and natural hazards brought on by climate change.

The Forum's 2050 Strategy highlights the need to strengthen investments in research on climate change and disaster risk, and to cooperate and collaborate regionally to build the capacity to tackle the impacts of climate events and disasters. Given the significant cost of building resilience, it also identifies increasing access to climate finance as a priority.

**ADB is helping its Pacific developing member countries improve preparedness for climate change and disaster risks** not only by climate-proofing investment projects, but also through regional mechanisms that provide financing and better equip governments to design and implement policies for climate change adaptation and disaster risk mitigation. The Pacific Disaster Resilience Program is a regional facility that (i) supports disaster preparedness actions in participating developing member countries, and (ii) provides fast-disbursing financing following declaration of a state of national disaster or emergency (ADB 2020c). The quick-financing feature has helped expedite the provision of emergency and early recovery needs in the wake of disasters, and the recent expansion of coverage to include health emergencies allowed participating countries to access the facility when community transmission of COVID-19 broke out (Government of Samoa 2022). The first three phases of the program have drawn the participation of 10 Pacific developing member countries, with the fourth round of facility replenishment for five countries expected in 2023.

Further, regional technical assistance is helping all 14 Pacific developing member countries develop climate-resilient investment pathways through better access to climate change information for strategic decision-making, enhancements to planning and policy development processes to better adapt to climate change, and direct support to projects and programs with a focus on upstream inputs and partnership-building (ADB 2020e). It is also supporting clean energy

technologies to help Pacific economies reduce their carbon emissions and adapt to climate change impacts.

Finally, in support of access to ocean and climate financing, ADB's Blue Pacific Finance Hub is working to leverage \$500 million in new investments in ocean-climate action (coastal resilience and ocean-based mitigation); sustainable and climate-resilient seafood;

and circular economy for marine pollution control (ADB 2022i). The hub provides grant and technical assistance funding to support Pacific developing member countries in building an enabling environment for a sustainable blue economy; developing a pipeline of ocean projects; and matching prepared projects to funding.

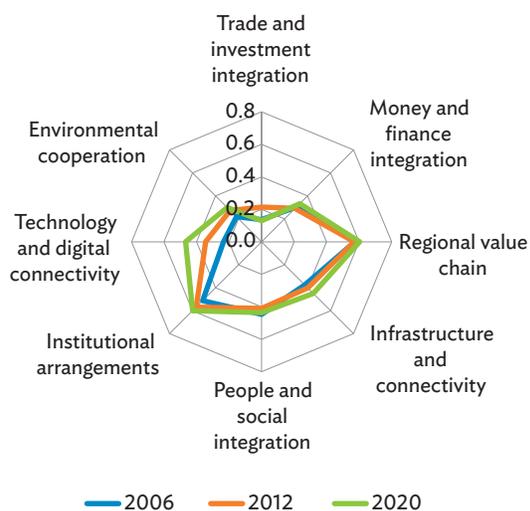
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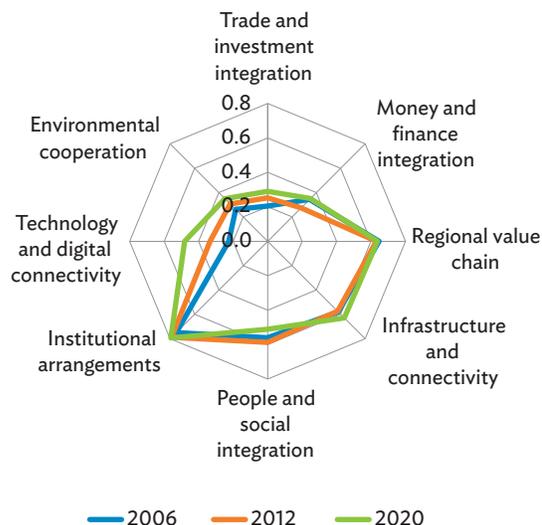
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## Annex 6a: Subregional Integration Indexes

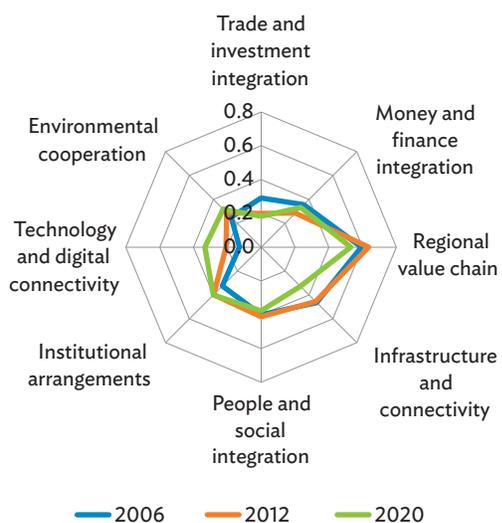
(a) Central Asia Regional Economic Cooperation Program



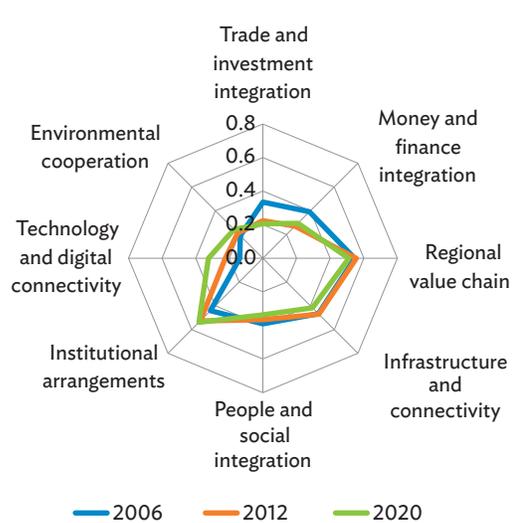
(b) Greater Mekong Subregion Program



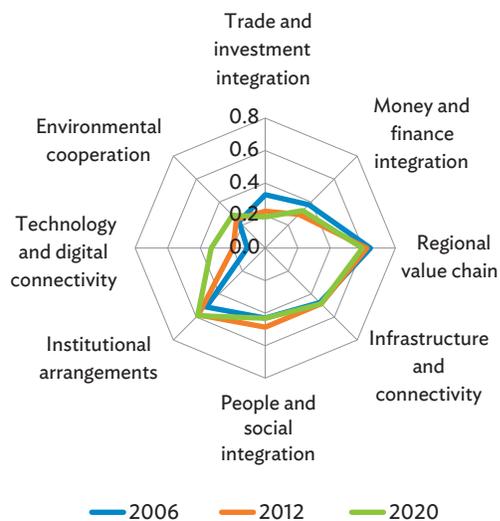
(c) South Asia Subregional Economic Cooperation (SASEC)



(d) South Asian Association for Regional Cooperation (SAARC)



### (e) Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)



Notes: Estimates represent integration within the subregional initiative. Higher values denote greater integration.

Source: ADB. Asia Regional Integration Center. Asia-Pacific Regional Cooperation and Integration Database. <https://aric.adb.org/database/arci> (accessed December 2022).