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The Crucial Role of Regional Cooperation

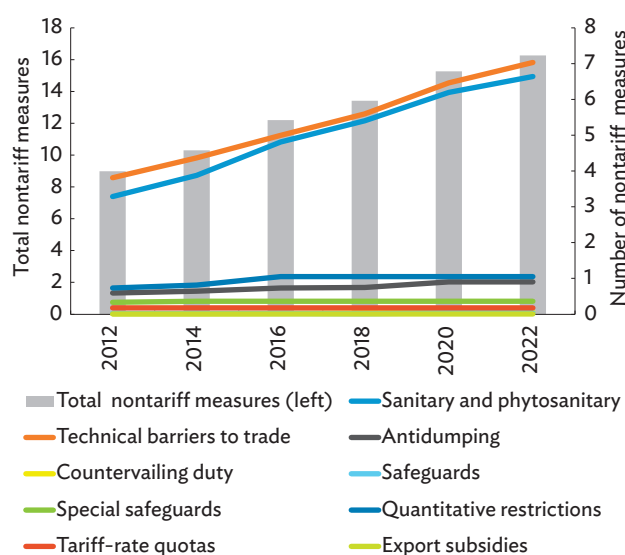
Shared Risks

Amid growing protectionism and risks of global fragmentation, regional cooperation and integration remain crucial to address shared challenges and to foster growth across the economies of Asia and the Pacific.¹

Merchandise trade has been adversely affected by growing nontariff measures over the past 10 years. About 40% of the total nontariff measures in the region are related to sanitary and phytosanitary measures, while 43% are technical barriers to trade (Figure 1.1). Other notable measures such as antidumping and quantitative restrictions have recorded significant increases, ranging from 500 to 1,000 per year since 2012.

Services trade barriers have marginally increased, both globally and in Asia, since 2014. According to the Organisation for Economic Co-operation and Development (OECD) Services Trade Restrictiveness Index, most of the barriers are restrictions on foreign entry (Figure 1.2). Cross-border movement of persons also remains regulated, with restrictions taking the form of limitations on stay, nationality or residency requirements, and lack of recognition of professional qualifications across borders. Air transport, legal, and accounting services were the most restrictive sectors in 2022 (Figure 1.3).

Figure 1.1: Number of Nontariff Measures—Asia and the Pacific ('000)

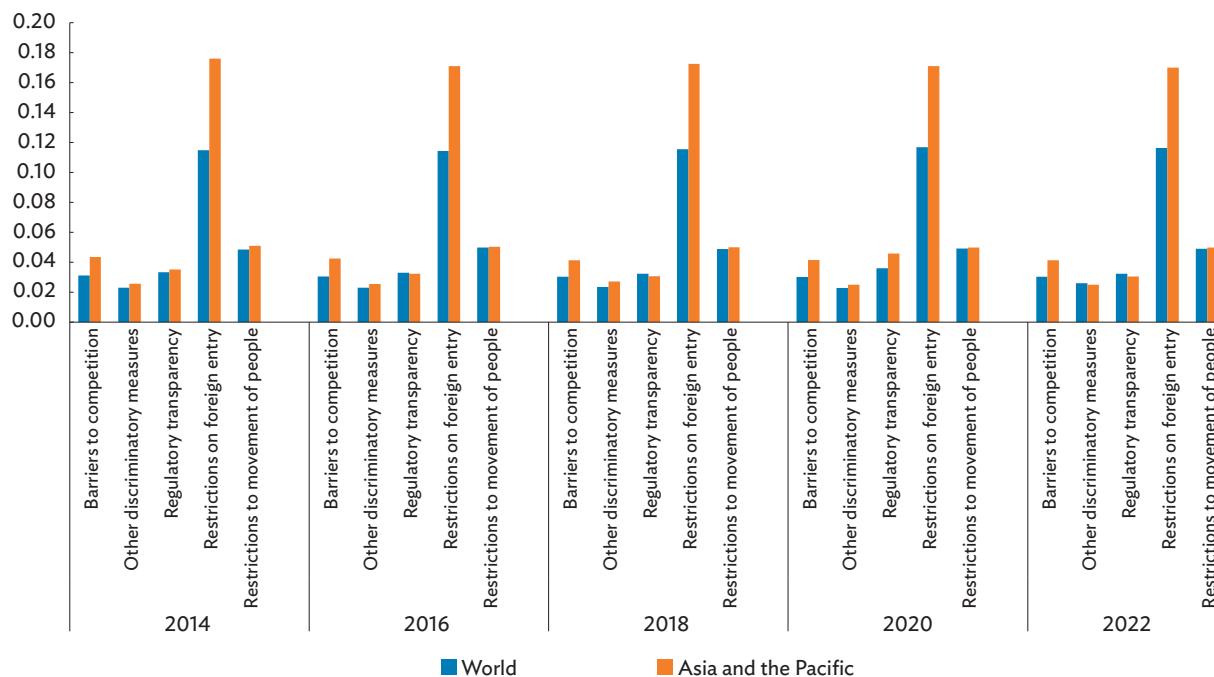


Note: Based on the cumulative number of measures in force at the end of each year.

Source: ADB calculations using data from the World Trade Organization. Integrated Trade Intelligence Portal. <http://i-tip.wto.org> (accessed May 2023).

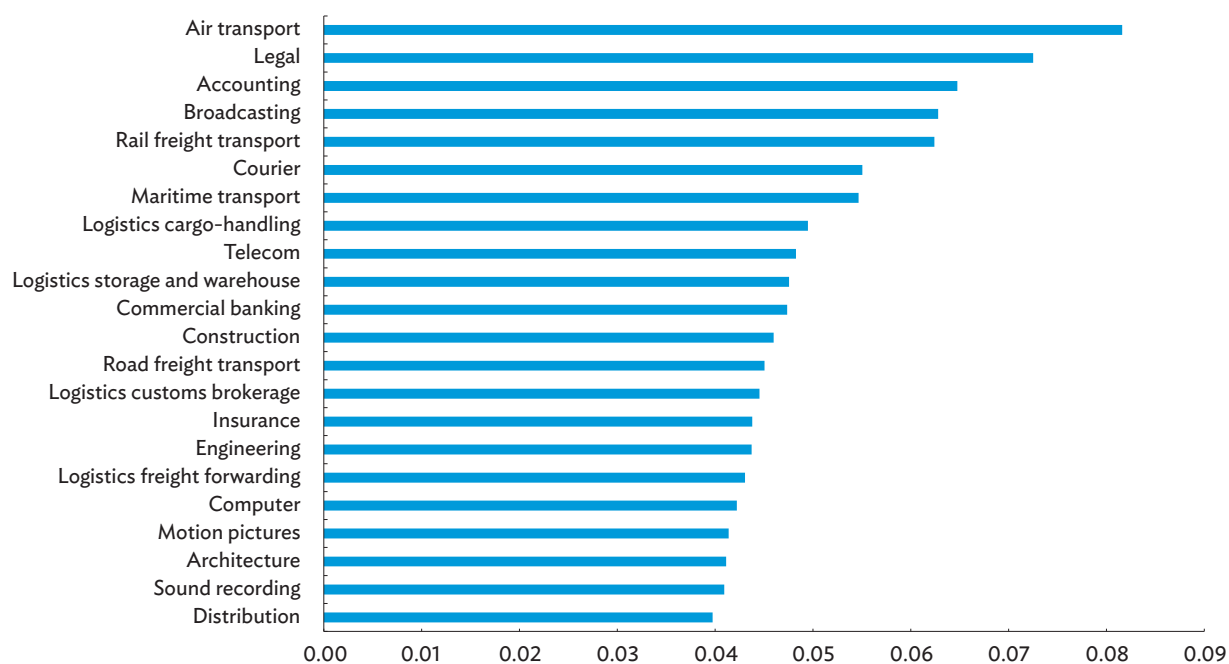
Geopolitical risks are prompting policymakers to adopt nationalistic strategies for building resilient supply chains. Major disruptions due to the COVID-19 pandemic and the Russian invasion of Ukraine have underscored the vulnerabilities associated with supply chain disruption, which in turn have encouraged economies to diversify and reevaluate markets for exports and imports.

¹ 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 1.2: Services Trade Restrictiveness Index—World and Asia and the Pacific (average)

Notes: The index takes the value from 0 (completely open) to 1 (completely closed). The sample includes 50 economies, 12 of which are in Asia and the Pacific: Australia, India, Indonesia, Japan, Kazakhstan, Malaysia, New Zealand, the People's Republic of China, the Republic of Korea, Singapore, Thailand, and Viet Nam.

Source: ADB calculations using data from Organisation for Economic Co-operation and Development. OECDStat: Services Trade Restrictiveness Index. <https://stats.oecd.org/Index.aspx?DataSetCode=STRI> (accessed May 2023).

Figure 1.3: Services Trade Restrictiveness Index by Sector—World Average, 2022

Notes: The index takes the value from 0 (completely open) to 1 (completely closed). The sample includes 50 economies, 12 of which are in Asia and the Pacific: Australia, India, Indonesia, Japan, Kazakhstan, Malaysia, New Zealand, the People's Republic of China, the Republic of Korea, Singapore, Thailand, and Viet Nam.

Source: ADB calculations using data from Organisation for Economic Co-operation and Development. OECDStat: Services Trade Restrictiveness Index. <https://stats.oecd.org/Index.aspx?DataSetCode=STRI> (accessed May 2023).

Excessive dependence on a single market make importing economies susceptible to external shocks. To improve resilience across supply chains, economies follow policies that strengthen domestic manufacturing, particularly in strategic sectors, while maintaining technological advantage. For instance, the United States (US) in 2022 and the European Union (EU) in 2023 signed laws institutionalizing efforts to bolster their semiconductor industries. The US is investing \$280 billion over 10 years while EU support features a \$47 billion plan to boost the semiconductor supply chain. Accordingly, multinational corporations' interest in moving production back home (reshoring) or to economies with aligned strategic interests (friend-shoring) has increased sharply in recent years (IMF 2023, also refer to Chapter 2: Trade and Global Value Chains). Meanwhile, restrictive trade interventions in Asian economies include import and export restrictions, additional licensing requirements, and nontariff measures, particularly on essential raw materials and goods (Table 1.1).

Many existing international cooperation measures need to be advanced to address new issues and improve efforts for implementation. The multilateral World Trade Organization (WTO) system, for example, needs significant reform to strengthen its rules to reduce risks from rising protectionism and geoeconomic fragmentation (IMF 2023). Meantime, two megaregional trade agreements, the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Transpacific Partnership, have provided ways to strengthen supply chains within Asia and need to ensure effective implementation. The proposed Indo-Pacific Economic Framework provides opportunities to enhance international cooperation in areas of trade; supply chains; clean energy, infrastructure and decarbonization; and tax and anti-corruption. The framework needs to expedite negotiation and lay out action plans for participating economies to undertake domestic reforms. The 14 economies recently

Table 1.1: Restrictive Export Measures by Selected Asian Economies, January 2022–November 2023

Economy	Type of Intervention	Affected Jurisdiction
Bangladesh	Export restriction on rice bran oil	1 economy
	Import restriction on onions	3 economies
Bhutan	Import restriction on vehicles	2 economies
Georgia	Export restriction on wheat and barley	Not listed
India	Export restriction on broken rice	40 economies
	Export restriction on wheat	14 economies
	Temporary export control in de-oiled rice bran	15 economies
	Export restriction on non-basmati white rice	96 economies
	Export control on wheat flour	20 economies
	Temporary export restriction on sugar	49 economies
Indonesia	Export restriction on cooking oil and its raw materials	106 economies
	Export ban on bauxite	1 economy
Malaysia	Export restriction on chicken	5 economies
	Import restriction on mixed waste and scraps of miscellaneous paper or paperboard	19 economies
Nepal	Temporary import restriction on more motorcycles and mobile phones	4 economies
Pakistan	Export restriction on sugar	Not listed
PRC	Export and import control on basic organic chemicals	94 economies
	Export control measures for gallium and germanium	44 economies
Thailand	Temporary export restriction on live swine	4 economies
Viet Nam	Import restriction for reexport of medical masks, gloves, and protective suits	55 economies

PRC = People's Republic of China.

Source: ADB compilation based on Global Trade Alert Database. https://www.globaltradealert.org/data_extraction (accessed November 2023).

announced substantial completion of negotiations to strengthen supply chain resilience for critical goods such as semiconductors and medicines, marking the initiative's first tangible outcome since its May 2022 inception.²

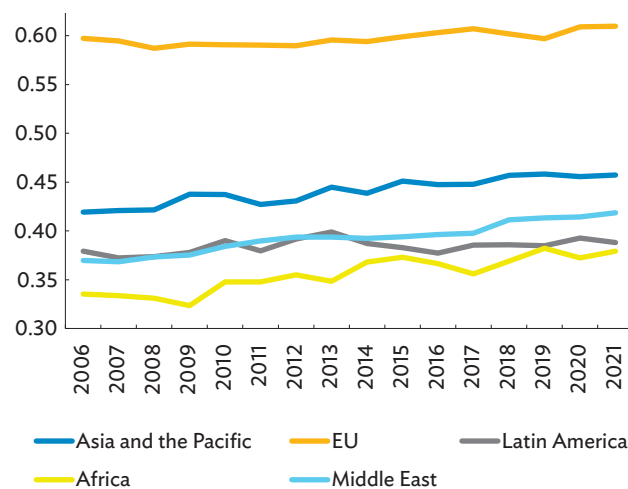
Despite the challenges, regional cooperation among Asian economies will remain relevant to tackle global risks and common problems to deliver improved outcomes for people. Trade and investment promotion will continue to remain a key agenda of regional cooperation, though greater attention will be paid on people-centric initiatives. Cooperation initiatives will be driven by expanding the range of beneficiaries to address deep inequities exposed by the pandemic. Hence, cooperation measures will be discussed for improved health care services, skills development or education, and food security to improve accessibility for low-income households and vulnerable populations. Given that regional cooperation will be sought to reap the benefits of digital transformation, it will become more important for economies to address key regulatory, infrastructural, and capacity challenges across borders. Finally, regional cooperation is vital to tackle climate change risks. Collective action, especially on a regional basis, is necessary for establishing a climate change strategy to curb coal utilization, encourage power sector decarbonization, and scale up renewable energy resources. Further, international cooperation remains essential in securing financial assistance for climate change adaptation in the region's vulnerable emerging markets.

Regional Integration in Asia Is Progressing Steadily, Though Variations Remain

The Asia-Pacific Regional Cooperation and Integration Index (ARCII) remained relatively stable between 2006 and 2021 (ADB 2022a). ADB's ARCII, a

multidimensional index to measure the pace and nature of regional integration, which tracks how Asia fares against other regions, shows the EU continues to lead (Figure 1.4). Across eight ARCII dimensions—trade and investment, money and finance, regional value chain (RVC), infrastructure and connectivity, people and social integration, institutional arrangements, technology and digital connectivity, and environmental cooperation—results reveal variation among regions. While the EU excels in the intensity of cross-border flows in some dimensions, Asia is not far behind. In fact, Asia stands at the same level of integration for RVC and people and social integration and leads in technology and digital connectivity. Asia's digital connectivity is driven by dynamic trade in information and communication technology goods and enhanced access and quality of internet services throughout the region (Figure 1.5).

Figure 1.4: Overall Intraregional Integration, by Region



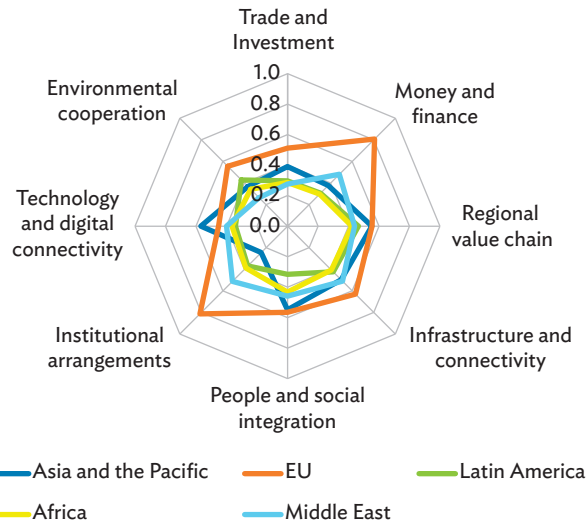
EU = European Union (27 members).

Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2023).

² The 14 economies are Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, the Republic of Korea, Singapore, Thailand, the United States, and Viet Nam.

Figure 1.5: Intraregional Integration by Dimension, 2021

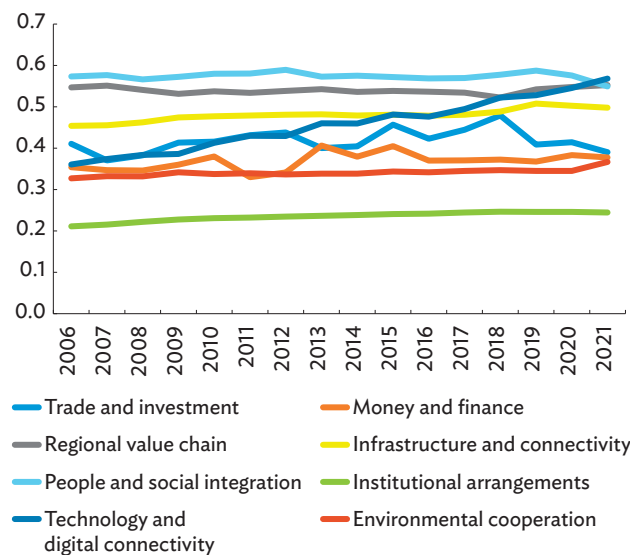


EU = European Union (27 members).

Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arcii> (accessed November 2023).

Figure 1.6: Intraregional Integration in Asia and the Pacific, by Dimension



Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arcii> (accessed November 2023).

ARCII dimensions show a varied pace and level of integration for the Asian region.

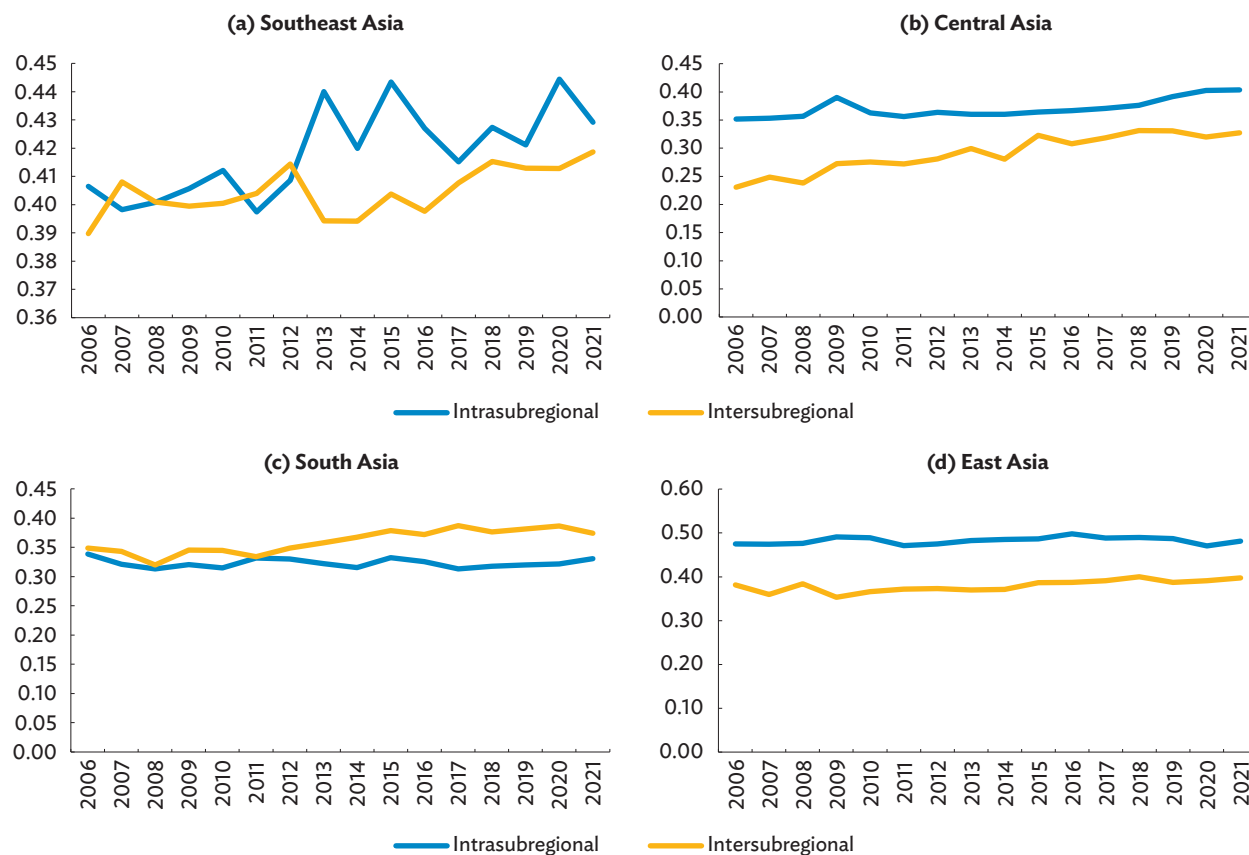
While the people and social integration dimension shows a lot of cross-border activity and is driven by international tourism (though this came to a halt during the pandemic), technology and digital connectivity experienced a rapid surge with economies embracing digital transformation initiatives over the past decade and the pace accelerating during the pandemic. Trade and investment integration in Asia, however, slowed from 2019 amid the US and the People's Republic of China (PRC) trade dispute and supply chain disruptions. This trend is also reflected in the RVC dimension, which showed modest improvement (Figure 1.6).

Most subregions showed stronger integration among their members between 2006 and 2021, with varying trends by dimension.

In 2021, East Asia led estimates for intraregional integration for five dimensions, including infrastructure and connectivity, RVC, trade and investment, environmental cooperation, and technology (Figure 1.8a). Southeast Asia and Central Asia followed (Figure 1.7 a-d). Southeast Asia has achieved notable integration in various areas of connectivity (institution and infrastructure), RVC, and money and finance.

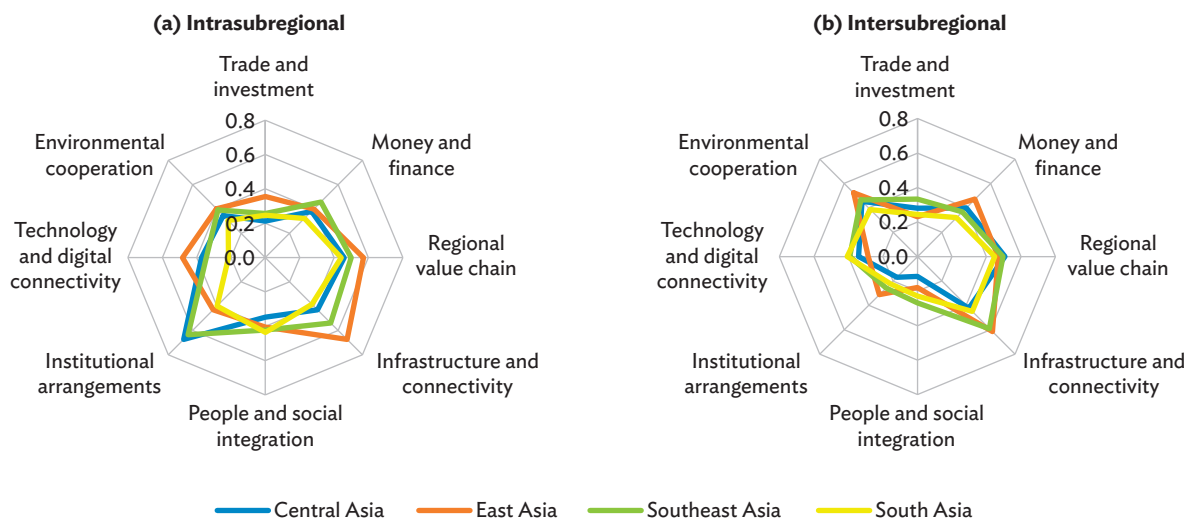
In terms of intersubregional integration—an economy's integration with Asian economies outside its own subregion—South Asia has performed strongly.

In 2021, estimates for South Asia exhibited the deepest integration in RVC, infrastructure, and technology (Figure 1.8b). For economies in the Southeast Asia subregion, their own integration overtook their integration with the rest of Asia around RVC and trade and investment. This reflected the subregion's growing emphasis on establishing the ASEAN Economic Community (AEC) in 2015. The subregion particularly showed greater cross-border activities in people and social integration across Asia, driven by international tourism and technology and digital connectivity. Intersubregional

Figure 1.7: Subregional Integration Estimates—Asia and the Pacific

Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration. Intrasubregional integration is measured within members of the same subregion. Intersubregional integration is measured with other Asian economies outside each subregion.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2023).

Figure 1.8: Subregional Integration Estimates by Dimension—Asia and the Pacific, 2021

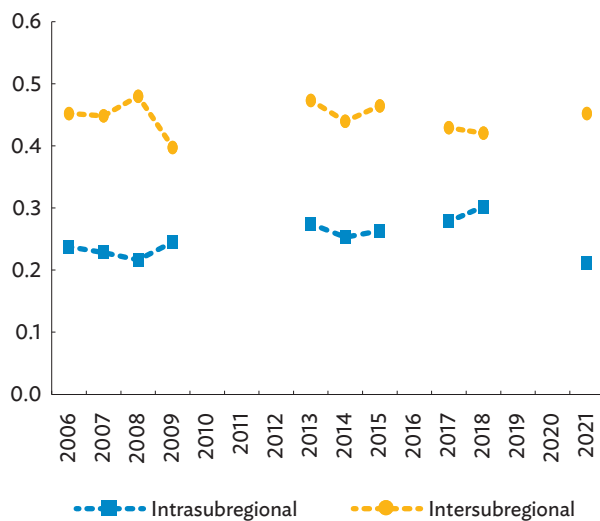
Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration. Intrasubregional integration is measured within members of the same subregion. Intersubregional integration is measured with other Asian economies outside each subregion.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2023).

cooperation in East Asia and Central Asia progressed well in parallel with intrasubregional activities. In 2021, while East Asia showed greater intersubregional integration in institution building and connectivity, reflecting economic cooperation through connectivity initiatives and regional trade agreements, Central Asia was ahead in RVC (Figure 1.8b).

Integration within the Pacific economies remains low. While data availability is a challenge to measure the pace of integration among the Pacific economies, preliminary estimates suggest intrasubregional integration has slightly improved and peaked in 2018 (Figure 1.9). The subregion consists of small island developing states that have gradually integrated with economies outside their subregion, especially with developed markets such as Australia and New Zealand. From 2006 to 2021, the Pacific has become more integrated in infrastructure and connectivity, and in trade and investment.

Figure 1.9: Subregional Integration Estimates—The Pacific



Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration. Intrasubregional integration is measured within members of the same subregion. Intersubregional integration is measured with other Asian economies outside each subregion. Results are at a preliminary stage. A more comprehensive analysis for the Pacific region is currently under development.

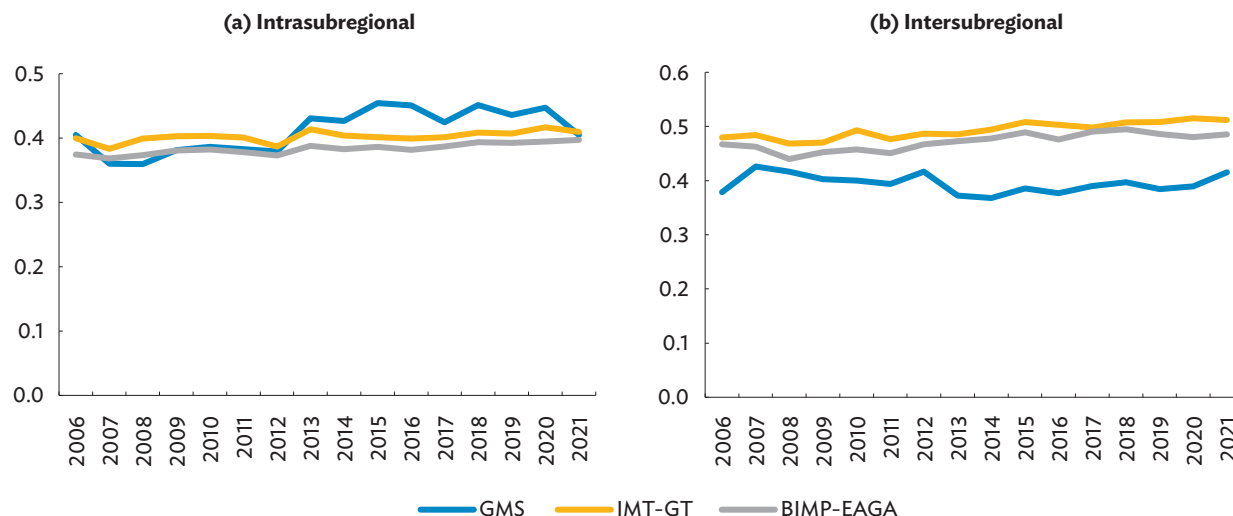
Source: ADB, Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arci> (accessed November 2023).

Regional Cooperation Initiatives in Asia

Regional initiatives have made progress, though challenges remain limiting the capacity to implement them. ADB takes a three-pillar approach to regional initiatives: (i) greater and higher quality connectivity between economies; (ii) expanded global and regional trade and investment opportunities; and (iii) increased and diversified regional public goods—to support economies in their efforts of regional cooperation (ADB 2019). Using the same pillars, this section looks at cooperation initiatives in the Asian subregions. It highlights their progress, outlines ADB support, and discusses challenges. Policy recommendations are provided as a way forward. It should be noted that the discussion in this section does not reflect progress in the ARCII, which assesses regional cooperation in a way that goes beyond ADB-supported subregional initiatives.

ARCII estimates for subregional initiatives showed steady progress over time, though the pace varies based on a subregion's macroeconomic and social context, available resources, and capabilities.

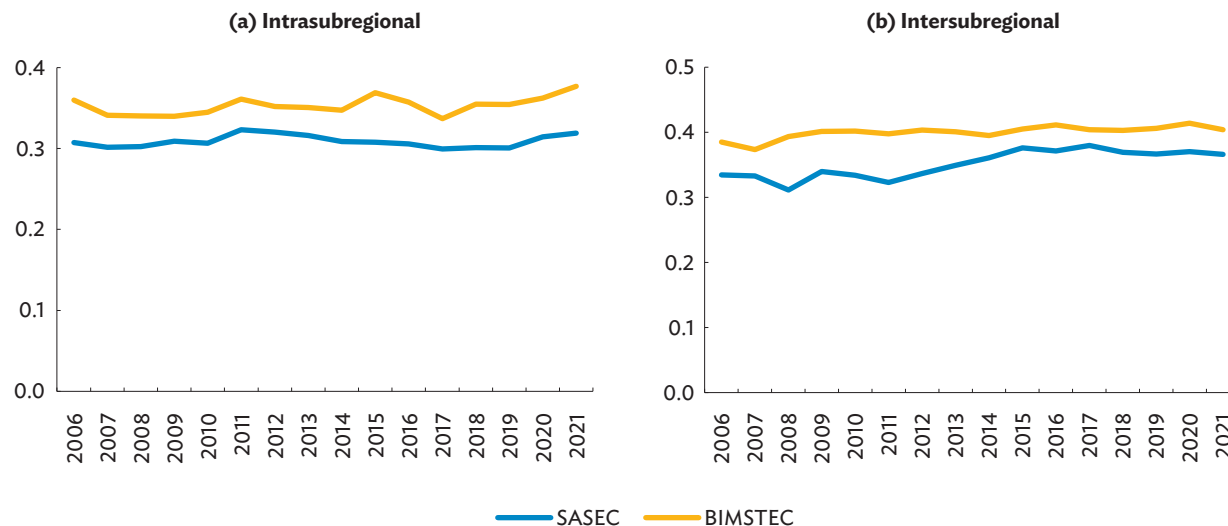
Figures 1.10 to 1.12 show cross-border activities among the members of the subregional initiatives and between the subregional initiative and the rest of Asia. Looking at Southeast Asian initiatives, constituent members of the Greater Mekong Subregion (GMS) achieved greater integration with each other than with the rest of Asia, though the pace of this intrasubregional integration has been consistent in recent years. In the South Asia subregion, the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) shows greater integration through 2006–2021 than South Asia Subregional Economic Cooperation (SASEC), for both intrasubregional and intersubregional activities. The gap between the two initiatives has narrowed for intersubregional

Figure 1.10: Subregional Initiatives—Southeast Asia, 2006–2021

BIMP-EAGA = Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, GMS = Greater Mekong Subregion, IMT-GT = Indonesia–Malaysia–Thailand Growth Triangle.

Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration. Intraregional integration is measured within members of the same subregional initiative. Intersubregional integration is measured with other Asian economies outside each subregional initiative.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arici> (accessed November 2023).

Figure 1.11: Subregional Initiatives—South Asia, 2006–2021

BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, SASEC = South Asia Subregional Economic Cooperation.

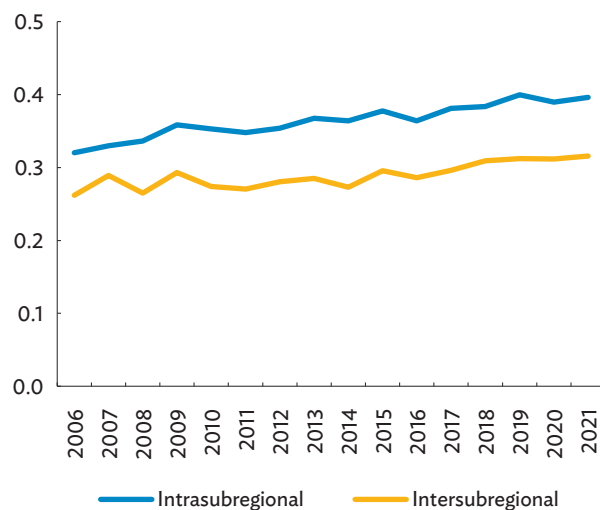
Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration. Intraregional integration is measured within members of the same subregional initiative. Intersubregional integration is measured with other Asian economies outside each subregional initiative.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arici> (accessed November 2023).

cross-border activities in recent years. For the Central Asia Regional Economic Cooperation (CAREC) initiative, higher intraregional integration is driven

by institutional arrangements and people and social integration, underscoring potential for member economies to deepen integration based on these pillars.

Figure 1.12 Central Asia Regional Economic Cooperation Program Integration, 2006–2021



Notes: Based on ADB's Asia-Pacific Regional Cooperation and Integration Index estimates. Higher index estimates denote greater regional integration. Intraregional integration is measured within members of the same subregional initiative. Intersubregional integration is measured with other Asian economies outside each subregional initiative.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arici> (accessed November 2023).

Southeast Asia

Southeast Asian economies' regional cooperation is discussed through their participation in three ADB-supported subregional initiatives: the GMS, Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT), and the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA).³ These programs complement each other and aim to strengthen the regional cooperation agenda of the bigger Association of Southeast Asian Nations (ASEAN) regional initiative.

GMS, BIMP-EAGA, and IMT-GT have made notable progress over the years. A summary of developments in each initiative is provided in Table 1.2.

ADB provides broad-based support to all three subregional programs. It provides overall secretariat support to the GMS program while serving as a Regional Development Advisor to BIMP-EAGA and Regional Development Partner to IMT-GT. ADB supports these subregional programs in promoting cross-border infrastructure and economic integration, and in strengthening climate action and other regional public goods (ADB 2023a).

Greater Mekong Subregion

In recent years, the GMS program has achieved notable progress, particularly in preparing subregion-wide guiding documents. These include (i) the new GMS Economic Cooperation Program Strategic Framework 2030 (GMS-2030), which sets the strategic directions and priorities of the program in the medium term and beyond; (ii) the GMS COVID-19 Response and Recovery Plan 2021–2023, which identifies some achievable initiatives to support the subregion's economy during the COVID-19 pandemic and beyond, facilitate economic recovery, and help prepare the GMS for any further similar health crises; and (iii) the GMS Gender Strategy, which provides entry points to mainstream gender across GMS operations, while complementing and adding value to GMS-2030, GMS sector strategies, and GMS economy-level efforts to achieve gender equality.

Altogether, during 2020–2023, the GMS program mobilized \$5.9 billion for 21 projects across sectors including agriculture and natural resources, wind power, health, industry and trade, tourism, and transportation. Of this, ADB provided \$4.2 billion of the financing and mobilized \$1.2 billion from development partners/private sector while GMS governments contributed \$500 million for these projects.⁴

³ The GMS was initiated in 1992 among six economies including Cambodia, the PRC (specifically Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. Established in 1994, BIMP-EAGA aimed to accelerate socioeconomic development of Brunei Darussalam, Indonesia, Malaysia, and the Philippines through regional cooperation. IMT-GT was created to improve welfare and economic growth in less developed states and provinces in Indonesia, Malaysia, and Thailand.

⁴ GMS Secretariat figures.

Table 1.2: Selected Projects in Greater Mekong Subregion, Indonesia–Malaysia–Thailand Growth Triangle, and Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area

Connectivity	Trade	Regional Public Goods
Makassar–Parepare railway —connects two major port cities and serves five districts in South Sulawesi province of Indonesia (BIMP-EAGA 2023a).	Tourism Recovery Communications Plan and Toolkit 2022–2024 —jointly prepared by BIMP-EAGA and IMT-GT to boost the tourism industry in the subregion (BIMP-EAGA 2022c).	Nuclear Technology for Controlling Plastic Pollution Project —aims to increase the volume of recycled plastic and convert more plastic waste into reusable resources, particularly for the production of industrial goods (BIMP-EAGA 2023b).
ASEAN–EU Comprehensive Air Transport Agreement —first region-to-region air transport agreement which aims to strengthen air transport services, connecting people, cultures, and businesses across continents (BIMP-EAGA 2022a).	The Lao PDR–Thailand–Malaysia–Singapore Power Integration Project —serves as ASEAN’s pilot project in addressing technical, legal, and financial issues of multilateral electricity trade (BIMP-EAGA 2022b).	ASEAN Regional Action Plan for Combating Marine Debris in the ASEAN Member States (2021–2025) —provides a scalable, solution-focused joint strategy to tackle marine plastic pollution (BIMP-EAGA 2021).
The PRC–Lao PDR railway freight transit yard —aims to bolster the transport of goods and further improve the efficiency of international transportation between the PRC and ASEAN economies (GMS 2022a).	Trans-Borneo Power Grid Sarawak–West Kalimantan Interconnection Project —a flagship project that provides interconnection for the transmission and sale of electricity between Indonesia and Malaysia (BIMP-EAGA 2022b).	GMS Cross-Border Livestock Health and Value Chains Improvement Project —aims to enhance productivity and resilience of the livestock subsector by reducing risks from transboundary animal diseases, zoonoses, and antimicrobial resistance; expanding animal health monitoring and service delivery; enhancing food safety; and promoting subregional cooperation in GMS. ^b
Some of the completed infrastructure projects in economic corridors are the following (BIMP-EAGA 2019): <ul style="list-style-type: none"> Expansion of the Adi Soemarmo International Airport in Indonesia; Construction of the Pan Borneo Highway Sarawak Package 1 from Teluk Melano to Sematan in Malaysia; Upgrade of the General Santos City International Airport in the Philippines; Expansion of the Zamboanga Port in the Philippines; and Construction of roads in the Western Mindanao Development Corridor in the Philippines. 	Two-way energy trade between the PRC and the Lao PDR —aims to facilitate the power trade agreement between the two economies (GMS 2022b).	Green City Action Plan (GCAP) —under the IMT-GT program, the GCAPs of Medan and Batam Island in Indonesia, Melaka in Malaysia and Hat Yai and Songkhla in Thailand develop sustainable and equitable urban development plans for cities through a pipeline of immediate, mid-term, and long-term infrastructure projects. GCAPs were also prepared for Kendari, Kota Kinabalu, and General Santos under BIMP-EAGA (IMT-GT; BIMP-EAGA).
	Monsoon Wind Power Project —a 600-megawatt wind-power project in the Lao PDR that will export and sell electricity to Viet Nam. It will be the first cross-border wind power project in the Lao PDR and the largest in Southeast Asia. It will provide a substantial source of clean renewable energy supply to Viet Nam. ^a	

ASEAN = Association of Southeast Asian Nations, BIMP-EAGA = Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, GMS = Greater Mekong Subregion, IMT-GT = Indonesia–Malaysia–Thailand Growth Triangle, Lao PDR = Lao People’s Democratic Republic, PRC = People’s Republic of China.

^a ADB. Lao People’s Democratic Republic: Monsoon Wind Power Project. <https://www.adb.org/projects/55205-001/main>.

^b ADB. Cambodia: Greater Mekong Subregion Cross-Border Livestock Health and Value Chains Improvement Project. <https://www.adb.org/projects/53240-003/main>.

Sources: ADB compilation based on the ADB, BIMP-EAGA, and GMS websites.

The GMS program’s notable achievements in select sectors include the following:

- Completion of major transport infrastructure projects such as the PRC–Lao PDR (Kunming–Vientiane) Highspeed Rail Project, the Thailand GMS Highway Expansion Phase 2 Project, and Cambodia Phnom Penh–Sihanoukville Expressway Project. Other key projects are in advanced stages of construction, including the Viet Nam Ha Noi–Lang Son Expressway Project.

- In trade and investment, a GMS Task Force on Trade and Investment was established to explore, identify, and initiate collaborative actions and programs to boost trade and investment in the GMS.
- In energy, the GMS Energy Transition Task Force replaced the GMS Regional Power Trade Coordination Committee to effectively address the need for sustainable energy. The task force will facilitate the ongoing energy transition in the GMS, with the strong promotion of renewable energy, energy efficiency, and green financing for energy projects.

- In the health sector, the “One Health” approach was adopted and pursued under the GMS COVID-19 Response and Recovery Plan 2021–2023. One Health provides an integrated, unifying approach that aims to sustainably balance and optimize the health of people, animals, and ecosystems. This approach established a Regional One Health Working Group and continued to support regional technical assistance linked to existing One Health networks and resources.

Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area

As of 2023, ADB approved over \$3.5 billion worth of loan to invest in 14 projects in BIMP-EAGA. Amid the COVID-19 pandemic, ADB helped prepare the Joint BIMP-EAGA and IMT-GT Tourism Recovery Communications Plan and Toolkit 2022–2024 as well as capacity-building support. ADB also prepared special economic zone studies for BIMP-EAGA and IMT-GT, proposing strategic measures to make the zones more competitive. A joint BIMP-EAGA and IMT-GT blue economy strategy is underway to help bolster enabling conditions for blue economy growth, particularly in terms of attracting greater investments. A study on BIMP-EAGA economic corridors expansion and reconfiguration is ongoing, which provides strategic approaches for enhanced trade, tourism, and investments flows in the subregion. In the Philippines alone, about \$380 million is allocated to improving 280 kilometers of sustainable roads and bridges in Mindanao to enhance commerce and connectivity. The loan also includes provision for knowledge support. Meanwhile, a green city action plan has been developed for General Santos City.

Indonesia–Malaysia–Thailand Growth Triangle

Integrated solutions to sustain regional cooperation and integration (RCI) projects in IMT-GT include developing knowledge products such as green city action plans and

integrated green transportation plans. Potential “green projects” are being structured, and innovative financing models will be piloted under the ASEAN Catalytic Green Finance Facility financed by ASEAN Infrastructure Fund. As of 2023, ADB has supported 16 technical assistance projects amounting \$33.98 million (with co-funding) to develop smart and livable cities, improve transport connectivity, enhance urban planning, build capacities of the developing member economies in managing RCI, support trade facilitation aligned with ASEAN agreements, promote health security, and encourage clean energy transition. Of these, seven remaining active technical assistance projects are providing support to (i) strengthen institutional capacities; (ii) transition to a cleaner energy future; (iii) help developing member economies to prepare and/or implement COVID-19 vaccination roll out and expand in the delivery of ADB procured vaccines; (iv) support sustainable tourism facility initiatives; (v) enhance trade facilitation in IMT-GT; (vi) promote action on plastic pollution; and (vii) support plans to develop livable cities that are smart, inclusive, environmentally sustainable, resilient, and competitive.

The Pacific

ADB contributes substantial and comprehensive support to the Pacific Islands Forum (PIF), a key regional cooperation initiative of the Pacific economies.⁵ The PIF is guided by the *2050 Strategy for the Blue Pacific Continent* which 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. The strategy guides PIF economies in navigating challenges in these thematic areas, leveraging their collective strengths in creating a sustainable future in the region (PIFS 2022). A sample of ADB- and non-ADB-supported projects that focused on enhancing connectivity, boosting trade in goods and services, and strengthening adaptation and resilience to climate change in the Pacific are found in Table 1.3.

⁵ The Pacific Islands Forum comprises 18 economies: Australia, Cook Islands, the Federated States of Micronesia, Fiji, French Polynesia, Kiribati, the Marshall Islands, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Table 1.3: Selected Projects in the Pacific, 2020–2023

Connectivity	Trade	Regional Public Goods
Smart Islands Project —adopts an innovative approach to deliver connectivity and sustainable services to disadvantaged island communities (ITU 2021).	Pacific Regional E-commerce Strategy and Roadmap —outlines the Pacific consensus on the priority regional measures to boost e-commerce readiness in the region (UNCTAD 2022).	Framework for Resilient Development in the Pacific —provides a strategic guidance on how to enhance resilience to climate change and disasters (SPC 2016).
East Micronesia Cable Project —aims to provide faster, higher quality, and more reliable communications to more than 100,000 people across the Federated States of Micronesia, Kiribati, and Nauru (AIFFP).	Pacific Quality Infrastructure —aims to strengthen a demand-oriented quality infrastructure and access to services that enhance trade competitiveness in the Pacific region (PIFS 2020a).	Declaration on Preserving Maritime Zones in the Face of Climate Change-related Sea-level Rise —sets out the region's collective position on the rules on maritime zones with regard to climate change-related sea-level rise (PIFS 2021).
Nauru airport upgrade —includes resurfacing of the runway and upgrade of some critical air traffic control equipment to ensure the airport continues to operate safely and meet international standards (AIFFP 2022b).	Pacific Ecotourism Recovery Initiative —aims to assess the potential of ecotourism experiences as a diversification strategy for the region's tourism sector (SPTO 2022).	Pacific Regional Framework on Climate Mobility —aims to guide governments in addressing legal, policy, and practical issues that arise on climate mobility (PIFS 2023).
Papua New Guinea maritime port infrastructure upgrade —aims to increase the capacity of critical maritime infrastructure to accommodate larger ships, which will improve trade and connectivity (AIFFP 2022a).		Pacific Climate Change Finance Assessment Framework —provides guidance on the assessment of the Pacific economies' ability to access and manage climate change resources (PIFS 2013).
		Pacific Humanitarian Pathway on COVID-19 —COVID-19 pandemic emergency response that enabled the movement of medical and humanitarian supplies across the region (PIFS 2020b).

Sources: ADB compilation based on information from the Australian Infrastructure Financing Facility for the Pacific, International Telecommunication Union, Secretariat of the Pacific Community, Pacific Islands Forum Secretariat, South Pacific Tourism Organization, and United Nations Conference on Trade and Development.

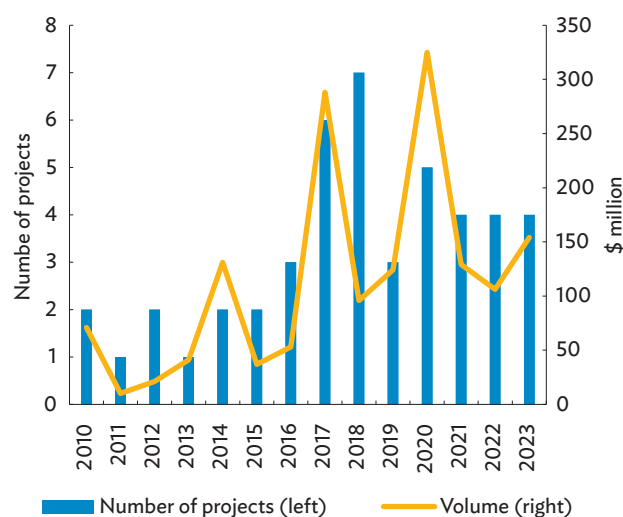
ADB takes a systematic approach to support the integration of Pacific economies, guiding investments and technical assistance in connectivity infrastructure, regional public goods, and capacity-building.

The Pacific Approach 2021–2025 lays down ADB's operational regional strategy in the Pacific and focuses on three critical development challenges: vulnerability to shocks, weak service delivery, and slow growth. ADB's regional investments in the Pacific, which increased by 45.3% (year-on-year) in 2023, seek to support connectivity, trade facilitation, and resilience to shocks (Figure 1.13). For instance, the rehabilitation and expansion of Nuku'alofa Port in Tonga involves strengthening its operations and management, and so promotes resilient connectivity and merchandise trade. Other ADB efforts to enhance trade promotion and facilitation in Tonga include establishment

of an authorized economic operator program to streamline procedures for accredited exporters and the implementation of an electronic phytosanitary certification system to facilitate agricultural exports. ADB is also helping to enhance digital connectivity in Samoa by establishing policies on digital identification and providing digital financial services; and domestic shipping in Tuvalu, which will also benefit intraregional connectivity by providing safe and reliable transport for people and trade to other subregional destinations such as Fiji and Kiribati.

In addition, a national reference laboratory is being built in Papua New Guinea to enhance and improve regional health surveillance capacity through specialized diagnostics services to detect, diagnose, and manage communicable disease and pathogens. Regional training programs for medical personnel will also build technical capacity and create knowledge and experience-sharing opportunities across the Pacific.

Figure 1.13: ADB Regional Investment in the Pacific: Loans and Grants, 2010–2023



Source: ADB. Pacific Program Portfolio. Unpublished.

Further, ADB approved the fourth phase of the Pacific Disaster Resilience Program to provide another round of financing for Kiribati, Samoa, Solomon Islands, and Tonga to mitigate the adverse impacts of climate change and disasters from physical hazards. The program focuses on strengthening policy, institutional frameworks, and tools for risk management, and on improving public financial management and risk financing.

Regional technical assistance projects in 2023 focused on accelerating the transition to renewable energy, improving regional financial systems and knowledge, education, information and communication technology knowledge solutions, and capacity building.

South Asia

South Asian economies have been at the forefront of regional cooperation over the past decade. The South Asian Association for Regional Cooperation (SAARC) since 1985 has been promoting economic, social, and

cultural development among its eight member states: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka (ADB 2023a).⁶ The Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC), established in 1997, strives to increase cross-border investment and tourism and to promote technical cooperation among its seven member states: Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar, and Thailand.⁷ Transport connectivity is a key area of cooperation, with BIMSTEC acting as a bridge linking South and Southeast Asia (ADB 2022b).

To build further momentum in regional cooperation, ADB initiated the South Asia Subregional Economic Cooperation (SASEC) in 2001. The seven member economies in SASEC (Bangladesh, Bhutan, India, Maldives, Myanmar, Nepal, and Sri Lanka) aim to promote regional prosperity by improving cross-border connectivity, facilitating faster and less costly trade, and tackling development challenges in the subregion. In 2016, the SASEC economies approved the SASEC Operational Plan 2016–2025, a 10-year strategic road map which expands the program's focus beyond intraregional cooperation to developing linkages with Southeast Asia and East Asia, widening the scope of transport, trade facilitation, and energy cooperation (ADB 2016).

ADB has been supporting the South Asian economies' participation in regional cooperation mechanisms.

ADB is the Secretariat and lead financier for the SASEC program and also a development and knowledge partner for BIMSTEC and SAARC. ADB and the SAARC Secretariat signed a memorandum of understanding in 2004 to establish a cooperative relationship for promoting regional cooperation among the SAARC member states (ADB 2023a). In 2022, ADB and BIMSTEC signed a memorandum of understanding that formalized their partnership in five areas of cooperation: transport connectivity and financing, energy connectivity and trade, trade facilitation, tourism promotion, and economic corridor development.

⁶ ADB placed on hold its regular assistance to Afghanistan effective 15 August 2021.

⁷ Effective 1 February 2021, ADB placed a temporary hold on sovereign project disbursements and new contracts in Myanmar.

Subregional programs such as SASEC, BIMSTEC, and SAARC have made progress with projects and knowledge activities (Table 1.4).

ADB'S investments supporting RCI in South Asia increased by \$1.77 billion in 2023. The financing was committed to support seven projects with a total investment cost of \$2.13 billion.⁸ As of 31 December 2023, the SASEC portfolio consists of 86 committed

Table 1.4: Selected Projects in South Asian Association for Regional Cooperation, Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation, and South Asia Subregional Economic Cooperation, 2020–2023

Connectivity	Trade	Regional Public Goods
<p>Cross-Border energy, trade, and transit deals—signed by India and Nepal to trade electricity and develop hydropower as well as a revised treaty of transit that would improve trade through rail and waterways (SASEC 2023c).</p> <p>BIMSTEC Masterplan for Transport Connectivity—approved in 2022, workshops organized in 2023 shared updates on implementation progress (ADB 2022b).</p> <p>SASEC Chittagong–Cox's Bazar Railway Project—aims to boost tourism in Bangladesh and facilitate access for population and products to subregional markets and trade.^a</p> <p>Land port at Dawki, Meghalay—helped to strengthen trade and facilitate easier travel between Bangladesh and India (SASEC 2023b).</p> <p>Nepal's Gautam Buddha International Airport—started operations expanding tourism and trade; and improving international air transport access in Lumbini (SASEC 2022).</p> <p>India's Eastern Grid Waterway Network—sets link waterways among Bangladesh, Bhutan, India, and Nepal, boosting regional integration (SASEC 2023d).</p>	<p>BIMSTEC Trade Facilitation Strategic Framework 2030—approved in 2022, training program organized in 2023 to facilitate its implementation (ADB 2022c).</p> <p>Agreement on the Movement of Traffic (Goods) in Transit—signed allowing Bhutan's imports and exports to pass through Bangladesh, including exiting through the seaports (SASEC 2023a).</p> <p>118MW Nikachhu Hydropower Plant—construction has been completed in 2023 and is expected to increase export of clean energy from Bhutan to India.^b</p> <p>SASEC Customs Reform and Modernization for Trade Facilitation Program—supported simplification, harmonization, and modernization of Nepal's trade processes to meet international standards and boost international trade. This was completed in 2020.^c</p> <p>SASEC Power Transmission and Distribution System Strengthening Project—enables excess power from Kathmandu in Nepal to be traded with neighboring economies.^d</p> <p>Policy-Based Loan for Subprogram 1 Nepal: South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program—approved in June 2023, the program will support continuing reforms in customs by implementing the Customs Reform and Modernization Plan, 2021–2026 and improving trade logistics through the preparation and implementation of a new Trade Logistics Policy 2022 in Nepal.^e</p>	<p>Responsive COVID-19 Vaccines for Recovery Project under the Asia Pacific Vaccine Access Facility—provides support for vaccination programs to prevent the spread of the COVID-19 virus. ADB provided support to Bhutan and Maldives in 2022, and Bangladesh, India, Nepal, and Sri Lanka in 2021 (ADB 2020b).</p> <p>SASEC Customs Resiliency Action Plan—adopted by all SASEC customs administrations to be used as guidelines for maintaining trade flows during unforeseen future trade disruption events.</p> <p>SAARC—has been conducting capacity-building workshops, knowledge-sharing events, and policy dialogues on climate change and energy trade. The SAARC finance ministers meeting in 2023 discussed leveraging RCI for greater participation in global value chains.</p>

BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, COVID-19 = coronavirus disease, MW = megawatt, SAARC = South Asian Association for Regional Cooperation, SASEC = South Asia Subregional Economic Cooperation.

^a ADB. Bangladesh: South Asia Subregional Economic Cooperation Chittagong–Cox's Bazar Railway Project, Phase 1. <https://www.adb.org/projects/46452-002/main>.

^b ADB. Bhutan: Second Green Power Development Project. <https://www.adb.org/projects/44444-013/main>.

^c ADB. Nepal: South Asia Subregional Economic Cooperation Customs Reform and Modernization for Trade Facilitation Program. <https://www.adb.org/projects/50254-001/main>.

^d ADB. Nepal: South Asia Subregional Economic Cooperation Power Transmission and Distribution System Strengthening Project. <https://www.adb.org/projects/50059-003/main>.

^e ADB. Programmatic Approach and Policy-Based Loan for Subprogram 1 Nepal: South Asia Subregional Economic Cooperation Customs and Logistics Reforms Program (Subprogram 1). <https://www.adb.org/projects/54402-001/main>.

Source: ADB compilation based on media releases from SASEC. <https://www.sasec.asia/>.

⁸ In 2023, seven projects include three on transport connectivity, two on economic corridor development, one on trade facilitation, and one on health.

projects with a cumulative cost of \$20.54 billion (Figure 1.14). Since 2001, ADB has funded about \$12.63 billion in total. The transport sector accounts for the greatest number of projects, followed by energy, economic corridor development, trade facilitation, health, and information and communication technology (ICT). ADB also provided \$222.53 million in 154 technical assistance grants.

Between 2022 and 2023, ADB's regional investments in South Asia continued to promote improving connectivity between economies, expanding regional trade and investment opportunities, and supporting implementation of policy reforms on customs and trade facilitation.

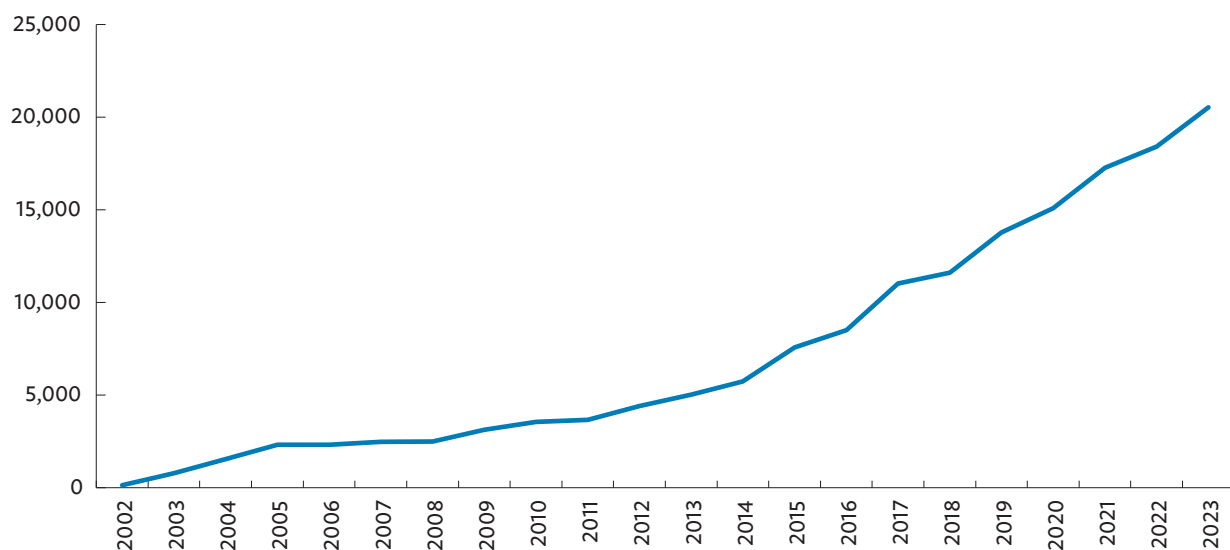
ADB is investing in improving transport connectivity along priority routes within South Asia and supporting trade logistics policy reforms needed to accelerate industrialization and trade.

The SASEC Chittagong–Cox's Bazar Railway Project will support the Government of Bangladesh in upgrading the railway corridor that is part of the Trans-Asia Railway network. This will boost the economy through

further development of Cox's Bazar into a major tourist destination and facilitating access of population and products to subregional markets and trade. The SASEC Highway Enhancement Project in Nepal is part of the SASEC priority corridor linking Kathmandu via Kakarbhitta to Chattogram and Mongla ports in Bangladesh. It is expected to boost border trade and logistics by reducing transport costs. Tranche 2 of the multitranche financing facility for the Visakhapatnam–Chennai Industrial Corridor (VCIC) Development Program in India will boost economic competitiveness to create more jobs and stronger climate resilience along the VCIC, which aligns with the Bay of Bengal Highway connecting to Cox's Bazaar to Thootuikudi and is one of the SASEC priority corridors.

ADB also provides support for policy reforms needed to speed up industrialization and expand subregional trade and commerce. The SASEC Integrated Trade Facilitation Sector Development Program in Bangladesh will introduce policy reforms to help the economy comply with the WTO Trade Facilitation Agreement and complement these with upgraded infrastructure at border crossing points. Meanwhile, the SASEC Customs and Logistics Reforms Program (Subprogram 1) in Nepal will support the preparation and implementation

Figure 1.14: South Asia Subregional Economic Cooperation Investments (cumulative, \$ million)



Source: ADB, SASEC Program Portfolio. Unpublished.

of a new trade logistics policy to sustain reforms implemented under the SASEC Customs Reform and Modernization for Trade Facilitation Program. The Strengthening Multimodal and Integrated Logistics Ecosystem (SMILE) program will also support the Government of India undertake reforms in the logistics sector, strengthen institutional and policy frameworks for interministerial coordination and engage the private sector, improve external trade logistics, and encourage the use of smart and automated systems for improved service delivery.

ADB is implementing technical assistance to support the implementation of regional initiatives through BIMSTEC and SAARC.

ADB has financed the preparation of the BIMSTEC Master Plan for Transport Connectivity, the BIMSTEC Grid Interconnection Master Plan, the Leveraging Thematic Circuits for BIMSTEC Tourism Development, the financing transport connectivity projects for BIMSTEC; the updating of the SAARC Regional Multimodal Transport Study, and the harmonization of 8-digit Harmonized System tariff lines of SAARC member economies. These studies are expected to support agreement on subregional priorities to improve regional interconnectivity for movement of goods and people as well as facilitate intraregional trade, including cross-border energy trade.

Central and West Asia, East Asia, and the Caucasus

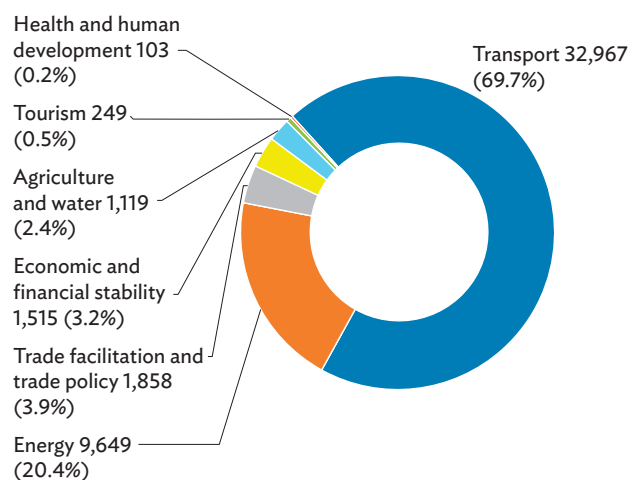
ADB has been supporting the economies of Central and West Asia, East Asia, and the Caucasus in their participation in international platforms and regional cooperation mechanisms,⁹ primarily the Central Asia Regional Economic Cooperation (CAREC) program. CAREC is a partnership of 11 member economies (Afghanistan, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, the PRC, Tajikistan,

Turkmenistan, and Uzbekistan), that work together with development partners to promote development, accelerate growth, and reduce poverty in the subregion (ADB 2023e).

The CAREC program has made substantial progress in areas of regional connectivity and global and regional trade.

CAREC 2030 provides the long-term strategic framework for the program leading to 2030. It is anchored on a broader mission to connect people, policies, and projects for shared and sustainable development, serving as the premier economic cooperation platform for the region (ADB 2017). It is embarking on new areas to promote regional public goods including on regional health security and a cross-cutting vision on climate change. Table 1.5 lists selected and notable projects from the past 3 years.

Figure 1.15: Central Asia Regional Economic Cooperation Investment Projects by Sector (\$ million)



Note: Data show Central Asia Regional Economic Cooperation (CAREC) investment by sector as of 30 June 2023.

Source: ADB. CAREC Program Portfolio. Unpublished.

From 2001 to June 2023, CAREC investments reached almost \$47.27 billion covering 257 regional projects. Of that, more than \$16.53 billion was financed by ADB,

⁹ The economies of Central and West Asia, East Asia, and the Caucasus participate in the Shanghai Cooperation Organization (SCO), the Eurasian Economic Union (EAEU), cooperation agreements with the EU, and the Investment Framework Agreement with the United States.

Table 1.5: Selected Projects and Initiatives in Central Asia Regional Economic Cooperation, 2020–2023

Connectivity	Trade	Regional Public Goods
Modernization of Eastern Uzbekistan Railway Network —helps to stimulate economic growth in Eastern Uzbekistan and improve trade and regional connectivity (ADB 2020a).	Regional Improvement of Border Services Project —aims to upgrade the participating economies, cross border facilities and modernize customs and trade systems (CAREC 2022).	CAREC Post Pandemic Framework for a Green, Sustainable, and Inclusive Recovery —aims to boost the region's recovery from the economic impacts of the pandemic and geopolitical conflicts, among other shocks (CAREC 2022b).
Toll-Road Concession Project in Kazakhstan —aims to reduce congestion in Almaty and to create a by-pass for commercial vehicles following the “Western PRC–Western Europe” transnational highway (IsDB 2020).	Border Efficiency for Sustainable Trade Project —aims to upgrade facilities and systems to support economic diversification, trade efficiency, health security and resilience at the borders. ^a	CAREC Green Energy Alliance —the first financing vehicle specifically for renewable energy and energy efficiency in the region (ADB 2022e).
Azerbaijan Railway and Logistics Modernization Program —aims to improve the railway and freight logistics (CAREC 2022).	Developing the Economic Cooperation Zone project and Inner Mongolia Sustainable Cross-Border Development Investment Program —parallel investments to support economic cooperation zone between Mongolia and the PRC. ^b	Almaty–Bishkek Economic Corridor Real Time Air Quality Data —helps identify local sources of pollution, inform which mitigation measures are most effective, and compare their costs with health impacts (CAREC 2021a).
The PRC's National Transport Planning Outline 2021–2035 —aims to boost innovation through a reformation of the rail supply sector and better integrate rail with other transport modes (CAREC 2022).	Pilot Initiatives to Improve Sanitary and Phytosanitary Measures —aims to enhance market access and horticultural value chain development of national plant protection organizations of Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan (CAREC 2021b).	CAREC Health Strategy 2030 (approved in 2021) —aims to enhance health security through regional cooperation, benefiting the CAREC region's population (migrants and vulnerable groups) and health systems improvement (ADB 2022d).
Extension of Georgia's Kutaisi International Airport —aims to increase the airport's capacity and improve its services (CAREC 2022).	CAREC Advanced Transit System and Information Common Exchange Pilot Project —provides a harmonized electronic system for goods in transit to help trade flow more smoothly and efficiently across the borders (CAREC 2021b).	Regional Action on Climate Change: A Vision for CAREC (endorsed in 2023) —develops principles and identifies priority areas for investments, explicitly providing climate change as a crosscutting priority area under the CAREC 2030 Strategy, and proposes steps and institutional arrangements to achieve more sustainable and climate-resilient growth (ADB 2023b).
Pakistan's Logistics and Freight Policy —aims to enhance the domestic and international supply chains through seamless integration of logistics through road, rail, marine, inland waterways, and aviation (CAREC 2022).	Cooperation Framework for Agricultural Development and Food Security in the CAREC Region —focuses on international cooperation to modernize agriculture, strengthen policies, and develop food value chains (CAREC 2022c).	
Kazakhstan, Turkmenistan, and Iran Railway Freight Corridor —aims to help promote seamless transport connectivity through enhanced railroad cooperation among the three economies (CAREC 2022).		
Marakand–Karshi Railway Electrification Project —aims to support the development of Uzbekistan's railway system and strengthen trade cooperation with neighboring economies (CAREC 2022).		

CAREC = Central Asia Regional Economic Cooperation, PRC = People's Republic of China.

^a ADB. Mongolia: Border Efficiency for Sustainable Trade Project. <https://www.adb.org/projects/55044-002/main>.

^b ADB. People's Republic of China: Inner Mongolia Sustainable Cross-Border Development Investment Program. <https://www.adb.org/projects/51192-001/main>.

Sources: ADB compilation based on media releases from ADB, Central Asia Regional Economic Cooperation, the Islamic Development Bank, and the European Bank for Reconstruction and Development.

\$20.94 billion by other development partners, and \$9.8 billion by CAREC governments. Although the biggest chunk focuses on traditional sectors of transport, energy and trade connectivity, investment is diversifying into more sectors, including agriculture and tourism (Figure 1.15). Green development and climate adaptation and mitigation are also increasingly getting attention.

Common Regional Cooperation Challenges

Many of the challenges for regional cooperation derive from domestic socioeconomic conditions of member economies (e.g., macroeconomic environment, limited resources, different policy priorities). There are concerns

at the regional level as well, including financing gaps for regional projects. Discussion turns to common challenges across all subregions that are hindering progress in regional cooperation.

Almost all regional cooperation initiatives came under pressure post-COVID-19 as constituent economies embarked on recovery and adjusted to challenging global conditions. High inflation, rising interest rates, supply chain disruptions, the risk of recession, food insecurity, energy instability, and rising global debt weighed on their progress.

Some subregions lack economic incentives to undertake regional cooperation. A case in point is South Asia, where intraregional trade accounted for just 4.6% of the subregion's total trade in 2022. Despite the formation of the South Asia Free Trade Area (SAFTA) in 2004, the reluctance of participating members to reduce tariffs has limited the success of regional integration (Salsabeel 2022). In addition, nontariff barriers to trade persist, including inadequate infrastructure and lack of modern border clearance procedures. Similarly, Central Asia's intraregional trade was 7.3% of its total trade in 2022. The presence of barriers pertaining to trade policy, transport, and transit systems in the region, amid geopolitical conflicts, are among factors holding back merchandise trade performance in Central Asia.

Implementation of regional initiatives remains a critical challenge across all subregional initiatives. Whereas there is high political willingness to undertake regional cooperation, there is often insufficient alignment between regional measures and domestic reforms. Member economies also lack the financial and human resources to understand the technicalities of projects they commit to, while budgetary deficiencies often delay developments substantially. These challenges are aggravated by inequality, financing gaps, and the impacts of climate change.

Inequality within economies and across a subregion continues to be a significant issue. For example, widening gaps between and within Southeast Asian economies in income, human capital, technology adoption, and infrastructure threaten economic

competitiveness, a key objective behind the establishment of the ASEAN Economic Community. The growing digital divide—reflected by gaps in the use of digital technologies, internet speed and usage, and technology production—remains a concern (Ing and Markus 2023).

Subregional cooperation initiatives have been challenged by the vulnerability of participating economies to climate change. Many subregion geographic features and socioeconomic conditions (such as in Southeast Asia, the Pacific, and South Asia) expose populations to climate-related risks such as rising temperatures, increased frequency of heat waves and large storms, widening variability in precipitation, and sea level rise (ADB 2023a). An example of the implications comes from Southeast Asia, where it is estimated the subregion's economy could shrink by 11% by the end of the century if climate change is not tackled since it takes a toll on key sectors such as agriculture, tourism, and fisheries (ADB 2015b). Similarly, severe droughts and heat waves are affecting agricultural yields in Central Asia, putting food security at risk especially given that the water resources of Central Asia are limited (ADB 2023e). Many times, these push member governments to address climate change concerns rather than build physical and social infrastructure.

Almost all subregions are challenged by the widening infrastructure financing gap. Besides macroeconomic challenges, the COVID-19 pandemic and adverse impacts of climate change have exacerbated the demand for and cost of developing sustainable infrastructure. According to ADB (2023d), the total infrastructure investment need for the Southeast Asia subregion is estimated at between \$2.8 trillion (the baseline estimate) and \$3.1 trillion (climate-adjusted), placing the annual investment need at a \$184 billion baseline and \$210 billion adjusted for climate investments. Similarly, South Asian economies need an estimated \$ 6.4 trillion infrastructure investment (climate-adjusted) during 2016–2030. The issue is particularly severe in the Pacific subregion, where damages from extreme weather raise the cost of investment in transport infrastructure, which hampers the implementation of many cross-border projects for regional integration.

Some subregional cooperations, such as initiatives in the Pacific and Central Asia, face challenge from small size and difficult geography. The Pacific economies suffer from small size and geographic remoteness that limit economies of scale. For instance, Kiribati has a territory of 811 square kilometers, consisting of 33 coral atolls spread over 3.5 million square kilometers of ocean (World Bank 2021b). Such wide dispersal and remoteness makes investment expensive and raises transaction costs, which is an increasing challenge for regional cooperation (ADB 2015a). The Central Asia subregion is dominated by landlocked economies with limited (or no) direct access to the sea (trading gateways). Transportation in economies such as Tajikistan, where mountains cover 87% of the economy's geography, and the Kyrgyz Republic, where 94% of the economy's geography is mountainous (FAO 2016), is a challenge as routes may be indirect or hazardous. Fragmented supply chains combined with inadequately structured transit procedures have led to high transportation costs and unpredicted transit times for international shipments, undermining competitiveness of the region's products. All these make regional cooperation initiatives, particularly for improving cross-border connectivity, expensive.

Policy Recommendations

Regional cooperation will continue to play a vital role in fostering the post-pandemic economic recovery in Asia as well as addressing the region's weaknesses and vulnerabilities.

Amid rising protectionism and geopolitical risks, regional (and subregional) cooperation remains critical to addressing shared challenges, specifically in the dimensions of institutional arrangements and environment cooperation (as observed from discussion on the ARCII). Governments in the region should invest in economic cooperation initiatives to improve connectivity through regulatory coherence and infrastructure, undertaking digital transformation and accelerating climate change adaptation and resilience.

Each of the subregions has its own set of common challenges which require cooperation measures that are more suitable for the region.

For example, Central Asia faces complex challenges due to its landlocked geography, climate change vulnerability, disruption in transport and transit routes, weak institutions, and others. These challenges are deeply intertwined and cannot be addressed effectively by a single economy, thereby strengthening the rationale for regional cooperation. Though the intraregional trade share is low in the South Asian subregion, initiatives such as SASEC in South Asia are crucial for enhancing cooperation among member economies, providing frameworks that improve aspects of development in critical sectors such as trade, transport, and energy (Salsabeel 2022). Given the region's major challenges such as low intraregional trade, climate change vulnerability, lack of infrastructural and logistical resources, taking collective regional and subregional actions is more likely to develop solutions to such issues and challenges over the long term (World Bank 2021a).

Enhancing regional cooperation is vital in mitigating the risks to economic growth posed by growing protectionism.

Amid creeping protectionist sentiments and geopolitical tensions, Asia should continue its momentum in forging trade partnerships within and beyond the region. In this regard, while the mega-regionals, the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Transpacific Partnership, and the proposed Indo-Pacific Economic Framework will enhance market access, reduce trade barriers, and raise supply chain resilience, they should be implemented with greater integrity. In addition, regional rules and initiatives should be designed and implemented in line with the multilateral framework of the WTO and remaining economies at the minimum must complete their WTO accession process. Currently, several operational aspects of the WTO multilateral trading system are in need of significant reform to keep pace with the changing nature of international trade. These include the dispute settlement body and the scope and coverage of operational agendas.

Supply chain resilience should be strengthened through trade facilitation and regional cooperation.

A series of shocks, including the COVID-19 pandemic and the Russian invasion of Ukraine, have brought to the fore the vulnerabilities in global supply chains. Policymakers should pay greater attention to identify supply chain risks and forge regional cooperation to diversify trading partners and transport and transit routes. Within subregional pacts, economies should prioritize their digital infrastructures to modernize supply chain infrastructure. Paperless trade or digitally driven trade facilitation can advance trade at lower cost. Customs automation, pre-arrival data processing, port call optimization, and other digital solutions can substantially speed up port handling and customs operations, a desired outcome particularly during the times of crisis (UNCTAD 2022).

Climate change policy needs urgent attention by all economies.

In this regard, establishing a carbon pricing mechanism is one of many important policy tools to lower greenhouse gas emissions (ADB 2023a). In Asia, economies have started instituting their carbon pricing mechanisms, though much work is still to be done. As of April 2023, two carbon taxes (Japan and Singapore) and five economy-level emissions trading system (Indonesia, Kazakhstan, New Zealand, the PRC, and the Republic of Korea) are in operation, and several economies (Brunei Darussalam, India, Pakistan, the Philippines, Thailand, and Viet Nam) are planning to implement them. Besides the adoption of carbon pricing schemes, policymakers should explore the development of bilateral and/or regional carbon market linkages. Linking creates a larger carbon market, which adds liquidity and increases price competition, and so reduces the overall cost of emissions reduction and generating economic efficiencies (ADB 2023a). Moreover, a mechanism for sharing knowledge among economies should be explored as such collaboration would facilitate policy and technical dialogue among economies, improving the possibility of cooperation toward developing an integrated carbon market in Asia (ADB 2016). Regional-level action is also needed. A good start was made with the November 2023 endorsement of the Regional Action on Climate

Change: A Vision for CAREC to guide and promote cooperation in tackling the effects of climate change.

Innovative finance mechanisms to mobilize increased capital investment should be explored to narrow the infrastructure financing gap.

Innovative finance mechanisms as an alternative to commercial debt finance can attract private and institutional capital, along with public funds, for developmental activities (ADB 2023f). More important, innovative finance is focused on the delivery of positive social and environmental outcomes through market-based financing instruments. For innovative finance to succeed, effective action and collaboration among all stakeholders in the infrastructure project life cycle is critical. Asian economies should institute the development of policy frameworks and build capacity to promote innovative finance options. Business models supported by digital platforms should be considered since they contribute to increased efficiency and transparency, thus creating an enabling environment for sustainable infrastructure investment in the region.

Economies should harness opportunities from digital transformation through greater regional cooperation.

Regional cooperation will play a critical role in developing a coherent, innovative, secure, and inclusive digital ecosystem. With the rise of e-commerce, digital payments, online work, cloud storage, and other digitally enabled services highlighting that digital transformation has penetrated deeply into many socioeconomic systems, there is still a significant disparity in access to technology among and within Asia. In this regard, the ASEAN Digital Economic Framework Agreement, which will serve as ASEAN's means to create a seamless digital trade ecosystem across Southeast Asia, forms a good starting point toward narrowing the digital divide in the region. Moreover, regional collective action is needed to resolve digitalization challenges by improving the quality of key digital enablers to achieve digital technology adoption, enhance domestic preparedness for digital transformation, upskill the workforce, and improve the quality of privacy and competition (Ing and Markus 2023).

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