

# 1 Overview

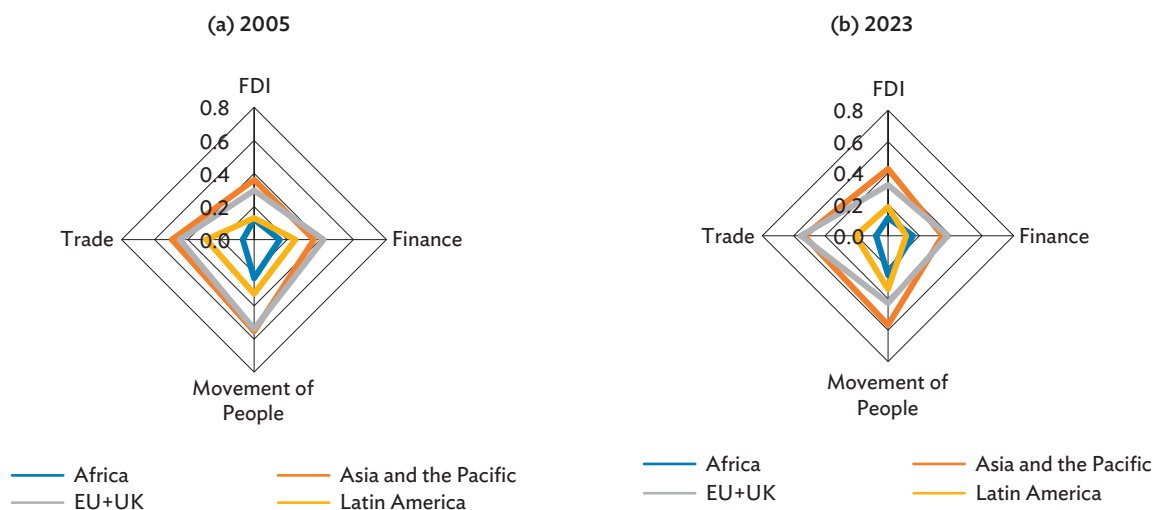
## Trends in Regional Integration in Asia and the Pacific

Asia and the Pacific has made significant progress in regional integration, surpassing other regions in most dimensions of the new Regional Integration Index of the Asian Development Bank (ADB).

Over the past 2 decades, Asia has significantly tightened its regional economic integration, surpassing other regions in foreign direct investment (FDI) and the

“movement of people” (Figure 1.1).<sup>1</sup> For trade in goods and services, Asia led in 2005 but came in a close second to the European Union (EU) plus the United Kingdom (UK) in 2023. While the EU+UK continued to lead in financial integration, Asia is a close second. Latin America has advanced but still remains behind in financial integration. Despite improvements, Africa remains the least integrated in terms of trade, FDI, and movement of people. The methodology and data used to measure regional integration is based on ADB’s Bilateral Economic Integration Index framework (Box 1.1).

**Figure 1.1: Regional Integration Index by Dimension—Asia and the Pacific Versus Other Regions**



EU = European Union (27 members), FDI = foreign direct investment, UK = United Kingdom.

Notes: Based on ADB’s Regional Integration Index estimates, the values for each dimension represent the ratio of the number of strong intraregional connections at the bilateral level relative to the sum of strong intraregional and extraregional connections. For the detailed methodology, indicators used per dimension, and data sources, see Box 1.1.

Source: ADB calculations using data from ADB. Bilateral Economic Integration Index Database.

<sup>1</sup> Asia refers to the 49 members of the Asian Development Bank (ADB) in Asia and the Pacific, which include Australia, Japan, and New Zealand in addition to 46 developing economies.

### Box 1.1: Methodology and Data in Estimating the Regional Integration Index Based on ADB's Bilateral Economic Integration Index

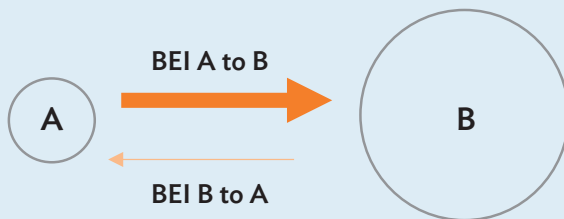
The Bilateral Economic Integration (BEI) Index is a new metric introduced by the Asian Development Bank (ADB) to measure regional integration. It adds on to ADB's existing measures by using a fully bilateral data structure to clarify economic relationships. This bilateral approach provides a clearer and more detailed picture of how economies are integrated with each other, both within and outside their regions. The index also focuses on de facto flows, meaning the actual market-based interactions between economies. It does not cover regional cooperation efforts between economies.

The methodology for estimating regional integration closely follows that of Rayp and Standaert (2017), which follows a two-step sequence. First, the degree of integration between two economies, the BEI, is estimated using the dynamic factor model (DFM) in state-space representation. Then the regional integration indexes are generated from the BEI estimates.

#### Estimation of Bilateral Economic Integration

A BEI is derived from four dimensions: trade, foreign direct investment (FDI), finance, and movement of people. A high BEI from economy A to B indicates a large flow from economy A to B, or vice versa, with respect to the total flows of economy A, implying that B is an important economic partner for A (box figure). The BEI from economy A to B is extracted from a pool of bilateral flows between A and B that are normalized relative to the total flows and size of economy A (gross domestic product or population). In contrast, the BEI from economy B to A is extracted from the same set of bilateral flows but is normalized by the total flows and size of economy B. This allows for the BEI to be not commutative, such that economy A may be more integrated to B than B is to A, which can be the case when B is a large economy.

#### Network Representation of Two Economies



BEI = bilateral economic integration.

Source: ADB, based on Albis, Tayag, and Kang (2023).

The DFM is used to extract the BEIs from the normalized bilateral flows. Let  $y_{it}^{(j)}$  be the  $j^{th}$  integration indicator  $j = 1, \dots, k$  for the  $i^{th}$  directional economy-pair  $i = 1, \dots, n$ , at time  $t = 1, \dots, T$ . The  $y_{it}^{(j)}$ , in equation 1, can be expressed in linear regression form being explained by a constant term  $C^{(j)}$ , the integration index  $BEI_{it}$  with its corresponding coefficient  $Z^{(j)}$ , and a random fluctuation  $\epsilon_{it}^{(j)}$ . Only  $y_{it}^{(j)}$  is observed, and the regressor  $BEI_{it}$  is a latent variable.

$$y_{it}^{(j)} = C^{(j)} + Z^{(j)}BEI_{it} + \epsilon_{it}^{(j)} \quad (1)$$

where  $\epsilon_{it}^{(j)} \sim N(0, H^{(j)})$ ,  $Cov(\epsilon_{it}^{(j)}, \epsilon_{i^*t}^{(j^*)}) = 0$  for all  $i \neq i^*$  and  $j \neq j^*$ . The  $C^{(j)}$ ,  $Z^{(j)}$ , and  $H^{(j)}$  are parameters to estimate one set for each  $j$ . The equation for  $BEI_{it}$  is assumed to follow a Markovian structure, given in Equation 2.

$$BEI_{it} = T^{(i)}BEI_{i,t-1} + v_{it} \quad (2)$$

where  $v_{it} \sim N(0, 1)$ ,  $Cov(v_{it}, v_{i^*t}) = 0$  for all  $i \neq i^*$ , and  $BEI_{i0} = 0$ .  $T^{(i)}$  is an autoregressive parameter that ranges from  $[-1, 1]$ , allowing inherent autocorrelations and stochastic trends. Equation 1 is the measurement equation while Equation 2 is the state equation of the DFM in state-space form.

The parameters  $C$ ,  $Z$ , and  $H$  are restricted to be fixed across  $i$  and  $t$  to allow BEIs to be compared across directional economy pairs and time. Because of this parameter restriction, which would be difficult to implement using common approaches such as the least-squares method, the Bayesian approach is used (refer to Koop (2003), and Chan et al. (2019) for a discussion of the Bayesian estimation). In particular, Gibbs sampling was repeated to get 100,000 sets of parameter estimates; the earliest 70,000 iterations were dropped as burn-in. Due to the linear and Gaussian form of the state-space model, a Kalman filter was applied to generate the BEIs for each of the remaining 30,000 sets of model parameters. This allows the BEI estimate to be the posterior mean of the Kalman filter results and calculate its confidence intervals for significance tests.

#### Regional Indicators and Data Used to Estimate Bilateral Economic Integration

As mentioned, the regional integration data are categorized into four dimensions: trade, FDI, finance, and movement of people. Trade data, including manufactured goods, primary commodities, and services, are sourced from the United Nations (UN) Commodity Trade Database and the World Trade Organization–Organisation for Economic Co-operation and Development Balanced Trade in Services

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Box 1.1: continued

dataset. FDI data come from ADB's Asian Economic Integration Report FDI Database. Finance data, covering short- and long-term portfolio investments in debt securities and equities, are sourced from the International Monetary Fund's Coordinated Portfolio Investment Survey. The movement of people includes data on migration (UN International Migrant Stock), tourist arrivals (UN Tourism), and remittances (World Bank). All indicators are bilateral or at the economy-pair level.

### Estimation of Regional Integration Indexes

The Regional Integration Index (RII) measures the interconnectedness of economies in a region. Using this approach, a strong connection between two economies exists for a particular year if the corresponding BEI value belongs to the top 10% of the BEIs across all economy pairs from 2000 to 2023. The results using the 10% cutoff are similar and comparable to applying a significance test to check if the BEI is greater than that of an economy pair with zero or negligible flows using a 1% level of significance.<sup>a</sup>

<sup>a</sup> The economy pairs that have mostly zero transactions or a low share of flows to total flows with few missing values from 2000 to 2023 are selected as comparison pairs. A BEI is significant if its 99% confidence interval does not overlap and is greater than that of the comparison pair. As a robustness check, several base pairs were used and gave similar results. Examples of the base pairs used for robustness checks are Czech Republic–Fiji for trade, France–Kyrgyz Republic for FDI, the Republic of Korea–Argentina for finance, and Romania–Mongolia for the movement of people.

Sources: ADB, based on the methodology in Albis, Tayag, and Kang (2023); Chan et al. (2019); Koop (2003); and Rayp and Standaert (2017).

The RII for Asia and the Pacific is the ratio of strong intraregional connections relative to the sum of strong intraregional and extraregional connections:

$$RII = \frac{\text{strong connections intraregion}}{\text{strong connections intra and extraregion}} \quad (3)$$

Regional integration for other regions was also calculated: Africa, the European Union (EU) plus the United Kingdom (UK), and Latin America (for each economy's composition per regional grouping, see Annex 1a). A high RII implies that the economies within the region are more connected than to economies outside the region. Integration indexes for Asian subregions—Central Asia, East Asia, the Pacific and Oceania, South Asia, and Southeast Asia—were also calculated and are defined as:

$$RII_{sub} = \frac{\text{strong connections of subregional economies to/from Asia}}{\text{all strong connections of subregional economies}} \quad (4)$$

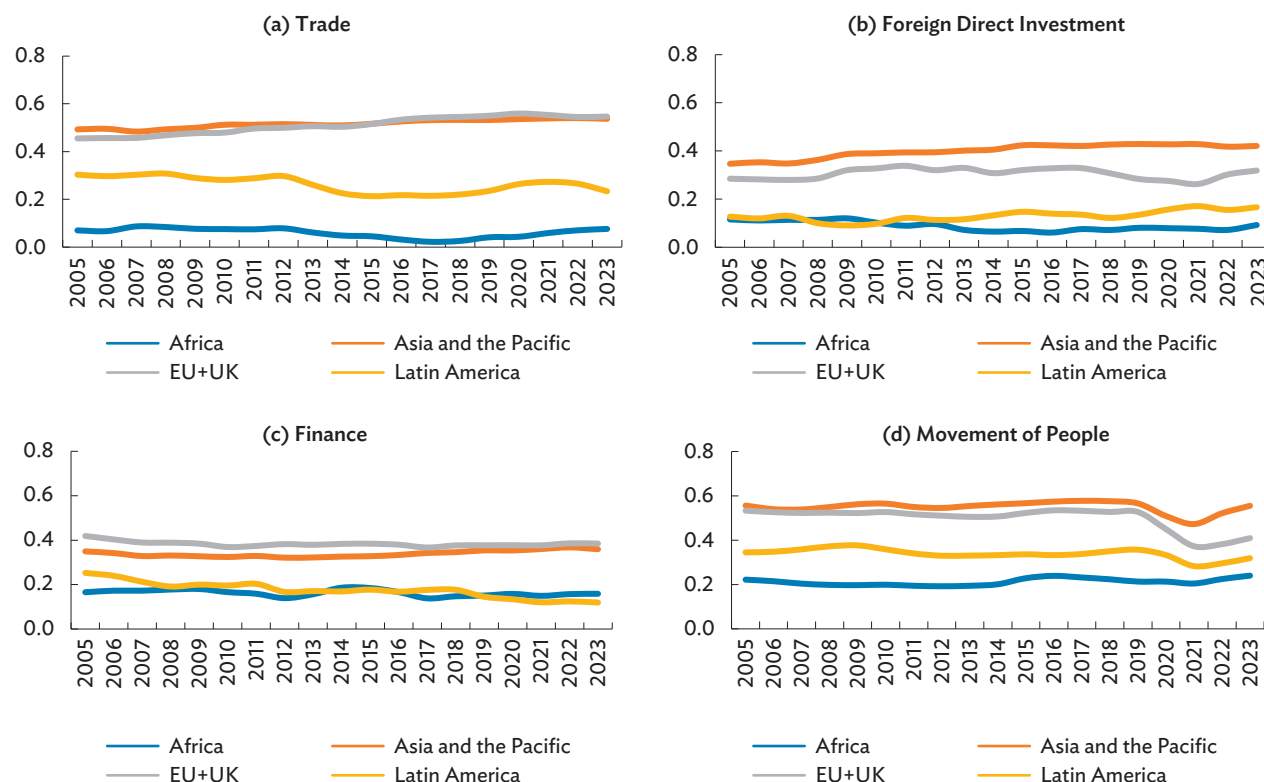
where a high  $RII_{sub}$  implies higher integration of the subregion to Asian economies than to non-Asian economies.

The trend of all four regional integration index dimensions over the 2005–2023 period shows Asia leading in trade integration until 2015, the year coinciding a global economic slowdown (Figure 1.2a). Since then, the EU+UK have led in trade integration, with Asia following closely behind. Latin America has a moderate trend with a pronounced decline from 2015 to 2020, with Africa having the lowest trade integration and minimal changes over time.

Asia's FDI integration has risen steadily, showing the highest regional integration index estimates through 2023 (Figure 1.2b). This underscores Asian investors' increasing preference to invest within the region. Nonetheless, Asia's degree of FDI integration remains below its trade integration. By contrast, for example, FDI integration in Latin America remains moderate with some fluctuations over the years. Africa's FDI integration has declined since 2009, although it has remained fairly stable over the past 5 years.

The EU+UK region held the highest level of financial integration throughout the period, given its well-established intraregional financial markets and regulatory frameworks that ease cross-border financial transactions, particularly among eurozone economies (Figure 1.2c). Importantly, 7 of the 27 EU members along with the UK do not use the euro as they are not in the eurozone. While financial integration in the EU+UK remains relatively stable, Asia has been steadily improving, especially since 2015, and is catching up quickly. Despite this, Asia's own regional integration on financial flows remains lowest among the four dimensions. Latin America and Africa show relatively low levels of financial integration with minimal changes over time.

In terms of the movement of people (covering migration, remittances, and tourism), all four regions remained relatively stable until the drop during the coronavirus disease (COVID-19) pandemic (Figure 1.2d). The movement of people indexes have recovered since but remain below prepandemic levels. Asia leads in the movement of people with the highest levels throughout

**Figure 1.2: Trends in Regional Integration Index by Dimension—Asia and the Pacific Versus Other Regions**

EU = European Union (27 members), UK = United Kingdom.

Notes: Based on ADB's Regional Integration Index estimates, the values for each dimension represent the ratio of the number of strong intraregional connections at the bilateral level relative to the sum of strong intraregional and extraregional connections. Values are presented as a 3-year moving average, with a higher weight given to the most recent periods. For the detailed methodology, indicators used per dimension, and data sources, see Box 1.1.

Source: ADB calculations using data from ADB, Bilateral Economic Integration Index Database.

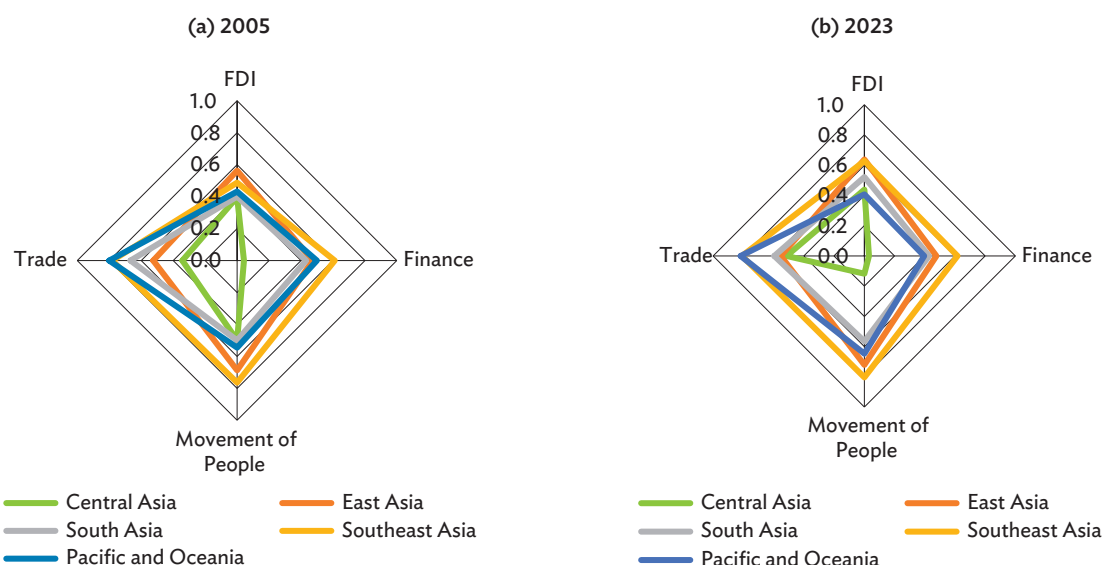
the period and sharpest increase since the pandemic. The EU+UK follows, with Latin America and Africa at the lower end.

### Asian economic integration remains uneven across subregions.

By subregion, Southeast Asia is most integrated within Asia across all but the FDI dimension (Figure 1.3). This strong integration overall comes from Southeast Asia's robust trade networks, solid financial linkages, and substantial movement of people across the Asian region. East Asia, along with the Pacific and Oceania, also showed substantial integration. East Asia has strong trade and investment flows and is well-integrated financially. The Pacific and Oceania benefits from active trade and people traveling and working in other Asian economies.

In contrast, Central Asia and South Asia recorded the lowest integration indexes. These subregions are challenged by underdeveloped infrastructure and smaller markets—which limit economic diversification. Central Asia's landlocked geography and reliance on a limited range of export commodities reduce natural opportunities for integration. While South Asia is showing some progress, it still lags as development remains uneven across the subregion, particularly in terms of trade, openness to FDI, and advancements in financial markets.

**Key pairs of economies are driving Asia's integration both within and outside the region and can be identified through network analysis—relevant subregional clusters can be highlighted.**

**Figure 1.3: Regional Integration Index by Dimension—Asian Subregions**

FDI = foreign direct investment.

Notes: Based on ADB's Regional Integration Index estimates, the values for each dimension represent the ratio of the subregion's strong connections with Asia and Pacific economies at the bilateral level relative to the subregion's total strong connections with the world. For the detailed methodology, indicators used per dimension, and data sources, see Box 1.1.

Source: ADB calculations using data from ADB. Bilateral Economic Integration Index Database.

Network graphs can be created for Asia's intraregional and extraregional linkages (Figure 1.4). In reading the graph, the node size corresponds to the economy's gross domestic product (GDP) in logarithm; node color intensity shows the number of strong connections pointing to the economy (indegree); and line color intensity indicates the strength of integration between the two economies (the value of the Bilateral Economic Integration Index). Orange lines represent Asia's intraregional links, and blue lines represent its non-Asia linkages.

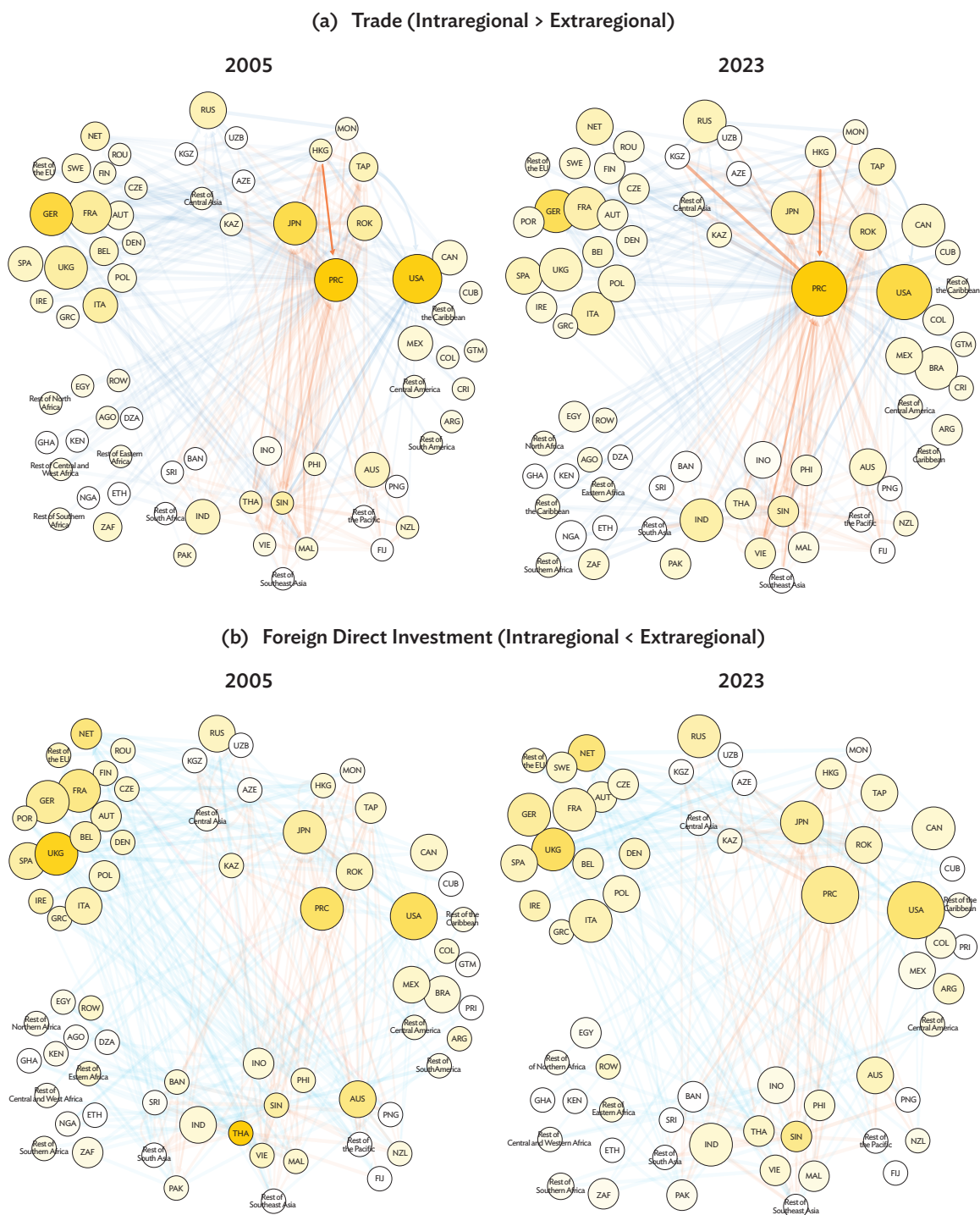
Trends vary across dimensions. In 2005, several Asian economies had high trade integration with Australia, Japan, and the People's Republic of China (PRC) (Figure 1.4a). There were clusters within and between East Asian and Southeast Asian economies. By 2023, these clusters had strengthened, with more intersubregional linkages forming, especially between the PRC and Central Asia and South Asia, centering the Asian network around the PRC. Bilateral pairs have strengthened considerably from 2005 to 2023—for example, the Kyrgyz Republic and the PRC, and the PRC and Viet Nam. The number of extraregional linkages also grew—particularly with some economies in the EU, Africa, and Latin America.

Since 2005, Asia's FDI integration within the region has increased, but its integration with non-Asian economies grew relatively stronger with advanced economies such as Canada, the EU, and the United States (US) as major non-Asian partners for FDI (Figure 1.4b). The PRC has become an important FDI partner for some African economies. Within Asia, new intersubregional links have formed between Singapore and several South Asian and Pacific economies as well as between Japan and several Southeast Asian economies.

Asia is more extraregionally integrated in finance than even FDI (Figure 1.4c). Outside the region, the UK, Ireland, Canada, and the US are the main financial partners of many Asian economies. Within Asia, Australia; the PRC; Japan; Hong Kong, China; and Singapore remain key partners.

For the movement of people, Asian economies are more integrated within the region than with extraregional economies (Figure 1.4d). Within Asia, new intersubregional connections have formed for Australia and the PRC with some economies in South Asia and Southeast Asia, while Fiji and the Republic of Korea have also established links with several Southeast Asian economies.

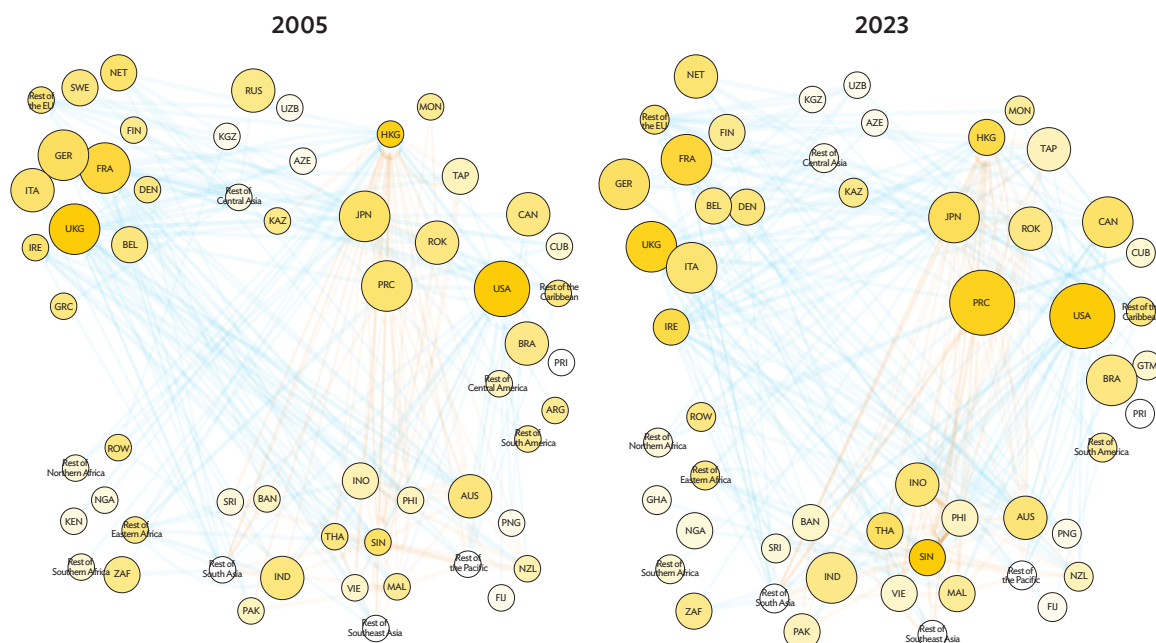


**Figure 1.4: Network Representation of Intra-regional and Extra-regional Integration Linkages—Asia and the Pacific**

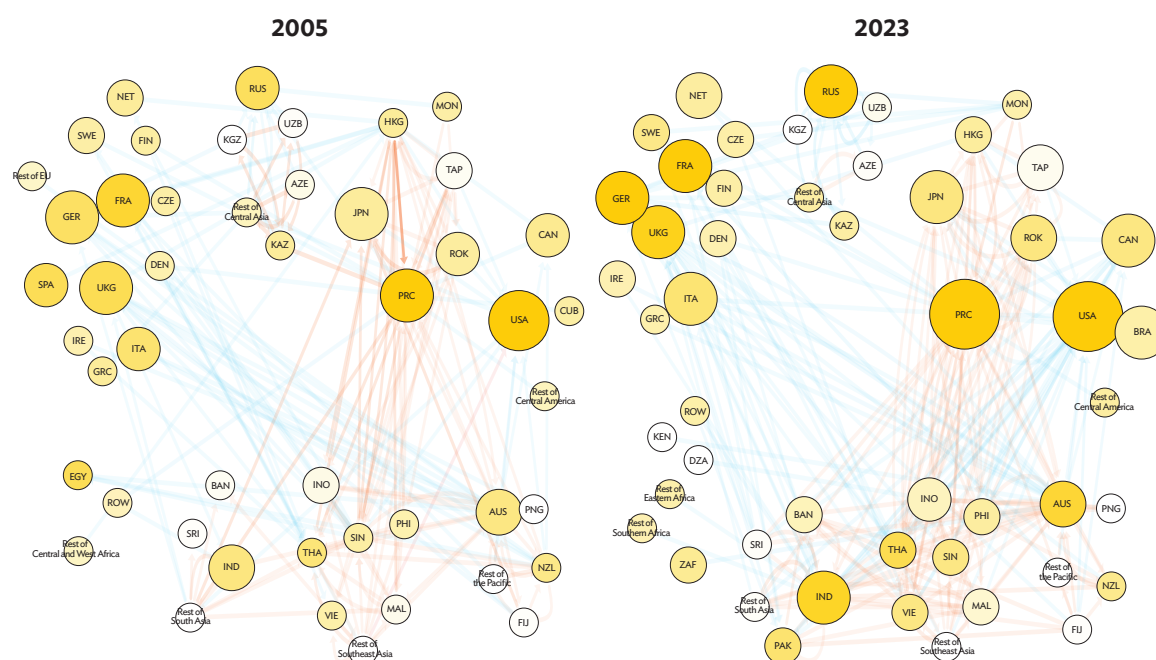
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Figure 1.4 continued

## (c) Finance (Intraregional &lt; Extraregional)



## (d) Movement of People (Intraregional &gt; Extraregional)



> = greater than; < = less than; AGO = Angola; ARG = Argentina; AUS = Australia; AUT = Austria; AZE = Azerbaijan; BAN = Bangladesh; BEL = Belgium; BRA = Brazil; CAN = Canada; PRC = People's Republic of China; COL = Colombia; CRI = Costa Rica; CUB = Cuba; CZE = Czechia; DEN = Denmark; DZA = Algeria; EGY = Egypt; ETH = Ethiopia; EU = European Union (27 members); FIJ = Fiji; FIN = Finland; FRA = France; GER = Germany; GHA = Ghana; GRC = Greece; GTM = Guatemala; HKG = Hong Kong China; IND = India; INO = Indonesia; IRE = Ireland; ITA = Italy; JPN = Japan; KAZ = Kazakhstan; KEN = Kenya; KGZ = Kyrgyz Republic; ROK = Republic of Korea; MAL = Malaysia; MEX = Mexico; MON = Mongolia; NET = Netherlands; NGA = Nigeria; NZL = New Zealand; PAK = Pakistan; PHI = Philippines; PNG = Papua New Guinea; POL = Poland; POR = Portugal; PRI = Puerto Rico; ROU = Romania; ROW = rest of the world; RUS = Russian Federation; SIN = Singapore; SPA = Spain; SRI = Sri Lanka; SWE = Sweden; TAP = Taipei, China; THA = Thailand; UKG = United Kingdom; USA = United States; UZB = Uzbekistan; VIE = Viet Nam; ZAF = South Africa.

Notes: The node size corresponds to the size of the economy as measured by its gross domestic product in logarithm. The node color intensity shows the number of strong connections pointing to the economy (indegree). The color intensity of the lines and arrows corresponds to the directional Bilateral Economic Integration Index values. The more intense the color of the lines, the higher the economic integration between economy pair. The orange lines refer to Asia's intraregional links, while the blue ones are to its non-Asia linkages. For detailed methodology, indicators used per dimension, and data sources, see Box 1.1.

Source: ADB calculations using data from ADB. Bilateral Economic Integration Index Database.

## Asia-Pacific Regional Cooperation and Integration Index: Subregional Initiatives

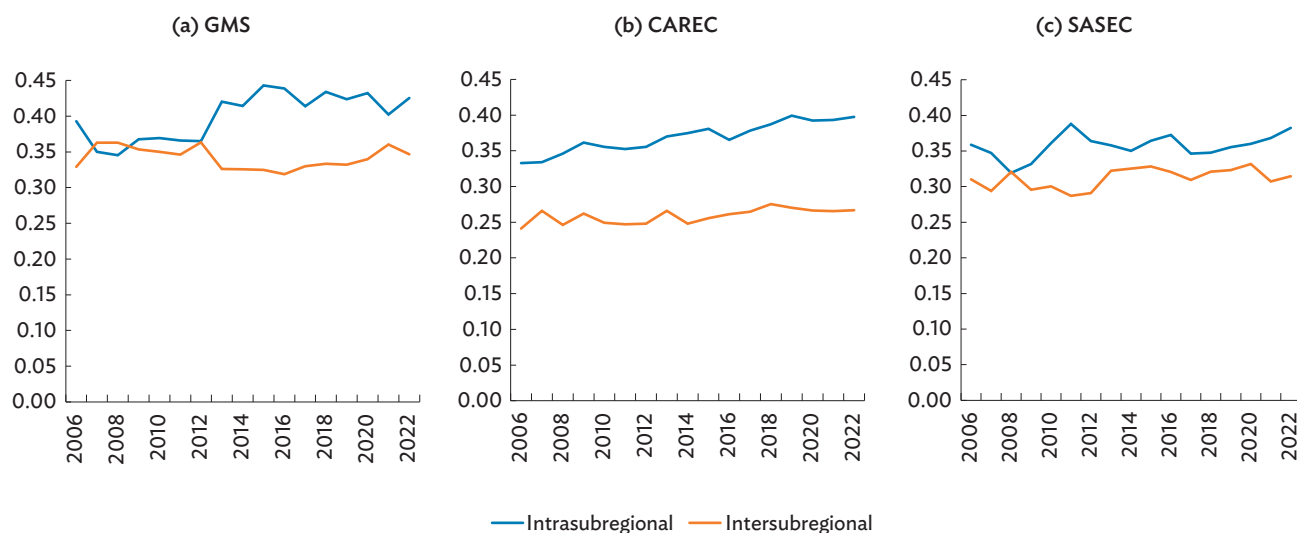
### Asian subregions are growing more integrated.

Flows in trade, investment, finance, and movement of people provided by the Bilateral Economic Integration Index provide a benchmark of regional integration in Asia. However, other important aspects, such as institutional arrangements, digital connectivity, or environmental sensitivity can also help assess regional cooperation and integration (RCI) progress in the region. One can look deeper into the dynamics of economic integration in Asian subregional initiatives using the Asia-Pacific Regional Cooperation and Integration Index (ARCII), which tracks progress using a broader set of dimensions. The ARCII framework is also used in assessing trends in global integration, or globalization (Box 1.2).

The regional integration estimates for subregional initiatives highlight some differences in integration within subregions (intrasubregional integration) and integration of subregions with the rest of Asia (intersubregional integration) (Figure 1.5). Intrasubregional integration in the Greater Mekong Subregion (GMS) has increased over the past decade due to stronger cooperation among its members. While the Central Asia Regional Economic Cooperation (CAREC) program shows more moderate levels of integration, both intrasubregional and intersubregional linkages have gradually increased, more consistently since 2020. The South Asia Subregional Economic Cooperation (SASEC) highlights the subregion's increasing contact and transactions with other Asian economies.

Overall, these trends suggest different forces at work in terms of integration from Asia's subregional initiatives, both among members and with the rest of Asia. While GMS is strongly anchored on subregional integration, Central Asian economies have enhanced linkages over time both within and outside the CAREC region, while SASEC economies maintain strong linkages with other Asian economies.

**Figure 1.5: Overall Regional Integration by Subregional Initiative**



CAREC = Central Asia Regional Economic Cooperation, GMS = Greater Mekong Subregion, 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. Intrasubregional 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/arci> (accessed November 2024).



### Box 1.2: Connecting Regional Integration to a Global Integration Framework

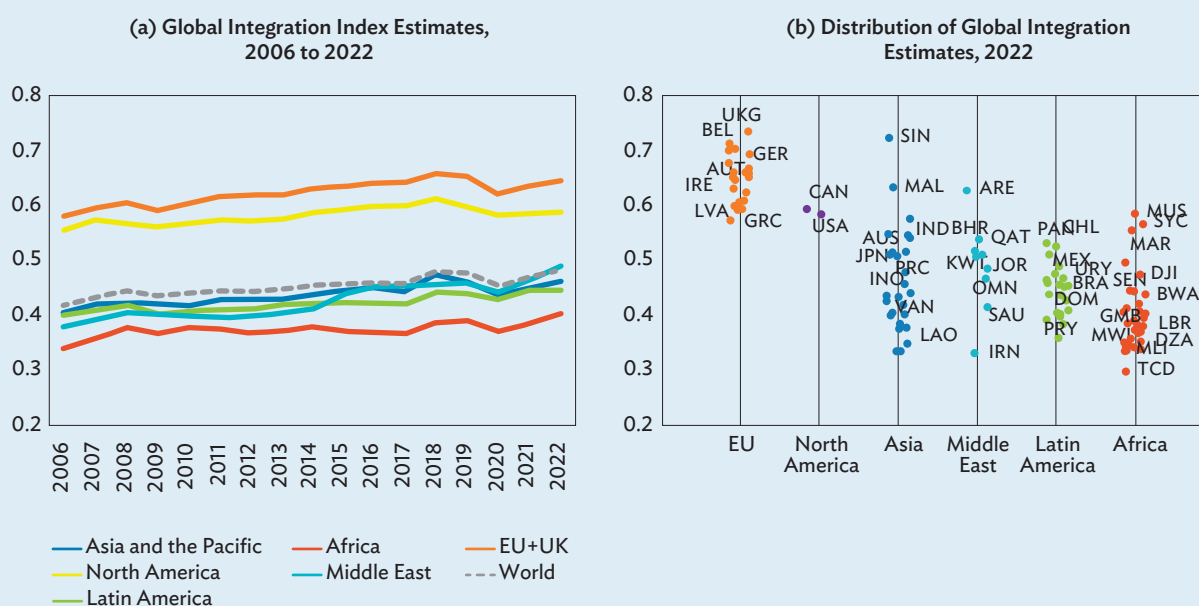
The Asia-Pacific Regional Cooperation and Integration Index (ARCII) framework allows analysis of subregional patterns, defining differences between intrasubregional and intersubregional integration. These trends indicate how certain subregions prioritize internal connectivity ahead of broader, cross-Asia linkages, which develop more gradually. By extending the ARCII framework to include both regional and extraregional linkages, the resulting global integration index (GII) can offer further insights on intraregional and extraregional integration across regions.

The GII, closely patterned on the ARCII methodology, is a comprehensive, multidimensional tool for assessing global integration. Initially developed in 2021 as the Global Economic Integration Index (Huh and Park 2021), the GII helps analyze global and regional linkages simultaneously. It includes 43 indicators spread across eight dimensions—trade and investment, money and finance, global value chains, infrastructure and connectivity, people and social integration, institutional arrangements, technology and digital connectivity, and environmental cooperation.

GII estimates suggest that global integration has increased overall and most prevalent among high-income economies. Among regions, the European Union (EU) leads in most dimensions, although other regions have progressed from 2006 to 2022. Among regions, global integration in Asia and the Pacific has improved, with some economies such as Singapore highly integrated, but with higher dispersion among other economies, showing they are heading in different directions (box figure 1). Other emerging regions, such as Latin America and Africa show generally lower global integration and greater variability.

While, regional, extraregional, and global integration strengthened across most economies from 2006 to 2022, each regional contribution differs (box figure 2). The EU and North America, generally high-income economies, have stronger regional linkages than extraregional ones. In Asia, both regional and extraregional linkages are equally important, with a relatively narrow gap between the two. By contrast, other emerging regions such as Latin America remain more integrated with external partners than those within the region. These patterns highlight the close linkages between development outcomes and economic integration and the importance of assessing both regional and extraregional linkages.

#### 1: Global Integration Index, by Region

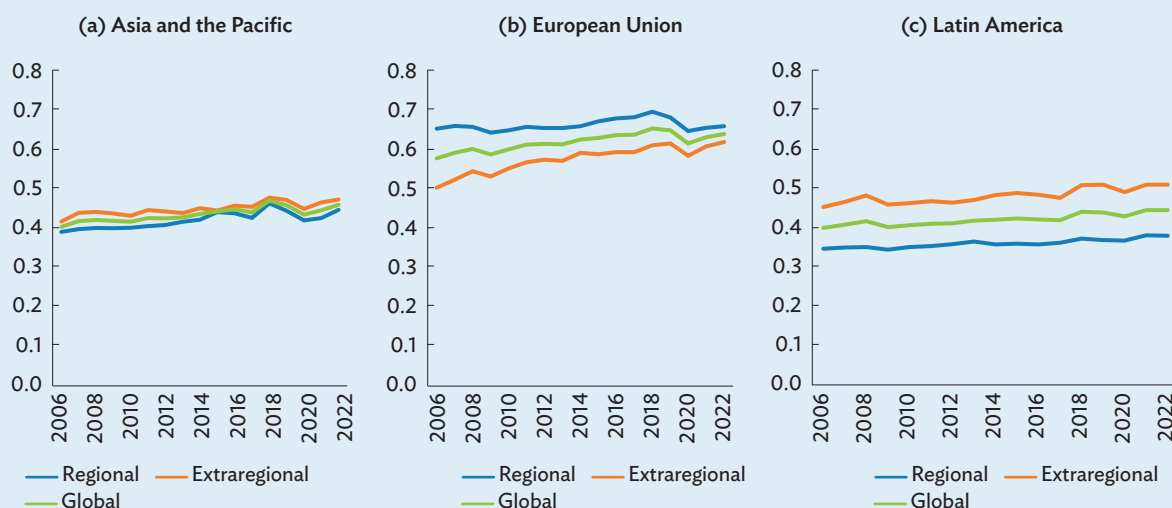


AUS = Australia, AUT = Austria, ARE = United Arab Emirates, BEL = Belgium, BHR = Kingdom of Bahrain, BRA = Brazil, BWA = Botswana, CAN = Canada, CHL = Chile, PRC = People's Republic of China, DJI = Djibouti, DOM = Dominican Republic, DZA = Algeria, EU = European Union (27 members), GMB = Gambia, GER = Germany, GRC = Greece, IND = India, INO = Indonesia, IRE = Ireland, IRN = Iran, JPN = Japan, JOR = Jordan, LAO = Lao People's Democratic Republic, LBR = Liberia, LVA = Latvia, MAL = Malaysia, MEX = Mexico, MUS = Mauritius, SYC = Seychelles, MAR = Morocco, MLI = Mali, MWI = Malawi, PAN = Panama, PRY = Paraguay, QAT = Qatar, SAU = Kingdom of Saudi Arabia, SIN = Singapore, TCD = Chad, UKG = United Kingdom, USA = United States, URY = Uruguay, VAN = Vanuatu.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2024).

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Box 1.2: continued

**2: Regional, Extraregional, and Global Integration Indexes, by Selected Regions**

Note: European Union includes 27 members and the United Kingdom.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arici> (accessed November 2024).

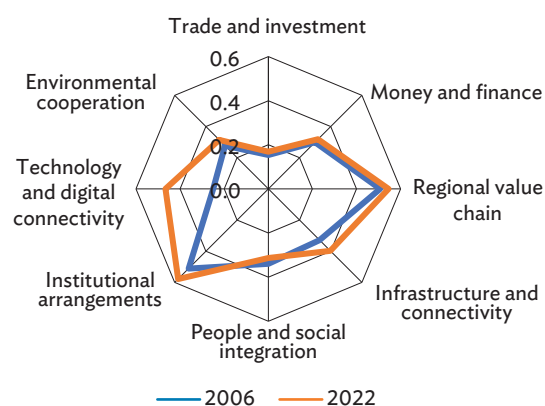
**From 2006 to 2022, RCI across subregional initiatives was based on institutional arrangements, infrastructure and connectivity, regional value chains (RVCs), and money and finance.**

During the period, the CAREC region was primarily driven by institutional connectivity, for example, by a large number of bilateral investment treaties and more embassies among members. Progress in value chain integration came from growth in intermediate goods trade, while advances in technology and connectivity were marked by sustained increases in information and communication technology (ICT) goods trade and a higher share of people using the internet (Figure 1.6).

In South Asia, initiatives such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), SASEC, and the South Asian Association for Regional Cooperation (SAARC) grew from improvements in regional value chains and better institutional arrangements (Figure 1.7). Notably, the average trade concentration among SAARC economies declined over the years, meaning a wider variety of goods were traded, and therefore higher integration among

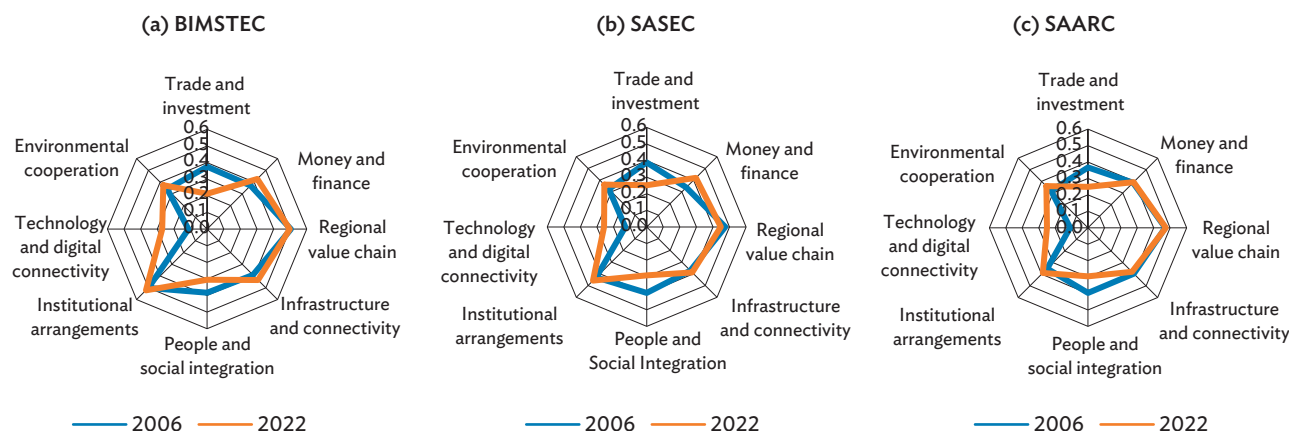
members. Financial linkages have improved moderately, seen in the steady rise in cross-border equity liabilities in some initiatives since 2019. Digital transformation showed robust progress, contributing to improved connectivity.

**Figure 1.6: Central Asia Regional Economic Cooperation Program Intrasubregional Integration**



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 subregional initiative.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/arici> (accessed November 2024).

**Figure 1.7: Intrasubregional Initiatives—South Asia**

BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, SAARC = South Asian Association for Regional 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. Intrasubregional integration is measured within members of the same subregional initiative.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2024).

Southeast Asia's subregional programs—GMS, the Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT), and the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA)—have also integrated more deeply. From 2006 to 2022, integration was largely driven by infrastructure connectivity, institutional arrangements and technology, and digital connectivity. For instance, lower trade costs and improved liner shipping connectivity contributed to stronger regional linkages. Integration momentum was further sustained by joining regional value chains, improving trade complementarity, and importing intermediate goods (Figure 1.8).

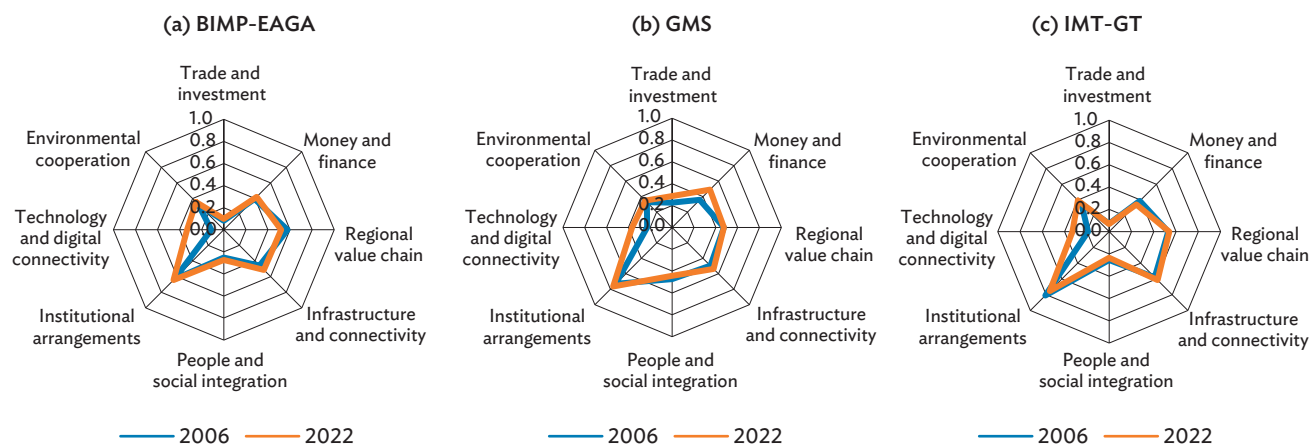
Deepening regional integration between subregional initiative members occurs through various projects and programs. Most subregional initiatives prioritize projects that improve trade and supply chain linkages, transport and infrastructure connectivity, and the movement of people. These are usually included in strategic documents such as the GMS Economic Cooperation Program Strategic Framework 2030, the CAREC 2030 Strategic Framework, and the SASEC Vision (Figure 1.9). Large investments also support these, with

\$34.3 billion and \$12.7 billion allotted for transport and energy projects in the CAREC region, and \$34.5 billion mobilized to support BIMP-EAGA infrastructure projects (CAREC 2025; BIMP-EAGA 2023). Beyond these traditional links, subregional initiatives have also begun to sharpen their focus on supporting newer channels of connectivity, such as digital transformation and environmental cooperation initiatives. For instance, GMS developed a Digital Economy Cooperation Initiative in 2022 to promote inclusive digitalization and advance technology use.

**Technology sharing and digital connectivity have been engines of RCI in all subregional initiatives, while environmental cooperation has only seen slight progress.**

Based on International Telecommunication Union Statistics data, internet penetration in Asia rose sharply from 18% to 73%, alongside substantial growth in mobile subscriptions, from 2006 to 2022. This established a strong foundation for technological and digital connectivity across the region (Figures 1.6, 1.7, and 1.8). Subregional efforts have also reinforced digital

Figure 1.8: Intrasubregional Initiatives—Southeast Asia



BIMP-EAGA = Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, 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. Intrasubregional integration is measured within members of the same subregional initiative.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2024).

Figure 1.9: Relevant Operational Regional Cooperation and Integration Areas of Subregional Initiatives

	Trade and Investment	Money and Finance	Regional Value Chain	Infrastructure and Connectivity	People and Social Integration	Institutional Arrangements	Technology and Digital Connectivity	Environmental Cooperation
CAREC								
GMS								
IMT-GT								
BIMP-EAGA								
SASEC								
BIMSTEC								

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

Note: The colors represent the degree of prioritization placed by subregional initiatives on different regional cooperation and integration (RCI) areas. Darker shades denote high prioritization, lighter shades indicate less prioritization. The criteria used for determining subregional priorities was based on: (1) if the RCI dimension is explicitly mentioned as a priority based on the program’s long-term plans or agenda; (2) if a dedicated working group is created for the RCI dimension; (3) if funds are allocated for certain RCI-related projects and activities; and (4) if there are recent events, documents, or work plans launched for the RCI dimension.

Source: ADB. Asia-Pacific Regional Cooperation and Integration Index Database. <https://aric.adb.org/database/aricii> (accessed November 2024).

integration, with GMS leading in ICT goods trade, accounting for an average 51% of ICT trade within the subregion in 2022 based on the UN Commodity Trade Statistics Database. GMS also showed the highest level of regional research collaboration, with 28% of international collaborations occurring within the subregion, nearly doubling between 2006 and 2022 (Clarivate 2024). CAREC had remarkable progress, with intrasubregional integration nearly doubling or even tripling.

Environmental cooperation across Asia’s subregional initiatives showed modest gains, such as their environmental health score. BIMP-EAGA and Indonesia–Malaysia–Thailand Growth Triangle (IMT-GT) recorded the highest estimates in this area, noticeably ahead over other initiatives. Across subregions, the average number of environmental agreements increased slightly, showing a stronger



commitment to environmental protection. However, significant challenges remain. For instance, the environmental footprint per capita has increased, and environmental goods represent a very small share of intrasubregional trade—only about 1% or less across initiatives, according to the UN Commodity Trade Statistics Database—suggesting there remains ample opportunity to intensify growth.

## Subregional Cooperation Initiatives in Asia and the Pacific

Each subregion discussed here describes the key cross-border initiatives and progress made so far under subregional cooperation initiatives within the past 5 years. It also substantiates ADB support and investment in these initiatives and shares some of the next steps to strengthen cooperation in the subregions.

### Central and West Asia, East Asia, and the Caucasus

The CAREC program has been a cornerstone for regional cooperation and integration in Central Asia, South Caucasus, East Asia, and South Asia since its inception in September 2001.<sup>2</sup> The program continues to generate substantial investments in transport, energy, and trade facilitation; and helps reduce travel times, lower trade costs, facilitate safer movement of goods and people, and generate other economic activity in the region. Under CAREC 2030: Connecting the Region for Shared and Sustainable Development (CAREC 2030 Strategy) endorsed in 2017, the program's scope expanded from three sectors (transport, energy, and trade) to five operational clusters:

- **Economic and financial stability**—to support macroeconomic policy coordination, promote financial stability, and strengthen investment climate;
- **Trade, tourism, and economic corridors**—to expand

the region's trade and tourism potential and develop economic corridors. The CAREC Integrated Trade Agenda 2030, endorsed in 2018, supports CAREC members to integrate further into the global economy by expanding trade from increased market access, greater diversification, and stronger trade institutions. The CAREC Tourism Strategy 2030 endorsed in 2020 aims to develop sustainable, safe, and inclusive tourism;

- **Infrastructure and economic connectivity**—two strategies were endorsed under this cluster in 2019. The CAREC Transport Strategy 2030 works in conjunction with the 2030 trade agenda to enable the efficient movement of goods and people through a safe multimodal corridor network of roads, railways, aviation services, ports, multimodal logistics hubs, and improved border crossing facilities and services, both within the region and with the rest of the world. The CAREC Energy Strategy 2030 is inspired by the vision of achieving a reliable, sustainable, resilient, and reformed energy market in the CAREC region by 2030, where the electricity network and gas pipeline system allow energy to be traded across borders at competitive prices;
- **Agriculture and water**—to develop productive, resilient, and sustainable agriculture guided by the Cooperation Framework for Agricultural Development and Food Security in the CAREC Region endorsed in 2022; and
- **Human development**—to improve the quality of human capital and promote labor mobility through cross-border education. The CAREC Health Strategy 2030 endorsed in November 2021, among others, aims to enhance a member's capacity to respond effectively to transboundary health risks.

The CAREC 2030 Strategy also includes three cross-cutting themes:

- **Climate change.** In November 2023, members endorsed the Regional Action on Climate Change: A Vision for CAREC (CAREC Climate Change Vision). The vision aims to help members implement their

<sup>2</sup> CAREC members include Afghanistan; Azerbaijan; the People's Republic of China's Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region; Georgia; Kazakhstan; the Kyrgyz Republic; Mongolia; Pakistan; Tajikistan; Turkmenistan; and Uzbekistan. ADB placed on hold its regular assistance to Afghanistan effective 15 August 2021.

commitments under the Paris Agreement and achieve the Sustainable Development Goals (SDGs) by promoting regional action on the energy transition, decarbonization, innovative financing solutions, and climate-resilient infrastructure and policies.<sup>3</sup>

- **Information and communication technology.** In 2021, the CAREC Digital Strategy 2030 was endorsed as a catalyst for regional cooperation on digital technologies.
- **Gender.** The CAREC Gender Strategy 2030 endorsed in 2020, provides strategic guidelines for mainstreaming gender into CAREC operations.

### *Progress so far*

During the first half of the CAREC 2030 Strategy (between 2018 and 2023), 78 projects valued at over \$14.7 billion were approved and financed by ADB and other CAREC development partners.<sup>4</sup> A large portion of these investments focus on enhancing connectivity, efficiency, and sustainability of transport and energy infrastructure, followed by trade facilitation aimed at enhancing regional economic competitiveness.

A total of 33 transport projects valued at \$8 billion were approved from 2018 to 2023, contributed to the \$34.7 billion cumulative investments in transport since the program started. ADB-financed projects led to improved regional connectivity along the six CAREC corridors, with over 12,863 kilometers (km) of roads built or improved, 1,995 km of railway tracks built, and 4,152 km of railways rehabilitated from 2008 to 2023. Increasing transport and logistics costs, geopolitical uncertainties, and emerging challenges including supply chain disruptions and threats due to climate change require a review of corridors and priority projects.

Energy is the second-largest share of the CAREC portfolio with 16 new energy projects amounting

to \$3.5 billion in 2018–2023. These include those promoting physical connectivity for power transmission among the Central Asia Power System economies. A project approved for Tajikistan in 2018 will allow power trade between Tajikistan and Uzbekistan and the reconnection of Tajikistan with other power system economies. The completed Kyrgyz Republic Power Sector Improvement Project, rehabilitated 118 substations and linked major substations improving efficiency and reliability of power supply.<sup>5</sup>

Five trade-related projects valued at \$759 million were approved between 2018 and 2023, including the Border Efficiency for Sustainable Trade Project, the Developing Economic Cooperation Zone Project (both in Mongolia), and the Inner Mongolia Sustainable Cross-Border Development Investment Program for the PRC. The Regional Improvement of Border Services projects supported the Kyrgyz Republic, Mongolia, Tajikistan, and Pakistan in upgrading their border infrastructure, facilities, and systems, and in establishing a national single window system.

Beyond physical infrastructure development, substantial progress has been made in improving capacity and supporting reforms to align with international standards and best practices. A key aspect is support to World Trade Organization accession of three remaining CAREC members (Azerbaijan, Turkmenistan, and Uzbekistan). The CAREC program also supports economies in implementing the World Trade Organization Trade Facilitation Agreement and in acceding to international agreements that are crucial for trade.<sup>6</sup> CAREC members also started leveraging global technology to facilitate trade and digitize trade processes. Uzbekistan and Pakistan have successfully integrated into global ePhyto solutions, while Georgia is piloting robotic process automation or artificial intelligence for import procedures.

<sup>3</sup> With their agreement, the ministers also adopted a Joint Ministerial Statement on promoting regional disaster risk financing solutions and improving the resilience of public sector budgets to disaster events through regional collaboration.

<sup>4</sup> Other partners include the Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank Group.

<sup>5</sup> ADB. 2020. *Project Completion Report: Kyrgyz Republic Power Sector Improvement Project* (Grant 0218).

<sup>6</sup> Azerbaijan, the PRC, the Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan already signed or acceded to the UN Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific; while Azerbaijan, Mongolia, and the PRC are parties to the UN Convention on the Use of Electronic Communications in International Contracts.

**Economic corridor development.** The CAREC program has been piloting the Almaty–Bishkek Economic Corridor since 2014.<sup>7</sup> The corridor will unify the two city regions of Kazakhstan and the Kyrgyz Republic into a single economic space, fostering the rapid exchange of ideas and the seamless movement of goods and people.<sup>8</sup>

**Mainstreaming climate action.** To operationalize the CAREC Climate Change Vision, the CAREC Working Group on Climate Change was established in April 2024 and the Climate Change Action Plan 2025–2027 was endorsed in November 2024. The action plan prioritizes regional climate adaptation and mitigation projects and initiatives across CAREC clusters and focuses on four areas of intervention: (i) climate risk, preparedness, and health; (ii) water–energy–food security nexus; (iii) low carbon growth; and (iv) a CAREC climate platform.

### ***ADB’s support and investment in these initiatives***

**Acting as CAREC secretariat.** As an honest broker of regional cooperation, ADB is supporting the various CAREC committees, sector working groups, and expert groups—from advisory to technical support in prioritizing activities, preparation of investment projects and initiatives, monitoring of activities, and reporting the progress to the ministerial conference through the senior officials or national focal points meeting.<sup>9</sup>

**Mobilizing financing and technical assistance (TA) resources.** A total of 71 TA projects worth \$113.0 million were approved, mostly financed by ADB. In line with the “*projects++*” approach under the CAREC 2030 Strategy, most TA projects focus on capacity building, policy dialogue, project preparation, and knowledge products and services.<sup>10</sup> Recently approved ADB TA projects supporting new CAREC 2030 areas/sectors include TA 9977: Developing the CAREC Water

Pillar (\$1.6 million, approved May 2020); TA 6535: Addressing Health Threats in CAREC Countries and the Caucasus (\$4.3 million, approved July 2020); TA 6806: Strengthening Regional Cooperation on Skills Development under the CAREC Program (\$2 million, approved October 2021); TA 6947: Supporting CAREC Regional Capital Market Regulators Forum (\$0.7 million, approved August 2022); TA 10258: Resilient and Inclusive Agricultural Development and Food Security in the CAREC Program Member Countries (\$3 million, approved December 2023); and TA 10390: Developing a Disaster Risk Transfer Facility in the CAREC Region (Phase 2) (\$ 3.1 million, approved November 2024).

**Supporting project preparation.** Projects with regional implications require a high level of cooperation and collaboration among participating economies. ADB is implementing a \$1.4 million technical assistance facility to support the preparation of follow-up regional infrastructure and connectivity projects within the CAREC region and the Caucasus. It supported the detailed engineering design and procurement of equipment and recruitment of consultants for ensuing work and development of pipeline projects under the CAREC Water Pillar.

In October 2024, ADB established the CAREC Climate and Sustainability Project Preparatory Fund (CSPPF). The CSPPF is a multi-partner trust fund—with the Republic of Korea and the PRC as founding financing partners—to help address and narrow CAREC economies’ financing gaps in achieving climate change goals and the SDGs by supporting the preparation of bankable climate- and SDG-related regional projects. The CSPPF offers CAREC economies a streamlined mechanism to identify, prepare, structure finance, and implement regional climate- and SDG-related projects aligned with their commitments to address climate change.

<sup>7</sup> See Independent Evaluation Department. 2024. *Validation Report: Almaty–Bishkek Economic Corridor Support (TA 9487)*. ADB.

<sup>8</sup> Initiatives include modernization of priority border crossing points between the two economies; preparation of a tourism master plan connecting Almaty, Kazakhstan with Lake Issyk-Kul, the Kyrgyz Republic; cooperation in health laboratories to prevent future pandemics; and support for the Clean Air Action Plans for Almaty and Bishkek, with the installation of air quality monitoring sensors to allow officials to effectively measure the impact of air quality improvement initiatives.

<sup>9</sup> As of June 2024, there are 4 CAREC sector coordinating committees, 3 thematic working groups (WGs), and 14 WGs/sub-WG/experts group, with ADB acting as the CAREC secretariat.

<sup>10</sup> “Under the “*projects++*” approach, CAREC’s historical emphasis on regional projects will be complemented with a framework for policy dialogue and knowledge cooperation on the one hand, and promoting people-to-people contacts on the other, as part of a holistic and encompassing strategy to deepen regional integration.”

### ***Next steps to strengthen cooperation***

The rapidly evolving global and regional landscape requires review, adaptation, and reform to ensure the CAREC program's continued relevance, effectiveness, and responsiveness to the needs and priorities of its members and to pursue its regional objectives. In November 2024, the 23rd CAREC Ministerial Conference endorsed the program's midterm review (MTR), which assessed the progress of implementing the CAREC 2030 Strategy and offers forward-looking options to revitalize regional cooperation. The program will prioritize economy-driven activities, pursue regional impact and innovation, strengthen partnerships, and adopt robust monitoring and evaluation to help build a more prosperous, integrated, and resilient future for the CAREC region.

Specifically, the program will implement 10 recommendations from the MTR:

- **Streamline scope for enhancing the impact of CAREC initiatives.** The program will adopt a more targeted approach and establish a multiyear rolling pipeline for regional programs, projects, and technical assistance that are demand-driven and linked with economy programming. It will assess and direct resources to projects with the highest impacts and benefits and optimize resource allocation through subregional cooperation (2+X principle), and cross-sectoral initiatives for greater specialization and in-depth engagement.
- **Review and recalibrate sectoral strategies.** The CAREC program will conduct midterm reviews of sector strategies to make them more responsive to emerging needs and requirements (CAREC Transport Strategy 2030, CAREC Energy Strategy 2030, CAREC Integrated Trade Agenda 2030, and CAREC Digital Strategy 2030). As it plays a pivotal role in linking CAREC members to global value chains, a strategy for CAREC Corridor 2 (which broadly relates to the Trans-Caspian International Transport Route or the Middle Corridor) is being developed to coordinate the hard and soft infrastructure investments in the corridor. In helping members transition to clean and sustainable energy, the focus will be on developing transformational regional energy projects such as the Rogun and Kambarata-1 Hydro Power Plant or the Caspian Undersea Cable Project to help secure the region's energy future. As a cross-cutting theme, the CAREC program must leverage digitalization and the use of information and communication technology (ICT) to promote innovation while simultaneously catalyzing solutions to achieve climate priorities. This includes digitalization of trade processes and cross-border paperless trade, low-carbon mobility and logistics solutions, and technological transfer in energy.
- **Pursue regional public goods to address common issues.** The program will continue to promote regional public goods in combating communicable diseases, promoting environmental sustainability and climate change, water resources management, and sustainable energy transition. It will develop a multi-hazard early warning system for detecting, forecasting, and communicating diverse hazards. It will promote cross-border sustainable energy projects and transboundary water management systems.
- **Reinvigorate regional ownership for sustaining outcomes.** The CAREC program will engage with all stakeholders to foster ownership and sustainability of TA projects while tailoring the program to address each economy's unique needs, priorities, and capacity. It will improve its communication by telling impact stories and tangible benefits, highlighting the impact on beneficiaries, aligning national interests with regional objectives, and strengthening stakeholder engagement in business, civil society, and local communities.
- **Promote integrated and climate-smart development.** This includes integrating CAREC climate change, digitalization, and trade initiatives under the declaration on CAREC Partnership on Climate, Innovation, and Trade signed at the 29th Conference of the Parties (COP 29) in Baku in November 2024. The CAREC program will also enhance capacity and coordination among relevant institutions to mainstream climate change action across CAREC sectors such as the Water-Energy-Agriculture nexus or a "One-Health" approach. It will promote innovative and green finance initiatives to mobilize investments for renewable energy, energy efficiency, climate-smart agriculture, regional disaster risk transfer solutions that leverage international



reinsurance and capital markets, and sustainable urban development.

- **Strengthen engagement with development partners and the private sector.** The CAREC program will involve development partners in the proposed multiyear project pipeline and climate action plan, impact assessment of projects, robust project monitoring, and evaluation framework. It will explore innovative financing options to support critical regional infrastructure projects and leverage private sector expertise and investment through public-private partnerships.
- **Improve program effectiveness and monitoring.** The program will develop a real-time operational dashboard to track project progress, monitor key performance indicators, improve transparency, and inform evidence-based decision-making. It will facilitate knowledge exchange programs and develop communities of practice for regional experts to collaborate and share best practices in partnership with the CAREC Institute.
- **Strengthen the CAREC secretariat.** The program will integrate CAREC and regional cooperation and integration (RCI) activities into national programs and pursue regional projects by enhancing coordination with economy teams, including ADB resident missions. It will strengthen its field presence to enhance regional collaboration, bridge the distance to regional partners, and address the program's expanding roles and needs.
- **Enhance the CAREC Institute.** As a strategic partner for knowledge-driven development and regional cooperation, the CAREC program will leverage the CAREC Institute's established expertise in research, capacity building, and knowledge sharing.
- **Prepare an MTR implementation action plan.** The CAREC secretariat will prepare a comprehensive action plan with defined timelines, deliverables, and accountabilities to implement the recommendations outlined in the MTR.

By implementing these recommendations, the CAREC 2030 Strategy can significantly strengthen its role as a driving force for positive change within the CAREC region, fostering a more integrated and resilient future in 2030 and beyond.

## South Asia

ADB serves as secretariat for the SASEC program. It helps SASEC gain greater acceptance and a broader constituency among SASEC members and promotes intersubregional cooperation between South Asia and Southeast Asia. ADB supports BIMSTEC and SAARC in research and knowledge outreach, institutional capacity building, and promotion of policy dialogue. It seeks to develop a greater partnership with SAARC and BIMSTEC through technical assistance and dialogue with their respective secretariats and members.

### *Key initiatives as well as projects and plans under SASEC, SAARC, and BIMSTEC in the past 5 years*

**BIMSTEC.** ADB's partnership with BIMSTEC began in 2005 as it supported the preparation of the BIMSTEC Transport Infrastructure and Logistics Study. This partnership has expanded to cover institutional strengthening and regional policy dialogue on a wide range of areas, including trade, tourism, financing, and energy. Through technical assistance, ADB continues to support BIMSTEC in preparing studies and research, convening knowledge-sharing events and policy dialogues, and strengthening capacity of the BIMSTEC secretariat and member states through training and workshops. In response to the request of BIMSTEC members and secretariat, ADB has done analytical studies on transport, trade, tourism, transport financing, and energy. These have been discussed by BIMSTEC members and endorsed for implementation.

**SAARC.** At the request of SAARC, ADB has recently conducted various studies. These include Updating the SAARC Regional Multimodal Transport Study with a chapter on connectivity between South Asia and Central Asia; Study on Implementation of the Thimphu Statement on Climate Change; Study on Contextualization of Sustainable Development Goals (SDGs) and to Revisit the SAARC Plan of Action on Poverty Alleviation; and Study on Harmonization of 8-Digit Harmonized System (HS) Tariff Lines of SAARC Member Countries. ADB also assists the SAARC Council of Experts of Energy Regulators (Electricity), which is creating a road map to implement the SAARC Framework Agreement on Energy

Cooperation. Also, informal meetings of SAARC finance ministers are organized annually on the sidelines of ADB annual meetings. The 17th Informal Meeting of SAARC Finance Ministers was held in Incheon, Republic of Korea on 5 May 2023.

**SASEC.** Over the past 5 years, SASEC has supported key initiatives in the following areas:

- **Transport.** The program has focused on enhancing subregional connectivity by developing multimodal transport networks and upgrading seaport infrastructure. Major projects include railway modernization, the construction of new airports, and better seaport operations.
- **Energy.** Priority has been given to developing transmission infrastructure and incorporating cleaner energy, such as renewable energy. The subregional power market and cross-border electricity trade have been strengthened, contributing to more energy security and sustainability.
- **Trade facilitation.** SASEC has prioritized reducing trade bottlenecks and modernizing customs procedures. Key initiatives include a national single window customs system and electronic cargo tracking to streamline trade processes.
- **Economic corridor development.** Economic corridors, such as the Visakhapatnam–Chennai Industrial Corridor, have been developed to enhance economic linkages and promote subregional growth and diversification.

### *Progress on projects and plans*

**BIMSTEC.** Progress has been made on preparing analytical studies that shape discussions during BIMSTEC meetings. These include

- **Leveraging Thematic Circuits for BIMSTEC Tourism Development.** This study identifies ways to revive tourism in the region through “thematic circuits.” It should lead to a comprehensive strategy for developing tourism in the subregion. Some of the study’s recommendations were adopted during the Second Meeting of BIMSTEC Tourism Working Group held in February 2024.

- **BIMSTEC Trade Facilitation Strategic Framework 2030.** This framework aims to promote intraregional trade by reducing nontariff barriers from (i) soft infrastructure, (ii) hard infrastructure, (iii) logistics, and (iv) building institutional capacity and promoting cooperation among members.
- **BIMSTEC Master Plan for Transport Connectivity.** The plan presents a comprehensive 10-year strategy and action plan for improving the subregion’s transport and trade linkages. It was formally adopted at the Fifth BIMSTEC Summit held in Colombo, Sri Lanka, on 30 March 2022. BIMSTEC leaders would like it to be implemented soon, so that improved connectivity can bring better integration, better trade, and better people-to-people relations.
- **Financing Transport Connectivity in the BIMSTEC Region.** This study assesses the financing landscape for infrastructure in the subregion and analyzes various ways of financing transport infrastructure, including public–private partnerships.

There were two capacity-building activities organized for BIMSTEC. The first training was on trade facilitation in May 2023 together with the Ministry of External Affairs of India, and the Indian Council for Research on International Economic Relations. The second was on authorized economic operator programs held in June 2024 in New Delhi. The goal was to strengthen the capacity of BIMSTEC customs administrations to design and implement effective authorized economic operator programs based on India’s experience.

**SAARC.** Good progress has been made on agreed areas of cooperation but more could have been done at the national level. Recent developments in SAARC–ADB Cooperation include

- The 10th Meeting of SAARC Sub-Group on Customs Cooperation, held at the SAARC secretariat, Kathmandu, Nepal, to consider the Draft Final Study on Harmonization of 8-Digit HS Tariff Lines of SAARC Member Countries on 1–2 October 2024 with a timeline agreed for implementation. A consultation workshop was held in Colombo, Sri Lanka on 11–12 September 2023 with customs and HS experts from SAARC members to review the study.

- SAARC–ADB 5th Meeting of SAARC Council of Experts of Energy Regulators (Electricity) was held in Islamabad, Pakistan on 13–14 November 2023 to review implementation of the SAARC Framework Agreement on Energy Cooperation. The Sixth Meeting of the SAARC Council will be held once the road map for implementing the agreement has been updated to include members' comments, and the SAARC Framework Agreement on Energy Cooperation has been ratified by all members.
- The Consultation Workshop on Climate Change was held in Thimphu, Bhutan on 10–11 July 2024 to review the implementation of the Thimphu Statement on Climate Change. ADB described its current status. Further actions were discussed and finalized during the Meeting of the Inter-Governmental Expert Group on Climate Change held in Colombo, Sri Lanka on 3–4 December 2024.
- Informal meetings of SAARC finance ministers are usually held on the sidelines of the ADB annual meeting. The 18th Informal Meeting is expected to be held in May 2025. These meetings, attended by ADB senior management and experts, provide a platform for SAARC finance ministers and ADB to exchange views on specified themes, enhance understanding of macroeconomic and contemporary RCI issues, and reach consensus on what needs to be done.

**SASEC.** Progress has been made on various fronts. These include:

- **Transport.** ADB has supported SASEC economies in developing a multimodal transport network across the subregion. The SASEC corridors have been revised to better support regional cooperation objectives, facilitating multi-economy trade and improving access to gateways for landlocked economies. The updated corridors are: (i) Nepal/Bhutan–India Corridor; (ii) Sri Lanka–India–Bangladesh–India–Myanmar Corridor (aligned with economic corridors); (iii) Nepal–India–Bangladesh Corridor; (iv) Bhutan–India–Bangladesh Corridor; (v) Nepal–India–Myanmar Corridor; and (vi) Myanmar–Bangladesh–India–Sri Lanka–Maldives (Maritime) Corridor. These corridors are served by multiple transport modes, including road, rail, and waterways, and are complemented by trade facilitation and economic corridor initiatives. ADB has provided loans for the construction of roads along these corridors, support for the development of railway systems in Bangladesh, India, and Sri Lanka, as well as the construction of new airports in Bhutan and Nepal. For maritime transport, ADB has helped improve seaports, including Chattogram in Bangladesh, Visakhapatnam and Chennai in India, Kulhudhuffushi in Maldives, and Colombo in Sri Lanka. In addition to ADB support, several economies have developed transport infrastructure with domestic resources or assistance from other development partners.
- **Energy.** Energy supply has increased significantly in recent years, with ADB supporting several economies to increase their power generation capacity by building new power plants and upgrading existing ones. ADB has supported their increasing use of natural gas and renewable energy sources, such as solar, hydro, and wind power. ADB has also supported electricity transmission upgrades and tariff structure reforms. Power trade runs through bilateral arrangements between India and Bangladesh, Bhutan, Nepal, and Myanmar.<sup>11</sup> A notable milestone is the Bangladesh–India Electrical Grid Interconnection Projects, which created the first international transmission lines in South Asia. Installed electricity capacity in the subregion increased from 417 gigawatts to 550 gigawatts between 2017 and 2023.
- **Trade facilitation.** In May 2019, ADB approved a \$10 million Asian Development Fund loan and/or grant to develop the Maldives' National Single Window, an electronic platform designed to enhance the speed and efficiency of cross-border control procedures using advanced technology. ADB also approved \$1.5 million in technical assistance to prepare Bangladesh's SASEC Integrated Trade Facilitation Sector Development Program. This was included in ADB's 2021 pipeline for \$200 million to improve the economy's border infrastructure and trade facilitation environment. ADB supported the continuation of reforms in Nepal through the implementation of the Customs Reform and Modernization Plan 2021–2026 and the improvement of trade logistics through the preparation and

<sup>11</sup> As of February 1, 2021, ADB has placed a temporary hold on sovereign project disbursements and new contracts in Myanmar.

implementation of a new Trade Logistics Policy 2022 under the SASEC Customs and Logistics Reforms Program (Subprogram 1).

- **Economic corridor development.** ADB has been instrumental in supporting India's East Coast Economic Corridor through the development of the Visakhapatnam–Chennai Industrial Corridor. It strengthened economic linkages across industries and sectors through policy reforms, institutional development, and high-quality infrastructure investment, contributing to regional GDP growth and better living standards. Following its success, economic corridor studies have been done in Bangladesh, northeastern India, and Sri Lanka to identify opportunities for growth centers and investment. In 2023, the SASEC corridor was updated to reflect evolving needs. The revised corridors include (i) the Nepal/Bhutan–India Corridor, (ii) the Sri Lanka–India–Bangladesh–India–Myanmar Corridor, (iii) the Nepal–India–Bangladesh Corridor, (iv) Bhutan–India–Bangladesh Corridor, (v) the Nepal/Bhutan–India–Myanmar Corridor, and (vi) the Myanmar–Bangladesh–India–Sri Lanka–Maldives Maritime Corridor. For Nepal, ADB conducted an urban corridor development study to analyze industrial development. Economic corridor development support helped create regional value chains in tourism and food supply. It also increases competitiveness by reducing constraints on the movement of goods and services and improving market access across borders.

### ***ADB support and investment in these initiatives***

**BIMSTEC.** Since 2019, ADB has offered two technical assistance grants amounting to \$2.0 million. This helped ADB prepare analytical studies for BIMSTEC meetings. Consultation workshops were conducted to obtain members' views on the directions and contents of the studies. Dissemination workshops were conducted to present study findings and discuss the next steps for implementation. ADB supported capacity building for the BIMSTEC secretariat and members.

**SAARC.** Since 2019, ADB has provided \$950,000 in technical assistance to support the development of

analytical studies discussed during SAARC meetings. Consultation workshops were conducted to validate the initial study findings and obtain additional input from members. Thereafter, the final reports with policy recommendations were presented and adopted in SAARC meetings.

**SASEC.** As of 30 June 2024, a total of 87 SASEC projects valued at \$20.8 billion, of which \$12.8 billion is financed by ADB, are either ongoing or completed across the six member economies. Additionally, 155 technical assistance projects worth \$224.78 million have been implemented to support project preparation, strategic planning, and capacity building.

### ***Strengthening cooperation in South Asia***

**BIMSTEC.** The signing of a memorandum of understanding (MOU) in February 2022, the secretariat's first MOU with an international organization, cemented the mutual commitment of ADB and BIMSTEC to expand and strengthen their partnership in pursuit of stronger cooperation and a more integrated Bay of Bengal region.

In the immediate future, ADB supports the implementation of the BIMSTEC Master Plan for Transport Connectivity. ADB's assistance covers other areas of cooperation such as public–private partnerships, digitalization, the environment, and climate change. ADB may also provide support in developing an action plan for climate change, disaster risk management, and environmental conservation, as requested by the BIMSTEC secretariat.

A recently approved technical assistance from ADB promotes knowledge sharing, capacity-building activities, and regional policy dialogue, including knowledge exchange and meetings with ASEAN, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and other international organizations. ADB and the BIMSTEC secretariat are working closely to identify and implement a program aimed at enhancing the secretariat's institutional capacity in promoting RCI in the subregion.



**SAARC.** SAARC and ADB have been long-term development partners promoting RCI in South Asia. Several proposals from the SAARC secretary-general under consideration for possible future implementation will focus on regional public goods such as climate change and the environment.

Intraregional connectivity, trade facilitation, power trade, and climate change are some of the SAARC initiatives common with other subregional organizations in South Asia and Central Asia. With many members overlapping under these regional groupings, it is important to enhance intersubregional dialogue to promote synergy and complementarity. ADB, as secretariat of SASEC and CAREC and development partner of BIMSTEC and SAARC, is in a good position to collaborate with all regional organizations to bring about better results.

**SASEC.** The SASEC program plans to work on the following areas to enhance connectivity and economic resilience:

- **Transport.** This involves improving regional connectivity while reducing greenhouse gas emissions from transport and logistics by (i) transitioning from transport corridors to trade corridors; (ii) promoting multimodal transport (road, railway, inland waterway, and maritime transport) and supporting sustainable modal shifts; (iii) improving logistics efficiency and sustainability; and (iv) facilitating comprehensive transport agreements.
- **Energy.** The program seeks to accelerate the transition to clean energy, enhance power interconnections, and use digital technologies to improve energy efficiency and sustainability.
- **Trade facilitation.** The focus will be on enabling seamless and sustainable movement of goods and services across borders. Priorities include promoting sustainable food trade to support food security and implementing digital solutions to enhance trade efficiency.
- **Economic corridor development.** The program will establish strong subregional supply chains, promote intra-SASEC trade and investment, and develop sustainable tourism corridors.

## Southeast Asia

***Key initiatives, projects, and plans under GMS, IMT-GT, and BIMP-EAGA over the past 5 years, progress so far, and ADB support and investments***

### Greater Mekong Subregion

#### **GMS Strategic Framework 2030 (GMS-2030).**

Approved in 2021, GMS-2030 envisions a more integrated, prosperous, sustainable, and inclusive GMS. It focuses on strengths like community, connectivity, and competitiveness while aligning regional initiatives with the UN SDGs. Key principles include environmental sustainability, resilience, integration, and inclusivity. Achieving these goals requires innovative approaches such as leveraging digital transformation, enhancing spatial perspectives, engaging in policy dialogue, increasing private sector participation, establishing a GMS open platform, and focusing on tangible results, all supported by ADB.

**Digitalization.** Digitalization offers GMS economies a chance to leverage their young and tech-savvy population. The GMS Digitalization Action Plan, 2025–2027 outlines a framework for regional cooperation to promote digitalization in agriculture, tourism, and trade. By promoting capacity building, policy dialogue, and innovative pilot programs, the digital action plan aims to help GMS governments digitize effectively.

**Innovation.** To enhance economic outcomes and address regional and global challenges, GMS economies developed the GMS Innovation Strategy for Development 2030. The strategy should accelerate progress toward GMS-2030 by helping set up a subregional innovation system that promotes cross-border collaboration. It focuses on three strategic areas: digitalization, green transition, and connectivity through infrastructure investment. Key implementation steps include creating a GMS task force on innovation, organizing innovation forums, providing training, establishing a GMS innovation fund, partnering with the private sector, and developing a monitoring framework.

**Embracing private sector solutions.** Recognizing that public funds are insufficient for achieving growth and SDG commitments, GMS economies are launching initiatives to enhance private sector participation. These include developing a GMS strategy for private sector engagement, organizing private sector roundtables, conducting training on public–private partnerships for GMS officials, and increasing the participation of the GMS Business Council in various working groups and GMS program bodies.

**Transforming the GMS into an open platform.** GMS-2030 emphasizes greater stakeholder engagement and collaboration with other RCI initiatives. Two supporting studies conducted to implement this mandate are the Strategic Approach for Strengthening Local Government Engagement in GMS, which explores how to enhance provincial and local government participation, and the Study on Deepening Development Partners’ Engagement in the GMS Program, which examines challenges faced by development in support of the subregion.

**GMS Knowledge Network (GMSKN).** The GMSKN, including knowledge centers from GMS members, was established in 2022. It aims to provide expertise, stimulate discussion, and raise awareness on emerging GMS policy issues, offering relevant innovative knowledge solutions to enhance policy dialogue among GMS economies. A 3-year (2025–2027) GMSKN workplan will be prepared by the group’s steering committee.

**Enhancing spatial approach to development.** Urban sector development initiatives are advancing along various border and specific areas in GMS economic corridors. Key initiatives include the People’s Republic of China (PRC) Guangxi Regional Cooperation and Integration Promotion Investment Program, which promotes integrated development between Guangxi and northern Viet Nam, and the Lao People’s Democratic Republic (Lao PDR) Urban Environment Improvement Investment Project in Luang Prabang, which complements the new railway link between the Lao PDR and the PRC. A study has been completed to enhance connectivity between Vientiane and Ha Noi along the GMS North–South Economic Corridor, and an ongoing study focuses on setting new strategies for GMS border economic zones.

**Dialogue on policies and regulations, underpinned by knowledge-based solutions and capacity building.** In all GMS sectors—agriculture, energy, the environment, health, tourism, trade and investment, transportation, and urban development—policy dialogue and capacity-building are underway. To revitalize the GMS Cross-Border Transport Facilitation Agreement after COVID-19 border closures, the Early Harvest Program was relaunched in December 2023 up to the end of 2026 and national authorities began issuing permits in April 2024. New sector strategies for agriculture, the environment, energy, health, and tourism are expected in 2024 while transport and urban strategies will be completed in 2025. A GMS Energy Transition Task Force was established in 2022 to help shift to cleaner energy sources and energy efficiency, while the GMS Task Force on Trade and Investment became a working group in 2024.

There are also some noteworthy projects. In energy, the 600-megawatt Monsoon Wind Power Project (2022) in the Lao PDR is the first cross-border project with private sector financing and the largest in Southeast Asia. It will provide clean renewable energy supply to Viet Nam. In agriculture, the \$129 million GMS Cross-Border Livestock Health and Value Chains Improvement Project (2022) is projected to reduce transboundary animal disease, enhance food safety, strengthen livestock value chains and infrastructure investment. In health, the GMS Border Areas Health Project in Cambodia (2022) and in the Lao PDR (2024) will improve access to quality health services of people residing in select border provinces. From 2020 to 2024, 19 GMS projects were approved at a cost of \$4.2 billion.

**Gender mainstreaming.** Achieving gender equality is part of the GMS-2030 principle of inclusivity. The GMS gender strategy, endorsed in 2022, takes a regional approach to gender equality and women’s empowerment. In September 2024, the GMS Gender Strategy Implementation Plan 2025–2030 was endorsed to recommend activities, target outputs, and performance indicators to achieve the gender strategy objectives. Gender will be mainstreamed in the GMS Regional Investment Framework with gender indicators or elements integrated into the GMS-2030 Results Framework and other GMS strategies. On capacity

building, the first GMS Gender Equality and Inclusion Forum was held in September 2024.

### **Indonesia–Malaysia–Thailand Growth Triangle and Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area**

**Strategy formulation.** ADB helped prepare the Accelerating Cooperation Together strategic document, a midterm review of BIMP-EAGA Vision 2025. ADB is also assisting in the development of the BIMP-EAGA Blue Economy Strategy 2030. It also helps to implement key actions identified in the cooperation report to fast-track the implementation for the remaining period of Vision 2025.

**Priority infrastructure projects and transport connectivity.** As of October 2024, BIMP-EAGA has a rolling pipeline of 210 priority infrastructure projects worth \$65.5 billion developed with ADB assistance, located in economic corridors.

ADB supported the upgrade of 388 km of roads worth \$136 million in West and North Kalimantan in Indonesia. It supported the \$380 million 300 km road network improvement project in Western Mindanao, the Mindanao Road Master Plan, and Mindanao's Development Corridors Study. ADB also approved the \$1 billion Davao Public Transport Modernization Project to introduce a low-carbon and climate-resilient bus system.

**Economic corridors and special economic zones (SEZs).** For BIMP-EAGA, ADB completed a study on SEZs for shared prosperity. In IMT-GT, ADB supported the Review and Assessment of the IMT-GT Economic Corridors Study, and the study on SEZs in IMT-GT Opportunities for Collaboration.

ADB now supports a study on BIMP-EAGA economic corridors for the BIMP-EAGA Summit in 2025. Findings and recommendations of the IMT-GT economic corridors study and the study on SEZs in IMT-GT Opportunities for Collaboration are being disseminated to help better operationalize IMT-GT economic corridors.

**Tourism.** ADB supported various initiatives under BIMP-EAGA and IMT-GT, including developing an IMT-GT Tourism Strategic Framework 2017–2036 and Action Plan 2017–2021, the Joint BIMP-EAGA and IMT-GT Tourism Recovery Communications Plan and Toolkit 2022–2024, and capacity building for tourism recovery, planning, and adopting digital solutions.

ADB supported capacity building for tourism officials on RCI, tourism communications and planning, smart tourism ecosystems, and public policies for alternative accommodations. It also held several training of trainers to teach micro, small, and medium-sized enterprises to adopt digital solutions.

**Green and smart cities development.** The BIMP-EAGA green cities initiative facilitated the development of green city action plans (GCAPs) for BIMP-EAGA cities. Similarly, IMT-GT helped prepare GCAPs and integrated green transport plans for IMT-GT cities, including GCAPs for IMT-GT cities in Malaysia supported by reimbursable technical assistance for Malaysia. Knowledge-sharing events include regular green cities conferences and forums also featured in both BIMP-EAGA and IMT-GT green city initiatives.

The preparation of GCAPs have been completed for BIMP-EAGA and IMT-GT cities—Melaka and Kuching (Malaysia), Songkhla and Hat Yai (Thailand), and Medan and Batam (Indonesia); along with Kendari, Indonesia; Kota Kinabalu, Malaysia; and General Santos City, Philippines. The GCAP for Labuan, Malaysia is under development. Under the reimbursable cluster technical assistance for Malaysia, the final GCAPs for Penang, Kota Bharu, and Langkawi were presented in the Green Cities Investment Forum on 26–27 November 2024 in Kuala Lumpur, Malaysia. GCAPs are being prepared for the Malaysian cities of Kangar, Kulim Hi-Tech, Manjung, Teluk Intan, and Ipoh under the same reimbursable technical assistance.

**Blue economy development.** ADB is supporting the development of a BIMP-EAGA Blue Economy Strategy while strengthening collaboration with IMT-GT and ASEAN.

ADB conducted the Fostering Coastal Resilience and the Blue Economy Workshop in November 2023 and the BIMP-EAGA and IMT-GT Stakeholders Consultation Meeting in June 2024 on how to collaborate and develop a blue economy strategy. A High-Level Investor Forum on the New Ocean Energy Economy was organized in February 2023.

**Capacity building and knowledge sharing.** Through the BIMP-EAGA, IMT-GT, and GMS Capacity Building Program (B-I-G Program), 3,103 officials from BIMP-EAGA, IMT-GT, and GMS attended training and knowledge events covering ECDs, SEZs, integrated transport, tourism, project management, value management in projects, the Fourth Industrial Revolution, green cities, and big data and artificial intelligence solutions, smart tourism ecosystems, and coastal resilience. Nineteen virtual Policy Actions for COVID-19 Economic Recovery Dialogues were organized with 22 policy briefs produced and available on ADB's knowledge platform, DevAsia. A compendium of 13 policy briefs was produced in June 2021, with the second edition delivered at the BIMP-EAGA and IMT-GT summits in May 2023.

### ***ADB support and investment in these initiatives***

**ADB's role.** ADB has served as regional development advisor in BIMP-EAGA since 2001 and has been IMT-GT's regional development partner since 2006, with similar finance and leadership functions. ADB plays various roles as (i) a financier, providing or mobilizing financial resources; (ii) a development partner, collaborating and working with various stakeholders; (iii) a knowledge provider, creating, consolidating, and disseminating knowledge on RCI and other development issues; (iv) a capacity builder, helping members better manage RCI; and (v) an honest broker, serving as a catalyst and facilitator. The BIMP-Facilitation Center is secretariat. The Centre for IMT-GT Subregional Cooperation serves as IMT-GT secretariat, based in Putrajaya, Malaysia.

### **Technical Assistance**

**BIMP-EAGA.** As of 2024, ADB has provided 47 technical assistance (TA) projects to or involving BIMP-EAGA amounting to \$70.3 million (with cofinancing, and with ADB supplying \$30.4 million), and with select TA projects concurrently supporting IMT-GT. Only five of the 47 TA projects are active and focus on enhancing BIMP-EAGA and IMT-GT cooperation, smart and livable cities, transport connectivity, clean energy, health, and food security.

**IMT-GT.** As of August 2024, ADB has provided 32 TA projects totaling \$39.57 million dedicated to or involving IMT-GT (and its members), with select TA projects concurrently providing support to BIMP-EAGA. Only 16 of the 32 TA projects are still ongoing, while the rest have been completed.

### ***Some next steps to strengthen cooperation in Southeast Asia***

Strengthening links with other RCI initiatives is a key element of open regionalism. An important example is the GMS energy program's enhanced cooperation with ASEAN in energy-related initiatives, particularly the discussions on the ASEAN power grid aimed at deeper coordination on multilateral and regional power trade. The GMS Tourism Sector Strategy 2016–2025 also supports the ASEAN Tourism Strategic Plan 2016–2025. The GMS program coordinates and collaborates with the Mekong–Lancang Cooperation, Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy, and the Cambodia–Lao PDR–Myanmar–Viet Nam Cooperation.

Implementing the new GMS innovation strategy will guide GMS cooperation over the next 5 years, with a focus on digitalization, the green transition, and connectivity across all priority sectors to promote more sustainability, growth, and inclusivity in the GMS.

**BIMP-EAGA.** ADB will continue supporting BIMP-EAGA initiatives, especially strategic refinements and key actions identified in the cooperative strategy report



to accelerate the implementation of the remaining period of the BIMP-EAGA Vision 2025. ADB will continue ongoing assistance to develop a BIMP-EAGA Blue Economy Strategy 2030, and analytical work on its economic corridors. The blue economy strategy and economic corridor study are major summit deliverables in May 2025.

**IMT-GT.** ADB will continue to support key IMT-GT program initiatives under the IMT-GT Vision 2036 and the Implementation Blueprint 2022–2026. ADB helped develop the IMT-GT implementation blueprints, currently amid midterm reviews. ADB has an MOU with the Center for IMT-GT—a self-funded international organization by members—and the subregional secretariat.

## The Pacific

ADB recognizes the specific needs and challenges of the Pacific subregion and seeks a variety of ways to increase support for the regional public goods that generate shared benefits for participating countries. ADB's deep involvement in the Pacific subregion helps promote and strengthen RCI, which is also an operational priority of ADB's Strategy 2030 (ADB 2018). To foster RCI and to promote regional and/or global public goods—such as climate action, protection of shared natural resources, and health and education services—ADB works closely with existing regional institutions.

Regional cooperation is vital for addressing the diverse challenges faced by Pacific developing member countries (DMCs). Through collaboration, these countries can mitigate issues stemming from geographic isolation, small economies, and vulnerability to natural hazards and climate change. ADB has several key TA projects in the Pacific that emphasize regional collaboration to enhance knowledge sharing among Pacific DMCs.

Examples include the Pacific Region Infrastructure Facility (PRIF), the Pacific Financial and Technical Assistance Center, technical assistance (TA) for Pacific Economic Management, and the Private Sector

Development Initiative (PSDI). These initiatives consolidate resources, including knowledge, technical expertise, and financial support, to address common challenges and develop solutions grounded in regional cooperation and mutual benefits.

### *Progress so far*

**Pacific Region Infrastructure Facility.** The initiatives proposed in the PRIF have effectively supported regional integration and private sector development. The phase 4 midterm review concluded that the PRIF performed well during the challenging COVID-19 period, demonstrating strong management and administration. Key stakeholders recognized an ongoing necessity for high-quality donor coordination and targeted technical assistance. PRIF's practical and targeted support to its members and its central role in coordinating regional development partner efforts were central. The coordination function had a significant impact on PRIF, as it brought together diverse partners who contributed their collective experience, knowledge, and financial resources to the region. PRIF's alignment with member and development partner priorities demonstrated a high degree of coherence without duplication. PRIF also effectively integrated cross-cutting themes, including climate change, disaster risk reduction, the environment, and gender equality and social inclusion. Overall, PRIF has served as an effective mechanism for coordinating and supporting infrastructure in the Pacific. It aligns with the knowledge needs and priorities of its members, as outlined in country knowledge plans and other relevant country or regional policies, strategies, and action plans.

### **Technical Assistance for Pacific Economic**

**Management (Phase 3).** ADB also supports the Pacific DMCs through the Pacific Economic Management Program, which strengthens the capacity for public sector management and economic policy formulation, including public financial management. These initiatives are important for Pacific DMCs to better prepare, plan for, and respond to economic shocks. Through this program, ADB is helping the Pacific subregion to use approaches specifically designed to cater to the needs of small island developing states and help them cope with

challenges emanating from their vulnerability to external demand shocks and limited institutional capacity. Pacific economies have derived substantial benefits from policy and institutional reform advice, as well as improved economic modeling, as part of the Pacific Economic Management Technical Assistance. ADB has offered technical support to develop straightforward fiscal management models and has conducted capacity building for technical staff in selected Pacific DMCs—including the Cook Islands, the Federated States of Micronesia, Fiji, the Marshall Islands, Solomon Islands, Tonga, and Tuvalu. This assistance has enhanced the ability of policymakers to evaluate the long-term budget implications, thereby contributing to improved expenditure efficiency, enhanced budget planning, and better public service delivery.

**Private Sector Development Initiative.** The primary objective of PSDI is to reduce unnecessary costs of doing business in the Pacific subregion and help formalize and expand the private sector. This, in turn, generates employment opportunities, increases tax revenues, and contributes to poverty reduction. To do this, PSDI concentrates on five focal areas: (i) upgrade business legislation; (ii) cultivate financial markets and services to augment financial accessibility; (iii) overhaul state-owned enterprises and advocate public–private partnerships; (iv) institute effective competition and consumer protection; and (v) promote the economic empowerment of women.

Secured transaction frameworks have been established in 10 countries to make it easier for lenders to accept movable assets as collateral for loans. PSDI has supported the transformation of government-owned banks to better manage retirement funds. Online business registries in five countries have improved the business environment and facilitated new investments. State-owned enterprise reforms have doubled the profitability of their infrastructure portfolios in five countries. PSDI has strengthened competition and consumer protection safeguards in the Pacific DMCs. And they have helped women gain technical skills, establish formal businesses, access credit and markets, and compete for senior professional roles.

## ***ADB support and investment in these initiatives***

### **ADB works through PRIF to promote quality, climate, and socioeconomic resilient infrastructure.**

PRIF is a multi-partner coordination and technical assistance facility established in 2008 to improve the quality and coverage of infrastructure and service delivery for its 14 Pacific member countries. PRIF is managed by the Pacific Region Infrastructure Coordination Office and is aligned with ADB's 2030 priority to foster regional cooperation and integration. A TA project continues to support PRIF for the 4-year period from 1 January 2024 until 31 December 2027. During this PRIF Phase 5, the PRIF coordination office will continue to support improving infrastructure quality and coverage with a new emphasis on infrastructure quality and greater climate and socioeconomic resilience. It also mainstreams cross-cutting themes—including gender equality and social inclusion, regional integration, private sector participation, and sustainable infrastructure management across all PRIF activities.

ADB has provided \$3.0 million to support Phase V from November 2023 to December 2027, with cofinancing from the EU (€13.45 million,) Australia (\$4.0 million), New Zealand (\$3.0 million), and the US (\$1.25 million). All cofinancing is administered by ADB.

### **ADB has provided \$1.5 million for capacity development and policy advice to help governments make better informed policy decisions.**

High-level officials from economic agencies of Pacific DMCs have requested ADB for assistance to strengthen policy-oriented economic analyses. Knowledge and support technical assistance has been instrumental in providing support for macroeconomic stability, building analytical capacity, and developing more effective planning and forecasting models.

### **PSDI—an ADB TA facility in partnership with the governments of Australia and New Zealand—has worked with Pacific DMCs since 2007 to improve the business environment.**

PSDI provides advisory and capacity-building assistance on a holistic and enduring basis to achieve gender-inclusive, private-sector-led growth. PSDI is supporting business legal reforms, public–private partnerships, state-owned enterprise reforms, the economic

empowerment of women, stronger consumer protection and competition policies, and improved access to finance for businesses and households. PSDI works to develop low-cost, inclusive business law systems and processes that suit the economy context while providing strong incentives for formalizing businesses, facilitating regulatory compliance, and increasing opportunities for business growth. PSDI works to improve the business environment by simplifying and modernizing laws to promote business growth in line with individual economy needs.

Three PSDI phases have been implemented since 2007, which have helped Pacific DMCs carry out reforms and introduce new policies to improve conditions for private sector development and investment. PSDI disbursed \$60.8 million during its first three phases, funding more than 600 subprojects. This included \$6.1 million funding from ADB, alongside grant cofinancing of \$54.7 million from Australia (\$49.8 million) and New Zealand (\$4.9 million). For Phase IV which began on 1 January, 2020, ADB has committed \$5.0 million until December 2024.

Major initiatives under PSDI aim to promote private business and support inclusive growth:

- In Papua New Guinea (PNG), PSDI helped implement a new online registry to streamline business registration processes. ADB, through PSDI, is committed to providing long-term support for a comprehensive business law reform program in PNG, with the goal of fostering entrepreneurship and attracting FDI.
- Similarly, in Palau, PSDI has contributed to the establishment of an online registry to align with the Corporations Law. In the Cook Islands, PSDI is engaged in planning an upgrade to the existing International Entities Register, which is over 9 years old. This upgrade aims to ensure compliance with international anti-money laundering and combating the financing of terrorism best practices and facilitate business expansion.
- In Kiribati, PSDI has supported initiatives for implementing laws, including finalizing specifications for Kiribati's inclusion on the regional registry.

- PSDI has also closely collaborated with the Fiji Development Bank as part of a regional support program, focusing on enhancing the operations of government-owned banks and fostering a more commercial orientation. In Fiji, PSDI successfully assisted the central bank in introducing a capital projections model.

### **To enhance connectivity, ADB has supported PNG, the leading economy in the Pacific subregion.**

ADB has provided \$213 million, with counterpart funding of \$27 million for the PNG Civil Aviation Development Investment Program. ADB has provided transaction advisory services for a public-private partnership that will enable PNG's National Airports Corporation to select a concessionaire to develop a new international passenger terminal at Jacksons International Airport in Port Moresby. The new terminal will be capable of meeting passenger demand for the next 30 years. The investment program has assisted existing infrastructure to improve airport operations.

### ***Some next steps to strengthen cooperation in the Pacific***

Given the unique development challenges facing Pacific DMCs—whether large distances from global markets, high transportation costs, heavy dependence on imports, poor connectivity, vulnerability to shocks, and less diversified economic base—as described above, only limited progress has been made. Working closely with Pacific DMCs, ADB has contributed to improving infrastructure, the business environment, and provided analytical support through knowledge products. Capacity constraints in economic analysis and policymaking remain a key concern that needs to be addressed through further support, particularly in smaller DMCs where there is a shortage and high turnover of technically qualified economic staff. TA projects are also required to help with analytical work to sustain growth and enhance resilience. ADB work through policy-based operations often requires technical support (coordinated with development partners) to lay the groundwork for policy actions and to preserve reform momentum. Therefore, sustained effort is needed to build capacity and promote constructive policymaking and institutional changes in Pacific DMCs.

Special emphasis needs to be given to the development of robust data needed to provide indicators in strategic areas such as digital connectivity, climate change, and private sector development. ADB will continue to provide advice and technical assistance to support business-friendly policies and legal reforms as well as transaction advisory services to help Pacific DMCs mobilize private sector investment and public-private partnerships.

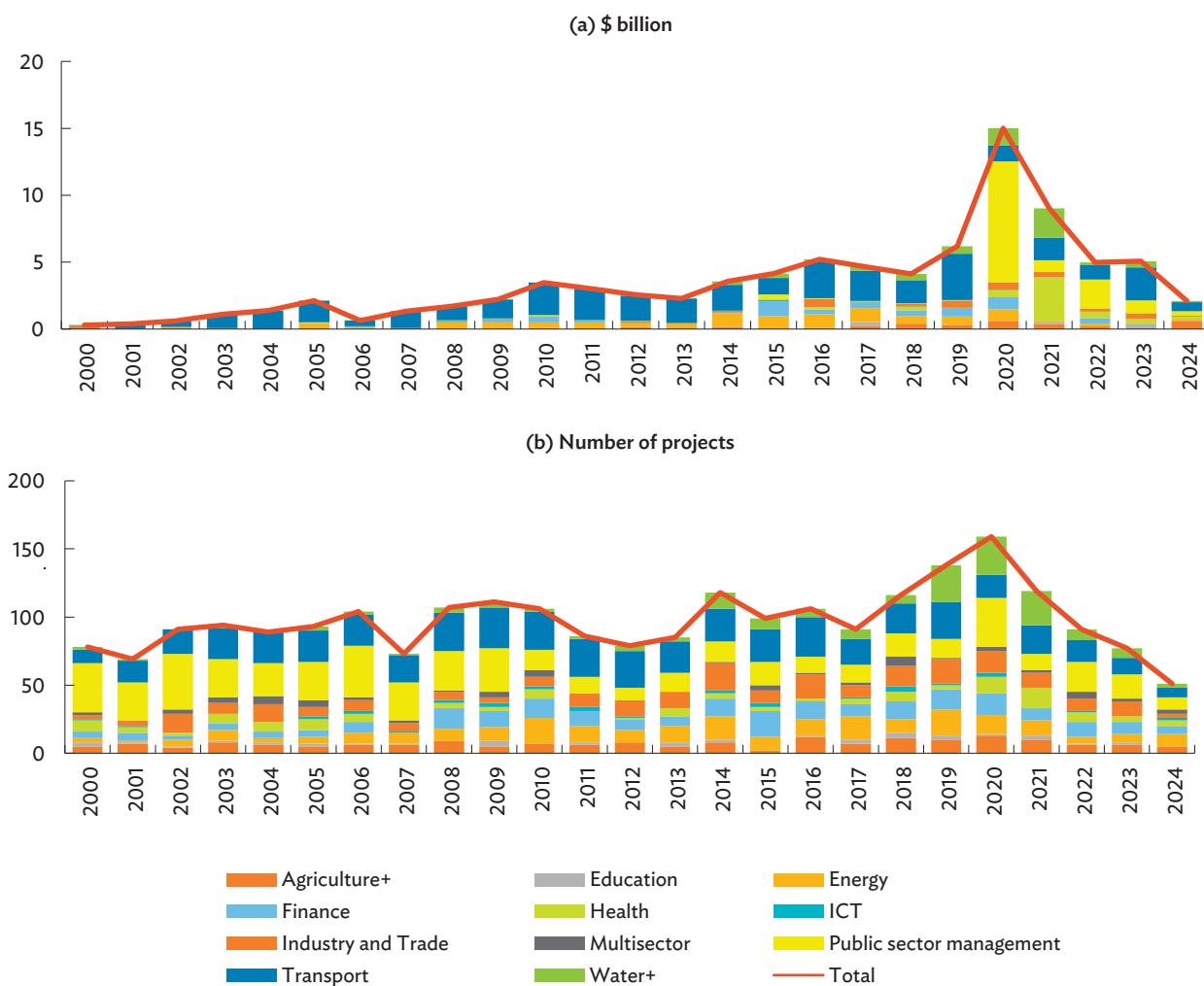
Given the unique development challenges facing Pacific DMCs, measuring the impact and progress of RCI development in the Pacific should consider these development constraints, using more flexible and tailored approaches to better understand the relevance and scope of RCI across the subregion.

## ADB Investments in Regional Cooperation and Integration

ADB has long supported the RCI approach to development, growth, and recovery. That is because RCI leads to shared economic benefits such as closer trade, more efficient intraregional supply chains, stronger financial interconnectedness, and more coordinated responses to challenges. Through RCI, economies in the region can collectively and more effectively address cross-border challenges such as climate change, pandemics like COVID-19, and financial shocks. RCI also helps economies wield more influence as they participate in regional and global policy discussions. Reaching agreement on common challenges also means Asian economies can speak with a unified voice, making a greater global impact, commensurate with the region's growing economic strength.

Since 2000, ADB has committed to 2,430 RCI projects amounting to \$87.155 billion. Prior to the COVID-19 pandemic, ADB's RCI projects traditionally focused on transport (24%) and public sector management (23%) in terms of number of projects, and on transport (60%) and energy (17%) sectors in the amount of committed investment (Figure 1.10).

During the pandemic years of 2020–2021, while transport projects were still large in number, RCI investments in public sector management surged as economies availed of ADB's COVID-19 Active Response and Expenditure Support Program, and health investments soared as ADB provided funds to support expanded vaccination programs. Transport and public sector management projects continued to dominate RCI commitments from 2022 onward as economies pursued recovery programs to rise above the challenges left by the pandemic. Though RCI investments seem to have moderated in 2024, settling at about \$2.1 billion, it may not be like that for long. RCI projects will pick up steam as Asian economies recognize the public good nature of RCI initiatives in trade, connectivity, digital transformation, and other areas, particularly to achieve sustainable and resilient outcomes.

**Figure 1.10: ADB Commitments in Regional Cooperation and Integration, by Sector**

ADB = Asian Development Bank; Agriculture+ = Agriculture, natural resources and rural development; ICT = information and communication technology; Water+ = Water and other urban infrastructure and services.

Source: ADB Regional Cooperation and Integration dashboard.



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## Annex 1a: ADB's Bilateral Economic Integration Index—Economy and Regional Coverage

Regions/Subregions	Individual Economy (retained)	"All Others" (aggregated)
Central Asia (7)	Azerbaijan Kazakhstan Kyrgyz Republic Uzbekistan	Armenia Georgia Tajikistan
East Asia (6)	Hong Kong, China Japan Mongolia People's Republic of China Republic of Korea Taipei, China	
South Asia (6)	Bangladesh India Pakistan Sri Lanka	Maldives Nepal
Southeast Asia (10)	Indonesia Malaysia Philippines Singapore Thailand Viet Nam	Brunei Darussalam Cambodia Lao People's Democratic Republic Timor-Leste
Pacific (4)	Fiji Papua New Guinea	Samoa Vanuatu
Oceania (2)	Australia New Zealand	
EU+UK (28)	Austria Belgium Czechia Denmark Finland France Germany Greece Ireland Italy Netherlands Poland Portugal Romania Spain Sweden United Kingdom	Bulgaria Croatia Cyprus Estonia Hungary Latvia Lithuania Luxembourg Malta Slovakia Slovenia
North America (2)	Canada United States	

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Annex 1a continued

Regions/Subregions	Individual Economy (retained)	"All Others" (aggregated)
Caribbean (13)	Cuba Puerto Rico	Antigua and Barbuda Aruba Bahamas Barbados Belize Cayman Islands Dominican Republic Guyana Jamaica Saint Kitts and Nevis Trinidad and Tobago
Central America (7)	Costa Rica Guatemala Mexico	El Salvador Honduras Nicaragua Panama
South America (10)	Argentina Brazil Colombia	Bolivia Chile Ecuador Paraguay Peru Uruguay Venezuela
Central and West Africa (17)	Ghana Nigeria	Benin Burkina Faso Cabo Verde Cameroon Congo Cote d'Ivoire Gabon Gambia Guinea Liberia Mali Niger Senegal Sierra Leone Togo
Eastern Africa (9)	Ethiopia Kenya	Djibouti Madagascar Mauritius Rwanda Seychelles Sudan Uganda
Northern Africa (5)	Algeria Egypt	Libya Morocco Tunisia
Southern Africa (10)	Angola South Africa	Botswana Eswatini Lesotho Malawi Mozambique Namibia Zambia Zimbabwe

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Annex 1a continued

Regions/Subregions	Individual Economy (retained)	“All Others” (aggregated)
Rest of the World (27)	Russian Federation	Albania Bahrain Belarus Bermuda Bosnia and Herzegovina Iceland Iran Iraq Israel Jordan Kuwait Lebanon Macau, China Moldova Montenegro Norway Oman Qatar Saudi Arabia Serbia Switzerland Syrian Arab Republic Türkiye Ukraine United Arab Emirates Yemen

Source: ADB compilation based on Albis, Tayag, and Kang (2023).