Regional Economic Cooperation in Asia and the Pacific: Present and Future

WENCAI ZHANG
Vice-President, Asian Development Bank

Asian Development Bank Lecture Series on Environment and Development
29 March 2018
Disclaimer

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent. ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use. The mention of specific companies or products of manufacturers does not imply that they are endorsed or recommended by ADB in preference to others of a similar nature that are not mentioned. By making any designation of or reference to a particular territory or geographic area, or by using the term “country” in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.
Regional Economic Cooperation in Asia and the Pacific: Present and Future

1. An outlook for Asia and the Pacific’s economic development
2. Opportunities and challenges to regional cooperation and integration
3. ADB’s role in regional cooperation and integration
4. Next steps and the demand for talents
1. An outlook for Asia and the Pacific’s economic development
As extreme poverty declines globally, the regional poverty profile has been changing.

Rapid growth transformed Asia from low to middle income.

Population Shares by Income Group

Innovation, human capital, and infrastructure can lift productivity growth of middle income economies to pave the way to high income.
GDP growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Developing Asia</th>
<th>Developing Asia excluding NIEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>2015</td>
<td>6.0</td>
<td>6.6</td>
</tr>
<tr>
<td>2016</td>
<td>5.8</td>
<td>6.6</td>
</tr>
<tr>
<td>2017</td>
<td>6.5</td>
<td>6.0</td>
</tr>
<tr>
<td>2018</td>
<td>5.8</td>
<td>6.3</td>
</tr>
</tbody>
</table>

NIEs = newly industrialized economies of Hong Kong, China; Korea; Singapore; and Taipei, China.


Developing Asia’s share of World GDP in 2016 (adjusted for purchasing power parity)

36.70%
Highlights of the Current Outlook

• Robust outcomes boosted by exports and domestic consumption support the growth forecast of 6.2% for East Asia in 2017. The subregion is on track to meet the 5.8% projection for 2018.

• South Asia’s growth projection is expected at 6.5% for 2017, and 7.0% for 2018.

• The larger Southeast Asian economies have benefited from rising investment and exports. The subregion is projected to expand by 5.2% in both 2017 and 2018.

• Strong recovery in several Central Asian economies has lifted growth projections for the subregion to 3.6% in 2017 and 3.9% in 2018.

• The Pacific’s growth projection is expected at 2.9% for 2017, and 3.2% for 2018.

• Though oil prices rose more than anticipated in September 2017, inflation in the region remains subdued with forecasts of 2.4% for 2017 and 2.9% for 2018.

Challenges facing Asia and the Pacific’s Economic Development

• **Regional**
  - Poverty and inequality
  - Infrastructure deficits
  - Human capital gap
  - Weak governance
  - Lack of innovation
  - Structural weakness

• **Global**
  - Protectionism
  - Economic performance of main trade partners (US, Europe, etc.)
  - Climate change and natural disasters
  - Terrorism
  - Geopolitical risks
  - Financial Risks
China’s Share in the World and Regional Economy

China’s Share of Developing Asia’s GDP in 2016 (adjusted for purchasing power parity)

48.40%

China’s Share of Asia’s GDP in 2016 (adjusted for purchasing power parity)

42.10%

China’s Share of World GDP in 2016 (adjusted for purchasing power parity)

17.80%

Source: ADB estimates.
China’s Contribution to the Economic Growth

China’s Contribution to Developing Asia’s GDP Growth
(adjusted for purchasing power parity)

64.10%

China’s Contribution to Asia’s GDP Growth
(adjusted for purchasing power parity)

60.40%

China’s Contribution to World GDP Growth
(adjusted for purchasing power parity)

40.30%

Source: ADB estimates.
2. Opportunities and challenges to regional cooperation and integration
Asia’s integration trends at a glance

<table>
<thead>
<tr>
<th>Intraregional Shares (% of total)</th>
<th>Trade</th>
<th>FDI</th>
<th>Equity</th>
<th>Debt</th>
<th>Migration</th>
<th>Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>53%</td>
<td>47%</td>
<td>12%</td>
<td>8%</td>
<td>43% (2000)</td>
<td>33% (2010)</td>
</tr>
<tr>
<td>2016</td>
<td>57%</td>
<td>55%</td>
<td>19%</td>
<td>15%</td>
<td>37% (2015)</td>
<td>28%</td>
</tr>
</tbody>
</table>

— = data unavailable; FDI = foreign direct investment (flows data); Equity = equity asset holdings (stock data); Debt = debt asset holdings (stock data).

Note: Where 2016 data is not available, the latest year for available data is indicated in parenthesis (year).

Recent data point to a trade recovery

Asia’s Monthly Trade Value and Volume

Note: Asia includes the People’s Republic of China; Hong Kong, China; India; Indonesia; Japan; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam.

Faster recovery in industrial economies...

<table>
<thead>
<tr>
<th>GDP growth (%)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major industrial economies</td>
<td>1.5</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>United States</td>
<td>1.5</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Euro area</td>
<td>1.8</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>1.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>

ADO=Asian Development Outlook; ADOS=ADO Supplement
Note: Average growth rates are weighed by gross national income, Atlas method, in current US dollar.
...supports a synchronized rebound in trade
Intraregional trade integration deepens

Asia’s Intra- and Inter-subregional Trade Shares (%)

- Central Asia
- East Asia
- South Asia
- Southeast Asia
- The Pacific and Oceania

Intraregional FDI rose while global FDI into the region declined

Source: ADB calculations using data from ASEAN Secretariat, Eurostat, OECD, UNCTAD and national sources.
Asian financial markets have become more interconnected regionally and globally.
For Asia and the Pacific, there are many opportunities for Regional Economic Cooperation…

• Economic globalization and regional economic integration are widely supported.

• The advance of ICT technologies gives impetus to the global and regional integration process.

• Existing and new mechanisms are the cooperation platforms in the new era.

• The economic development of Asia and the Pacific is the solid foundation for regional cooperation.

• The financial cooperation after 1997 AFC sets the stage for deepening the cooperation in future.

• Private sector becomes a new driver of regional cooperation.
...while the challenges remain.

- The rise of protectionism and anti-globalization movements
- Widening gap between the infrastructure needs and available financing
- Limited choices of overall coordination mechanisms or channels
- Unbalanced development of regional and subregional cooperation
- Lack of trusts between countries and the weak capacity of participating in regional cooperation
- Underdeveloped trade within the region
3. ADB’s role in regional cooperation and integration
To help our developing member countries reduce poverty and promote social and economic growth
FOUNDED IN 1966

- 67 members; 48 in the region
- 40 borrowing members
- Japan and the United States are the 2 largest members
OFFICES

Manila HQ
31 field offices
ADB’s
CORE BUSINESS

- Finance and Advice for Development Solutions
- Loans
- Technical Assistance
- Grants

- Guarantees
- Equity Investments
- Policy Dialogue
- Knowledge and Partnerships
STRATEGY 2020

ADB’s Long-Term Strategic Framework 2008-2020

Three Agendas

- Inclusive Growth
- Environmentally Sustainable Growth
- Regional Integration

www.adb.org/roadto2030

Strategy 2030 is under preparation.
ADB’s Role in Regional Cooperation and Integration

• ADB’s Strategy 2020 set a 30% overall target for RCI-related ADB operations by 2020.

• Four Pillars of ADB’s RCI Strategy
  1. Infrastructure
  2. trade and investment
  3. money and finance
  4. regional public goods.

• Three operational directions of ADB’s Operational Plan for RCI, 2016–2020
ADB serves as the Secretariats for three Subregional Cooperation Mechanisms.

Greater Mekong Subregion (GMS)  Central Asia Regional Economic Cooperation (CAREC)  South Asia Subregional Economic Cooperation (SASEC)
Greater Mekong Subregion (GMS)

- Established in 1992
- Includes 6 members: China, Cambodia, Laos, Myanmar, Thailand and Viet Nam
- $20.8 billion invested, mostly in transport and energy infrastructure
- Expanded to 9 corridors from 3 main economic corridors
- GMS Regional Investment Framework: transport, agriculture, tourism, energy, urban development, and other multisector/border zone development account for over 98% of total cost of projects
Central Asia Regional Economic Cooperation (CAREC)

- Established in 1996
- Includes 11 members: Afghanistan, Azerbaijan, People's Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan, supported by 6 multilateral institutions.
- $31.6 billion invested in transport, energy and trade facilitation
- Six transport corridors and piloting Almaty-Bishkek Economic Corridor development
- CAREC 2030: five operational clusters to better align with national and international development agendas and to better connect people, policies and projects
South Asia Subregional Economic Cooperation (SASEC)

- Established in 2001
- Includes 7 members: Bangladesh, Bhutan, India, Maldives, Myanmar, Nepal, and Sri Lanka
- $10.4 billion invested in economic corridor development, energy, transport, trade facilitation and ICT
- Continued focus on regional connectivity, cross-border trade, and energy cooperation
- SASEC 2025 roadmap focuses on transport, trade facilitation, energy, and economic corridor development
RCI Projects, 2015–2017

Key Achievements in 2017

2015–2017

27%

2014–2016

23%

PROGRESS TOWARD 30% OF ADB OPERATIONS BY 2020 (BY VOLUME)

Amount ($M)

Source: ADB estimates.
RCI Projects, 2015–2017

$13.5 billion
2015–2017 committed projects

$1.8 billion
nonsovereign lending

RCI projects by sector, 2015–2017
($ million)

- Transport: 6,728.1 (49.8%)
- Energy: 3,015.2 (22.3%)
- Finance: 1,702.4 (12.6%)
- Health: 121.2 (0.9%)
- Industry and trade: 393.6 (2.9%)
- ICT: 49.8 (0.4%)
- Public sector management: 414.5 (3.1%)
- Agriculture, natural resources, and rural development: 124.1 (0.9%)
- Education: 328.1 (2.4%)
- Water and other urban infrastructure and services: 620.1 (4.6%)

RCI projects by subregion, 2015–2017
($ million)

- Southeast Asia: 3,067.1 (22.7%)
- South Asia: 3,399.0 (25.2%)
- East Asia: 1,422.0 (10.5%)
- Central and West Asia: 5,128.2 (38.0%)
- Pacific: 378.4 (2.8%)
- Intersubregional*: 102.4 (0.8%)

*Projects with investments/activities in DMCs located in different subregions
Source: ADB estimates.

Key Achievements in 2017
$1.8 billion nonsovereign lending
RCI Project Portfolio, 2017

**$5.9 billion**
2017 committed RCI projects

**$654 million**
nonsovereign lending

volume by operational direction
OD1: 70%
OD2: 28%
OD3: 2%

Source: ADB estimates.

*Projects with investments/activities in DMCs located in different subregions (e.g., High-Value Horticulture Development Project in Southeast Asia [VIE, INO] and East Asia [PRC]*)
Azerbaijan: Railway Sector Development Program

• Two loans worth $400 million approved in 2017 ($250 million policy-based loan and $150 million project loan)

• Regional dimension: The North-South Railway Corridor is part of CAREC Designated Railway Corridor 6, which connects Europe to Iran/Pakistan and connects rail and ports of Gulf and Arabian Seas (e.g., Bandar Abbas port in Iran, Karachi port in Pakistan, Mumbai port in India)
ADB and the Belt and Road Initiative (BRI)

MOU on BRI

• Signed between China’s Ministry of Finance and 6 Multilateral Development Banks during the Belt and Road Forum for International Cooperation in 2017

• MDBs include:
  • Asian Development Bank (ADB)
  • Asian Infrastructure Investment Bank (AIIB)
  • European Bank for Reconstruction and Development (EBRD)
  • European Investment Bank (EIB)
  • New Development Bank (NDB)
  • The World Bank Group

Areas of Collaboration

• infrastructure and connectivity projects
• stable, diversified, and sustainable development financing mechanisms
• improving the business climate
• strengthening cooperation and capacity development
• supporting efforts to achieve SDGs and the Paris Agreement on Climate Change

• Multilateral Cooperation Center for Development Finance
Environmental sustainability in regional economic cooperation

• Making investments to support environmentally-sustainable growth
• Sharing knowledge and good practices of the region
• Providing environment-related regional public goods
Economic Growth (physical capital)
Social Inclusion (social capital)
Environmental Sustainability (natural capital)

ADB Environment Operational Support

Promoting Sustainable Infrastructure
• Supporting operations in pollution management, resource efficiency, eco-sensitive design
• Knowledge for eco-friendly technologies and nature-based solutions, assessment methods, policies and capacity

Investing in Natural Capital
• Building the business case for investments
• Supporting operations in land, water, nature-based solutions, green business
• Leveraging co-finance

Strengthening Environmental Governance
• Partnerships, knowledge sharing, and technical assistance to address environmental challenges (air and water pollution, ecosystem services decline)
• Strengthening country safeguard systems.
58% of ADB-funded projects support Environmentally Sustainable Growth

Projects supporting ESG are found to have higher success rates than non-ESG projects (Agriculture/Natural Resource Management, Water, Sanitation).
ADB invests for Environmental Sustainability…

PRC: Air Quality Improvement in the Greater Beijing–Tianjin–Hebei Region

Strengthen Policy and Regulatory Framework

Leverage investments through innovative approaches

Help demonstrate and deploy advanced technologies
… and shares good practices across the border.

**PRC: Air Quality Improvement in the Greater Beijing–Tianjin–Hebei Region**

- **Approved Projects**
- **Projects in the Pipeline**
  - Shandong Air Pollution Control
  - City Air Quality Improvement
  - Scaled-up Green Financing

**Mongolia: Ulaanbaatar Air Quality Improvement**

- **First policy-based loan just approved on 23 March 2018**
  - $130 million in two tranches
  - Reform area 1: key measurers on air pollution reduction and health protection
  - Reform area 2: improved implementation action plan and air pollution control regulatory framework
  - Reform area 3: environmentally sound and integrated urban, energy, and transport plans
- **Projects in the Pipeline**
  - Shandong Air Pollution Control
  - City Air Quality Improvement
  - Scaled-up Green Financing
  - A series of investment projects and technical assistance in the pipeline
Regional Public Goods for Environmental Sustainability

• **GMS Cooperation on Transboundary Biodiversity Conservation**

**Fostering regional cooperation**

• Establish cooperation mechanisms and develop joint management strategy (Cambodia and Thailand; Viet Nam and PRC; and PRC and Laos)

**Incubating projects**

• Pilot biodiversity conservation corridors and climate resilient projects

**Leveraging investments**

• Invested and leveraged co-financing of more than US$ 120 million for the Biodiversity Conservation Corridors project
4. Next steps and the demand for talents
Next steps of Regional Economic Cooperation in Asia and the Pacific

• Medium- and long-term visions for regional economic cooperation
• International dialogues on economic governance reforms and coordination
• Inter-regional and inter-subregional cooperation
• Policy dialogues among individual countries
• Cooperation and coordination between existing and new mechanisms

• Trade and investment facilitation (e.g., RCEP and FTAAP)
• Regional and subregional financial cooperation (e.g., ABMI and CMI)
• Innovative financing instruments (e.g., risk transfer, local currency bond, and guarantee)
• Public-private partnership
• Knowledge sharing and capacity development
The demand for talent in international development rises sharply.
Job groups in Today’s ADB

- **Economist**
- **Investment**
- **Transport**
- **Urban Development**
- **Energy**
- **Social Development/Sector**
- **Environment & Climate Change**

- **Counsel**
- **Treasury**
- **Risk Management**
- **Finance**
- **Water**
- **Education**

- **Portfolio Management**
- **Procurement**
- **Safeguard**
- **Evaluation**
Required Skills for ADB’s Strategy 2030

• Infrastructure financing
• Regional Cooperation and Integration
• Social Sector (including Gender, Health, and Education)
• Private Sector Operations
• Public-Private Partnerships
• Climate Change and Disaster Risk Management.
# Joining ADB

## Internship Program
- For students in a Master or PhD level program
- ADB values interns as…
  - a resource for generating and sharing knowledge; and
  - a pool of potential future talent for ADB.
- National of an ADB member

## Young Professional
- For highly qualified candidates with potential to grow
- Not more than 32 years old upon joining ADB
- At least 2 years of work experience
- National of an ADB member

## Regular Recruitment
- Experience: 5-8 years (mid-career)
- At least a university degree
- Leadership skills
- Communication capability
- International experience
- National of an ADB member
Regional Economic Cooperation in Asia and the Pacific: Present and Future

WENCAI ZHANG
Vice-President, Asian Development Bank

Asian Development Bank Lecture Series on Environment and Development
29 March 2018