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Asia-Pacific Regional Economic Cooperation and Integration

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Director and Head of ESCAP East and North-East Asia Office
Outline

1. Context for ESCAP’s work on RECI
2. Drivers of RECI in the Asia-Pacific
3. The four integrated pillars of RECI
4. Role of ESCAP in integrating the Asia-Pacific through RECI
5. Future opportunities to build an interconnected and integrated Asia-Pacific
1. Context for ESCAP’s Work on RECI

• ESCAP - the leading intergovernmental platform for the Asia-Pacific.

• ESCAP addresses key development challenges through regional cooperation, now repurposed for SDG implementation.

• ESCAP member States through resolution endorsed a regional vision of RECI with 4 pillars:
  - Integrated market
  - Seamless connectivity
  - Enhancing financial cooperation
  - Addressing shared vulnerabilities

• ESCAP already working across the pillars - trade and investment, energy transport and ICT connectivity, regional financial cooperation, disaster risk reduction.

• Working groups comprising member State experts have developed analytical work on each pillar.
Measuring existing integration

Composite Regional Integration Index

Asia Pacific
East Asia
Southeast Asia
Pacific and Oceania
Central Asia
South Asia
The Pacific
Western Europe
North America
Europe
Americas
South America
Western Africa
Africa

Note: composite index is drawn from economic integration, trade and investment, monetary and financial integration, and cross-border mobility of people.
# Regional Integration Across Major Regions

<table>
<thead>
<tr>
<th>Regions</th>
<th>Composite Regional Integration Index</th>
<th>Trade and Investment</th>
<th>Monetary and Financial</th>
<th>Cross-border Mobility</th>
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<tbody>
<tr>
<td>Asia Pacific*</td>
<td>0.28</td>
<td>0.26</td>
<td>0.15</td>
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<tr>
<td>Europe</td>
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<td>0.46</td>
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<tr>
<td><strong>Subregional Groups</strong></td>
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<tr>
<td>Western Europe</td>
<td>0.89</td>
<td>1.00</td>
<td>1.00</td>
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<tr>
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<td>0.62</td>
<td>0.65</td>
<td>0.31</td>
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<tr>
<td>South America</td>
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<td>East Asia</td>
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<td>0.62</td>
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<tr>
<td>Southeast Asia</td>
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<tr>
<td>South Asia</td>
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<td>0.08</td>
<td>0.01</td>
<td>0.24</td>
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<tr>
<td>Central Asia</td>
<td>0.11</td>
<td>0.09</td>
<td>0.01</td>
<td>0.23</td>
</tr>
<tr>
<td>The Pacific**</td>
<td>0.02</td>
<td>0.04</td>
<td>0.01</td>
<td>0.02</td>
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<tr>
<td>Pacific and Oceania***</td>
<td>0.23</td>
<td>0.12</td>
<td>0.09</td>
<td>0.47</td>
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</tbody>
</table>

Source: Naeher (2015, table 2) as adapted in Madhur 2016
*these values are given for Asia only in Naeher (2015) **Only developing Pacific.Data for the Pacific not included in Naeher (2015) but courtesy to him through email communications with Madhur***Including Australia and New Zealand
### Geography and Connectivity*

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>East Asia</td>
<td>108.4(^1)</td>
<td>2.9%</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>42.4(^2)</td>
<td>3.1%</td>
</tr>
<tr>
<td>South Asia</td>
<td>29.9(^3)</td>
<td>2.8%</td>
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<tr>
<td>Central Asia</td>
<td>n/a</td>
<td>3.2%</td>
</tr>
<tr>
<td>The Pacific</td>
<td>-</td>
<td>4.6(^4)</td>
</tr>
<tr>
<td>Pacific and Oceania</td>
<td>8.1(^4)</td>
<td>2.0%</td>
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</tbody>
</table>

Source: (Madhur 2016)

*Weighted by country populations to arrive at group indices

Notes: Some regional economics are excluded from these indices because of non availability of data.
### National Policies and RECI *

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>4.4</td>
<td>3.6</td>
<td>35.0&lt;sup&gt;5&lt;/sup&gt;</td>
<td>64.6</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>4.1&lt;sup&gt;1&lt;/sup&gt;</td>
<td>3.1&lt;sup&gt;1&lt;/sup&gt;</td>
<td>48.1&lt;sup&gt;6&lt;/sup&gt;</td>
<td>61.8</td>
</tr>
<tr>
<td>South Asia</td>
<td>3.6&lt;sup&gt;2&lt;/sup&gt;</td>
<td>3.0</td>
<td>58.7&lt;sup&gt;7&lt;/sup&gt;</td>
<td>53.6</td>
</tr>
<tr>
<td>Central Asia</td>
<td>3.9&lt;sup&gt;3&lt;/sup&gt;</td>
<td>2.5</td>
<td>19.4&lt;sup&gt;8&lt;/sup&gt;</td>
<td>59.6&lt;sup&gt;9&lt;/sup&gt;</td>
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<tr>
<td>The Pacific</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>56.4&lt;sup&gt;10&lt;/sup&gt;</td>
</tr>
<tr>
<td>Pacific and Oceania</td>
<td>4.9&lt;sup&gt;4&lt;/sup&gt;</td>
<td>3.8&lt;sup&gt;4&lt;/sup&gt;</td>
<td>18.7&lt;sup&gt;4&lt;/sup&gt;</td>
<td>74.5&lt;sup&gt;10&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Source: (Madhur 2016) * Weighted by country populations to arrive at groups indices

Notes: Some regional economics are excluded from these indices because of non availability of data.
# Mega Regional Initiatives

<table>
<thead>
<tr>
<th>Parameters</th>
<th>TPP</th>
<th>RCEP</th>
<th>FTAAP</th>
<th>ESCAP RECI</th>
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<tbody>
<tr>
<td>Participant economies</td>
<td>12</td>
<td>16</td>
<td>21</td>
<td>58</td>
</tr>
<tr>
<td>Share of global GDP (%)</td>
<td></td>
<td>29</td>
<td>58</td>
<td>46</td>
</tr>
<tr>
<td>Share of world population (%)</td>
<td>11</td>
<td>49</td>
<td>40</td>
<td>60</td>
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<tr>
<td>Share of world imports (%)</td>
<td>31</td>
<td>28</td>
<td>47</td>
<td>37</td>
</tr>
<tr>
<td>Share of world exports (%)</td>
<td>24</td>
<td>30</td>
<td>45</td>
<td>39</td>
</tr>
</tbody>
</table>

Based on 2013 data. TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic partnership; FTAAP = Free Trade Agreement amongst APEC Members; ESCAP RECI = ESCAP
Subregional RECI Dynamics

- Asia-Pacific subregional RECI progressing at different rates.
  - **ASEAN** - an advanced subregional RECI model.
  - **East and North East Asia** – already highly integrated subregion.
  - **South Asia** - lower subregional and global integration.
  - **Central Asia and the Pacific** subregions - held back by unfavorable geography.
  - China’s multiple connectivity initiatives - Silk Road Economic Belt, Maritime Silk Road, China Pakistan Economic Corridor - develop integration with other subregions.
  - ESCAP prepared report for the 72nd Commission Session on RECI status and opportunities, plus 4 subregional RECI studies examining subregional RECI developments and opportunities.
2. Drivers of RECI and Emerging Megatrends

**Historical perspective of RECI:**

- 1967: ASEAN formed
- 1985: SAARC formed
- Mid 1980s: participation in global value chains → growing regional interdependence
- 1991: Independence of Central Asian Republics
- Mid 1990’s: emergence of “Factory Asia”
- 1997: Asian Financial Crisis
- 2000’s: Increasing trade-led integration
- 2015: Sustainable Development Agenda, Paris Agreement on Climate Change, emergence of mega regional initiatives
- 2016: ASEAN Economic Community
2. Drivers of RECI and Emerging Megatrends

- Key opportunity → enhance RECI to support Agenda 2030, SDGs and RECI are mutually reinforcing.
- RECI can address transboundary SDGs, eradicate poverty and narrow inequalities.

Addis Ababa Action Agenda

Integrated market

Seamless connectivity – energy transport & ICT

Enhancing financial cooperation

Addressing shared vulnerabilities

1. NO POVERTY
2. DECENT WORK AND ECONOMIC GROWTH
3. AFFORDABLE AND CLEAN ENERGY
4. INDUSTRY, INNOVATION AND INFRASTRUCTURE
5. PARTNERSHIPS FOR THE GOALS
6. CLIMATE ACTION
2. Drivers of RECI and Emerging Megatrends

Subregional RECI initiatives

- Subregional integration initiatives under ASEAN, SAARC, CAREC, Pacific Islands Forum, Eurasian Economic Union, APEC, SCO.
2. Drivers of RECI and Emerging Megatrends

Examples of Subregional RECI initiatives

- Transport corridors e.g. China Pakistan Economic Corridor, Eurasia Initiative, Istanbul – Dhaka railway corridor.
2. Drivers of RECI and Emerging Megatrends

Megatrends, Megaregional initiatives and Geopolitical Shifts

- Global agreements on SDGs and climate change – requires regional cooperation and transboundary coordination.
- Opportunities for agglomeration and economies of scale.
- Rebalancing Asia – “new normal” of subdued growth requires new growth engines.
- China’s transformative initiatives – New Silk Road, Maritime Silk Road, new transport corridors and AIIB.
- Eurasian initiative spearheaded by Korea and Russia.
- Emergence of new regional integration strategic partners - Iran and Myanmar.
3. RECI – A Series of Integrated Pillars

- Asia-Pacific - world’s largest trading region, 40% of global imports and exports. AP Intraregional trade rising, now 52% of total, increasing market integration a success factor.

- Significant variation in market integration between subregions - Central Asia and South Asia below potential.

- Need for enhanced trade facilitation and paperless trade to reduce non-tariff costs. ESCAP research points to $257 bn annual export gains from region-wide paperless trade.

- Trade costs high except for East and NE Asia and SE Asia. Central Asia, South Asia and the Pacific facing high trade costs.

- Labour market integration below potential, Eurasian Economic Union has a single labour market for North and Central Asia.
3. RECI – A Series of Integrated Pillars

- Transport, Energy and ICT connectivity elements.
- Seamless connectivity a prerequisite for connecting people and markets, driving demand, reducing trade costs and enhancing productivity.
- Physical infrastructure needs to be supported by policy and regulatory harmonisation, sectoral reform, efficient infrastructure services sector and shared commitment of member States.
- ESCAP has long-term involvement in driving connectivity e.g. facilitation of Asian Energy Highway network, Trans-Asian Railway, and Dry Ports and Intermodal Linkages, Asia Pacific Information Superhighway.
Asian Highway Network – Connecting 32 Countries

Total: 141,000 km
3. RECI – A Series of Integrated Pillars

Energy Connectivity

• Regional energy challenge - transition to sustainable energy while energy demand grows. 455 million people without modern energy.

• Dependence on energy imports leading to energy insecurity. Energy diversity across the region – surpluses (and deficits) in fossil and renewable energy e.g.
  – Hydropower: Bhutan, Myanmar, Nepal, Lao PDR, Tajikistan, Kyrgyz Republic;
  – Solar power: Central Asia, India, Pakistan, China, Mongolia
  – Wind power: India, Kazakhstan, Mongolia, China

• Sharing of electricity and gas across borders hampered by capital intensive energy connectivity assets, political risks and large transaction costs.

• Cross-border energy connectivity: increase use of renewables by connecting resource rich areas to diverse demand centres.

• Significant Energy connectivity initiatives e.g. CASA 1000 transmission line, TAPI gas pipeline, Greater Mekong Subregion power system.
3. RECI – A Series of Integrated Pillars

ICT Connectivity

- Asia-Pacific suffers widest gap in digital access, high costs and low bandwidths.
- Internet access critical to develop Internet ecosystem which supports the implementation of the SDGs and stimulates the digital economy.
- Asia Pacific Information Superhighway: ESCAP regional initiative aiming to cover the region from Turkey to Kiribati.

![Mobile Broadband Subscribers per 100 population]

<table>
<thead>
<tr>
<th>Region</th>
<th>Subscribers per 100 population</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>42.8</td>
</tr>
<tr>
<td>Pacific</td>
<td>15.4</td>
</tr>
<tr>
<td>North and Centra</td>
<td>37.9</td>
</tr>
<tr>
<td>South and South-West</td>
<td>18.1</td>
</tr>
<tr>
<td>South-East</td>
<td>38.9</td>
</tr>
<tr>
<td>East/North-East</td>
<td>44.7</td>
</tr>
<tr>
<td>ESCAP members</td>
<td>117.4</td>
</tr>
</tbody>
</table>
The Challenge - Regional Broadband Backbone Connectivity

- Submarine backbone connectivity - Well-developed and market-driven

However…..

- Underdeveloped cross-border/sub-regional terrestrial connectivity: - missing, insufficient, not-integrated links

- Poor network redundancy, poor resilience

Well-balanced terrestrial & submarine
3. RECI – A Series of Integrated Pillars

- Asia-Pacific financial integration lags trade integration. Intraregional cross border portfolio flows and banks = 20-30%; intraregional trade over half of total trade.

- Deepening capital markets key for financing SDGs and climate action.

- Opportunities for enhancing regional financial integration:
  - Internationalization of Renminbi;
  - Enhancing confidence in cross border markets through effective investor protection, contract enforcement and establishment of transparent rule of law;
  - fostering stronger macrofinancial prudential policy framework to manage cross border, sector, currency and tenor mismatches and counterparty risks.
3. RECI – A Series of Integrated Pillars

- Asia-Pacific region is the world’s most vulnerable to natural disasters – 400,000 lives lost and $500 bn losses over last decade.
- Disasters can slow progress on the SDGs and widen existing inequalities.
- Disaster risks worsening: increasing populations in disaster prone areas, climate change, diminished environmental buffers.
- Transboundary nature of disasters requires regional cooperation to address shared vulnerability – ESCAP’s focus on building resilience and regional disaster risk reduction: early warning systems, drought monitoring, sharing of space applications.
Transboundary seismic active fault lines: Pacific Ring of Fire and Alpine-Himalayan orogenic belt

**Alpine-Himalayan orogenic belt**
Second most seismically active region in the world, with 17% of the world’s largest earthquakes

**Earthquake Intensity (Modified Mercalli Scale)**
- Degree I-V
- Degree VI
- Degree VII
- Degree VIII
- Degree IX - XII
- Insufficient data

**Pacific Ring of Fire**
About 90% of the world’s earthquakes and 81% of the world’s largest earthquakes occur along the Ring of Fire where it is also home to over 75% of the world’s active and dormant volcanoes.

**Seismic Shift**
2013 Saravan Earthquake

**Great Sumatran Fault**
2004 Indian Ocean Tsunami
People living at “extreme to high disaster risk” in cities: predicted to rise from 742 to 980 million by 2030
4. Role of ESCAP in Integrating the Asia Pacific

- Member States have requested ESCAP to facilitate RECI, focusing on the four pillars identified.

- Integrating the largest and most diverse region of the world - challenging and long term endeavor. Must utilise bottom up and top down initiatives.

- Delivering on the SDGs and the Paris Agreement on climate require coordinated multi-sector regional efforts. Aligning the RECI agenda with the SDGs creates integrated development solutions.

- ESCAP as the leading inter-governmental organisation in the region has multi-disciplinary technical, advisory and analysis capacities and several decades experience in developing regional connectivity.

- ESCAP through its work on energy, transport and ICT connectivity and is uniquely positioned to support the RECI agenda.
5. Future Opportunities for Building an Interconnected Integrated Asia-Pacific
5. Future Opportunities for Building an Interconnected Integrated Asia-Pacific

• **Establish an integrated market**: promote trade facilitation and cross-border paperless trade; curtail protectionism to lower trade costs.

• **Holistic approach to seamless connectivity**:
  – regional coordination to build connectivity energy, transport and ICT infrastructure;
  – harmonization of cross border legal, regulatory and policy frameworks;
  – alignment of infrastructure design with climate goals and SDGs;
  – creation of Asia Pacific Infrastructure Forum to drive regional cooperation in infrastructure.

• **Enhance energy connectivity**: remove barriers to energy trade, harmonize technical / regulatory standards for power grids interconnection. Develop a regional mechanism to promote transboundary energy sharing. Foster long-term commitment through an Asia Pacific Energy Charter.
5. Future Opportunities for Building an Interconnected Integrated Asia-Pacific

- **Enhance transport connectivity:**
  - strengthen and expand the existing Asian Highway, Trans-Asian Railway and Dry Ports Network;
  - formalize regional intermodal transport corridors with legal instruments;
  - harmonise standards and regulations for road safety, logistics, and transit processes.

- **Enhance ICT connectivity:**
  - regional cooperation through AP Information Superhighway on ICT cross border connectivity, traffic and network management and including e-resilience and digital inclusion;
  - support subregional ICT connectivity initiatives by ASEAN, SAARC and SPC, sharing good practices and lessons learned;
  - investigate PPP and financing modalities for AP Information Superhighway master plan and prepare pre-feasibility studies on cross border ICT connections.
Financial cooperation:
- deepen and develop domestic and regional capital markets to facilitate mobilization of domestic resources and fund infrastructure;
- regional cooperation in tax to strengthen capacity of member States in tax and increase tax to GDP ratio;
- Manage financial market volatility risks through monitoring and liquidity support.

Shared risks and vulnerabilities:
- regional cooperation can effectively address transboundary risks of natural disasters; pooling resources, regional early warning systems and sharing of expertise and technology;
- advance the science policy interface to address slow onset disasters such as drought;
- address shared climate change adaptation challenges through regional cooperation in technology, capacity building and innovative financing approaches.
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