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**Economic and Social Commission for Asia and the Pacific**

**Seventy-third session**

Bangkok, 15-19 May 2017

Item 9 (a) of the provisional agenda\*

**Policy issues for the Asia-Pacific region: inclusive and sustainable economic and social development in Asia and the Pacific through regional economic cooperation in integration**

**Note verbale dated 28 April 2017 from the Office of  
H.E. Mr. Min Bahadur Shrestha, Vice-Chairman,  
National Planning Commission of Nepal addressed to the  
secretariat of the Economic and Social Commission for  
Asia and the Pacific\*\***

The Embassy of Nepal presents its compliments to the secretariat of the United Nations Economic and Social Commission for Asia and the Pacific, and has the honour to transmit to the secretariat, on behalf of Honourable Mr. Min Bahadur Shrestha, Vice-Chairman, National Planning Commission, the text of the outcome document (Chair's Summary) of the High-level Dialogue on Regional Economic Cooperation and Integration in Asia and the Pacific held in Bangkok on 20 and 21 April 2017, and further requests that the Chair's Summary be distributed at the seventy-third session of the Commission as an information note under agenda item 9 (a).

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\* E/ESCAP/73/L.1.

\*\* The present document is being issued without formal editing.

**Annex to the note verbale dated 28 April 2017 from the office of H.E. Mr. Min Bahadur Shrestha, Vice-Chairman, National Planning Commission of Nepal addressed to the secretariat of the Economic and Social Commission for Asia and the Pacific**

**Highlights of the outcomes of the High-level Dialogue on Regional Economic Cooperation and Integration in Asia and the Pacific**

**Statement by the Chair, H.E. Mr. Min Bahadur Shrestha, Vice-Chairman, National Planning Commission of Nepal**

1. The High-level Dialogue on Regional Economic Cooperation and Integration in Asia and the Pacific, held in Bangkok, Thailand on 20 and 21 April 2017, was attended by ministers, high-level officials and experts representing 33 countries of Asia and the Pacific.
2. The objective of the Dialogue was to discuss how the region can effectively pursue Regional Economic Cooperation and Integration (RECI) to support the implementation of the 2030 Agenda for Sustainable Development in Asia and the Pacific. The participants discussed the main challenges and articulated suggestions to move forward, keeping in view the four pillars of RECI identified in the Bangkok Declaration adopted at the First Ministerial Conference on Regional Economic Cooperation and Integration (RECI) in December 2013.<sup>1</sup>
3. The participants emphasized that RECI and the 2030 Agenda are mutually reinforcing processes and have to be pursued in a way that they support each other. RECI can bring about enormous opportunities for increasing income and employment and eventually contribute to achieving multiple Sustainable Development Goals (SDGs), in particular transboundary goals. At the same time, SDGs can help in guiding an effective pursuit of RECI, for instance, by ensuring that infrastructure projects have favorable social and environmental, as well as economic, impacts.
4. During the deliberations, it became clear that the “noodle bowl” problem has to be addressed by streamlining or consolidating the many overlapping and often inconsistent bilateral and plurilateral agreements among Asia-Pacific countries. These agreements cover diverse areas, such as trade preferences, investment protection, transport norms, and trade facilitation, and have resulted in higher transaction costs for businesses and management costs for government agencies. These issues need to be handled at the region-wide level to facilitate the movement of goods, services, and production factors across countries.
5. The participants suggested four key recommendations to advance RECI in Asia and the Pacific:

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<sup>1</sup> The four elements are: (a) moving towards the formation of an integrated market; (b) development of seamless connectivity across the region in the areas of transport, energy and information and communications technology; (c) enhancing financial cooperation; and (d) increasing economic and technical cooperation to address shared vulnerabilities and risks. See ESCAP Commission resolution 70/1, available from [www.unescap.org/sites/default/files/E70\\_RES1E.pdf](http://www.unescap.org/sites/default/files/E70_RES1E.pdf).

- To enhance market integration, reduce non-tariff barriers and reach multilateral agreements by streamlining regulatory frameworks and agreeing on common standards. The implementation of the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific can make a positive contribution to this agenda.
- To turn the vision of seamless connectivity in the areas of transport, energy and ICT into a reality. There is a need to build on existing bilateral intergovernmental agreements and projects by developing multilateral agreements and make them coherent across the region as a whole. ESCAP's Committee on Transport has already produced many model agreements as good examples.
- To strengthen regional financial cooperation, in particular to improve regional economic surveillance and crisis management capacity; deepen financial markets; and deliver innovative financing solutions to support sustainable infrastructure development.
- To address shared vulnerabilities and risks which cut across the policy spectrum - from challenges created by natural and human induced disasters, to food insecurity, to climate change. This should also include regional cooperation on disaster risk reduction, particularly for transboundary disasters.

6. This is the new paradigm of RECI as well as sustainable development. In addition, the participants provided detailed suggestions for each of the four elements of RECI, as described below.

## **I. Market integration**

7. The participants recognized that the development of Asia-Pacific economies over the last few decades have been largely based on a trade and investment led growth, which has offered strong support to regional economies – both in terms of economic activity and employment generation. They emphasized that trade and investment are also linked to the SDG goals of no hunger and no poverty and thus regional economic cooperation and integration can help in reaching these goals as well.

8. The rising dynamism of the Asia-Pacific region's emerging countries combined with the integration of the region's economies into Global Value Chains (GCVs) have driven the growing importance of the region in international trade. The participants recognized that in order to achieve greater market integration, certain issues which act as impediments need to be addressed. They identified (i) complexity involving multiple and often overlapping trade and investment agreements; (ii) the tendency of rising non-tariff protectionism which is not addressed properly by preferential liberalization; (iii) lack of consolidated regional trade facilitation initiatives; and (iv) very slow progress in liberalizing labour mobility across borders, as some of the important obstacles to deeper regional integration.

9. The participants shared the view that in order to boost integration, cooperation with private sector as well as better outreach to public in general is vital. For this purpose, there is a need for a strong regional coordinating role in research, technical assistance, policy advice, dissemination of information to stakeholders and regional consensus building. ESCAP is well positioned to continue playing this role.

10. On the issue of the ‘noodle bowl’ phenomenon, the participants felt that the mega-trade agreements, under which a more comprehensive set of issues are being negotiated, offer great potential to move trade and investment rules closer, or even harmonize some of them. They may also provide an opportunity to consolidate multiple overlapping rules of origin under different agreements. They also noted that in practice a region-wide consolidation, though in principle reasonable taking in consideration all aspects, might not be feasible due to varied interests/commitments of economies that are parties to these overlapping agreements.

11. Participants observed that there is a need to better align trade related SDGs to current trade liberalization and trade facilitation initiatives especially for LDCs. They also stressed that a successful regional integration would also require not only harmonization of external policies but also strengthening efforts towards harmonization of the internal distribution systems and policies. Furthermore, ESCAP should multiply its efforts to support countries in developing regional investment regimes which would better balance investor rights with host country development needs. These efforts will provide a more supportive policy environment for global and regional supply chains. Participants also referred to the “Belt and Road Initiative” as one of examples of how regional cooperation in investment may produce public good effects and contribute to inclusive and sustainable growth.

12. The participants identified rise in protectionism, as one of the lingering impediments to regional integration. Increasing share of new protectionist measures belong to the so called non-tariff measures and while some of them are permitted by the WTO rules, they impede trade by rising the trade cost and increase uncertainty in the context of predictability of trade environment. It was observed that to deal with these market access obstacles, ESCAP can assist with work on better measurement, impact assessment and ultimately streamlining and harmonizing, where appropriate, non-tariff measures to support trade and investment liberalization for developing countries and countries with special needs.

13. Bilateral and sub-regional trade agreements create market access especially for neighboring landlocked countries, in the context of a slow progress in concluding multilateral agreements. Furthermore, ESCAP can assist countries to prioritize the areas for cooperation to better manage non-tariff measures, for example, through facilitating mutual recognition agreements and conformity assessment procedures, harmonization of standards etc. The participants noted that the implementation of the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific is a unique opportunity for regional economic cooperation which has potential for cutting intraregional trade costs and allowing for the benefits of trade expansion to be shared more widely.

14. Recognizing the benefits of labour migration for the region, the participants noted that despite the general public perception, international migration has the potential to yield a net benefit to migrants and their families, as well as to countries of origin and destination countries. However, harnessing these benefits requires concerted efforts and cooperation initiatives among and between countries in the Asia-Pacific region to address political, technical, and socially embedded perceptions of migrants. It was suggested that bilateral or regional agreements on easing visa issuance that improve transparency at a regional level for harmonizing qualification for creating the regional labour market and common procedure for payment of social benefits would be a correct step in this regard.

## II. Seamless connectivity

15. The participants highlighted the important roles of sub-regional and regional initiatives towards enhancing seamless connectivity in transport, energy and ICT sectors. In particular, the participants recognized that regional cooperation is an efficient pathway towards achieving cross-border seamless connectivity and suggested that these sub-regional and regional initiatives be aligned and complement each other in order to enhance effectiveness and ownership among member states. It was also highlighted that the transport, energy and ICT sectors are interconnected, offering opportunities for increased efficiency through integrated management. One concrete example for this is Bhutan, where it was possible to reduce infrastructure and maintenance costs by combining the management of the fiber optic cables with the electricity cables and towers. Participants also noted a view that while regional and subregional initiatives are important to enhance connectivity in the region, if such initiatives pass through disputed territory, all parties to the dispute should give their concurrence.

16. The participants were of the view that transport connectivity plays an important role for development because it connects individuals to opportunities, enlarges markets for goods and services, and strengthens people-to-people connectivity. The participants recognized numerous challenges in achieving region-wide seamless transport connectivity, such as missing railway links, substandard roads, costly and time-consuming trans-loading of goods at border crossings, different standards, and lack of public-private and private-private interaction. The need for paperless trade supported by modern ICT infrastructure to reduce costs and time at border crossings was of particular importance for landlocked countries. Accordingly, the participants recommended enhancing efforts for connecting missing railway links, formalizing road sector, harmonizing technical standards and operational rules, and creating a broad partnership platform on seamless and sustainable transport connectivity among the public and private sectors.

17. The impetus that the “Belt and Road Initiative” (BRI) can provide for countries to work toward seamless connectivity was recognized with a number of participants highlighting the importance of the initiative for Eurasian connectivity. While recognizing numerous challenges in achieving region-wide sustainable and seamless transport connectivity, the participants also shared progress made in fostering seamless and sustainable transport connectivity, such as the development of railway networks and dry ports to promote intermodal transport, the use of IT to further enhance transport efficiency, the promotion of inclusive transport, and road safety. Other initiatives among member countries, such as the development of international North-South transport corridors, Middle Corridor and Baku-Tbilisi-Kars railway line would also foster seamless transport connectivity at the regional and inter-regional levels. Accordingly, the participants highlighted the need to enhance efforts for connecting missing railway links, developing inter-modal linkages, applying innovative technology solutions for better efficiency, formalizing road sector, harmonizing technical standards and operational rules, and close cooperation among countries in the region in realizing region-wide seamless and sustainable transport connectivity.

18. Participants noted that political will on increasing connectivity in the region is strong. ESCAP’s constructive role in bridging information, communication and cooperation gaps between countries was underlined. Furthermore, the complementarity between ESCAP’s convening power and

the technical and financial contributions of multilateral banks, such as the World Bank was highlighted and participants recommended that such cooperation be strengthened. It was further suggested that cooperation among international agencies, including ESCAP be accelerated to develop a methodology and indices on measuring and evaluating cross-border connectivity.

19. The participants recognized the untapped benefits and opportunities of energy connectivity and noted that great potential exists in trade and investment in transboundary energy networks in the region. Countries in the region have identified energy as the key driver for economic growth and for the reduction of poverty, but its full potential can only be unlocked by regional cooperation and integration. Enhancing national and regional energy security and sustainable energy development through energy interdependence with integration of large scale projects of renewable energy needs to become the goal of countries on regional cooperation in the region. Moreover, climate change can be mitigated effectively only when countries that are potential producers of renewable energy are connected to countries with high energy demand which is currently satisfied mainly by fossil fuels.

20. Participants emphasized that multilateral organizations play a key role in facilitating regional projects, particularly those that are politically and economically complex. The CASA 1000<sup>2</sup> initiative is a good example for this. In creating interdependence and increasing sustainability of the energy sector among countries of the region, there is also a need to have an innovative energy cooperation mechanism that involves different stakeholders in reaching consensus on technology, regulatory and financing barriers combined with an institutional mechanism to balance gains and costs among different stakeholders.

21. With regards to enhancing seamless connectivity in the ICT sector, the participants highlighted the important role that the Asia-Pacific Information Superhighway (AP-IS) initiative will play in improving affordability and bridging the digital divide across the region. Participants took note of the Azerbaijan-led Trans-Eurasian Information Superhighway (TASIM) fibre-optic backbone project and noted the request for enhanced international cooperation, including ESCAP support for this initiative.

22. As ICT has become ever more important for economic growth, the participants called for the accelerated implementation of the Asia-Pacific Information Superhighway through its Master Plan and Regional Cooperation Framework. Participants underlined that the realization of such an initiative was critical for small and landlocked countries. Participants took note of initiatives underway in Bhutan, notably the establishment of a third international gateway via both Bangladesh and India to increase broadband affordability and bandwidth, and thereby narrow the digital divide.

23. It was observed that integrating the development of internet broadband networks into the planning of major roads, railways, energy or waterways could deliver major efficiencies. In particular, participants noted that in Bhutan co-deployment of fiber optic cable along power grids was a key cost saving approach due to the country's rugged and high altitude terrain. It also allowed outreach to remote villages while it enabled the power

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<sup>2</sup> A new electricity transmission system to connect all four countries, called CASA-1000, would help make the most efficient use of clean hydropower resources in the Central Asian countries by enabling them to transfer and sell their electricity surplus during the summer months to the deficient countries in South Asia.

company responsible for the grid to maintain both electrical lines and fibre-optic cables efficiently.

### **III. Regional financial cooperation**

24. The participants recognized the need for coordination to manage risks associated with financial volatility through prudent capital flow management measures. They called for strengthening and broadening regional economic surveillance, and for ensuring availability of emergency lending. In this vein, they highlighted that regional mechanism such as the Chiang Mai Initiative Multilateralization (CMIM) can be effective to complement and substitute the availability of emergency lending from the IMF.

25. The participants noted that the region needs \$1.7 trillion per year until 2030 to close the infrastructure gap and increase resilience to climate-related risks. They pointed out that while the region has enough annual savings to finance such needs, lack of adequate financial intermediation channels has led to a diversion of savings to securities, bonds, and non-financial assets, such as gold or real estate, outside the region. To increase the availability of financing for infrastructure investment, the participants recommended to further develop capital markets, promote public-private partnerships (PPPs), and mitigate contract enforcement, currency, and political risks.

26. The participants noted that the region has traditionally relied on banking as the main form of financial intermediation, which has limited the channeling of domestic savings to long-term investments such as infrastructure projects. In this regard, they highlighted the importance of developing domestic capital markets, particularly local currency bond markets and stock markets. For this purpose, they emphasized the need to develop and effectively regulate the issuing and trading of bonds and equities, as well as to provide an appropriate environment for the participation of institutional investors with long-term horizons. To support the region's developing countries to develop their capital markets, the participants also emphasized the importance of regional cooperation for sharing best practices, including the provision of capacity building and advisory services.

27. The participants noted that financial integration in the region is substantially lower than trade integration. They pointed out that while financial integration has advantages in terms of efficiency and economies of scale, it can also expose countries to risks associated with volatile capital flows. In that regard, they emphasized the importance of developing effective financial infrastructure and governance. They also encouraged countries to consider mutual recognition arrangements of financial regulations as a way to promote regional financial integration and to participate more actively in global financial norm-setting processes.

28. The participants recognized the need for strengthening capacity building and promoting cooperation on tax matters in the Asia-Pacific region. The potential for exploiting synergies among the work of different organizations in this area, including through collaboration between ESCAP and other organizations, was also highlighted.

### **IV. Shared vulnerabilities and risks**

29. The participants recognized the need for strengthening regional cooperation to address the shared vulnerabilities and risks of countries in the region, so that the gains from RECI are not reversed, and to assist countries

that are facing multiple vulnerabilities and risks. They urged that RECI should help increase the engagement of countries that have high risks but low capacities with other member States to find common strategies, approaches, and tools for building resilience to disasters. While urging member States to take advantage of ESCAP's already existing programmes including the Regional Drought Mechanism, the Regional Space Applications Programme for Sustainable Development, and the Asia-Pacific Center for Disaster Information Management (APDIM), they highlighted the need to be more forward-looking and suggested the following action points.

30. A regional action plan for multi-hazard early warning systems to (i) strengthen the existing regional cooperation platforms for tropical cyclones by extending coverage to the Pacific; (ii) deepen partnership with key stakeholders for effective end-to-end tsunami early warning systems; (iii) establish regional cooperation and data sharing mechanisms, prioritizing flood forecasting in transboundary river basins where poverty is very high, glacial floods, and landslides and (iv) extend ESCAP's regional drought mechanism to underserved countries.

31. Strengthen science-policy interface and promote innovative tools and institutional mechanisms, such as the Climate Outlooks Forums, Climate Field School, already being implemented by some countries in the region to deepen understanding of the sectoral impacts of slow onset disasters, triggered by drought, El Niño and La Niña, and climate change. Participants suggested that ESCAP, through its work in space application and multi-hazard early warning systems, should develop methodologies and guidelines for risk assessment and mapping, developing scenario-based impact outlooks for slow-onset disasters that will help build capacities of countries at high risk from national levels down to the community level. The participants also called for support to implement demonstration projects to test science-based approaches and techniques and to build platforms for sharing lessons learnt and good practices within the countries in the region, including through south-south and bilateral cooperation.

32. Promote regional peer learning on index-based (or parametric) insurance and risk pooling to increase the efficiency and effectiveness of disaster risk financing based on advances in space applications, mobile technologies, and weather and climate models. For countries experiencing great difficulty in financially managing disaster impacts, parametric insurance can be an attractive strategy but requires considerable capacity building considering the lack of regulatory mechanisms and insurance culture in some countries in the region. In this regard, participants suggested that ESCAP should provide the analytical infrastructure for peer learning by establishing a regional knowledge platform to promote sharing of experiences in disaster risk financing and in operationalizing parametric insurance amongst countries in the Asia-Pacific and in other regions as well, including in Latin America and Africa. A mechanism for strengthening disaster risk finance in the region to address specific disaster risk should be considered as an important agenda item of the ESCAP Committee on Disaster Risk Reduction.

33. To facilitate the implementation of above actions, participants highlighted the need to establish a specific forum, regional database and regional facilities for sharing information, innovations and technologies, possibly through donor contributions, to address shared vulnerabilities and risks within ESCAP.



34. With respect to country-specific strategies, participants recommended taking a multi-sectoral approach to disaster risk reduction to achieve sustainable development, including mobilizing NGOs to bridge the link between national policies and local-level implementation, supporting community-based disaster risk reduction approaches by science-based approaches, and promoting cooperation amongst city and local governments.

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