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FOREWORD



The countries of Asia and the Pacific have worked steadily to enhance regional cooperation and integration over several decades to unlock the benefits of shared prosperity, stability and sustainability. Yet, progress has been uneven and the region's overall integration is still at a formative stage. East Asia is the most integrated, South-East Asia ranks second, followed by South Asia, Central Asia and the Pacific. There is still great potential to further cooperation and deepen integration across the region.

The adoption of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals has created a new impetus for re-strategizing the region's integration. Greater regional economic cooperation and integration (RECI) can offer solutions to the pervasive problems of poverty and inequality facing the Asia-Pacific region that are at the core of the 2030 Agenda. As several of the Goals are transboundary in nature, effective action requires a regional approach, drawing on regional cooperation and cross-border solutions to complex challenges, such as climate change, disaster risk reduction, ecosystem and natural resource management, and sustainable energy. The emergence of large-scale and ambitious regional integration plans, such as the Eurasia Initiative and the Belt and Road Initiative, which propose economic corridors connecting the Asia-Pacific region to Europe and Africa, has further highlighted the region's desire for a future based on deeper integration.

Subregional cooperation and integration has progressed in different phases over the last several decades, influenced by changing ideas and attitudes towards globalization. Trade and investment liberalization across several economies has gained momentum, as the potential of globalization to bolster economic progress and raise living standards has been increasingly recognized. These policies have resulted in considerably rapid economic growth and helped reduced extreme poverty in the region. Despite the progress, the benefits have not been shared equally and inequalities of income and opportunities are high and increasing in some countries.

The Economic and Social Commission for Asia and the Pacific, as the leading intergovernmental organization in the region, is well positioned to drive a transition to a more integrated and connected Asia and the Pacific. ESCAP provides an inclusive and multisectoral platform for the region, which is now geared for regional implementation of the 2030 Agenda for Sustainable Development. Through this platform, ESCAP works with member States to forge region-wide agreements on infrastructure, promotes harmonization of cross-border standards and provides technical assistance. As part of its broad-based strategy, ESCAP has committed itself to work with member States to advance RECI in four broad areas: (a) moving towards the formation of an integrated market; (b) development of seamless connectivity in the region; (c) enhancing financial cooperation; and (d) increasing economic cooperation

to address shared vulnerabilities and risks. By advancing the four RECI pillars simultaneously, there is great scope to accelerate progress towards the achievement of the Sustainable Development Goals in the Asia-Pacific region. Both initiatives, if implemented in a coherent manner, are by their nature mutually reinforcing. Deepening RECI can promote inclusive and sustainable approaches for supporting economic growth for countries at different stages of development, address transboundary Sustainable Development Goals and bolster the means of implementation, such as through trade and finance. Correspondingly, using the framework offered by the Goals to progressively guide RECI would promote balanced and sustainable infrastructure to service small, low-income and geographically disadvantaged countries.

This report aims to inform how the region can most effectively pursue these objectives. It examines in detail the challenges and opportunities across the four pillars that underpin regional cooperation and integration. It also provides policy options for more immediate progress and recommendations on how to best lay the foundations for long-term integration in the region.

The report underscores that to deliver the best results for the region, the four pillars of RECI need to be developed in an integrated manner. One of the key objectives of RECI is to expand trade and investment through better market integration, which, in turn, requires seamless connectivity in transport, energy, and information and communications technology. Developing this infrastructure requires adequate financial resources, deep and connected financial markets and stable financial and economic conditions. Therefore, a coordinated multisectoral regional approach to RECI is integral to its success.

The obstacles to achieving an integrated Asia-Pacific region are substantial and require the following: continuous efforts aimed at developing trust and political will, building regional governance, harmonizing complex regulatory frameworks and funding infrastructure. Working together, we can overcome these challenges and realize the full potential of an integrated Asia-Pacific region.



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Further developing and deepening regional economic cooperation and integration (RECI) in the Asia-Pacific region offers solutions to emerging challenges, such as mitigating protectionist tendencies, reducing rising inequalities, and addressing environmental degradation. Through enhancing regional connectivity for energy, transport, and information and communications technology (ICT), and promoting regional cooperation in trade, financing and shared vulnerabilities, RECI offers enormous potential in generating trade, economic growth and employment, improving social outcomes and managing environmental risks. This presents the possibility to develop RECI as a critical enabler of the 2030 Agenda for Sustainable Development in Asia and the Pacific.

The Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific, adopted at the first Ministerial Conference on Regional Economic Cooperation and Integration in December 2013, sets an agenda for RECI in the Asia-Pacific region consisting of four elements: (a) moving towards the formation of an integrated market; (b) development of seamless connectivity in the region; (c) enhancing financial cooperation; and (d) increasing economic cooperation to address shared vulnerabilities and risks. This report presents the views of the ESCAP secretariat on how to advance the RECI agenda in the region to support the implementation of the Bangkok Declaration.

Enhancing RECI is important because the relative importance of region's traditional export markets has decreased since the 2008 global financial and economic crisis. During the period 2001-2005, North America and the European Union (EU) represented 61.5 per cent of world gross domestic product (GDP), compared to 27.1 per cent for Asia and the Pacific. However, 10 years later, during the period 2011-2015, the share of Asia and the Pacific in global GDP increased to 36.1 per cent while that of North America and EU declined to 47.9 per cent. The emergence of protectionist sentiment in Europe and North America, as indicated, for instance, by the 2016 vote in the United Kingdom of Great Britain and Northern Ireland to leave the European Union or the withdrawal of the United States of America from the proposed Trans-Pacific Partnership in 2017, is another reason why the region should consider enhancing RECI.

The Bangkok Declaration pointed to the enormous opportunities that RECI offers to the region in the context of economic uncertainties after the global financial and economic crisis of 2008. It also emphasized that with the rising economic prominence of the Asia-Pacific region in the world economy, the promotion of intraregional trade within Asia and the Pacific can provide enormous opportunities for supporting economic growth and employment creation in the region.

With a combined GDP of US\$27.25 trillion that is growing rapidly, Asia and the Pacific is well on its way to becoming the most important market in the world, opening possibilities for further expansion of trade and investment within the region. This could contribute to job creation, poverty reduction and the boosting of economic growth throughout the region.

Regional economic cooperation and integration can also support the implementation of the 2030 Agenda by generating large opportunities for enhancing employment and incomes across the region. These opportunities can directly support the achievement of some of the Sustainable Development Goals, particularly Goal 8: promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The large investment in transport, energy and ICT infrastructure promoted by RECI also contributes directly to Goal 7: ensure access to affordable, reliable and modern energy for all, and Goal 9: build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Moreover, the favourable impact of RECI on economic growth across the region can contribute to the mobilization of much needed public resources, without which it would be difficult for low-income countries to make much progress in achieving the Goals.

The relationship between RECI and the 2030 Agenda is bidirectional. RECI can support the attainment of the Sustainable Development Goals, while the Goals will likely play a vital role in guiding the implementation of RECI. This can happen, for instance, by ensuring that infrastructure projects have favourable social and environmental, as well as economic, impacts. Ensuring that infrastructure projects connect small, low-income and geographically distant countries with the main

markets of the region and placing high priority on dealing with transboundary vulnerabilities and risks are other ways in which the 2030 Agenda can inform how RECI can be most effectively implemented

Market integration

Market integration is a fundamental aspect of RECI, as it implies a larger production and/or consumption space with easier movement of outputs and factors of production (goods and services, capital and labour). Rapid growth in merchandise trade has contributed to considerable economic progress in the region, and it can be further enhanced through RECI. However, the expansion of merchandise trade is being impeded by high bilateral trade costs within the region. The largest costs are associated with non-tariff barriers, regulatory and procedural burdens, and high transport costs, which together can account for as much as 60 to 90 per cent of total trade costs.

An additional impediment to market integration is the existence of multiple regional trade agreements and complexities arising from complying with different rules of origin. There is a plethora of overlapping and often inconsistent regulatory frameworks related to trade, investment or transport, known as the “noodle bowl”. Contrary to their intention to open market access, multiple preferential trade agreements tend to create inefficiencies and lead to higher transaction costs. The noodle bowl effect can be minimized through improved coordination, mutual recognition or harmonization of regulatory frameworks.

Hidden forms of protectionism, such as regulatory and procedural border processes, can be tackled through trade facilitation measures. For instance, ESCAP member States adopted the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific in May 2016. Similarly, common investment regimes should replace and

global prominence as major outward investors as well. In 2015, investment outflows from developing Asian economies reached \$323 billion, representing 30 per cent of global foreign direct investment (FDI) flows. However, the noodle bowl of multiple investment agreements, which are not always aligned with sustainable development principles, are adversely affecting further increases in FDI flows. Countries need to promote regional investment regimes in a manner that better balances investor rights with host country development needs. This would enable countries to not only attract more FDI to contribute to sustainable development, but also to achieve better market integration.

Despite its positive evolution and importance from a social perspective, labour market integration is lagging other forms of integration. Mechanisms to promote orderly migration fail to match the demand and supply of migrant workers. This results in irregular migration, which entails a high risk of exploitation and abuse of migrant workers. Through cooperation on labour migration policies, migrant workers can be fairly treated and contribute to host country development processes, for example, by spurring technology transfer and innovation. To enable such positive spillover effects, inclusive regulatory frameworks should be in place. These could include the development of harmonized regional qualification frameworks that support job-matching and the creation of regional labour markets. The development of common procedures for the payment of social benefits across borders also deserves policy attention.

Seamless connectivity

Infrastructure connectivity encompassing transport, energy and ICT links within and between countries is underdeveloped in Asia and the Pacific, especially in countries with special needs. The focus

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