

ASIA 2015: PROMOTING GROWTH, ENDING POVERTY

Session 2A: Making the best use of resources and energy, and the environmental impact of growth

Regional Issues and Partnerships:

Thank you. Honorable Chairperson, Sir Gordon Conway, fellow panelists, ladies and gentlemen, I am deeply gratified to be on this panel this afternoon. I will be speaking briefly about regional issues and partnerships.

A. MTS II Focus on Regional Cooperation

1. Asian Development Bank puts regional cooperation and integration (i.e., RCI) at the forefront of its activities. First, Asia is host to a network of firms producing components that require an integrated economic system to maximize efficiency. Second, the increasing amount of intra-regional trade (in part arising from component production) requires greater coherence and harmony in systems to facilitate greater movement of goods and people especially in contiguous DMCs. Further, the greater interdependence has the potential not only of mutual benefits but mutual injury as well, which was experienced in the 1997 financial crisis. Finally, regional cooperation is critical for the creation and management of regional public goods.

2. ADB has traditionally supported regional cooperation through its subregional programs, such as the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area, the Central Asia Regional Cooperation Program, the Committee for Regional Organization in the Pacific, GMS Economic Cooperation Program, and the South Asia Subregional Economic Cooperation Program. The subregional programs include four pillars: subregional cooperation, monetary and financial cooperation, trade and investment integration, and provision of other regional public goods.

3. The attention of this session is on the cross-border infrastructure projects that support coordinated development. The connectivity, or network infrastructure, for transportation, electricity supply and communications, contributes to Asian regional integration by linking markets and people. Establishing common standards, sharing knowledge and the management of common natural resources go hand in hand with connectivity improvements. These also contribute to building common understandings and approaches to cross-border issues, such as health and environmental threats facing neighbors. Subregional cooperation programs thus create opportunities to provide a range of regional public goods.

B. Regional Energy Projects

4. **With ADB's Participation:** The Central Asian Republics inherited considerable cross-border energy networks. The Central Asia Power System interconnects the high voltage transmission systems of southern Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan. The load dispatch center in Tashkent coordinates 25,000 MW of power generation in the participating countries. Similarly the gas pipelines carry Uzbek gas to southern Kazakhstan, Kyrgyz Republic and Tajikistan. ADB has been trying to improve the energy trading arrangements to enable new investments for a more efficient regional energy sector. In the Greater Mekong Subregion, the IFIs are supporting the development of the Nam Theun 2 in Lao PDR; when completed, this 1,070 MW capacity hydropower plant will export 5.4 TWh annually to Thailand. ADB was also closely associated with the project development and privatization of the Sumatra–Singapore gas pipeline that will eventually carry 10 MMCMD of gas annually.

5. **Others:** Asia has many other cross-border energy projects designed to share economic benefits amongst the participating countries. There are several gas pipelines from Central Asia to Russia: the BTC Pipeline will soon be moving oil from the Caspian Sea to the Mediterranean Sea and a parallel gas pipeline is under construction; PRC is constructing an oil pipeline from Kazakhstan and a gas pipeline is also under discussion; there are hydropower plants in Nepal and Bhutan for power export to India; gas fields and LNG terminals have been developed in Indonesia that are linked to Japan and PRC; and coal mines in Kalimantan, Indonesia export coal to Japan and South Korea.

6. **Under Development with ADB Assistance:** Presently, ADB is supporting two major initiatives in Central Asia – the Turkmenistan-Afghanistan-Pakistan gas pipeline and the Tajikistan-Afghanistan-Pakistan electricity trade projects – to help South Asia meet its rapidly growing energy demand at the least cost. Similarly the regional power grid development in the Greater Mekong Subregion will eventually integrate the power systems for higher operational efficiencies.

7. Several other cross-border energy projects are being pursued by private sector and participating governments, and some are mentioned in the background paper circulated for this conference: Russian oil to East Asia; the Iran-Pakistan-India gas pipeline; the India-Bangladesh gas pipeline, and also the opportunity for India to import gas from Myanmar. Asian oil and gas

companies are also aggressively bidding for assets in other countries to gain access to resources that will help satisfy the needs during the coming decades.

C. Key Cross-border Issues

8. While economists and engineers see immense potential for cross-border energy projects in Asia, project development has usually been very tedious. The geopolitical and security considerations often weigh heavily amongst some constituencies and building consensus is usually difficult. Generally the development of an energy project will require active participation of the planning, energy, water (in case of hydropower) and finance ministries, but when cross-border projects are proposed, additional inputs are needed from the foreign affairs ministry, and from the law ministry for the bilateral and multilateral agreements; and if the financial health of the trading companies is weak (which is often the case) investors may even seek a parliamentary act to protect the project and raise necessary funds. Without very strong leadership for the project, the project proponents need a great deal of perseverance and resources.

9. From the viewpoint of lenders and investors, cross-border projects carry higher risks because of the different laws, regulations, rules and procedures that may hamper access to assets. Extra effort is also needed to establish a cross-border organization for project development, engineering and procurement; implementation; unified operations and management control. If the uncertainties remain, lenders find it difficult to support the project and seek considerable guarantees to secure the revenue stream, which adds to the project complexities and costs, and eventually lowers the benefits to the consumers.

10. Development of energy resources has two distinct aspects, one to satisfy the demand for infrastructure services in a rapidly growing domestic economy, and the other to earn foreign exchange by exporting to international markets (or to the neighboring country). Subregional energy projects optimize both by better exploitation of hydropower and natural gas resources that are difficult to export. But this also suggests that the correct economic incentives have to be in place in the domestic regulation to encourage trade and build cross-border projects – if the domestic utility is heavily subsidized, it will resist the opening of its market, and energy security is often a readily used defense.

D. Implications for International Partnerships

11. ADB's contributions during the development and implementation of cross-border energy projects can far exceed the debt it can mobilize. It can provide the international perspective and information regarding best practices in the energy sector and project development. It usually provides grant resources for engaging international experts to help project development and design.

12. During the initial phases, ADB has assisted participating governments in discussions over the project concept, the objectives and determining suitable organizational arrangements. With equal interest in the economic benefits to the participating countries, ADB has also contributed in bringing in strategic private sector partners.

13. Looking ahead, the cross-border energy projects would need to be larger to capture the economies of scale. In order to capture the full potential of cross-border energy projects, a suitable organizational model is needed for overcoming the barriers that result on inordinate delays during project development. Clearly, the fund requirements will be very large and lenders will insist on complete disclosure and transparency to avoid governance issues during project implementation and operations. The civil society and the affected people now also seek participation during the project design stage. All this requires a more robust organizational structure during project development. One idea is to create a cross-border company that mimics the International Financial Institutions – the participating countries to hold its shares and the management is by a strategic investor; project finance can then be raised from IFIs and the commercial banks, like the IFIs, issue bonds to support the lending programs in the DMCs.

E. Conclusion

14. The climate change agenda clearly requires a significant change in the way economies consume energy and how the growing Asian energy demand will be met. Since the impacts are clearly global, planners will need to think beyond their borders. Regional cooperation and integration in energy trade offers the opportunity to exploit resources for optimal regional efficiency, which makes it important to overcome the barriers and design robust organizational structures to implement cross-border projects.

Thank you.