

The RCI Digest follows the progress of initiatives under ADB's four pillars of regional cooperation and integration (RCI): (i) cross-border infrastructure, (ii) trade and investment, (iii) money and finance, and (iv) regional public goods.

## IN THE NEWS

**GMS celebrates 20 years of cooperation.** The [Greater Mekong Subregion Economic Cooperation \(GMS\)](#) held its 20th anniversary celebration on 14 September in Manila, Philippines. Senior public officials of GMS member countries and representatives from key sectors gathered to strengthen the program's role in supporting economic development.

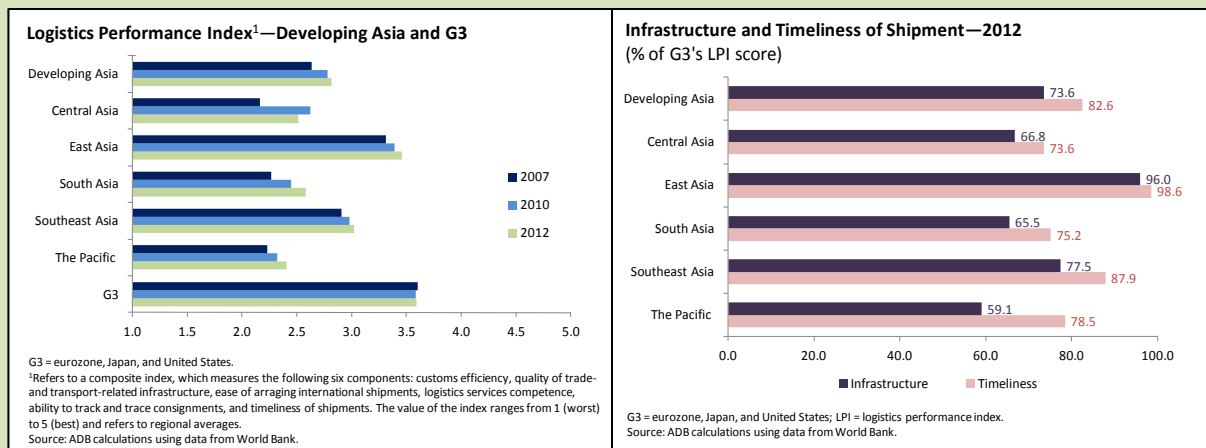
**ASEAN strengthens commitment to regional growth objectives.** Pursuing growth in the Association of Southeast Asian Nations (ASEAN) region remained a top priority at the [44th ASEAN Economic Ministers Meeting](#) in Siem Reap, Cambodia on 25 August–1 September. Ministers discussed ASEAN's performance and the progress of economic integration—particularly the implementation of the ASEAN Economic Community by 2015. [Joint meetings](#) on trade and infrastructure development were also held, including the 26th ASEAN Free Trade Area (AFTA) Council, the 15th ASEAN Investment Area (AIA) Council, and the [14th Ministerial Meeting on ASEAN–Mekong Basin Development Cooperation \(AMBDC\)](#).

**APEC finance ministers reaffirm commitment to financial stability.** In the Joint Ministerial Statement of the [2012 Asia–Pacific Economic Cooperation \(APEC\) Finance Ministerial Meeting](#) held in Moscow, Russia on 30 August, the ministers highlighted the need to promote growth and stability amid uncertainty and significant downside risks to the global economy. This year's discussions also recognized the importance of financial literacy, financial policy measures to tackle the impacts of natural disasters, and treasury systems.

**RCI CoP and ARIC affirm roles in RCI knowledge work and priorities; launch week-long exhibit.** The [Seminar on RCI Knowledge and Priorities](#) held in Manila, Philippines on 7 September commenced with the launch of the new [Asia Regional Integration Center \(ARIC\) website](#). The seminar focused on the role of ADB as a key RCI promoter and the importance of knowledge products in achieving greater connectivity and integration in Asia. The [exhibit](#) featured more than 150 books on RCI published by ADB since 1992.

## Logistics Services in Developing Asia

Efficient logistics services are vital to boost Developing Asia's comparative advantage as a global manufacturing hub. Over the last five years, the region's logistics performance, as measured by the Logistics Performance Index (LPI), improved at an annual average rate of 1.3%. In fact, Developing Asia's LPI score in 2012 rose to more than three-quarters G3's score. This outcome reflects significant improvement in the infrastructure sub-index. East Asia recorded the best score in 2012 among all of Developing Asia's subregions, nearly matching the G3 average. Southeast Asia was a close second. However, logistics performance across the region still varies, particularly in the quality of trade- and transport-related infrastructure.



## Cross-Border Infrastructure

**CAREC holds consultation meetings to finalize work plan.** Representatives from Afghanistan, Kazakhstan, the Kyrgyz Republic, and Tajikistan attended the [Subregional Country Consultation Meeting on the Central Asia Regional Economic Cooperation \(CAREC\) Institute Assessment and Work Plan](#) held in Almaty, Kazakhstan on 28–29 August. Participants discussed and revised drafts of the CAREC Institute Assessment and the [CAREC Institute Work Plan 2013–2017](#). CAREC also conducted a [Roundtable Seminar on Ways Forward for Corridor-Based Transport Facilitation Arrangements in the CAREC Region](#) on 2–3 July in Beijing, People's Republic of China (PRC).

**BIMP–EAGA strengthens transport cooperation.** The [6th Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area \(BIMP–EAGA\) Transport Ministers Meeting](#) held on 27 July in Cagayan De Oro City, Philippines discussed developments in and prospects for BIMP–EAGA transport initiatives. The ministers urged transport officials to identify appropriate incentive packages, policy initiatives, and relevant support mechanisms for transport operators.

**TRACECA aims to increase land and sea traffic in the region.** With support from the Transport Corridor Europe–Caucasus–Asia (TRACECA) and a European Union (EU) technical assistance project—the [Logistic Processes and Motorways of the Sea II \(LOGMOS\)](#)—the regional meeting on the [“Silk Wind” project and roll-on roll-off \(Ro-Ro\) transportation perspectives on the Caspian Sea](#) was held in Aktau, Kazakhstan 24–25 July. Particular attention was given to increasing land and sea traffic on TRACECA by enabling modern logistics services and processes along the corridor.

**New PRC–Viet Nam route opens.** The [new 1,300-kilometer route](#) linking Ha Noi, Viet Nam with Shenzhen, PRC opened on 22 August. Transport operators are now allowed to travel between major economic zones in the two countries. The removal of restrictions is expected to boost not only bilateral trade and tourism, but also trade facilitation within the GMS.

**South Asian economies discuss boosting regional cooperation.** The South Asian Association for Regional Cooperation (SAARC) Chamber of Commerce and Industry organized a [conference on trade facilitation](#) on 13 July in Colombo, Sri Lanka to discuss ways to streamline trade procedures within the region. The first [SAARC Tour Operators Conclave](#) was held on 6 July in New Delhi, India, where participants urged the removal of entry barriers and the formation of a SAARC tourism forum.

## Trade and Investment

**ASEAN boosts cooperation with trade partners.** ASEAN met with its free trade agreement (FTA) partners during the [10th East Asia Summit \(EAS\) Economic Ministers Meeting](#) on 30 August in Siem Reap, Cambodia. During the Summit, leaders from ASEAN—together with their counterparts from the PRC, Japan, Republic of Korea, Australia, New Zealand, and India—reaffirmed their commitment to avoid trade protectionism. They also agreed to launch negotiations on a [regional comprehensive economic partnership \(RCEP\)](#), which would be the biggest free trade area in the world, at the next ASEAN Summit. The summit also witnessed the attendance of representatives from the United States (US) and Russia for the first time.

**Trade agreements launched, signed.** The Republic of Korea signed a [framework agreement for an FTA and the Agreement on Trade in Goods](#) with Turkey on 1 August in Ankara, Turkey. Through the FTA, the Republic of Korea hopes to penetrate further into markets in Europe, the Middle East, and Africa. It also initiated an [FTA with Colombia](#) on 31 August in Seoul, Republic of Korea. The country also held its first round of [FTA negotiations with Viet Nam](#) on 3 September in Seoul, where discussions focused on the terms of reference for future negotiations including fields, scope, structure, and guidelines. It also started negotiations with Indonesia on 12 July in Jakarta, Indonesia for a [comprehensive economic partnership agreement](#). Meanwhile, a memorandum of understanding commencing negotiations between [Viet Nam and the European Free Trade Association](#) was signed on 3 July in Ha Noi, Viet Nam.

**ADB expands Trade Finance Program (TFP) coverage.** On 17 July, ADB's Board of Directors approved the inclusion of the [renminbi and Indian rupee](#) in the TFP. Previously, the TFP only supported projects US dollar, yen, and euros.

**India cuts its SAFTA sensitive list.** On 17 August, India decided to cut the number of items under the [South Asia Free Trade Agreement \(SAFTA\)](#) sensitive list for non-least-developed countries by 30%. The decision is expected to boost regional trade relations as this will allow import concessions on 264 items.

**Vanuatu accedes to the WTO.** On 24 August, Vanuatu officially became the [157th member of the World Trade Organization \(WTO\)](#). Upon accession, [Vanuatu](#) committed to fully apply all WTO provisions and requested a transitional period only for intellectual property and the publication of trade information.

## SPECIAL FEATURE

### ADB Climate Change Actions\*

While rapid economic expansion has brought immense benefits to Asia, it has adversely affected the environment. Greater production and consumption, connectivity, and flows of goods and people have created environmental degradation through air pollution and damage to protected areas, and contributed to increases in greenhouse gas emissions and climate change. ADB has responded to these challenges by integrating climate change adaptation and mitigation among its efforts, consciously melding this as an overarching theme for projects in different sectors such as agriculture, energy, transport, health, and social protection.

[ADB's work on climate change](#) involves financing, knowledge dissemination, and building partnerships. ADB mobilizes and facilitates [funding](#) through concessional resources such as the [Climate Change Fund](#), [Climate Investment Funds](#), and the [Global Environment Facility](#); private sector money including [equity funds](#); and a number of market-based mechanisms such as the [Carbon Market Program](#). ADB produces knowledge products (e.g., reports, papers, and background materials) to widen region-specific knowledge on the challenges and opportunities of climate change in Asia. For 2012, ADB has released [21 knowledge products on climate change, food security and price volatility](#), power, [biodiversity](#), [natural disasters](#), and [climate-induced migration](#), among other subjects. ADB also continues to nurture strong partnerships with multilateral institutions, the private sector, and other financing facilities.

ADB's strategic priorities for climate change include (i) more extensive use of [clean energy](#), (ii) sustainable [transport](#) and urban development, (iii) [land use and forest management](#) for carbon sequestration, (iv) [climate-resilient](#) development, and (v) stronger [policies and governance](#). In 2009–2011, ADB made \$10 billion worth of investments through 110 projects in more than 40 countries and provided \$250 million in technical assistance to developing member countries.

The climate is a global common, and actions to address climate change require coordination at different levels: global, national, sub-national, and regional. In terms of [regional cooperation and integration](#), ADB's support focuses on (i) regional and subregional policy dialogues and initiatives, (ii) research and information dissemination, (iii) capacity building and institutional strengthening, and (iv) regional partnership building through forums and exchange programs. Since 2009, ADB has approved [30 projects](#) concerning RCI and climate change, and [36 technical assistance projects](#) on climate change that are regional in scope. Some of the recently approved projects in the past 12 months include [GMS core agriculture support](#); studies on [climate change in Central and West Asia](#); [coastal and marine management in the Coral Triangle](#); and [wind power development](#) in Mongolia, the Philippines, Sri Lanka, and Viet Nam.

*\*Prepared in consultation with the Regional and Sustainable Development Department (RSDD).*

### Money and Finance

#### Asian countries sign agreements to develop stock markets.

On 31 August, the [Stock Exchange of Thailand \(SET\)](#) signed an agreement with the Korea Exchange of the Republic of Korea to develop a clearing and settlement system for equities, derivatives, and fixed-income products traded on SET and the Thailand Futures Exchange (TFEX). On 25 July, [Singapore Exchange \(SGX\)](#) and [Australia Stock Exchange \(ASX\)](#) announced measures to enhance market connectivity. SGX also signed a cross-trading agreement with the [London Stock Exchange](#) of the United Kingdom.

#### Central banks in Asia push for greater cooperation to support financial stability.

At the [3rd South East Asia Central Banks \(SEACEN\) High Level Seminar](#) for deputy governors held in Siem Reap, Cambodia on 27 August, participants explored ways to achieve financial stability through enhanced regional collaboration and coordination. On 25 August, [Thailand and Cambodia](#) signed a memorandum of understanding that allows for supervisory cooperation between the Bank of Thailand and the National Bank of Cambodia on banking supervision and licensing.

**Greater financial cooperation promoted through tax-related measures.** In July, [India and Indonesia](#) revised their double-taxation avoidance agreement to avoid fiscal evasion through income tax. In August, the Republic of Korea agreed to share with Uzbekistan knowledge on [electronic fiscal management systems](#) such as the Electronic Tax System.

## Regional Public Goods

**ADB challenges Asian cities to go green.** ADB is pushing environment policies that will facilitate the development of green technology and green urbanization. As an example, ADB is assisting the PRC in achieving [carbon dioxide emissions reduction goals](#) through a roadmap for carbon capture and storage under the [Clean Energy Financing Partnership Facility](#). ADB also teamed with Procter & Gamble to carry-out a feasibility study on building [waste-to-energy plants](#) in the Philippines to eliminate the need for landfills.

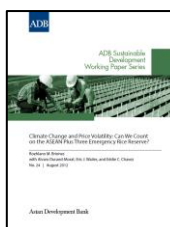
**SAARC strengthens Regional Centers.** Directors of 11 [SAARC Regional Centers](#) met in Kathmandu, Nepal on 30–31 July and produced a list of recommendations to strengthen their Regional Centers. Meanwhile, India became the first SAARC member country to ratify the [SAARC Agreement on Rapid Response to Natural Disasters](#) which includes the Natural Disaster Rapid Response Mechanism.

**Pacific countries address climate change and challenges to sustainable energy.** The development of climate change financing opportunities among the Forum Island Countries was deliberated at the [2012 Forum Economic Ministers Meeting](#) held in Tarawa, Kiribati on 3–4 July. The Secretariat of the Pacific Community and Business Climate Facility held the [Renewable Energy and Energy Efficiency Trade and Investment Forum](#) from 8–9 August in Nadi, Fiji. The forum explored private sector investment in new energy projects in the Pacific. In addition, 14 Pacific nations attended the workshop on [Particularly Sensitive Sea Areas \(PSSAs\)](#) to increase protection of the marine environment.

**Health ministers highlight challenges of the ASEAN Economic Community in 2015.** The [11th ASEAN Health Ministers Meeting](#), held in Phuket, Thailand on 2–6 July focused on non-communicable diseases, universal health coverage, tobacco control, HIV/AIDS, and emergency disaster response. A side meeting among [12 ASEAN cities on the fight against HIV/AIDS](#) centered on solutions to reverse HIV transmission and mitigate the impact at the city level.

**Coral Triangle Initiative (CTI) projects launched, hailed.** During the [12th International Coral Reef Symposium](#) held in Cairns, Australia on 9–13 July, the [National Oceanic and Atmospheric Administration \(NOAA\)](#) cited the [CTI's regional approach](#) as a catalyst for innovation and ecosystem management. ADB's [CTI Southeast Asia Project](#) held its [Project Scoping, Visioning, and Team-Building Workshop](#) on 16 August in Manila, Philippines. It aims to support Indonesia, Malaysia, and the Philippines in their management of coastal and marine resources.

## STUDIES AND REPORTS



### [Climate Change and Price Volatility: Can We Count on the ASEAN Plus Three Emergency Rice Reserve?](#) (August, ADB)

—Roehlano M. Briones et al. evaluate the effectiveness of the ASEAN Plus Three Emergency Rice Reserve (APTERR) that was created as a form of protection against temporary production shocks due to calamities. With the onset of climate change, the study also discusses other ways to complement the program.



### [Managing Capital Flows in an Economic Community: The Case of ASEAN Capital Account Liberalization](#) (August, ADBI)

—The paper explores the issue of capital flow management in an economic community such as the ASEAN Economic Community. Yung Chul Park and Shinji Takagi's assessment is that most of the inflow restrictions could be removed quickly without creating additional risks. Controls on private capital flows could also be relaxed if for no other reason than to promote regional financial integration.



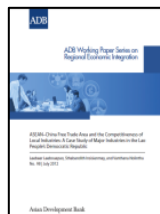
### [Central Banking for Financial Stability in Asia](#) (August, ADBI)

—Masahiro Kawai and Peter J. Morgan consider issues involved with regional financial regulatory cooperation. The report concludes that central banks should have a financial stability mandate and the policy tools to successfully pursue their mandate.



**[People's Republic of China's Twelfth Five-Year Plan and its Implications for ASEAN Economies](#)** (August, SEACEN)—

Somsak Tambunlertchai and Aksornsri Phanishsarn conclude that the policy directions of the PRC's 12th Five-Year Plan offer many opportunities for the ASEAN economies; cooperation will be mutually beneficial. They state that both the PRC and ASEAN must find ways and opportunities to cooperate in order to enhance their complementarities.



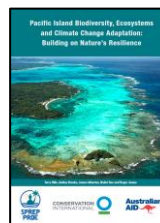
**[ASEAN-China Free Trade Area \(ACFTA\) and the Competitiveness of Local Industries: A Case Study of Major Industries in the Lao People's Democratic Republic](#)** (July, ADB)—

Leebeer Leebouapao, Sthabandith Insisienmay, and Vanthana Nolintha assess the effect of ACFTA on three industries—wood processing, cement, and motorcycle assembly—and suggest improving product quality and building brand reputation.



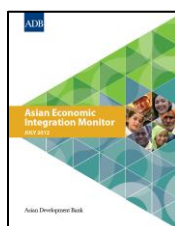
**[Emerging Economies and the Emergence of South-South Protectionism](#)** (August, World Bank)—

Chad P. Bown investigates whether country-level exports resume when previously imposed, but temporary, import protections are finally removed. He finds that the PRC's exporters respond quickly and aggressively to the increased market access embodied in the removal of such import restrictions, which differs markedly from the slow and tepid export response of other emerging economies.



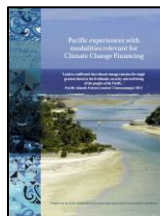
**[Pacific Islands Biodiversity, Ecosystems, and Climate Change Adaptation: Building on Nature's Resilience](#)** (July, SPREP)—

Prepared by the Secretariat of the Pacific Regional Environment Programme (SPREP) and Conservation International, this report studies the impacts of climate change and identifies the species and ecosystems that are most vulnerable. It explores the ecosystem services and information management needed to build the resilience of the Pacific to climate change.



**[Asian Economic Integration Monitor](#)** (July, ADB)—

A successor to the *Asia Economic Monitor* (AEM), this semiannual report tracks the progress of regional cooperation and integration in Asia and the Pacific (as well as its subregions). The report includes regional economic and financial monitoring. A special section analyzes initiatives and events that will likely affect the process of cooperation and integration.



**[Pacific Experiences with Modalities Relevant for Climate Change Financing](#)** (July, PIFS)—

In support of the Pacific Islands Forum Leaders' Communique 2011 and the 2012 Forum Economic Action plan, this report presents a summary of national and regional experiences in climate change financing. It also provides relevant contacts and partners to assist countries in the access and management of international climate change funding.



**[Revisiting the Internationalization of the Yuan](#)** (July, ADBI)—

Yongding Yu argues that the internationalization of the yuan is bound to be a long-drawn process. Before it can make meaningful progress, the necessary conditions—like the existence of deep and liquid financial markets, flexible exchange rates, and interest rates responsive to market conditions—must be created. The author also states the current roadmap may be counterproductive as it contains many missing links.



**[Yen-Yuan Direct Trading and the Implications for Korean Won Internationalization](#)** (July, KCMI)—

In light of the direct trading between the yuan and yen, the Republic of Korea is also pursuing internationalization of its currency in its drive to become a financial hub in East Asia. Suk Hyun argues that the Republic of Korea should persistently push for won internationalization under mid- and long-term plans while closely watching changes in the external environment.



**Global Financial Stability Report Market Update July 2012—Intense Financial Risks: Time for Action** (July, IMF)—Risks to financial stability—

which include rising sovereign yields in Southern Europe, elevated funding, and market pressures—have increased since the April 2012 Global Financial

Stability Report. The report states that growth prospects in advanced economies and emerging markets have weakened, leaving them less able to deal with spillovers from the eurozone crisis or to address their own domestic vulnerabilities.

## SEPTEMBER–OCTOBER 2012 EVENTS

- 2–9 Sep: **APEC 2012 Leaders Week** (Vladivostok, Russia)
- 3–6 Sep: **34th Meeting of SEACEN Directors of Research and Training** (Kuala Lumpur, Malaysia)
- 3–6 Sep: **4th APEC Business Advisory Council (ABAC) Meeting** (Vladivostok, Russia)
- 7–8 Sep: **APEC CEO Summit** (Vladivostok, Russia)
- 8 Sep: **ABAC Dialogues with Leaders** (Vladivostok, Russia)
- 10–12 Sep: **Climate Public Expenditure and Institutional Reviews** (Bangkok, Thailand)
- 11–13 Sep: **Annual Meeting of the New Champions 2012** (Tianjin, PRC)
- 12–13 Sep: **2nd World Islamic Finance Summit** (Karachi, Pakistan)
- 17–18 Sep: **ASEAN-[People’s Republic of] China Environmental Cooperation Forum 2012** (Beijing, PRC)
- 18–20 Sep: **3rd Global Islamic Finance Forum** (Kuala Lumpur, Malaysia)
- 18–21 Sep: **Asia Low Emission Development Strategies (LEDS) Forum 2012** (Bangkok, Thailand)
- 24–25 Sep: **11th Meeting of SEACEN Executive Committee** (Seoul, Republic of Korea)
- 24–26 Sep: **Executives' Meeting of East Asia Pacific Central Banks (EMEAP): Regional Seminar on Basel III** (Beijing, PRC)
- 24–26 Sep: **WTO Public Forum 2012** (Geneva, Switzerland)
- 26–27 Sep: **29th Meeting of ASEAN Task Force on AIDS (ATFOA)** (Luang Prabang, Lao People’s Democratic Republic)

- 27–28 Sep: **Regional Policy Forum on Financial Stability and Macroprudential Supervision** (Beijing, PRC)
- 3–5 Oct: **Renewable Energy World Asia 2012** (Bangkok, Thailand)
- 4–5 Oct: **23rd Training Program of Asian EXIM Banks Forum on Project Finance: Intermediate to Advanced Level and Project Cofinancing** (Manila, Philippines)
- 9–11 Oct: **Regional Seminar on Basel III and Supervision of Systemically Important Banks** (Mumbai, India)
- 14 Oct: **Asia-Europe Meeting (ASEM) Senior Officials' Meeting** (Bangkok, Thailand)
- 15 Oct: **10th ASEM Finance Ministers' Meeting** (Bangkok, Thailand)
- 15–16 Oct: **Asia-Pacific Business Forum 2012** (Kuala Lumpur, Malaysia)
- 16 Oct: **12th Economic Cooperation Organization (ECO) Summit** (Baku, Azerbaijan)
- 9–20 Oct: **Convention on Biological Diversity COP 11 (High Level Segment 17-19/10)** (Hyderabad, India)
- 29 Oct: **Regional Organizations Cooperation Mechanism for Trade Facilitation (ROC-TF) Annual Meeting** (Colombo, Sri Lanka)
- 29 Oct–1 Nov: **Asia-Pacific Trade Facilitation Forum 2012** (Colombo, Sri Lanka)
- 30 Oct–1 Nov: **11th Ministerial Conference on CAREC** (Wuhan, PRC)

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