

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. This issue features the Greater Mekong Subregion on page 3.

## IN THE NEWS

**World leaders intensify coordinated action to aid recovery.** G-20 finance ministers and central bank governors promised a “strong and coordinated international response” to current challenges threatening the global economy. In a [statement](#), it reaffirmed to coordinate all measures needed to support financial stability and foster economic growth. Regionally, ministers at the [43rd Meeting of the Association of Southeast Asian Nations \(ASEAN\) Economic Ministers](#) 10–11 August in Manado, Indonesia, stressed the importance of deeper integration to harness the region's competitive strength in the face of external risks.

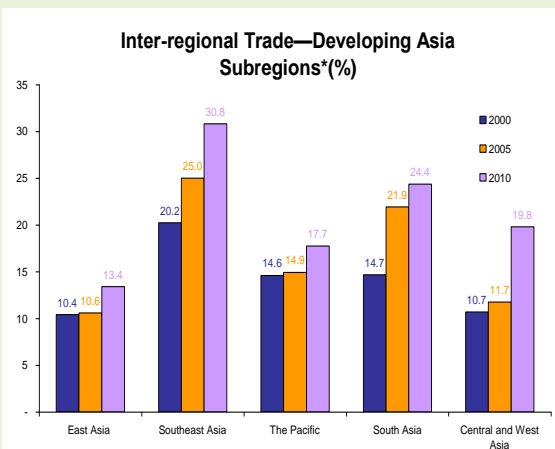
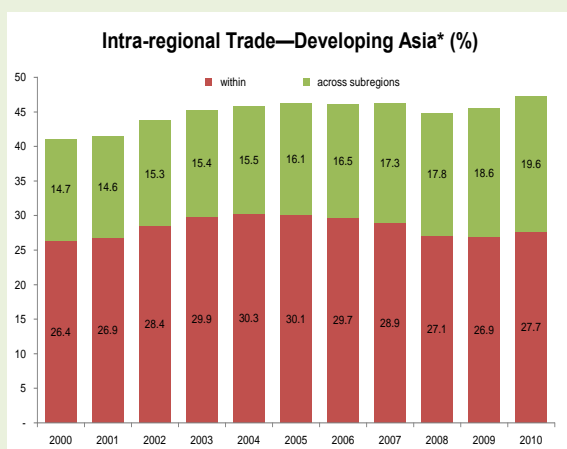
**ADB, ASEAN to establish \$485.2 million infrastructure fund.** To help close the widening infrastructure gap in the region, ASEAN, with Asian Development Bank (ADB) support, signed a shareholder agreement 24 September to establish the [ASEAN Infrastructure Fund \(AIF\)](#)—a limited liability company

domiciled in Malaysia with equity from nine [ASEAN](#) members and ADB. The AIF aims to fund approximately six projects each year, based on sound economic and financial rates of return, and poverty reduction.

**Asia Pacific leaders agree to intensify energy links.** Leaders and experts convened 13–15 September for the [3rd Annual Asia Pacific Clean Energy Summit](#) in Honolulu, Hawaii to discuss how advanced renewable energy technologies affect international and domestic policies, investment and finance, and the military. Also, with ASEAN demand for electricity expected to rise substantially over the next 5 years, ASEAN Energy Ministers issued a [joint statement](#) 20–21 September in Jerudong, Brunei Darussalam, recognizing the need for deeper energy cooperation. The [Master Plan on ASEAN connectivity](#) targets a higher percentage of renewable energy sources and new energy technologies.

### Southeast Asia drives growth in intraregional trade in Asia

The previous issue of the RCI Digest said that, while the share of intraregional trade in developing Asia reached a historic high of 47.3% in 2010, intraregional trade within its various subregions actually fell in 2010 compared with 2005. This trend shows that trade *across* subregions was the main driver of increased intraregional trade. The share of trade across subregions rose from 14.7% of total trade in 2001 to 19.6% in 2010. All subregions in developing Asia recorded increased trade with each other, with Southeast Asia's exports to other subregions rising from 20.2% of total exports in 2001 to 30.8% in 2010. Southeast Asia's net exports to the rest of developing Asia surged to \$56 billion in 2010 from \$13.3 in 2008, while net exports of East Asia (excluding Japan) plunged from \$69 billion to \$26.5 billion over the same period.



\*Percentage of intraregional trade calculated using export data to total trade of the region (left) and to rest of developing Asia (right). See ADB for subregional definitions.

Source: *Direction of Trade Statistics June 2011*, International Monetary Fund; and *CEIC Database* for Taipei, China.

## Cross-border Infrastructure

**GMS reviews ICT plans for the subregion.** The [17th Greater Mekong Subregion \(GMS\) Ministerial Conference](#) held 2–4 August in Cambodia discussed its program for the next 10 years, stressing the need to build better information and communication technology (ICT). Topics included e-commerce, supplying rural areas, green technology, and sustaining ICT cooperation through training, lessons learned, and knowledge transfer.

**Afghanistan joins Central Asia transport agreement.** Afghanistan entered the [Cross-Border Transport Agreement](#) under Central Asia Regional Economic Cooperation (CAREC) Corridor 5 with Tajikistan and Kyrgyz Republic. The agreement aims to ease movement of people, goods, and vehicles between the three countries. Also, ADB approved a [\\$754 million loan](#) to rehabilitate Afghanistan's existing road network, better linking it with Uzbekistan. As part of the CAREC Corridor 2 program, Uzbekistan received a [\\$500 million loan](#) from ADB to improve 230 kilometers of its road network.

**SAARC steps up energy and transport cooperation.** Energy ministers from the South Asian Association for Regional Cooperation (SAARC) agreed 15 September to enhance power grid interconnections and promote energy resource-sharing among SAARC members. During an [expert group meeting](#) 26–28 August, the Regional Agreement on Railways was finalized for SAARC approval. Details for the pilot run of a container train between Bangladesh, India, and Nepal were also discussed.

**First South Asia Forum held.** With the theme “Integration in South Asia: Moving Towards a South Asian Economic Union” leaders and experts from government, business, media, and academe met 8–9 September in New Delhi at the first South Asia Forum (SAF). SAARC Secretary-General Fathimath Dhiyana Saeed [said](#) that SAF will provide fresh ideas for the future of SAARC economic integration and improving existing mechanisms.

**Other regional infrastructure meetings in August–September.** At the [7th Asia-Pacific Economic Cooperation \(APEC\) Transportation Ministers Meeting](#) 14 September in the United States (US), APEC transport ministers pledged to support the development of seamless, secure, and sustainable transport systems within the region. On 22 September, about 100 participants from ASEAN plus the People's Republic of China (PRC), Japan, and Republic of Korea (ASEAN+3) attended the [9th East Asia Forum](#) in Chengdu, PRC to discuss regional markets, cross-border

infrastructure, and industrial match-making. And at the [11th ASEAN-Economic Cooperation Organization \(ECO\) Ministerial Meeting](#) held in the US 24 September, delegates agreed to hold an additional meeting aside from their usual gathering on the sidelines of the UN General Assembly.

## Trade and Investment

**ASEAN economic ministers call for deeper integration.** During the [43rd ASEAN Economic Ministers Meeting](#) 10–11 August in Manado, Indonesia, officials stressed the importance of deeper integration to harness the region's competitive strength in the face of external risks. Joint meetings of the 25th ASEAN Free Trade Area Council and the 14th ASEAN Investment Area Council were held 9 August. [ASEAN and its Dialogue Partners](#)—Australia, PRC, India, Japan, Republic of Korea, New Zealand, Russia, and US—met 13 August to exchange views on issues affecting East Asia and developments in economic cooperation within the East Asia Summit framework. The [13th ASEAN Mekong Basin Development Cooperation](#), [3rd Mekong-Japan Economic Ministers Meeting](#), and [3rd CLMV Economic Ministers Meeting](#) were also held on the sidelines of the Manado meeting.

**Pacific Islands Forum seeks greater trade integration.** The [42nd Pacific Islands Forum](#) held 7–8 September in Auckland, New Zealand agreed to conclude an Economic Partnership Agreement (EPA) by 2012. The lead spokesperson for the [Pacific ACP-EU EPA](#)—Tonga Minister of Trade and Labour, Commerce and Industries Lisiate 'Akolo—[said](#) negotiations would hopefully conclude by the end of this year. The next round of negotiations is scheduled for [November in Brussels](#). Meanwhile, the sixth round of negotiations on the [PICTA trade in services agreement](#) was held in Nadi, Fiji in August.

**Trade agreements progress in Asia.** As of July 2011, ADB's Asia Regional Integration Center (ARIC) has identified 245 free trade agreements (FTAs) in Asia and the Pacific. About half are operational, with 65 under negotiation and 57 under discussion. From 31 August to 2 September, the PRC, Japan, and Republic of Korea held their [sixth joint FTA study](#) in Changchung, PRC, addressing rules and cooperation. The Comprehensive Economic Partnership Agreement (CEPA) between India and Japan became effective 1 August. This is Japan's [12th EPA](#) and India's [3rd—its first](#) with a developed country. Beyond tariff elimination, the agreement covers services, investment, intellectual property rights, customs, and other trade-related topics. [Indonesia](#) and [Pakistan](#) concluded an agreement 16 September on preferential trade after seven rounds of negotiations. The agreement,

expected to boost Indonesia's palm oil and Pakistan's textile exports, is scheduled to take effect January 2012.

**The Philippines lifts duties on imports from the Republic of Korea.** Philippine [Executive Order No. 52](#)—issued 5 August—grants a temporary waiver of reciprocal tariff treatment on 48 tariff lines as compensatory measure to the Republic of Korea over the Philippines' late tariff concessions under the ASEAN-Republic of Korea free trade agreement.

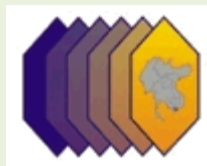
## Money and Finance

**Bilateral cooperation heightened amid global economic uncertainty.** At the 26 September [First PRC-India Strategic Economic Dialogue](#), the two countries agreed to strengthen communication on macroeconomic policies and enhance coordination in addressing economic challenges. In Seoul, the [PRC and Republic of Korea](#) also agreed to tighten economic policy cooperation and to pursue better cooperation in Asia and globally. Meanwhile, [India and Pakistan](#) made progress toward bilateral investment as they began talks in New Delhi, India on allowing local banks to open branches in each other's territory.

**PRC continues to internationalize the renminbi.** In August, the People's Bank of China (PBOC) announced [it would extend nationwide](#) the use of the renminbi in cross-border trade settlement. On an [official visit to Hong Kong, China](#) in August, PRC Vice Premier Li Keqiang announced measures to support the development of Hong Kong, China as an offshore renminbi center. The PRC would support Hong Kong, China enterprises investing in renminbi on the mainland, allowing Renminbi Qualified Foreign Institutional Investors to invest in mainland securities markets, and permitting mainland-based financial institutions to issue renminbi bonds in Hong Kong, China. On 17 August, the PRC issued treasury bonds worth CNY20 billion in Hong Kong, China for the third time in 3 years.

**Bond markets continue to expand.** ADB's latest [Asia Bond Monitor](#) reported that local currency bonds outstanding in emerging East Asia grew 7.7% in the year to end-June 2011. The Gulf Investment Corporation—set up with the backing of the Gulf Cooperation Council—[issued its second sukuk](#) bond this year denominated in Malaysian ringgit. In other news, Bahrain held the [7th Annual World Islamic Funds and Financial Markets Conference](#) on 26 September to discuss strategies for re-igniting growth in Islamic financial markets.

## SPECIAL FEATURE

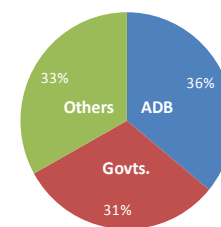


The **Greater Mekong Subregion (GMS)** comprises Cambodia, PRC (Yunnan province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. In 1992, GMS, with ADB support, launched the GMS Program of economic cooperation—now covering nine sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport, and trade. The [GMS Strategic Framework, 2002–2012](#), envisions an integrated, prosperous, and harmonious subregion through increased connectivity, improved competitiveness, and a greater sense of community.

### Recent Developments

- **New GMS Strategic Framework (SF) being finalized.** The new SF supports initiatives to help transform GMS transport corridors into fully fledged economic corridors within 10 years. These include multi-sector infrastructure investment linked to urban and rural development, greater focus on policies increasing infrastructure efficiency, and dealing with social and environmental concerns. GMS ministers backed the SF during their [17th Ministerial Conference](#) 2–4 August and will be formally endorsed during the 4th GMS Leaders' Summit in December 2011.

**GMS Projects: Funding Sources, 1992-2011 (Total: \$14 Billion)**



Source: GMS

- **Other key initiatives to be presented at the 4th GMS Summit** include (i) the 2012–2016 Core Environment Program, (ii) an agreement to cooperate on accelerating construction of an Information Super-highway Network, (iii) a refocused tourism strategy, (iv) a plan for a GMS Railway Coordination Office, and (vi) a progress report on transport and trade facilitation.

(Source: GMS E-Updates, July–September 2011)

## Regional Public Goods

**Solar energy expands in Asia.** The recently approved \$100 million ADB loan for India's [Gujarat Solar Power Transmission Project](#) will finance infrastructure, vocational skills training, and energy-based livelihood programs. Another \$100 million ADB loan—the [Shandong Energy Efficiency and Emission Reduction Project](#)—in the PRC will reduce emissions—including carbon dioxide—and integrate the first extensive industrial use of solar thermal technology in generating electricity. Also, a Bangladeshi plan to harness 500 megawatts in renewable energy by 2015 was discussed with donors 20 September at a solar energy forum to discuss the government's plan to harness 500 megawatts in renewable energy by 2015.

**Consultations continue on climate policy and finance.** The [Transitional Committee for the design of the Green Climate Fund](#) (GCF) held [talks](#) in Singapore 1–3 September with Asia-Pacific representatives on climate-related financing arrangements, private sector participation, and issues on GCF design. Also, leaders and experts gathered at a regional conference 15–16 September at ADB headquarters to deliberate [ADB's initial policy recommendations for climate-induced migration](#)—particularly on adaptation, funding, and inclusion in development agendas.

**US joins SPC and SPREP to promote climate change adaptation.** On 8 September, the US, the Secretariat of the Pacific Community (SPC), and the Secretariat of the Pacific Regional Environment Programme (SPREP) announced the formation of a [partnership](#) on climate change adaptation for Pacific island countries. As part of a \$21 million US commitment to climate change adaptation for small Pacific island countries, the partnership seeks to enhance food and water security, safeguard eco-systems, and provide information to formulate enforceable climate change policy.

**Sustainable forestry development and clean air discussed.** The [First APEC Forestry Ministerial Meeting](#) held 6–8 September in Beijing, PRC, released the [Beijing Statement on Forests and Forestry](#) outlining objectives to ensure forest sustainability. Also, SPC's Land Resources Division (LRD) organized a [regional workshop](#) in Fiji 21–23 September on capacity-building in forestry and to encourage forest policies that promote food security and address climate change in the Pacific. Meanwhile, Viet Nam ratified [new standards for emissions and fuel quality](#) on 1 September to reduce transport-related air pollution.

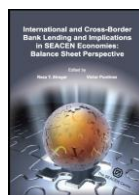
## STUDIES AND REPORTS



[Weathering the Financial Crisis: Good Policy or Good Luck?](#) (August, BIS)—Stephen G. Cecchetti, Michael R. King, and James Yetman find that macroeconomic performance of individual countries during the 2007/09 global financial crisis was the result of both pre-crisis policies and good luck. Sound policy decisions and institutions reduced the vulnerability of better-performing economies to the financial crisis. However, these economies also featured a low-level of financial openness and less exposure to US creditors, suggesting that good luck also played a part.



[Institutions for Economic and Financial Integration in Asia: Trends and Prospects](#) (September, ADBI WPS)—Based on the results of a survey of Asia's opinion leaders conducted by ADB in 2010, Giovanni Capannelli discusses how Asia's institutional architecture for economic and financial integration is taking shape, suggesting the need to strengthen existing institutions that promote Asian regionalism and to create new ones.



[International and Cross-border Bank Lending and Implications in SEACEN Economies: Balance Sheet Perspective](#) (August, The SEACEN Centre)—This research paper evaluates several perspectives on the presence and bearing of global banks in South East Asian Central Banks (SEACEN)

economies in the aftermath of the subprime crisis and finds that the globalized banking system played a crucial role in transmitting the crisis from advanced economies to various parts of the world. This finding has forced a rethink of the mandate of central banks in the area of financial stability in addition to its primary mandate of monetary policy stability.



[Evaluating the Contributions of Regional Trade Agreements to Governance of Services Trade](#) (August, ADBI WBS)—Sherry Stephenson and Maryse Robert discuss how regional trade agreements (RTAs) support or debilitate the General Agreement on Trade in Services of the World Trade Organization (WTO) in governing rules and liberalization commitments on services trade for WTO members.



**Who Benefits From Regional Trade Agreements? The View from the Stock Market** (September, NBER)—Using capital market data and an event-study approach, Christoph Moser and Andrew K. Rose find that stock markets rise more when RTAs are signed between countries that already

engage in high trade volumes and when poorer countries sign RTAs.



**Food Security and Climate Change in the Pacific: Rethinking the Options** (September, ADB)—The report evaluates the threat of climate change on Pacific's stagnating agricultural production amid rapid urbanization and rising food consumption. Suggestions to improve food

security include enhancing productivity, developing institutional capacity, building climate-resilient infrastructure, employing effective public dissemination, and implementing systematic disaster response.

## OCTOBER–NOVEMBER EVENTS

- 3–4 Oct: **Dialogue on “Green Economy and Inclusive Growth”** (New Delhi, India)
- 4–5 Oct: **Asia-Pacific Trade Facilitation Forum 2011** (Seoul, Republic of Korea)
- 7–9 Oct: **SEACEN High Level Seminar on Financial Stability and 2nd Meeting of Deputy Governors in charge of Financial Stability and Banking Supervision** (Manila, Philippines)
- 10 Oct: **Sharing Green Economy best practices towards Rio+20** (Warsaw, Poland)
- 10–11 Oct: **Coral Triangle Initiative Regional Business Forum 2011** (Kuala Lumpur, Malaysia)
- 13–14 Oct: **SEACEN-CEMLA Conference on The Implementation of Monetary Policy: Lessons from the Crisis and Challenges for Coming Years** (Kuala Lumpur, Malaysia)
- 17–21 Oct: **20th BIMP-EAGA Senior Officials Meeting/ 16th Ministerial Meeting** (Cagayan de Oro, Philippines)
- 18–20 Oct: **Seminar on Corporate Governance Reform** (Basel, Switzerland)
- 21–26 Oct: **The 8th PRC-ASEAN Expo (CAEXPO)** (Nanning, PRC)
- 25–26 Oct: **Regional Workshop on Mainstreaming Climate Change Adaptation in Environmental Impact Assessment in Asia** (Bangkok, Thailand)
- 25–26 Oct: **Regional Approach to Monitoring Utilization of AANZFTA Tariff Preferences** (Manila, Philippines)
- 25–27 Oct: **Seminar on Select Issues in Financial Stability** (Basel, Switzerland)
- 2–4 Nov: **Forum on Health, Environment and Development Annual Conference 2011** (Beijing, PRC)
- 5–9 Nov: **Joint Committee on ASEAN-Japan Comprehensive Economic Partnership Meeting** (Semarang, Indonesia)
- 8 Nov: **ASEAN Finance Ministers’ Investor Seminar** (Jakarta, Indonesia)
- 8–13 Nov: **APEC 2011 Leaders Week** (Honolulu, Hawaii, US)
- 13–17 Nov: **65th Meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol** (Bali, Indonesia)
- 14–18 Nov: **UNESCAP Ministerial Conference on Transport** (Bangkok, Thailand)
- 15–16 Nov: **First ASEAN Competition Conference on Fostering the Promotion of Competition Policy for Regional Development** (Bali, Indonesia)
- 15–16 Nov: **International Conference on GMS 2020: Balancing Economic Growth and Environmental Sustainability** (Bangkok, Thailand)
- 16–18 Nov: **Executives’ Meeting of East Asia Pacific Central Banks Regional Seminar on Liquidity Risk** (Manila, Philippines)
- 22–24 Nov: **WTO/ESCAP ARTNeT Research Workshop on Emerging Issues for Trade Policymakers in Developing Countries of Asia and the Pacific** (Shanghai, PRC)
- 23–24 Nov: **ASEAN+3 Finance and Central Bank Deputies Meeting** (Tokyo, Japan)

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