

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

East Asia Summit adopts “Bali Principles”. Leaders attending the [Sixth East Asia Summit \(EAS\)](#) in Bali, Indonesia 19 November—with the Russian Federation and United States (US) as new members—adopted the “Declaration of the EAS on the Principles for Mutually Beneficial Relations,” known as “the Bali Principles”. Topics discussed include ways to promote sustainable development, food, water and energy security climate change issues.

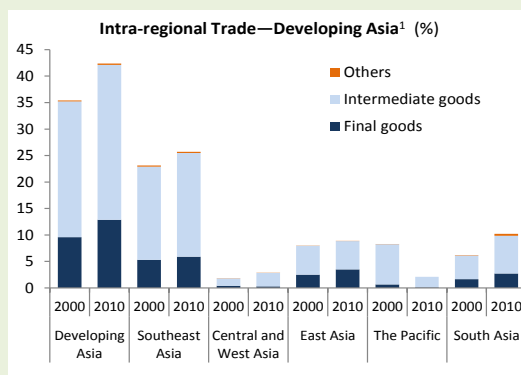
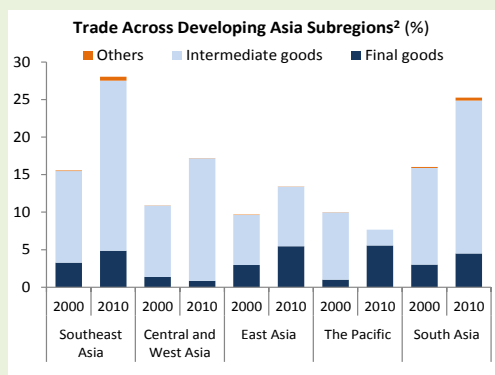
CAREC meetings pave the way for 2020 strategic framework. A Central Asia Regional Economic Cooperation (CAREC) [Senior Officials’ Meeting](#) was held in Baku, Azerbaijan 22 November to finalize the draft of the CAREC 2020 Strategic Framework and the CAREC Institute work plan. The [Tenth Ministerial Conference](#) in Baku 23–24 November focused on priority projects behind the CAREC 2020 Strategic Framework. A [joint ministerial statement](#) was signed and adopted by members during the meeting. Prior to this, transport representatives from CAREC countries joined the [10th CAREC Transport Sector Coordinating Committee Meeting](#) in Astana, Kazakhstan 12–13 October to discuss the [CAREC Corridors Review](#).

Asian economies renew commitment to enhance financial cooperation. A seminar in Bangladesh 15 December—[Financial Inclusion: The Role of Central Banks in the South Asian Association for Regional Cooperation \(SAARC\) Region](#)—encouraged stakeholders to promote financial inclusion initiatives to enhance credit access. In November, the [41st Association of Southeast Asian Nations \(ASEAN\) Bankers Association Conference](#) met in Lao People’s Democratic Republic (Lao PDR) to discuss ways to unify financial standards and apply new technologies to improve the international payments system.

Trans-Pacific Partnership reaches broad agreement to liberalize trade and investment. A “broad outline of an agreement” among ministers of Trans-Pacific Partnership (TPP) members was reached 12 November in Honolulu, Hawaii, US during Asia-Pacific Economic Cooperation (APEC) week. The TPP aims to ease trade and investment, increase exports, and create jobs among its nine members. [Japan, Canada, and Mexico](#) expressed interest in joining the negotiations.

Intermediate goods dominate intraregional trade in developing Asia

The increase in intraregional trade largely derives from intermediate goods—which have accounted for about 70% of intraregional exports over the past decade. Intraregional exports of final goods have increased, albeit only slightly, reaching nearly 13% in 2010 from around 10% in 2000. However, none of the subregions exceeds 5%, suggesting that most of the final goods trade is between subregions. Final goods exports across subregions has increased markedly in recent years, with the boost much more pronounced in the Pacific, East Asia, and Southeast Asia.



Note: Final goods include capital and consumption goods, while intermediate goods include primary goods, parts and components, and processed goods for industry. Data are based on the Broad Economic Categories classification. Developing Asia excludes Taipei, China as data unavailable.

¹Percentage of region’s intraregional exports to total exports to the world. Refer to [ADB website](#) for subregional definitions.

²Percentage of subregional exports to the rest of developing Asia to total exports to the world.

Source: ADB calculations using data from UN COMTRADE database.

Cross-border Infrastructure

ASEAN establishes Community Statistical System. A committee of the heads of statistical offices in ASEAN met in Jakarta 2–3 November to discuss how to harmonize social and economic statistics, and to improve existing statistical infrastructure. To implement the [ASEAN Roadmap on the Attainment of the Millennium Development Goals \(MDGs\)](#), the committee will work closely with country representatives to produce an inaugural ASEAN Statistical Report on MDG Indicators. [Read more.](#)

Fourth GMS Summit endorses strategic framework for 2012–2022. Under the theme "Beyond 2012: Towards a New Decade of Greater Mekong Subregion (GMS) Strategic Development Partnership," representatives of GMS members met 19–20 December to endorse the [New GMS Strategic Framework for 2012–2022](#). Information and communications technology, and transport were among key areas discussed. A joint declaration was also signed.

Multilateral conference works toward improved connectivity within Asia and between Asia and Europe. Representatives from 42 countries and regional and global organizations attended the [Eighth International Conference on TransEurasia](#) in Kazakhstan 10–11 November to identify priority projects in Central and West Asia. These include railways to boost connectivity between Europe, Central Asia, and the People's Republic of China (PRC). The conference promotes national transport system and transcontinental transport corridor development. A [resolution](#) was signed by conference participants.

SAARC sets timeline for rail and sea connectivity framework. A [joint statement](#) issued at the end of the [SAARC Summit](#) in Addu, Maldives 11 November cited the finalization of a Regional Railways Agreement and completion of preparatory work on the Indian Ocean Cargo and Passenger Service by the end of 2011. The summit also directed transport ministers to expedite a pilot run of the Bangladesh-India-Nepal container train.

Trade and Investment

The Republic of Korea moves ahead with US and Colombia trade alliances. The Republic of Korea finally [ratified](#) the Korea-United States free trade agreement (FTA) 22 November. On 21 October, US President Obama [signed](#) the FTA, declaring that it would significantly boost exports and support jobs. The [Republic of Korea](#) also concluded its fifth round of FTA negotiations with Colombia 10–14 October in Seoul. Issues included trade in goods, trade remedies,

intellectual property rights, rules of origin, and sanitary and phytosanitary measures.

PRC-Japan-Korea completes joint FTA research. Government-enterprise-university joint research on a [PRC-Japan-Republic of Korea FTA](#) was completed 16 December in Pyeongchang, Republic of Korea, coinciding with the [seventh and final meeting](#) of the joint study team held 14–16 December, where it was agreed that trilateral trade and investment, and other trilateral cooperation would be expanded. The group proposed FTA negotiations begin soon.

Commonwealth of Independent States signs FTA. Eight Commonwealth of Independent States (CIS) members—Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, and Ukraine—signed an [FTA](#) 18 October.

Japan reaches to South America, continues talks with Australia. The first [joint study](#) for creating an economic partnership agreement (EPA) between Japan and Colombia was discussed 28–29 November in Bogota, Colombia. The scope of the joint study and bilateral economic relations in general were addressed. Japan also held its 13th round of negotiations on a [Japan-Australia EPA](#) 20–21 December in Canberra, Australia. Issues discussed included trade in goods, rules of origin, and improvement of the business environment. The next round will be held in Tokyo, Japan on February 2012.

The PRC further liberalizes trade with ASEAN and Taipei,China. The second phase of [Economic Cooperation Framework Agreement \(ECFA\) tariff reductions](#) between the PRC and Taipei,China became effective 1 January 2012. Covering the largest number of goods to date, it comprises mostly imports from Taipei,China. The PRC signed a [Protocol on Enforcement of the Second Package of Specific Commitments](#) under the Agreement of Trade in Services of the ASEAN-PRC FTA ([ACFTA](#)) at the [14th ASEAN-PRC Summit](#) in Bali, Indonesia 18 November. The protocol also became effective 1 January 2012.

India leads trade integration in South Asia. On 10 November, [India](#) reduced its "sensitive" list under the South Asia Free Trade Agreement from 480 tariff lines to 25 tariff lines. It also concluded the [sixth round of bilateral talks](#) on commercial and economic cooperation with Pakistan 14–16 November in New Delhi, India. Discussion centered on the full normalization of trade relations, development of trade infrastructure, examination of non-tariff barriers, and enhancing trade facilitation. On 4 October, Union Minister of Commerce, Industry, and Textiles Shri Anand Sharma announced that negotiations have started on the [India-Indonesia Comprehensive Economic Cooperation Agreement](#)

(CECA). The CECA would build on the [ASEAN-India FTA](#) and would cover economic cooperation, trade in goods and services, and investment.

Money and Finance

New or expanded currency swaps agreements promote financial cooperation and internationalization of the yuan.

The PRC signed bilateral currency swap agreements with [Thailand](#) and [Pakistan](#), while Japan did so with [India](#). Both the PRC and [Japan](#) also expanded swap facilities with the Republic of Korea, with the PRC also doing so with [Hong Kong, China](#). Viet Nam is seeking greater financial cooperation with [Sri Lanka](#) and renewed its financial ties with [Japan](#), [Republic of Korea](#), and [Lao PDR](#).

Authorities assess impact of eurozone crisis in Asia; call for collaborated response.

In its [Regional Economic Outlook for the Asia and Pacific Region](#), the International Monetary Fund (IMF) said that while far from the epicenter of Europe's crisis, Asia remains vulnerable to trade and financial shocks, given its high degree of globalization. Anticipating a global economic downturn, the [Group of Twenty](#) emphasized the need for strengthening policy coordination. Members of the [Organisation of Islamic Cooperation](#) highlighted the potential role of Islamic finance and reaffirmed their commitment to strengthen collaboration in its meeting in Malaysia. The [symposium on financial stability monitoring and management](#), organized by the IMF and the People's Bank of China, discussed options for reducing capital flow volatility and further developing capital markets. The [2011 International Finance Forum](#) held in Beijing, PRC brought together world leaders to explore new global financial frameworks to ensure sustainable development in the post-crisis era.

Several countries announce initiatives to strengthen financial systems to attract more investments.

Singapore and Japan took the lead in over-the-counter derivatives reform, while [India](#) lifted foreign limits on holding government corporate bonds. [Indonesia](#) approved a new regulator to oversee banks. Malaysia announced tax deductions and exemptions to support the [Islamic capital market](#). [Thailand](#) considered water-futures trade in light of the recent floods. The [Philippines Stock Exchange](#) extended trading hours. And the [ASEAN Trading Link](#)—scheduled to be launched in June 2012—will allow cross-border trading between ASEAN stock exchanges. This should help attract more investment and liquidity to the region.

SPECIAL FEATURE



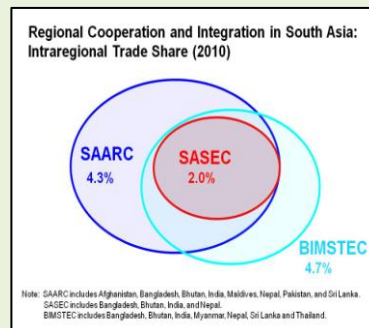
ADB supports RCI in South Asia in four ways: (i) subregionally through the South Asia Subregional Economic Cooperation (SASEC)

program, (ii) regionally through the South Asia Association for Regional Cooperation (SAARC), (iii) interregionally through the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and (iv) through collaboration with networks of regional policy research institutes.

Recent Developments

- **SASEC working groups on transport, trade facilitation, and energy convened in Bangkok, Thailand, in October 2011.** They endorsed investment projects worth \$2 billion, demonstrating strong SASEC commitment to strengthen transport connectivity, trade facilitation, and energy cooperation.
- **ADB has assisted the SAARC Secretariat in developing detailed project proposals.** These include codification of the variation in levels of capital market development, organization of regional conferences for knowledge

sharing on RCI, and strengthening SAARC regional institutions. Held in Male in October 2011 with the Government of Maldives



and the SAARC Secretariat. The ADB-financed SAARC Energy Trade Study (SRETS) was also adopted by SAARC Energy Ministers. SRETS is a significant step in ensuring energy security in the region.

- **Under the BIMSTEC framework, ADB has prepared a technical assistance project.** At the request of the BIMSTEC Working Group, the TA supports BIMSTEC's regional institutions, including its Secretariat, which was recently established in Dhaka, and expert groups in rail, road, aviation, maritime, and logistics cooperation.

Regional Public Goods

ASEAN tackles environmental challenges. The [Roundtable for ASEAN Chief Justices on Environment](#) met in Jakarta, Indonesia 7 December to deal with regional environmental challenges. The [ASEAN Disaster Risk Financing and Insurance Forum](#) was also held in Jakarta, Indonesia 8–10 November, bringing together ASEAN, the World Bank, the Global Facility for Disaster Reduction and Recovery (GFDRR), and the [United Nations International Strategy for Disaster Reduction](#) to begin working on a risk-financing roadmap to build financial resilience against natural disasters.

Clean energy projects in urban areas a priority. ADB held a three-day forum in Manila, Philippines, on “[Financing Future Cities](#)”—how to build and fund environmentally sustainable and competitive cities. During the forum, ADB launched “[Competitive Cities in the 21st Century: Cluster-Based Local Economic Development](#).” The book offers a design for developing competitive, sustainable, and inclusive urban economies. Meanwhile, on 6 December, the Japan Bank for International Cooperation signed an equity participation agreement that will add [\\$20 million to the South Asia Clean Energy Fund \(SACEF\)](#). Targeting a \$300 million capitalization fund, SACEF will fund green energy projects in South Asia to reduce greenhouse gas emissions.

Asia and the Pacific unites to tackle regional environmental challenges. Environment and fisheries ministers from six countries in Asia and the Pacific met 28 October in Manila, Philippines on a [collective plan](#) to safeguard the Coral Triangle. In a related development, Coral Triangle communities in Indonesia and the Philippines will receive a [\\$2-million grant](#) from the Japan Fund for Poverty Reduction, managed by ADB, to establish eco-friendly businesses that support conservation in the subregion. On 7–11 November, the [Second Asia-Pacific Forestry Week](#) was held in Beijing, PRC. About 1,500 participants discussed challenges faced by the forestry sector and the importance of inter-sectoral cooperation in halting deforestation. [Two side events](#)—Reducing Emissions from Deforestation and Forest Degradation (REDD+) activities and a presentation on forestry opportunities—were organized by the Secretariat of the Pacific Community (SPC) and its partners to show the progress of the forestry sector in Pacific countries.

South Asia agrees on climate resilience, disaster response, energy, and food security. Agreements signed at the [17th SAARC Summit](#) 10-11 November included rapid response to natural disasters and a regional seed bank. The [Addu Declaration](#) also affirmed the execution of the Thimpu Statement on Climate Change, the SAARC Food Bank, and fiscal appropriation toward renewable energy investments.

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On 19 November at the [Bhutan Climate Summit for a Living Himalayas](#), Bangladesh, Bhutan, India, and Nepal adopted a framework of cooperation to implement climate resilience measures to ensure biodiversity, energy, water, and food security. The framework hinges on knowledge sharing, institutional capacity building, and joint research.

STUDIES AND REPORTS



[Can Asia Sustain an Export-Led Growth Strategy in the Aftermath of the Global Crisis? An Empirical Exploration](#) (December, *ADBI WPS*)—Using panel data for Asian countries, Arslan Razmi and Gonzalo Hernandez distinguish between different kinds of export- and trade-led growth in order to more precisely identify the nature of growth in the pre-crisis decades.



[International Trade and Institutional Change](#) (December, *NBER*)—A model is presented wherein imperfect institutions create rents for some parties and are a source of comparative advantage in trade. Institutional quality is then shown to be the equilibrium of a political-economy game. The paper also provides empirical evidence for a related cross-sectional prediction of the model.



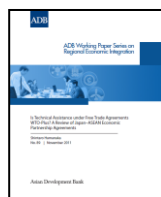
[Asia Economic Monitor](#) (December, *ADB*)—The second issue of 2011 forecasts economic growth in emerging East Asia will continue to moderate to 7.2% in 2012 from 7.5% in 2011—as growing sovereign debt problems in Europe and an anemic US economy raise the specter of a deep global economic downturn.



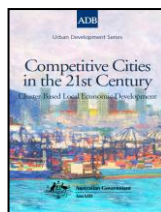
[Distribution, Domestic Politics, and Monetary Cooperation in East Asia](#) (December, *ADBI WPS*)—Natasha Hamilton-Hart investigates why monetary cooperation in East Asia has not progressed to even modest levels. She argues that domestic distributional politics at the country level are a plausible reason for the low priority given regional monetary cooperation.



Asia Bond Monitor (November, ADB)—The latest issue says demand for local bonds remains strong in face of rising risks and global weakness. Yet, yield curves in most local currency government bond markets flattened and shifted downwards as market and policy focus moved to support growth.



Is Technical Assistance under Free Trade Agreements WTO-Plus? A Review of Japan-ASEAN Economic Partnership Agreements (November, ADB)—The paper presents a detailed textual analysis of World Trade Organization (WTO) Agreements and several FTAs in Asia, and identifies how much additional technical assistance developing member countries can enjoy if they enter into FTAs with developed countries.



Competitive Cities in the 21st Century: Cluster-Based Local Economic Development. (November, ADB)—The publication tackles major challenges in urban areas that threaten sustainable growth and development. It introduces the City Cluster Economic Development approach, which equips stakeholders with a strategic framework and the analytical tools needed to support inclusive development in competitive Asian cities.



Risk Sharing and Financial Contagion in Asia: An Asset Price Perspective (October, IMF WP)—Phurichai Rungcharoenkitkul assesses financial integration in Asia in terms of risk-sharing benefits versus the financial-contagion cost. As measured by an index developed in the paper, risk sharing in Asia is reported to be low but varying across time and countries. In contrast, contagion risks are shown to be more significant intraregionally.

JANUARY–FEBRUARY 2012 EVENTS

- 12–14 Jan: **10th Meeting of SEACEN Executive Committee** (Colombo, Sri Lanka)
- 14–15 Jan: **Second Assembly of the International Renewable Energy Agency** (Abu Dhabi, United Arab Emirates)
- 15–20 Jan: **SEACEN Course on Consolidated Supervision** (Bangkok, Thailand)

- 16–19 Jan: **World Future Energy Summit** (Abu Dhabi, United Arab Emirates)
- 17–19 Jan: **Second Cooperative Energy Efficiency Design for Sustainability (CEEDS) Phase 3** (Singapore, Singapore)
- 23–24 Jan: **Global Commodities Forum 2012** (Geneva, Switzerland)
- 25–27 Jan: **Third Intergovernmental Review Meeting on the Implementation of the Global Programme of Action for the Protection of the Marine Environment from Land-based Activities** (Manila, Philippines)
- 26–27 Jan: **Transforming Transportation 2012** (Washington, DC, US)
- 25–29 Jan: **World Economic Forum Annual Meeting 2012** (Davos-Klosters, Switzerland)
- 30 Jan–19 Feb: **APEC First Senior Officials' Meeting (SOM1) and Related Meetings** (Moscow, Russia)
- 31 Jan–3 Feb: **Latin America and Caribbean Ministerial Environment Forum for Rio+20** (Quito, Ecuador)
- 31 Jan–9 Feb: **Climate Change Adaptation for Coastal Communities and Training of Trainers Courses** (Cebu, Philippines)
- 2–4 Feb: **Bridging Connection Technologies and Sustainable Development** (California, US)
- 2–4 Feb: **Global Forum on Trade Statistics** (Geneva, Switzerland)
- 13–14 Feb: **FAO/IFOAM/UNCTAD International Conference on Global Organic Market Access in 2012 and beyond** (Nuremberg, Germany)
- 16–17 Feb: **APEC Finance Deputies' and Central Bank Deputies' Meetings** (Yaroslavl, Russia)
- 16–17 Feb: **47th Meeting of SEACEN Governors' Conference/High Level Seminar and 31st Meeting of SEACEN Board of Governors** (Seoul, Republic of Korea)
- 20 Feb: **Panel discussion on Thinking Development: Three decades of the Trade and Development Report (TDR)** (Geneva, Switzerland)
- 21–23 Feb: **Second International Grain Trade Conference "Asia - Russia"** (Singapore, Singapore)

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