

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

2012 meeting agenda in full swing as Cambodia assumes ASEAN Chairmanship. The [ASEAN Foreign Ministers' Retreat](#), held 10–11 January in Siem Reap, Cambodia, was the first meeting held under Cambodia's ASEAN Chairmanship 2012. The foreign ministers endorsed a proposal to hold the Initiative for ASEAN Integration (IAI) Development Cooperation Forum in Indonesia and the ASEAN Connectivity Symposium in Cambodia, both in September. Meanwhile, India and ASEAN convened the [Delhi Dialogue IV](#) in New Delhi 13–14 February to discuss critical issues on economic cooperation and regional security, in particular climate change, water and food security, and pandemics.

New MOUs highlight push for economic and trade integration within Asia. Business organizations from four Asian nations signed a memorandum of understanding (MOU) on 20 February to establish the [Bangladesh-\[People's Republic of\] China-India-Myanmar \(BCIM\) Business Council](#).

The council aims to strengthen economic, trade and investment relations among members, and promote smoother exchange of business information. On 15 February, [Singapore and Sri Lanka](#) signed an MOU to boost business and trade ties between the two countries.

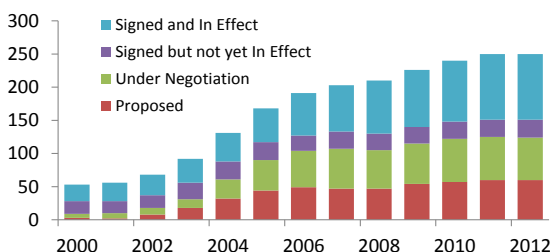
Asian countries push for financial cooperation and integration. The [ASEAN+3 Macroeconomic Research Office \(AMRO\)](#), the macroeconomic surveillance unit of the Chiang Mai Initiative Multilateralization (CMIM) Agreement, opened its headquarters in Singapore 31 January. On 11 January, the stock exchanges of [Nepal and the Republic of Korea](#) (Korea) signed a cooperation agreement for the development of the Nepal Stock Exchange. An MOU on the [Singapore-Myanmar Technical Cooperation Programme](#) was concluded 30 January. The MOU includes provisions for training by Singapore and courses on central banking and bank supervision. On 2 February, the central banks of [Malaysia and Thailand](#) agreed to a cross-border collateral arrangement to ease liquidity to financial institutions.

FTA initiatives of Asia and the Pacific now total 250

Free trade agreements (FTAs) of Asia and the Pacific—both within and outside the region—continue to increase. From just 53 in 2000, there were 250 FTA initiatives as of January 2012. Of these, about half have been concluded with 64 under negotiation and 60 proposed. Almost 75% of these FTAs are bilateral. FTAs draw economies closer together and allow supply chains and production networks to flourish.

FTAs by Status

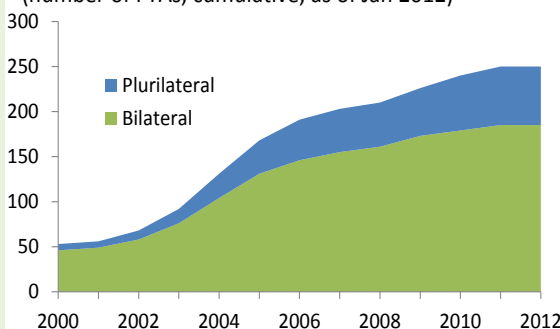
(number of FTAs, cumulative, as of Jan 2012)



Notes: 1. **Proposed** - parties are considering a free trade agreement, establishing joint study groups or joint task force, and conducting feasibility studies to determine the desirability of entering into an FTA. 2. **Under Negotiation** - parties initially negotiate contents of a framework of agreement (FA) or begin negotiations without an FA. 3a. **Signed but not yet In Effect** - parties sign the agreement after negotiations have been completed. Some FTAs would require legislative or executive ratification. 3b. **Signed and In Effect** - when the provisions of an FTA becomes effective, e.g., when tariff cuts begin.
Source: Asia Regional Integration Center, ADB.

FTAs by Scope

(number of FTAs, cumulative, as of Jan 2012)



Notes: 1. **Bilateral** - when a preferential trading arrangement involves only two parties. **Plurilateral** - when a preferential trading arrangement involves more than two parties.
Source: Asia Regional Integration Center, ADB.

Cross-border Infrastructure

PRC completes major Pan-Asia Railway tunnel. The People's Republic of China (PRC) completed construction of the ten-kilometer [Xiushan Tunnel](#), a key part of the Yuxi-Mengzi Railway line. Expected to open this year, the line is the first section of the southern link of the planned Singapore-PRC-Europe Pan-Asia railway.

South Asia cross-border infrastructure promoted. The [South Asia Regional Conference on Policies and Regulations to Increase Cross-Border Energy Trade](#) was held 15–17 February in New Delhi, India. It brought together senior decision makers to share ideas and best practices on improving cross-border electricity trade. During the [Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation \(BIMSTEC\) Second Ministerial Level Meeting on Poverty Alleviation](#) 16 January, members endorsed a Poverty Plan of Action and pledged to increase cooperation in communications, transport, and technology transfer.

India and Sri Lanka sign deals to improve railway services and telecommunications cooperation. Officials from [India and Sri Lanka](#) signed several agreements 17 January, including a \$382-million credit line from the Indian government for Sri Lanka's Northern Railway. Communication officials from both countries agreed to set up a mechanism for telecommunications cooperation, particularly in the areas of "next generation" networks, new technologies, and economic regulation.

Trade and Investment

New trade agreements become effective. On 21 February in Seoul, Korea, diplomatic notes were exchanged notifying completion of domestic requirements for the ratification of the [Korea-US Free Trade Agreement \(KORUS FTA\)](#). Effective 15 March, almost 80% of US exports to Korea will become duty-free. Indonesia also ratified the [ASEAN-Australia-New Zealand FTA \(AANZFTA\)](#) on 10 January, making the agreement in force for all 12 countries. On 23 January, [Japan and Peru](#) exchanged diplomatic notes on their economic partnership agreement (EPA), which became effective 1 March. The agreement liberalizes trade in goods and services and strengthens cooperation in competition policy and intellectual property, among others.

Pakistan and Indonesia sign PTA. The [Indonesia-Pakistan Preferential Trade Agreement \(PTA\)](#) was signed 3 February in Jakarta, Indonesia. The PTA shall be in force after completion of their respective legal procedures.

Negotiations on other FTAs continue across the region. On 14–17 February, [Japan and Australia](#) concluded their 14th set of EPA negotiations over trade in goods and services, investment, energy and mineral resources, and food supply in Tokyo, Japan. Also, the 11th round of [Trans-Pacific Partnership \(TPP\)](#) negotiations were held 1-9 March in Melbourne, Australia.

Money and Finance

SAARC Finance Ministers discuss financial cooperation. On 29–30 January, the [Fifth Meeting of South Asian Association for Regional Cooperation \(SAARC\) Finance Ministers](#) met in Dhaka, Bangladesh to consider ways to boost capital flows and intraregional long term investment. In an 11 February joint-statement, [Pakistan and Sri Lanka](#) pledged to cooperate in trade, finance and banking, and other fields. India and Pakistan are discussing the possibility of allowing bank branches to operate in each other's country.

Internationalization of the yuan gathers support with currency swaps and bond issuance. The People's Bank of China signed bilateral local currency swaps with the central banks of [UAE and Turkey](#), and expanded its currency pact with [Malaysia](#). It also signed an MOU with the [Qatar Central Bank](#). In January, the [China Development Bank](#) issued CNY6 billion renminbi-denominated bonds in Hong Kong, China. [Japan and the PRC](#) are also promoting direct renminbi-yen trading. Outside Asia, the PRC is pushing for stronger financial, economic, and trade ties with [Canada](#), the [European Union](#), [Turkey](#), and the [US](#). The [United Kingdom](#) is partnering with Hong Kong, China to promote London as a yuan trading center.

Forums highlight need for financial integration to foster economic growth and stability. "*Asia: Driving Sustainable Growth*" was the theme of the [Asian Financial Forum 2012](#) held 16-17 January in Hong Kong, China. Addressing the forum, Hong Kong, China [Chief Executive Donald Tsang](#) said that Asia's strong fundamentals, including a stable banking system, provide a solid platform for growth. [President Kuroda](#) spoke on how Asia can contribute to sustaining global growth. The [47th Conference of the Governors of the South East Asian Central Banks \(SEACEN\)](#), [High-Level Seminar](#), and [31st Meeting of the SEACEN Board of Governors](#) were held 13–14 February in Seoul, Korea. In his [opening speech](#), Bank of Korea Governor Kim commended SEACEN, ASEAN+3, and the [Executives' Meeting of East Asia Pacific Central Banks \(EMEAP\)](#) for promoting regional financial market development and stability.

Regional Public Goods

ASEAN discusses issues on biodiversity, environment management, and measures to balance growth and the environment. On 25–26 January, the ASEAN Centre for Biodiversity and the British Foreign and Commonwealth Office convened the [Manila Dialogue](#), a high-level policy meeting for senior officials and experts from Brunei Darussalam, Indonesia, Malaysia, Philippines, and Singapore. The Dialogue aims to incorporate economic benefits of biodiversity and costs of losing it into national development plans. In the [GMS 2020: Balancing Economic Growth and Environmental Sustainability International Conference](#) held 20–21 February, Greater Mekong Subregion (GMS) members discussed the importance of implementing environment-friendly measures to strike a balance between economic growth and natural resource management. On 25 January, the Brunei Darussalam-Indonesia-Malaysia-Philippines—East ASEAN Growth Area (BIMP-EAGA) ministers added [environment management](#) as its fourth strategic pillar after food security, ecotourism, and enhancing connectivity.

Pacific Islands launch new waste management program; hold dissemination workshop. On 2 February, the Secretariat of the Pacific Regional Environment Programme (SPREP) announced the [Clean Pacific 2012 Campaign](#), which aims to reduce pollution and promote proper waste disposal among member countries. The SPREP also held the campaign's [first training workshop](#) 13–16 February in Nadi, Fiji, which advocated action at the grassroots level. The [Pacific Adaptation to Climate Change](#) carried out capacity-building workshops as well to provide a framework for evaluating and comparing individual climate-related projects. The [workshop in Suva, Fiji](#) was held 24–27 January and covered food production and food security; while the [workshop in Apia, Samoa](#) was held 6–9 February and covered climate change adaptation projects.

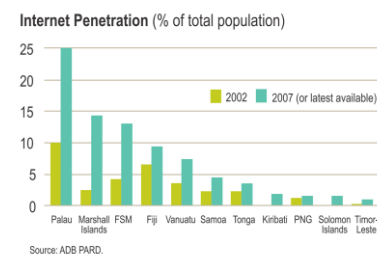
Summits discuss innovation for sustainable development. The [World Future Energy Summit 2012](#), held 15–17 January in Abu Dhabi, UAE, covered infrastructure, innovation, investment and finance of renewable energy projects, as well as environment targets. The [12th Delhi Sustainable Development Summit](#) in New Delhi, India was held 2–4 February. With the theme *“Protecting the Global Commons: 20 years Post Rio”*, participants discussed issues in conserving common pool resources, such as leadership, private sector participation, renewable energy, and green technology.

SPECIAL FEATURE

ADB's **Pacific Regional Department (PARD)** has long been supporting RCI among its 14 Pacific developing member countries (PDMCs), often with other development partners. Contributions include support for regional development forums, infrastructure finance; regional projects focused on renewable energy, marine and coastal management; and strengthening disaster preparedness. PARD's regional technical assistance contributes to strengthening capacity for public financial management, statistics, and data collection.

Recent Developments: Supporting regional ICT connectivity

Since 2010, the Federated States of Micronesia (FSM), Papua New Guinea (PNG), Marshall Islands, Samoa, and Fiji Islands have been connected by submarine fiber-optic cables. All other PDMCs rely on satellite, which is expensive and constrained by limited bandwidth.



In response to Pacific Islands Forum leaders' call for improved international connectivity, ADB has been supporting the Pacific Regional Information and Communications Technology (ICT) Connectivity Program (initiated by the World Bank), which aims to connect Tonga, Samoa, Solomon Islands, and Vanuatu by submarine optic fiber cables to the existing global submarine cable network.

Under the first phase of the initiative, endorsed in August 2011, ADB and the WB will jointly support Tonga Cable Limited in developing a submarine cable system that includes installation of an 827-kilometer cable link between Nuku'alofa (Tonga) and Suva (Fiji). Under the second phase, (currently under preparation), support will be provided to the development of a submarine cable system for the Solomon Islands. Both projects will help improve the regulatory environment for telecommunications.

The projects are expected to improve availability and cut costs of internet services, which will open up the market for ICT-related business opportunities and boost socio-economic development through improved service delivery, notably in the health and education, among others.

Source: ADB Pacific Regional Department.

STUDIES AND REPORTS



[Weathering Financial Crises: Bond Markets in Asia and the Pacific](#) (January, *Bank for International Settlements*)—This volume is a collection of papers from the BIS and Bank of Japan’s seminar on “*The development of regional capital markets.*” It includes papers on domestic bond markets in emerging economies and the Asian Bond Fund 2 Initiative.



[Lessons of the European Crisis for Regional Monetary and Financial Integration in East Asia](#) (February, *ADB*)—The paper discusses the causes of the current European crisis and the challenges European Economic and Monetary Union countries face in resolving it. Based on this analysis, Ulrich Volz derives five lessons for regional financial and monetary and integration in East Asia.



[Regional and Global Monetary Cooperation](#) (February, *ADB*)—Mario Lamberte and Peter J. Morgan review current regional and global monetary cooperation, focusing on financial safety nets, with a view toward developing recommendations for more effective cooperation, especially between the International Monetary Fund and regional financial arrangements.



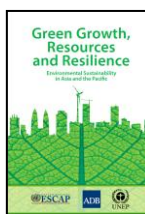
[Strengthening Financial Infrastructure](#) (February, *ADB*)—Peter J. Morgan and Mario Lamberte provide comparative perspectives on current and future financial market development in ASEAN, PRC, and India; identify key priorities for strengthening financial infrastructure to promote financial development and integration; and produce policy recommendations at the national, sub-regional, and regional levels.



[Investment Policy Monitor No. 7](#) (February, *UNCTAD*)—Covering September 2011–January 2012, the report notes that countries generally have favorable foreign investment policies and observes an increase in regulatory activity, particularly covering competition policy and investments in mining.



[Services Trade: Approaches for the 21st Century](#) (February, *ADB* and *Pacific Economic Cooperation Council*)—The booklet explains why services are neglected in international trade. Broad explanations identified are lack of awareness of the contribution of services to the economy, concerns over the impact of services openness, and inadequacies in negotiating modalities.



[Green Growth, Resources, and Resilience: Environmental Sustainability in Asia and the Pacific](#) (February, *UNESCAP*, *ADB*, *UNEP*)—The report explains why adopting a sustainable socio-economic outlook is imperative for Asia and the Pacific. It discusses new challenges and opportunities of attaining better quality of

life through resource efficiency, green growth strategies, and greater resilience from external factors. The report will be reference material for the UNCSO to be held in Rio de Janeiro, Brazil later this year.



[Small Island Developing States and Climate Change: Effects, Responses and Positions beyond Durban](#) (January, *Real Instituto Elcano*)—Raul Alfaro-Pelico evaluates regional adaptation, mitigation, technology and climate financing policies adopted by small island developing states in the Pacific, Caribbean, Africa and Indian

Ocean, and weighs their climate change stance following the Durban Climate Change Conference 2011.



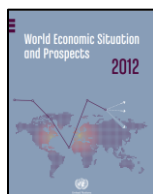
[Is Trade in Asia Really Integrating?](#) (January, *ADB*)—Shintaro Hamanaka explains the level of trade interdependence between countries determine the type of agreements they enter into. High-level interdependence leads to deep and formal agreement while a low-level integration yields shallow, goods-centered agreement.



[The PRC's Free Trade Agreements with ASEAN, Japan, and the Republic of Korea: A Comparative Analysis](#) (January, *ADB*)—Gemma Estrada, Donghyun Park, Innwon Park, and Soonchan Park show that the PRC would benefit from bilateral agreements with Japan, Korea, and ASEAN, but will gain the most from a larger region-wide FTA covering ASEAN+3.



Global Economic Prospects 2012 (January, World Bank)—The report notes that the world economy has entered a very difficult phase characterized by significant downside risks and fragility. In this highly uncertain environment, developing countries should evaluate vulnerabilities and prepare contingencies to deal with both immediate and longer-term effects of a potential downturn.



World Economic Situation and Prospects 2012 (January, UN)—The world economy is teetering on the brink of another major downturn according to the United Nations. Output growth already slowed considerably during 2011 and anaemic growth is expected in 2012 and 2013.

Developing countries and economies in transition are expected to continue to stoke the engine of global, but their expansion in 2012–2013 will be well below that of 2010–2011.

MARCH–APRIL 2012 EVENTS

- 1 Mar: **Chiang Mai Initiative Multilateralization Meeting** (Siem Reap, Cambodia)
- 7 Mar: **16th ASEAN Capital Market Forum** (Singapore)
- 9 Mar: **Third Senior Level Committee on ASEAN Financial Integration Meeting** (Ha Noi, Viet Nam)
- 12–15 Mar: **23rd SEACEN-FSI Course on Basel II Pillar 2: Supervisory Review Process** (Manila, Philippines)
- 12–15 Mar: **UNESCAP Ministerial Conference on Transport** (Bangkok, Thailand)
- 13–14 Mar: **SAARC Workshop on Experience Sharing of Nepalese Biogas, Solar Home System and Micro-hydro Power Projects with other SAARC Countries** (Kathmandu, Nepal)
- 19–27 Mar: **3rd Intersessional Meeting of the UN Conference on Sustainable Development** (New York, US)
- 26 Mar: **The ASEAN Central Bank Forum** (Phnom Penh, Cambodia)
- 27–29 Mar: **4th Meeting on PACER Plus Officials** (Brisbane, Australia)
- 27–29 Mar: **2012 Energy Efficiency Global Forum** (Florida, US)
- 28 Mar: **Formal ASEAN+3 Finance Deputies Meeting** (Phnom Penh, Cambodia)
- 29 Mar: **Informal ASEAN+3 Finance Deputies Meeting; ASEAN Finance Ministers' Retreat; ASEAN Central Bank Governors' Meeting** (Phnom Penh, Cambodia)
- 29–31 Mar: **ASEAN Conference of Deputy Governors of Central Bank Meeting; ASEAN Conference of Governors of Central Bank Meeting** (Cambodia)
- 30 Mar: **16th ASEAN Finance Ministers Meeting** (Phnom Penh, Cambodia)
- 31 Mar: **ASEAN Finance and Central Bank Deputies Meeting** (Phnom Penh, Cambodia)
- 1 Apr: **ASEAN-EU Business Summit** (Phnom Penh, Cambodia)
- 1–2 Apr: **ASEAN+3 Finance and Central Bank Deputies Meeting** (Cambodia)
- 2 Apr: **7th ASEAN Economic Community Council** (Phnom Penh, Cambodia)
- 2–3 Apr: **ASEAN Finance Ministers' Retreat and ASEAN Finance Ministers' Meeting** (Cambodia)
- 3–4 Apr: **20th ASEAN Summit** (Phnom Penh, Cambodia)
- 3–4 Apr: **8th BIMP-EAGA Summit** (Phnom Penh, Cambodia)
- 3–4 Apr: **6th Indonesia-Malaysia-Thailand Growth Triangle Summit** (Phnom Penh, Cambodia)
- 9 Apr: **The Second Annual Asia Pacific Renewable Energy Summit** (Manila, Philippines)
- 25–26 Apr: **11th CAREC Transport Sector Coordinating Committee Meeting** (Manila, Philippines)
- 26–27 Apr: **9th ASEAN-EU Ministerial Meeting** (Bandar Seri Begawan, Malaysia)

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