

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

ASEAN Summit advances several initiatives. In Phnom Penh, Cambodia on 15–20 November, leaders at the **21st ASEAN Summit** agreed to **ease labor migration** between member states, **begin negotiations for the Regional Comprehensive Economic Partnership** in 2013, and **implement region-wide strategies for malaria control**, among others. Ministerial meetings on **energy, agriculture, and environment** were also held prior to the Summit.

APEC holds 2012 Summit. In Vladivostok, Russian Federation on 2–9 September, the **Asia-Pacific Economic Cooperation (APEC) 2012** committed to a multilateral trading system, trade and investment liberalization, food security, disaster and emergency preparedness, and regional economic integration. APEC leaders issued a **declaration** detailing strategies to address these issues.

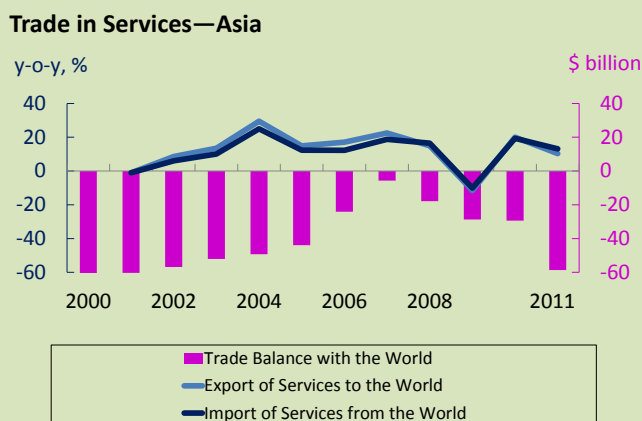
CAREC prioritizes transport infrastructure development. At the **11th Ministerial Conference** on 30–31 October, CAREC ministers approved the **Wuhan Action Plan**, which allocates more than **\$23 billion for new regional transport infrastructure** projects. The action plan prioritizes 68 transport projects to enhance the six major corridors linking eastern the People’s Republic of China (PRC) with Central Asia, South Asia, and Europe—for example, connecting Kazakhstan to trading hubs in Pakistan. CAREC

ministers also agreed to establish a base for the **CAREC Institute** in 2013, which will support strategic projects through research, training, and knowledge management.

Bangladesh, Switzerland, and Norway join ASEM. The **three countries** were welcomed as members of the Asia-Europe Meeting (ASEM) at the **9th ASEM Summit** in Vientiane, Lao PDR on 5–6 November. The three new members committed to further economic and trade cooperation with the 49-member group. **Asian and European finance ministers endorse financial stability.** At the **10th Asia Europe Meeting (ASEM) Finance Ministers’ Meeting** held 15 October in Bangkok, Thailand, **ministers noted** the role of regional financial arrangements in Asia and Europe in promoting financial stability. Member countries also worked on double-taxation agreements such as those Singapore signed with **Germany, Italy, and Poland**. India also signed tax pacts with **Spain and the United Kingdom**.

Asia increases membership in WTO. The World Trade Organization (WTO) General Council welcomed the accession of **Lao PDR** on 26 October. Ratification of the membership package is expected by December. The Working Party on **Tajikistan’s** accession approved the package containing its terms of entry to the WTO the same day.

Services Trade in Asia



Source: United Nations Service Trade Statistics Database.

Trade in services is an important part of the Asian trade network. The value of trade in services grew from \$636 billion in 2000 to \$2.1 trillion in 2011, or an average growth of 11% per year. During the same period, trade in services comprises about 20% of the value of trade in goods. After the global financial crisis, trade in services contracted by 11%, although this was less than the 20% contraction observed for trade in goods. Over the last decade, Asia has incurred deficits for services trade worth \$41 billion per year on average, while the region has had surpluses for trade in goods worth \$164 billion annually.

Cross-Border Infrastructure

ASEAN pushes for ICT and maritime cooperation; moves to narrow development gaps. At the [12th ASEAN Telecommunications and IT Ministers Meeting](#) on 12–16 November in Cebu, Philippines, ASEAN information and communications technology (ICT) ministers agreed to improve cooperation to widen access to high-speed broadband in the region. The East Asia Summit held its [first maritime forum](#) on 3–5 October in Manila, Philippines to work toward enhanced maritime cooperation. On 29 October, the [ASEAN Integration Development Cooperation Forum](#) met on plans to narrow development gaps between Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) and the six more developed ASEAN members in line with creating an ASEAN Community.

ADB finances SASEC transport corridor. ADB will provide \$198 million to finance the [partial upgrade of the Dhaka-Chittagong-Northwest transport corridor in Bangladesh](#)—an integral part of the [South Asia Subregional Economic Cooperation \(SASEC\) Road Connectivity Project](#). The work will include expanding the current two-lane highway to four lanes, and upgrading two land ports in Bangladesh. The project will boost trade between Bangladesh, Bhutan, India, and Nepal.

PRC, India sign railway pact. On 27 November, [India signed an agreement with the PRC](#) to enhance technical cooperation on rail technology, particularly high speed rail, heavy haulage, and station development. Both countries also agreed that future cooperation on railways will fall under the Infrastructure Working Group of the India-China Strategic Economic Dialogue process.

Asian regional connectivity summits held. At the First Asia Cooperation Dialogue Summit on 15–17 October in Kuwait, leaders and foreign ministers from Asia and the Middle East issued a [20-point communique](#) to strengthen regional connectivity and focus on energy, environment, and education. The week-long [Asia Pacific Trade Facilitation Forum 2012](#) concluded in Colombo, Sri Lanka on 2 November with a call for reducing non-tariff barriers, promoting the use of paperless trade, and improving cross-border infrastructure to increase intraregional trade.

Closer cooperation in communication, trade and public diplomacy was advocated at the [Fifth South Asia Economic Summit](#) on 11–13 September in Islamabad, Pakistan.

Trade and Investment

More FTAs signed, take effect. [Hong Kong, China](#) signed a free trade agreement (FTA) with Chile on 7 September in Vladivostok, Russian Federation. Chile will abolish import duties on 88% of tariff lines of goods from Hong Kong, China. Meanwhile, Hong Kong, China's FTA with the [European Free Trade Association \(EFTA\)](#) entered into force 1 October. Its first FTA with [Europe](#), it covers trade in goods and services, investment, and other trade-related issues such as intellectual property. The Republic of Korea initiated an FTA with [Colombia](#) on 31 August in Seoul. The FTA will become effective after completing domestic requirements. On 28 August, the Republic of Korea also submitted a framework agreement for an FTA with [Turkey](#) and an agreement in trade in goods (signed 1 August) for ratification. Working level consultations were also planned for an FTA with [Central America](#), discussed during a meeting with Costa Rica 21 August in Seoul. A [Malaysia-Australia](#) FTA was also submitted for ratification by the Australian Parliament 1 November. The FTA will guarantee tariff-free entry of 97.6% of goods exports from Australia.

Trade negotiations launched. [ASEAN](#) and six partner countries launched negotiations for a [Regional Comprehensive Economic Partnership](#) on 20 November in Phnom Penh, Cambodia. Meanwhile, [Japan](#) and [Canada](#) held its first round of negotiations for an economic partnership agreement (EPA) 26–30 November in Tokyo, Japan. Japan also began negotiations for an EPA with [Colombia](#) 25 September in the US. Malaysia and EFTA members [launched](#) negotiations for a comprehensive FTA 5 November. Viet Nam also kicked off its first round of trade negotiations with the [EU](#) and the [Republic of Korea](#) 8 October and 3–4 September, respectively. Meanwhile, the WTO began preparations for the [Fourth Aid-for-Trade Global Review](#) scheduled for 8–10 July 2013. The Global Review is a biennial monitoring exercise held jointly with the OECD that examines how support has been mobilized to help developing countries better integrate into the international trading system.

Asia-Pacific countries boost bilateral ties. US President Barack Obama and ASEAN leaders launched the “[US-ASEAN Expanded Economic Engagement](#)” initiative—a new framework for economic cooperation designed to expand trade and investment ties between the US and ASEAN—in Phnom Penh, Cambodia 19 November. Earlier, Indonesia and Thailand signed a [memorandum of understanding \(MOU\)](#) on 17 October to jointly promote and enhance cooperation in trade exhibitions. At the seventh round of talks on [Commercial and Economic Cooperation](#) in Islamabad, Pakistan 20–21 September, Pakistan and India signed agreements on (i) working out trade grievances; (ii) cooperation and mutual assistance on customs; and (iii) developing inspection and product standards. On 18 September, [Indonesia and Viet Nam](#) discussed ways to remove trade barriers. [Malaysia and Brunei Darussalam](#) on 2 September signed an agreement on economic cooperation to increase bilateral trade and investment.

[Indonesia and Australia](#) agreed to optimize bilateral forums to resolve trade issues between the two. Australia also said it was willing to assist Indonesia in hosting the 2013 APEC and WTO meetings.

WEDF reiterates strong commitment to trade liberalization. The [World Export Development Forum \(WEDF\)](#) 2012 said [inter-regional and intraregional trade](#) among emerging markets are key responses to global economic crises and highlighted the importance of access to [trade finance](#) in driving emerging market trade.

Asian investment promoted. Cambodia hosted the [9th ASEAN Business & Investment Summit](#) in Phnom Penh, Cambodia 16–18 November. The [9th PRC-ASEAN Expo \(CAEXPO\)](#) was held in Guangxi, PRC 21–25 September to further enhance PRC-ASEAN cooperation in science and technology and other fields. On 11–13 September, the [5th](#)

ADB Support for Regional Public Goods

Rapid economic growth and regional integration has led to increasing cross-border challenges for developing countries—such as controlling communicable diseases, facilitating trans-border infrastructure, mitigating financial contagion, and addressing environmental concerns—which require regional responses. The role of regional development banks (RDBs) in supporting regional public goods (RPGs) is significant. RDBs have scaled up assistance and partnered with developing member countries (DMCs) in promoting regional cooperation and integration (RCI) that promote RPGs.

ADB’s support for RPGs was integrated in its [RCI Strategy](#) (adopted in 2006) which identified RPG as one of four interrelated pillars. RPGs are defined as a benefit shared by two or more countries in the region, focusing on four key areas: (i) the environment, communicable diseases, natural disasters, clean energy and energy efficiency, governance, and human and drug trafficking; (ii) research; (iii) capacity building and institutional strengthening; and (iv) regional partnership. While lending for RPGs is limited, the majority of ADB’s RPG projects fall under regional technical assistance (RETA) and grants (or grant-financed projects), covering subregions such as [ASEAN \(ASEAN+3\)](#), [CAREC](#), [GMS](#), and [SASEC](#). ADB’s support for RPGs has increased significantly since 2006, with nearly half of funds allocated to RPGs from 2006 to July 2012 implementing the RCI Strategy. The establishment of the [PRC Poverty Reduction and Regional Cooperation Fund](#) (2005), the [Regional Cooperation and Integration Fund](#) (2007), and the [Investment Climate Facilitation Fund](#) (2008) have significantly increased support for RPGs.

Increased globalization and regionalism have important implications for Asia and the Pacific, notably in responding to natural disasters, environmental concerns, and demands for knowledge dissemination. In more effectively meeting these challenges, ADB has an increasing role to play in providing RPGs through raising lending for regional projects and advancing knowledge dissemination on RCI. ADB intends to boost work in addressing regional food security and labor migration.

ADB Support for RPGs

	Number of Projects	Funds Provided (\$ million)
1974 to July 2012 Loans and Equities for Regional Projects	80	3,557.1
1967 to July 2012 RETAs	2,057	1,354.8
RETAs for RPGs	1,535	1,006.5
Oct 2006 to July 2012 RETAs	633	707.3
RETAs for RPGs	382	465.0
% RETA-RPGs approved from Oct 2006-Jul 2012 to Total RETA-RPGs from 1967-Jul 2012	25	46

Source: ADB Internal Database on Loan, TA and Equity Approvals as of 20 July 2012

[South Asia Economic Summit](#) was held in Islamabad, Pakistan to promote inclusive and sustainable growth in South Asia. And the Third [Shanghai Cooperation Organization](#) (SCO) Business Day was held in Xinjiang Uyghur Autonomous Region, PRC on 3 September, to support trade and cooperation between SCO members.

Money and Finance

ASEAN Exchanges launches inter-connected capital markets. [ASEAN Exchanges](#)—a collaboration of ASEAN's seven stock exchanges—launched its [ASEAN Trading Link](#). The Link went live by initially connecting Bursa Malaysia and Singapore Exchange. [The Stock Exchange of Thailand](#) joined the ASEAN Trading Link on 15 October, creating a \$1.4 trillion virtual market.

Japan, Republic of Korea currency swap expires. On 9 October, [the Bank of Korea and the Bank of Japan](#) announced that they will no longer extend the expanded bilateral swap arrangement beyond 31 October. The \$30 billion swap—on top of the original \$10 billion arrangement under the Chiang Mai Initiative—was no longer needed given stable financial markets and sound macroeconomic conditions.

Asian central banks push for greater financial cooperation. On 11 September, the central banks of [Kazakhstan and Viet Nam](#) signed a MOU on banking cooperation. On 16 October, the governors of the central banks of the [PRC and Pakistan](#) discussed financial sector development and cooperation. The two countries also signed an [Agency Agreement](#) on 22 October on bond investment, which allows the State Bank of Pakistan to invest in the PRC Interbank Bond Market. The central banks of [Viet Nam and Russian Federation](#) on 24 September held the 11th session of the Working Group for Interbank Cooperation.

Asia Cooperation Dialogue (ACD) reinforces financial relations. The [First ACD Summit](#) held 15–17 October in Kuwait highlighted the importance of financial sector cooperation, agreeing to strengthen links among leading Asian financial centers and to support financial institutions. ACD members have also advanced financial cooperation through, for example, the double-taxation agreement between the [UAE and Japan](#). On 12 September, Singapore and Viet Nam signed an [MOU on financial cooperation](#) and an agreement to revise protocol on [double-taxation avoidance](#).

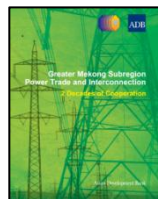
Regional Public Goods

ADB pursues initiatives on low-carbon energy. ADB, in partnership with the [International Energy Agency](#) (IEA), held a 4-day workshop on smart grid and wind energy on 22–25 October in Manila, Philippines. The workshop drew participants from ADB members to examine clean energy policies and technical innovations in power generation based on [Energy Technology Perspectives 2012](#). ADB also co-sponsored [Carbon Forum Asia 2012](#) on 30–31 October in Bangkok, Thailand. The forum discussed progress in Asia's carbon markets, trends of carbon pricing and climate finance.

Pacific protects environment; promotes energy security. On 30 August–8 September, environment ministers at the [23rd Annual Meeting of the Secretariat of the Pacific Regional Environment Programme](#) adopted initiatives in marine conservation, biodiversity protection, and waste management. The event also launched the [Pacific Climate Change Portal](#), giving access to regional and national climate change updates. The Secretariat of the Pacific Community (SPC) and the United Nations International Strategy for Disaster Reduction held the [4th Session of the Pacific Platform for Disaster Risk Management](#) 17–21 September at Noumea, New Caledonia to discuss disaster preparedness. Meanwhile, the SPC signed a [MOU](#) with the International Renewable Energy Agency to promote sustainable renewable energy systems in Pacific Island countries.

ASEAN holds environment and energy meetings; celebrates international day for disaster risk reduction. At the [12th ASEAN Ministerial Meeting on the Environment](#) on 26 September, ministers adopted the [Bangkok Resolution on ASEAN Environmental Cooperation](#), which will implement the region's strategies on environmental sustainability, elimination of transboundary haze, and biodiversity conservation. The [30th ASEAN Ministers on Energy Meeting](#) on 12 September reported a decline in ASEAN's energy intensity between 2005 and 2009. ASEAN energy ministers also met with counterparts in the [East Asia Summit](#) and the [ASEAN+3](#) to track the progress of their energy cooperation initiatives. The first [ASEAN-India Ministerial Meeting](#) held on 7 November in New Delhi, India emphasized new ways to cooperate on renewable energy to address energy security. ASEAN also held the [International Day for Disaster Risk Reduction](#) 12 October in Bangkok, Thailand, recognizing the role of women in mitigating disaster risk.

STUDIES AND RESEARCH



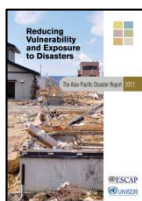
Greater Mekong Subregion Power Trade and Interconnection: Two Decades of Cooperation (September, ADB)—This report provides a historical summary of progress made in energy cooperation in the Greater Mekong Subregion (GMS) since the beginning of the economic cooperation program in 1992. It highlights a two-pronged and phased approach to develop the GMS power market to realize the full benefits of synchronous operations—the policy and institutional framework to promote power trade and the physical interconnection to facilitate cross border power transfers.



Asia Bond Monitor (September, ADB)—The September issue reported that despite the heightened risks and volatility in global markets, emerging East Asia’s local currency bond markets garnered significant gains in the first half of 2012. However, analysis shows that while growth of individual bond markets in recent years has been impressive, the threat of financial contagion to emerging East Asia’s local currency bond markets from shock and volatility spillovers in mature markets is real.



Asia-Latin America Free Trade Agreements: An Instrument for Inter-Regional Liberalization and Integration? (September, ADBI)—Ganeshan Wignaraja, Dorothea Ramizo, and Luca Burmeister examine whether Asia-Latin America FTAs have facilitated market-led integration by liberalizing trade and behind the border regulatory barriers. Overall Asia-Latin America FTAs provide the foundations for inter-regional integration by liberalizing goods and services trade as well as some regulatory barriers.



The Asia Pacific Disaster Report 2012: Reducing Vulnerability and Exposure to Disasters (October, UNISDR)—The study measures the economic losses brought about by natural disasters in Asia and the Pacific, and suggests land use planning, supply chain management and targeted social safety nets as potential measures for reducing disaster risk. Regional cooperation is crucial for sharing advanced and expensive ICT innovations.



Establishing Monetary Union in the Gulf Cooperation Council: What Lessons for Regional Cooperation? (October, ADBI)—Shinji Takagi reviews the experience of regional economic cooperation in the Gulf Cooperation Council (GCC). The author concludes that what ultimately determines the success of any regional cooperation effort is the willingness of countries to surrender part of their national sovereignty.



The Evolution of Asian Financial Linkages: Key Determinants and the Role of Policy (November, IMF)—Selim Elekdag et al. examine how Asian financial links with systemic economies have changed over time. The authors conclude that while macroeconomic policy frameworks have helped Asian economies cope well with market turbulence, these policies cannot completely insulate Asian financial markets against major global financial shocks.



Financial Safety Nets in Asia: Genesis, Evolution, Adequacy, and Way Forward (November, ADBI)—Hal Hill and Jayant Menon question whether the current financial cooperation developments are enough to make the Chiang Mai Initiative Multilateralization (CMIM) workable or be used as a complement to the International Monetary Fund (IMF). They argue that the size of the IMF de-linked portion of the CMIM needs to be further increased in order to serve as a stand-alone option. They also say that if the ASEAN+3 Macroeconomic Research Office could develop into an independent and credible surveillance authority, then it could lead the next crisis rescue.



Global Financial Development Report 2013: Rethinking the Role of the State in Finance (September, World Bank)—The report stresses that the state has a crucial role in the financial sector by providing strong prudential supervision, ensuring healthy competition, and enhancing financial infrastructure. However, the report cautions that direct state involvement can have significant negative effects on the financial sector and the economy over longer periods of time. Thus, as crisis conditions recede, the evidence suggests that it is advisable for governments to shift from direct to indirect interventions.



Regional Financial Arrangements and the International Monetary Fund (November, ADBI)—Barry Eichengreen reviews how the International Monetary Fund has responded to earlier regional initiatives, from the European Payments Union of the 1950s and the Gold Pool of

the 1960s to the Financial Cooperation in Central Africa franc zone and the European Monetary System. The last section discusses the implications for monetary regionalism in East Asia.

- 26–27 Feb 2013: **APEC Finance and Central Bank Deputies' Meeting** (Jakarta, Indonesia)
- 25–28 Feb 2013: **11th SEACEN-Committee on Payment and Settlement Systems Advanced Course on Payment and Settlement Systems for Emerging Economies** (Kuala Lumpur, Malaysia)

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EVENTS

- 26 Nov–7 Dec: **United Nations Climate Change Conference – November 2012** (Doha, Qatar)
- 1 Dec: **Climate Action South Asia: Steering Economies Toward Low-Carbon and Climate Resilient Development** (Doha, Qatar)
- 3 Dec: **High Level Event on Technology Transfer and Finance** (Doha, Qatar)
- 3–7 Dec: **APEC Financial Regulators Training Initiative Regional Seminar on Crisis Preparedness for Banking Regulators** (Kuala Lumpur, Malaysia)
- 3–12 Dec: **15th Round of Negotiations of the Trans-Pacific Partnership** (Auckland, New Zealand)
- 4–5 Dec: **3rd CAREC Federation of Carrier and Forwarder Associations (CFCFA) Annual Meeting** (Bangkok, Thailand)
- 4–6 Dec: **Regional Seminar on Basel III** (Abu Dhabi, UAE)
- 5–7 Dec: **Better Air Quality 2012** (Hong Kong, China)
- 10 Dec: **21st BIMP-EAGA Senior Officials Meeting and 17th Ministers Meeting** (Papua, Indonesia)
- 11–13 Dec: **Seminar on Financial Stability and the Revised Core Principles for Effective Banking Supervision** (Basel, Switzerland)
- 12–13 Dec: **18th GMS Ministerial Conference** (Nanning, PRC)
- 28 Jan–1 Feb 2013: **SEACEN Course on System Stress Testing** (Singapore)
- 18–22 Feb 2013: **APEC Financial Regulators Training Initiative Regional Seminar on Technology Risk Supervision** (Sydney, Australia)